



KEMPSEY
Shire Council

DIRECTOR CORPORATE AND COMMUNITY SERVICES REPORT

11th December 2007

DCCS4	PRESENTATION OF THE 2006 / 07 FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FILE: 321	APC {Folio No. *}

SUMMARY:

Reporting on the 2006 / 2007 financial statements and auditor's report.

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DESCRIPTION:

Council's financial statements for the 2006 / 07 year have been audited. Copies of the Income Statement, Balance Sheet and Auditors Report are attached [\(Appendix C – Page J3- 15 Part 1, Part 2, Part 3\)](#).

A full set of Council's Financial Statements for the year ended 30th June 2007 will be tabled at the meeting, and copies will be made available upon request.

The following comments are provided in respect of the financial statements:

Audit Report

The audit report for 2006 / 07 has been qualified.

Council was required in the 2006 / 07 year to revalue its water and sewerage assets at fair value. The revaluation was only completed in the week ending 19th October 2007.

Council carried out the valuation, however in the absence of definite asset condition data the Statements restated the accumulated depreciation proportionate to that prior to the revaluation. In the absence of external evidence to confirm the reasonableness of the carrying value of these assets the audit opinion has been qualified.

Income Statement

The income Statement measures Council's financial performance over the year and shows whether or not Council has earned sufficient revenues to support its activities during the year, and whether or not it has created surpluses to fund additional or replacement assets to service community needs.

The Income Statement shows where Council's money comes from (revenue) and how that revenue is consumed (expenses) in providing the ordinary activities and services of the Council.

The Income Statement reveals a net operational surplus for the year of \$3.519 million as compared to \$3.329 million in the previous year.

Total income was \$40.780 million with 46.95% of income being generated from rates and annual charges. Operating expenses totalled \$37.261 million including employee costs of \$14.493 million and depreciation expenses of \$9.555 million.

Balance Sheet

The Balance Sheet discloses Council's net accumulated financial worth at the end of the financial year. It shows the 'value' of assets that Council holds as well as liabilities or claims against these assets.

Council's total equity as at 30 June 2006 is \$374,667m (\$371,338 as at 30 June 2005)

Kempsey Shire Council's Balance Sheet as at 30th June 2007 is highlighted by the following:

- Current Assets and Current Liabilities

Current Assets total \$23.647 million whilst the current liabilities total \$12.729 million. The ratio of current assets to current liabilities of 1.86:1 indicates Council's excellent liquidity position.

- Cash Assets:

Council's cash assets which comprise cash and investments increased from \$16.032million as at 30th June 2006 to \$18.895million at 30th June 2007. Note 6(c) of the Financial Statements provides a breakdown of the cash position and reveals that Council's unrestricted cash (a primary component of Council's working fund balance) has increased from \$329,000 to \$717,000 as at 30th June 2007. The increase in unrestricted cash delivered a key outcome identified in the 2006 / 07 budget i.e. an increase in Council's working funds position.

Council's General Fund internally restricted cash has increased to \$3.516 million. Council's internally restricted cash represents money set aside by Council in reserves to fund the cost of future works and or to meet financial obligations including employee leave entitlements. In addition to the General Fund reserves balance, Water Fund reserves total \$2.048 million, Sewer Fund reserves \$3.473 million, Domestic Waste Management reserve \$464,000 and Tourist Parks \$72,000.

A breakdown of the reserve balances as disclosed in Note 6(c) is as follows:

General Fund

Employee Leave Entitlements Reserve	\$516k
Land Development Reserves	\$167k
Co-op Library Computer Reserve	\$45k

Computer Reserves	\$91k
Bridge Construction Reserve	\$144k
Road Reserve	\$44k
On Site Sewerage Reserve	\$8k
Sports Development Reserve	\$5k
Election Reserve	\$70k
Loan Sinking Funds	\$100k
Quarry Restoration Reserve	\$70k
Laboratory Equipment	\$30k
Equipment Reserves (Community Services)	\$8k
Cemetery Headstone Restoration	\$8k
Environmental Levy Reserve	\$432k
Fleet Reserve	\$502k
General Fund Loans (Unexpended)	\$918k
Uncompleted Works Reserve	\$358k

