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## Management Discussion and Analysis for Example Authority, for the Financial Year Ended 30 June 2007

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### General Overview

#### Objectives

The Authority's primary objective, as the leading provider of infrastructure management services, is to deliver a range of cost effective services to the population of the Territory. These include:

- property management;
- office cleaning services; and
- building maintenance.

The Authority's strategic direction is set within the requirements of the *Example Authority Act 1997*.

#### Risk Management

The Authority's approach to risk management provides clients with assurance that the Authority can deliver low risk/high value services. The Authority is in the process of developing a Risk Minimisation and Control framework in accordance with the Australian Risk Standard.

The Authority's management has identified the following potential risks that may influence its future financial position:

- the Authority has recently tendered for, and subsequently won, a number of private sector contracts. With the increase in private sector contracts there is the potential for an increase in debtor risk. The Authority is currently reviewing its internal credit risk management policies; and
- there are a number of health and safety risks that the employees of the Authority are exposed to, for example, use of hazardous materials and operating heavy machinery. Over the past two years the Authority has developed an integrated prevention, injury and rehabilitation program. The program for 2006-076 resulted in decreasing workers' compensation costs by **41 per cent**. The Authority will continue to maintain and develop the program to further decrease these costs.

### Financial Performance

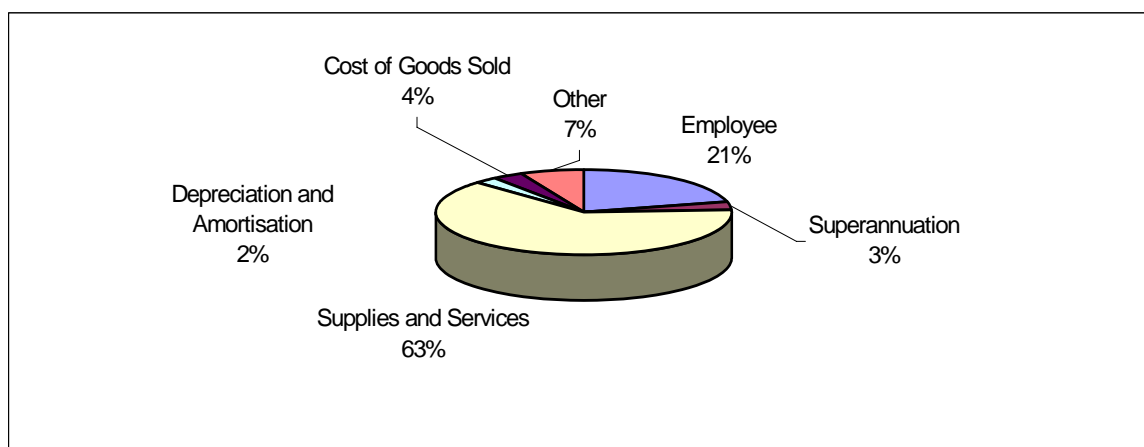
The following financial information is based on audited Financial Statements for 2005-06 and 2006-07, and the forward estimates contained in the 2006-2007 Budget Paper Number 4.

#### Total Expenditure

##### 1. Components of Expenditure

*Figure 1* indicates the components of the Authority's expenditure for 2006-07 with the largest component of expenditure being supplies and services, which represents **63 per cent** of ordinary activities or **\$29.6 million**.

Figure 1 - Components of Expenditure



## 2. Comparison to Budget

### Expenditure

Total expenditure of **\$47 million** was **\$3.8 million**, or **9 per cent** higher than the 2006-07 Budget / amended 2006-07 Budget<sup>1</sup> of **\$43.2 million**. This higher than budgeted expenditure was largely the result of increases in:

- supplies and services expenditure (**\$2.5 million**) resulting from the Authority securing a number of private sector contracts;
- employee and superannuation expenses (**\$0.6 million**) reflecting the appointment of senior personnel; and
- other expenses (**\$0.4 million**) relating to assets donated to third parties.

