ballina
shire council

2013/14
FINANCIAL STATEMENTS
ANALYSIS OF OUTCOMES

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FOREWORD

This report has been prepared to provide additional information to assist in evaluating and interpreting the annual financial reports.

It is intended that the comments and break down of information will assist the reader to gain an understanding of how the organisation performed in 2013/14 and the financial position as at 30 June 2014.

PART 1: CONSOLIDATED GENERAL PURPOSE REPORTS

1. Income Statement

The Income Statement outlines the financial performance of the Council for the financial year. The Income Statement presents the consolidated performance which means that all operations (general purpose, water, wastewater and waste) are included in the results.

The statements provide three different views (see Table One below) of Council's performance. Admittedly this can be confusing and whilst this report does briefly touch on all three results the focus is on the traditional view of profit and loss as per table two.

Table One: Income Statement

Item	2012/13 ($'000)	% Change	2013/14 ($'000)
Operating Result from Continuing Operations	27,211	(100)	110
Operating Result before Capital Grants & Contributions	(12,338)	(11)	(13,680)
Total Comprehensive Income	48,074	(68)	15,504

Operating result from Continuing Operations includes all income and operating expenses for the year. Income includes capital grants, but expense excludes capital expenditure.

Obviously the concern with this presentation is that you do not match income with the expense to which it is applied and a very positive and arguably misleading outcome is shown. Also capital income includes developer provided assets such as roads or drainage that is not cash income but arguably a liability as Council must maintain the asset into the future.

In comparing the results for the two years the net operating profit of $27 million in 2012/13 is skewed by the fact that Council received over $24 million in subdivider dedications which are assets handed over as opposed to income received. This comparison evidences some of the concerns expressed earlier regarding the transparency of this form of presentation.

Net Operating Result for the year before Capital Grants and Contribution excludes capital grants and contributions. See comments in respect to Table Two below.

Statement of Comprehensive Income includes the gain or loss on asset revaluations. Council revalues all assets on a regular basis and this statement includes the impact of the revaluation/s for that particular year.

Table Two reflects the traditional view of profit and loss and highlights an operating loss of $13.7 million in 2013/14. It will be noted that this is a consolidated result (includes General/Water/Wastewater funds) and indicates that Council must improve this outcome over the next five to ten years by approximately $14 million to become sustainable over the long term.

Table Two: Net Operating Result before Capital Grants and Contributions

Item	2012/13 ($'000)	% Change	2013/14 ($'000)
Operating Result from Continuing Operations	27,211	(100)	110
Less Capital Grants and Contributions	39,549	(65)	13,790
Net operating result	**(12,338)**	**(11)**	**(13,680)**

In comparing 2012/13 to 2013/14 there are numerous variances between incomes and expenses. As a general comment it would be fair to say that 2012/13 included a number of abnormal items whilst 2013/14 reflects a more typical year. Some of the main differences between the years include:

- only 50% of the federal assistance grant was received in 2013/14 with the first two quarters being received in 2012/13. This increased the 2013/14 loss, in comparison to 2012/13, by $1.6 million.
- in 2013/14 additional income was received in the form of rates and annual charges of $2.6 million and Water User Charges were approximately $1 million more than the previous year.
- in 2012/13 we brought to account expense from previous years to $935,000 relating to Wigmore Arcade Carpark. The expense was residing in capital as works in progress and it was brought to account in 2012/13 as operating expense.
- interest on borrowing costs has increased in 2013/14 by $1.6 million following new loans relating to the airport, roads, Ballina town centre and wastewater.

It is stressed that there are always numerous differences between financial years and those shown above are just some of the differences. Another large variance between the years by way of further example is that in 2012/13 expenses include a loss on sale of assets of around $5.6 million (negative to the bottom line) which mainly relates to older infrastructure assets being replaced and removed from asset registers. This loss is much higher than is typical and it shows as an increase to expense. Then there is the fact that in 2012/13 Council received once only operating income from the Roads and Maritime Services of approximately $7 million (positive to the bottom line) relating to the bypass hand overs. There are other issues of this type and it is a matter of how far you go in comparing one year to another.

The important point to take from Table Two is that the 2013/14 year is reasonably free of abnormal items and shows that Council must work towards improving this result to be deemed sustainable.

The next analysis in Table Three reviews the Net Operating Result before Capital Grants and Contributions, with all the major non-cash adjustments removed. These adjustments involve the exclusion of depreciation, the annual net present value adjustment for interest free loans, revaluation of investment property and remediation expense estimates.

By removing all these non-cash items, which can vary significantly from year to year, Council is able to obtain a better idea on the cash operating result for our core recurrent operations.

Table Three: Adjusted Net Operating Result

Item	2012/13 ($'000)	% Change	2013/14 ($'000)
Income from Ordinary Activities	114,935	(28)	83,053
Expense from Ordinary Activities	87,724	(5)	82,943
Operating Surplus	**27,211**	(100)	**110**
Exclude Capital Grants and Contributions	(39,549)	65	(13,790)
Remove NPV Calculation for Interest Free Loans	583	(9)	529
Exclude adjustments for remediations	(1,751)	106	101
Exclude investment property adjustments	2,745		0
Remove Depreciation from Expenses (Add Back)	20,428	(1)	20,305
Revised Result - Surplus on Operations	**9,667**	(25)	**7,255**

The aim of any Council should be to try and maximise the surplus generated on operations, with those surplus funds then being used to finance capital works or to retire debt. The cash surplus shown above must be considered in the context of this being a consolidated result that includes Water, Waste and Wastewater operations.

The revised surplus in Table Three of $7.3 million highlights the difficult decisions faced by Council in terms of allocating resources. Once loan capital repayments ($5.6 million) are paid, available cash is just $1.7 million. This represents the discretionary funds available to refurbish/replace existing assets (depreciation $20.3 million) and acquire new assets and improve services. The available surplus is not sufficient to satisfy all of these needs and certainly places pressure on the limited funds that are available.

2. Revenues from Ordinary Activities (Note 3)

Table Four shows revenues from ordinary activities in comparison to the previous year.