Water Fund

Water Augmentation Reserve	\$883k
Water Tariff Equalisation Reserve	\$242k
Water Fleet Reserve	\$95k
Loan Sinking Fund	\$100k
Uncompleted Works Reserve	\$728k

Sewer Fund

Augmentation Reserve	\$3108k
Uncompleted Works Reserve	\$365k

Funding of Council's Employee Leave Entitlements Reserve increased by \$444,000 to \$516,000 as at 30th June 2007, this represents 7.17% of the total liability of \$7.194m. The 2006 / 07 result is pleasing and reflects Council's commitment to a longer term strategy incorporated within Council's long term budget to increase the reserve funding to a level equating to some 20% of the assessed liability over the next ten years.

- Infrastructure, Property Plant and Equipment

Council's fixed assets were valued at \$529.216million as at 30th June 2007. During 2006 / 07 Council undertook a revaluation of its Water & Sewer Networks at fair value resulting in an increase of \$135.844 million in the value of these assets.

Council in accordance with the Department of Local Government guidelines will continue to progressively revalue all assets at fair value over the next two year.

Note 9a provides details of Council assets and discloses that Council expended \$11.631 million on new and replacement assets whilst depreciation charges representing the consumption of assets during 2006 / 07 totalled \$9.555 million.

The value of assets disposals totalled \$343,000.

- Interest Bearing Liabilities – Loans

Council net loan liability increased by \$ 2,077 million to \$28.609 million as at 30th June 2007. A summary of loans by fund is set out below:

Fund	New Borrowings	Repayments	Balance
General	\$2,205,000	\$1,774,000	\$12.042 million
Water	\$ 729,000	\$ 745,000	\$10.870 million
Sewer	\$1,905,000	\$ 244,000	\$ 5.697 million
Total	\$4,839,000	\$2,764,000	\$28,608 million

Council has adopted a philosophy whereby loan borrowings are used for infrastructure improvements and other capital purposes thus allowing for a contribution to the cost of the asset through its life by the community.

Working Funds

The working funds balances represent Council's accumulated operational surplus which provide Council with the capacity to respond to opportunities or react to unforeseen commitments that may arise.

Working funds by nature are convertible to cash in the short term and comprise current assets including unrestricted cash and investments, debtors and stock on hand less current liabilities, principally current creditors.

Working Funds balances at 30th June 2007 are:

General	\$449,442
Water	\$249,793
Sewer	\$685,925

It is considered prudent to maintain the General Fund working fund balance at approximately \$650,000. Council's 2007 / 08 budget provides for a surplus in the General Fund of \$168,822 resulting in a current working fund surplus of \$618,264. Council's budget must be carefully monitored with a view to the restoring the level of Working Funds to the optimum balance.

Performance Measurements

Note 13 to the financial statements provide details of Council's performance measures:

Unrestricted Current Ratio

The ratio assesses the adequacy of the General Fund liquidity position and therefore its ability to satisfy obligations in the following year. The benchmark is 100% and the ratio is calculated by comparing the General Funds current assets over its current liabilities.

Kempsey Shire Council's ratio is 113.85% with current assets exceeding current liabilities by \$826,000.

Debt Service Ratio

The Debt Service Ratio assesses the degree to which revenues are committed to the repayment of debt.

The Debt Service Ratio is calculated by determining the total interest and principal loan repayments as a percentage of total operating revenue excluding capital and specific purpose operating grants and contributions.

The Local Government Health Check indicates that "a debt service ratio of less than 15% receives a green light indicating that the Council is within financially responsible limits".

Council's consolidated debt service ratio is 13.38% at 30th June 2007.

A comparison of the consolidated and individual fund ratios is set out below:

	2006/07	2005/06	2004/05	2003/04	2002/03
Consolidated	13.38%	14.28	13.80	13.68%	18.11%
General Fund	11.01%	11.83	12.16	10.46%	10.52%
Water Fund	24.41%	24.08	17.95	32.17%	37.46%
Sewer Fund	9.72%	11.43	13.39	8.81%	23.39%

The General Fund debt ratio includes repayments made in respect of the self funded loans for the 4 Shore Tourist Park, Environmental Levy, Fleet and Waste Services. These represent 3.9% of the General Fund Ratio.

