



SUPPLEMENTARY FINANCIAL INDICATORS

1. INTRODUCTION

At the Financial Awareness Conference held in Parkes in April 2002, the “Financial Health Check”, prepared by a working party under the aegis of LGMA, NSW Division, was launched. In a document entitled “Notes on the Financial Health Check” we have been critical of a number of the indicators and their derivation.

In particular, our concern has been that the Financial Health Check will be used for comparisons **between** Councils, a task for which, in our opinion, they are not suited.

However, we do not consider it proper that we should be content merely to criticise without suggesting alternatives. Our suggestions, contained in this paper, *should be reviewed and investigated by the working party*, and if thought fit, used as a basis for reviewing and revising the existing Financial Health Check.

Since February 2001, we have been undertaking independent research into the published Annual Financial Statements of NSW Councils. Our data set is not complete, comprising 113 Councils for the 2000 year and 38 Councils for the 2001 year. We are continuing to accumulate and analyse additional data as it is obtained. Our research into the existing data set is not complete and will continue. We also intend to extend our research to include other local government jurisdictions in the coming year.

The suggestions made in this document are based on our research, and on over 25 years experience in Local Government audit, finance and administration. We expect that our future research will assist us in developing additional indicators.

2. USING THE SUPPLEMENTARY FINANCIAL INDICATORS

The indicators should be used for trend analysis **within a Council**, not as a basis of comparison between Councils. The financial health of a Council is better indicated by its ability to trend towards the recommended range of values, and to abide within that range, than by any absolute value.

Where the value of a particular indicator for a Council is significantly outside the recommended range, the reasons for this occurrence should be reviewed, rather than assuming that the Council is in financial ill-health. There may be specific circumstances attaching to that Council that make the recommended range inappropriate.

Robust financial condition is not an indicator that a Council is providing the appropriate range or level of services to its ratepayers and residents. Indeed, *the financial health of a Council is important only to the extent that its lack does not prevent the Council from providing appropriate services on an ongoing basis into the future.*

In this regard, it could be suggested that in providing the maximum services for the lowest practicable cost, *a Council should always be on the brink of financial ill-health.*



We are dealing with **consolidated Annual Financial Statements** which include special rate funds and, in many cases, subsidiary community organisations that are commonly not under the direct management control of Council. These factors can introduce distortions that can only be removed by detailed analysis outside of the Annual Statements. However, provided Council's accounting policies are consistently applied from year to year, these distortions will also be consistent.

3. REVENUE SOURCES & OPERATING EXPENDITURES

This section comprises trend analysis of Council's revenue sources and operating expenditures, and provides few actual indicators. Trends should be analysed over at least 5 years historical data, the current year estimates and next year's projections, using actual values and percentages.

3.1. Discretionary Revenues

Rates (including special rates), Annual Charges and Untied Grants form the principal sources of discretionary revenue to Councils. We use this total of discretionary revenue as a basis for a number of other calculations. The proportional make-up of the R.A.G.s total can also be significant, and in our opinion, often more significant than the make-up of total operating revenue.¹

WHAT TO LOOK FOR - The percentages of each type of revenue should broadly be consistent from year to year. Rapid changes in relativity should generally not occur. One-off aberrations should easily be explained from specific Council decisions.

3.2. Other Revenues in relation to R.A.G.s

Fees & Other Charges tend to have associated costs attributable to them and do not represent "clear profit" that can be used to achieve Council's objectives. In other respects they tend to be reliable, consistent sources of income, except where they are sourced from other levels of government.

Specific Purpose payments from other levels of government tend to be more volatile and to reflect the changing political objectives of those other levels of government. In every case, Council is committed to expenditure for the stated purpose at least equal to the revenue received.²

1. We include both operating and capital general purpose grants for the following reasons set out in our submission to the Local Government Accounting Advisory Group dated 3 Dec 2001 entitled "Grants". The submission is available for download from our website www.coalface.com.au.

These grants are distributed by the NSW Local Government Grants Commission using funds sourced from the Commonwealth Government. Although they are calculated by reference to disability/population and roads & bridges factors, Councils are completely unfettered in their use. The amounts of the disability/population and roads & bridges components of the grants are advised to Councils.

