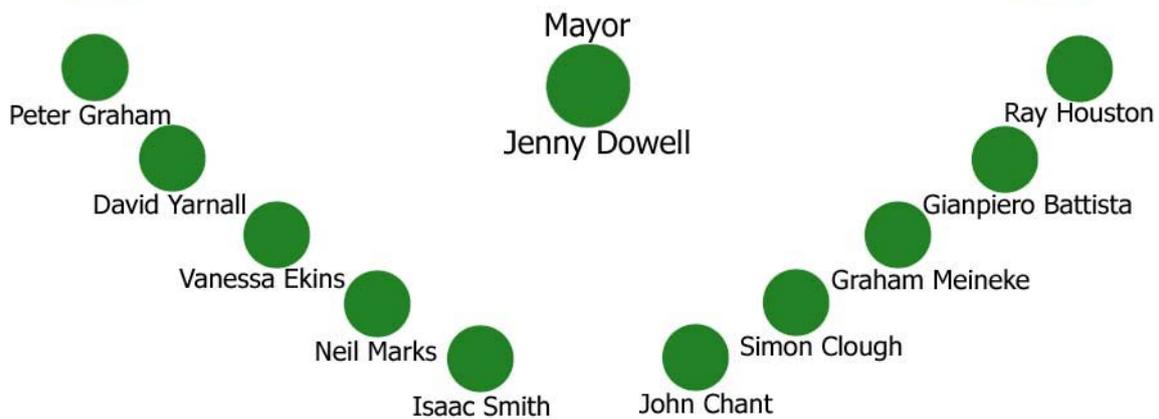


Notice of Council Meeting



Council

An EXTRA ORDINARY MEETING of LISMORE CITY COUNCIL will be held at the Council Chambers, 43 Oliver Avenue, Goonellabah on Thursday, 27 October 2011 at 6.00pm

Members of Council are requested to attend.

Gary Murphy
General Manager

21 October 2011

Agenda

1. Opening of Meeting and Prayer (Mayor)
2. Apologies and Leave of Absence
Councillor Isaac Smith
Councillor Neil Marks
3. Disclosure of Interest
4. Public Access Session
5. Mayoral Minutes
6. Altering of Order of Business (Consideration of altering the order of business to debate matters raised during Public Access)
7. Reports
 - 12.1 2010/11 Reserves (Internally Restricted Assets) 1
 - 12.2 2010/11 Financial Reports 19

Lismore City Council Community Strategic Plan 2008 - 2018



Guiding Principles	Outcomes
Social Inclusion and Participation	That all Lismore residents enjoy equal opportunities within a strong, inclusive community.
Sustainable Economic Growth and Development	That Lismore's economy is vibrant and development is environmentally and socially sustainable.
Protect, Conserve and Enhance the Environment and Biodiversity	That Lismore's natural ecology is protected and maintained in a healthy and robust state for future generations
Best-Practice Corporate Governance	That best-practice management principles pervade our business; that we are innovative, ethical, and our use of resources provides maximum benefits to the community.

Community Strategic Priorities	Outcomes
Enhance Lismore as a Regional Centre	That Lismore retains and builds on its regional service centre role, including the provision of key medical, legal and tertiary education functions
Foster Youth Development	That young people are included in our community and can safely pursue their interests and aspirations.
Support an Ageing Population	That older people have access to appropriate services and facilities to enhance their health and wellbeing.
Provide Sustainable Land-use Planning	That land-use planning is founded on principles of sustainability.
Improve Catchment Management	That catchment management is integrated and holistic, in order to achieve a sustainable and balanced use of natural resources.
Revitalise the CBD	That the CBD becomes a vibrant meeting place and a cultural and entertainment hub for the Northern Rivers region.
Integrated Waste Cycle Management	That Lismore minimises waste to landfill by reducing, reusing and recycling.
Improve Roads, Cycleways and Footpaths	That Lismore has an extensive transport network and is an accessible, safe and efficient city for motorists, cyclists and pedestrians.
Mitigate Climate Change at a Local Level	That Lismore is a leader in reducing carbon emissions and minimising the impacts of climate change.
Develop and Support Art, Cultural, Sporting and Tourism Activities	That our regional art, cultural and sporting facilities remain a major component of Lismore life and an increasingly popular attraction for domestic tourists.
Integrated Water Cycle Management	That Lismore maintains long-term water security for its growing population through the efficient use of this precious resource.
Provide Greater Housing Choices	That Lismore offers a diverse range of housing options to accommodate a variety of households.
Improve Passive and Active Recreational Facilities	That Lismore retains and builds on its regional recreation centre to attract major events and tournaments.

Corporate Foundations	Outcomes
Efficient Use of Council Resources	That we maximise the value of our resources, continually review our operations to ensure best value, eliminate waste and duplication, and gain the full service potential from our assets
Engage With the Community	That the community is informed and consulted about the issues that are relevant to their lives and we are fully accountable to the community for our operations.
Promote a Constructive Corporate Culture	That customers and staff experience a supportive organisation, with a strong sense of integrity, which responds to their needs and provides innovative and creative services.
Whole of Council Corporate Planning	That we have clear goals and act as one in their co-ordinated implementation, in order to maximise the return on resource investment and staff expertise.
Providing Excellent Customer Service	That our primary focus is to understand and respond to the needs of the community we serve.

Reports



Report

Subject	2010/11 Reserves (Internally Restricted Assets)
TRIM Record No	BP11/796:EF09/581
Prepared by	Principal Accountant
Reason	In accordance with Policy 1.5.10 Reserves (Internally Restricted Assets), report internal reserve movements during 2010/11 and balance as at 30 June 2011
Community Strategic Plan Link	Best-Practice Corporate Governance

Overview of Report

As at 30 June 2011, reserves totalled \$27.28 million, comprising \$15.45 million held as cash and investments, \$2.45 million as working capital and \$9.38 million in internal loans.

There has been an overall increase in reserves from 2009/10 of \$2.98 million. The reserves are held in General, Wastewater and Water Funds being \$17.83 million \$8.53 million and \$0.92 million respectively.

All reserves held at 30 June 2011 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, any variance is manageable, or are for a specific purpose.

As well as providing Council with the reserves information, the opportunity has been taken to review and update the policy. The recommended changes are minor and have been highlighted.

Background

Policy 1.5.10 - Reserves (Internally Restricted Assets) requires a separate report to be submitted to Council each year showing movements, appropriate levels and clarification as to needs for reserves. This report has been prepared to meet that requirement for 2010/11.

As at 30 June 2011, reserves totalled \$27.28 million, comprising \$15.45 million held as cash and investments, \$2.45million as working capital and \$9.38 million in internal loans. The working capital amount represents that part of a reserve's 30 June 2011 balance held as amounts owing by a debtor.

There has been an overall increase in reserves from 2009/10 of \$2.98 million being Wastewater \$2.55 million, Water \$0.22 million and General \$0.21 million. The reserves held in General, Wastewater and Water Funds are \$17.83 million \$8.53 million and \$0.92 million respectively.

At the February 2011 Council meeting, it was resolved to not apply Council Policy 1.5.10 Reserves (Internally Restricted Assets) with respect to interest applicable to General Fund reserves held for 2010/11 to offset the deficit 2010/11 Budget. Interest will still applied to Wastewater and Water Funds as well as the Richmond Tweed Regional Library (RTRL) Reserves.

The interest applicable to reserves is calculated on the 'average' reserve balance for the year. The interest rate applied to the Water and Wastewater Fund reserves was 5.25%, which is the average return on Council's investment portfolio for 2010/11. The interest rate applied to Richmond Tweed Regional Library was 6.17% which is based on the average return on Council's investment portfolio adjusted to include the actual interest rate being achieved on some continuing RTRL investments. This equates to \$79,800 and \$750,500 for Water and Wastewater Funds respectively and \$65,200 for RTRL.

All reserves held at 30 June 2011 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, any variance is manageable, or are for a specific purpose.

Market Value of Investments - Impact on Reserve

Council is required to recognise investments held at 30 June each year at their market value. As with previous years, volatility within financial markets continued, however this year the market value of investments increased by \$932,900. The market value gain has been assigned to Council's investments to offset investment losses recognised during the global financial crisis. As a result, General Fund received \$262,800, Wastewater Fund \$403,100, Water Fund \$34,000 and Section 94 Funds \$233,000. Of the \$262,800 applicable to General Fund, \$160,400 was applied to fund the reported budget deficit as at 30 June 2011.

Internal Loans – Impact on Reserve

Internal loans from reserves are utilised each year to minimise borrowing costs and provide ready cash for special projects. Internal loans are typically short term and are considered prudent as current external borrowings interest rates are between 8-9% compared to the interest forgone on investing funds of 5-6%.

Internal loans total \$9.66 million at 30 June 2011. This is an increase of \$3.015 from 30 June 2010 and reflects the decision to fund works in the 2010/11 Budget from internal loans rather than source external borrowings. Information on the internal loans from reserves is provided below:-

- Improvements to infrastructure during 2010/11 have been funded from internal loans in the 2010/11 Budget. These will be repaid when external borrowings occur in 2011/12. Internal loans have been used for the following: - a) Council's matching funding under the Roads and Traffic Authority Timber Bridge Replacement Program - \$1.35 million, b) drainage - \$250,000, c) cycleways - \$100,000 and d) the purchase of the Newtrain Building as part for the Lismore Flood Levee works - \$200,000. For 2010/11, the funding sources of this internal loan are:

Corporate Support	\$1,395,400
Employee Leave Entitlements	\$ 504,600

- Part of the GSAC construction funding anticipated the sale of commercial, industrial and residential lands. Sales have proceeded but not as quickly as anticipated. An internal loan of \$3.15 million is outstanding at 30 June 2011 and will be repaid when land sales occur such as for the Krauss Avenue Industrial Estate and Workers Sports Club. For 2010/11, the funding sources of this internal loan are:

Fleet Operations	\$2,739,200
Property Management	\$ 412,500

- Northern Rivers Quarry & Asphalt reported a trading surplus of \$620,200 for the year. While the trading result was a major improvement, the reserve balance deteriorated by \$1.28 million to \$3.96 million as at 30 June 2011. This decline in cash is attributable to a \$1.14 million increase in debtors to \$2.19 million, and an increase in stock levels by \$190,700 to \$2.77 million as at 30 June 2011.

