



Our Reference: DME 43648

17 October, 2008

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Dear Dr Henry

Thank you for the opportunity to make a submission to the Australian Taxation Review. We believe the review to present an historic opportunity for the nation. In particular we are pleased to acknowledge the recognition of Local Government as a part of this nation's governmental and taxation systems.

This association represents the 68 Local Government Act Councils in South Australia. Anangu Pitjantjatjara Yankunytjatjara is also a member of the association but does not have taxation powers. The LGA is a constituent member of the Australian Local Government Association (ALGA). We have assisted and supported the process by which the ALGA has prepared its submission to the review. We endorse that submission as a comprehensive overview of the taxation and tax transfer issues impacting on Local Government nationally.

We do not propose to cover the same ground as covered in the ALGA submission. Rather we would take this opportunity to support it and highlight three key elements with South Australian specific information.

Intergovernmental Co-operation

Firstly, as with the ALGA, we support the concept of co-operative federalism. The basic elements of this system have served the nation well and hold within it the benefits of a pluralist democracy as well as the capacity to apply uniform approaches and to share resources between governments. We would make the observation that the elements of the Australian system dedicated to negotiations regarding taxes, tax transfers and functional responsibilities between governments are relatively informal, historically poorly resourced and in most instances slow to achieve outcomes as a result. This is not to argue against the system – rather to point out that should we believe as a nation we need a greater level of co-operation between governments or more rapid progress then this area warrants at the least some review or additional resources.

Inter-Council co-operation

In South Australia, the first Local Government Association in Australia was established in 1875. Councils have a long history of working together both at the State level, at the regional level and on an ad hoc basis (two adjoining Councils or Councils facing similar issues such as those with regional passenger transport systems

However it was not until the late 1960s and early 1970s that the LGA took on functional activities rather than simply an advocacy role. This functional area has grown substantially to the present day in which a very significant number of functions are performed jointly by Councils at the State level under the LGA or associated bodies on which the LGA represents Councils. This includes:

- The SA Local Government Finance Authority (LGFA) the use of which is voluntary but which effectively borrows and invests in bulk for Councils. The LGFA has a book of approximately \$500m, undertakes about 97% of Council borrowing and holds more than 80% of Council investments, made a surplus of \$5.2m in 2007/08, paid \$1.74m back to Councils as bonuses and paid \$1.56m as tax equivalent payments into an LGA managed Local Government Research and Development Scheme (referred to below);
- The SA LGA Workers Compensation Scheme which is exempt from State Workcover arrangements, is fully funded and has posted 15 consecutive years of reduced claim numbers;
- The SA LGA Mutual Liability Scheme which provides public liability and professional indemnity cover for all SA Councils along with risk management services which saw Local Government in SA virtually immune from the public liability “crisis” of the early 2000s;
- The SA LGA Asset Mutual which provides cover for Council buildings and other assets;
- Local Super which manages superannuation for all Council employees in SA and the Northern Territory;
- Local Government Corporate Services which manages a range of central purchasing arrangements including common tender for electricity purchase for all SA Councils estimated to save approximately \$1.3m a year and a common after hours call service contract;
- The Local Government Research and Development Scheme which is funded by tax equivalent payments from the LGFA referred to above and has managed approximately \$800,000 worth of investment in R&D each year since 1997 – including resourcing the LGA Financial Sustainability Program referred to below;
- In addition the LGA itself provides further “bulk” services to Councils including an Education and Training Service and Industrial and Human Resource Management services;
- The LGA is also currently managing a substantial shared services program to identify further areas with Councils where “back office” or other functions can be centralized to provide cost savings and effectiveness improvements without impacting on local community decision-making responsibilities.

This investment in co-operation between Local Governments in SA has grown dramatically over the past 20 years and is now recognized as a strength of Local Government in SA. It has also supported our efforts to develop more mature political arrangements with the State and Australian governments referred to below.

State-Local Co-operation

Further it was not until 1990 that the LGA entered the first formal agreement between an Association and a State Premier. That “Memorandum of Understanding” supported a transformation which had begun earlier and has continued - of strengthening the Local Government system as a partner with State Government. Currently the LGA has a formal “State/Local Government Relations Agreement” with SA Premier Mike Rann which sets out a commitment by both spheres of government to work co-operatively, to consult effectively and where appropriate to undertake joint activities.

The SA Parliament retains responsibility for the legal framework for Local Government in the form of the SA Constitution Act, the Local Government Act 1999 and several related core legislation – and an estimated 45 other Acts which variously provide powers or responsibilities to Local Government. However this legislation in general terms has been amended over the past 30 years or so to provide more general powers for Councils to act in the interests of communities, seeking to shift responsibility of Councils to their communities and to independent mechanisms rather than to

Government Ministers (politicians). This has been aimed at strengthening Local Government, increasing responsibility; reducing potential for political interference; reducing costs of administering the system, while maintaining the highest standards of public sector performance for Local Government.

