2012/13 END OF YEAR FINANCIAL ANALYSIS

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 2012/13 and the financial position as at 30 June 2013.

Part 1: General Purpose Reports and Special Schedules

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 Income Statement provides two operating results for the year as per the following table. Also included for information is the Statement of Comprehensive Income.

Table 1: Income Statement

Item	2011/12 ($'000)	% Change	2012/13 ($'000)
Operating Result from Continuing Operations	12,570	116	27,211
Operating Result before Capital Grants & Contributions	(10,129)	(22)	(12,338)
Total Comprehensive Income	100,930	(52)	48,074

A detailed analysis of these results follows, however it is important to identify the major components and differences of each of the results.

Operating result from Continuing Operations includes all income and expenses for the year. Income includes capital grants, but expense excludes capital expenditure. It is fair to include capital grants in income but exclude capital expenditure in the expense figure, as the expense figure also includes depreciation. As depreciation recognises the reduction in the value of an asset over time there is a matching of capital income against the depreciation expense for an asset.

One concern with this format is that capital income is often used to create new assets as opposed to renewing existing assets so in this instance you may not have matched income with the expense to which it has been applied because depreciation is the estimated expense to renew existing assets. Also the majority of the capital income is in fact 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.

Net Operating Result for the year before Capital Grants and Contribution excludes capital grants and contributions. As per the previous comment this figure is provided as the capital expenditure that relates to the income is not included in the statement, so this result provides a more transparent outcome with all capital transactions excluded.

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

Table 2: Consolidated Results from Continuing Operations of Council

Item	2011/12 ($'000)	% Change	2012/13 ($'000)
Income from Continuing Operations	86,670	33	114,891
Expenses from continuing Operations	74,100	18	87,680
Surplus/(Deficit)	**12,570**	**116**	**27,211**

The net operating profit of $27 million is an excellent result which evidences a level of activity well in excess of the previous year. However it is achieved via a contribution of almost $40 million from capital grants. As discussed above, there are issues to be considered when including capital grants as operating income and we must be careful how we interpret this result. As an example of the $40 million, over $24 million relates to subdivider dedications which are assets handed over as opposed to income received.

The variances in income and expense are discussed in detail later in this report (refer to the Expenses and Revenues section).

Table 3: Net Operating Result before Capital Grants and Contributions

Item	2011/12 ($'000)	% Change	2012/13 ($'000)
Operating Result from Continuing Operations	12,570	116	27,211
Less Capital Grants and Contributions	22,699	74	39,549
Net operating result	**(10,129)**	**22**	**(12,338)**

Table three highlights an operating loss of $12.3 million which is $2.2 million higher than the previous financial year. Historically Council operates at a loss and the forecast is for this to continue for some years to come.

It does suggest that over the long term the organisation may encounter sustainability issues. Given that Council will always have a guaranteed cash flow and a very high level of access to loan/grant funding it is unlikely that this cash shortfall will manifest in a financially catastrophic form but more in terms of maintaining service levels.

In comparing 2011/12 to 2012/13 there have been numerous variances between incomes and expenses. However there are significant 'non cash/prior year expense' changes that assist in explaining the majority of the $2.2 million increase to the deficit:

- Decreased depreciation expense of approximately $1.3 million. The decrease is due to further refinements of the depreciation process that look to achieve a more accurate indication of the estimated cost associated with asset deterioration.
- A decrease in the value of investment property of $2.7 million that reflects in the statements as increased expense.
- Bringing 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 has been brought to account this year as operating expense.

The net affect of these issues is to increase expense by $2.4 million which contributes to explaining the difference between the two financial years. It is again stressed that there are always numerous differences between financial years and each year has its own nuances that are not repeated or occur at varying levels.

In 2012/13 for example expenses include a loss on sale of assets of around $6.5 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 next analysis in table four 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 approved 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 operating result for our core recurrent operations.

Table 4: Adjusted Net Operating Result

Item	2011/12 ($'000)	% Change	2012/13 ($'000)
Income from Ordinary Activities	86,670	33	114,891
Expense from Ordinary Activities	74,100	18	87,680
Operating Surplus	**12,570**	116	**27,211**
Exclude Capital Grants and Contributions	(22,699)	74	(39,549)
Remove NPV Calculation for Interest Free Loans	614	(5)	583
Exclude adjustments for remediations	(346)	406	(1,751)
Exclude investment property adjustments	0		2,745
Remove Depreciation from Expenses (Add Back)	21,701	(6)	20,428
Revised Result - Surplus on Operations	**11,840**	(18)	**9,667**

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 surplus in 2012/13 must be considered in the context of this being a consolidated result that includes Water, Waste and Wastewater operations.

The revised surplus in table four of $9.7 million highlights the difficult decisions faced by Council in terms of allocating resources. The surplus must be used to pay loan capital repayments ($3.5 million), refurbish/replace existing assets (depreciation $20.4 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.