If all debtors were collected and all products sold at cost price, the internal loan would not be required.

Given that this business requires adequate product on hand, product sales are typically made on credit terms and therefore creates debtors, and Council will continue to take a dividend from this business unit (\$487,000 in 2010/11), an internal loan is always likely to be required. For 2010/11, the funding sources of this internal loan are:

Other Waste Management	\$1,704,100
Fleet Operations	\$2,251,400

- Council resolved to develop the Krauss Avenue Industrial Estate and construct Krauss Avenue in 2005 using reserves as a funding source. At 30 June 2011, \$278,400 remains invested in the development and therefore equivalent funding required. For 2010/11, the funding sources of this internal loan are:

Fleet Operations	\$ 124,100
Transport Infrastructure	\$ 64,600
Property Management	\$ 89,700

- An internal loan for the Goonellabah Town Centre holding costs is also in place. At 30 June 2011, \$98,000 remains outstanding. These costs are planned to be offset by the net proceeds of sale of residual commercial land subject to Council financial commitment to the 'Rekindling the Spirit' development being resolved. For 2010/11, the funding sources of this internal loan are:

Property Management	\$ 98,000
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Commentary

Provided below is a commentary on individual reserves with balances. This should be read in conjunction with Attachment 1, which shows the opening balance at 1 July 2010, movement for the year and closing balance at 30 June 2011, and the Reserves Policy, which states the objective, methodology and funding level for each reserve.

Corporate Support – Balance \$ 1,606,400

This reserve includes the following major elements:

- a) Financial Assistance Grant (General Purpose) - \$1,212,500. The 1st instalment of the 2011/12 grant was received in advance and has been reserved for its planned use in the 2011/12 Budget.
- b) Election Expenses - \$189,600. This reserve accumulates funds progressively to fund elections costs.
- c) Risk Management - \$21,400. This reserve is used to support initiatives which potentially reduce future insurance claims or costs and fund uninsured costs associated with a claim if required.
- d) Miscellaneous Private Works - \$139,900. This is the interim profit for miscellaneous private works to be allocated against works in 2011/12.

Staff Development – Balance \$109,200

The main elements of this reserve are up-skilling employees program \$81,800, and the staff survey and diagnostics program \$10,000.

Special Projects – Balance \$123,500

The main elements of this reserve are a) Community Survey \$15,000, b) Community Link \$12,400, c) Key Performance Indicator Reporting \$11,500, e) Matching Grant Fund \$43,000 and f) Sustainable Economic Development Strategy \$12,500.

Employee Leave Entitlements – Balance \$1,274,400

The current value of employee leave entitlements in General Fund as at 30 June 2011 is \$4.90 million. Based on the reserve balance of \$1,274,400, they are approximately 26% funded. This level of cash funding is almost at the policy level of 30% (\$1.47million).

Flood Mitigation – Balance \$91,000

This reserve is used to fund Council's contribution towards the Lismore Flood Levee.

Lismore Memorial Gardens – Balance \$213,700

This reserve is used to hold the net result from operations and is used for the ongoing development of the Lawn Cemetery and Crematorium Facilities.

Other Waste Management – Balance \$2,182,800

This reserve comprises funds held from non domestic or commercial waste collection services \$204,100 and waste disposal \$1,978,700. This reserve will be used for both operational and development needs of Other Waste Management services.

Waste Minimisation – Balance \$56,700

This reserve represents the surplus funds after all expenses associated with waste minimisation initiatives are deducted from the revenue collected from the waste minimisation charge.

Airport – Balance \$39,600

This reserve is predominately to cater for heightened security should such requirements be imposed by regulators at the Lismore Regional Airport.

Parks and Recreation – Balance \$200,700

The following table lists the main elements of this reserve:

Name and Description	Amount
Nesbitt Park Jogging Track	30,000
Rural Sports Facilities Fund	29,000
Nimbin Skate Park	24,300
Swans AFL Ground	23,800
Nesbitt Park Car Park	20,000
South Lismore Soccer Club	20,000
Section 94 Plan Contributions - Open Space – The funds are to be used to match contributions received as part of the 2004 Recreation and Community Services Section 94 Plan specifically for Eltham Hall \$11,200 and Jiggi Pre School \$500.	11,700

Fleet Operations – Balance \$5,119,800

This reserve reflects the accumulated surplus from fleet operations after net operating costs, capital purchases and sales of fleet. These funds are used to meet ongoing fleet replacement program funding requirements.

The following summary shows the balance applicable to each operating area as at 30 June 2011:

Program	Amount
Road	4,083,500
Parks and Recreation	319,300
Bridge	343,700
Waste	191,300
Crematorium and Lawn Cemetery	124,100
Quarry	328,700

Sporting Grounds – Balance \$4,400

This reserve is for funds specifically collected or received for development works at Oakes Oval.

Transport Infrastructure – Balance \$3,179,500

The following table lists the major elements of this reserve:

Name and Description	Amount
Road Reconstruction – As has been the case in previous years, funds predominantly for capital works were not spent by 30 June primarily due to the availability of RTA funds such as for flood repairs. The decision to complete RTA works first has resulted in Council projects being carried forward to 2011/12. The 1 st instalment of the 2011/12 Federal Assistance Grant (Roads) \$450,000 was received in advance and has also been reserved for works to be undertaken in 2011/12.	2,286,600
Bridge – Bridge construction works	454,400
DA Contributions to Works – This relates to contributions received from developers for Council to complete specific works associated with development consent.	201,900
Outdoor Dining – Fees collected from outdoor dining licenses for the provision of car parking spaces in the CBD.	138,700
Special Business Rate - Security – Unexpended funds raised by the Special Business Rate for the CitySafe program.	38,200
Rural Fire Service – Extensions to Rural Fire Stations at Tullera and Clunes	26,000
Engineering (Survey and Design) Equipment	18,600

Property Management – Balance \$662,200

The following table lists the main elements of this reserve:

Name and Description	Amount
Asset Management Plan	117,000
Corporate Centre – Planned maintenance and upgrade works	93,600
Street Lighting – Upgrades	79,600
Hazardous Materials Survey & Management – Statutory requirement	77,300
Shops & Offices – Net operating result to be applied to planned maintenance and upgrade works	74,700
Residential Property Development – Profit on sale of land.	71,200
Valuations – Fair value assessment of all other assets in accordance with DLG requirements	47,300
Goonellabah Community Centre – Verandas & Landings	28,800
Road Safety Projects – Contribution towards grant funds received in 2010/11	21,400
Old Council Chambers – Air Conditioning	20,000
Land Acquisition – Part acquisition of property for road	10,000

Integrated Planning – Balance \$822,100

This reserve includes the following elements:

- Stormwater Management Services - \$574,700. This represents unexpended funds collected from the Stormwater Management Services charge to fund works and services associated with the Stormwater Management Plan.
- On Site Sewage Management - \$66,400. This represents the unexpended funds collected from the On Site Sewage Management charge. These funds will be progressively utilised as there is a full staffing complement in place to delivery this service.
- Section 94 Plan Administration Charges - \$99,500. These are accumulated funds and represent the 2.5% administration charge on all developer levies collected. They are to be used to fund the administration and review of the Section 94 Plan, and the strategic review of the urban roads network as part of the 2010-2014 Delivery Plan.
- Integrated Sustainable Housing - \$39,000. These unexpended funds are to be used to continue to develop and implement an Integrated Sustainable Housing Strategy to address Lismore City's housing needs and settlement pattern in urban, village and rural areas.
- Biodiversity Management Strategy - \$26,900. These unexpended funds as at 30 June 2011 are to be used to continue to undertake an LGA-wide flora and fauna study to provide baseline information on the current state of Lismore's biodiversity.

Records Management System – Balance \$36,900

This reserve is to provide continued improvements to the electronic records management system.

Information Services – Balance \$347,600

These funds are to be used for the future development and replacement of the corporate information system, other software and hardware.

Community Services – Balance \$90,800

The following table lists the main elements of this reserve:

Name and Description	Amount
Liberty Swing – Nesbitt Park	30,000
2010/11 NAIDOC Week – Postponed to August 2011 due to wet weather	12,500
Reconciliation Plan	10,000
Disability Action Plan	7,100
Lismore Sport & Recreation Plan	5,500

Child Care – Balance \$4,100

The reserve represents fundraising funds attributable to the Koala Day Care Centre (\$2,600) and Gingerbread Occasional Care Centre (\$1,500). At a Parent and Community Committee meeting held on 19 August 2010 for Koala Child Care Centre, it was resolved that the balance of any accrued fundraising money at the time of sale of the centre be 'gifted' to Gingerbread Occasional Care Centre. Therefore the total reserve of \$4,100 is now available for use by Gingerbread Occasional Care Centre.