As a result a number of very significant reforms between State and Local government have been managed including a reassessment of joint responsibilities for stormwater management; reform of arrangements for sewerage systems in country towns run by Councils; and current investment in reform of SA's Development system and in relation to joint activities focusing on climate change adaptation and mitigation.

It is our sense that the relationship between the SA Government and the SA Local Government Association and Local Government sector at large is arguably the most mature in Australia and includes a very high level of engagement and communication. Like all complex relationships it is neither perfect nor uniform through State agencies or across Local Government but does present substantial advantages for this State.

These developments in co-operation between Councils and between State and Local Government in SA have been substantial but are relatively recent in historical terms – dating over the past 18 years or so.

'Tax Room'

In relation to funding, finance and taxation the LGA and the SA Government have and continue to work together effectively in a number of areas. The Government has provided significant support for the LGA's Financial Sustainability Program (covered further below) including making a Treasury officer available via a secondment to the LGA and in other ways.

The relationship has included negotiations over a number of years leading to SA having some of the most flexible rating, borrowing and investment powers for Local Government – and a high level of communication with the Office of the Valuer-General which undertakes almost all valuations used by Councils. It also has ensured a high level of consultation over newer taxation mechanisms including SA's Emergency Services Levy where consideration was given to Local Government raising the levy (but not proceeded with) and the Natural Resources Management Levy (which Local Government does raise for State Government – this latter issue now being under review by Local Government).

We have noted (including in our submission to the Productivity Commission research study "Assessing Local Government Revenue Raising Capacity" which can be found here: <http://www.lga.sa.gov.au/site/page.cfm?c=14733>) that there has been a very substantial increase in State Government take from property taxation over the past 15 years. Our assessment is that State Government took over from Local Government as the biggest property taxer within SA in around 2001 and State growth has continued to exceed Local Government growth since then leading to a position today of approximately 60% being raised by State Government and 40% raised by Local Government.

We are concerned that this growth in use of property taxation by the State is or will impact on the capacity for Councils to use property taxation, however we have not been able to identify any way of calculating or estimating this impact. The Productivity Commission also did not find any way of measuring any such impact. Currently there is no mechanism by which State and Local Government can discuss or co-ordinate approaches to the levels of property taxation applied by each.

Financial Sustainability Program

In 2005 the LGA established an independent inquiry into the Financial Sustainability of Local Government. This is to the best of our knowledge the first time in Australian history that Local Government had commissioned an independent inquiry. The inquiry was one of our responses to media and public misunderstanding about the impact of the property boom of 2002-05 on Council rates revenue.

The inquiry found that a substantial number of Councils in SA were not being managed sustainably and more did not have policy frameworks to keep them sustainable. It found Councils had substantial infrastructure backlogs and did not receive windfall gains when valuations rose. The inquiry report – supported by analysis conducted by Access Economics – also identified inequitable Federal funding and low State funding as adding to problems facing SA Councils. It was told that Commonwealth Financial Assistance Grants – aimed at achieving horizontal fiscal equity were limited in their capacity to do so because the total funding is inadequate, the funding is not distributed based on HFE between States, and Commonwealth Legislation applies a 30% per capita minimum to the distribution between Councils.

We note the Productivity Commission's concern regarding the distribution of Commonwealth funding in relation to finding 5.6 "Given the differences in the scope to raise additional revenue across different classes of councils, there is a case to review the provision of Australian Government general purpose grants to Local Government." We also note Chapter 6 of the House of Representatives inquiry into "Cost Shifting" and its recommendation 16 which proposed a national model for distributing Financial Assistance Grants to Local Government.

The SA independent Inquiry into the Financial Sustainability of Local Government outlined a series of recommendations which Councils could pursue within their own capacity and proposed these be tackled first. It indicated Councils were more likely to gain greater support from other governments once they could show they had tackled their own financial management challenges.

Since 2005 the LGA has invested \$1.2 million in a series of program activities designed to respond to the inquiry's recommendations with support from the SA Government. Activities undertaken are outlined at www.lga.sa.gov.au/goto/fsp along with the original inquiry report.

The SA inquiry was followed by inquiries triggered by the NSW LG&SA, the WA LGA, and the LGAT. Each inquiry used Access Economics for analysis. It should also be noted that the MAV and the LGAQ have undertaken similar work but not in the form of an inquiry. The LGA has made available the outputs of its program to other State Local Government Associations and the ALGA.

The LGA of SA has found that its program is building substantial momentum. The attached extract from a report to the LGA 2008 Annual General Meeting contains within it a high level analysis of the sector as a whole (attachment 1). This shows some very positive signs particularly in terms of operating results and infrastructure renewal particularly in the 2006/07 financial year (the first full financial year following the 2005 inquiry). These indicators are of course for all Councils across the State and we are well aware that the story is not the same for all. Also attached to the report (attachment 2) is the draft report on our third annual Financial Sustainability Survey. This includes comparison with the 2006 and 2007 survey results and again shows substantial momentum being built.