The Statement of Comprehensive Income starts with the Net Operating Result and includes gains or losses due to asset revaluations as shown below.

Table 5: Total Comprehensive Income for the Year

Item	2011/12 ($'000)	% Change	2012/13 ($'000)
Net Operating Result for the Year	12,570	116	27,211
Gain on revaluation of assets and de-recognition of land under roads	88,360	(76)	20,863
Net operating result for the Year	**100,930**	**(52)**	**48,074**

There was a gain in the value of assets of $20.8 million. This increase relates to water, wastewater and roads infrastructure.

2. Revenues from Ordinary Activities (Note Three)

Table 6 shows that revenues from ordinary activities have remained very similar in comparison to the previous year, although there have been movements within the categories.

Table 6: Revenues from Ordinary Activities

Type	2011/12 ($'000)	% Change	2012/13 ($'000)
Rates and Annual Charges	33,273	7	35,657
User Charges and Fees	14,582	5	15,260
Interest	4,365	7	4,658
Other	3,543	68	5,961
Grants and Contributions - operating	7,744	78	13,806
Grants and Contributions - capital	22,699	74	39,549
Profit on Disposal of Assets	464		0
Total	**86,670**	33	**114,891**

Council received $35.7 million from rates and annual charges, which is an increase of 7%. This increase is because ordinary rates increased by 6.1%, charges for water 5.9%, sewer 6.9% and domestic waste annual charges by 9%. There was also growth in the number of rateable assessments.

User charges increased by 5% in comparison to 2011/12 with most income sources being relatively similar. The increase is primarily attributable to increased income from water consumption charges and to a lesser extent airport income.

Income from 'Other' includes items such as parking fines, recycling income and rental income. In comparison to the previous year the main difference is yet another non cash item in the form of a write down of the provisions to remediate former waste sites of $2.2 million. A review of the estimated cost to remediate former sites at Lennox, Wardell and Ballina resulted in the provision being removed completely because it was determined that it was very unlikely that Council would incur any major capital expense to remediate these sites. This adjustment reflected in the statements as 'other income'.

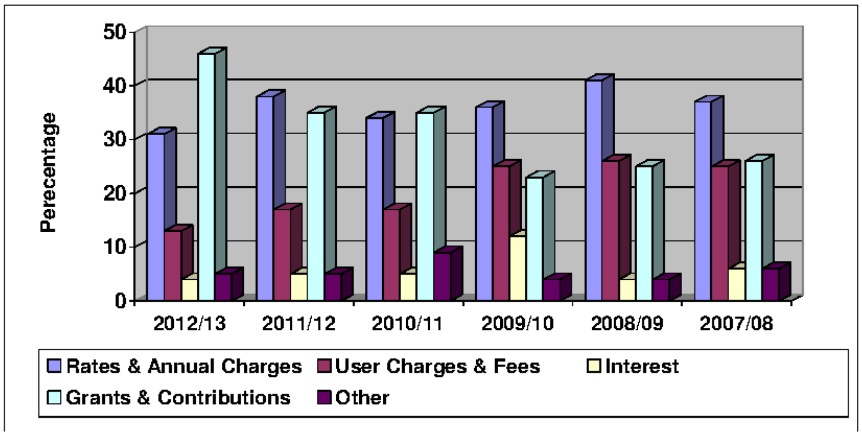
Council received in the order of 100 grants during the year. Operating grants and contributions increased by a massive 78% in comparison to 2011/12, which is almost entirely due to income from the Roads and Maritime Services in regard to the two bypass hand over agreements. Under these arrangements Council 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 2012/13 Council received $39.5 million from this source of which $24.3 relates to subdivision dedications. Whilst this shows as income the reality is that no cash has been received and the gifted assets must be maintained by Council going forward.

Other capital grants included in the $40 million total include $4 million in cash developer contributions, $5.3 million in relation to roads, 2.3 million for the Airport and $2.1 million for the Surf Club.

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

Table 7: Revenues from Ordinary Activities



* Categories expressed as a percentage of total revenues

It can be seen that the 2012/13 figures are strongly influenced by the abnormally large amount of income from grants and contributions and beyond this other relativities remain similar.

3. Expenses from Ordinary Activities (Note Four)

The table below itemises the 2012/13 and previous financial years operating expenditure.

Table 8: Expenses from Ordinary Activities

Type	**2011/12 ($'000)**	**% Change**	**2012/13 ($'000)**
Employee Costs	19,024	(1)	18,810
Materials and Contracts	24,588	6	26,045
Interest	2,526	108	5,254
Depreciation	21,701	(6)	20,428
Other	6,261	95	12,231
Loss on Disposal of Assets	0		4,912
Total	**74,100**	18	**87,680**

Employee costs decreased by 1%, despite an award increase of 3.25%. This is due to staff being replaced and delays in their replacement. Often casual staff are employed through an employment agency on a temporary basis and this is not included as labour cost (see comment next paragraph).