Table Four: Revenues from Ordinary Activities

Type	2012/13 ($'000)	% Change	2013/14 ($'000)
Rates and Annual Charges	35,657	7	38,288
User Charges and Fees	15,304	16	17,762
Interest	4,658	(26)	3,450
Other	5,961	(29)	4,244
Grants and Contributions - operating	13,806	(60)	5,519
Grants and Contributions - capital	39,549	(65)	13,790
Profit on Disposal of Assets	0		0
Total	**114,935**	(28)	**83,053**

Council received $38.2 million from rates and annual charges, which is an increase of 7% in comparison to 2012/13. This increase is because ordinary rates increased by 5.9%, charges for water 8%, sewer 8.9% and domestic waste annual charges by 3.9%. There was also growth in the number of rateable assessments.

User Charges increased by 16% in comparison to 2012/13 with most income sources being higher than the previous year. The increase is primarily attributable to increased income from water consumption charges, waste charges and airport income.

Income from interest on funds invested amounted to $3.5 million which is a sharp decline in comparison to 2012/13. The major influences are the expenditure of borrowings for the Wastewater capital program and the Airport together with expenditures of grant reserves such as Ballina Heights Drive.

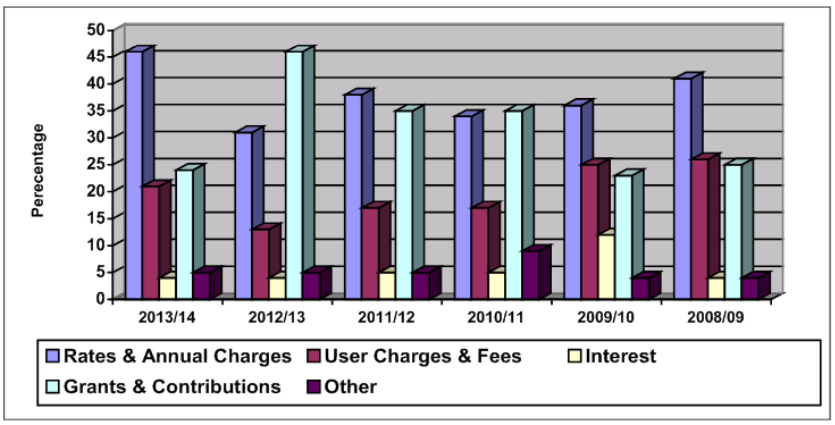
Income from 'Other' includes items such as parking fines, recycling income and rental income. Rental income amounted to just over $3 million which is an important contributor to total revenue.

Council received in the order of 100 grants during the year. Operating grants and contributions decreased by 60% in comparison to 2012/13 which is almost entirely due to income from the Roads and Maritime Services in regard to the two bypass hand over agreements. Under these arrangements Council received a one off untied grant of $7.1 million.

Income from capital grants and contributions is liable to fluctuate considerably from year to year depending on the capital works program and the level of development occurring. In 2013/14 Council received $13.8 million from this source which included $4 million in cash developer contributions and $4.1 million in relation to roads infrastructure (non cash). The major difference when comparing the two years is that as mentioned previously, in 2012/13 Council received $24.3 relating to asset dedications, most of which relates to the handover of Ballina/Alstonville bypass.

The following table compares revenue categories as a percentage of total revenue.

Table Five: Revenues from Ordinary Activities



* Categories expressed as a percentage of total revenues

It can be seen that historically the most volatile element of the revenue streams are the Grants and Contributions and typically they are either the first or second highest income producer. In 2013/14 the importance of Rates and Annual Charges has gained momentum on the back of steady increases to most annual charge types and a proportionate reduction to Grants and Contributions.

3. Expenses from Ordinary Activities (Note 4)

The table below itemises 2013/14 and the previous financial year's operating expenditure.

Table Six: Expenses from Ordinary Activities

Type	2012/13 ($'000)	% Change	2013/14 ($'000)
Employee Costs	18,810	5	19,711
Materials and Contracts	26,045	(7)	24,156
Interest	5,254	32	6,910
Depreciation	20,428	(1)	20,305
Other	12,275	(26)	9,139
Loss on Disposal of Assets	4,912	(45)	2,722
Total	**87,724**	(5)	**82,943**

Employee Costs increased by 5%, which is attributable to an award increase of 3.25% plus Council is looking to progressively reduce staff costs paid to recruitment companies (reflects as a Materials and Contracts' expense) and employ permanent staff (shows as increased expense to Employee Costs).

Also the net labour cost, in the context of Note Four of the Financial Statements, is reduced by the cost of labour working on capital works. This shift between operating and capital works can sometimes explain why the labour cost comparison between years can vary whilst staff numbers remain similar.

Materials and contracts decreased by 7% in comparison to 2012/13 and again this is because 2012/13 included a couple of abnormal items. The primary difference is that in 2012/13 Council paid a contribution of $1.6 million to Roads and Maritime Services for McLeay Culvert. There was also some $400,000 expended on flood damage funded by Roads and Maritime Services.

Interest expense amounted to $6.9 million which is 32% more than the previous year. The increase is due to large borrowings in both General Fund and Wastewater. Further information is provided in respect to these loans later in this report.

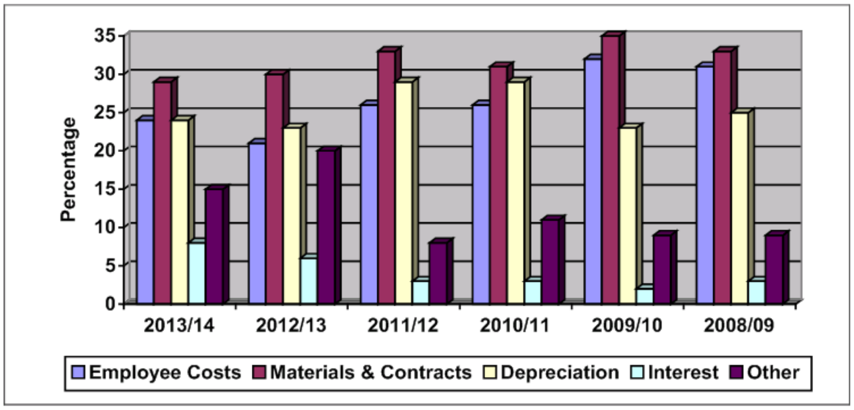
Depreciation has remained quite similar to the previous year but at over $20 million reflects a very significant part of Council's total expenses and highlights the huge asset base for which Council has responsibility.

Expenditure classified as 'Other' includes items such as insurances, electricity, contributions/donations and various levies. It also includes non cash adjustments for adjustments in the fair value of investment property. In comparison to the previous year expense has reduced by $3.1 million which is primarily attributable to the book value of investment properties declining by $2.7 million (shows as increase to expense) in 2012/13.

