

Community Financial Report



Community Financial Report

The Community Financial Report is produced annually as part of council's annual report to provide members of the community, customers, business partners and interested stakeholders with a better understanding of council's financial performance and position over the past financial year.

Interpreting formally presented financial statements in accordance with relevant accounting standards can often be a difficult process for stakeholders, whereas the community financial report highlights key areas of performance and provides meaningful comparison against prior years where possible.

The report uses plain language and pictorial aids such as graphs and tables to give readers an easy to follow summary of the financial statements for the past financial year.

The council manages its finances in a similar way to any household, but on a broader scale, so in this report we'll be examining where our money comes from, where it is spent, what we own, what we owe, what we have left over, and what we need to set aside for the future.

Financial Statements

The financial statements in this report cover the 12 month period from 1 July 2010 to 30 June 2011 with a comparison provided to the previous reporting period which covered the period 1 July 2009 to 30 June 2010.

Throughout the Community Financial Report references will be made to what is termed as 'note(s)'. The note(s) refer to detailed information contained within the financial statements which help users better understand the information presented.

Comparisons between financial years are useful when the council's operations remain largely unchanged from one year to the next. Unfortunately this is not the case as from 1 July 2010 council's water and sewerage business (assets and liabilities) were transferred to a new entity called Unitywater which became responsible for providing those services. Therefore when comparing the information from 2009/10 to 2010/11 the impact of this change on council's financial results must be taken into consideration.

The transfer of assets mentioned previously was the final stage of the South East Queensland structural reform for water and sewerage distribution and retail services. In return for transferring its assets and liabilities to Unitywater Council received a participation right of 58.24% in Unitywater with Sunshine Coast Regional Council receiving the remaining participation right of 41.76%. The transactions associated with this reform appear in the 2010/11 financial statements with further information available in notes 20 and 41 of the financial statements.

There are four financial statements that assist in providing a high level picture of council's financial performance and position for the 2010/11 financial year.

These statements are:

- ◆ Statement of Comprehensive Income
- ◆ Statement of Financial Position
- ◆ Statement of Changes in Equity
- ◆ Statement of Cash Flows

Statement of Comprehensive Income

The Statement of Comprehensive Income shows all the revenue council has earned and the expenses incurred in providing services to the community. Its purpose is to segregate different types of revenue and expenses at a high level to give readers an understanding of what sort of revenue the council receives and what type of expenses the council incurs.

Statement of Comprehensive Income for the year ended 30 June 2011	2010-11 \$'000	2009-10 \$'000
Total Operating Revenue	382,856	425,546
Total Capital Revenue	78,928	170,403
Total Operating Expenses	(368,334)	(444,801)
Total Capital Expenses	(89,738)	-
NET RESULT	3,712	151,148
Total Other Comprehensive Income for the year	42,828	177,135
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	46,540	328,283

Sourcing our revenue: *Where our money comes from*

The revenue council earns comes from a variety of sources which are broken up into three major components - operating revenue, capital revenue and other comprehensive income.

Operating revenue is the income received from general operations and the majority of this comes from rates and utility charges. It is used to help provide many essential community services such as waste facilities, roads and stormwater drainage as well as to fund operations such as libraries, swimming pools, and recreational facilities.

Capital revenue is income received by council that is used to provide for current or future assets of the council. The majority of Council's capital revenue is derived from infrastructure contributions provided by developers and assets donated (given) to council.

