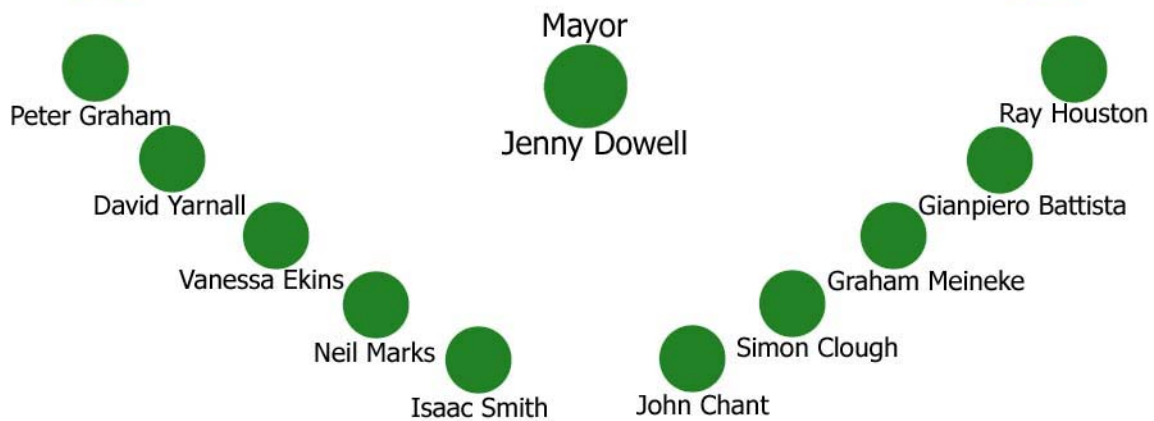


# Notice of Council Meeting



## Council

An EXTRA ORDINARY MEETING of LISMORE CITY COUNCIL will be held at the COUNCIL CHAMBERS on TUESDAY, 26 OCTOBER 2010 at 6.00pm.

Members of Council are requested to attend.

Paul G O'Sullivan  
General Manger

21 October 2010



# Agenda

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1. Opening of Meeting and Prayer (Mayor)
2. Apologies and Leave of Absence  
Councillor Simon Clough
3. Disclosure of Interest
4. Public Access Session  
Mr Kevin Franey - Report – 2009/10 Financial Reports
5. Reports
  - 5.1 2009/10 Reserves (Internally Restricted Assets) ..... 1
  - 5.2 2009/10 Financial Reports ..... 19
  - 5.3 Sale of Koala Child Care Centre ..... 35
  - 5.4 Southern Trunk Wastewater Main - Contract for Construction of Access Road to  
New Sewage Pump Station No. 33..... 39



# Lismore City Council Community Strategic Plan 2008 - 2018



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

Corporate Foundations	Outcomes
<b>Efficient Use of Council Resources</b>	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
<b>Engage With the Community</b>	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.
<b>Promote a Constructive Corporate Culture</b>	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.
<b>Whole of Council Corporate Planning</b>	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.
<b>Providing Excellent Customer Service</b>	That our primary focus is to understand and respond to the needs of the community we serve.

# Reports

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## Report

<b>Subject</b>	<b>2009/10 Reserves (Internally Restricted Assets)</b>
<b>TRIM Record No</b>	BP10/574:EF09/581
<b>Prepared by</b>	Principal Accountant
<b>Reason</b>	In accordance with Policy 1.5.10 - Reserves (Internally Restricted Assets), report internal reserve movements during 2009/10 and balances as at 30 June 2010.
<b>Community Strategic Plan Link</b>	Best-Practice Corporate Governance

### Overview of Report

As at 30 June 2010, reserves totalled \$24.30 million, comprising \$15.5 million held as cash reserves, \$2.15 million as working capital and \$6.65 million in internal loans.

There has been an overall increase in reserves from 2008/09 of \$1.72 million. The reserves are held in General, Wastewater and Water Funds being \$17.62 million \$5.98 million and \$702,600 respectively.

All reserves held at 30 June 2010 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, are for a specific purpose or the variance is manageable.

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 2009/10.

As at 30 June 2010, reserves totalled \$24.30 million, comprising \$15.15 million held as cash reserves, \$2.15 million as working capital and \$6.65 million in internal loans. The working capital portion represents amounts that were held as debtors as at the June 30, 2010 but which form part of the operating result for 2010.

There has been an overall increase in reserves from 2008/09 of \$1.72 million with the major increase being the inclusion of Richmond Tweed Regional Library \$925k, Wastewater Reserve of \$465k and net sale proceeds from the sale of commercial/industrial land. The reserves are held in General, Wastewater and Water Funds being \$17.62 million \$5.98 million and \$702,600 respectively.

For 2009/10, in accordance with the policy, interest was applied to the 'average' reserve balance held as cash unless the reserve was created during 2009/10, had a zero balance at the end of the year or has specific holding requirements. The interest rate applied to the General Fund reserves was the CPI increase for the period of 2.89% and for Wastewater the average return on Council's investment portfolio of 4.13%. This equates to \$387,400 and \$217,600 for General and Wastewater Funds respectively.

All reserves held at 30 June 2010 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, are for a specific purpose, or the variance is manageable.

## *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 \$633,300. The market value gain has been assigned to Council's investments on a pro rata basis in line with the level of funds held in Reserves, Section 64 Funds and Section 94 Funds as a percentage of the total investments held. As a result, General Fund reserves were increased by \$178,600 with the total being applied to the Employee Leave Entitlement reserve, Water Fund by \$23,000, Wastewater Fund by \$273,600 and Section 94 Funds by \$158,100.

## *Internal Loans – Impact on Reserve*

Internal loans from reserves are utilised each year to minimise the cost of capital and provide ready cash for special projects. Internal loan funding is typically short term and is considered prudent as it reduces the need for external funding at current loan rates of 7-8%, with the offset being the loss on investment income of 4%.

Internal loans total \$6.645 million at 30 June 2010. This is a reduction of \$3.025 from 30 June 2009 and reflects the positive impact of significant land sales (Goonellabah Town Centre and Krauss Avenue Industrial Estate) during 2009/10. Information on the major internal loans is provided below:-

- 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 \$3.151 million is outstanding at 30 June 2010 and will be repaid when land sales occur such as the Krauss Avenue Industrial Estate and Workers Sports Club. For 2009/10, the funding source of the internal loan is:

Plant Operations	\$3,151,700
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- Northern Rivers Quarry & Asphalt reported a trading surplus for the year compared to a significant operating loss in 2008/09. While the trading result was a major improvement, its cash position declined by \$82,700 as stock levels were increased by \$782,000 or 29% to ensure adequate supplies to meet short term demand in 2010/11. The sale of this increased product will generate a profit during 2010/11, but it is acknowledged that funding adequate stock levels will almost always result in an internal loan requirement. The internal loan for the Quarry is \$2.68 million and the funding sources for 2009/10 are:

Other Waste Management	\$1,338,700
Plant Operations	\$ 129,200
Transport and Infrastructure	\$1,208,200

- Council resolved to develop the Krauss Avenue Industrial Estate and construct Krauss Avenue in 2005 using reserves as a funding source. At 30 June 2010, \$546,200 remains invested in the development and therefore equivalent funding has been deducted from the following reserves:

Plant Operations	\$ 190,900
Transport and Infrastructure	\$ 355,300

Minor internal loans exist for legal expenses \$162,200, paid parking capital \$14,200 and Goonellabah Town Centre holding costs \$94,900.

## Commentary

Provided below is a commentary on individual reserves with balances. This should be read in conjunction with Attachment A, which shows the opening balance at 1 July 2009, movement for the year and closing balance at 30 June 2010, and the Reserves Policy, which states the objective, methodology and funding level for each reserve.

### Corporate Support – Balance \$ 1,277,200

This reserve includes the following elements:

- a) Federal Assistance Grant (General Purpose) - \$1,126,200. The 1<sup>st</sup> instalment of the 2010/11 grant was received in advance and has been reserved for its planned use in the 2010/11 Budget.
- b) Election Expenses - \$129,600. 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.

### Staff Development – Balance \$83,300

The main elements of this reserve are up-skilling employees program \$55,900, and the staff survey and diagnostics program \$10,000.

### Special Projects – Balance \$122,900

The main elements of this reserve are a) LGA Growth Strategy \$32,200, b) Community Survey \$15,000, c) Community Link \$12,400, d) Key Performance Indicator Reporting \$11,500, e) Matching Grant Fund \$10,100 and f) Mayoral Scholarship \$10,000.

### Employee Leave Entitlements – Balance \$1,257,400

The current value of employee leave entitlements in General Fund as at 30 June 2010 is \$4.79 million. Based on the reserve balance of \$1,257,400, they are approximately 26% funded. This level of cash funding is almost at the policy level of 30% (\$1.44million).

### Flood Mitigation – Balance \$96,000

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

### Lismore Memorial Gardens – Balance \$169,700

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 \$1,338,700

This reserve comprises funds held from non domestic or commercial waste collection services \$155,800 and waste disposal \$1,182,900. This reserve will be used for both operational and development needs of Waste Management services.

### Waste Minimisation – Balance \$103,600

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.