In 2013/14 the loss on disposal of assets was $2.7 million. This mainly relates to assets being 'disposed' as they are upgraded or replaced. For example in respect to roads the renewal of a road segment will result in the book value of the old asset being written off, which shows as an expense via loss on disposal of assets. The large value of assets disposed masks a profit on sale of real estate of $410,000.

Table Seven below compares expenses per category as a percentage of total expenditure for several years. In general, relativities remained consistent between the categories and the gradual increase of interest expense is evident.

Table Seven: Expenses from Ordinary Activities



4. Statement of Financial Position

This statement is used to outline the total net assets under the control of Council.

Table Eight: Assets and Liabilities

Type	2012/13 ($'000)	% Change	2013/14 ($'000)
Current Assets	89,691	(23)	69,413
Non Current Assets	1,128,291	3	1,158,497
Total Assets	**1,217,982**	**1**	**1,227,910**
Current Liabilities	25,184	(9)	22,802
Non current Liabilities	91,664	(3)	88,470
Total Liabilities	**116,848**	**(5)**	**111,272**
Net Assets	**1,101,134**	**1**	**1,116,638**

The table shows that Council is managing net assets of over $1 billion on behalf of the community. The complexity of operations in concert with the variety of complexities makes this management quite an onerous responsibility.

Current assets have decreased by 23% in comparison to 2012/13 which is mainly due to the expenditure of cash reserves to complete the capital works program.

The major item within non-current assets is infrastructure which has a value of $1,125,496,000. A detailed discussion of this item follows in the next section of this report.

Current liabilities have decreased due to a reduction in provisions and accounts payable. Provisions have remained relatively static overall (current plus non-current) however a revised method of classifying provisions has resulted in less being classed as current. Accounts payable have declined mainly because, as at June 30, 2012/13 there were a number of large wastewater contracts that were due for payment when accounts were closed for the year.

Total liabilities have decreased by $5.6 million which is due to loans being repaid and accounts payable being less than June 30 in the previous year. During the year new loans were taken up in respect to Wastewater Fund $690,000 and General Fund $1.2 million for roadwork's.

The provision for leave liability has remained almost static in comparison with the previous year at approximately $8 million. This is a good outcome as the tendency has been for this liability to increase. However staff are being encouraged to take leave in accordance with the award which means that large amounts of long service leave were taken during the year. It was also the case that a number of longer serving staff members retired during the year which also tends to reduce the liability. The reserves section of this report has information on the amount of available cash reserve in comparison to the leave liability.

Non-Current Assets

The major component of Council's assets relates to infrastructure assets. Details of these assets, summarised into asset classes, is shown in the table below.

During the course of the year Council introduced a new asset management system that is a module of the Civica platform. Implementing the new system was a major task that involved transferring the entire asset base from excel spreadsheets to the Civica system. The new system will improve the information management of our infrastructure assets.

Table Nine: Value of Infrastructure Assets

Infrastructure assets	30 June 2013 ($000)	30 June 2014 ($000)
Plant and Equipment	8,384	7,691
Land	189,692	179,453
Buildings/ Structures	65,382	68,765
Roads, Bridges and Footpaths	397,696	410,278
Stormwater Drainage	69,747	71,218
Water Supply Network	104,734	105,492
Sewerage Network	191,302	194,434
Future Reinstatements	697	540
Capital Works in Progress	67,964	87,625
Total Infrastructure Assets	**1,095,598**	**1,125,496**

The table shows that the asset base has increased by some $30 million. This growth is the net of new assets purchased or constructed, less disposals (sales or write offs), less depreciation, plus the increases due to revaluations. Capital works in progress primarily relates to the sewer upgrade that is in progress. A summary of the actual asset movements from one year to another is shown in the table below.

Table Ten: Asset Movement Summary 2012/13 to 2013/14

Asset Purchases ($000)	Disposals and Transfers ($000)	Depreciation ($000)	Revaluation ($000)	Total Asset Movement ($000)
39,370	(4,561)	(20,305)	15,395	29,898

Purchases represent items such as new buildings, plant and vehicles acquired, land purchased, expense on acquiring new and refurbishing existing infrastructure assets (road/stormwater/water/wastewater) and assets handed over by developers once new subdivisions are completed.

The major purchases relate to roads and sewer infrastructure. In respect to roads Ballina Heights Drive represents approximately $7 million. Disposals relate to assets that have been replaced such as road segments and pipes plus sales of land and equipment. The majority of disposals in 2013/14 relate to road segments of $3.3 million.

Depreciation places a dollar value on the estimated annual fall in the service potential of our assets. The 2013/14 calculation for depreciation is $20.3 million with the majority of this cost relating to roads, water and wastewater infrastructure.

The revaluation increment of $15.3 million primarily relates to water ($2.9 million), wastewater ($5.2 million) and roads ($10.5 million) infrastructure. There was also a revaluation decrease to Community Land of ($10.4 million) following the use of the Valuer General's revised land values to revalue this asset class.

Land was the only asset class that was completely revalued in 2013/14 with all other classes were being indexed. The new value reflects a better understanding of the true worth of the assets under Council's control and the fact that roads was merely incremented for a cost of living adjustment gives an idea of the total asset value being managed.

5. Special Schedule Number 7: Report on Infrastructure Assets

Special Schedule Seven of the Annual Financial Statements has been generating a substantial amount of attention from commentators on the local government industry. In this schedule staff endeavour to estimate the amount of money required to bring infrastructure assets to a satisfactory standard and the amount of money Council needs to expend annually to maintain assets at a satisfactory standard.

The estimates are condition based internal assessments that reference the original design standard of the asset. The estimates form part of the asset management plans that are prepared for each asset class. The table below is a summary of the schedule.

Table Eleven: Special Schedule 7 Asset Assessment

Asset Class	Est Cost to bring to a satisfactory standard $,000	Required Annual Maintenance $,000	2013/14 Actual Maintenance $,000	Carrying Value $,000
Buildings	401	938	843	56,608
Other Structures	55	0	0	10,606
Roads	887	3,952	3,702	409,685
Water	356	913	913	106,003
Sewerage	241	1,865	1,865	195,335
Stormwater	131	300	246	71,219
Open spaces	0	111	111	1,551
Total All Assets	**2,071**	**8,079**	**7,680**	**851,027**

Asset Condition as a % of WDV	Rating 1 %	Rating 2 %	Rating 3 %	Rating 4 %	Rating 5 %
Buildings	58	30	11	1	0
Other Structures	62	32	6	0	0
Roads	73	23	4	0	0
Water	39	37	22	1	1
Sewerage	52	44	3	0	1
Stormwater	50	47	4	0	0
Open spaces	48	22	30	0	0
Total	**61**	**32**	**7**	**0**	**0**

The first section of the table identifies the estimated cost to bring assets to a satisfactory standard and then compares the estimated required annual maintenance to keep assets at a satisfactory standard to actual expenditure in the 2013/14 financial year.