It should be noted that Council is embarking on a major capital works program within the Water and Sewer funds over the next 10 years requiring the raising of substantial loan funds which will result in an increase in the debt service ratio.

Also Council at its meeting of 10th April 2007 resolved "*That Council undertake a borrowing program to increase its debt service ratio to 15% for the general fund after establishing a program which utilises the borrowings*".

Rates and Annual Charges Outstanding

Rates and Annual Charges Outstanding Percentage assesses the effectiveness of council's revenue collection. There is no benchmark for the level of outstanding rates and charges however a ratio of lower than 5% is preferred. The comparative data information by the Department of Local Government for the 2004 / 05 year noted that the average amount overdue was 4.7% for urban councils and 7.3% for rural councils.

The percentage of Council's rates and charges outstanding as at 30th June 2007 is 7.33% a reduction of 0.60% during the 2006 / 07 year.

A comparison of the percentage over the preceding four years is set out below:

	2006/07	2005/06	2004/05	2003/04	2002/03
Percentage	7.33%	7.93%	8.95%	7.51%	8.01%

Council continues to focus on the recovery of rates and is currently proceeding with the sale of a number of properties in order to achieve settlement of outstanding balances.

Rates Coverage Ratio

The ratio is essentially a measure of the extent to which Council is dependent upon revenue from rates and annual charges as compared to its total revenue.

A comparison of the percentage over the preceding four years is set out below:

	2006/07	2005/06	2004/05	2003/04	2002/03
Consolidated	46.95%	43.5%	42.5%	38.42%	41.63%

The Audit Report as in previous years contains the recommendation *"That Council should continue to investigate options available to increase its revenue base from sources other than rates and annual charges"*.

The challenge to increase the revenue base is one faced by the whole of Local Government. Strategies and opportunities continue to be addressed by Council and its management with a view to sourcing alternate revenue streams.

Assets Renewal Ratio

The ratio discloses Council's expenditure on the renewal of assets compared with the consumption (depreciation) of assets; the ratio should exceed 100%.

Kempsey Shire Ratio is 83.3% indicates that Council is not renewing assets at a rate equivalent to their deterioration.

Local Government as a whole recognises the current shortfall and backlog in the renewal of community infrastructure. Council estimates that \$58 million dollars is required to be invested in order to renew assets to a satisfactory standard.

Council recognises the need to increase the level of spending on asset renewal, rate pegging coupled with restrictions on the communities capacity to fund works dramatically impact upon Council's ability to address the issue.

Auditors Council Presentation

Mr. Darren Turner from Council's auditors Pricewaterhouse Coopers will provide a presentation to the Council in respect of the audited financial accounts at the December meeting.

REPORT IMPLICATIONS

- ***Environmental***

Nil

- ***Social Implications***

Council's ability to provide services and infrastructure to the community is restricted by the availability of financial resources; the financial limitations imposed upon Local Government have an adverse impact on the social environment of the Kempsey Shire

community. The 2006 / 2007 Financial Reports do not address the social implications arising from budgetary restrictions faced by Council.

- *Economic*

The 2006 / 2007 Financial Reports outline Council's financial position as at 30 June 2007.

- *Policy or Statutory*

The 2005 / 06 Financial Reports have been prepared in accordance with relevant statutory requirements. The Audit Report is qualified on the basis of Council's approach in assessing the written down value of the water and sewer assets following their revaluation.

- *Director's Review*

Council financial result for the 2006 / 07 year reflected a year of solid financial performance marked by an increase in Council's General Fund working account balance and an increase in the Employee Leave Entitlement Reserve.

Council in particular must continue to support strategies adopted within its ten year budget to increase the level of funding to meet employee leave entitlements, asset renewals and continue to investigate alternative revenue sources

RECOMMENDATION:

That the Auditors Report for the year ended 30th June 2007 be received.

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G B Snape
DIRECTOR CORPORATE AND COMMUNITY SERVICES