We have also recently supported a process to assist with public understanding of the position of individual Councils and the sector. High-level summaries of uniform financial information now being made available for three financial years (past, current and budget) for 33 of our 68 Councils. This can be found on the financial sustainability web page: www.lga.sa.gov.au/goto/fsp.

We have been very careful about how we describe progress because we recognize the importance of discipline and ongoing improvements. Recently we brought together a round table of key stakeholders to review and identify the next phase of the program for Local Government in SA.

We provide this more detailed information regarding our Financial Sustainability Program to illustrate to the review the level of work being undertaken from within Local Government. In addition we want to underscore the inadequacy of the total pool of Financial Assistance Grants for Local Government to achieve the objective of Horizontal Fiscal Equalisation and the inequity created by the interstate distribution of those funds.

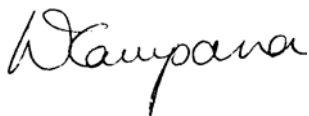
Summary

As indicated above we support the submission being made by our national body the Australian Local Government Association.

In addition we think some level of focus in the review needs to be given to the importance of interaction and co-operation between governments; to the issue of "tax room" particularly around property taxation; to recognize the extent of work being undertaken within Local Government to raise its own performance and lastly to recognize the national issues which result from inadequate horizontal fiscal equalization across Local Government caused by the quantum and Commonwealth distribution requirements.

The LGA looks forward to the next steps in your process and stands willing to provide more specific information if required and to respond to the Consultation Paper which we understand to be the next step in your process.

Yours sincerely



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Executive Director

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Attach: extracts from report to 2008 LGA AGM