In respect to the estimated cost to bring assets to a satisfactory standard (commonly referred to as the backlog) the forecast total is $2,071,000. Obviously there can be debate as to what constitutes a satisfactory standard. The criteria used for 2013/14 was to identify those assets which are in poor or very poor condition and apply the cost that would be required to bring the assets to a satisfactory standard (as opposed to complete renewal of the asset).

In making the asset assessments reference has been made to both the condition assessments of the assets and customer satisfaction surveys completed on a regular basis by Council.

Essentially an estimate of a backlog of just $2 million out of an asset base of over one billion dollars is saying that our assets are generally at a satisfactory standard. Again this is a matter that could generate significant debate. Over recent years this estimate has been reducing as the information and knowledge of our assets have improved.

Estimated required annual maintenance as compared to actual maintenance expenditure shows that council is spending approximately the right amount of money annually on each asset class. The largest variance is in respect to roads where it is estimated that we should be spending a further $250,000 annually to maintain assets in a satisfactory standard. In theory this means that the backlog in respect to roads will be increasing each year.

It will be noted that in respect to Water, Sewer and Open Spaces the estimated required expenditure is equal to the actual expenditure. This approach has been taken because condition assessments indicate that the assets are generally in a satisfactory standard and therefore the extrapolation is that the resource Council is applying to maintain the asset equates to the required expenditure.

The second section of the table looks to rank assets on the following scale:

1. Excellent-No work required other than normal maintenance
2. Good- Only minor maintenance required
3. Average-maintenance work required
4. Poor- renewal required
5. Very Poor- urgent renewal/ upgrading required

As would be expected looking at the first half of the table the condition rating is generally very good. Again this is a matter that can and will generate debate. The information presented in this table is consistent with the information and estimations contained in the asset management plans.

It is pointed out that the condition rating reflects the asset condition as a percentage of written down value. Written down value reflects the remaining useful life of the asset and is generally substantially less than the replacement value of the asset. This means that the asset condition is being measured against a low base value which skews the results in a positive direction. Most commentators would agree that the condition should be measured against the replacement value of the asset which would generally result in lower ratings.
It must be remembered that much of the information in the schedule is an estimate and whilst the methodology of forming this estimate has improved substantially over recent years it remains a guide at best.

A suite of ratios have been developed that are related to Special Schedule Seven and they are shown below.

Table Twelve: Asset Ratios

Consolidated Basis	**Amounts**	**2014**	2013	2012
		Indicators		
Building & infrastructure renewals ratio				
Asset renewals (buildings & infrastructure)	**15,523**	**0.93:1**	1.15:1	1.03:1
Depreciation, amortisation & impairment (buildings & infrastructure)	**16,727**			
Purpose: to assess the rate at which assets are being renewed against the rate at which they are depreciated. Benchmark: a ratio of 1:1 indicates that you are renewing assets at the same rate that they are being consumed.				
Infrastructure backlog				
Estimated cost to bring assets to satisfactory condition	**2,071**	**0: 1**	0.01: 1	0.02: 1
Carrying value of infrastructure, building, other structures & depreciable land improvements	**857,860**			
Purpose: Shows the proportion of the backlog against the total value of Council's infrastructure. Benchmark: The 'Fit for the Future' assessment sets a benchmark of less than 2%.				
Asset Maintenance Ratio				
Actual asset maintenance	**7,680**	**0.95: 1**	1.23: 1	0.99: 1
Required asset maintenance	**8,079**			
Purpose: Compares actual versus required annual maintenance. Benchmark: a ratio of 1:1 indicates that Council is investing enough funds to stop the infrastructure backlog from expanding.				
Capital expenditure ratio				
Actual capital expenditure	**36,716**	**1.81: 1**	2.69: 1	2.09: 1
Annual depreciation	**20,305**			
Purpose: indicates the extent to which Council is intending to expand the asset base. Benchmark: greater that 1:1				

Fund Basis	Current Year Indicators		
	General	Water	Sewer
Building & infrastructure renewals ratio	0.75: 1	0.91: 1	0.74: 1
Comment: Each fund is less than the desired 1:1 and indicates during 2013/14 it is likely that the backlog may have expanded.			
Infrastructure backlog	0: 1	0: 1	0: 1
Comment: excellent outcome with a zero ratio recorded.			
Asset maintenance ratio	0.92: 1	1: 1	1: 1
Comment: very good outcome across all funds although looking at a one year time frame General Fund does need to apply extra resource to maintaining assets, primarily roads and buildings.			
Capital expenditure ratio	1.74: 1	0.74: 1	2.96: 1
Comment: Both General and Sewer Fund are exceeding the 1:1 ratio indicating that they are expanding their asset base. This does suggest that in coming years Council must prepare to spend more money on asset renewal and maintenance than is currently the case.			

Commencing from the 2014/15 financial year Special Schedule Seven will be subject to audit. In preparation for the audit it is proposed that an independent consultant is contracted to test the methodology and assumptions that have been used to compile much of the information in Special Schedule Seven.

6. Asset Valuations

Council assets are valued at Fair Value. Fair Value is defined as the market value or 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction'.

Table Thirteen provides a schedule of revaluations to highlight the current position of each asset class as presented in the financial reports. It is essential that asset classes are revalued regularly to ensure that the carrying amount does not differ materially from the fair value at the balance sheet date.

The recommendation in the Local Government Code of Accounting Practice is to revalue an asset class every three to five years. However assets must be revalued more frequently if it is considered that there has been a material change in value since the date of the last valuation.

Table Thirteen: Schedule of Asset Valuations

Infrastructure assets	Valuation Method	Last Revaluation	Next Revaluation	Comment
Plant and equipment	Depreciated Historical Cost	Progressive	Progressive	Equipment depreciated from purchase price
Buildings and Other Structure	Fair Value	30/6/2011	30/6/2016	Conducted by external valuer
Roads, Bridges and Footpaths	Fair Value	30/6/2010	30/6/2015	Determined by staff & values indexed annually.
Stormwater Drainage	Fair Value	30/6/2010	30/6/2015	Determined by staff & values indexed annually.