Based on a representative sample of NSW Councils (78 Councils), almost 90% disclose the full amount of these grants as General Purpose - Operating. The remaining Councils classify varying proportions as General Purpose - Capital. The percentages classified as capital grants vary from 1.9% to 33.4% of the total amount received.

We submit that the purpose of the Annual Financial Statements is to report on the transactions between the reporting entity and external parties. The nature of and conditions pertaining to the grant are identical for all Councils, and we submit that consistency in presentation should require consistent classification of identical grants under all circumstances.



Surplus on Disposal of Assets, in many cases, reflects an adjustment to the depreciation charges that have been made over the life of assets owned by Council, and we believe should be excluded from these calculations.

The timing of receipts of Section 64/94 Contributions is determined by factors outside Council's control, and should be analysed as a separate component.³

WHAT TO LOOK FOR - The percentages of each type of revenue will probably show far greater volatility from year to year, and will require more detailed analysis to identify the specific events that influenced changes.

3.3. Operating Expenditures

Subject to policy decisions by Council, the broad components of Council operating expenditure should remain relatively consistent from year to year.⁴

WHAT TO LOOK FOR - If Council has a loan reduction program in place, proportionate borrowing costs should steadily reduce (except in the years in which voluntary loan repayments are made). If proportionate employee costs continually drift up, this may merely reflect the increase in superannuation, workers compensation and OH&S costs, or it may indicate that managers are engaging direct labour in overload situations where casual staff could appropriately be engaged.

In every instance, further research and analysis will be required. This information is NOT suitable for comparison between Councils.

3.4. Wages % to R.A.G.s

Wages as a percentage of discretionary revenues returns a value that is remarkably consistent across nearly 90% of Councils throughout the State. A value outside the most common range may indicate that your Council is applying policies that other Councils consider to be inappropriate.⁵

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- 2. The reasons for treating special purpose payments from other levels of government as a single group, and in particular for not differentiating between operating and capital, are set out in our submission to the Local Government Advisory Group "Grants" dated 3 December 2001, and are not repeated here. Our submission may be downloaded from our website at www.coalface.com.au. Differentiation between recurrent and non-recurrent special purpose payments, which we consider to be highly desirable, is not currently available from the Annual Financial Statements and supporting schedules.*
 - 3. Section 96/64 Contributions, and interest earned thereon, are treated as a separate grouping due to the limited influence that Council can exert on the timing of their receipt. The funds must be dedicated for the purposes for which they were received, and generally show the greatest departures from the concept of matching of revenues and expenditures. (This concept is no longer generally accepted in the preparation of general purpose accounting statements pursuant to the Australian Accounting Standards, but its application remains important for the purposes of management accounts.)*
 - 4. The Local Government Code of Accounting Practice and Financial Reporting does not provide a clear definition of the types of expenses to be included as "Other Operating Expenses", and unlike commercial environments, this grouping is not straightforward. As a result, the percentage of total operating expenses described as "Other Operating Expenses" varies between 6% and 30%. Accordingly, this measure is not appropriate for use as a basis of comparison between Councils, although it should be valid for an individual Council over a period of years.*



WHAT TO LOOK FOR - The most common value is between 55% and 75%. If your Council's percentage is greater than this, you are vulnerable to the volatilities in the other sources of revenues. Amounts from government are regarded as particularly volatile because they are heavily influenced by changes in political objectives. Rapid reductions in any source could lead to forced redundancies.

You may need to consider developing contractor services in your area as a long term strategy. Also consider "cashing up" your ELE cash reserves.