## 3. Comparison to 2005-06 Actual Expenditure

Total expenditure was **\$4.4 million**, or **10 per cent** higher than the 2005-06 actual result. The increase largely reflects increases in supplies and services (**\$3.4 million**) and employee and superannuation expenses (**\$0.7 million**) due to similar reasons as stated above.

## 4. Future Trends

Expenditure is budgeted to increase in 2007-08 by **\$2.0 million** due to the commencement of significant initiatives, which will see continued increases in supplier and services expenditure.

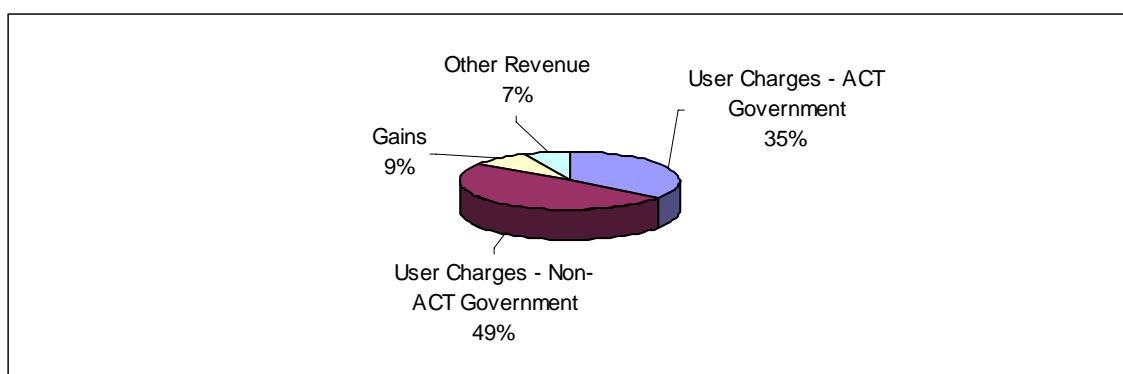
## Total Income

### 1. Components of Income

Figure 2 below indicates that for the financial year ended 30 June 2007, the Authority received **49 per cent** of its total income of **\$50.2 million** from user charges – non-ACT Government. This income largely relates to building maintenance services provided to private sector clients. The remainder of the Authority's income is derived from ACT Government user charges for property management and other own sourced revenue.

<sup>1</sup> Delete as appropriate. Refer to Attachment A for a reconciliation (only required where the Territory authority receives appropriation)

Figure 2 - Components of Income



## 2. Comparison to Budget

### Revenue

Revenue for the year ending 30 June 2007 was **\$46 million**, which was **\$1.7 million** lower than the 2006-07 Budget / amended 2006-07 Budget of **\$47.7 million**. This deterioration is largely due to decreased other revenue (**\$1.0 million**) which reflects lower than expected rent and sale of goods revenue.

### Gains

Income from gains for the year ending 30 June 2007 was **\$4.2 million**. This was a **100 per cent** increase on the 2006-07 Budget / amended 2006-07 Budget. The favourable variance was primarily attributable to unbudgeted gains arising from donations (**\$2.1 million**), contribution of assets (**\$0.7 million**) and investments (**\$0.7 million**).

## 3. Comparison to 2005-06 Actual Income

### Revenue

Revenue in 2006-07, was **\$3.6 million**, or **8 per cent** higher than the 2005-06 actual result. The improvement was mainly due to increased user charges of **\$3.3 million** resulting from two new major contracts for the provision of maintenance and cleaning services.

### Gains

Income from gains was **\$0.008 million**, marginally higher than the 2005-06 actual result of **\$4.2 million**.

## 4. Future Trends

Total income for 2007-08 is budgeted to increase by **\$6.9 million** due to the commencement of substantial property and maintenance contracts. Revenue thereafter is anticipated to increase by indexation.