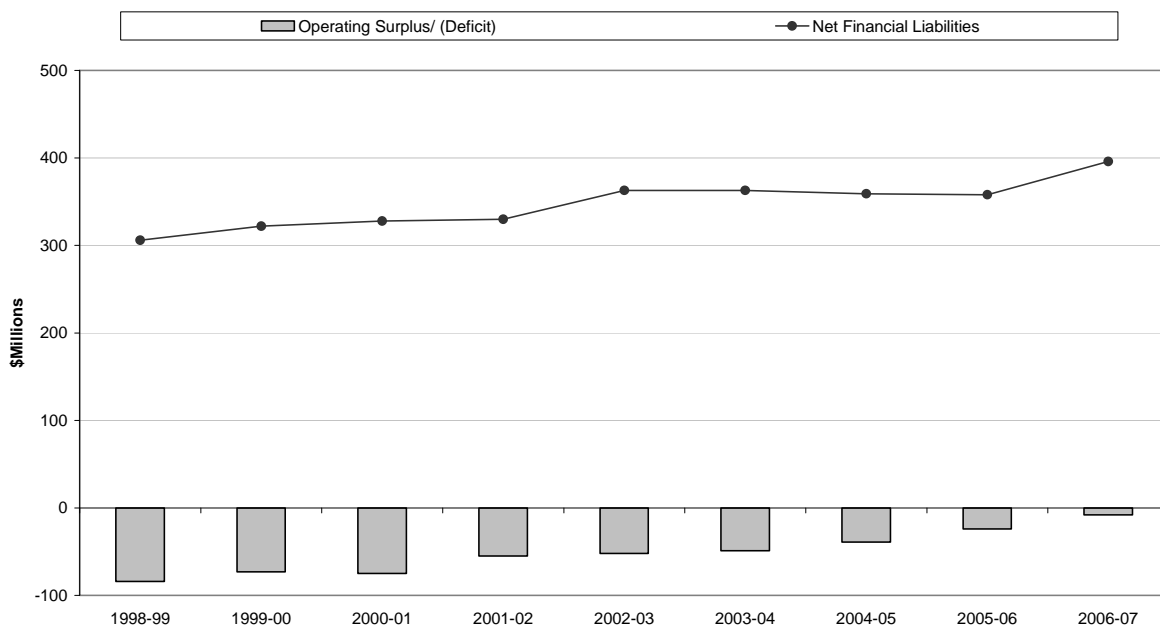


SA Local Government Sector Financial Indicators Report 2008

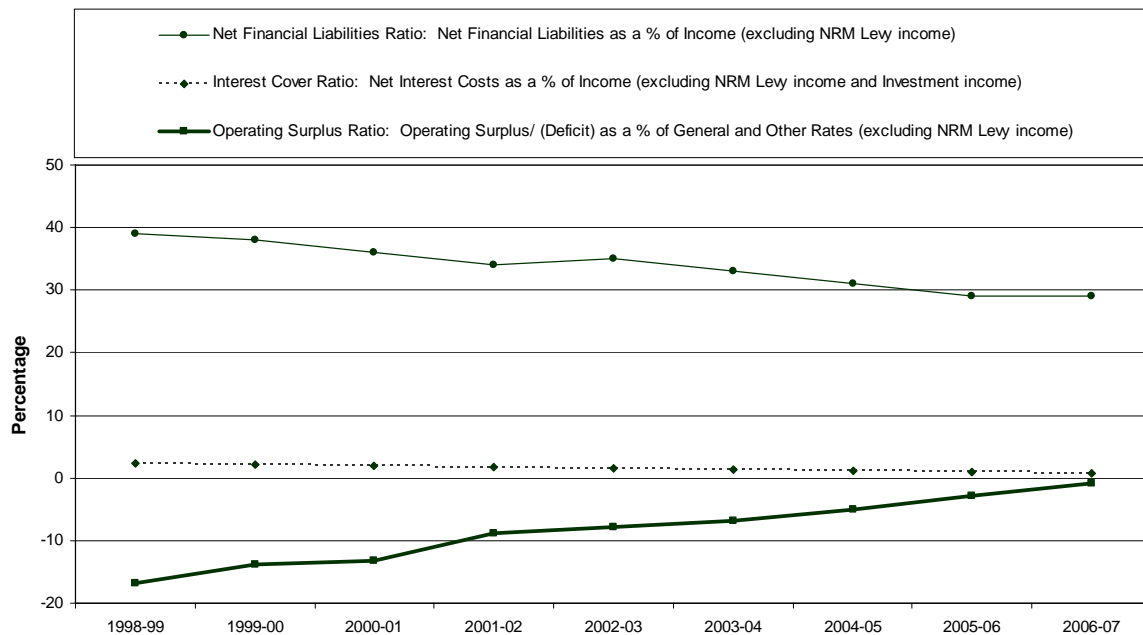
The LGA's *Financial Sustainability Information Paper 9 'Local Government Financial Indicators'* describes a set of seven standard indicators of the financial sustainability of a Council's performance and position. The indicators were developed by the SA Local Government Financial Management Group consistent with a recommendation of the Financial Sustainability Inquiry. The indicators were endorsed by the Financial Sustainability Advisory Committee and adopted by the sector at the April 2007 LGA General Meeting.

The following two graphs provide aggregate data for the sector from 1998-99 until 2006-07 covering five of these indicators. The assistance of the SA Local Government Grants Commission in providing data to help compile these graphs is appreciated. Data on the two indicators covering asset management is not included at this stage. Until Councils finalise their Infrastructure and Asset Management Plans, reliable data for the sector is unavailable.

SA LOCAL GOVERNMENT SECTOR -
FINANCIAL INDICATORS



**SA LOCAL GOVERNMENT SECTOR -
FINANCIAL INDICATORS**



Operating Surplus / (Deficit)

The operating surplus / (deficit) indicator in the first graph measures the difference between day-to-day income and expenses for a financial year and is considered to be the most critical indicator of Local Government financial performance. The level of annual operating deficits in aggregate continues to reduce steadily (from \$84 million in 1998-99 to \$8 million in 2006-07) as many Councils have sought to raise more revenue for an increasing level of asset renewal / replacement works. 34 Councils recorded operating deficits in 2006-07 compared with 53 Councils in 1998-99.

As shown in the second graph (i.e. operating surplus ratio), the overall operating deficit for the sector of \$8 million in 2006-07 represents 0.9 per cent of rate revenue. The operating deficit in 1998-99 was \$84 million which represented 16.8 per cent of rate revenue.

Net Financial Liabilities

The net financial liabilities indicator in the first graph measures the amount of money owed by Councils to others less money held, invested or owed to Councils. The level of net financial liabilities at 30 June 2007 was \$396 million which is very low when put in the context of Local Government physical assets valued at approximately \$12.6 billion.

As shown in the second graph (i.e. net financial liabilities ratio), the \$396 million of net financial liabilities is equivalent to 29 per cent of income in 2006-07. At 30 June 1999 net financial liabilities were \$306 million, equivalent to 39 per cent of income in 1998-99.

Net Interest Costs

The Financial Sustainability Inquiry suggested that a Council's financial position is sustainable if its net financial liabilities are at levels at which associated net interest costs can be met comfortably from a Council's income (without the prospect of either rate increases which ratepayers would find unacceptable or service cuts which would be disruptive). As shown in the second graph (i.e. interest cover ratio), for the sector as a whole, net interest costs represented only 0.8 per cent of income in 2006-07. In 1998-99 the figure was 2.4 per cent.

Provided operating deficits are avoided, there appears to be considerable scope for many Councils to increase their level of borrowings (or liquidate some of their large stock of financial assets, which is equivalent to borrowing) to finance capital expenditure, including for any infrastructure renewal backlog purposes. Of course, where a Council is not achieving an operating surplus, any capital expenditure on upgrading or expanding infrastructure needs to be modest and targeted as it normally will lead to additional maintenance and depreciation costs.

Capital Investment Expenditure

Although reliable information on asset management indicators is not sufficiently developed in many Councils at this stage, a significant matter emerges from an analysis of the overall available data.