Regional Art Gallery – Balance \$103,600

This reserve comprises specific components for a) building donations \$68,000, b) building reserves (for repairs and maintenance) \$10,400, c) the art gallery foundation \$10,200 and d) maintenance of Public Art \$15,000.

The building donations component represent donations for a new art gallery made to the Lismore Regional Art Gallery in its capacity as an ATO registered tax deductible recipient.

Leisure, Tourism and Events – Balance \$370,700

The following table lists the major elements of the reserve:

Name and Description	Amount
Wilson River Experience Walk - Project proceeding at Lismore VIC	148,400
Masters Games – revenue received in advance for event to be held in 2011/12	90,600
Economic Incentive for Investments – approved recipient yet to claim incentive for investment	44,300
Lismore Promotion – Unexpended funds collected from the Special Business Rate for expenditure in accordance with the adopted Lismore Promotion Plan	68,500
Nimbin Walking Track - Matched to grant funding	16,500

Richmond Tweed Regional Library – Balance \$1,190,600

This reserve represents amounts held by Council for Richmond Tweed Regional Library as at 30 June 2011. The following table lists the elements of the reserve:

Name and Description	Amount
Employee Leave Entitlements	369,000
Fleet Replacement	218,400
Computer Equipment	138,800
Carried Forward Funds	137,000
Security System	106,800
Funded Projects	84,500
Library Resource Materials	80,700
Office Equipment	40,800
Headquarters Building	14,600

Wastewater Services – Balance \$8,533,600

The balance reflects the cash position of the fund to 30 June 2011 and will be used with all other revenues to operate, manage and maintain a high quality wastewater service.

Given the need and demand for significant capital works as outlined in the 2011/12 Operational Plan, such as the Southern Trunk Main, it is likely that a substantial amount of reserve funds will be utilised in the short to medium term.

Water Supplies – Balance \$921,500

The balance reflects the cash position of the fund to 30 June 2011 and will be used with all other revenues to operate, manage and maintain a high quality water supply service.

Reserve Policy

As is customary, the Reserves Policy 1.5.10 Reserves (Internally Restricted Assets) is also reviewed at this time. There are some minor changes recommended to the policy. A copy of the policy with the recommended changes highlighted is attached to this report.

Sustainability Assessment

Best-Practice Corporate Governance

In accordance with Policy 1.5.10, a report on Reserves (Internally Restricted Assets) is to be made with the annual financial statements. This report meets this requirement.

Comments

Finance

Relevant comments have been included in the report where required and the recommendations supported.

Other staff comments

Not required

Public consultation

Not required

Conclusion

The report and attachments detail Council's reserve movements and balances for 2010/11. As at 30 June 2011, reserves totalled \$27.28 million, comprising \$15.45 million held as cash and investments, \$2.45 million as working capital and \$9.38 million in internal loans.

The reserves are held in General, Wastewater and Water Funds being \$17.83 million \$8.53 million and \$0.92 million respectively.

All reserves held at 30 June 2011 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, any variance is manageable or are for a specific purpose,

Councils' Policy on Internally Restricted Assets – Policy 1.5.10, has been reviewed and some minor amendments recommended. The revised policy with highlighted changes is attached as Attachment 2.

Attachment/s

1. Reserves (Internally Restricted Assets) as at 30 June 2011
2. Policy No. 1.5.10 - Reserves (Internally Restricted Assets)

Recommendation

That Council:

1. Receive and note the internally restricted reserve balance of \$27,285,400 for 30 June 2011 comprising \$15,455,605 as cash and investments, \$2,446,195 as working capital and \$9,383,600 in internal loans, as detailed on Attachment 1.
2. Amend Policy 1.5.10 - Reserves (Internally Restricted Assets) as shown in the Attachment 2.

RESERVES (INTERNALLY RESTRICTED ASSETS) AS AT 30 JUNE 2011								
Reserve	Balance 01/07/10	Transfer To	Sub-Total	Transfers From	Balance 30/06/11	Being held as :		
						Cash	Working Capital	Internal Loans
Corporate Support	1,277,200	1,455,400	2,732,600	1,126,200	1,606,400	211,000	0	1,395,400
Staff Development	83,300	25,900	109,200	0	109,200	109,200	0	0
Special Project	122,900	98,300	221,200	97,700	123,500	123,500	0	0
Employee Leave Entitlements	1,257,400	92,500	1,349,900	75,500	1,274,400	769,800	0	504,600
Flood Mitigation	96,000	0	96,000	5,000	91,000	91,000	0	0
Lismore Memorial Gardens	169,700	65,700	235,400	21,700	213,700	213,700	0	0
Other Waste Management	1,338,700	1,131,200	2,469,900	287,100	2,182,800	149,200	329,500	1,704,100
Waste Minimisation	103,600	0	103,600	46,900	56,700	56,700	0	0
Airport	39,600	0	39,600	0	39,600	39,600	0	0
Parks & Recreation	221,800	90,500	312,300	111,600	200,700	137,700	63,000	0
Fleet Operations	4,145,500	2,848,700	6,994,200	1,874,400	5,119,800	5,100	0	5,114,700
Sporting Grounds	12,800	2,800	15,600	11,200	4,400	4,400	0	0
Transport Infrastructure	5,302,000	2,973,500	8,275,500	5,096,000	3,179,500	1,061,205	2,053,695	64,600
Property Management	531,900	426,200	958,100	295,900	662,200	62,000	0	600,200
Integrated Planning	968,000	557,300	1,525,300	703,200	822,100	822,100	0	0
Gasworks Remediation	59,400	0	59,400	59,400	0	0	0	0
Records Management Systems	14,900	26,900	41,800	4,900	36,900	36,900	0	0
Information Services	316,700	186,700	513,400	165,800	347,600	347,600	0	0
Community Services	79,500	67,000	146,500	55,700	90,800	90,800	0	0
Child Care	11,500	0	11,500	7,400	4,100	4,100	0	0
Regional Art Gallery	121,400	19,400	140,800	37,200	103,600	103,600	0	0
Leisure, Tourism and Events	284,400	435,600	720,000	349,300	370,700	370,700	0	0
Domestic Waste Management	129,200	0	129,200	129,200	0	0	0	0
Richmond Tweed Regional Library	924,900	265,700	1,190,600	0	1,190,600	1,190,600	0	0
Wastewater Services	5,983,900	2,549,700	8,533,600	0	8,533,600	8,533,600	0	0
Water Supplies	702,600	218,900	921,500	0	921,500	921,500	0	0
TOTAL RESERVES	24,298,800	13,547,900	37,846,700	10,561,300	27,285,400	15,455,605	2,446,195	9,383,600



POLICY MANUAL

POLICY No: 1.5.10	RESERVES (INTERNALLY RESTRICTED ASSETS)
OBJECTIVE:	To detail the title, objective, methodology and funding level of all reserves.
STRATEGIC PLAN LINK:	Best-Practice Corporate Governance
PROGRAM:	Finance
AUTHORISED: 13/2/2001	REVIEWED: 11/10/05, 10/10/06, 24/10/07, 21/10/08, 20/10/09, 26/10/10, 27/10/11

Aim

The aim of this policy is to provide guidelines for the establishment and management of reserves. Management is to actively monitor the reserves to ensure that they are at an appropriate level.

Background

The creation and use of reserves are reported to Council in the Delivery Plan, Operational Plan and Quarterly Budget Review Statement. The balances of reserves are reported with the Financial Reports annually.

To ensure that the process adopted by Management is consistent with Council’s requirements, the following details on process are provided: -

ADMINISTRATION

- Transfers To/From Reserve
 - a) A “Reserve Transfer Form” is to be used for all transfers to and from a reserve. This should contain all relevant information relating to the proposal and, unless approved by Council, is to be submitted to the General Manager or Executive Director for approval.
 - b) In accordance with current practice, if this has a significant budget impact, it must be reported to Council in the next Budget Quarterly Review Statement.

- Interest On Reserves
 - a) The amount allocated to general reserves for interest is to be based upon the CPI
 - b) The balance of any interest earned is to be directed to General Fund.

- Cash Funding
 - a) For financial reporting purposes, all reserves must be cash funded.

- b) For internal management purposes, all reserves must be calculated based on the methodology and apportioned between cash, working capital and internal loans. The working capital component must be supported by reconciliation to specific non-cash assets. The internal loans component must be supported by reconciliation to specific works, services or initiatives.

POLICY NO: 1.5.10 (Cont.)

RESERVES (INTERNALLY RESTRICTED ASSETS)

- Miscellaneous
 - a) The non-existence of a suitable reserve category should not prevent legitimate Reserve Request Forms from being submitted for consideration.
 - b) After suitable comment from the initiating officer and Finance, the General Manager or Executive Director is to determine its approval or otherwise.
 - c) In accordance with current practice, if this is significant, it is to be reported to Council in the next Budget Quarterly Review Statement.
 - d) The reserves policy should be amended at the most convenient opportunity.

- Reporting
 - a) A separate annual report must be presented to Council in October each year detailing all movements, appropriate levels and clarification as to needs.
 - b) That the estimated level of reserves as at June 30 be reported to Council at the commencement of the draft Operational Plan process each year.

RESERVES

- Reserve Title: **Corporate Support**
- Objective: To provide funds for specific administrative purposes not elsewhere listed (eg Election Expenses Reserve)
- Methodology: Transfers to and from this reserve are based on:
 - a) The existence of, or proposal for, an annual budget allocation for specific administrative purposes, and
 - b) A submission supporting the objective.
- Funding Level: Funds to accumulate based on specific purpose requirements.
-
- Reserve Title: **Staff Development**
- Objective: To financially support human resource programs that enhances skills development within the work force.
- Methodology: Transfers to and from reserve are based on:
 - a) The existence of, or proposal for, an annual budget allocation for staff development programs, and
 - b) A submission supporting the objective.
- Funding Level: Not more than 50% of the recurrent allocation for Employee Training
(Total Budget 2010/11 \$221,600 – Funding Level Maximum \$110,800)
-
- Reserve Title: **Special Projects**
- Objective: To provide funds for projects and items not specifically identified in other reserves.