Infrastructure assets	Valuation Method	Last Revaluation	Next Revaluation	Comment
Water Supply Network	Fair Value	30/6/2012	30/6/2017	Determined by staff & values indexed annually.
Sewerage Network	Fair Value	30/6/2012	30/6/2017	Determined by staff & values indexed annually.
Future reinstatements	Internal Valuation	Progressively monitored	Progressive	Valuation depends on nature of reinstatement
Land Community	Fair value	30/6/2014	30/6/2019	Valuer General's latest valuation used
Land Operational	Fair Value	30/6/2014	30/6/2019	Conducted by external valuer
Land Improvements	Fair Value	30/6/2011	30/6/2016	Valuation conducted by staff
Investment Property	External Valuer	30/10/2013	30/6/2015	Investment property revalued externally

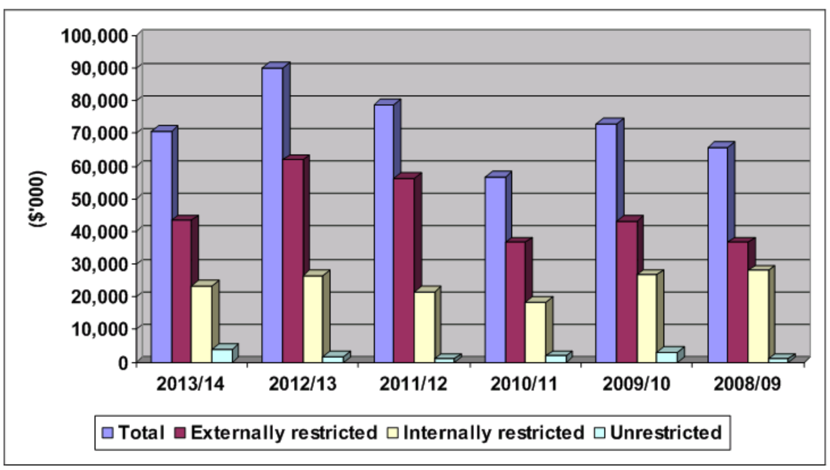
The revaluation of assets does present an additional impost on the organisation although it is essential to have current and accurate information on which to base decisions. It could also be argued that as an industry Local government has not committed significant resources to information gathering in respect to infrastructure assets.

This is an issue which is gradually being resolved as Council's are now producing asset management plans based on condition assessments and technical data that are used to make informed decisions.

7. Cash and Investments (Note 6)

This note highlights that Council has total cash and investments of approximately $70 million.

Table Fourteen: Restricted and Unrestricted Cash



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The reserves are broken up into internally restricted (Council resolution), externally restricted (legislation) and unrestricted (cash on hand to meet immediate commitments).

Total reserves have decreased by approximately $20 million which mainly relates to externally restricted reserves. Wastewater and Airport loan funds as well as General Fund grant reserves were converted to infrastructure.

PART 2: MANAGEMENT INFORMATION – FUND BASIS

Information in respect to the consolidated position is useful in gaining a global picture, however Council still needs to be aware of what is happening with respect to the individual funds; i.e. General, Wastewater and Water as external legislation requires the Wastewater and Water operations to be managed as distinct entities (i.e. funds from those activities must not be used on any other area of Council's operations).

This section of the document provides information with a "fund" emphasis.

1. Income Statement

This next section looks at General, Water and Wastewater as single entities.

Income Statements

In respect to General Fund the figures include externally restricted entities such as Domestic Waste, Section 94 Contributions, the Stormwater Levy together with internally restricted entities including the Airport, Landfill and Resource Management (Ballina Waste Centre), Quarries, Fleet Management, Land Development and Cemeteries.

The table looks to improve the comparability between years by eliminating some of the major non cash items.

Table Fifteen: General Fund Income Statements ($'000)

Description	**2011/12 ($'000)**	**2012/13 ($'000)**	**2013/14 ($'000)**
Income	62,707	86,745	54,907
Expense	48,477	57,014	54,851
Net Operating result	**14,230**	**29,731**	**56**
Less Capital Grants	(19,599)	(37,059)	(10,769)
Result Excl Capital Grants	**(5,369)**	**(7,328)**	**(10,713)**
Eliminate Loan Unwind	140	147	154
Add Back Depreciation	15,092	15,704	15,803
Eliminate Invest Prop Reval	0	2,745	0
Revised Result	**9,863**	**11,268**	**5,244**

General Fund has made a loss of $11.1 million excluding capital grants, and produced a surplus, excluding capital grants and selected non-cash items of $5.2 million. This indicates that there is not sufficient surplus to maintain / replace existing assets (i.e. to fund depreciation) or add new assets or services.

In comparison to previous years the 2013/14 result is the worst over the last few years. It is fair to note that in 2013/14 only 50% of the Federal Assistance Grant has been included in the figures which would improve the outcome by $1.6 million. However, even taking this into account the 2013/14 result is still the worst in recent years and this is in the in the context of Council being awarded rate increases above the rate peg maximum for seven of the previous eight years.

General Fund has been in a mode of expansion with various major capital projects being completed over recent years. Ballina is a growing regional council and improved services are expected by the community. However the improved services come at a cost in terms of increased borrowings and operational expenses. In the environment of rate pegging (typically recurrent expenses increase by more than the rate cap) it is difficult to source the revenue required to fund existing assets never mind additional assets.

Fit for the Future

It is important that Council meets the requirements of the Office of Local Governments '**Fit for the Future'** assessment**.** This looks to assess General Funds sustainability over a three year period. One of the benchmarks that Council must achieve to be 'Fit for the Future' is a surplus or a break even Operating Result. In the context of 'Fit for the Future' this result excludes various items such as capital grants and profit or loss on sale. In 2013/14 the General Fund loss is $8.8 million.

To satisfy the Government's 'Fit for the Future' assessment an improved operating result needs to worked towards on a progressive basis. The strategy is to reverse the current trend and gradually move towards a surplus over a period of years. If Council does pass the Fit for the Future assessment it is understood that to achieve a rate increase above cost of living in General Fund will be an easier process.

Despite recurrent rate increases above the norm, and clearly this has been a significant impost on ratepayers, Ballina still has a lower ordinary rate than most other councils in our category in the State, based on the latest available data from the Office of Local Government. Therefore it can be argued that Ballina ratepayers are still in a privileged position compared to most and there remains scope to expand the rate yield.