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 and this can sometimes explain why the labour cost comparison between years can vary whilst staff numbers remain similar.

Labour costs as per Note 4 exclude people employed through contract labour companies and in 2012/13 Council paid approximately $2.1 million to these organisations (the figure for 2011/12 was approximately $2 million).

This expenditure relates to trainees and apprentices, who are actually employed through specialist training companies, and casual staff engaged to assist with peak work loads and staff shortages due to leave or resignations.

Materials and contracts increased by 6% which exceeds a typical cost of living increase. Whilst there have been many ups and downs within this category when comparing years, some of the increases in 2012/13 include roads maintenance $500,000, natural disaster $580,000 and Land fill and Resource Management $600,000.

Interest expense has increased by over 100% which 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 decreased by 6% and whilst the expense increased in comparison to 2011//12 for most asset types, it decreased for Water and Wastewater.

During 2011/12 Water and Wastewater infrastructure was revalued and the methodologies used to assess the annual cost of the asset decline were amended (improved to increase accuracy) which resulted in a decrease to the forecast expense.

Expenditure classified as 'Other' has almost doubled in comparison to the previous year. This is primarily attributable to three issues being; the book value of investment properties declined by $2.7 million (shows as increase to expense) and a contribution of $1.6 million to the Roads and Maritime Services for McLeay culvert is unusual and expense of this type would typically be classified as capital.

In 2012/13 the loss on disposal of assets was $4.9 million.

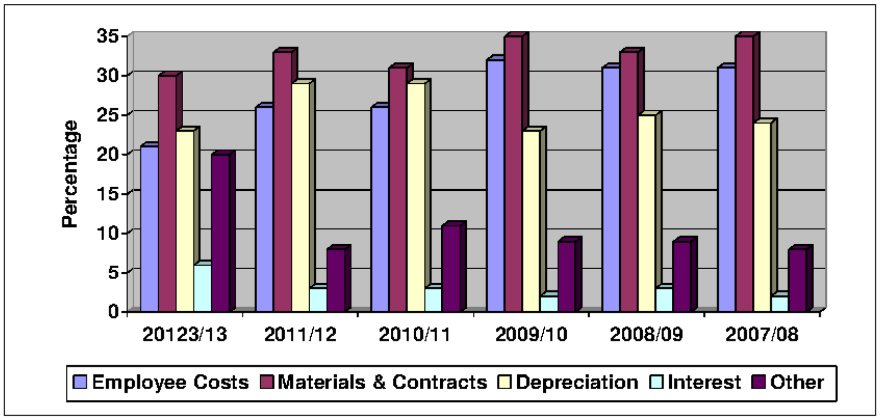
This relates to a number of issues including:

- The renewal of infrastructure being a loss of approximately $6.6 million; i.e. when assets are replaced they are removed from the asset register and often that asset has a residual value that needs to be written off
- The sale of the Ross Street property which was a profit of $850,000 (sale price less book value)
- Profit on sale of real estate, approximate $700,000 (Industrial land sales)
- Profit on sale of plant $140,000.

The loss of $4.9 million is unusually high. This is mainly due to the quantum of road assets written off that had not been completely depreciated to zero. This has contributed to the $6.6 million infrastructure loss noted above.

Table 9 below compares expenses per category as a percentage of total expenditure for several years. In general, relativities remained consistent with the exception being 'Other' which, as described above had a number of abnormal inclusions in 2012/13.

Table 9: 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 10: Expenses from Ordinary Activities

Type	**2011/12 ($'000)**	**% Change**	**2012/13 ($'000)**
Current Assets	77,902	15	89,691
Non Current Assets	1,059,317	6	1,127,030
Total Assets	**1,137,219**	**7**	**1,216,721**
Current Liabilities	14,821	70	25,184
Non current Liabilities	70,599	30	91,664
Total Liabilities	**85,420**	**37**	**116,848**
Net Assets	**1,051,799**	**5**	**1,099,873**

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 increased by 15% in comparison to 2011/12 which is mainly due to a higher level of wastewater cash reserves than the previous year. The wastewater reserves increased as loan funds were received prior to expenditure on the capital upgrade program.

The major item within non current assets is infrastructure which has a value of $1,094,337,000. A detailed discussion of this item follows in the next section of this report. Liabilities have increased by over $30 million which is essentially due to increased external borrowings and a detailed analysis follows later in this report

Non Current Assets

The major component of Council's assets relates to infrastructure assets. Infrastructure assets include the following categories:

Table 11: Value of Infrastructure Assets

Infrastructure assets	30 June 2012 ($000)	30 June 2013 ($000)
Plant and Equipment	8,694	8,384
Land	182,567	190,671
Buildings/ Structures	65,254	63,142
Roads, Bridges and Footpaths	360,776	397,696
Stormwater Drainage	70,049	69,747
Water Supply Network	103,350	104,734
Sewerage Network	182,777	191,302
Future Reinstatements	1,009	697
Capital Works in Progress	47,913	67,964
Total Infrastructure Assets	**1,022,389**	**1,094,337**