Parks and Recreation – Balance \$221,800

The following table lists the main elements of this reserve:

Name and Description	Amount
<b>Urban Sports Facilities Fund</b>	37,400
<b>Nesbitt Park Jogging Track</b>	30,000
<b>Rural Sports Facilities Fund</b>	29,000
<b>Toilet Retrofit - Visitors Information Centre – To be undertaken in 2010/11</b>	20,000
<b>Dunoon and District Sports &amp; Recreation Club</b>	20,000
<b>South Lismore Soccer Club</b>	20,000
<b>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, Coronation Park \$1,300 and Jiggi Pre School \$500.</b>	13,000
<b>CBD Toilet Block – Funds have been committed to the development of the Transit Centre in 2010/11</b>	13,000

Fleet Operations – Balance \$4,145,500

This reserve reflects the accumulated surplus from fleet operations after net operating costs and 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 2010:

Program	Amount
<b>Road</b>	3,342,600
<b>Parks and Recreation</b>	259,700
<b>Bridge</b>	180,500
<b>Waste</b>	160,600
<b>Crematorium and Lawn Cemetery</b>	105,500
<b>Quarry</b>	54,400
<b>Workshop</b>	37,500

Sporting Grounds – Balance \$12,800

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

Transport Infrastructure – Balance \$5,302,000

The following table lists the major elements of this reserve:

Name and Description	Amount
<b>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 2010/11. The 1<sup>st</sup> instalment of the 2010/11 Federal Assistance Grant (Roads) \$446,000 was received in advance and has also been reserved for works to be undertaken in 2010/11.</b>	4,121,300
<b>Contractors Reserve – Council bids for specific RTA work on a contract basis with the view to generating a profit. The profit generated is transferred to this reserve primarily for road related works. Due to the nature of contracting, a loss can also result and this reserve is used to mitigate Council's exposure to these situations.</b>	445,500



Name and Description	Amount
<b>Bridge</b> – Bridge construction works	252,200
<b>DA Contributions to Works</b> – This relates to contributions received from developers for Council to complete specific works associated with development consent.	201,900
<b>Outdoor Dining</b> – Fees collected from outdoor dining licenses for the provision of car parking spaces in the CBD.	116,700
<b>Drainage</b> – Drainage construction works	57,700
<b>Special Business Rate - Security</b> – Unexpended funds raised by the Special Business Rate for the CitySafe program.	52,000
<b>Engineering (Survey and Design) Equipment</b>	39,600

Property Management – Balance \$531,900

The following table lists the main elements of this reserve:

Name and Description	Amount
<b>Corporate Centre</b> – Planned maintenance and upgrade works	93,600
<b>Residential Property Development</b> – Profit on sale of land.	91,800
<b>Shops &amp; Offices</b> – Net operating result to be applied to planned maintenance and upgrade works	69,700
<b>City Hall</b> – Fire safety upgrade works	68,300
<b>Street Lighting</b> – Upgrades	61,200
<b>Valuations</b> – Fair value assessment of all other assets in accordance with DLG requirements	47,300
<b>Asbestos Management Plan</b> – Statutory requirement to be completed in 2010/11	30,000
<b>Road Safety Projects</b> – Contribution towards grant funds received in 2009/10	19,000
<b>Nimbin CCTV</b> – Equipment to be replacement in 2010/11 from unexpended 2009/10 monitoring/maintenance budget.	10,300
<b>Land Acquisition</b> – Part acquisition of property for road	10,000

Integrated Planning – Balance \$968,000

This reserve includes the following elements:

- Stormwater Management Services - \$725,700. 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 - \$79,700. This represents the unexpended funds collected from the On Site Sewage Management charge. These funds will be progressively utilised as the full staffing complement to delivery this service is in place.
- Section 94 Plan Administration Charges - \$65,100. 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.
- DCP - \$21,500. Funds to engage consultants to undertake reviews in 2010/11.
- Estuary Management - \$20,000. Funding to Richmond River County Council for Estuary Management Plan.

Gasworks Remediation – Balance \$59,400

This reserve is for the completion of the remediation of the former gasworks site.

Records Management System – Balance \$14,900

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

## Information Services – Balance \$316,700

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

## Community Services – Balance \$79,500

The following table lists the main elements of this reserve:

Name and Description	Amount
<b>Lismore Master Plan</b>	16,400
<b>Social and Community Plan</b>	10,800
<b>Section 356 Donation</b> – Donation towards NORTEC development application	10,800

## Child Care – Balance \$11,500

The reserve represents funds attributable to the Koala Day Care Centre and Gingerbread Occasional Care Centre.

## Regional Art Gallery – Balance \$121,400

This reserve comprises specific components for a) building donations \$68,000, b) exhibitions in 2010/11 \$23,600, c) building reserves (for repairs and maintenance) \$19,600 and d) the art gallery foundation \$10,200.

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 \$284,400

The following table lists the major elements of the reserve:

Name and Description	Amount
<b>Wilson River Experience Walk</b> - Project proceeding at Lismore VIC	122,800
<b>Economic Incentive for Investments</b> – Carpark shade feasibility study and approved recipient yet to claim incentive for investment	66,700
<b>Lismore Promotion</b> – Unexpended funds collected from the Special Business Rate for expenditure in accordance with the adopted Lismore Promotion Plan	51,000
<b>Nimbin Walking Track</b> - Matched to grant funding	14,500
<b>Wilson River Bank Development</b> - Project funding	12,800
<b>Strategic Tourist Plan</b> – Matched to grant funding	10,200

## Airport – Balance \$39,600

This reserve is predominately for future capital works at the Lismore Regional Airport.

## Richmond Tweed Regional Library – Balance \$924,900

This reserve represents amounts held by Council for Richmond Tweed Regional Library as at 30 June 2010. The following table lists the elements of the reserve:

Name and Description	Amount
<b>Employee Leave Entitlements</b>	281,600
<b>Fleet Replacement</b>	213,400
<b>Security System</b>	103,800
<b>Funded Projects</b>	84,500
<b>Computer Replacement</b>	78,900

Name and Description	Amount
Library Reference Materials	62,900
Branch Computers	39,400
Library Equipment	34,800
Regional Library Agreement	16,000
Headquarters Equipment	9,600

## Domestic Waste Management – Balance \$129,200

This reserve represents the surplus funds held after all expenses are deducted from the revenues received for domestic waste collection charges.

While reported, Domestic Waste Management funds are 'externally restricted' by the NSW Local Government Act 1993. Externally restricted means that legislation dictates that these funds can only be used for purpose for which they were collected as distinct from internally restricted where it is entirely Council's prerogative. As such, Domestic Waste Management is not included in the Policy 1.5.10 – Reserves (Internally Restricted Assets). The same applies to Wastewater Services and Water Supply which are reported next.

## Wastewater Services – Balance \$5,983,900

The balance reflects the cash position of the fund to 30 June 2010 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 2010/11 Operational Plan, such as for Rising Main 3 and 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 \$702,600

The balance reflects the cash position of the fund to 30 June 2010 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

#### Other staff comments

Not Required

#### Public consultation

Not Required

## Conclusion

The report and attachments detail Council's reserve movements and balances for 2009/10. As at 30 June 2010, reserves totalled \$24.30 million, comprising \$15.5 million held as cash reserves, \$2.15 million as working capital and \$6.65 million in internal loans.

There has been an overall increase in reserves from 2008/09 of \$1.72 million with the major increase being the introduction of Richmond Tweed Regional Library \$925k, Wastewater Services \$465k and the realisation of profit on the sale of both commercial and industrial land.

The reserves are held in General, Wastewater and Water Funds being \$17.62 million \$5.98 million and \$702,600 respectively.

All reserves held at 30 June 2010 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, are for a specific purpose, or the variance is manageable.

Councils' Policy on Internally Restricted Assets – Policy 1.5.10, has been reviewed and some minor amendments recommended.

## Attachment/s

1. Details - Reserves (Internally Restricted Assets) as at 30 June 2010
2. Policy 1.5.10 - Reserves (Internally Restricted Assets)

## Recommendation

That Council:

1. Receive and note the reported reserve balance of \$24,298,800 for 30 June 2010 comprising \$15,505,706 held as cash reserves, \$2,147,794 as working capital and \$6,645,300 in internal loans, as detailed on the attachment.
2. Amend Policy 1.5.10 - Reserves (Internally Restricted Assets) as shown in the attachment.

<b>DETAILS - RESERVES (INTERNALLY RESTRICTED ASSETS) AS AT 30 JUNE 2010</b>									
Reserve	Balance 01/07/09	Transfer To	Interest	Sub Total	Transfers From	Balance 30/06/10	Being held as :		
							Cash - Reserves	Debtors - Outstanding Accrued Revenues	Internal Loans
Corporate Support	1,203,300	1,261,000	3,400	2,467,700	1,190,500	1,277,200	1,115,000	0	162,200
Staff Development	23,900	57,900	1,500	83,300	0	83,300	83,300	0	0
Special Projects	670,300	137,400	2,100	809,800	686,900	122,900	122,900	0	0
Legal Expenses	55,400	162,200	0	217,600	217,600	0	0	0	0
Employee Leave Entitlements	853,000	386,500	28,900	1,268,400	11,000	1,257,400	1,257,400	0	0
Flood Mitigation	123,200	0	3,100	126,300	30,300	96,000	96,000	0	0
Lismore Memorial Gardens	135,700	68,700	2,500	206,900	37,200	169,700	169,700	0	0
Other Waste Management	859,400	700,600	28,700	1,588,700	250,000	1,338,700	0	0	1,338,700
Waste Minimisation	93,100	7,700	2,800	103,600	0	103,600	103,600	0	0
Parks & Recreation	313,400	132,600	7,600	453,600	231,800	221,800	140,506	81,294	0
Fleet Operations	3,927,800	2,010,900	114,700	6,053,400	1,907,900	4,145,500	673,700	0	3,471,800
Quarry Management	698,000	82,700	0	780,700	780,700	0	0	0	0
Sporting Grounds	9,700	2,800	300	12,800	0	12,800	12,800	0	0
Transport Infrastructure	4,259,900	4,356,100	116,200	8,732,200	3,430,200	5,302,000	1,672,000	2,066,500	1,563,500
Property Management	835,000	144,900	16,400	996,300	464,400	531,900	437,000	0	94,900
Integrated Planning	750,600	1,021,200	24,400	1,796,200	828,200	968,000	953,800	0	14,200
Gasworks Remediation	91,500	0	2,100	93,600	34,200	59,400	59,400	0	0
Records Management Systems	0	14,900	0	14,900	0	14,900	14,900	0	0
Information Services	404,400	261,300	11,500	677,200	360,500	316,700	316,700	0	0
Community Services	120,600	43,000	2,900	166,500	87,000	79,500	79,500	0	0
Child Care	24,800	600	500	25,900	14,400	11,500	11,500	0	0
Regional Art Gallery	102,300	33,600	3,700	139,600	18,200	121,400	121,400	0	0
Leisure, Tourism & Events	410,300	221,200	9,300	640,800	356,400	284,400	284,400	0	0
Airport	54,600	0	1,300	55,900	16,300	39,600	39,600	0	0
Richmond Tweed Regional Library	0	924,900	0	924,900	0	924,900	924,900	0	0
Domestic Waste Management	168,500	0	3,500	172,000	42,800	129,200	129,200	0	0
Wastewater Services	5,518,600	2,833,900	217,600	8,570,100	2,586,200	5,983,900	5,983,900	0	0
Water Supplies	872,100	1,161,000	0	2,033,100	1,330,500	702,600	702,600	0	0
<b>TOTAL RESERVES</b>	<b>22,579,400</b>	<b>16,041,800</b>	<b>605,000</b>	<b>39,226,200</b>	<b>14,927,400</b>	<b>24,298,800</b>	<b>15,505,706</b>	<b>2,147,794</b>	<b>6,645,300</b>