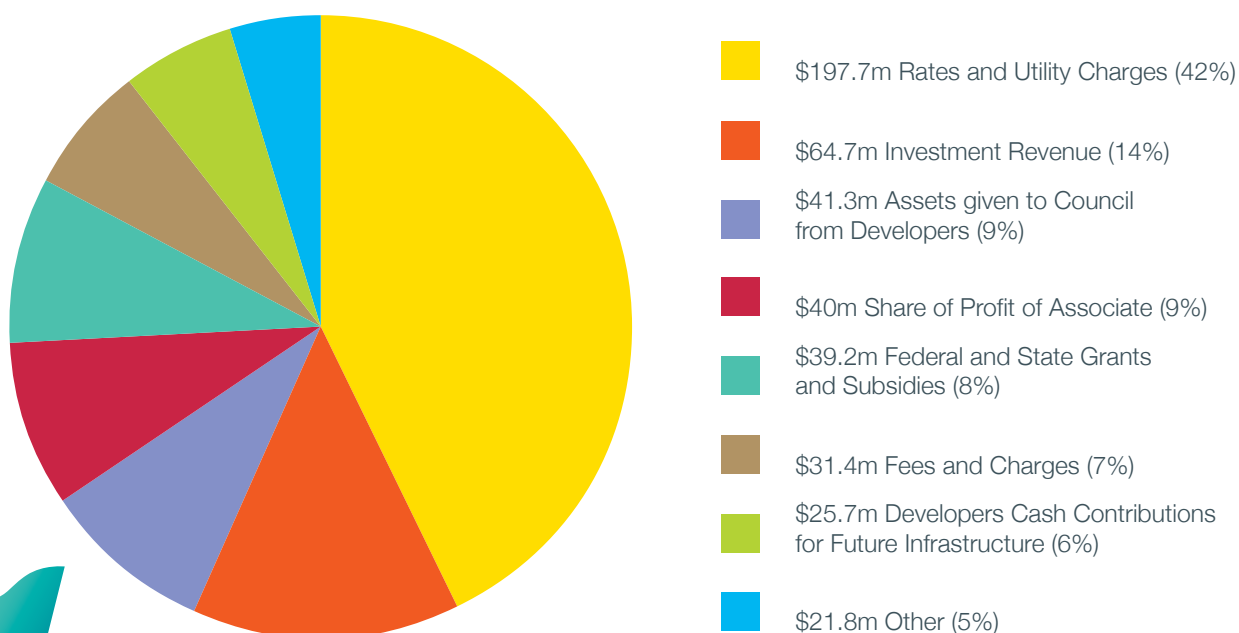
Other comprehensive income relates to the revaluation of council's non-current assets, such as infrastructure and land assets. For the 2010/11 financial year the revaluations applied resulted in an increase of revenue in the amount of \$42.8 million.

Details of council's revenues can be found at notes 3 to 10, note 20 and note 30 of the financial statements.

The major sources of operating and capital revenue are shown in the graph below.

Where our money comes from 2010/11

\$461.8 million



Identifying our expenses: *Where our money goes*

Council incurs operational and capital expenditure.

Operating expenses are the expenses incurred in the day-to-day operations of council. This includes salaries and wages, materials and services costs including what is paid for contractors, utility charges, fuel and all other types of expenses.

Council's operating expenses are detailed in notes 11 to 14 of the financial statements.