The table shows that the asset base has increased by some $72 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 12: Asset Movement Summary 2011/12 to 2012/13

Asset Purchases ($000)	Disposals and Transfers ($000)	Depreciation ($000)	Revaluation ($000)	Total Asset Movement ($000)
79,337	(7,367)	(20,685)	20,663	71,948

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, of the total purchases of $31 million, approximately $23 million relates to assets handed over by Roads and Maritime Services in respect to the Ballina and Alstonville bypasses. i.e.; roads that were previously state highway are now owned by Council. Wastewater purchases amount to $26 million of which $25 million is residing in the works in progress category.

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 2012/13 relate to road segments $4.6 million and wastewater infrastructure $1.6 million.

Depreciation places a dollar value on the estimated annual fall in the service potential of our assets. The 2012/13 calculation for depreciation is $20.7 million with the majority of this cost relating to roads, water and wastewater infrastructure. The value of depreciation has dropped in comparison to last year and this is mainly attributable to Water and Wastewater.

These two asset categories were revalued during 2011/12 and 2012/13 is the first year that the revised depreciation has impacted. An important change in methodology occurred that led to a reduction in depreciation. It was determined that both water and wastewater pipes were deemed to have a residual value so the asset value to be depreciated is reduced. The adjustments were:

- Previously pipes were depreciated to zero and the value depreciated included works for concept design and survey. It is considered that in almost every instance a pipe replacement will go back in the same location which means there is no need for design or survey which means that a portion of the value of the original asset remains.
- In most instances when a wastewater pipe is replaced, the existing pipe is simply relined as opposed to having a completely new pipe put in place. The cost to reline is approximately one third of the cost for a full replacement.

The revaluation increment of $20.8 million relates to water ($2.6 million), wastewater ($4.6 million) and roads ($13.7 million) infrastructure. Water and Wastewater were completely revalued whilst roads was 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.

Stormwater assets were last revalued in 2010 and the practice has been that these assets were not incremented in value on an annual basis. This was because the value of the increment was deemed not to be material in the context of the value of the total asset base. Whilst this may be the case it is considered that going forward, stormwater assets will be incremented on an annual basis which will make the picture presented of our asset position more accurate and improve our accounting practices.

<u>Special Schedule Seven</u>

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. This is a condition based internal assessment that references the original design standard of the asset.

In 2012/13 the estimate is approximately $14 million dollars and the majority of this estimate relates to roads infrastructure ($11.8 million) which means that most other asset classes have been assessed as satisfactory or close to satisfactory.

The backlog of works to achieve a satisfactory standard for roads is considered to be manageable in the context of Council's total annual expenditure. The focus on asset management and revaluation has raised corporate recognition of this shortfall as well as bringing attention to service standards and what is deemed to be satisfactory

It must be remembered that it remains an estimate and whilst the methodology of forming this estimate has improved substantially over recent years it remains a guide at best.

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 arms length transaction'. Alternatively where there is no market available it is the written down replacement cost of the asset using modern day equivalent materials and design.

Table eight 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 13: 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	30/6/2014	Conducted by external valuer
Roads, Bridges and Footpaths	Fair Value	30/6/2010	30/6/2014	Determined by staff & values indexed annually.
Stormwater Drainage	Fair Value	30/6/2010	30/6/2015	Determined by staff & values indexed annually.
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	30/6/2011	30/6/2014	Valuer General's latest valuation used
Land Operational	Fair Value	30/6/2011	30/6/2014	Conducted by external valuer
Land Improvements	Fair Value	30/6/2011	30/6/2014	Valuation conducted by staff
Investment Property	External Valuer	30/10/2013	30/6/2016	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.

Liabilities

The next table summarises current and non current liabilities for the Council as at the 30 June 2013.

Table 14: Outstanding Liabilities as at June 30 2013

Liability	**2011/12 ($'000)**	**2012/13 ($'000)**
Current	14,821	25,184
Non Current	70,599	91,664
Total	**85,420**	**116,848**

Total liabilities have increased by $31.4 million which is primarily due to Council taking up new loans in Wastewater ($16.9 million) and General Funds ($13.4 million).

Council has just completed raising loans for the Wastewater upgrade of $63 million which is by far the largest undertaking ever done by Council. The borrowings represent an enormous commitment for the community that will be repaid over an extended period of time. The trade off is that the community enjoys the use of new and improved infrastructure.

The provision for leave liability has reduced in comparison to the previous year from $13.2 million to $11.8 million. This is because 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.