## POLICY MANUAL

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

### **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:	<b>Corporate Support</b>
Objective:	To provide funds for specific administrative purposes not elsewhere listed <b>(eg Election Expenses Reserve)</b>
Methodology:	Transfers to and from this reserve are based on: <ol style="list-style-type: none"> <li>a) The existence of, or proposal for, an annual budget allocation for specific administrative purposes, and</li> <li>b) A submission supporting the objective.</li> </ol>
Funding Level:	Funds to accumulate based on specific purpose requirements.
Reserve Title:	<b>Staff Development</b>
Objective:	To financially support human resource programs that enhances skills development within the work force.
Methodology:	Transfers to and from reserve are based on: <ol style="list-style-type: none"> <li>a) The existence of, or proposal for, an annual budget allocation for staff development programs, and</li> <li>b) A submission supporting the objective.</li> </ol>
Funding Level:	Not more than 50% of the recurrent allocation for Employee Training <b>(Total Budget 2009/10 \$273,300 – Funding Level Maximum \$136,650)</b>
Reserve Title:	<b>Special Projects</b>
Objective:	To provide funds for projects and items not specifically identified in other reserves.
Methodology:	Transfers to and from reserve are based on: <ol style="list-style-type: none"> <li>a) The existence of, or proposal for, an annual budget allocation for identified specific project, and</li> <li>b) A submission supporting the objective.</li> </ol>
Funding Level:	To accumulate based on specific purpose requirements.

**POLICY NO: 1.5.10 (Cont.)****RESERVES (INTERNALLY RESTRICTED ASSETS)**

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  
(2009/10 Budget \$117,000 – Funding Level Maximum \$117,000)

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 than 30% of the General Fund ELE provisions.  
(2009/10 \$4.79 million – Funding Level Maximum \$1.44 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.



<b>POLICY NO: 1.5.10 (Cont.)</b>	<b>RESERVES (INTERNALLY RESTRICTED ASSETS)</b>
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Reserve Title:	<b>Other Waste Management</b>
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: <ul style="list-style-type: none"> <li>a) The existence of, or proposal for, an annual budget allocation for other waste management,</li> <li>b) A submission supporting the objective, and</li> <li>c) The net cash movement for other waste services.</li> <li>d) This is considered a business unit of Council and therefore maybe required to provide a dividend to Council operations</li> </ul>
Funding Level:	In accordance with the Waste Services Business Plan
Reserve Title:	<b>Waste Minimisation</b>
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: <ul style="list-style-type: none"> <li>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.</li> </ul>
Funding Level:	Not more than 20% of the total income generated from Waste Minimisation Charge (2009/10 \$636,500 – Funding Level Maximum \$127,300).
Reserve Title:	<b>Parks &amp; Recreation</b>
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: <ul style="list-style-type: none"> <li>a) The existence of, or proposal for, an annual budget allocation for parks and reserves,</li> <li>b) A submission supporting the objective, and</li> <li>c) Expenditure in accordance with Section 94 Recreation &amp; Community Facilities Plan.</li> </ul>
Funding Level:	Funds to accumulate based on specific purpose requirements

**POLICY NO: 1.5.10 (Cont.)****RESERVES (INTERNALLY RESTRICTED ASSETS)**

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

**POLICY NO: 1.5.10 (Cont.)****RESERVES (INTERNALLY RESTRICTED ASSETS)**

- 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:
- The existence of, or proposal for, an annual budget allocation for property management,
  - A submission supporting the objective.
  - The net of sales and expenses related to residential, industrial and commercial land development, and
  - The net cash result for commercial shops and offices.
  - 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:
- The existence of, or proposal for, an annual budget allocation for planning services, and
  - A submission supporting the objective.
- Funding Level: Funds to accumulate based on specific purpose requirements
- Reserve Title: **Gasworks Remediation**
- 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:
- All archiving fees received being transferred to reserve,
  - 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.

**POLICY NO: 1.5.10 (Cont.)****RESERVES (INTERNALLY RESTRICTED ASSETS)**

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.

<b>POLICY NO: 1.5.10 (Cont.)</b>	<b>RESERVES (INTERNALLY RESTRICTED ASSETS)</b>
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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.

**POLICY NO: 1.5.10 (Cont.)****RESERVES (INTERNALLY RESTRICTED ASSETS)**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: **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

<b>Subject</b>	<b>2009/10 Financial Reports</b>
<b>TRIM Record No</b>	BP10/557:EF09/581
<b>Prepared by</b>	Principal Accountant
<b>Reason</b>	Legislative Requirements - Section 413, Local Government Act 1993
<b>Community Strategic Plan Link</b>	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 Draft 2009/10 Financial Reports is provided 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 \$12.71 million surplus
- Total Expenses from Continuing Operations increased by \$7.32million to \$88.4 million
- Total Revenues from Continuing Operations increased by \$18.48 million to \$101.13 million.
- Cash, Cash Equivalents and Investments total \$44.75 million.
- Net Assets increased by \$186.91million.
- Unrestricted Current Ratio 1.80:1, Debt Service Ratio 5.57% and Outstanding Rates & Annual Charges 12.63%

## Background

The 2009/10 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 2009/10 Financial Reports and audit reports will be forwarded to the Division of Local Government by 7 November 2010 and their availability to the public advertised from 28 October 2010 for seven days, and finally the formal adoption after advertising at the 9 November 2010 Council meeting.

A copy of the Draft 2009/10 Financial Reports is provided.

The Auditor is required to prepare the following documents for Council's 2009/10 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 will be forwarded to Councillors separately and as mentioned the Auditor will present on the findings and conduct of the audit at the meeting.

## 2009/10 Financial Reports - Key Financial Data Summary

### **Operating Result from Continuing Operations**

The Operating Result of \$12.70 million is a significant improvement from that reported in 2008/09. Included in the result for 2009/10 are two one-off items that have had a significant impact on the result.

These include the

- Inclusion of Richmond Tweed Regional Library (RTRL) assets into Council financial reports, the amount is required to be treated as other income of \$5.19 million.
- The Net Present Value (NPV) impact of a ten year interest free loan of \$6 million received for Wastewater infrastructure, the amount is included as investment revenue of \$2.51 million.

### **Investments and Liquidity**

The market value of Council's investments has improved by \$633,000 over the past twelve months. It has been assigned to investments on a pro rata basis in line with the level of funds held in Reserves, Section 64 Funds and Section 94 Funds as a percentage of the total investments held. As a result, General Fund reserves were increased by \$178,600, Water Fund by \$23,000, Wastewater Fund by \$273,600 and Section 94 Funds by \$158,100.

Some of Council's investments have been deemed to have no current market value however legal action may result in some redemption during 2010/11.

### **Roads, road related infrastructure and drainage fair valuation**

In accordance with the Division of Local Government requirements, Council was required to adjust its carrying value of roads, roads related infrastructure and drainage to fair value as at 30 June 2010. This has increased the value base of assets held by Council and will increase the depreciation expense in future years. The increase in depreciation expense will result in Council's net operating result in future years being a significant deficit. Council will be required to develop a long term asset management plan and complimentary financial plans to improve this result.



**General Purpose Financial Reports****Income Statement**

The net operating result for 2009/10 is a \$12.707 million surplus. The following table displays the summarised information from 2007/08 to 2009/10:

Item	2009/10 (\$'000)	% Change	2008/09 (\$'000)	% Change	2007/08 (\$'000)
Revenues from continuing operations	101,268	+22.36%	82,650	+12.69%	72,979
Expenses from continuing operations	88,421	+9.03%	81,098	+10.44%	73,431
<b>Net operating result for the year</b>	<b>12,707</b>	<b>+718.75%</b>	<b>1,552</b>	<b>+443.36%</b>	<b>(452)</b>
<b>Net operating result before capital grants and contributions</b>	<b>2,960</b>	<b>n/a</b>	<b>(9,263)</b>	<b>-15.18%</b>	<b>(8,042)</b>

A summary of the movements follows:

Revenues from continuing operations being \$18.478 million with the major movements being:

- Increase in rates and annual charges \$2.6 million
- Increase in revenues from user fees and charges \$600k
- Increase in interest & investment return \$5.09 million compared to a loss in 2008/09 \$716k
- Increase in other revenues \$8.866 million predominately relating to RTRL.
- Increase in grants and contributions \$233k (capital decreased by \$1.06 million with operating increasing by \$1.3 million).