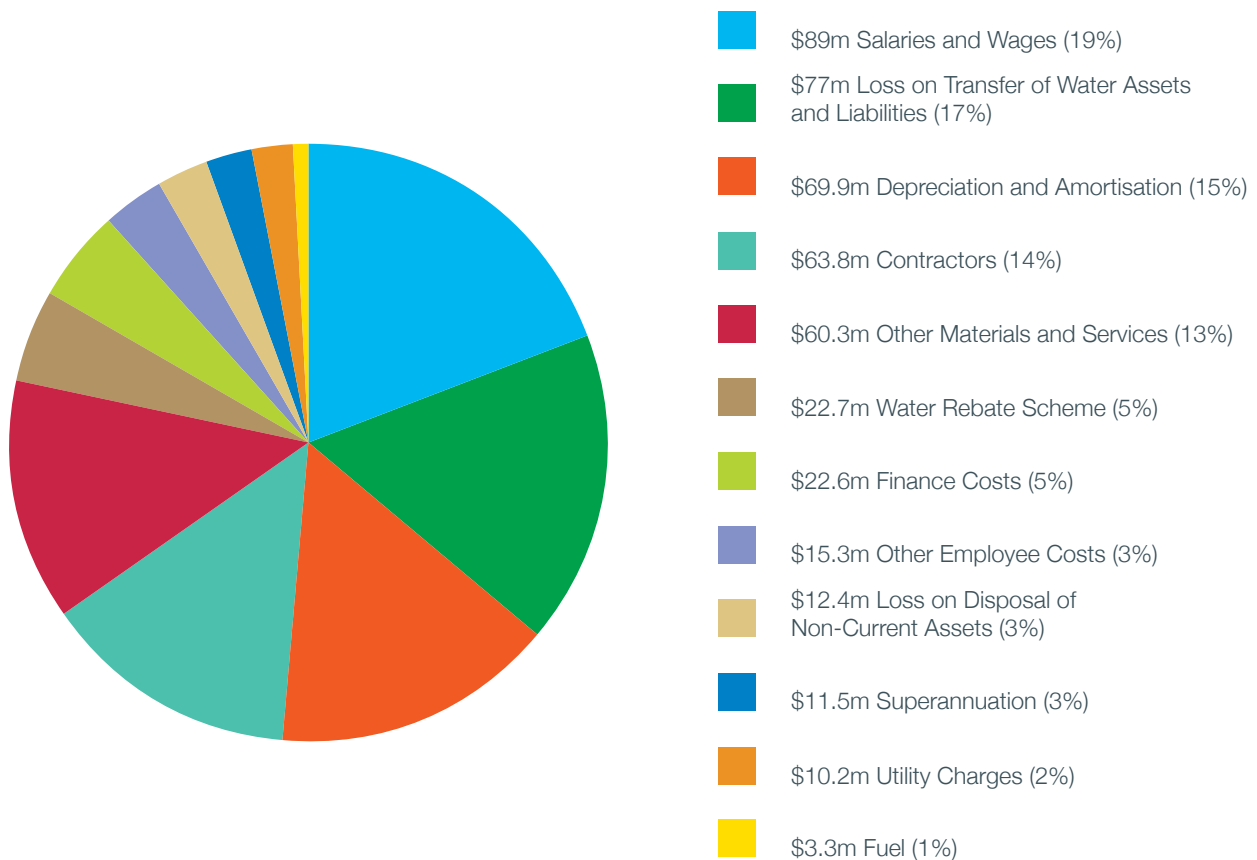
Capital expenditure adds to the carrying value of assets when council builds, buys or upgrades assets. As mentioned previously council transferred water and sewerage assets and liabilities to Unitywater at the start of 2010/11. The value of those assets and liabilities transferred was greater than the value council received in return (in the form of an investment) in Unitywater, hence a "loss on the transfer of water and sewerage assets and liabilities" was incurred by council in the amount of \$77 million.

Council's capital expenses are detailed in note 15 of the financial statements.

The major sources of operating and capital expenses are shown in the graph below.

Where our money goes 2010/11

\$458 million



Statement of Financial Position

The Statement of Financial Position reflects the 'net worth' of council by comparing the total value of what we own (our assets) with what we owe (our liabilities). The difference between the two is known as net assets or community equity.

Council continues to be in a strong financial position because the value of what we own continues to increase by more than the amount we owe.

At the end of 2010/11 council had \$5.18 billion in assets and only \$417.8 million in liabilities. Community equity increased by \$46.5 million to a total of \$4.76 billion.

Statement of Financial Position as at 30 June 2011	2010-11 \$'000	2009-10 \$'000
Total Current Assets	262,195	331,315
Total Non-Current Assets	4,913,719	4,819,340
Total Assets	5,175,914	5,150,655
Total Current Liabilities	61,677	85,701
Total Non-Current Liabilities	356,143	353,400
Total Liabilities	417,820	439,101
NET COMMUNITY ASSETS	4,758,094	4,711,554
Retained Surplus	3,897,068	3,759,017
Assets Revaluation Surplus	656,411	738,078
Other Reserves	204,615	214,459
TOTAL COMMUNITY EQUITY	4,758,094	4,711,554

Assets: What the community owns

Council's total assets (\$5.2 billion) are categorised as either current assets or non-current assets.