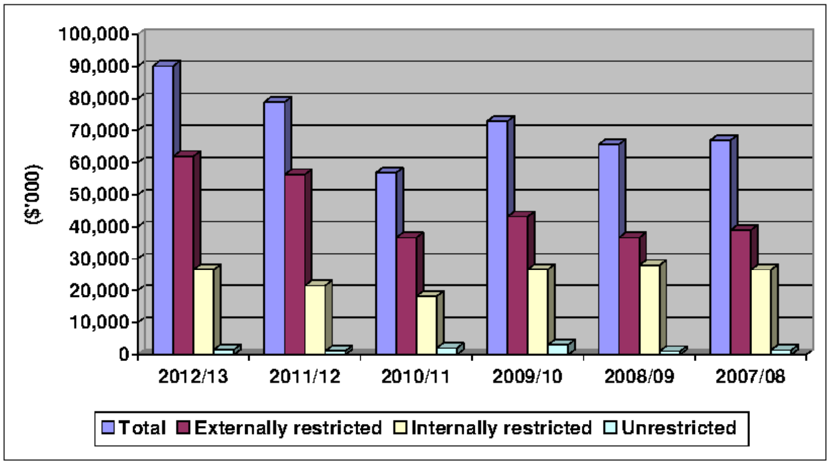
Total Equity

The total equity of Council has increased by $48 million during the year to $1.1 billion. This represents a 4.5% increase in equity and is attributable to the operating result of $27 million and the increase to the value of property plant and equipment of $21 million.

5. Cash and Investments (Note Six)

This note highlights that Council has total cash and investments of approximately $90 million.

Table 15: Restricted and Unrestricted Cash



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 increased by approximately $11 million which is due to unexpended grant and loan income received (externally restricted) and untied contributions from Roads and Maritime Services relating to the bypass handovers internally restricted).

6. 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.

Council has adopted a Financial Planning policy which sets benchmarks for ratios and these benchmarks are referenced in the reporting below.

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

2011	*2012*	*2013*
2.75	*2.89*	*2.61*

The ratio decreased in comparison to last year however still comfortably meets the benchmark. It has declined as General Fund has taken out new loans of over $13 million which is a 76% increase in the portfolio. The fall in the ratio would have been much greater however the receipt of the untied grants from Roads and Maritime Services (large increase to the numerator) softened the increase in liabilities.

It is likely that the ratio will fall next year as the cash reserves are applied to infrastructure maintenance and upgrade.

Water Fund

2011	*2012*	*2013*
25.50	*33.96*	*30.67*

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

2011	*2012*	*2013*
4.98	*8.19*	*4.00*

The ratio has been quite elastic as cash received from loans (and unexpended at years end) is being matched against the rising debt level. As at the end of 2012/13 the ratio exceeds the benchmark however looking forward, as the major portion of the works program is completed and unexpended loans are converted to infrastructure, the ratio will fall.

Debt Service Ratio = Debt Service Cost / Operating Revenue less Specific Purpose Grants and Contributions

The adopted benchmark is less than 0.12. i.e. you should not have more than 12% of your operating revenue committed to repaying debt.

General Fund

2011	*2012*	*2013*
0.07	*0.06*	*0.08*

The ratio has increased in response to the additional borrowings taken out however remains within benchmark. The ratio looks at repayments during the year and repayments were not made in respect to some of the new loans taken up in 2012/13. It is anticipated that the ratio will continue to rise over the next year, depending on operating revenue movements, although it is anticipated that it will just remain within benchmark next year.

Water Fund

2011	*2012*	*2013*
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

2011	***2012***	***2013***
0.10	*0.21*	*0.34*

The ratio is well in excess of the benchmark and the trend clearly shows the impact of the massive borrowing program. The ratio is likely to rise considerably again next year and then plateau as the borrowing program is completed.

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 sufficient to meet loan repayments and other commitments.

Rates and Annual Charges Outstanding Percentage: rates and annual charges outstanding over rates and annual charges collectible.

The adopted benchmark for this ratio is less than 6%

General Fund

2011	***2012***	***2013***
7.19	*6.07*	*6.20*

The benchmark has not been achieved and this is disappointing. There was a period of time following the introduction of new software that debt recovery only received very limited attention and the ratio spiralled from very good to poor. The last 18 months to two years has seen recovery procedures resume as per normal and the ratio was falling however this did not continue in 2013.

Staff have adopted a relatively lenient stance with ratepayers in allowing generous repayment arrangements to be put in place given the difficult financial times. So this has contributed to the outcome, but going forward it is envisaged that the ratio will fall within benchmark.

Water Fund

2011	***2012***	***2013***
19.04	*16.42*	*11.96*

The result is outside the benchmark however the trend is quite positive. The outcome is misleading in that rates outstanding include the fourth quarter water access charges for customers. These charges are included in the ratio as a debt outstanding even though they are not due for payment until August.

On this basis it is unlikely that the benchmark will ever be achieved in this fund. Submissions have been made to the Division of Local government recommending a change to the way the ratio is calculated.

Wastewater Fund

2011	*2012*	*2013*
12.70	*8.48*	*7.59*

The result is again outside of the benchmark although again showing substantial improvement. It is similar to Water Fund in that the fourth quarter usage charge levied on non residential customers distorts the outcome.