Expenses from continuing operations of \$7.323 million with the major movements being:

- Increase in employee benefits and on-cost \$5 million with RTRL being \$4.129 million
- Increase in borrowing costs \$380k
- Increase in materials and contracts by \$2.1 million
- Increase in depreciation and amortisation by \$978k
- Decrease in other expenses by \$494k
- Decrease in loss on interest and investments from \$716k in 2008/09 to a positive return of \$5 million

In general, revenues from continuing operations increased by 22.36% or \$18.478 million with expenses from continuing operations increasing by 9.03% or \$7.32 million. From a cash perspective, the change has been either funded or budgeted. The significant increase in revenues includes one-off adjustments for the introduction of Richmond Tweed Regional Libraries (RTRL) assets as at 01/07/09 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.

Council was required to fair value roads, roads related infrastructure and drainage in 2009/10. This increased their asset value and therefore it is expected that depreciation expenses will increase significantly next year as a result.

## Balance Sheet

The Balance Sheet is used to summarise the total net assets under Council's control. As at 30 June 2010, total net assets were \$991.1 million. During 2009/10, net assets increased by \$339.3 million from \$651.7 million as reported in 2008/09. This movement comprised \$12.7 million increase attributable to continuing operations and \$326 million resulting from the revaluation of roads, roads related infrastructure and drainage. The revaluation movement includes two components:

1. \$152 million positive prior year adjustment to the Written Down Value (WDV) of assets as a result of assets being over depreciated; and
2. \$174 million for the net increase in fair valuation of assets.

The major component of Council's net assets relates to infrastructure assets. Net infrastructure assets total \$850 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	702.6	123.1	579.5	17.5
Stormwater Drainage	42.7	18.1	24.6	42.3
Water Supply Network	143.5	70.1	73.4	48.9
Wastewater Services Network	324.5	152.0	172.5	46.8
<b>Total Infrastructure Assets</b>	<b>1,213.3</b>	<b>363.3</b>	<b>850.0</b>	<b>29.9</b>

## Income from continuing operations (Note 3)

Income from continuing operations increased by \$18.48 million or 22.36% compared to 2008/09. A summary of the individual categories and comparisons for the last three years is provided below:

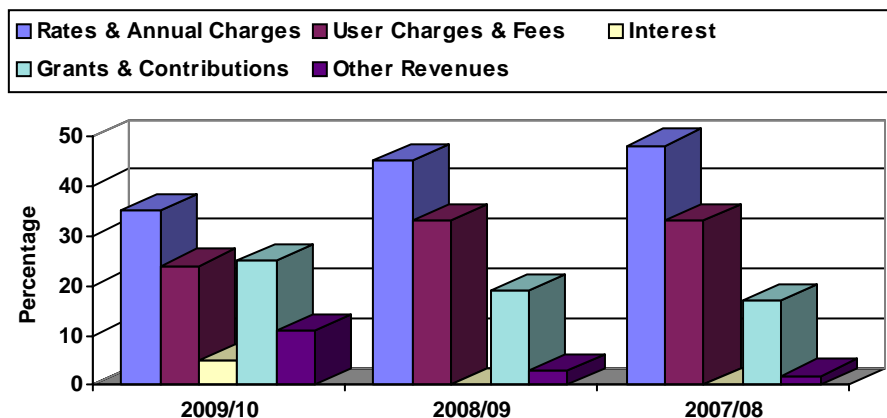
Type	2009/10 (\$'000)	% Change	2008/09 (\$'000)	% Change	2007/08 (\$'000)
Rates & Annual Charges	34,898	8.2	32,239	4	31,145
User Charges & Fees	24,047	2.5	23,441	8	21,746
Interest	5,090	n/a	0	n/a	0
Other revenues	11,209	478	2,343	49	1,570
Grants & Contributions – Operating	15,113	9.4	13,812	26	10,928
Grants & Contributions – Capital	9,747	(9.9)	10,815	42	7,590
Gain on Disposal of Assets	1,024	n/a	0	n/a	0
<b>Total</b>	<b>101,128</b>	<b>22.3</b>	<b>82,650</b>	<b>13</b>	<b>72,979</b>

- **Rates and Annual Charges** – Revenues from rates have increased by 4.5% which is in line with rate pegging and anticipated growth. Annual charges revenues have increased by 14.9% or \$1.7 million with the major areas being Wastewater \$800k, \$500 Water and Domestic Waste management charges, these increases are in line with the strategic plans adopted by Council.
- **User Charges & Fees** - Increased by 2.5% (\$600k) predominately due to:
  - The 2009/10 year was the first full year of operations for the Goonellabah Sports and Aquatic Centre therefore revenues increased by \$824k from 2008/09.
  - Decline in consolidated revenues for the Northern Rivers Quarry Group (NRQG) \$1.5 million. Consolidated revenue excludes internal sales to Council. Sales revenue before consolidation increased from the previous year by \$641k.
  - Specific User Charges increased by \$900k. – Mainly water user charges.
  - Waste disposal revenues increased by \$1 million.
  - RTA ordered works declined by \$924k.

- **Interest revenues** - The interest and investment return is comprised of interest on investments of \$2.66million, fair value adjustments on investments held of \$633k and the NPV impact of \$2.51 million on a ten year interest only loan received from NSW Treasury Corporation for Wastewater infrastructure.
- **Other revenues** - includes a one-off recognition of Richmond Tweed Regional Library net assets at 01 July 2009 of \$5.19 million in accordance with Australian Accounting Standards. RTRL member council contributions of \$3.7 million have been received and as this is the first year of reporting it shows a favourable variance when compared to 2008/09.
- **Grants & Contributions operating** - Grants and contributions for operating purposes increased from 2009 by \$1.3 million. Natural Disaster grants for previous floods were received, an increase of \$2.9 million from 2009. This was offset by a decline in the Federal Assistance Grants of \$1.4 million as an 'advance' payment resulting in the 2009 being higher than usual. The balance of the increase comprises several new grants and an increase in recurring grants from 2009.
- **Grants & Contributions capital** – Grants and contributions for capital purposes decreased from 2009 by \$1 million. Developer contributions (Section 94/64) were lower than previous years by \$500k with dedications other than Sec 94/64 declining by \$1.5 million.
  - Grant funding was received for the Woodlark Street revitalisation \$1.375 million (this was the second instalment of funding with \$1.375 million being received in 2009), cycleways \$263k, Nimbin Skate Park \$449k, waste performance management project \$80k and the GREENovation project \$140k. There was an over all decrease in funding of \$300k.
  - Roads to Recovery grants increased on previous years by \$150k and Regional Roads Grants increasing by \$1.3 million. The majority of the funding increase related to the RTA Blackspots Program.
- **Gain on the disposal of Assets** – Overall, Council realised a gain on disposal of assets of \$1.024 million. This included a profit on sale of land of \$1.35 million, profit on sale of plant of \$120k and a write off of Water and Wastewater infrastructure of \$303k and \$144k respectively.

The following graph represents the main types of income from continuing operations expressed as a percentage of total continuing income for 2009/10, 2008/09 and 2007/08. It clearly supports 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 \$7.32m or 9.0% from 2008/09 to 2009/10. A summary of the individual categories and comparisons for the last three years is provided below:

Type	2009/10 (\$'000)	% Change	2008/09 (\$'000)	% Change	2007/08 (\$'000)
Employee Costs	24,940	25.3	19,901	7	18,599
Borrowing Costs	2,886	15.3	2,502	37	1,826
Materials & Contracts	35,901	6.4	33,755	9	30,968
Depreciation	20,368	5.0	19,390	24	15,652
Other	4,326	(10.2)	4,820	(2)	4,924
Loss on Disposal of Assets	-	n/a	14	(97)	557
Interest & Investment Losses	-	n/a	716	(21)	905
<b>Total</b>	<b>88,421</b>	<b>9.0</b>	<b>81,098</b>	<b>10</b>	<b>73,431</b>

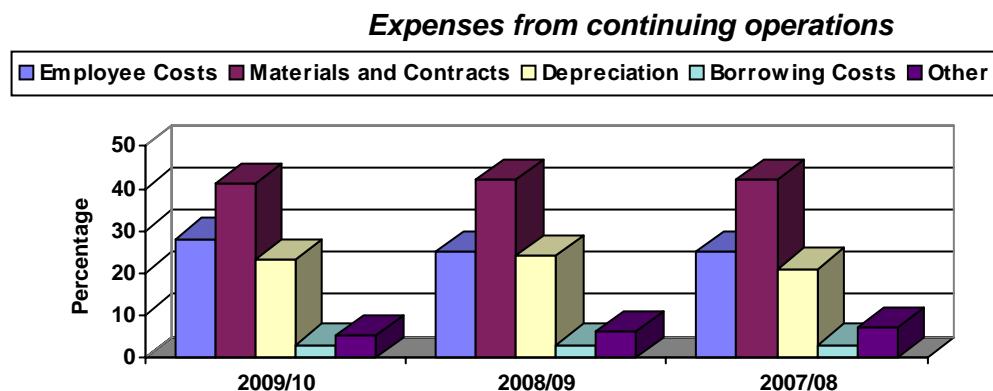
This is the first year that the operating expenses for RTRL have been consolidated into the financial reports of Lismore City Council. These total \$4.79 million (excluding depreciation). Unfavourable variances compared to 2008/09 are shown for materials and contracts \$463k, employees benefits and on-cost \$4.129 million and other costs \$200k. In addition there is an increase in depreciation expenses of \$954k attributable to the RTRL.