Traffic Lights - Wages to R.A.G.s Ratio

< 55%	AMBER	55% <= 75%	GREEN	> 75%	AMBER
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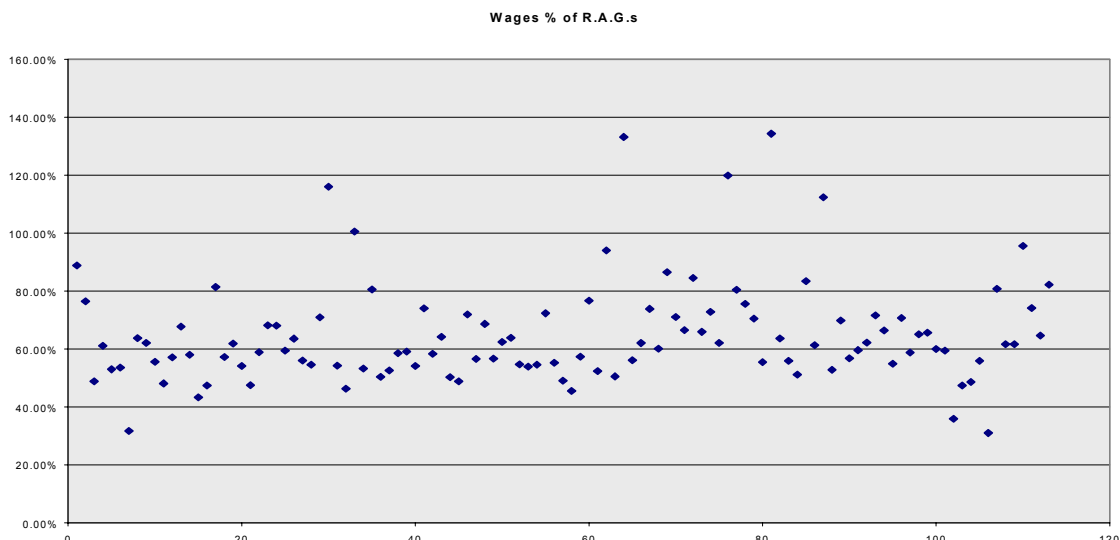
4. CASH, LIQUIDITY, DEBT & INTER-GENERATIONAL EQUITY

These items are closely inter-linked. Early repayment of debt will reduce current cash resources; borrowings will replenish them; new facilities funded by borrowings will result in the ratepayers and users of the day paying for the provision of the facilities as they are used.

4.1. Current Ratio & Unrestricted Current Ratio⁶

Note 13 requires the calculation of a Current Ratio and an Unrestricted Current Ratio. The Current Ratio is the standard commercial calculation, and is principally shown to indicate that there are factors allowed for in the unrestricted ratio calculation that do not apply in commerce. Both are supplied to reveal underlying trends, but neither provide precise indicators⁷.

5. The following chart is based on data from the 2000 statements of 113 Councils throughout NSW. Broadly, values to the left relate to metropolitan Councils, grading through southern and northern coastal areas, the Great Dividing Range and western plains areas. Greater volatility is experienced in the generally smaller, far western Councils where a single, significant activity can introduce distortions. Major divergences from the most common values should be investigated and interpreted.





WHAT TO LOOK FOR - Both indicators will generally show similar patterns, and serious divergences from this should be investigated. The Current Ratio normally shows a higher value than the Unrestricted Current Ratio - a lower value may indicate that amounts that are required by law to be held in cash are being illegally used to fund general purpose operations. Significant volatility from year to year should be avoided and usually indicates inconsistent management techniques that always act to Council's disadvantage, especially where this is accompanied by staff turmoil.

Traffic Lights - Unrestricted Current Ratio

<1 RED	1<<2 AMBER	>2 GREEN
or any value consistently decreasing for 3 consecutive years RED		

Traffic Lights - Current Ratio

	<U.C.R. AMBER	> (U.C.R. + 0.5) GREEN
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4.2. Available Non-External Funds

Defined as *Current and Non-Current Cash Assets and Investment Securities net of External Restrictions*, this indicates the extent of the cash resources subject to Council's discretionary control. The indicator is expressed both as an amount and as a percentage of R.A.G.s⁸.

WHAT TO LOOK FOR - If Council has been setting aside cash reserves for a specific project, and that project is about to come to fruition, Available Non-External Funds may exceed the indicated ranges, but not by more than the specific project funds involved. Failure to complete the works programmed in Council's Management Plan will result in additional funds. If this is the cause of significant amounts of additional funds, attention must be given to works programming issues.

6. For detailed derivation of these formulas see the Code, section 5.14

7. Neither ratio is an effective tool for cash flow management purposes for the reasons set out in part 3.2 of the "Notes". They do have useful historical value and have been calculated on a consistent basis for a number of years.