Capital investment expenditure in 2006-07 was \$444 million, an increase of \$69 million on the previous year. This increase far exceeds any increase previously recorded. Approximately \$225 million of the \$444 million was spent in 2006-07 on renewing and replacing existing assets. This compares with a figure of \$55 million calculated about seven years ago by consultants to the Local Government Metropolitan CEO's Group (as part of the 'Wealth of Opportunities' report).

Differing Financial Performance of Councils

While the above report demonstrates significant improvement over the last eight years in the financial performance and position of the sector as a whole, it needs to be emphasised that the financial capacity of individual Councils varies substantially. The overall sound and improving financial performance and position of the sector disguises the financially unsustainable performance of some Councils under their current revenue and expenditure policy settings. In addition, in the absence at this stage of reliable data covering asset management in many Councils, it is not possible for those Councils to quantify the extent of any annual shortfalls against the optimal level of capital expenditure on renewal and replacement of existing assets. The Financial Sustainability Inquiry asserted that the shortfalls in some Councils have been large and persistent and will need to be addressed to avoid excessive rate increases and/or drastic reductions in services in the future.



Financial Sustainability Program

FINANCIAL SUSTAINABILITY SURVEY 2008

REPORT

September 2008



FINANCIAL SUSTAINABILITY SURVEY 2008 DRAFT REPORT

Introduction

In September 2006 the LGA conducted a survey among member Councils to assess progress against achieving the intent of the recommendations resulting from the Independent Inquiry into the Financial Sustainability of SA Local Government and the interim results of this survey were presented to the LGA October 2006 AGM.

The LGA repeated the Financial Sustainability Survey in 2007 and again for 2008 and this report presents the interim results of the 2008 survey.

The purpose of the survey is to assist Councils to measure their own progress in financial sustainability reform against the progress of the sector as a whole and to allow the LGA to ascertain the effectiveness of its financial sustainability program and to identify those areas in which Councils need most assistance. A comparison of the results of the 2006, 2007 and 2008 surveys by individual Councils will allow them to clearly identify those areas where progress has been made and those where there is still work to be done, while a comparison of the aggregated data across the sector will provide a measure of sector-wide progress against the various issues.

The Financial Sustainability Inquiry identified a range of reforms that the LGA and member Councils should undertake to improve their long term financial performance and some Councils have already implemented many of these. However other Councils do not have the level of funding and human resources or access to skills and training to quickly implement such a major reform agenda and for these Councils the reforms will proceed over a number of years with benefits accruing progressively.

Over the past two and a half years the LGA has been rolling out an extensive work program, with supporting training, to provide Councils with information papers, templates and other tools to assist them with these reforms. The program aims to assist Councils to meet both the changes required by legislation and the intent of the Inquiry's recommendations.

The LGA's Financial Sustainability Program is currently being reviewed in order to take stock of achievements to date and set the direction for its future activities. The review will be completed by November 2008 and a report tabled at the November LGA State Executive Committee meeting. The work of the Financial Sustainability Program will continue through 2009 and beyond in accordance with the directions established through the review process.

Discussion

The findings and conclusions contained in this report are based on responses by 43 Councils to the 2008 survey. The results have been presented on a sector wide basis and with a distinction between metropolitan and country Councils. Appendix A presents a comparison of the 2006, 2007 and 2008 survey results based on the 43 Councils for which 2008 data is available.

The report has been structured in the eight topic areas covered by the survey questionnaire and presents key findings for the issues included in each topic area. The report presents, for some issues, comparisons between results of the 2006, 2007 and 2008 surveys. A selection of topics has been highlighted by presenting the findings in graphs while other findings are presented as dot points.

Councils wanting further analyses of the survey data should contact Bill Furse at the LGA on 8224 2036 or bill.furse@lga.sa.gov.au.