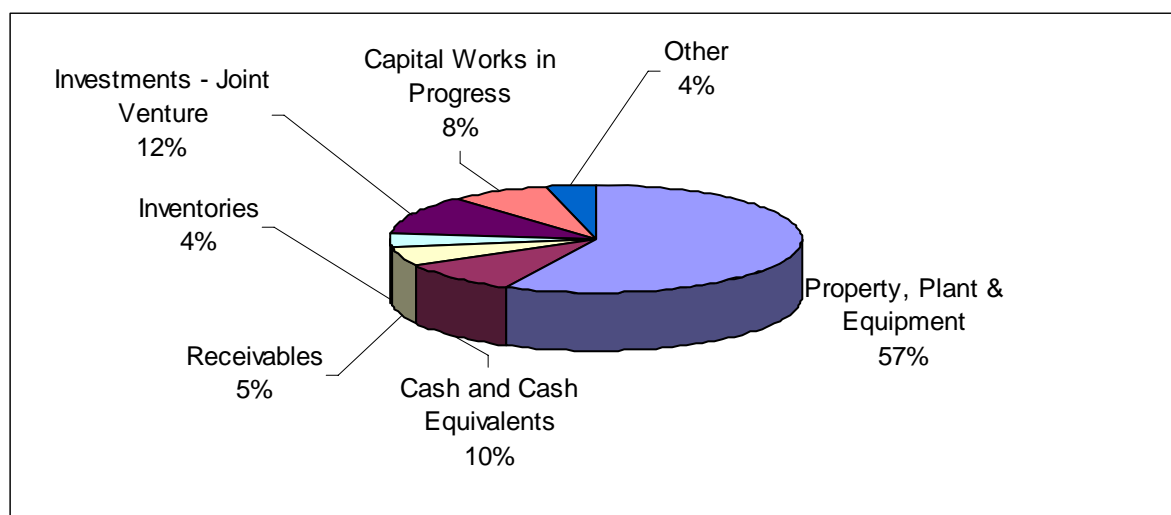
## Authority Financial Position

### Total Assets

#### 1. Components of Total Assets

Figure 3 below indicates that for the financial year ended 30 June 2007, the Authority held **57 per cent** of its assets in Property, Plant and Equipment.

Figure 3 – Total Assets as at 30 June 2007



#### 2. Comparison to Budget

The total asset position as at 30 June 2007 is **\$68.5 million**, **\$5.8 million** higher than the 2006-07 Budget / amended 2006-07 Budget of **\$62.7 million**. The improvement largely reflects increases in:

- receivables (**\$2.5 million**) due to the accrual of revenue for the commencement of a major building maintenance contract; and
- property, plant and equipment (**\$2.4 million**) reflecting asset acquisitions.

#### 3. Comparison to 2005-06 Actuals

The Authority's total asset position is **\$10.8 million** higher than the 2005-06 actual result of **\$57.7 million** largely due to increases in:

- property, plant and equipment (**\$5.0 million**) resulting from a combination of independent valuations on land and buildings and asset acquisitions;
- receivables (**\$2.6 million**) reflecting increased user charges revenue;
- capital works in progress predominantly made up of building works (**\$2.2 million**); and
- cash and investments (**\$1.1 million**) largely due to an overall improvement in investing activities.

#### 4. Liquidity

'Liquidity' is the ability of the Authority to satisfy its short-term debts as they fall due. A common indicator for liquidity is the current ratio, which compares the ability to fund short-term liabilities from short-term assets. A ratio of less than 1-to-1 may indicate a reliance on the next financial year's user charges – ACT Government to meet short-term debts. *Table 1* indicates the liquidity position of the Authority.

**Table 1 – Current Ratio**

Description	Prior Year Actual \$'000s 2005-06	Current Year Budget \$'000s 2006-07	Current Year Actual \$'000s 2006-07	Forward Year Budget \$'000s 2007-08	Forward Year Budget \$'000s 2008-09	Forward Year Budget \$'000s 2009-10
Current Assets	10,370	10,412	12,051	13,671	13,913	14,749
Current Liabilities	5,547	7,689	8,628	8,421	8,462	8,742
<b>Current Ratio</b>	<b>1.87:1</b>	<b>1.35:1</b>	<b>1.39:1</b>	<b>1.62:1</b>	<b>1.64:1</b>	<b>1.69:1</b>