The appropriate range of values has been debated for many years, and a number of different types of calculations have been attempted, including the "Statement of Working Capital" proposed for update #4 of the Code. The principal source of difficulty has been that current year loan repayments are regarded as being funded from current year rates revenues, contrary to commercial practice. We have no difficulty in accepting the indicated measures, but do so without basing this on current research.



Large proportions of these funds may otherwise indicate that Council has capacity to increase facilities or services to ratepayers and residents, which after all is Council's reason for existence.

Traffic Lights - Available Non-External Funds

Allow for reserves for specific projects nearing fruition		
<5%	RED	5%<<10% AMBER
		10%<<20% GREEN
		>20% AMBER
Caution: This indicator can be distorted by uncompleted works carried forward.		

Red indicators here and for Uncompleted Works carried forward - RED FLAGS, FLASHING LIGHTS and WARNING SIRENS!

4.3. General Debt Service % to General Purpose R.A.G.s

Special rate funds for the acquisition of infrastructure such as water and sewer can appropriately have debt service percentages in excess of 50%, and this can seriously distort the debt service percentage reported in Note 13 of the annual statements. The ratio as disclosed in the annual statements is reported for notation, but principally serves to disclose the extent of the distortion.

Because special purpose revenues can only be used for their nominated purposes, debt service costs are effectively funded from discretionary revenues, and this indicator uses this as a basis, and also uses information disclosed in unaudited supporting schedules to exclude debt attributable to infrastructure funds.⁹

WHAT TO LOOK FOR - The principal effect of a high debt service percentage is that it limits Council's ability to frame the Management Plan to achieve its political objectives. At low levels, this effect is insignificant but its impact grows rapidly. In these circumstances, ongoing capital works programs will need to be delayed or funded from further borrowings. Councils servicing rapidly developing areas are more likely to record higher debt service percentages, which reflects the budgetary strain they are experiencing in providing greater services to an increasing population.

8. *We choose not to use "Unrestricted Cash" as an indicator for the reasons discussed in part 3.4 of the "Notes". The selected indicator avoids the distortions of a sometimes artificial apportionment between "internal restrictions" and "unrestricted cash" and can provide a more reliable guide. The indicator is still subject to distortions, some of which are identified by other indicators. It would be possible to adjust the formula to incorporate those factors, but as they are not sourced from the annual statements we doubt that this is appropriate. Analysis of the percentage indicator for a sample of 38 Councils 2001 statements revealed values ranging from a notional negative amount to 51% of discretionary revenues. It is clear that the indicator must be positive, but we have not completed our research in this area and the opinions now expressed are based on judgment. In forming our opinion, we have had regard to the fact that these resources all represent amounts that have been levied **and collected in cash**. Accordingly, if the cash has not been used, an even greater amount must have been levied in advance of need. As we have expressed the view that the role of a Council is to provide services and facilities to almost the full extent of its resources, it follows that we do not support the endless accumulation of surplus cash resources. Additional cash resources should only be accumulated for specific projects that can realistically be achieved within a limited number of years.*



It is universally regarded as poor practice to borrow to fund operating costs.

Traffic Lights - General Debt Service % to R.A.G.s

<2.5%	AMBER	2.5%<<10%	GREEN	10%<<20%	AMBER	>20%	RED
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A RED indicator does **NOT** suggest that a Council presents a significant credit risk - or indeed any credit risk at all.

4.4. Inter-Generational Equity

Inter-Generational Equity is inevitably influenced by individual political preferences, which we prefer to avoid. There are two extremes, one being that each generation should leave to the next generation better public assets than they received and therefore a Council should fund capital works from existing cash resources, and the other being that each generation should pay for its own public assets and borrow to fund public works, so that the users are paying the principal and interest on the assets that they enjoy. We suggest that prudent financial practice seeks the middle ground.¹⁰

In the following indicator, it must be remembered that the debt owed by Council is repayable over a period of years, while any negative debt represents existing cash & investments currently on hand. Similarly, the divisor is a single year's R.A.G.s revenues. This, and the previous indicator, should be read together.