Building and Infrastructure Renewal ratio: asset renewals (building and infrastructure) over depreciation, amortisation and impairment.

Council does not have an adopted benchmark for this ratio however the general idea is that it would be about one, which means you are renewing existing assets at the same rate as they are estimated to deteriorate.

General Fund

2011	*2012*	*2013*
0.19	*0.7*	*0.87*

The 2013 result is a very positive improvement in comparison to previous years. To some extent this has come from improved costing procedures and a better distinction between costs incurred on new assets, asset renewal and maintenance.

The 2013 result is rather good and indicates that we are almost renewing assets at the same rate as they as deteriorating. It is important to note that the rate of deterioration is an estimate albeit that a lot of work has, and will, continue to be done to refine this estimate to be as accurate as possible.

Water Fund

2011	*2012*	*2013*
0	*0.27*	*0.06*

The table indicates quite erratic results however the bottom line is that there is very little resource being applied to renew existing infrastructure. This outcome can be interpreted in a few ways, one of which is to say that the infrastructure is in good health and in a part of the life cycle where little renewal is required. Alternatively it could be viewed as a concern for the future and suggest that at some point there will be issues with the infrastructure and the service standard that it is able to provide.

Consultants have conducted a risk based analysis on water infrastructure based on the number of line breaks and other information gathered over the last five to seven years. The conclusion was that whilst there are some black spots there are no significant issues. This is a matter that will continue to receive close attention going forward.

Wastewater Fund

2011	*2012*	*2013*
0	*2.48*	*3.40*

The 2013 result would pass any known benchmark and indicates that a lot of resource is being applied to the infrastructure. The major refurbishment program that has occurred over the last couple of years is the reason for the dramatic increase in the reserve. Presumably in future years this ratio will see significant decline as the current upgrade program draws to a close.

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 and Balance Sheets

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

Income Statements

Council finances comprise a number of independent entities. It is important to assess the performance of each entity and the table below looks at the General, Water and Wastewater funds.

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 16: General Fund Income Statements ($'000)

Description	**2010/11**	**2011/12**	**2012/13**
Income	60,296	62,707	86,745
Expense	46,018	48,477	57,014
Net Operating result	**14,278**	**14,230**	**29,731**
Less Capital Grants	(15,996)	(19,599)	(37,059)
Result Excl Capital Grants	**(1,718)**	**(5,369)**	**(7,328)**
Eliminate Loan Unwind	134	140	147
Add Back Depreciation	13,175	15,092	15,704
Eliminate Invest Prop Reval	(2,567)	0	2,745
Revised Result	**9,024**	**9,863**	**11,268**

General Fund has made a loss of $7.3 million excluding capital grants, and produced a surplus, excluding capital grants and selected non cash items of $11.2 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. As discussed earlier in this report the result in 2012/13, when considered in conjunction with previous year's results suggests that there may be sustainability issues.

This concern is particularly valid given the rate pegging legislation that impacts General Fund's primary income source - the ordinary rate.

Nevertheless it can be seen that the 'Revised Result' has been improving and a lot of this is associated with the four year approval for special variation increases. The 2013/14 year is the final year of the four year special variation approval. By the end of 2013/14 Council will have received increases above the limit for seven of the previous eight years. Whilst this has been an impost on ratepayers Council still has a lower ordinary rate than most other councils in our category in the State, based on the latest available data.

The strategy for the fund going forward is to improve the operating result.

Table 17: Water Fund Income Statements ($'000)

Description	2010/11	2011/12	2012/13
Income	10,555	9,867	10,641
Expense	9,815	10,548	10,933
Net Operating result	**740**	**(681)**	**(292)**
Less Capital Grants	(2,656)	(1,254)	(1,008)
Result Excl Capital Grants	**(1,916)**	**(1,935)**	**(1,300)**
Add Back Depreciation	2,246	2,266	1,883
Revised Result	**330**	**331**	**583**

Water Fund has recorded a loss of $1.3 million following the exclusion of capital grants and a modest surplus of $583,000, exclusive of capital grants and non cash items. This is well short of depreciation expense and leaves substantial room for improvement.

The operating position of the Fund has been ordinary for some years as Council has struggled to match the price increases for bulk water. The 2012/13 year was the first in five years where the bulk supply increase was more aligned to a cost of living rise. Ballina's annual charges were increased by 5.9% and a small improvement has been recorded in the operating result in comparison to the previous year.

One outcome of the continual price increases has been that demand for water has fallen and income has not increased in proportion to the tariff increase. The table bellow shows the gross billable kilolitres consumed in recent years.

Table 18: Gross Kilolitres Levied as Water Bills ('000)

Year	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Kilolitres	2,865	2,833	3,166	2,744	2,735	2,908

Gross billable water consumption in 2012/13 increased in comparison to the previous year and may be suggesting that a threshold has been achieved. If so there will be very positive ramifications for the financial performance of the fund and it will ease the pressure on tariff increases.