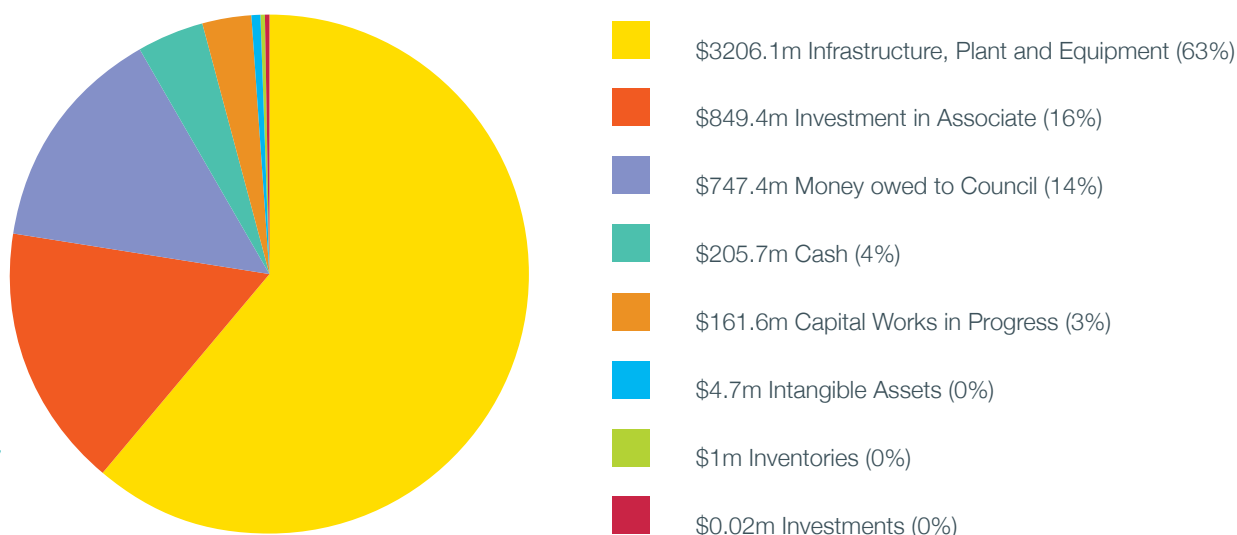
Current assets are items like cash at the bank, term deposits held with financial institutions, inventories and money owed to council which is expected to be received within the next 12 months.

The vast majority of council's assets are non-current assets (\$4.9 billion), which includes items like infrastructure (roads and drainage), plant and equipment and capital work in progress. Additionally council's investment in Unitywater is reflected as a non current asset. Non-current assets last longer than 12 months and provide benefits for many years into the future.

Council's current assets are detailed in notes 16 to 18 and non-current assets are detailed in notes 17, 19, 20, 21, 22 and 23 of the notes to the financial statements.

The major classes of assets are shown in the graph below:

What the community owns 2010/11
\$5175.9 million



Liabilities: *What the community owes*

Liabilities are primarily debt, amounts owing to suppliers and amounts owing to employees for leave entitlements, both now and in the future. Liabilities are categorised as either current or non-current liabilities.

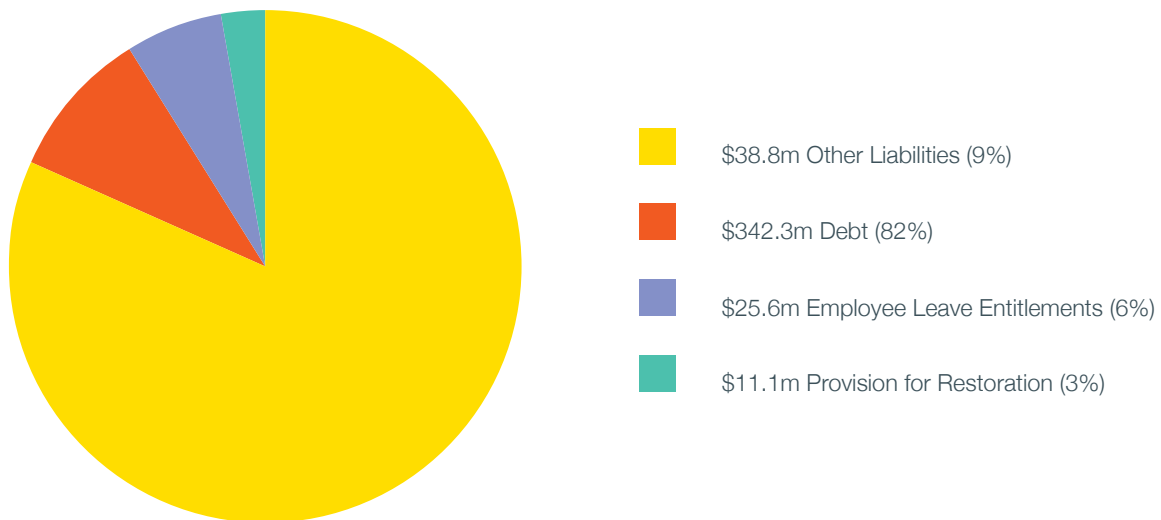
Current liabilities are what council owes its suppliers, employees and lenders within the next 12 months. Non-current liabilities relate to what we owe and is due in greater than 12 months. Additional non-current liabilities are required by council where an allowance (a provision) is made today for expenses expected to be incurred in greater than 12 months time. An example of a provision is the estimate it will cost to restore/rehabilitate waste tipping sites.