- Employee costs have increased by \$5 million with the major movements being: salary and wages \$3.9 million, employee leave entitlements \$825k and superannuation contributions \$1.19 million.

Superannuation costs have increased by \$1.19 million mainly due to the requirement of Council to increase funding for the Local Government Defined Benefit Scheme. This is as a result of the impact on their investment pool due to the Global Financial Crisis of \$762k. The inclusion of contributions for employees of RTRL has also contributed to the increase.

- Borrowing costs have increased by \$384k representing the full impact of loans drawn in 2008/09. Council's 2009/10 loan program was not finalised until June 2010 thus did not impact significantly in 2009/10. It is forecast that there will be a further increase in 2010/11 as the full impact of loans drawn in 2009/10 are realised.
- Material and Contracts increased by \$2.1million due to additional works being undertaken from grant funds, production costs increasing to generate higher revenues from user fees and charges and carried forward works from 2009 being completed. Costs attributable to RTRL for materials and contracts were \$463k and are included in the increase from 2009.
- Depreciation has increased by \$978k with \$954k attributable to the inclusion of RTRL for the first reporting year.
- Other Expenses have decreased overall by \$494k. The major movements were increased costs due the inclusion of the RTRL \$200k, contribution to the flood mitigation \$135k and increased electricity due to an increased pricing structure \$363k. These increased costs have been offset by the consolidation requirement to eliminate the contribution made to RTRL by Lismore City Council in 2009/10 \$1.1 million.

The following graph represents the types of expenses from continuing operations expressed as a percentage of total continuing expenses for 2009/10, 2008/09 and 2007/08:



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

Council has total cash, cash equivalents and investments of \$44.745m as at 30 June 2010. Compared to 2008/09, this is an increase of \$15.852m. 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 in investments can be attributable to Council's loan program being drawn late in the year \$6.83 million, interest free loan from NSW Treasury Corp for the Southern Trunk Wastewater Main \$6 million, the realisation of land sales reducing internal loans from reserves \$3 million, and the inclusion of the Richmond Tweed Library investments \$900k.

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 \$633,300. The market value gain has been assigned to Council's investments on a pro rata basis in line with the level of funds held in Reserves, Section 64 Funds and Section 94 Funds as a percentage of the total investments held. As a result, General Fund reserves were increased by \$178,600, Water Fund by \$23,000, Wastewater Fund by \$273,600 and Section 94 Funds by \$158,100.

The majority of funds are either restricted by external legislation e.g. developer contributions - Section 94 (\$5.821m) and Section 64 (\$6.789m), Wastewater Services (\$14.28m), Water Services (\$2.2m), Unexpended Grants (\$3.3m), Trust (\$1.683m) and Domestic Waste Collection (\$129k), or internal policy e.g. unexpended loans (\$1.774m) and reserves (\$8.729m).

### **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 2006/07 to 2009/10:

Performance Indicator	2009/10	2008/09	2007/08	2006/07
Unrestricted Current Ratio	1.80:1	1.39:1	2.04:1	2.57:1
Debt Service Ratio Percentage	5.57%	6.34%	5.33%	4.54%
Rate Coverage Ratio Percentage	34.51%	39.01%	42.68%	43.47%
Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage	12.63%	11.19%	10.89%	10.23%
Building & Infrastructure Renewals Ratio	66.43%	65.28%	109.38%	n/a

Generally, Council's performance indicators are within acceptable ranges except for the Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage. Action has already commenced in 2010/11 to improve this situation by Council resolving to sell property due to unpaid rates.

The liquidity position (Unrestricted Current Ratio) has improved from 1.39:1 to 1.80:1; this is partly due to Council's realisation of land sales and subsequent reduction in internal loans from reserves. This result is considered satisfactory to meet all current liabilities as and when required. In the 2010/11 year Council has resolved to fund its loan program from internal reserves which is anticipated to impact negatively on the current ratio in the short term.

The Debt Service Ratio, which was at 6.34% for 2008/09, has decreased to 5.53%. The movement can be attributed to a significant increase in Council's operating income with the major items being:

- Consolidation of RTRL into Lismore City Council's operations \$5.19 million, a positive return on investments \$5 million (this includes market value adjustments \$633k, interest on investments \$2.66 million and NPV adjustment on loans \$2.5 million), and a realisation of profit on sale of assets \$1.02 million. Council has resolved not to source external loan borrowings in 2010/11 which will have a positive impact on the debt service ratio in the short term.

Rates Coverage Ratio Percentage for 2009/10 when compared to 2008/09 shows a reduction in reliance upon rates and annual charges. This is as a result of the increase in fees and user charges and other income.

The Rate, Annual Charges, Interest and Extra Charges Outstanding percentage has remained above 10%. On a fund by fund basis the percentages are General Fund 10.38%, Water 17.58% and Wastewater Fund 5.53%. A comprehensive approach to debt recovery has been implemented with in-house collection initially and more difficult or non compliant cases being referred to a mercantile agent for legal proceedings. These actions should cause this indicator to improve in future years. Council's policy of not taking legal action against pensioners, except in extreme cases, does limit the opportunity to reduce this faster.

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 Reports**

### ***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. 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.

The following provides a summary of the return on capital for Council's business activities during 2009/10. Based on the summary and using the 10 Year Government Bond Rate as a guide, the NRQG, Northern Rivers Waste Disposal, Lismore Memorial Gardens and GSAC are returning a positive return on capital.

The return on GSAC is not indicative of its operational performance as it includes the one off adoption of the assets and liabilities in the 2009/10 year; this amount has been included as other income and totals \$7.182 million. There has been an improved performance from previous years for both the NRQG (2008/09 -17.7%) and Northern Rivers Waste disposal (2008/09 -6.0%).

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.

<b>Business Unit</b>	<b>Return %</b>
Goonellabah Sports and Aquatic Centre	40.8
Northern Rivers Waste – Disposal	12.9
Northern Rivers Quarry & Asphalt	8.3
Lismore Memorial Gardens	4.0
Wastewater	-0.1
Water	-1.6
Properties Held for Public Benefit	-3.0
Koala Child Care Centre	-12.5
Northern Rivers Waste – Collection	N/A
Real Estate	NA

## **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 "2009/10 Financial Reports Review" and is provided at the end of the financial reports.

The following are some extracts from the 2009/10 Financial Reports Review:

### ***Loan Indebtedness***

Council's overall loan debt increased during 2009/10 by \$8.347million to \$46.695 million. During the year, total borrowings of \$10,355 million were drawn with approximately 76.5% or \$7.925 million of these

funds for the self funding activities; \$6.325 million Wastewater and \$1.6 million for Water construction programs. Included in the new loans drawn was an interest free loan of \$6 million from the NSW Treasury Corporation for Wastewater infrastructure. Accounting Standards require the loan be recorded at the Net Present Value (NPV) as the loan was interest free with a term of 10 years (the NPV of the loan calculated is \$3.525 million).

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 2009/10 follow:

Fund	Balance 30/6/09	New Loans Raised	Principal Repaid	Balance 30/6/10	Movement - Increase / (Decrease)
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
General	35,150	2,430	1,900	35,680	530
Wastewater	2,223	6,325	72	8,476	6,253
Water	975	1,600	36	2,539	1,564
<b>Total</b>	<b>38,348</b>	<b>10,355</b>	<b>2,008</b>	<b>46,995</b>	<b>8,347</b>

## ***Internally Restricted Reserves***

As at 30 June 2010, reserves totalled \$24.30 million, comprising \$15.5 million held as cash reserves, \$2.15 million as working capital and \$6.65 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 2010.

There has been an overall increase in reserves from 2008/09 of \$1.72 million with the major increase being the introduction of Richmond Tweed Regional Library \$925k, Wastewater \$465k and the realisation of profit on the sale of industrial land. The reserves are held in General, Wastewater and Water Funds being \$17.62 million \$5.98 million and \$702,600 respectively.

All reserves held at 30 June 2010 are deemed to be at an appropriate level given that they are either within a suitable range of the nominated funding level, are for a specific purpose or the variance is manageable.

A separate report on 2009/10 Reserves has also 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	2009/10 (\$'000)	2008/09 (\$'000)	2007/08 (\$'000)
Fleet Hire Income	6,167	5,936	5,900
<b>Less:</b>			
Operating Expenses	4,232	4,169	4,127
Depreciation	2,720	2,906	1,835
<b>Operating Surplus /(Deficit)</b>	<b>(785)</b>	<b>(1,113)</b>	<b>(62)</b>
Add-back depreciation	2,720	2,906	1,835
<b>Cash Surplus / (Deficit)</b>	<b>1,935</b>	<b>1,793</b>	<b>1,773</b>
<b>Net Capital Replacement Cost</b>	<b>1,905</b>	<b>1,521</b>	<b>2,488</b>



The result for 2009/10 shows an improvement in the operating surplus/(deficit) by \$328,000 compared to 2008/09. Fleet hire income has increased by \$231,000 due to increased works with operating expenses only increasing by \$63,000. Depreciation declined from 2008/09 by \$186,000. The Cash Surplus is in line with previous years.

The net capital replacement cost, which reflects purchase cost for new fleet less trade-in, has increased from the previous year with major fleet being replaced as planned in 2009/10. As a guide, the objective is to have the cash surplus and net capital replacement costs 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.

Approximately \$4.145 million is available for plant replacement at 30 June 2010.

## **Real Estate Development**

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

The sale of the Goonellabah Town Centre site was the highlight of real estate development during 2009/10. A residual lot remains and an option to use this lot for community purposes is being investigated.