Methodology: Transfers to and from reserve are based on:
 a) The existence of, or proposal for, an annual budget allocation for identified specific project, and
 b) A submission supporting the objective.

Funding Level: To accumulate based on specific purpose requirements.

POLICY NO: 1.5.10 (Cont.)	RESERVES (INTERNALLY RESTRICTED ASSETS)
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Reserve Title: **Legal Expenses**

Objective: To provide funds for defending or conducting legal action on Council's behalf on an ongoing basis.

Methodology: Transfers to and from reserve are based on a comparison of final results for all legal expense allocations against budget with any over expenditures being transferred out of reserves and any under expenditure being transferred to reserve.

Funding Level: Not more than 100% of the recurrent allocation for Legal Expenses
 (2010/11 Budget \$116,500 – Funding Level Maximum \$116,500)

Reserve Title: **Employee Leave Entitlements**

Objective: To ensure that adequate funds are available to finance employee oncost such as long service leave, sick leave, annual leave, special leave, gratuities, redundancies and other associated employee entitlements.

Methodology: Transfers to and from reserve are based on a comparison of final results against budget with any over expenditures being transferred out of reserves and any under expenditure being transferred to reserve.

Funding Level: Not more that 30% of the General Fund ELE provisions.
 (2010/11 \$4.90 million – Funding Level Maximum \$1.47 million)

Reserve Title: **Flood Mitigation**

Objective: Provide funds that will assist in the construction of a flood levee for Lismore and appropriate flood prone property acquisitions.

Methodology: Transfers to and from this reserve are based on:
 a) The existence of, or proposal for, an annual budget allocation for flood mitigation, and
 b) A submission supporting the objective.

Funding Level: Sufficient to meet Councils contribution towards the construction of the Lismore Flood Levee.

Reserve Title: Lismore Memorial Gardens

Objective: To provide funds for the operational and capital development of this facility.

Methodology: Transfers to and from reserve are based on:

- a) The existence of, or proposal for, an annual budget allocation for the lawn cemetery and crematorium,
- b) A submission supporting the objective, and
- c) The net cash movement for lawn cemetery and crematorium development.
- d) This is considered a business unit of Council and therefore maybe required to provide a dividend to Council operations.

Funding Level: In accordance with the Lawn Cemetery & Crematorium Business Plan.

POLICY NO: 1.5.10 (Cont.)	RESERVES (INTERNALLY RESTRICTED ASSETS)
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Reserve Title: Other Waste Management

Objective: To provide funds for the operational and capital activities related to the provision of waste disposal and collection of non-domestic waste.

Methodology: Transfers to and from reserve are based on:

- a) The existence of, or proposal for, an annual budget allocation for other waste management,
- b) A submission supporting the objective, and
- c) The net cash movement for other waste services.
- d) This is considered a business unit of Council and therefore maybe required to provide a dividend to Council operations

Funding Level: In accordance with the Waste Services Business Plan

Reserve Title: Waste Minimisation

Objective: Provide funds to manage the implementation of waste strategies aimed at reducing the amount of waste being disposed at landfill sites.

Methodology: Transfers to and from this reserve are based on:

- a) A comparison of final results against budget with any over expenditures being transferred out of reserves and any under expenditure being transferred to reserve.

Funding Level: Not more than 20% of the total income generated from Waste Minimisation Charge
 (2010/11 \$538,000 – Funding Level Maximum \$107,600).

Reserve Title: Airport

Objective: To provide funds for the operating, development and enhancement of this facility.

- Methodology: Transfers to and from this reserve are based on:
- a) The existence of, or proposal for, an annual budget allocation for the aerodrome,
 - b) A submission supporting the objective, and
 - c) The net cash movement for aerodrome operations.
- Funding Level: In accordance with the Airport Business Plan.
- Reserve Title: **Parks & Recreation**
- Objective: Provide funds to assist in the development of parks and reserves. Priority is to be given to facilities identified in the Section 94 Recreation & Community Facilities Plan.
- Methodology: Transfers to and from reserve are based on:
- a) The existence of, or proposal for, an annual budget allocation for parks and reserves,
 - b) A submission supporting the objective, and
 - c) Expenditure in accordance with Section 94 Recreation & Community Facilities Plan.
- Funding Level: Funds to accumulate based on specific purpose requirements
- Reserve Title: **Fleet Operations**
- Objective: Ensure adequate funds are available to purchase a responsive and modern fleet at the optimum replacement opportunity.
- Methodology: Transfers to and from this reserve are based on the net cash result after taking into account:
- a) Workshop operating result,
 - b) Fleet operating result, less rural fire service and SES costs,
 - c) Loan principal and interest repayments relating to fleet and workshop,
 - d) Fleet purchases, and
 - e) Profit or loss on sale of fleet.
- Funding Level: All surplus funds.
- Reserve Title: **Quarry Management**
- Objective: To ensure adequate funds are available to develop, enhance and restore Blakebrook quarry and approved gravel quarries.
- Methodology: Transfers to and from reserve are based on:
- a) The existence of, or proposal for, an annual budget allocation for quarry management,
 - b) A submission supporting the objective, and
 - c) The net cash movement for quarry operations.
 - d) This is considered a business unit of Council and therefore maybe required to provide a dividend to Council operations
- Funding Level: In accordance with the Quarry Business Plan

- Reserve Title: **Sporting Grounds**
- Objective: Provide funds to assist in the development of sporting ground facilities.
- Methodology: Transfers to and from reserve are based on:
a) The existence of, or proposal for, an annual budget allocation for sporting grounds, and
b) A submission supporting the objective.
- Funding Level: Funds to accumulate based on specific purpose requirements
- Reserve Title: **Transport Infrastructure**
- Objective: Provide funds that will assist in the maintenance, construction and rehabilitation of transport related infrastructure.
- Methodology: Transfers to and from reserve are based on:
a) The existence of, or proposal for, an annual budget allocation for transport infrastructure, and
b) A submission supporting the objective.
- Funding Level: Funds to accumulate based on specific purpose requirements
- Reserve Title: **Property Management**
- Objective: To provide funds to assist in the maintenance, enhancement and development of Council owned properties.
- Methodology: Transfers to and from this reserve are based on:
a) The existence of, or proposal for, an annual budget allocation for property management,
b) A submission supporting the objective.
c) The net of sales and expenses related to residential, industrial and commercial land development, and
d) The net cash result for commercial shops and offices.
e) This is considered a business unit of Council and therefore maybe required to provide a dividend to Council operations
- Funding Level: In accordance with the Property Management Business Plan
- Reserve Title: **Integrated Planning**
- Objective: To provide funds to assist in the preparation and implementation of integrated planning.
- Methodology: Transfers to and from this reserve are based on:
a) The existence of, or proposal for, an annual budget allocation for planning services, and
b) A submission supporting the objective.
- Funding Level: Funds to accumulate based on specific purpose requirements
- Reserve Title: Gasworks Remediation (To be Deleted – no longer required)**

Objective: Provide funds for the remediation of the former Gas Works site

Methodology: Transfers from this reserve are based on the allocation to the gas works site remediation program.

Funding Level: Existing funds to be reduced to nil and reserve deleted

Reserve Title: **Record Management Systems**

Objective: To provide funding that ensures the record management system allows optimum storage, retrieval and accessibility of information.

Methodology: Transfers to and from this reserve are based on:
a) All archiving fees received being transferred to reserve,
b) All expenses incurred in achieving the objective should be funded from the reserve.

Funding Level: Funds to accumulate and expended when economy of scale can be achieved or required by lack of storage capacity.

Reserve Title: **Information Services**

Objective: To provide adequate funds to allow for the future development and replacement of the central computer system software and hardware.

Methodology: Transfers to and from this reserve are based on:
a) An annual transfer to reserve to ensure sufficient funds are available to meet the short, medium and long-term financial requirements,
b) All capital acquisitions to be funded from the reserve, and
c) A comparison of final results against budget with any over expenditures being transferred out of reserves and any under expenditure being transferred to reserve,

Funding Level: To be set in accordance with the development of Information Services Strategic Plan.

Reserve Title: **Community Services**

Objective: Provide funds to assist in the specific delivery of Council's community services.

Methodology: Transfers to and from reserve are based on:
a) The existence of, or proposal for, an annual budget allocation for specific community services purposes, and
b) A submission supporting the objective.

Funding Level: Funds to accumulate based on specific purpose requirements

Reserve Title: **Child Care**

Objective: Provide funds to assist in the development of Council's child care services.

Methodology: Transfers to and from reserve are based on:

- a) A comparison of final results against budget with any over expenditures being transferred out of reserves and any under expenditure being transferred to reserve,
- b) Support service charges are excluded from the calculation of a surplus, and,
- c) Where a service operates at a budget deficit, a final result reduction in the deficit is not to be considered for a transfer to reserve.

Funding Level: All surplus funds.

Reserve Title: **Library Services**

Objective: Provide funds to assist in the provision of library services.

Methodology: Transfers to and from this reserve are based on:

- a) The existence of, or proposal for, an annual budget allocation for library services, and
- b) A submission supporting the objective.

Funding Level: Funds to accumulate based on specific purpose requirements

Reserve Title: **Regional Art Gallery**

Objective: Provide funds to assist in the provision of a regional art gallery service.