Council's liabilities totalled \$417.8 million at the end of 2010/11 and included \$61.7 million of current liabilities which are due to be paid within 12 months and \$356.1 million of non-current liabilities due greater than 12 months into the future.

Council's current liabilities are detailed in notes 24, 25, 27 and 28 of the notes to the financial statements, while non-current liabilities are detailed in notes 24, 25 and 27.

The major classes of liabilities are shown in the graph below:

What the community owes 2010/11
\$417.8 million



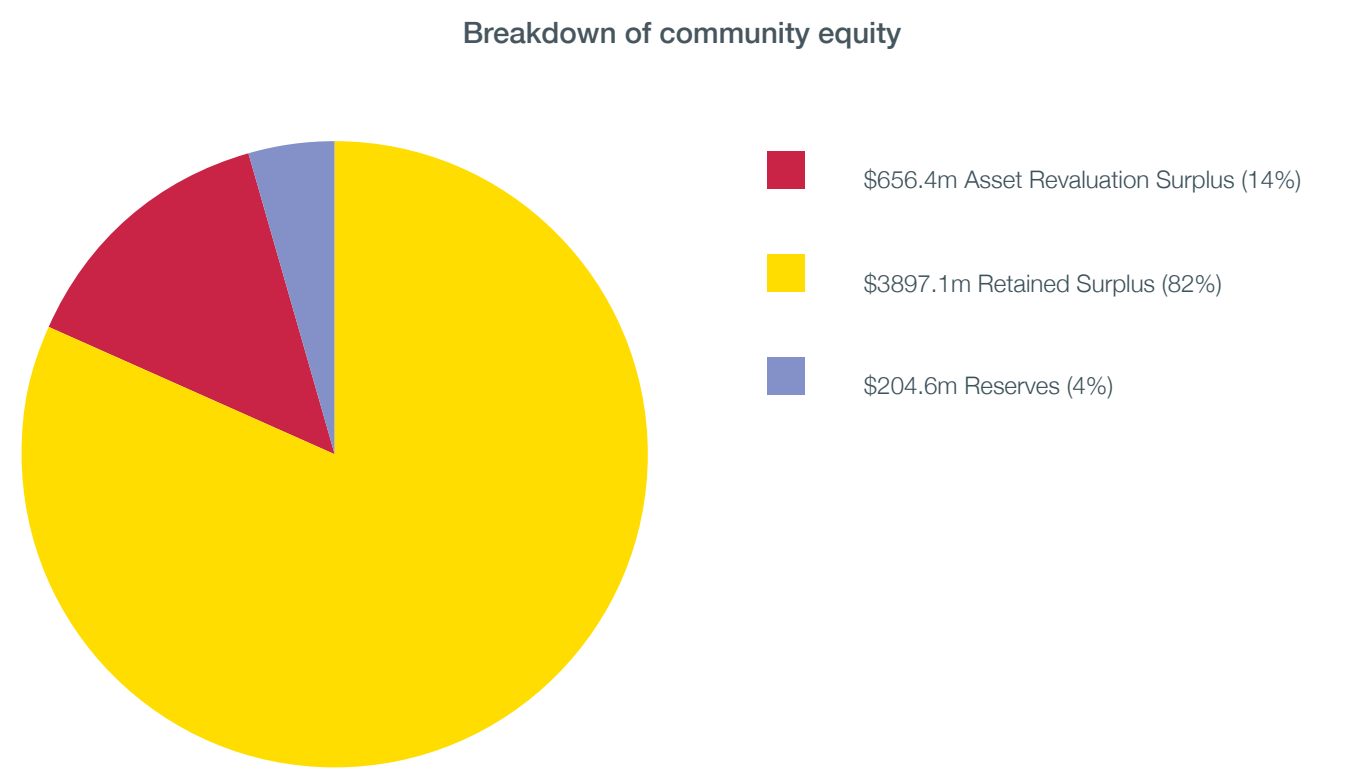
Statement of Changes in Equity

The Statement of Changes in Equity measures the change in council’s net wealth. Community equity is equal to total assets (what we own) minus total liabilities (what we owe).