For industrial land, one (1) lot sold in the Krauss Avenue Estate. Of the remaining 6 lots, all but two (2) are under contract or in negotiations. Council also purchased land at the Lismore Regional Airport during 2009/10. This land is being subdivided with a large portion being retained for airport purposes and the balance is to be sold.

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. One (1) lot was available for sale during 2009/10 and it was sold.

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

<b>Category</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>
<b>Residential Land</b>			
<b>Opening Balance</b>			
Land Value (\$)	59,394	89,460	89,460
Number of Lots	8	11	11
<b>Sales</b>			
Gross Sale Proceeds (\$)	41,061	155,344	0
Lots Sold	1	3	0
<b>Add</b>			
Development Costs (\$)	0	74,933	0
Lots Created	0	0	0
<b>Closing Balance</b>			
Land Value (\$)	24,817	59,394	89,460
Number of Lots	7	8	11
<b>Profit / (Loss) (\$)</b>	<b>22,750</b>	<b>99,143</b>	<b>0</b>
<b>Industrial Land</b>			
<b>Opening Balance</b>			
Land Value (\$)	3,181,943	3,644,725	3,149,035
Number of Lots	7	8	7
<b>Sales</b>			
Gross Sale Proceeds (\$)	910,000	350,000	0
Lots Sold	1	1	0
<b>Add</b>			
Development Costs (\$)	310,139	(219,908)	495,690

Lots Created	1		1
<b>Closing Balance</b>			
Land Value (\$)	3,183,518	3,181,943	3,644,725
Number of Lots	7	7	8
<b>Profit / (Loss) (\$)</b>	<b>801,633</b>	<b>187,426</b>	<b>0</b>
<b>Commercial Land</b>			
<b>Opening Balance</b>			
Land Value (\$)	3,238,261	3,089,556	3,089,556
Number of Lots	1	1	1
<b>Sales</b>			
Gross Sale Proceeds (\$)	3,650,000	0	0
Lots Sold	1	0	0
<b>Add</b>			
Development Costs (\$)	335,668	148,705	0
Lots Created	1	0	0
<b>Closing Balance</b>			
Land Value (\$)	401,988	3,238,261	3,089,556
Number of Lots	1	1	1
<b>Profit / (Loss) (\$)</b>	<b>478,059</b>	<b>0</b>	<b>0</b>

### **Northern Rivers Quarry & Asphalt**

The operating result of the Northern Rivers Quarry & Asphalt has improved from a (\$1,063,000) loss in 2008/09 to a profit of \$106,800 in the 2009/10 year. There have been a number of contributing factors associated with improved trading result with the major items being:

- Improved weather from previous year 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.
- The cash position has been impacted negatively by higher stock levels on hand as at 30 June. 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 \$2.676 million. The deficit is being funded by internal loans from Reserves and repayments will be made from anticipated future quarry profits. The loan will be repaid from future profits, however it is acknowledged that the business will require a significant overdraft to operate as key assets (stock levels and debtors) are typically high value (\$3.5 million as at 30 June 2010) and the annual dividend to General Fund (\$395,000 in 2009/10) is a cash withdrawal that is automatically deducted regardless of the overall Quarry cash position.

Item	2009/10	2008/09	2007/08
<b>User Charges</b>			
External Sales	6,405,200	7,199,500	5,614,200
Internal Sales	4,729,400	3,171,400	3,032,500
Miscellaneous Charges	197,700	319,700	181,800
<b>Total Income</b>	<b>11,332,300</b>	<b>10,690,600</b>	<b>8,828,500</b>
<b>Less:</b>			
Operating Expenses	10,886,800	11,428,600	9,070,700
<b>Operating Surplus/(Deficit) before depreciation</b>	<b>445,500</b>	<b>(738,000)</b>	<b>(242,200)</b>
<b>Less:</b>			
Depreciation	338,800	325,000	209,500
<b>Operating Surplus/(Deficit)</b>	<b>106,700</b>	<b>(1,063,000)</b>	<b>(451,700)</b>
<b>Cost of Production Per Tonne</b>	<b>18.00</b>	<b>24.65</b>	<b>18.03</b>

<b>Adjust for other Cash and Non Cash Movements</b>			
Add – Debtors Principal Repaid	43,400	41,300	32,700
Add – Depreciation (Non Cash)	338,800	325,000	209,500
Capital Purchases	-	(77,900)	(574,700)
Stock on Hand – (Non Cash)	(782,100)	(742,000)	46,000
Less – Dividend Paid	(395,000)	(470,000)	(370,000)
Less Interest on internal loans	(92,500)	-	-
<b>Cash Movement Surplus/(Deficit)</b>	<b>(780,700)</b>	<b>(1,986,600)</b>	<b>(1,108,200)</b>

## 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.

### Other staff comments

Not required

### Public consultation

The 2009/10 Financial Reports will be advertised calling for public submission for seven days from 28 October 2010 and will be further considered by Council at the 9 November 2010 meeting

### Conclusion

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

The operating surplus for 2009/10 was positively impacted by several new grants, one-off adjustments for RTRL and the NPV of a ten year interest free loan for Wastewater. These are non-recurring, thus reducing Council's comparable income for 2010/11.

The impact of the revaluation of all infrastructure assets will result in increased depreciation expense. For roads, roads related infrastructure and drainage the increase for 2010/11 is anticipated to be approximately \$2.5 million. With rising depreciation costs and no commensurate additional income, future net operating result will deteriorate. This will highlight the limits on Council's capacity to provide more funding for asset management unless there are decreases in service levels for recurrent works and services, or significant additional income is received from State and/or Federal Governments.

To ensure financial sustainability, it remains essential for Council 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 and Delivery Plans.

In order to comply with the statutory requirements, Council must 'form an opinion' at this meeting on the 2009/10 Financial Reports. A copy of the 2009/10 Financial Reports and audit reports will then be forwarded to the Division of Local Government. Their availability to the public will be advertised from 28 October 2010 for seven days and finally they will need to be formally adopted by Council at the 9 November 2010 meeting.

## Attachment/s

1. General Purpose Financial Report - Statement by Councillors and Management
2. Special Purpose Financial Reports - Statement by Councillors and Management

## 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 2009/10 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. Submit the 2009/10 Financial Reports to the NSW Division of Local Government and the Australian Bureau of Statistics.
4. Advertise the presentation of the 2009/10 Financial Reports to the public from 28 October 2010 and invite both inspection and submission.
5. That Council present the audited Financial Reports at the 9 November 2010 Council meeting.

Financial Statements 2010

Lismore City Council

**General Purpose Financial Statements**  
for the financial year ended 30 June 2010

**Statement by Councillors and Management**  
made pursuant to Section 413(2)(c) of the Local Government Act 1993 (as amended)

**The attached General Purpose Financial Statements have been prepared in accordance with:**

- The Local Government Act 1993 (as amended) and the Regulations made thereunder,
- The Australian Accounting Standards and professional pronouncements, and
- The Local Government Code of Accounting Practice and Financial Reporting.

**To the best of our knowledge and belief, these Financial Statements:**

- present fairly the Council's operating result and financial position for the year, and
- accords with Council's accounting and other records.

**We are not aware of any matter that would render the Reports false or misleading in any way.**

**Signed in accordance with a resolution of Council made on 26 October 2010.**

.....  
Jenny Dowell  
MAYOR

.....  
Simon Clough  
COUNCILLOR

.....  
Paul O'Sullivan  
GENERAL MANAGER

.....  
Rino Santin  
RESPONSIBLE ACCOUNTING OFFICER

SPFS 2010

Lismore City Council

**Special Purpose Financial Statements**  
for the financial year ended 30 June 2010

**Statement by Councillors and Management**  
made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

**The attached Special Purpose Financial Statements have been prepared in accordance with:**

- ♦ The NSW Government Policy Statement "Application of National Competition Policy to Local Government"
- ♦ The Division of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality"
- ♦ The Local Government Code of Accounting Practice and Financial Reporting.
- ♦ The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

**To the best of our knowledge and belief, these Financial Statements:**

- ♦ Present fairly the Operating Result and Financial Position for each of Council's declared Business Activities for the year, and
- ♦ Accord with Council's accounting and other records.

**We are not aware of any matter that would render these Statements false or misleading in any way.**

**Signed in accordance with a resolution of Council made on 26 October 2010.**

.....  
Jenny Dowell  
**MAYOR**

.....  
Simon Clough  
**COUNCILLOR**

.....  
Paul O'Sullivan  
**GENERAL MANAGER**

.....  
Fino Santin  
**RESPONSIBLE ACCOUNTING OFFICER**

# Report

<b>Subject</b>	<b>Sale of Koala Child Care Centre</b>
<b>TRIM Record No</b>	BP10/556:T10/39
<b>Prepared by</b>	Manager - Arts, Tourism and Leisure
<b>Reason</b>	Council resolution
<b>Community Strategic Plan Link</b>	Best-Practice Corporate Governance

## Overview of Report

This report provides a summary of the tenders received for the proposed sale of Koala Child Care Centre. The tenders were below expectation and further negotiation with three preferred tenderers is recommended. An alternative proposal for the consolidation of Council's child care provision is also outlined.

## Background

At the 11 May 2010 Ordinary meeting of Council, it was resolved that:

1. Council authorise the sale of Koala Child Care Centre, as a property and business package with a target settlement in January 2011.
2. Council staff engage a suitably qualified specialist child care centre broker to assist with the sale.
3. Council ensure that the affected parents and staff understand the implications of the Council's decision by explaining the next steps and anticipated timeframes.
4. All money received from the sale of Koala Child Care Centre is isolated from the budget for a future decision by Councillors.