Traffic Lights - Inter-Generational Equity

In relation to POSITIVE net debt					
<50%	GREEN	50%<<200%	AMBER	>200%	RED
In relation to NEGATIVE net debt					
<25%	GREEN	25%<<50%	AMBER	>50%	RED

9. Total debt service costs are calculated as for Note 13, and debt service costs for infrastructure funds extracted from Special Schedules 3 & 5. The total R.A.G.s figure used in earlier calculations is reduced by the amount of rates & availability charges, interest & extra charges and pensioner subsidies from Special Schedules 3 & 5. This calculation amounts to a reasonable approximation, although is not necessarily totally accurate. It raises the question as to whether infrastructure fund amounts should be excluded from the previous calculations, to which the answer is "yes". However, the necessary data to permit this is not available from the annual statements, and it is best left to analysis of anomalous results. We have not yet had the opportunity to complete this calculation for the full data set available to us, and regret that we have been unable to test our recommended indicators against the most common results in the field. Our benchmarks have been set on the basis of personal experience with a number of Councils. Council loans are almost universally secured over future revenues and entitle the lender to take direct possession of future income as it arises. If this happens, the elected members are unable to utilise these revenues for the operational purposes of the Council, which is merely the extreme case of the limiting of budget flexibility.

10. We have not had the opportunity to complete our research in this area, and in particular, have not completed the calculations to exclude infrastructure funds from our formulae. However, based on "raw" figures, net debt percentages in our data set range from 119% positive debt to 50% negative debt. In the instance of the 119% positive debt, exclusion of infrastructure funds reduces this to a positive debt of 6.69%. In the case of the 50% negative debt, exclusion of infrastructure funds does not vary the amount.



In relation to NEGATIVE net debt, the indicator is suggesting that the Council could be utilising its resources more effectively to maximise the provision of services and facilities to ratepayers and residents.

5. CASH GENERATION

No organisation can continue to operate unless it generates sufficient cash to at least replace its assets as and when required. These indicators seek to identify the cash generated by the organisation on an overall basis, and the factors that can impede this process. The information used is taken direct from the annual statements which can introduce distortions from infrastructure funds.

5.1. Cash Generation

The indicators report the cash generated from operating activities (after exclusion of Sec 94/64 contributions which are treated separately) and as a percentage of total operating revenues. The values reported can be affected by Council interpretations of the definition of “capital works” and capitalisation thresholds, and accordingly is not necessarily a valid basis of comparisons between Councils.

WHAT TO LOOK FOR - A consistent downwards trend indicates a strong shift in Council operations towards maintenance expenditures rather than asset renewals/replacement, or to the provision of non-capital services¹¹.

Traffic Lights - Cash Generation

<20% AMBER	20%<<30% GREEN	>30% AMBER
or any value consistently decreasing for 3 consecutive years AMBER		

5.2. Cash Capital Expenditure

This indicator compares cash capital expenditure as a proportion of total cash outflows¹². The completion of a single substantial project can introduce a significant variation in any one year, so that the figures must be interpreted carefully, and for the same reason the indicator is not suitable for comparisons between Councils unless the same level of interpretation is also applied to the other Councils figures.

Traffic Lights - Cash Capital Expenditure

<15% AMBER	15%<<35% GREEN	>35% AMBER
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This indicator is most useful when read in conjunction with the Asset Condition Management indicators.

11. Our research is not complete in this area, with percentage values for a sample of 38 Councils ranging from 11.2% to 38.9%. By far the majority of values are in the range 17% to 31%, and our suggested indicators are based on this.

12. Analysis of 151 Council statements shows extreme values of 9.7% and 54.9%, with most common values clustered around the 25% area. It also indicates that budgeting on only a Statement of Financial Performance basis is inappropriate.



5.3. Rates Outstanding Percentage

This percentage appears in Note 13. Rural Councils, due to their lower staffing levels in rates section, tend to have greater variability in the range of values over time. However the indicated values are achievable in a stable environment, and should at least be a target value.