Community equity is broken into three categories:

- 1. retained surplus (the net amount of community wealth that is not allocated to meet specific needs).
- 2. asset revaluation surplus (the net amounts council’s fixed assets have increased over the years as market values and replacement costs have increased).
- 3. reserves (the amount of community wealth that is allocated to meet specific future needs).

The graph below shows the breakdown of community equity:



The Statement of Changes in Equity below shows a summary of the equity accounts. The table also shows that council’s total wealth has increased by \$46.5 million to \$4.7 billion in the 12 months to 30 June 2011.

Statement of Changes in Equity for the year ended 30 June 2011	Retained Surplus \$'000	Assets Revaluation Surplus \$'000	Reserves \$'000	Total Community Equity \$'000
Balance at 30 June 2010	3,759,017	738,078	214,459	4,711,554
Balance at 30 June 2011	3,897,068	656,411	204,615	4,758,094

Further details and a breakdown of the community equity can be found in notes 29 to 31 of the notes to the financial statements.

Statement of Cash Flows

The Statement of Cash Flows identifies how council received and spent cash during the year, and what cash is available at the end of the year.

It shows the movement of cash based on the operating activities (which generate cash from normal operations), investing activities (which relate to the purchasing and disposal of long-term assets) and financing activities (which relate to the receipt and repayment of debt) of council.

Statement of Cash Flows for the year ended 30 June 2011	2010-11 \$'000	2009-10 \$'000
Cash at beginning of the financial year	270,157	317,160
Net cash inflow from operating activities	46,283	89,298
Net cash outflow from investing activities	(115,213)	(210,232)
Net cash inflow from financing activities	4,466	73,931
Cash at end of the financial year	205,693	270,157

Council ended the year with \$205.7m in cash. This is a very strong cash position and council holds a large portion of cash with various banks where it earns income through interest gained on term deposits.

Cash Holding for the year ended 30 June 2011

Cash movements for the year ended 30 June 2011	2010-11 \$'000	2009-10 \$'000
Cash at the beginning of the financial year	270,157	317,160
Plus increased cash from operations	46,283	89,298
Plus increased cash from external loans	20,000	85,000
Plus increased cash from the sale of assets	21,472	6,010
Plus increased cash from capital grants, subsidies, contributions and donations	37,607	88,878
Plus increased cash from dividends received	12,321	-
Less cash spent on the repayment of external loans	(15,534)	(11,069)
Less net movement in loans to community organisations	(32)	(15)
Less net movement in loans to Unity Water	(18,283)	-
Less payments for infrastructure, plant and equipment	(168,298)	(305,105)
Cash at end of the financial year	205,693	270,157

Summing it up

Responsible Financial Management

In a period of continued growth and expansion, responsible financial management is crucial for council to provide key services and strike the balance between meeting the needs of the community today and providing a solid financial future for the Moreton Bay Region.

Financial Sustainability Ratios

This Community Financial Report contains six measures of financial sustainability as required under the Local Government (Finance, Plans and Reporting) Regulation 2010. These measures are designed to demonstrate that the council is operating in a prudent financial manner and ensuring the council's long-term financial sustainability and viability.