Importantly Water has minimal debt and sufficient reserves to enable capital expenditure requirements in the near future. Therefore from a short to medium term perspective the poor operating performance has not been a real concern. However from a longer term outlook the asset renewal ratio shows that very little resource is being applied to asset renewals and it must be presumed that over time this will change and renewal expenditure will increase quite substantially.

Council has complete control of the 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, now that the 10% price increases for bulk water have ceased, Council wishes to position itself to take a non compulsory dividend from Water Fund. Given the restrictions on General Fund to raise revenue it is suggested that this is a legitimate means of assisting the fund.

To take a non compulsory dividend you must be able to evidence an operating surplus over a three year period so this may be viewed as an additional motivation to improve the operating result.

Table 19: Wastewater Fund Income Statements ($'000)

Description	**2010/11**	**2011/12**	**2012/13**
Income	16,128	14,447	15,262
Expense	12,580	15,426	17,490
Net Operating Result	**3,548**	**(979)**	**(2,228)**
Less Capital Grants	(5,393)	(1,846)	(1,482)
Result Excl Capital Grants	**(1,845)**	**(2,825)**	**(3,710)**
Eliminate Loan Unwind	510	474	436
Add Back Depreciation	4,237	4,343	2,841
Revised result	**2,902**	**1,992**	**(433)**

Wastewater Fund has recorded a loss of $3.7 million exclusive of capital grants and a loss of $433,000 excluding capital grants and non cash items. The operating performance for 2012/13 is particularly poor and the cash loss means that we are dipping into reserves to fund an operating loss as well as the loan capital cost and any capital works. This situation is not sustainable in the medium term and corrective action is necessary.

The steady incline in operating expenses is due to both the interest cost of new loans and an increase in general operating expense associated with the infrastructure that has been constructed. There have been large increases to annual charges in an effort to keep pace with expenses however we have not succeeded. The table below shows percentage increases to the annual charge over recent years.

Table 20: Wastewater Residential Annual Charge

Year	***2013***	***2012***	***2011***	***2010***
Percentage increase	*6.9*	*14.5*	*14.5*	*9.0*
Residential annual charge	*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. In 2013 the increase to the annual charge was not as strong as previous periods and with the benefit of hindsight a slightly larger increase may have been preferable.

During the year Council expended approximately $25 million on the upgrade and accepted income from the loan facility of approximately $17 million. The first two years of the finance arrangement allowed for interest only payments. This means that the full impact of the loan repayments will occur for the first time in 2013/14, both for interest and capital repayments.

Council must continue the increases to the annual charge so that the Fund can cope with the additional expenses associated with the loans and new infrastructure operations. The forward financial plan anticipates another cash operational loss in 2013/14 despite a 9% increase to annual charge. Unfortunately the large increases to annual charges must continue until the operating expenses have reached a plateau and income can be adjusted to match.

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.

Balance Sheet

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

Table 21: Balance Sheet as at 30 June 2013 ($'000)

Fund	General	Water	Wastewater
Current Assets	47,023	11,386	31,282
Non Current assets	763,015	109,834	254,181
Total Assets	**810,038**	**121,220**	**285,463**
Current Liabilities	17,813	146	7,225
Non Current Liab	26,534	0	65,130
Total Liabilities	**44,347**	**146**	**72,355**
Net Assets	**765,691**	**121,074**	**213,108**

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 suffer rate pegging and must manage non current assets valued at $763 million. The cost to maintain/refurbish/replace these assets typically increases at a rate that is greater that 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 $110 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 **Sewer Fund** balance sheet is the $65 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 to $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.

2. 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 2013 are:

a) Employee Leave Entitlements - $2,007,800

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 2013 is $7.5 million. Hence the cash reserve represents approximately 27% of the liability which is satisfactory. This is an improvement in comparison to 30 June 2012 as the liability was 23% cash funded.

b) Plant Operations - $865,000

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 $860,000 to $865,000 during the year. The fund achieved an operating surplus of $1.2 million in 2013 with the majority of these funds expended on plant replacements.

c) Landfill and Resource Management (LRM) – $1,367,000

Funds held for the management, development and post closure remediation of waste disposal cells. At the commencement of the year the reserve balance was $1,548,000 and it has decreased by $181,000. This balance excludes $484,000 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 just over $1 million (excludes Levy reimbursement and depreciation). The business had loan capital repayments of $982,000 which consumed virtually the entire cash surplus. Going forward the intent is to improve the surplus to increase the reserve to pay for post closure remediation works.

d) Quarry Management - $1,751,000

Funds required for ongoing operations and environmental impact statements and future rehabilitation of three quarries. The reserve increased by $200,000 during the course of the year. There was a cash surplus from Stokers and Tuckombil quarries of $360,000, a loss of $21,000 from the Sandpit and a dividend of 139,000 to general revenue.