Traffic Lights - Rates Outstanding Percentage

<5% GREEN	5%<<7% AMBER	>7% RED
or any value consistently increasing for 3 consecutive years RED		

5.4. Other Debtors Percentage

Other debtors amounts usually arise as a result of Council incurring some specific expenditure or cost that gives rise to the claim, and hence failure to promptly collect these amounts represents an actual cash loss by the Council. This percentage also includes excess water charges, where these are made by Council¹³.

Traffic Lights - Other Debtors Percentage

<10% GREEN	10%<<15% AMBER	>15% RED
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5.5. Grants Outstanding Percentage

The process involved in actually claiming these payments usually involves the preparation of certificates or claims in accordance with specific funding guidelines in a specified format (and sometimes, by lodging before a nominated date). Most commonly they are paid in arrears, and hence represent an actual cash outflow to the Council until all procedures are complied with. Our indicator ignores differences in payment regimes and is to some extent an approximation.¹⁴

Traffic Lights - Grants Outstanding Percentage

<10% GREEN	10%<<15% AMBER	>15% RED
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13. This percentage cannot be adequately derived from the annual statements. We agree with the calculation set out in the Financial Health Check.

14. We calculate this as "Total Payments from other levels of government outstanding" expressed as a percentage of "Total specific purpose payments from other levels of government plus arrears brought forward". We accept the distortion arising from the small proportion of amounts that are paid in advance.



5.6. Stores Turnover

Calculated as the total value of stores issued divided by closing stock on hand, this indicates the efficiency of stores operations of the Council. The indicator is subject to manipulation if stores items are booked direct to works, but to some extent this is offset by limited abilities to claim grant funds in advance of actual commencement of the works. The criterion should be that all goods that physically enter the Council's stores - and only those items - are booked to stores. Current commercial standards often require stores turnover of 25 or more times per annum - the selected indicators are regarded as quite modest and could easily and validly be increased. They take more than adequate account of the extended supply times experienced by remote rural Councils.¹⁵

Traffic Lights - Stores Turnover

<1 RED	1<<6 AMBER	>6 GREEN
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6. ASSET CONDITION MANAGEMENT

The effectiveness of this group of indicators relies heavily on the accuracy and completeness of the basic information from which they are calculated. A prominent characteristic of infrastructure is its long economic life, and its ability to provide some degree of service even at the expiry point of that life.

Comprehensive asset management recording procedures are still in their infancy, and the quality of information on which the indicators are based will be improved over time. These indicators do not provide a suitable basis for comparisons between Councils. The indicators include overlaps as a reflection of their ongoing development. If desired, all indicators may also be separately calculated for roads infrastructure, but it is not usually appropriate to do so for other classifications¹⁶.

6.1. Asset Renewal

This indicator compares expenditure on renewal of assets with the annual depreciation charge. It relies on consistent definitions of "renewal" of assets, and consistent application of accounting policies for depreciation in all years being compared, and hence is of limited use in making comparisons between Councils.

15. Many rural Councils that operate water and sewer operations include a large number of items in stores that are more properly described as system spares that should be capitalised and depreciated in accordance with AAS 4 (AASB 1021) Depreciation para 7. The information required to calculate the indicator is not available from the annual financial statements.

16. In the case of buildings, depreciation is charged on all buildings in every year, but building projects tend to occur infrequently and usually involve significant investment. Accordingly, a pattern develops where indicator 6.1 is consistently less than 1 for a number of years, but occasionally is a considerably larger number. Under these circumstances, the indicator does not provide useful information. A similar situation tends to apply to stormwater drainage, water and sewerage infrastructures. When viewed overall, these variations can often tend to cancel each other out, improving the utility of the overall indicator. In all cases, however, the indicator must be carefully interpreted.



WHAT TO LOOK FOR - A consistent trend towards the red end of the spectrum, particularly where this is accompanied by a downward trend in indicator 5.1 suggests that the Council is failing to adequately replace its assets as and when required¹⁷.

Traffic Lights - Asset Renewal

<0.85 RED	0.75<<1.1 AMBER	>1 GREEN
or any value consistently decreasing for 3 consecutive years		RED

6.2. Asset Maintenance

This indicator compares asset maintenance costs with theoretical maintenance requirements. It relies on consistent definitions of “maintenance” of assets, and demands that the estimates of maintenance required are calculated on the same basis¹⁸. Estimates of maintenance required were first required to be disclosed in Special Schedule 7 in 2001 (and a revised disclosure will be required from 2003), and it will probably require several years to develop consistent estimating procedures. Little weight should be given to this indicator until this is achieved¹⁹.