Accordingly staff and parents were advised of the decision to proceed with the intention to offer the Koala Child Care Centre for sale via a tender process. Given the specialist nature of the child care industry, several local real estate agents were invited to develop a sales/marketing proposal for the proposed sale, which also necessitated the inclusion of a specialist child care broker as part of the proposal. Following an assessment of the three proposals received, Ray White Real Estate Lismore together with Shane Chambers Tencaten from Child Care Sales Australia was selected to market and promote the sale of the property and business.

## Tender evaluation

Five (5) tenders were received by the close of tender on 2.00pm, 16 September 2010. An evaluation panel comprising the Contracts Officer, Manager Arts, Tourism and Leisure, and Manager Assets undertook an assessment of tenders based on advertised criteria:

1. Total price;
2. Capability and past experience;
3. OHS, risk management and quality;
4. Environment and community; and
5. Local content.

Prior to commencing the tender process, in order to adequately gauge the value of the Centre on the open market, Valuers Australia, a firm of real estate advisors, was engaged to determine the current market value of the Koala Child Care Centre. This process was undertaken in February 2010, and a value was identified to sell Koala as going concern on a walk in walk out basis including real estate and business.

A summary of the scores for each tender relative to each weighted criteria (capability and experience; OHS capability; environment and community; local content) is tabled below. The price tendered by the five interested parties was scored relative to the above independent evaluation.

Assessment criteria	Tender 1 J Morrin SHS P/L	Tender 2 Luisa Marchant + Pierina Paron-Berry	Tender 3 Jennifer Cornell	Tender 4 Lisa Martin	Tender 5 Rhian Mannix + Leesa Maher
Overall score	54.07	56.14	47.21	56.86	60.14

All five tenderers are experienced child care operators who are capable of running a long day care centre. However, in all five cases the price tendered is significantly lower than the independent valuation, and this has largely been attributed to less than optimal daily attendance numbers.

Five tenders received for the potential purchase of Koala Child Care Centre demonstrates considerable interest within the child care market. However, due to a number of reasons outlined in this report and the confidential attachment, the purchase price tenders are well below expectation. As this sale was initiated to enhance Council's ongoing financial position an alternative option is now outlined.

## Consolidation

The financial results for Council's two child care facilities, Koala Child Care Centre and Gingerbread House Occasional Care Centre, for the 2009/2010 financial year were a net deficit of -\$41,500 (-\$11,900 excluding ABCs) and -\$123,500 (-\$102,400 excluding ABCs) respectively. Council's mode of operation precludes either facility operating at a sustainable level of profitability but the -\$123,500 cost to ratepayers of Gingerbread is notable. This is largely due to the unique nature of the service, its unpredictability and a lack of permanent bookings. While it is possible to curb some expenditures, the lack of revenue collected is less controllable and is totally demand driven. To reduce Council's cost of providing subsidised child care, it is proposed to establish a joint long day/occasional child care facility at Gingerbread House in Uralba Street. The Koala facility in Oliver Avenue would still be sold.

Currently Gingerbread House is licensed for 28 Child Care Benefit (CCB) places and is open from 9.00am to 3.00pm weekdays. It is proposed that up to 20 of those places become long day care places, and up to eight places remain as occasional care. The number of places is determined by the size of the building and play area, and proposed numbers are yet to be confirmed. The proposal would require an expansion of operating hours, for example from 8.00am until 6.00pm. In order to adequately staff the expanded hours, it is further proposed that some staff, currently employed at Koala Child Care Centre and potentially subject to termination following the sale of Koala, be redeployed to Gingerbread House, thereby retaining employment with Lismore City Council, albeit at another child care centre.

The benefits of this consolidation option include

- Significant reduction in the net operating cost of Gingerbread House;
- Reduced overall costs associated with operating two facilities;
- Capital inflow from sale of Koala facility;
- Reduced corporate, maintenance and other costs;
- Reduced redundancies resulting from the sale of Koala;
- Provision of additional long day care adjacent to the central business district; and



- Higher level of certainty regarding child care bookings, staffing requirements and working budgets.

Some impacts of this approach include

- A reduction in the number of occasional care places in Lismore. Gingerbread House is the only dedicated occasional care facility in the area.
- Possible costs associated with licensing, including capital outlay for specific (as yet unknown) requirements.

In order to progress this proposal, a number of key action steps are required.

1. Negotiate with selected tenderers for sale of Koala facility
2. Consult with staff at Koala and Gingerbread House
3. Investigate licensing requirements for changes proposed with Gingerbread House
4. Identify building and programming requirements as per long day care licence
5. Determine staffing and budget estimates.

## Sustainability Assessment

### Sustainable Economic Growth and Development

The proposal to sell Koala provides a revenue raising opportunity for Council. If Koala is sold as a going concern and remains as a child care centre there should not be a negative impact on the local economy or employment. The proposal to include long day care at Gingerbread House will increase employment opportunities and have a positive effect on the local economy. It will increase the viability of Gingerbread House and reduce the net operating cost to Council.

### Social Inclusion and Participation

By this revised proposal, the community will continue to have access to child care facilities.

### Protect, Conserve and Enhance the Environment and Biodiversity

This proposal has neutral impact on the environment.

### Best-Practice Corporate Governance

The community has been adequately informed and consulted regarding the proposed sale of Koala Child Care Centre. It is questionable whether the tender process for the sale of Koala has identified an adequate return on the investment of Council resources to date. Further negotiation is indicated.

## Comments

### Finance

In regards to the sale of Koala Day Care Centre as a going concern, the tendered prices are significantly less than Council's walk-in-walk-out valuation. As such, the recommendation to enter into negotiations with the three top ranking tenderers is supported.

As to the option to consolidate child care provision, the exploration is warranted as it has the potential to continue to meet occasional care requirements and reduce Council's financial contribution towards child care services at Gingerbread House.

### Other staff comments

Not applicable

### Public consultation

Not applicable

## Conclusion

Although the tender offers were below expectation, it is proposed to enter into negotiations with the three highest tenderers to achieve a more acceptable outcome. It is also proposed that in combination with the proposed sale, Council consolidate its child care operations and seek to enhance the financial performance at Gingerbread House by offering long day care as well as occasional care. Significant savings should be realised by undertaking these actions simultaneously, while continuing to provide quality child care for the community. Consolidating child care provision into one facility would provide the best opportunity to operate one facility at maximum capacity as opposed to two facilities which are currently both underutilised.

## Attachment/s (under separate cover)

1. Confidential information regarding tender proposals for Koala Child Care Centre

## Recommendation

That:

1. In accordance with Clause 178(1) (b) of the *Local Government (General) Regulation*, Council decline to accept any tenders for T2010-39 – sale of Koala Child Care Centre.
2. In accordance with Clause 178(3) (e) of the *Local Government (General) Regulation*, Council resolve to enter into negotiations with the three (3) highest ranked tenderers for the sale of Koala Child Care Centre being Luisa Marchant + Pierina Paron-Berry; Lisa Martin; Rhian Mannix + Leesa Maher, and the General Manager report back to Council on the outcome of those negotiations prior to finalisation and signing of any sale contract.
3. In anticipation of Council ceasing its operation of Koala Child Care Centre by January 2011, the General Manager report to Council on the viability of providing both long day and occasional care services at Gingerbread House at the earliest opportunity.

# Report

<b>Subject</b>	<b>Southern Trunk Wastewater Main - Contract for Construction of Access Road to New Sewage Pump Station No. 33</b>
<b>TRIM Record No</b>	BP10/564:EF09/2511
<b>Prepared by</b>	Strategic Engineer-Water & Wastewater
<b>Reason</b>	To obtain a resolution of Council to award a contract for construction of an access road to Sewage Pump Station No. 33 without inviting tenders.
<b>Community Strategic Plan Link</b>	Integrated Water Cycle Management

## Overview of Report

In order to comply with NSW Government funding guidelines, Council is seeking to achieve commencement of the Southern Trunk Wastewater Main project by the end of December 2010.

To achieve this goal, it is recommended to separate the construction of an access road to one of the new pump stations from the remainder of the project. This will allow the commencement and completion of this part of the work to be achieved independently of the remainder of the project. This will allow Council further time to resolve outstanding investigation and design issues applicable to the remainder of the project without unnecessarily delaying physical commencement, and potentially jeopardising funding for the project.

Preliminary estimates indicate that the cost of constructing the access road, and related works, may exceed \$150,000. This would normally trigger the requirement to invite open tenders for the work. However, inviting tenders would cause delays in achieving commencement, which may jeopardise the funding agreement between Council and the NSW Government.

In order to facilitate commencement of the access road, this report recommends that Council resolve not to invite tenders for the work and that an alternative procurement procedure be adopted. Such action is permitted under Section 55 of the *Local Government Act* where extenuating circumstances apply.

## Declaration of Interest – General Manager

*In accordance with the requirements of Council's Code of Conduct for all Council officials to ensure full disclosure in the interests of transparency and probity I wish to draw attention to the fact that I am a joint owner of a house property at City Acres which may be impacted by the recommendation in this report.*

## Background

Council has previously resolved to construct the Southern Trunk Wastewater Main project. Work on the investigation and design of this project has been underway since the beginning of this year. This project is being partly funded through a \$6 million interest-free loan from the NSW Government as part of the Local Infrastructure Fund program.

In order to comply with the loan agreement between Council and the NSW Government, commencement of construction was due to commence by June 2010. Investigation and design of the project has taken longer than first anticipated and commencement of construction is yet to be achieved.

Council staff have been actively engaged with the Department of Planning in seeking to negotiate an extension to the commencement date. Based on correspondence with the Department, it is considered critical that commencement of construction is achieved by the next scheduled 'milestone' date of 31 December 2010.