It is valid to question why Council would be deemed to be unsustainable when Council has run operating deficits for many years without disappearing into the ether. The answer is quite complex but an explanation will include the fact that short to medium term problems will be masked because Council has a guaranteed cash flow and a very high level of access to loan/grant funding. Hence it is unlikely that the operating deficit will manifest in a financially catastrophic form but more in terms of a gradual deterioration of assets and service levels over a prolonged period of time.

Table Sixteen: Water Fund Income Statements ($'000)

Description	**2011/12**	**2012/13**	**2013/14**
Income	9,867	10,641	11,696
Expense	10,548	10,933	11,079
Net Operating result	**(681)**	**(292)**	**617**
Less Capital Grants	(1,254)	(1,008)	(1,007)
Result Excl Capital Grants	**(1,935)**	**(1,300)**	**(390)**
Add Back Depreciation	2,266	1,883	1,859
Revised Result	**331**	**583**	**1,469**

Water Fund has recorded a loss of $390 thousand following the exclusion of capital grants and a surplus of $1.5 million, exclusive of capital grants and non cash items. This is a reasonable result and reflects consistent improvement over the last three years.

The operating position of the Fund has been ordinary for some years as Council has struggled to match the price increases for bulk water and as price increased demand reduced. However the price hikes for bulk water have ceased and in 2012/13 and 2013/14 water consumption increased in comparison to previous years. The outlook is suggesting that, depending water consumption levels, the Fund can look towards price adjustments much more reflective of cost of living.

The table below shows the gross billable kilolitres consumed in recent years.

Table Seventeen: Gross Kilolitres Levied as Water Bills ('000)

Year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Kilolitres	2,833	3,166	2,744	2,735	2,908	3,130

Importantly Water Fund has no debt and sufficient reserves to meet capital expenditure requirements in the near future. Therefore from a short to medium term perspective the outlook is quite positive.

Council has complete control of the Water Fund charging structure which enables a high level of confidence that we can meet financial needs as required. An issue for Council to consider in this context is whether Council wishes to position itself to take a non-compulsory dividend from Water Fund. To take a non-compulsory dividend you must be able to evidence an operating surplus over a three year period. Given the restrictions on General Fund to raise revenue it is suggested that this is a legitimate means of assisting General Fund.

The table below shows the Wastewater operating results over recent years.

Table Eighteen: Wastewater Fund Income Statements ($'000)

Description	2011/12	2012/13	2013/14
Income	14,447	15,262	16,456
Expense	15,426	17,490	17,019
Net Operating Result	**(979)**	**(2,228)**	**(563)**
Less Capital Grants	(1,846)	(1,482)	(2,014)
Result Excl Capital Grants	**(2,825)**	**(3,710)**	**(2,577)**
Eliminate Loan Unwind	474	436	390
Add Back Depreciation	4,343	2,841	2,643
Revised result	**1,992**	**(433)**	**456**

Wastewater Fund has recorded a loss of $2.6 million exclusive of capital grants and a surplus of $456,000 excluding capital grants and non cash items. The operating performance for 2013/14 is not great particularly when you consider that these figures exclude the loan capital repayment of $2.4 million. This means you have a cash loss of approximately $2 million before expenditure on capital works.

This performance means that the Fund is not sustainable in the medium term however Council is and has been aware of the situation. Corrective action is necessary and a strategy is in place such that an operating surplus is forecast in 2016/17 assuming 10% price increases. Over the intervening period cash reserves will be reduced to cover the cash loss.

Both interest costs and general operating expenses have been inclining for a few years so it is pleasing to see that total operating expenses have reduced in comparison to the previous year. It is important that Council looks to minimise operating expenses as well as increase price.

There have been large increases to annual charges in an effort to keep pace with expenses. The table below shows percentage increases to the annual charge over recent years.

Table Nineteen: Wastewater Residential Annual Charge

Year	2014	2013	2012	2011	2010
Percentage increase	8.9	6.9	14.5	14.5	9.0
Residential annual charge	$734	$674	$630	$550	$480

Customers have been enduring hefty increases for some time in preparation for the borrowing costs to finance works that are nearing completion. As mentioned the outlook is for another few years of 10% increases to make the Fund sustainable.

During the year Council expended approximately $8 million on the upgrade and accepted income from the loan facility of $690,000. The loan facility of $63 million has now been fully drawn down. As mentioned it is expected that operating costs will now start to plateau going forward and this will assist planning for the Fund.

It is considered that a non-compulsory dividend will not be a reality for this Fund for a few years pending an improvement in operating performance.

2. Balance Sheet

The next table presents a summary of the Balance Sheet per fund.

Table Twenty: Balance Sheet as at 30 June 2014 ($'000)

Fund	General ($'000)	Water ($'000)	Wastewater ($'000)
Current Assets	38,264	11,757	19,392
Non Current assets	780,312	112,890	265,295
Total Assets	**818,576**	**124,647**	**284,687**
Current Liabilities	19,648	124	3,030
Non Current Liabilities	24,751	0	63,719
Total Liabilities	**44,399**	**124**	**66,749**
Net Assets	**774,177**	**124,523**	**217,938**

General Fund assets are dominated by non current assets and this is common across all funds. Non current assets refer to roads, stormwater, land, buildings etc. Non current assets actually represent a latent liability in as much as they must be maintained to standards that meet community expectations.

The perennial challenge is to generate sufficient operating surplus to maintain and refurbish infrastructure. This is particularly the case for **General Fund** which has to manage rate pegging and must manage non current assets with a written down value of $819 million. The costs to maintain/refurbish/replace these assets typically increase at a rate that is greater than the rate pegging maximum set by the State.

Water Fund is in a privileged position in that it has no non current liabilities and very small current liabilities. This suggests that the infrastructure is in a middle or latter part of the life cycle where up-front costs have been met and the infrastructure is meeting community needs.

Water Fund has $113 million in non current assets to maintain / replace. The question is to what extent should the current generation be paying (putting funds into reserve) to meet large refurbishment costs that will inevitably arise and this issue is a matter for consideration when setting future charging structures.

A significant feature of the **Wastewater Fund** balance sheet is the $64 million in non current liabilities. This represents loans taken out recently to primarily enable non current assets to be replaced and upgraded. This represents a significant impost on the current generation however the loans taken out in respect to the infrastructure will be repaid over at least a generation.