WHAT TO LOOK FOR - Read this indicator in conjunction with the one above and indicator 5.1. A downward trend in all three would suggest that Council’s operating capacity is no longer sufficient for long term stability.

Traffic Lights - Asset Maintenance

<0.85 RED	0.75<<1.1 AMBER	>1 GREEN
or any value consistently decreasing for 3 consecutive years		RED

6.3. Asset Life Position

This indicator seeks to provide an overall impression of the estimated average consumption of Council assets and should be separately calculated for each asset class. In use, it is important to recognise that the “useful economic life” used as a basis for calculating depreciation is an estimate that will be steadily improved over time as infrastructure records are improved. The lack of precision currently existing in this measure is reflected in the indicated values.

Traffic Lights - Asset Life Position

any value consistently increasing for 3 consecutive years	AMBER
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17. The formula used in the Financial Health Check cannot be directly derived from the annual statements. We have used cash capital expenditure as calculated for 5.2 above as an approximation.

It could be argued that this is the appropriate amount because (say) a road will commonly be replaced by one of a higher construction standard - i.e. there is generally an upgrading component in the replacement of all assets, particularly infrastructure.

18. For example, if street cleaning and sign maintenance costs are included in one, they must be allowed for in the other.

19. The information necessary to calculate this indicator is not available from the annual statements.



7. UNCOMPLETED WORKS

7.1. Works Carried Forward

It is important that Councils properly budget for and manage the resources that are available to fulfil its management plans. The Financial Management Regulations provide that works that have been actively commenced may be completed, but works that have not been commenced must be re-approved and re-voted. If not incorporated into the formal planning and budgeting cycle, “automatic re-voting” can be misused and is an indicator of poor management and/or abuse.

In all instances where expenditure from a previous Management Plan is re-voted, the funding provided for those works in the previous plan should also be transferred to the new financial year. Failure to do so tends to invalidate the entire management planning process²⁰.

Traffic Lights - Works Carried Forward

where funding is also carried forward		
<2% GREEN	2%<<5% AMBER	>5% RED
where funding is NOT carried forward		
0% GREEN		>0% RED

7.2. Section 94/64 Funds Accumulation

These legislative provisions provide a mechanism whereby developers contribute to existing headworks or the provision of additional facilities, the demand for which is increased by their developments. Broadly, the legislation requires that all such funds are held in cash assets or investment securities and that investment revenues are accumulated with the payments received until they are expended for the purposes for which they were claimed.

The legislation clearly intends that the facilities be provided, and not that the amounts be accumulated indefinitely, even permitting expenditure in advance of receipt²¹.

Traffic Lights - Section 94/64 Funds Accumulation

greater than 1 for 3 consecutive years AMBER

20. Given the uncertainties inherent in the calculation of depreciation, we would prefer to base the calculation of this indicator on the total cash payments from operating activities (disclosed in the Statement of Cash Flows), but we do not seriously object to the calculation given in the Financial Health Check.

21. We propose that this measure be calculated as the total of cash & other contributions received, and interest, divided by total expenditures from contributions for the year. The required information is extracted from Note 17.



7.3. Section 94/64 Funds Utilisation

This indicator is obtained by dividing the amounts of unexpended contributions on hand by the current year's cash expenditure from contributions, and should be read in conjunction with the previous indicator. If no expenditure has been made during the year, the indicator is given the nominal value of 20 years²².

Traffic Lights - Section 94/64 Funds Utilisation

<10 GREEN	10<<20 AMBER	>20 RED
or any value consistently increasing for 3 consecutive years		AMBER

WHAT TO LOOK FOR - There may be situations where the low level of development activity and the high level of detailed proposals contained in Section 94 plans makes the achievement of those proposals unrealistic in practical terms. Council may need to review its Section 94 plans, possibly amalgamating several sub-plans, or may have to consider funding the provision of a facility from its own resources or from borrowings pending receipt of contributions.