	2009/2010 Result	2010/2011 Result	Target
Asset consumption ratio: Demonstrates the aged condition of council's physical stock of assets by looking at the written down current value of assets relative to their "as new" value.	75.9%	78.5%	between 40% and 80%
Asset sustainability ratio: Demonstrates whether council is renewing infrastructure assets at the same rate that it is wearing out its overall stock of assets.	79.5%	80.5%	greater than 90%
Interest coverage ratio: Demonstrates the extent to which operating revenues are being used to meet the financing charges associated with debt servicing obligations.	1.0%	-11.0%	between 0% and 5%
Net financial liabilities ratio: Demonstrates the extent to which the net financial liabilities of council can be serviced by its operating revenues.	25.3%	40.6%	not greater than 60%
Operating surplus ratio: Demonstrates the extent to which operating revenues cover operating expenses only or are available for capital purposes.	-4.4%	3.8%	between 0% and 10%
Working capital ratio: Demonstrates the extent to which council has liquid assets available to meet short term debt obligations.	3.87	4.25	between 1:1 and 4:1

The targets indicated are recommended by the Department of Local Government and Planning in accordance with the "Financial management (sustainability) guideline 2011". The guideline is available from the Department's website.

The financial snapshot on page 91 compares key financial information at the end of the current reporting period with the previous reporting period.

Feedback

If you have any feedback or wish to contact us in relation to any of the information contained in this report please send an email to mbrc@moretonbay.qld.gov.au

Analysis

For the year ended 30 June 2011, council's ratio remains within the target range of 40% to 80%. A ratio above 80% indicates that assets are being replaced earlier than required, whilst a ratio below 40% indicates assets are run down and not being replaced within an acceptable time period. The ratio indicates council is replacing its assets on average at the earliest possible time it should be.

For the year ended 30 June 2011, council's asset sustainability ratio was 80.5%. Whilst this result is below the recommended target of 90%, council believes that its replacement assets are being renewed at an appropriate time.

Council's net interest coverage ratio for the period ended 30 June 2011 signifies that council is deriving more interest income from investments than it incurs on paying interest on debt. This gives rise to a negative percentage which is a very positive financial outcome for council and is below the target range of 0% to 5%. A positive percentage as indicated by the target range would indicate that interest expense on debt is greater than the income earned from investments.

This ratio indicates council has the capacity to fund its financial liabilities and may have the capacity to increase its loan borrowings if required. Council's ratio is well under the 60% upper limit for this ratio.

This positive ratio indicates council has achieved an operating surplus with recurring operating revenue exceeding recurring operating expenses. This facilitates utilising operating surpluses to help fund capital expenditure thus placing less reliance on borrowings. The flow on effects of reduced borrowings is reduced levels of associated interest expense. Council is committed to achieving strong operating surplus ratios into the future to ensure long-term financial sustainability.

This ratio shows that council has maintained a strong capacity to meet short term obligations. Council's short term assets were 4.25 times the value of its short term liabilities indicating a strong financial position to meet ongoing commitments. This is a very strong ratio outcome.

Financial Snapshot

	2009/10	2010/11
Net rate revenue	325.4m	197.7m
Fees and charges revenue	44.2m	31.4m
Total operating revenue	425.5m	382.9m
Total capital revenue	170.4m	78.9m
Operating expenses	444.8m	368.3m
Borrowing costs	17.3m	21.5m
Net Result	151.1m	3.7m
Operating result	-19.3m	14.5m
Net Capital project expenditure	305.1m	168.3m
Net cash generated by operating activities	89.3m	46.3m
Total assets	5150.7m	5175.9m
Total liabilities	439.1m	417.8m
Total equity	4711.6m	4758.1m
Other reserves	214.5m	204.6m

Measures of Financial Sustainability

In accordance with section 112 of the Local Government (Finance, Plans and Reporting) Regulation 2010, the council is required to disclose in the annual report the relevant measures of financial sustainability for the financial year of which the report is prepared and the next 9 financial years along with an explanation of council's financial management strategy that is consistent with the long term financial forecast. The table below highlights the six financial sustainability measures which signifies council is well positioned to maintain its financial capital and infrastructure capital over the long term and therefore is continuing along a path of financial sustainability.