Methodology: Transfers to and from this reserve are based on:

- a) The existence of, or proposal for, an annual budget allocation for regional art gallery services, and
- b) A submission supporting the objective.

Funding Level: Funds to accumulate based on specific purpose requirement

Reserve Title: **Leisure, Tourism and Events**

Objective: To ensure adequate funds are available to support Council and or local business initiatives that provide much needed marketing, promotion and employment opportunities.

Methodology: Transfers to and from this reserve are based on:

- a) The existence of, or proposal for, an annual budget allocation for economic development, and
- b) A submission supporting the objective.

Funding Level: Funds to accumulate based on specific purpose requirements

Reserve Title: **Community Facilities**

Objective: Provide funds to assist in the development of community facilities. Priority is given to major facilities included in the Section 94 Recreation & Community Facilities Plan.

Methodology: Transfers to and from this reserve are based on:

- a) The existence of, or proposal for, an annual budget allocation for community facilities, and
- b) Expenditure in accordance with the Section 94 Recreation & Community Facilities Plan.

Funding Level: Funds to accumulate based on specific purpose requirements.

Reserve Title: **Richmond Tweed Regional Library**

Objective: To ensure all funds attributable to the regional library service are held in reserves for regional library services.

Methodology: Transfers to and from this reserve are based on:
a) The requirements of the regional library agreement, and
b) In accordance with the adopted annual regional library budget.

Funding Level: In accordance with the regional library agreement

Report

Subject	2010/11 Financial Reports
TRIM Record No	BP11/829:EF09/581
Prepared by	Principal Accountant
Reason	Legislative Requirements - Section 413, Local Government Act 1993
Community Strategic Plan Link	Best-Practice Corporate Governance

Overview of Report

Council is required to 'form an opinion' on the financial reports and the auditor relies on this as part of the independent audit process. The purpose of this report is to provide Council with an overview of the reports and for Council to form its opinion.

A copy of the 2010/11 Financial Reports is provided separately to the business paper and the Auditor will present on the audit conduct and findings at this meeting.

The following is a summary of the key financial results with more information provided in the body of this report:

- Operating Result from Continuing Operations is a \$6.9 million deficit
- Total Expenses from Continuing Operations increased by \$13.9 million to \$102.3 million
- Total Revenues from Continuing Operations decreased by \$5.7 million to \$95.4 million.
- Cash, Cash Equivalents and Investments total \$39.88 million.
- Net Assets increased by \$55.58 million.
- Unrestricted Current Ratio 2.13:1
- Debt Service Ratio 6.96%, and
- Outstanding Rates & Annual Charges 10.6%

Background

The 2010/11 Financial Reports have been prepared and in accordance with the *Local Government Act 1993 (Act)*, Council is required to 'form an opinion' on them.

The Act requires Council to prepare annual financial reports and prescribes their format/content. In particular:

- a) Section 413, 415 and 416 requires a council to prepare financial reports each year. Financial reports including a 'Statement by Councillors and Management' must be prepared for both the General Purpose Financial Reports and Special Purpose Financial Reports. They must be independently audited by the 31 October each year.
- b) Section 413 states that the financial reports must be accompanied by a Statement of Council's opinion on them made pursuant to a resolution of Council and signed by the Mayor, at least one other Councillor, General Manager and the Responsible Accounting Officer. The content supporting Council's opinion is prescribed and both forms are attached to this report.
- c) Fix a meeting date to present the financial reports to the public; and

- d) Advertise, for a minimum period of seven days prior to the meeting, that the financial reports and the auditor's report are available for public inspection.

In order to comply with these requirements, Council will need to 'form an opinion' at this meeting. A copy of the 2010/11 Financial Reports and independent audit reports will be forwarded to the Division of Local Government by 7 November 2011 and their availability to the public advertised from 29 October 2011 for seven days, and finally, the formal adoption after advertising at the 8 November 2011 Council meeting.

A copy of the 2010/11 Financial Reports is provided separately to the business paper.

The Auditor is required to prepare the following documents for Council's 2010/11 Financial Reports:

1. Independent Audit Report for the General Purpose Financial Reports (Section 417 (2) of the Local Government Act 1993 (LGA)),
2. Independent Audit Report for the Special Purpose Financial Reports, and
3. Long Form Audit Report in accordance with Section 417 (3) of the LGA. This report will include additional statements regarding the conduct of the audit, operating result for the year, significant items within the statements, an analysis of the General Fund's operating result, capital grants and contributions, restricted cash and investments, borrowings, performance indicators and other matters.

These documents are forwarded to Councillors and as mentioned the Auditor will present on the findings and conduct of the audit at the meeting.

In regards to the Long Form Audit Report, at the time of preparing this report it had not been received by Management and as such no comment is provided. If required, a comment will be prepared and forwarded to Councillors before the meeting.

2010/11 Financial Reports - Key Financial Data Summary

Operating Result from Continuing Operations

The Operating Deficit of \$6.88 million is a significant decrease from the surplus reported in 2009/10. The reasons for this decrease in the result for 2010/11 are:-

- Council was required to adjust its carrying value of roads, roads related infrastructure and drainage to fair value as at 30 June 2010. This increased the value of total assets held by Council but also increased the depreciation expenses for assets from 2010/11.
- Two one-off items substantially increased the 2009/10 result being the inclusion of Richmond Tweed Regional Library (RTRL) assets into Council's financial reports with an amount of \$5.19 million being treated as other income, as well as the impact of the Net Present Value of a ten year interest free loan received for Wastewater infrastructure included in investment revenue of \$2.51 million. If these were excluded, the operating surplus for 2009/10 would have been \$5.1 million.
- Council reported a loss on disposal of assets in 2010/11 of \$6.523 million compared to a profit in 2009/10 of \$1.02 million.

Investments and Liquidity

Council is required to recognise investments held at 30 June each year at their market value. As with previous years, volatility within financial markets continued, however this year the market value of investments increased by \$932,900. The market value gain has been assigned to Council's investments to offset investment losses recognised during the global financial crisis. As a result, General Fund received \$262,800, Wastewater Fund \$403,100, Water Fund \$34,000 and Section 94 Funds \$233,000. Of the \$262,800 applicable to General Fund, \$160,400 was applied to fund the reported budget deficit as at 30 June 2011.

Some of Council's investments have been deemed to have no current market value however legal action may result in some redemption during 2011/12.

Other Structures, Community Land and Land Improvements fair valuation

In accordance with the Division of Local Government's requirements, Council was required to adjust its carrying value of Other Structures, Community Land and Land Improvement to fair value as at 30 June 2011. This has increased the net value of assets held by Council by \$32.1 million and will increase the depreciation expense in future years, however the increase in this area will not be as significant as with prior adjustments of carrying values.

General Purpose Financial Reports

Income Statement

The net operating result for 2010/11 is a \$6.88 million deficit. The following table displays the summarised information from 2009/10 to 2010/11:

Item	2010/11 (\$'000)	% Change	2009/10 (\$'000)	% Change	2008/09 (\$'000)
Revenues from continuing operations	95,386	-5.66%	101,108	+22.36%	82,650
Expenses from continuing operations	102,267	+15.68%	88,401	+9.03%	81,098
Net operating result for the year	(6,881)	-154.14%	12,707	+718.75%	1,552
Net operating result before capital grants and contributions	(14,372)	n/a	2,960	n/a	9,263

A summary of the movements follows:

Revenues from continuing operations being \$95.39 million with the major movements being:

- Increase in rates and annual charges \$2.47 million
- Decrease in Interest & Investment Revenues of \$1.39 million. Actual Interest & Investment Revenues increased during 2010/11 however as 2009/10 included a one-off adjustment of \$2.51 million being the NPV impact of a 10 year interest only loan received for Wastewater Infrastructure, the overall result shows a reduction from the previous year.
- Decrease in other revenues of \$4.74 million predominately relating to the inclusion of a one-off adjustment for the RTRL in the 2009/10 year.
- Decrease in grants and contributions for capital purposes of \$2.26 million.
- Loss on disposal of assets in the current year compared to a gain on disposal in 2009/10 of \$1.02 million.

Expenses from continuing operations of \$102.27 million with the major movements being:

- Increase in borrowing costs \$776,000
- Increase in materials and contracts by \$3.39 million
- Increase in depreciation and amortisation by \$2.84 million
- Loss on disposal of assets of \$6.52 million compared to a gain in 2009/10 of \$1.02 million.

In general, revenues from continuing operations decreased by 5.7% or \$5.72 million with expenses from continuing operations increasing by 15.7% or \$13.87 million. From a cash perspective, the change has been either funded or budgeted. The significant decrease in revenues is due to the one-off adjustments for the consolidation of Richmond Tweed Regional Library (RTRL) net assets of \$5.19 million, the Net Present Value (NPV) of \$2.51 million for a ten (10) year interest free loan from the NSW Treasury Corporation recognised in the 2009/10 year, a reduction in 2010/11 in Grants & Contributions provided for Capital Purpose of \$2.25 million and a reduction in the gain from the disposal of assets of \$1.02 million. The decreases in revenues have been offset by an increase in revenues from Rates and Annual Charges \$2.47 million, increased revenues from Northern Rivers Quarry & Asphalt operations \$2.2 million and a reduction in grants from RTA for roads \$1.898 million.