8. EMPLOYEES & ENTITLEMENTS

Employees are, of course, the key to any business. Financial indicators like these cannot measure the important things like morale, teamwork and efficiency.

8.1. Employee Numbers

This information is supplied for trend analysis only. The particular characteristics of your Council, its population and its distribution and the services and facilities that you supply are unique, and make this indicator unsuitable for comparison between Councils.

WHAT TO LOOK FOR - One would hope that over a period of time your Council will find more effective and efficient methods of working and that there may be a slow reduction over time. On the other hand, there is continuing ongoing pressure to maintain more comprehensive records, and many of these pressures come from sources external to Council. Additional legislative and safety requirements also have their effect. Perhaps the best that can be hoped for is that any significant, sustained increase in employee numbers will be the result of deliberate Council action.

22. The numerator includes only unexpended contributions on hand and does not allow offset of contributions expended in advance of receipt; the denominator is obtained by deducting non-cash contributions received from total expenditure from contributions. For simplicity of calculation, we include, in the expenditure figure, expenditures made pending receipt of contributions, as this is a clear indication that a Council is actively seeking to use its contribution balances. This indicator is principally directed at those Councils who do not seek to use those balances.



8.2. Employee Emoluments

Experience in recent years has indicated that average employee costs per employee have increased rather faster than award rate increases as additional OH&S requirements, superannuation contributions and workers compensation costs have exerted their influence. The relative proportions of managers to line staff has a significant effect on the average value and renders it unsuitable for inter-Council comparisons, but the year on year increase accurately reflects budgetary pressures and provides an interesting comparison with the increase in R.A.G.s revenue.²³

8.3. Employee Leave

There is a strong correlation between the failure to require staff to take leave as and when it falls due and the perpetration of frauds on local government. The information contained within the annual statements makes it possible to make an approximate calculation of the actual leave taken and to compare it with the cost of new entitlements. The calculation can be influenced by changes in award entitlements, staff promotions and the interest rates applied to estimated future payments, and accordingly comparison of the indicator on a year by year basis must be carefully analysed - things may not be quite what they seem on the surface.

Traffic Lights - Percentage Leave Paid

<80% RED	80%<<95% AMBER	>95% GREEN
AMBER values in 3 consecutive years		RED

Another method of assessing this is by comparison of the average value of untaken entitlements per employee, which must be used with similar care²⁴.

Traffic Lights - Untaken Leave per Employee (\$'000)

increases in 3 consecutive years	AMBER
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8.4. Reserve for E.L.E.

The estimation of the appropriate level of reserves for ELE has been a subject of endless debate over many years. In deriving our indicated values we have taken the following matters into account:

- * cash requirements for anticipated ELE payments are specifically estimated in the preparation of the budget.
- * even in the event of amalgamations, continued employment of line staff is usually guaranteed for at least sufficient period to permit special accumulation of cash resources for redundancies. (This does not apply to executive staff.)
- * specific cash reserves for ELE prevent use of those cash resources for other Council purposes.

23. Analysis of 2001 statements for 38 Councils indicates a range of \$37,000 to \$72,000 per employee (if a "rogue" figure of \$25,000 is ignored. It is not considered possible to develop any realistic indicative values.

24. Analysis of the 2001 statements for 38 Councils indicates a range of values from \$7,000 to \$24,000 per employee. Further analysis is required before realistic indicative values can be suggested.



* a sufficient level of Available Non-External Funds can provide sufficient flexibility to obviate the need for special reservation of cash for ELE.

For these reasons, we have declined to nominate any RED traffic lights values - **in every instance, the value must be further evaluated in the specific circumstances of your Council.**

Traffic Lights - Reserve for E.L.E.

<10% AMBER	10%<<20% GREEN	>20% AMBER
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In relation to values in excess of 20%, the indicator is suggesting that the Council could be utilising its resources more effectively to maximise the provision of services and facilities to ratepayers and residents.

9. FINANCIAL DATA PREPARATION

We do not include any indicators in this group as the source data is not available from the annual statements, and we consider that they relate more to the health of the financial management rather than to the financial health of Council.

We look forward to receiving any comments from any source relating to the suggestions contained in this paper.