In respect to the primary borrowings two loans were taken out, one for five years for $13 million and the other for ten years at $50 million. At the expiration of these periods there will still be $8.8 million and $34 million outstanding respectively. Hence you will be looking at a further ten to fifteen years of repayments after the initial periods expire. So the expense to pay for the service potential of the infrastructure will be accepted by those benefitting over a considerable period of time.

3. Statement of Performance Measures (Note 13)

Financial indicators are important in assessing the financial health of the organisation, particularly in terms of trends. The indicators shown in Note 13 of the financial statements include indicators that relate to both consolidated (whole organisation) and per fund. It is considered that indicators on a consolidated basis can be misleading so the focus in this report is on a per fund basis.

Operating Performance Ratio = Operating income (excluding fair value adjustments, capital grants) less operating expenses over operating income (excluding fair value adjustments, capital grants).

The benchmark for this ratio is 0:1 or greater (ie achieve a break even operating result) indicating that the fund is sustainable into the future.

General Fund

2012	2013	2014
-0.15	-0..09	-0.19

The fund fails the ratio quite comprehensively and work needs to be done for this benchmark to be achieved. The indication is that the fund will not be sustainable in the long term if the operating result is not improved.

The fund recorded an operating loss, excluding capital grants, of approximately $11 million dollars and this provides an idea of the improvement required. This is also a key indicator in the Governments ‘Fit for the Future’ program and council will need to show how this deficit will be removed over the medium term.

In comparing 2012/13 to 2013/14 the 2012/13 financial year benefitted from various abnormal items including a one off payment of $7 million in respect to the bypass hand overs which improved the outcome. The 2013/14 result is a fairer indication for the fund.

Water Fund

2012	2013	2014
-0.22	-0.12	-0.02

The Fund fails the benchmark but only just and suggests that the Fund is very close to being sustainable. The large improvement on the previous year is primarily attributable to the large increase in income from user charges that were received in 2013/14.

The indications are very positive with perhaps the biggest threat being the fact that such a large amount of the income for the Fund (user charges) is extremely volatile and dependent on the weather.

Wastewater Fund

2012	2013	2014
-0.20	-0.15	-0.18

The Fund fails the benchmark as it struggles with the loan repayments related to the approximate $70 million in borrowings that have been taken up over the last few years.

It is expected that this ratio will improve quite quickly if the approximate 10% increases to the charging structure (proposed in the financial model) are approved by Council over the next few years.

Unrestricted Current Ratio = Unrestricted Current Assets / Current Liabilities (excludes those liabilities related to restricted assets)

The adopted benchmark is a ratio of 1.5:1 indicating an ability to meet short term commitments.

General Fund

2012	2013	2014
2.89	2.61	1.97

The ratio decreased in comparison to last year however still comfortably meets the benchmark.

General Fund reserves have declined by approximately $8 million which has had a significant effect on the ratio. Funds expended related to numerous projects however the larger expenditures were for the Airport (loan funds), Roads Ballina Heights Drive (grant and section 94 reserves).

Whilst the ratio remains within benchmark the trend has generally been negative over recent years. Another year similar to the last will see General Fund fail this important benchmark, so it will be important to minimise liabilities and maintain reserves going forward.

Water Fund

2012	2013	2014
33.96	30.67	42.34

The fund is in a very strong position with no debt and reasonable cash reserves. The forward forecast envisages a continuation of this situation with the capital program being financed from reserves on hand.

Wastewater Fund

2012	2013	2014
8.19	4.00	5.44

The ratio has been quite elastic as cash is received from loans reserves have been increasing as there is lag until the cash is applied to capital projects. Hence the rising debt level is matched against rising reserves and they tend to counter each other.

At the end of 2013/14 the ratio exceeds the benchmark very comfortably. Looking forward it is likely that the ratio will fall as cash reserves continue to be expended.

Debt Service Cover Ratio = Operating result (excluding capital, loan interest and depreciation over loan principal and interest repayments

The adopted benchmark is greater than 2 indicating that the cash surplus should be at least twice the value of loan repayments.

General Fund

2012	2013	2014
3.59	6.19	1.82

The ratio does not make benchmark and indicates that General Fund is just beyond its reasonable borrowing capacity. The indication from this ratio is that further borrowings should not be contemplated until the profitability of the fund improves or loans are repaid.

One exception to this general premise may be where the proposed borrowing is fully funded by a new income source. In this instance the ratio will most likely still decline slightly however the real impact of the loan, in terms of funding repayments, will be offset by the new income source.

In comparing the two years, as has been mentioned 2012/13 benefitted from some abnormal items that skewed the outcome, with 2013/14 being the more realistic position for the Fund.

It is pointed out the 'Fit for the Future' assessment uses a slightly different ratio called the 'Debt Service Ratio'. This ratio measures debt repayments (principal and interest) divided by operating income (excluding capital grants and contributions). The 'Fit for the Future' benchmark is less that 20%. In respect to this assessment General Fund passes the test.

Hence you have a borrowings benchmark attached to the financial statements that General Fund fails, whilst Council passes the 'Fit for the Future' loans benchmark. This creates mixed signals and is very confusing for all concerned. One conclusion that could be drawn is that the 'Fit for the Future' assessment is steering Council towards expansive borrowings that may, in the long term, not be best for Council's sustainability.

Water Fund

2012	2013	2014
0	0	0

As noted above the fund is debt free and passes this benchmark with ease. It is well positioned for when infrastructure requires substantial upgrading.

Wastewater Fund

2012	2013	2014
1.31	0.94	0.69

The ratio is well short of the benchmark. The ratio has been falling in concert with the borrowing and capital works program.

The Fund is leveraged well beyond capacity for an operation of this size. However the fact that the Council can adjust income at will to meet the circumstances means that whilst the ratio outcome is not desirable it is quite manageable. The long term financial strategy is to continue increasing revenue from the annual charge and minimising expenses sufficient to meet loan repayments and other commitments.

It is expected that the ratio will plateau and gradually improve as the borrowing program is completed and revenues are increased in excess of expenses. It will be important to avoid additional borrowings as this will require further increases to annual charges.

4. Internal Reserves

Within the General Fund operations of Council a number of specific reserves have been set aside to finance future activities and enable business' to function. The major reserves held by Council within General Fund as at 30 June 2014 are:

a) Employee Leave Entitlements - $1,968,000

This reserve is used to finance long service leave, annual leave and gratuities and to assist with budgetary variations associated with wages and overheads. The strategy is to keep this reserve at a level that is approximately 25% - 35% of the total leave liability however given the age of the work force the figure should be over 30%.