The significant increase in expenditure is due to the increased depreciation of \$2.8 million with the major component relating to the fair valuation adjustments to roads, roads related infrastructure and drainage in the 2009/10 year. Materials and contracts have also increased during the 2010/11 year by \$3.38 million due to an increase in Northern Rivers Quarry & Asphalt operations of \$1.9 million (this has been offset by an increase in revenues from operations) and an increase in Water operational costs of \$866,000 with bulk water purchase costs of \$500,000 being the major component.

Council reported a loss on disposal of assets of \$6.5 million in 2010/11 compared to a gain on disposal of assets in 2009/10 of \$1.024 million. The major component of the loss related to infrastructure assets replaced during the period with Wastewater reporting a \$3.46 million loss, and Roads and Bridges reporting a \$3.29 million loss. The loss on disposal represents the Written Down Value (WDV) of the assets disposed. The WDV of disposed assets is planned to be as close to zero as possible as this would indicate that the assets is due for replacement or is at the end of its useful life.

In 2010/11 there were major assets replaced prior the end of their useful lives due to take advantage of a long term operational benefit (Rising Main 3), grant funding that would not normally be available (RTA Timber Bridge Replacement Program and Bridge Street), or it was considered cost effective to replace the asset at that time in conjunction with other works being undertaken.

Balance Sheet

The Balance Sheet is used to summarise the total net assets under Council's control. As at 30 June 2011, total net assets were \$1,047 billion. During 2010/11, net assets increased by \$55.58 million from \$991.1 million in 2009/10. This movement comprised \$6.88 million decrease attributable to continuing operations, \$32.1 million increase from the fair value valuation of Other Structures, Community Land and Land Improvement, and \$30.4 million increase due to the indexation of infrastructure assets previously bought to account at fair value.

The major component of Council's net assets relates to infrastructure assets. Net infrastructure assets total \$881 million and include the following categories and amounts:

Infrastructure Assets	At Fair Value (FV) (\$m)	Accumulated Depreciation (\$m)	Written Down Value (\$m)	Accumulated Depreciation/ At FV %
Roads, Bridges, Footpaths & Earthworks	736.6	133.3	603.3	18.1
Stormwater Drainage	45.1	19.1	26.0	42.4
Water Supply Network	148.8	74.0	74.8	49.7
Wastewater Services Network	337.9	161.3	176.6	47.7
Total Infrastructure Assets	1,268.4	387.7	880.7	30.6

Income from continuing operations (Note 3)

Income from continuing operations decreased by \$5.72 million or 5.7% compared to 2009/10. A summary of the individual categories and comparisons for the last three years is provided below:

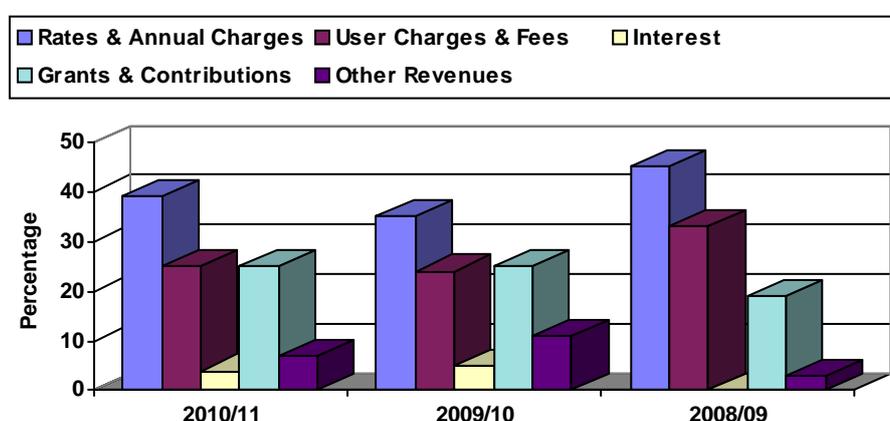
Type	2010/11 (\$'000)	% Change	2009/10 (\$'000)	% Change	2008/09 (\$'000)
Rates & Annual Charges	37,370	7.1	34,898	8.2	32,239
User Charges & Fees	24,262	0.9	24,047	2.5	23,441
Interest	3,696	(27.4)	5,090	n/a	0
Other revenues	6,534	(41.7)	11,209	478	2,343
Grants & Contributions – Operating	16,033	6.1	15,113	9.4	13,812
Grants & Contributions – Capital	7,491	(23.1)	9,747	(9.9)	10,815
Gain on Disposal of Assets	0	n/a	1,024	n/a	0
Total	95,386	(5.7)	101,128	22.3	82,650

- **Rates and Annual Charges** – Revenues from rates have increased by 3.9% which is in line with rate pegging and anticipated growth. Annual charges revenues have increased by 12.32% or \$1.6 million with the major areas being Wastewater \$1.1 million, \$259,000 for Water and \$283,000 Domestic Waste Management charges, these increases are in line with the Operational Plan adopted by Council.
- **User Charges & Fees** - Increased by 0.9% or \$289k – The major movements in these revenues were attributable to the Northern Rivers Quarry & Asphalt operations increasing by \$2.2 million as a result of major contracts being completed, and a decline in revenues from the Roads and Traffic Authority (RTA) of \$1.898 million for works on roads undertaken on State Roads not controlled by Council.
- **Interest** - The interest and investment return comprises interest on investments of \$2.5 million and market value adjustments on investments held of \$933k. There has been an overall decline in investment returns of \$1.39 million from the 2009/10 year, however, after adjusting for abnormal items in 2009/10, there has been a stronger return from investment revenues of \$802,000 in the 2010/11 year compared to previous years. This is due to higher investment returns and a larger investment portfolio.
- **Other revenues** – The major movement from 2009/10 is due to the inclusion of a one-off recognition of Richmond Tweed Regional Library net assets in the 2009/10 year of \$5.19 million.

- **Grants & Contributions - Operating** - Grants and contributions for operating purposes increased from 2009/10 by \$920,000. This increase comprises several new grants and an increase in recurring grants with the major movements relating to an increase in the Federal Assistance Grant (FAG) of \$267,000 and Natural Disaster Emergency Funding \$512,000 for restoration works for floods in May 2009 and December 2010.
- **Grants & Contributions - Capital** – Grants and contributions for capital purposes decreased from 2010 by \$2.26 million. Developer contributions (Section 94/64) were lower than previous years by \$362,000 and grant funding decreased by \$1.63 million. The amount reported last year was higher due to the Woodlark Street revitalisation project of \$1.375 million.

The following graph represents the main types of income from continuing operations expressed as a percentage of total continuing income for 2010/11, 2009/10 and 2008/09. It clearly shows Council's reliance on Rates and Annual Charges: -

Major income types as a % of total income from continuing operations



Expenses from continuing operations (Note 4)

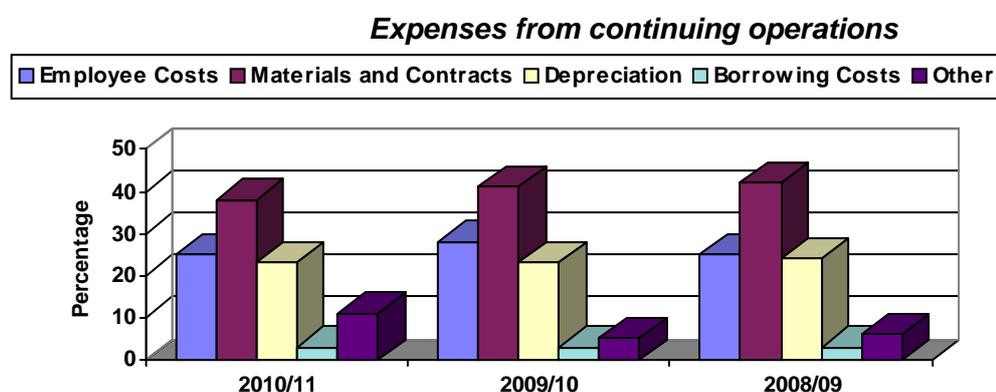
Expenses from continuing operations have increased by \$13.87m or 15.68% from 2009/10 to 2010/11. A summary of the individual categories and comparisons for the last three years is provided below:

Type	2010/11 (\$'000)	% Change	2009/10 (\$'000)	% Change	2008/09 (\$'000)
Employee Costs	25,159	0.9	24,940	25.3	19,901
Borrowing Costs	3,662	26.9	2,886	15.3	2,502
Materials & Contracts	39,268	9.4	35,901	6.4	33,755
Depreciation	23,209	13.9	20,368	5.0	19,390
Other	4,446	2.8	4,326	(10.2)	4,820
Loss on Disposal of Assets	6,523	n/a	-	n/a	14
Interest & Investment Losses	-	n/a	-	n/a	716
Total	102,267	15.7	88,421	9.0	81,098

Unfavourable variances compared to 2009/10 are shown for Materials & Contracts \$3.37 million, Borrowing Costs \$776,000, Employee Costs \$219,000 and Other \$120,000. In addition, there is an increase in Depreciation of \$2.8 million attributable to the increased cost base due to the fair valuation of assets held:

- Borrowing Costs have increased by \$776,000 as anticipated representing the full impact of loans drawn in 2009/10.
- Materials & Contracts increased by \$3.37 million due to an increase in Water operational costs of \$866,000 (the increase in bulk water purchases of \$500,000 being the major component), production costs increased to generate higher revenues from user fees and charges (Northern Rivers Quarry & Asphalt \$1.9 million) and carried forward works from last year being completed.
- Depreciation has increased by \$2.8 million as a result of the increased cost base of assets now held at fair value. The most significant increase is in relation to roads, road related infrastructure and drainage.
- Council reported a loss on disposal of assets of \$6.52 million in 2010/11 compared a gain on disposal in 2009/10 of \$1.024 million. The major component of the loss related to infrastructure assets replaced during the period with Wastewater reporting a \$3.46 million loss and Roads and Bridges reporting a \$3.29 million loss. The loss on disposal reflects the written down value (or the estimated remaining life) of assets written off at the time of replacement.