1. Understanding the Financial Sustainability Inquiry Report and its Implications

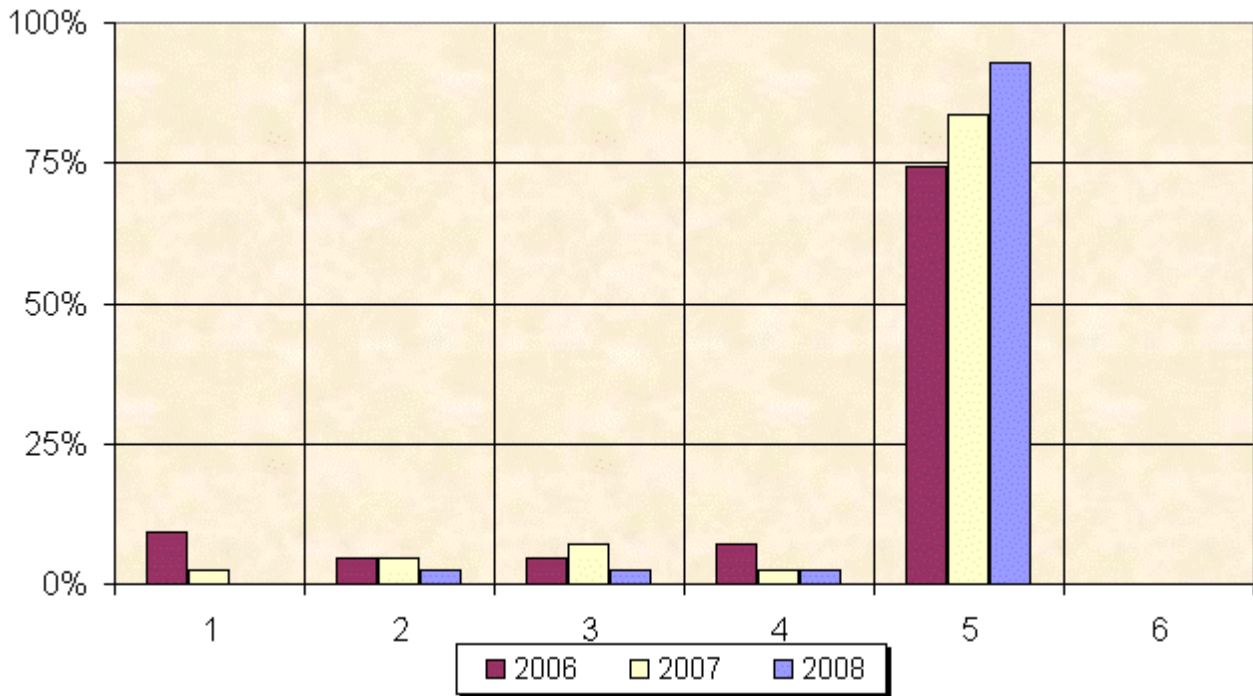
This topic deals with:

- the degree to which Councils have undertaken work to understand the implications of the Inquiry Report's recommendations;
- Councils' input into the consideration of the report by the Local Government sector; and
- Councils' current and potential financial sustainability.

Findings

- Following its release in August 2005 around 90% of Councils have considered, or are considering, the Inquiry report with a view to adopting measures to address its recommendations.
- Around 95% of Councils have provided information to their communities regarding their financial sustainability and the actions they intend to take in response to the Inquiry's findings (see Graph 1 below).

Graph 1: Council has provided information to its community and/or the media regarding the status of its “financial sustainability” including highlighting the challenges it is facing and/or the actions it is proposing to take.

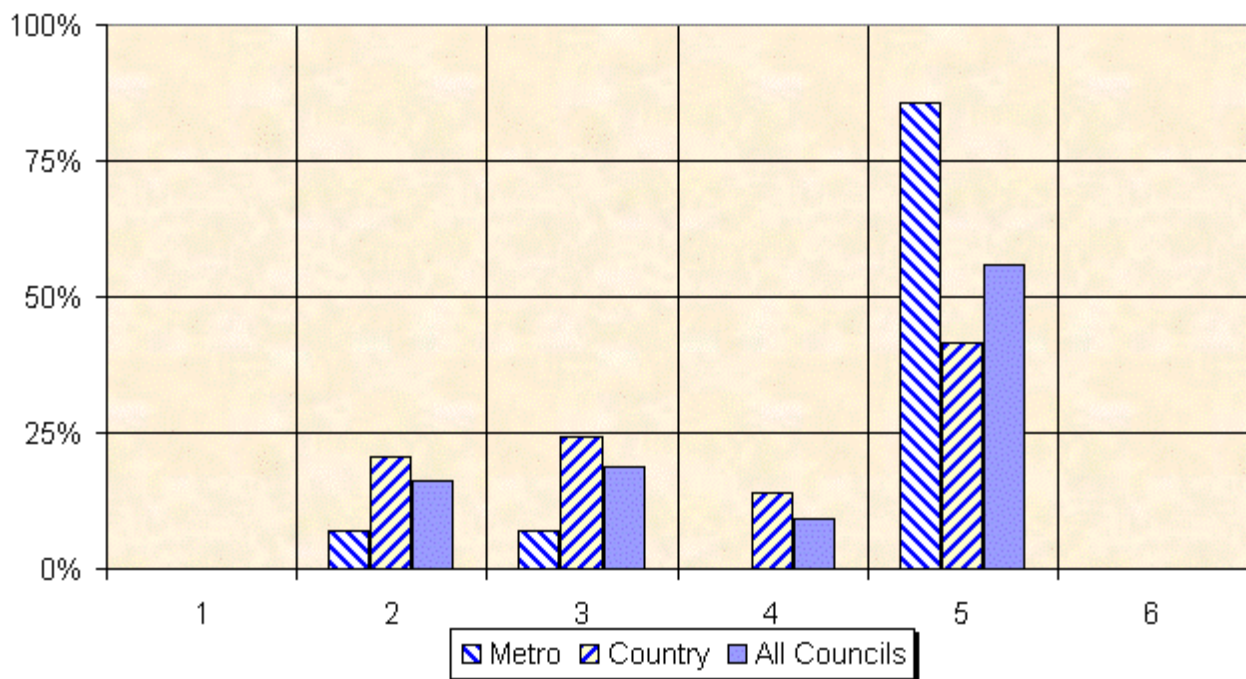


Key: 1: No (or not undertaken/commenced) 4: Developed, not adopted by Council
 2: Planned in next 12 months 5: Yes (or completed)
 3: In progress (or under development) 6: Unknown