Result	Forecast Years									
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Working Capital Ratio	4.3	3.8	3.5	3.3	2.4	2.1	1.9	1.8	1.6	1.5
Operating Surplus Ratio	3.8%	4.8%	5.0%	10.7%	11.4%	10.8%	10.9%	10.9%	11.0%	10.2%
Net Financial Liabilities Ratio	40.6%	57.0%	66.1%	69.3%	76.7%	79.9%	80.6%	81.9%	79.8%	79.2%
Interest Coverage Ratio	-11.0%	-11.1%	-9.5%	-8.6%	-7.8%	-7.0%	-6.5%	-6.0%	-5.6%	-5.2%
Asset Sustainability Ratio	80.5%	105.6%	96.9%	97.6%	99.9%	87.9%	102.3%	88.9%	106.7%	87.2%
Asset Consumption Ratio	78.5%	65.4%	64.7%	64.5%	64.7%	63.7%	63.5%	63.9%	63.0%	62.5%

Every financial year the council must prepare a long term financial forecast in accordance with section 104 of the Local Government (Finance, Plans and Reporting) Regulation 2010. This high level planning document sets the financial sustainability framework in which the council should operate within the next 10 financial years. One of the key outcomes from this planning process is to ensure that the six measures of financial sustainability that are disclosed (above) are within the target ranges as set by the Department of Local Government and Planning in accordance with the 'Financial management (sustainability) guideline 2011'.

The financial sustainability framework of the long term financial forecast forms the basis for the preparation of the council's annual budget. The targets set during the long term financial forecast process must be adhered to during the budget process to ensure consistency between the long term forecast planning horizon and the short term annual commitments of the budget. This will place the council on to the path for ensuring future viability and financial sustainability for the region.

Unitywater

The final stage of the South East Queensland structural reform for water and sewerage distribution and retail services occurred on 1 July 2010. Under this reform the water and sewerage businesses of Moreton Bay Regional Council and Sunshine Coast Regional Council were combined and a new entity was created called 'Unitywater' that would be responsible for water and sewerage services across the two local government regions. Each council transferred assets and liabilities and staff to this new entity. In return Moreton Bay Regional Council received a 58.24% participation right in Unitywater whilst Sunshine Coast Regional Council received the remaining 41.76% participation right.

Due to the nature of the agreement between Moreton Bay Regional Council and Unitywater the associated accounting standards require council to account for its investment in Unitywater as an 'associate'. As the council can participate and influence financial and operating policy decisions of Unitywater, that is why the investment must be treated as an associate. It is important to note that while council may influence financial and operating policy decisions it cannot control such decisions.

As the council must account for its interest in Unitywater as an 'associate' under applicable accounting standards, council is required to record Unitywater's share of profits or losses in the Statement of Comprehensive Income whilst the equity interest in the associate (the investment) is recognised in the Statement of Financial Position. The movement in the value of the investment is adjusted each financial year depending upon the profit or loss recorded by Unitywater and the distribution of dividends paid or due to council.

In accordance with section 111A of the Local Government (Finance, Plans and Reporting) Regulation 2010 council is required to disclose in the annual report certain financial information pertaining its relationship with Unitywater. This information is presented in the table below.

Required Disclosure	Year ended 30 June 2011
s111A - 2 (a) profits of Unitywater distributed to council	\$39.97 million
s111A - 2 (b) tax equivalent paid by Unitywater to council	\$4.3 million
s111A - 2 (c) all other payments made by Unitywater to council or obligations or liabilities owed by Unitywater to council	All other payments made by Unitywater for the financial year totalled \$42.64 million. Obligations owed or owing to Council as at the end of the financial year total \$721.99 million (comprising of \$695.31 million in loans receivable and working capital loans with \$26.68 million owing in dividends and interest on loans receivable).
s111A - 2 (d) all payments made by the local government to the distributor retailer (including purpose of the payments)	\$48.75 million in payments made comprising \$22.7 million for water subsidy rebates and \$2.5 million for reimbursement of water charges for council properties, \$17.7 million for infrastructure cash contributions collected by council on behalf of Unitywater, \$4.3 million refund of the subsidy for the Murrumba Downs Waste Water Treatment Plant and \$1.5 million in payments for services such as water sample testing, repairs, connections and installation costs for water mains etc and payments for water permits, licences and fees/charges.
s111A - 2 (e) obligation or liabilities owed by the local government to the distributor retailer (including reason for the obligation)	\$2.18 million owing in obligations or liabilities comprising \$988,000 for development application fees collected, \$535,000 for the 2010/11 quarter 4 tax equivalents, \$323,000 for accrued water charges and \$334,000 for revenues received in advance.

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