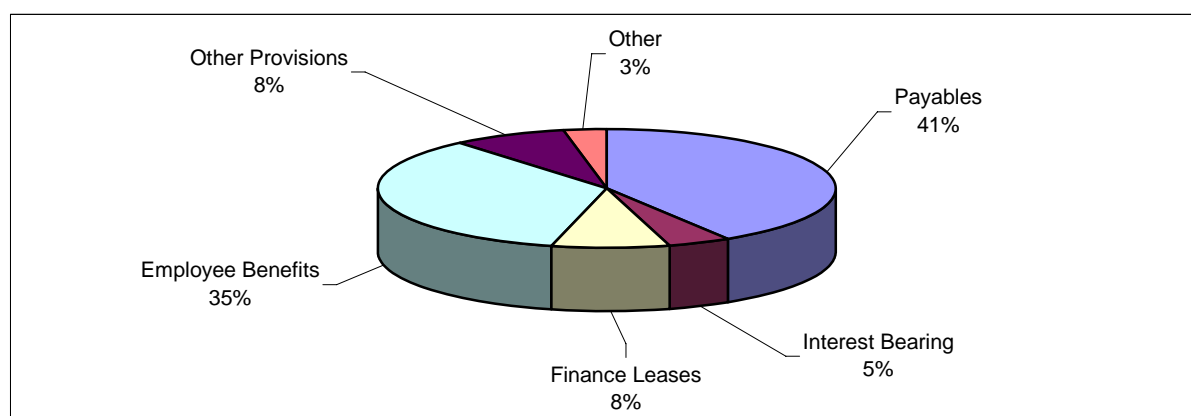
The Authority's current ratio for the financial year is **1.39 to 1**, which is a marginal improvement on the budgeted current ratio of **1.35:1**. The improvement reflects increased receivables due to increased user charge revenue.

The Authority is expecting to maintain a strong level of liquidity as the current ratio steadily increases in the forward years to **1.69:1** by 2008-09.

#### Total Liabilities

*Figure 4* below indicates that the majority of the Authority's liabilities relate to employee benefits (**39 per cent**) and payables (**18 per cent**).

**Figure 4 – Total Liabilities as at 30 June 2007**



The Authority's liabilities for the year ended 30 June 2007 of **\$13.6 million**, is **\$1.2 million** higher than the 2006-07 Budget / amended 2006-07 Budget of **\$12.4 million** largely due to payables being higher than anticipated (**\$1.1 million**), resulting from the Authority receiving a large amount of invoices toward the end of June.

Total liabilities are **\$3.7 million** higher than the 2005-06 actual results of **\$9.9 million** due to increases in payables (**\$2.8 million**) and employee entitlements (**\$1.9 million**). Non-current liabilities are constant in the forward years.

## Other Disclosures

### Audit Qualification

*[This is a hypothetical example of what to include if the Auditor-General issues a qualified opinion or a matter of emphasis.]*

On 27 September 2007, the Auditor-General completed the financial audit of the Authority and provided an opinion. With the exception of creditors referred to in the qualification paragraph, the Auditor-General's opinion of the Authority's financial statements was that the statements were prepared in accordance with the *Financial Management Act 1996* and fairly represented the financial performance of the Authority for the year ended 30 June 2007.

The qualification related to the value of creditors. The Auditor-General advised that the Authority's processes and systems used to determine creditors and accruals at year end were not considered sufficiently robust and as a result, considered that creditors and accruals may have been incorrectly stated in the Balance Sheet. As a consequence, the Auditor-General was unable to form an opinion on the completeness of creditors brought to account in the Balance Sheet and any expenses that may have an effect on the operating result.

The Authority is presently implementing improved policies and procedures for management of its creditors and accruals.

### Reconciliation of Original Budget to Amended Budget<sup>2</sup>

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	Original Budget 2007 \$m	Supplementary Appropriation No. 1 \$m	Supplementary Appropriation No. 2 \$m	Amended Budget \$m
Total Income	47.7	-	-	47.7
Total Expenditure	43.2	-	-	43.2
Total Assets	62.7	-	-	62.7
Total Liabilities	12.4	-	-	12.4

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<sup>2</sup> This reconciliation is only required if there has been a supplementary appropriation in the financial year.