Key>	1	2	3	4	5	6
2006	9%	5%	5%	7%	74%	0%
2007	2%	5%	7%	2%	84%	0%
2008	0%	2%	2%	2%	93%	0%

- Approximately 85% of Councils have adopted financial sustainability as defined at the LGA’s March 2006 General Meeting as one of their key financial objectives compared with 70% at the same time in 2007. Most of the remaining Councils are currently progressing towards this.
- More than 85% of metropolitan Councils have established targets for the seven financial sustainability indicators adopted at the LGA April 2007 General Meeting and are regularly reporting against these (see Graph 2 below). This compares with approximately 40% for country Councils.

Graph 2: Council has established targets for the seven financial sustainability indicators adopted at the LGA April 2007 General Meeting and is regularly reporting on the indicators and targets.



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Key>	1	2	3	4	5	6
Metro	0%	7%	7%	0%	86%	0%
Country	0%	21%	24%	14%	41%	0%
All Councils	0%	16%	19%	9%	56%	0%

Financial Sustainability Initiatives to Date

A definition of financial sustainability for South Australian Local Government was adopted at the LGA's March 2006 General Meeting.

The SA Local Government Financial Management Group has developed a set of seven indicators of financial sustainability and these have been circulated to Councils via LGA *Financial Sustainability Information Paper 9: Local Government Financial Indicators*. In support of this LGA *Financial Sustainability Information Paper 12: Targets for Local Government Financial Indicators* provides guidance to Councils in the setting of targets for these financial indicators. It is planned to review these indicators in 2009.

The financial sustainability indicators have been integrated into a number of other Local Government initiatives. The Model Financial Statements, developed by the LGA in association with the SA Local Government Financial Management Group and the SA Office for State/Local Government Relations, provide a report against these seven indicators by way of a note to the financial statements. The long-term financial planning model, released in late 2007, includes provision for Councils to forecast against these indicators. The financial sustainability indicators have been incorporated into the LGA's Comparative Performance Measurement project.

2. Financial Management Skills Development of Council Members and Staff

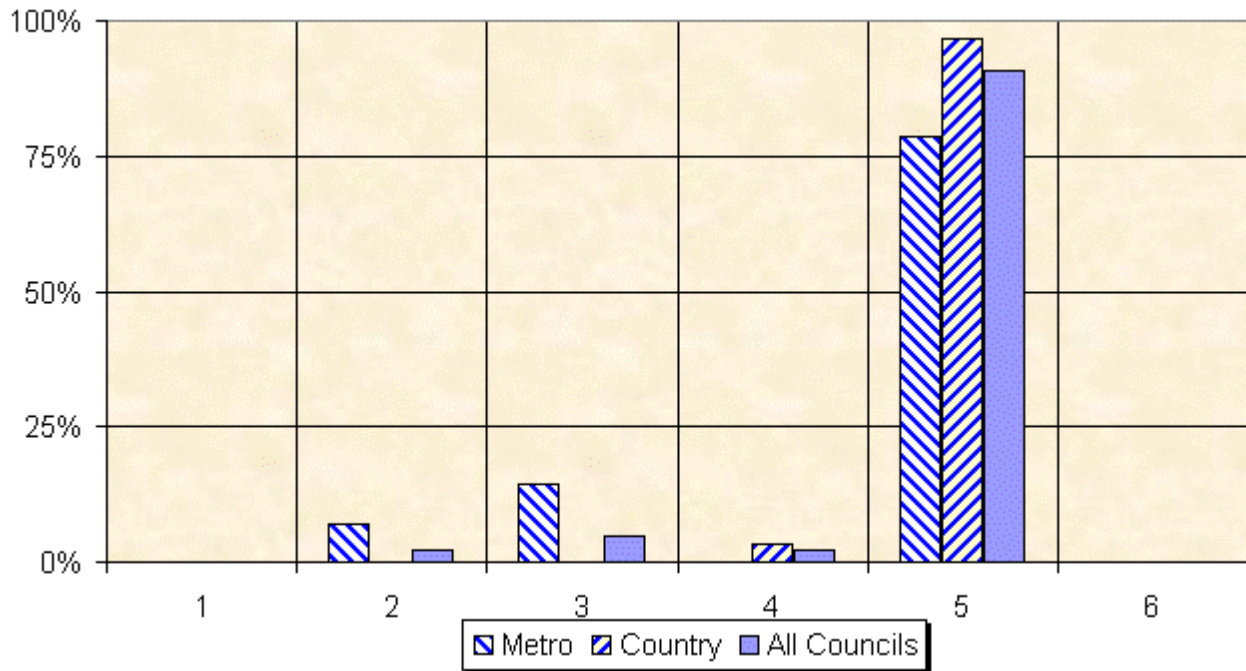
This topic addresses the degree to which Councils have undertaken activities to build the skills of Council Members and staff regarding their respective roles and responsibilities for financial governance and management.