The following graph represents the types of expenses from continuing operations expressed as a percentage of total continuing expenses for 2010/11, 2009/10 and 2008/09:



Cash, Cash Equivalents and Investments (Note 6a, 6b & 6c)

Council has total cash, cash equivalents and investments of \$39.87 million as at 30 June 2011. Compared to 2009/10, this is a decrease of \$4.87 million. Typically, Council's total cash, cash equivalents and investments are reasonably stable, but can fluctuate depending on the timing of cash flows and investment decisions. The major movements can be attributable to Council's 2010/11 Loan Program being internally funded from reserves, the commencement of the Southern Trunk Wastewater Main, and the utilisation of reserves and unexpended grant funds to complete works commenced in 2009/10.

Council is required to recognise investments held at 30 June each year at their market value. As with previous years volatility within financial markets continued, however this year the market value of investment increased by \$932,900.

The majority of funds are either restricted by external legislation e.g. developer contributions - Section 94 (\$7.32 million) and Section 64 (\$7.14 million), Wastewater Services (\$13.99 million), Water Services (\$872,000), Unexpended Grants (\$742,000) and held in Trust (\$1.977 million), or internal policy e.g. unexpended loans (\$1.77 million) and internal reserves (\$6.05 million).

Statement of performance measures (Note 13)

To clarify the meaning and implication, a simple definition of each indicator is listed below:

- a) Unrestricted Current Ratio – the total cash or cash convertible assets available to meet liabilities within the next twelve months, or current period, expressed on a dollar for dollar basis excluding assets and liabilities.
- b) Debt Service Ratio – The amount used to repay borrowings as a percentage of total income from continuing operations excluding capital contributions and capital grants, and specific purpose contributions and grants.
- c) Rate & Annual Charges Coverage Ratio – The amount received from rates and annual charges revenues as a percentage of total operating revenues.
- d) Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage – This percentage is based on the amount outstanding as a percentage of the amount to be collected for rates and annual charges for the current year and outstanding from previous years.
- e) Building & Infrastructure Renewal Ratios – The capital expenditure on the replacement, refurbishment or upgrade to an existing asset as a percentage of total depreciation, amortisation and impairment.

The following table is a summary of the key performance indicators from 2007/08 to 2010/11:

Performance Indicator	2010/11	2009/10	2008/09	2007/08
Unrestricted Current Ratio	2.13:1	1.80:1	1.39:1	2.04:1
Debt Service Ratio Percentage	6.96%	5.57%	6.34%	5.33%
Rate Coverage Ratio Percentage	39.18%	34.51%	39.01%	42.68%
Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage	10.60%	9.96%	8.46%	10.89%
Building & Infrastructure Renewals Ratio	63.76%	66.43%	65.28%	109.38%

Generally, Council's performance indicators are within acceptable ranges except for the Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage, and the Building, Infrastructure Renewal Ratios.

Council's liquidity position (Unrestricted Current Ratio) has improved from 1.80:1 to 2.13:1. This result is considered satisfactory to meet all current liabilities as and when required.

The Debt Service Ratio, which was at 5.57% for 2009/10, has increased to 6.96%. The movement can be attributed to the full impact of the 2009/10 loan program in combination with the decrease in Council's operating income with the major items being:

- The one-off adjustments in 2009/10 for the introduction of Richmond Tweed Regional Libraries (RTRL) assets of \$5.19 million and the Net Present Value (NPV) of \$2.51 million on a ten (10) year interest free loan from the NSW Treasury Corporation in the 2009/10 year.
- A reduction in Grants & Contributions provided for Capital Purpose of \$2.25 million
- A reduction in the gain from the disposal of assets of \$1.024 million.

The decreases in revenues have been offset by an increase in revenues from Rates and Annual Charges \$2.47 million.

The Rates Coverage Ratio Percentage for 2010/11 when compared to 2009/10 shows an increase in reliance upon rates and annual charges. This will fluctuate from year to year depending on Council's ability to generate revenue from other sources. For 2010/11 the revenue from other sources has declined due to the one-off adjustments included in 2009/10 not recurring in 2010/11.

The Rates, Annual Charges, Interest and Extra Charges Outstanding percentage has increased to 10.60%. On a fund by fund basis the percentages are General Fund 10.73%, Water 19.39% and Wastewater Fund 7.4%. A comprehensive approach to debt recovery has been implemented with more staffing resources allocated to in-house collection and more difficult or non compliant cases being referred to a mercantile agent for legal proceedings quicker. A review of Council's Rates & charges Hardship policy and operating procedures is also taking place with a view to reducing this percentage.

The Building & Infrastructure Renewals Ratio indicates that funds are not being expended in renewing existing assets at the same rate as depreciation. This needs to be considered as part of the Asset Management and Long Term Financial Plan integration.

Special Purpose Financial Statements

Return on Capital

Based on National Competition Policy guidelines, the following activities of Council have been nominated as business activities - Lismore Water, Lismore Wastewater, Northern Rivers Quarry & Asphalt (NRQA), Northern Rivers Waste – Collection and Disposal, Lismore Memorial Gardens, Koala Child Care Centre, Commercial Properties, Goonellabah Sports & Aquatic Centre (GSAC) and Industrial Estate Development.

National Competition Policy guidelines stipulate that Council must declare Water and Wastewater as business activities, even though there is some dispute as to whether these funds operate for commercial benefit or to ensure an essential service is provided at a reasonable cost. In regards to Northern Rivers Waste - Collection and Real Estate as they have no assets, a return on capital cannot be calculated (Real Estate held is classified as inventories as it is land held for resale). The other activities have been declared as they meet the criteria established for business activities, primarily because there are competitors in the market place for which Council actively competes for market share.

The following provides a summary of the return on capital for Council's business activities during 2010/11. Based on the summary and using the 10 Year Government Bond Rate as a guide, the NRQA, Northern Rivers Waste Disposal and Lismore Memorial Gardens are returning a positive return on capital.

There has been an improved performance from previous years for both the NRQA and Northern Rivers Waste disposal. In 2009/10, GSAC was included as a new business activity given this was the first full year of operations. The initial recognition of the assets and liabilities has resulted in a first year surplus on operations and the high return on assets. The 2010/11 year is more indicative of operations however management have initiated steps to improve overall performance for future years. Koala Child Care Centre was sold in the 2010/11 year.

Water & Wastewater have been significantly impacted by the increased depreciation expense associated with the fair value adjustment of assets in 2006/07, given the enormity of the increased depreciation costs it is not anticipated that these businesses will achieve an acceptable return in the medium term.

Business Unit	Return % 2010/11	Return % 2009/10
Northern Rivers Quarry & Asphalt	26.3	8.3
Northern Rivers Waste – Disposal	15.3	12.9
Lismore Memorial Gardens	2.6	4.0
Water	-2.2	-1.6
Wastewater	-2.7	-0.1
Commercial Properties Held for Public	-3.5	-3.0

Benefit		
Goonellabah Sports and Aquatic Centre	-10.4	40.8
Koala Child Care Centre	N/A	-12.5
Northern Rivers Waste – Collection	N/A	N/A
Real Estate	NA	N/A

Management Information

In addition to the detailed financial information provided above for the General Purpose and Special Purpose Financial Reports, it is normal practice to provide commentary on other sections of Council's operations as well as a complete Local Government Financial Health Check assessment. This information is titled "2010/11 Financial Reports Review" and is provided at the end of the financial reports.

The following are some extracts from the 2010/11 Financial Reports Review:

Loan Indebtedness

Council's overall loan debt decreased during 2010/11 by \$2.20 million to \$44.48 million. During the year, there were no new borrowings drawn as Council resolved to fund its 2010/11 program with internal loans from reserves. These funds are to be repaid in 2011/12 when the loan program is re-instated.

It is considered that the current level of debt is manageable, but this needs to be considered on an ongoing basis in light of all other expenditure commitments. Movements in total loan indebtedness by fund for 2010/11 follow:

Fund	Balance 30/6/10	New Loans Raised	Principal Repaid	Balance 30/6/11	Movement - Increase / (Decrease)
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
General	35,680	-	1,981	33,699	(1,981)
Wastewater	8,476	-	162	8,314	(162)
Water	2,539	-	66	2,473	(66)
Total	46,695	-	2,209	44,486	(2,209)

Reserves (Internally Restricted Assets)

As at 30 June 2011, reserves totalled \$27.28 million, comprising \$15.45 million held as cash and investments, \$2.45 million as working capital and \$9.38 million in internal loans. The working capital portion represents amounts that were held as debtors as at year end but which form part of the operating result for 2011.

There has been an overall increase in reserves from 2009/10 of \$2.98 million. The reserves are held in General, Wastewater and Water Funds being \$17.83 million \$8.53 million and \$0.92 million respectively.

All reserves held at 30 June 2011 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, any variance is manageable, or are for a specific purpose.

A separate report on 2010/11 Reserves (Internally Restricted Assets) has been submitted to Council for consideration.