The total General fund leave liability as at 30 June 2014 is $7.2 million. Hence the cash reserve represents approximately 27% of the liability which is satisfactory. This is essentially the same percentage funded as the previous year.

b) Plant Operations - $921,000

Represents funds set aside to replace existing items of plant and equipment. These funds are derived by internally charging for the hire of the existing plant fleet. It is expected that the balance of this reserve will rise and fall depending on the plant replacement program. The reserve increased from $865,000 to $921,000 during the year. The fund achieved an operating surplus of $1.2 million in 2014 with the majority of these funds expended on plant replacements.

c) Landfill and Resource Management (LRM) – $1,534,000

Funds held for the management, development and post closure remediation of waste disposal cells. At the commencement of the year the reserve balance was $1,367,000 and it has increased by $167,000. This balance excludes $585,000 that is restricted as it is the State Government levy reimbursement and $212,000 that is unexpended grant relating to the Bio Char project.

LRM recorded an operating surplus of $1.4 million (excludes depreciation and levy reimbursement). The business had loan capital repayments of $1,053,000 which consumed the majority of the cash surplus whilst $159,000 was expended on capital works.

d) Quarry Management - $1,698,000

Funds required for ongoing operations and environmental impact statements and future rehabilitation of three quarries. The reserve decreased by $53,000 during the course of the year. There was a cash surplus from Stokers and Tuckombil quarries of $306,000. A dividend of $210,000 went to general revenue and a further $150,000 was extracted for Missingham Bridge car park.

The management of Tuckombil and Stokers quarries is leased out to Lismore City Council. The arrangement sees Council receiving royalties based on the quantity of material extracted. The Sandpit is not operational and the business has expended accumulated reserves on studies and applications to once again become operational or alternatively finalise remediation strategies. Accumulated reserves from Tuckombil and Stokers quarries are being used to fund the sandpit expenses.

e) Cemetery - $110,000

This reserve is necessary to enable extensions to cemeteries, to provide for unexpected contingencies and for the cemetery maintenance liability that Council faces in perpetuity.

The reserve reduced from $149,000 at the start of the year to $110,000. Cemetery operations produced an operating cash surplus of $123,000 and expended $34,000 on capital works (primarily relating to the East Ballina path). A dividend was provided to general revenue of $50,000.

Ideally funds will be put aside into a reserve to assist with future costs, both capital and operating. The plan going forward is to reduce the size of the dividend.

f) Property Reserves - $6,723,000

The reserve balance has decreased by $609,000 and there have been numerous transfers to and from this reserve that combine to achieve this outcome. This balance excludes the negative balance of the Airport reserve because whilst the property reserves fund the deficit it is anticipated that the Airport will trade out of the negative position and therefore not impact on the property reserves.

In 2010/11 Council passed a policy that requires the reserve to maintain a minimum balance of $1,000,000 to be available to meet budget shocks that occur from time to time and the end year balance achieves this goal. Future cash forecasts for this reserve indicate that there will continue to be some major incoming and outgoing movements. Council has numerous projects on the horizon that are to be funded from this reserve.

The reserve is split into two sub reserves and a summary of the movements for each sub reserve is described below.

Infrastructure reserve $2,946,000

Funds used to provide community infrastructure. During the year the reserve increased by $228,000.

Funds came into the reserve totalling $2.5 million via rental income, sale of land at Southern Cross estate, interest from monies invested and recoupments from section 94 plans. The recoupments relate to payments made by the reserve in previous years in respect to projects nominated in the section 94 plans.

Funds applied amounted to $2.3 million and included loan repayments, Ballina Surf Club, Regional Sports Centre, commercial property operating expenses and the Coastguard Tower.

Property development $3,777,000

The reserve is used to enable participation in commercial opportunities as and when they become available and the balance decreased by $837,000 during the year.

Incoming funds were received from interest on investments and land sales.

Outgoings included work on the residential estates Council is progressively developing, Lennox Head community Centre and a dividend to General fund of $609,000.

g) Airport Improvements Reserve – (592,000)

Funds accumulated for refurbishment of existing assets and future improvements to the Airport business. The reserve balance was negative $454,000 at the start of the year the balance declined by a further $138,000. This is financed by an internal loan (non interest accruing) from the property reserves.

Airport operations produced an operating surplus of $289,000 and a surplus of $1,049,000, excluding depreciation. There was a capital loan repayment of $839,000 and capital works of $5 million. Capital works were primarily funded by external loans. There has been a steady improvement in the operating performance which is being driven by increasing passenger numbers.

The business has outstanding loans of approximately $9.2 million which means it is leveraged beyond preferred benchmarks. However it is the nature of airports that substantial capital expenditures are required at different times in their life cycle. It is important that total income received exceeds total expenditure so that the negative internal reserve can be eliminated.

It is the volatile nature of income streams that makes this a risk orientated venture. However the community benefit derived from the town having an airport is a primary consideration in the decision making process.

5. Loans

Movements in total loan debt by fund, for 2013/14, are shown below. Figures relate to external loans only and are taken from *Special Schedule 2 which excludes the accounting adjustments to unwind interest free loans*.

Table Twenty One: Loan Movements for 2013/14 ($'000)

Fund	Balance 1 July 2013	New Loans Raised	Principal Repaid	Balance 30 June 2014	Movement Increase / (Decrease)
General	31,222	1,200	3,216	29,206	(2,016)
Wastewater	66,214	690	2,385	64,519	(1,695)
Water					
Total	**97,436**	**1,890**	**5,601**	**93,725**	**(3,711)**

Council's overall loan debt decreased by $3.7 million over the course of the year with new loans being taken up in both Wastewater and General Funds however the amount of repayments has exceeded the new loans taken up.

New loans raised in General Fund were for the roads (Ballina Heights Drive) $1.2 million. This loan was taken up as part of the Government's Local Infrastructure Renewal Scheme (LIRS). Under these arrangements Council has taken advantage of low interest loans.

The borrowings in Wastewater Fund were for the wastewater infrastructure program.

Water has no debt and there are no borrowings forecast in the short to medium term. The graph below shows the movement in debt over recent years. It can be seen that both General and Wastewater Funds have increased substantially over the last few years and explains why the both funds fail the debt cover performance benchmark.

Table Twenty Two: Debt Level by Fund $ millions