In order to meet this milestone, it is recommended to separate the construction of an access road to one of the new pump stations from the remainder of the project. This will allow the commencement of these works to be achieved independently of the remainder of the project. Adopting such an approach will enable Council to achieve commencement of the project by 31 December 2010, while providing further time to resolve outstanding investigation and design issues applicable to the remainder of the project. Two diagrams showing the location of the pump station and the alignment of the proposed access road are attached.

Preliminary estimates indicate that the cost of constructing the access road, and related works, will be approximately \$140,000. However, there is a possibility that costs may exceed \$150,000. For contracts with a value greater than \$150,000, the requirements of the *Local Government Act* generally require an open tender process. However, inviting tenders would further delay commencement of the works. This delay may result in Council not being able to achieve commencement of the project prior to 31 December 2010 and in turn, may jeopardise the funding agreement between Council and the NSW Government. Consequently, it is considered prudent to seek a means by which commencement of the work can be expedited.

### Provisions of Section 55 of the *Local Government Act*

Section 55(1) of the *Local Government Act* states that a council must invite tenders before entering into several types of contracts. This normally includes all contracts in excess of \$150,000 in value. However, Section 55(3) states that the provisions of Section 55 of the Act do not apply to a range of contracts. This includes:

*"...a contract where, because of extenuating circumstances, remoteness of locality or the unavailability of competitive or reliable tenderers, a council decides by resolution (which states the reasons for the decision) that a satisfactory result would not be achieved by inviting tenders."*

Delays which may arise from proceeding with an open tender process have the potential to jeopardise the interest-free funding provided by the State Government worth approximately \$4 million in saved interest over 20 years. Consequently, the invitation of tenders would not achieve a satisfactory result and adoption of an alternative procurement process is considered warranted.

## Proposed Alternative Procurement Process

As an alternative to issuing an open invitation to receive tenders, it is proposed that construction of the access road to Sewage Pump Station No. 33 be procured through NSW Public Works, as project managers of the design and documentation phase, seeking quotations from three (3) contractors.

All other aspects of this procurement would comply with the requirements of Council's current procurement policy relating to contracts below \$150,000 in value. This would include the requirement that selection criteria include a 10% minimum rating for local content.

## Sustainability Assessment

### Sustainable Economic Growth and Development

Construction of the Southern Trunk Wastewater Main project will generate employment within the local and regional economy. The project also is essential to facilitate the continuing growth of Lismore. Adopting the alternative procurement policy outlined within this report will facilitate the timely construction of this project and help to secure these benefits to the local economy.

### Social Inclusion and Participation

This project has minimal impact on social inclusion and participation.

### Protect, Conserve and Enhance the Environment and Biodiversity

The environmental impacts of undertaking this project will be much the same, regardless of the procurement process adopted. Consequently, the decision as to the process to be used to procure these works will have minimal affect on associated environmental impacts.

Environmental impacts for the project are to be assessed in accordance with standard procedures for assessment of works undertaken by Council, in accordance with Part 5 of the *Environmental Planning and Assessment Act*.

### Best-Practice Corporate Governance

Construction of the Southern Trunk Wastewater Main is included within the program of works outlined within the Lismore City Council Delivery Plan 2010-2014.

## Comments

### Finance

The construction of the Southern Trunk Wastewater Main is being funded by a \$6 million 10-year interest-free loan from the State Government and a standard local government principal and interest loan. If the \$6 million 10-year interest-free loan was withdrawn, the construction would need to be fully funded by the standard local government principal and interest loan. Based on repayments over 20 years and current borrowing rates, interest costs would increase by approximately \$4 million.

From a financial perspective, this is considered an extenuating circumstance and therefore the recommendation is supported.

## Public consultation

The Southern Trunk Wastewater Main project has been the subject of an extensive consultation process with affected landholders and this consultation will continue.

## Conclusion

Given funding guidelines for the Local Infrastructure Fund Program, it is imperative that commencement of construction for the Southern Trunk Wastewater Main project be achieved prior to the end of December 2010. The commencement of construction of the access road to proposed Sewage Pump Station No. 33 is a practical way of achieving this goal.

If the contract for this work were to be procured through an open invitation to receive tenders, the additional time required to meet associated administrative requirements would cause commencement of these works to be delayed until after the New Year. This may put at jeopardy the interest-free loan agreement between Council and the State Government, with the potential to lose a benefit to Council estimated at \$4 million.

Consequently, it is considered prudent to find an alternative means of procuring these works. The alternative procurement procedure outlined within this report still ensures a competitive process. The proposed procurement process for these works will comply with Council's current procurement policy, as per procedures normally relating to contracts less than \$150,000 in value.

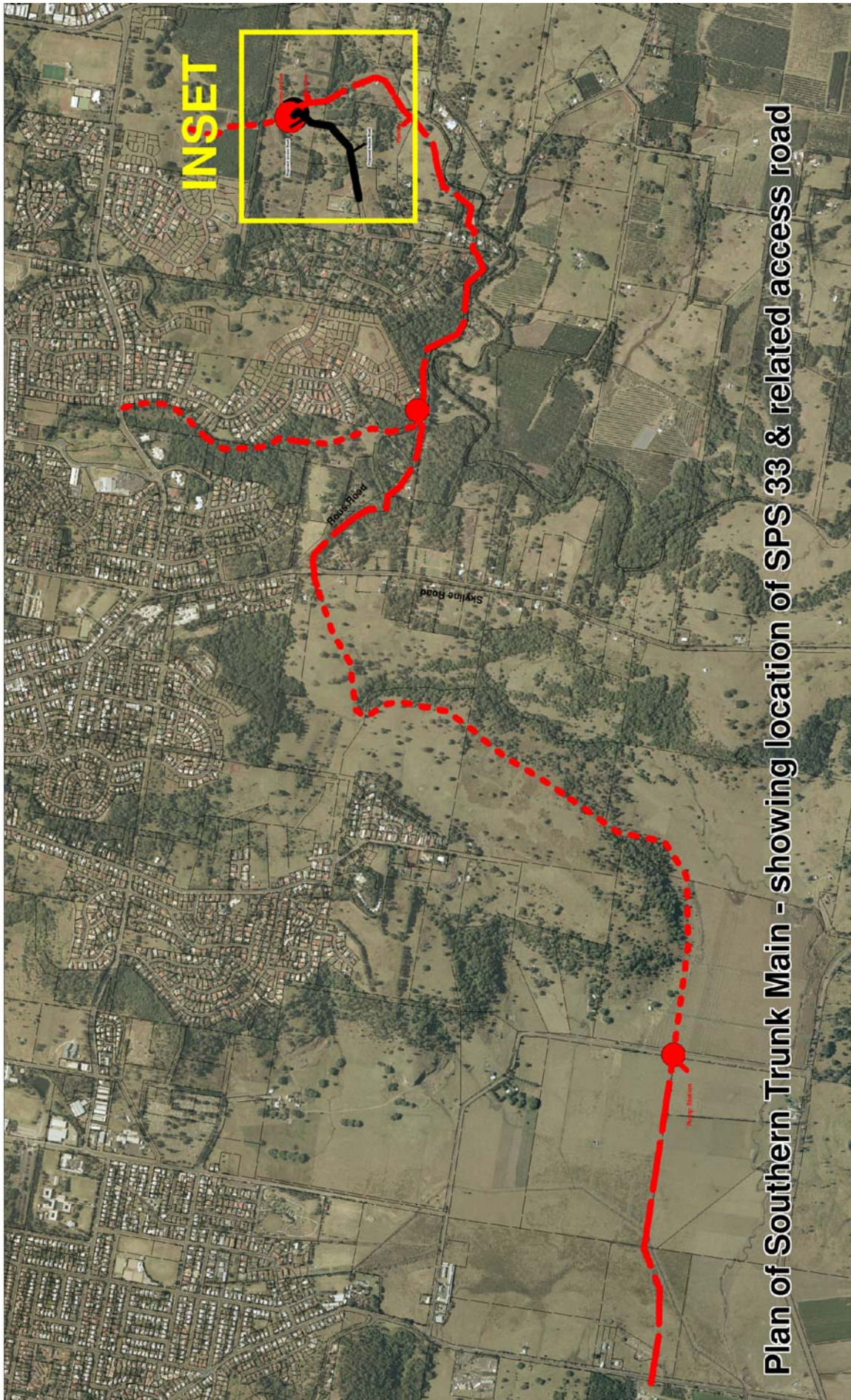
## Attachment/s

1. Plan of Southern Trunk Main
2. Plan of Sewage Pump Station No 33 and access road

## Recommendation

That:

1. In accordance with Section 55(3) of the *Local Government Act* Council resolve not to call open tenders for the construction of the proposed access road to Sewage Pump Station No. 33 as it would lead to an unsatisfactory outcome due to the extenuating circumstances as outlined below:
  - a) The time required to undertake an open tender process to procure these works will cause a delay to on ground construction commencement of the Southern Trunk Wastewater Main project.
  - b) If physical commencement is delayed until after 31 December 2010, it may jeopardise the loan agreement between Council and the NSW State Government for funding of this project and the possible loss of a benefit to Council estimated at approximately \$4 million.
  - c) Only a small portion of the work is to be procured at this time and the remainder of the project will be procured through an open tender process.
  - d) The value of the works to be procured may or may not exceed the \$150,000 threshold for which open tenders must be conducted.
2. Construction of the proposed access road to Sewage Pump Station No. 33 be procured by seeking quotations from three (3) prospective contractors and all other aspects of the procurement process for these works comply with Council's current procurement policy.
3. The General Manager be authorised to enter into a contract to construct the access road upon assessment of the quotations referred to above and identification of a preferred contractor.



**Note: Proposed concept design only**