Fleet Operations

Council's fleet operates as a self-funding entity in that as the fleet is used it is charged out at a pre-determined hire rate. The hire income is then used to offset the operating expenses incurred during the life of the fleet and to fund future replacements. A summary of performance over the last three years follows:

Item	2010/11 (\$'000)	2009/10 (\$'000)	2008/09 (\$'000)
Fleet Hire Income	7,341	6,167	5,936
Less:			
Operating Expenses	5,012	4,232	4,143
Depreciation	2,302	2,720	2,906
Operating Surplus /(Deficit)	27	(785)	(1,113)
Add-back depreciation	2,302	2,720	2,906
Cash Surplus / (Deficit)	2,329	1,935	1,793
Net Capital Replacement Cost	1,281	1,905	1,521

The result for 2010/11 shows an improvement in the Operating Surplus/ (Deficit) of \$812,000 compared to 2009/10. Fleet hire income has increased by \$1.174 million due to increased works with operating expenses (excluding depreciation) increasing by \$780,000. Depreciation declined from 2009/10 by \$418,000. The Cash Surplus has increased in line with expectations.

As a guide, the objective is to have the Cash Surplus and Net Capital Replacement Cost approximately the same, so that the average age of the fleet is maintained at a satisfactory level. This in turn saves time and costs as older machinery tends to breakdown more often and newer machinery has improved operating efficiency. In 2010/11, the fleet replacement program was partially deferred to allow for a complete review of arrangements for the Light Vehicle Fleet.

Approximately \$5.11 million is available for fleet replacement at 30 June 2011.

Real Estate Development

Council is involved in three types of real estate development – residential, industrial and commercial.

The residential development at Bristol Circuit in Goonellabah is a joint venture between Council, Chevina Pty Ltd and John Newton. Basically, Council receives a fixed amount for the land component and a half share of the profit after all development and sale costs are deducted. Three (3) lots were available for sale during 2010/11 and two (2) were sold.

The following is a summary of investment, sales, development and profits for the last three years:

Category	2010/11	2009/10	2008/09
<u>Residential Land</u>			
Opening Balance			
Land Value (\$)	24,817	59,394	89,460
Number of Lots	7	8	11
Sales			
Gross Sale Proceeds (\$)	222,838	41,061	155,344
Lots Sold	2	1	3
Add			
Development Costs (\$)	175,501	0	74,933
Lots Created	0	0	0
Closing Balance			
Land Value (\$)	51,063	24,817	59,394
Number of Lots	5	7	8
Profit / (Loss) (\$)	73,582	22,750	99,143

Industrial Land			
Opening Balance			
Land Value (\$)	3,183,518	3,181,943	3,644,725
Number of Lots	7	7	8
Sales			
Gross Sale Proceeds (\$)	0	910,000	350,000
Lots Sold	0	1	1
Add			
Development Costs (\$)	6,979	310,139	(219,908)
Lots Created	0	1	
Closing Balance			
Land Value (\$)	3,183,518	3,183,518	3,181,943
Number of Lots	7	7	7
Profit / (Loss) (\$)	0	801,633	187,426

Category	2010/11	2009/10	2008/09
Commercial Land			
Opening Balance			
Land Value (\$)	401,988	3,238,261	3,089,556
Number of Lots	1	1	1
Sales			
Gross Sale Proceeds (\$)	0	3,650,000	0
Lots Sold	0	1	0
Add			
Development Costs (\$)	0	335,668	148,705
Lots Created	0	1	0
Closing Balance			
Land Value (\$)	401,988	401,988	3,239,261
Number of Lots	1	1	1
Profit / (Loss) (\$)	0	478,059	0

Northern Rivers Quarry & Asphalt

The operating result of the Northern Rivers Quarry & Asphalt has improved from a profit of \$106,700 in the 2009/10 year to a profit of \$620,200 in 2010/11. There have been a number of contributing factors associated with improved trading result with the major items being:

- Improved weather has enabled a better production output. Last year rain prevented crushing due to material clogging up screens and crushers, and delayed restarting of crushing until material sufficiently dried.
- Management has taken steps to reduce overheads, realign costs of production to output and adopt a more effective management structure
- Key staffing positions were filled during the period.
- Large contracts were filled in relation the Ballina by-pass project.
- The cash position has been impacted negatively by higher stock levels on hand and higher debt levels as at 30 June. The majority of debtors were within acceptable trading terms and therefore it is considered that this was a timing issue only. Stock levels have increased but this is a strategic position taken by management to meet future contract obligations.

As a direct result of the increased stock levels, the cash position has deteriorated to a deficit of \$3.95 million. The deficit is being funded by internal loans and will be repaid from anticipated future quarry profits. It is acknowledged that the business will require a significant overdraft to operate as key assets (stock levels and debtors) are typically high value (\$4.96 million as at 30 June 2011) and the annual dividend to General Fund (\$487,000 in 2010/11) is a cash withdrawal that is automatically deducted regardless of the businesses overall cash position.

A summary of trading result and cash position for the last three years is shown below:-

Item	2010/11	2009/10	2008/09
Trading Result			
User Charges			
External Sales	8,699,900	6,405,200	7,199,500
Internal Sales	4,199,400	4,729,400	3,171,400
Miscellaneous Charges	214,400	197,700	319,700
Total Income	13,113,700	11,332,300	10,690,600
Less:			
Operating Expenses	11,781,800	10,161,700	10,731,500
Operating Surplus/(Deficit) before depreciation, corporate charges and loan repayments	1,331,900	1,170,600	(40,900)

Item	2010/11	2009/10	2008/09
Less:			
Depreciation	44,000	338,800	325,000
Corporate Charges	342,000	399,300	395,900
Loan Repayments	325,700	325,800	301,200
Operating Surplus/(Deficit)	620,200	106,700	(1,063,000)
Cost of Production Per Tonne	16.37	18.48	24.65
Reserve			
Reserve Balance – Opening Surplus/(Deficit)	(2,676,100)	(1,895,400)	91,200
Trading Result Surplus/(Deficit)	620,200	106,700	(1,063,000)
Debtors Principal Repaid	43,400	43,400	41,300
Depreciation (Non Cash)	44,000	338,800	325,000
Capital Purchases	(38,000)	-	(77,900)
Movement Stock on Hand/Debtors	(1,292,400)	(782,100)	(742,000)
Dividend Paid	(487,000)	(395,000)	(470,000)
Interest on Internal Loans	(169,600)	(92,500)	-
Cash Movement Surplus/(Deficit)	(1,279,400)	(780,700)	(1,986,600)
Reserve Balance – Closing Surplus/(Deficit)	(3,955,500)	(2,676,100)	(1,895,400)

Sustainability Assessment

Best-Practice Corporate Governance

In accordance with Section 413 of the *Local Government Act 1993 (Act)*, Council is required to 'form an opinion' on the Financial Reports made pursuant to a resolution of Council and signed by the Mayor, at least one other Councillor, General Manager and the Responsible Accounting Officer.

Comments

Finance

Relevant comments have been included in the report where required and the recommendations supported.

While not unexpected, the \$14.37 million deficit in the 'Net operating result before capital grants and contributions' result is a concern. The primary reason for the deterioration over time is the recognition of realistic depreciation costs for Council's infrastructure assets.

As at 30 June 2011, Council's net infrastructure assets totalled \$880.7 million. To provide adequate funding to replace this infrastructure as and when required, Council should strive towards a surplus 'Net operating result before capital grants and contributions'.

To assist in meeting this objective, the adoption of Asset Management Plans and a Long Term Financial Plan by Council, that meet the DLG's Integrated Planning and Reporting requirements, is considered fundamental. Considerable work has already taken place to prepare these documents, but finalisation and coordination with Council's strategic planning is required.

Having an agreed position on asset management requirements and integrating these into a long term financial plan are likely to have a significant impact on Council's financial ability to provide the current broad range of works and services on an ongoing basis.

Other staff comments

Not Required

Public consultation

The 2010/11 Financial Reports will be advertised calling for public submission for seven days from 29 October 2011 and any submission received will be submitted to Council at its 8 November 2011 meeting

Conclusion

Council remains in a sound financial position with cash, cash equivalents and investments at reasonable levels, key performance indicators within acceptable ranges and liabilities such as loans at a manageable level.

The operating result for 2010/11 has shown a mark decline from previous years due to increased depreciation expenses resulting from the impact of the revaluation of all infrastructure assets, the loss on disposal of infrastructure assets \$6.52 million and the inclusion in previous years of on-off items.

It is considered essential that action be taken to bring the operating result of Council into a more sustainable level. Council will need to continue to examine ways in which revenue can be increased, expenses decreased or a combination of both to deliver increased funding for asset management. The current development of integrated Asset Management Plans and a Long Term Financial Plan will assist in identifying requirements which can inform Council when considering future Community Strategic Plans.

In order to comply with the statutory requirements, Council must 'form an opinion' at this meeting on the 2010/11 Financial Reports. A copy of the 2010/11 Financial Reports and audit reports will then be forwarded to the Division of Local Government. Their availability to the public will be advertised from 29 October 2011 for seven days and finally they will need to be formally adopted by Council at the 8 November 2011 meeting.

Attachment/s

1. Financial Reports for the year ended 30 June 2011

Recommendation

That Council:

1. In accordance with Section 413 (2) (c) of the Local Government Act 1993 and clause 215 of the Local Government (General) Regulation 2005, adopt the 2010/11 Financial Reports and form an opinion based on the attached 'Statement by Councillors and Management' for both the General Purpose Financial Reports and Special Purpose Financial Reports.
2. Delegate to the Mayor and Deputy Mayor to sign the 'Statement by Councillors and Management' on behalf of Council.
3. Delegate to the General Manager that on receipt of the Independent Audit Reports, submit the 2010/11 Financial Reports to the NSW Division of Local Government.
4. Advertise the presentation of the 2010/11 Financial Reports to the public from 29 October 2011 and invite both inspection and submission.
5. Present the audited Financial Reports at the 8 November 2011 Council meeting.