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. 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.

The latest estimates to remediate Tuckombil and Stokers quarries, once they have ended their useful life, is in the order of $1.4 million (this cost excludes the Sandpit). However during the course of the year test bores were drilled at Tuckombil quarry and it appears that the useful life of the quarry may be well in excess of current predictions. Further investigations will occur during 2013/14.

e) Cemetery - $149,000

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 $201,000 at the start of the year to $149,000. Cemetery operations produced a cash surplus of $103,000 which was applied to capital works $19,000 (primarily relating to the Alstonville niche wall) and a dividend to general revenue of $136,000. Given the size of the operation and the potential cash surplus the magnitude of the dividend is excessive, particularly considering that Council must provide maintenance in perpetuity.

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 - $7,332,000

The reserve balance has decreased by $365,000 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 three sub reserves and a summary of the movements for each sub reserve is described below.

Community Infrastructure $246,000

Funds used to provide community infrastructure. During the year the reserve decreased by $663,000.

Funds came into the reserve totalling $1,788,000 via rental of 89 Tamar Street, part rental of the ARC building, sales 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 $2,451,000 for loan repayments, Lennox Head Community Centre, Lennox Head fire shed, Ballina Surf Club, Regional Sports Centre, commercial property operating expenses and the Coastguard Tower.

Commercial Opportunities $2,473,000

The reserve is used to enable participation in commercial opportunities as and when they become available and the balance increased by $122,000 during the year.

Incoming funds were received from internal loan repayments and interest on investments.

Outgoings included work on Skennars Head Sports Fields and Fawcett Café...

Industrial land Reserve $4,614,000

This reserve is used to finance Council's land subdivisions at Russellton, Southern Cross and Wollongbar. The reserve has increased by $176,000 during the year.

Incoming revenue related to rental from commercial properties at Southern Cross Estate, interest on funds invested and sale of land at Southern Cross and Russellton estates.

Funds applied related to development and overhead expenses at Russellton, Southern Cross and Wollongbar estates and the provision of a commercial services dividend to general revenue of 448,000.

Traditionally the dividend roughly equates to the net operating surplus of Wigmore Arcade. General fund has received this level of support annually and the strategy going forward is to reduce this dependence and ultimately eliminate the dividend. This is because the property reserves are intended to fund major projects rather than support day to day operations.

g) Airport Improvements Reserve – (454,000)

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 and so it has remained at the end. This is financed by an internal loan (non interest accruing) from the property reserves.

Airport operations produced an operating loss of $49,000 and a surplus of $781,000, excluding depreciation. The cash surplus was put towards an external loan repayment of $532,000 and capital works. Capital works of approximately $5.8 million were carried out funded by operating surplus, grant income and external loan. There has been a steady improvement in the cash operating surplus which is being driven by increasing passenger numbers.

The operating result is rather good and is almost at the point where depreciation is funded. The new borrowings of $7.3 million taken out in 2012/13 will place pressure on finances going forward. The business 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 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.

3. Loan Indebtedness

Movements in total loan debt by fund, for 2012/13, 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 22: Loan Movements for 2012/13 ($'000)

Fund	Balance 1 July 2012	New Loans Raised	Principal Repaid	Balance 30 June 2013	Movement - Increase / (Decrease)
General	17,256	13,450	2,475	28,231	10,975
Wastewater	53,299	16,891	985	69,205	15,906
Water	4		4	0	(4)
Total	**70,559**	**30,341**	**3,464**	**97,436**	**26,877**

Council's overall loan debt has increased by $26.9 million over the course of the year with new loans being taken up in both Sewer and General funds.

New loans raised in General Fund were for the Airport $7.3 million, McLeay Culvert $1,570,000, Cumbalum Interchange $2,280,000, roads reseal program $1,000,000 and $1.3 million for the Ballina Town Centre. Loans taken up for the Airport and the roads are 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. Further funding of $600,000 will be taken up in 2013/14 and this will signal the end of the payments arranged under the $63 million borrowing facility established with the ANZ bank a couple of years ago.

Water has no debt and there are no borrowings forecast in the short to medium term.

4. Non-cash contributions from developers

Council's are required to bring to account as revenue (capital contribution), the value of infrastructure constructed by developers that eventually transfers to a council's control; e.g. roads, kerb and gutter etc.

The 2012/13 financial year resulted in infrastructure to $24.2 million being brought to account. The majority of this amount relates to roads and in particular the roads handed over as part of the Highway bypasses.

This non-cash contribution shows as income. The reality is that Council has not received revenue but an asset that must be maintained and therefore in terms of demands on available cash, a liability.

The graph below shows that developer non-cash contributions tend to be erratic and can vary significantly from year to year. The general trend however is for an increase in the dollar value received. This will be due to a combination of the rising cost to provide infrastructure as well as number and size of new developments.

Table 23: Non – Cash Capital Contributions ($'000)