Findings

- Approximately 75% of Councils include information on issues relating to financial sustainability in their induction programs for new Council Members.

- More than 90% of Councils have a co-ordinated program for staff to attend relevant LGA Financial Sustainability (and related) training sessions (see Graph 5 below).

Graph 5: Council has a co-ordinated program for staff to attend relevant LGA Financial Sustainability (and related) training sessions.



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Key>	1	2	3	4	5	6
Metro	0%	7%	14%	0%	79%	0%
Country	0%	0%	0%	3%	97%	0%
All Councils	0%	2%	5%	2%	91%	0%

Financial Sustainability Initiatives to Date

Throughout 2008 the LGA has continued to provide extensive training, information and support with a financial sustainability focus for both Council Members and staff and has included the following:

- financial sustainability in general;
- infrastructure and asset management planning;
- role of audit committees;
- financial reporting;
- Annual Report and Annual Business Plan preparation;
- Long-term Financial Plan preparation;
- treasury management;
- financial fundamentals for Local Government.

The Shape Your World program has been implemented to address the critical skills shortage for Local Government and raise awareness of Local Government as an Employer of Choice among young people.

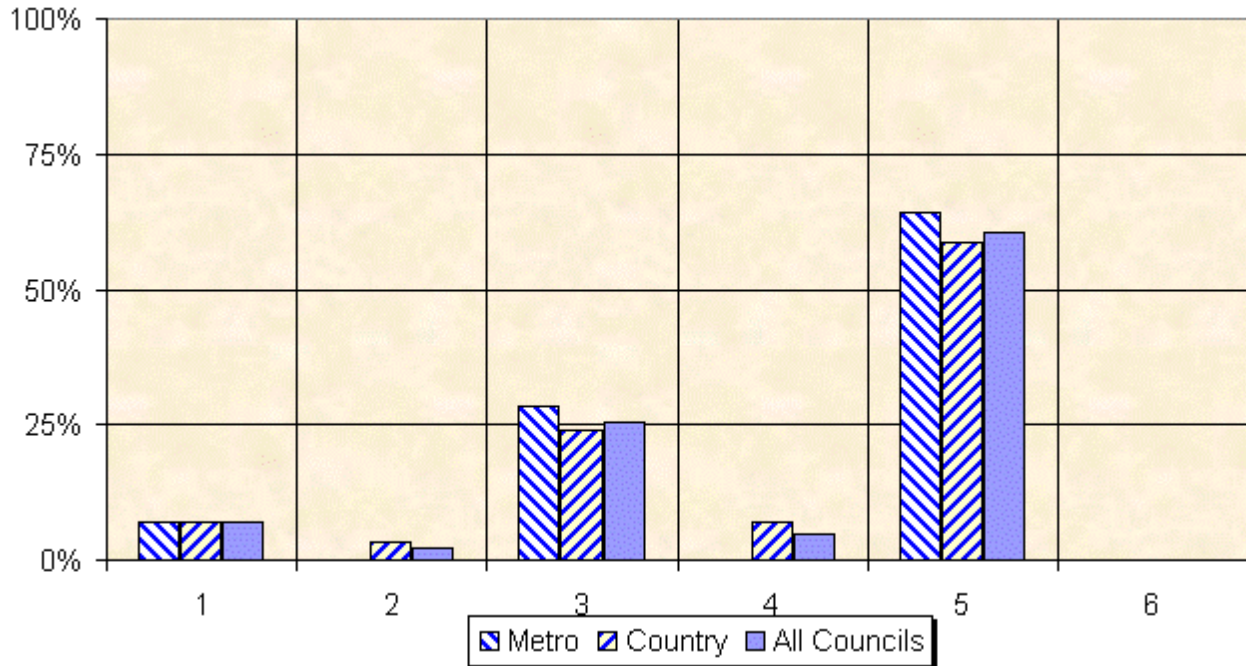
3. Financial Information, Assessment and Governance

This topic explores Councils' use of financial information and their adoption of financial governance practices. All Councils are now required, under the Local Government Act, to have an audit committee and provide specific criteria regarding the appointment of auditors and their term of office.

Findings

- Almost 45% of Councils have already reviewed their financial governance practices following the release of the Inquiry's report. A further more than 55% are currently reviewing their governance practices or plan to do so in the next 12 months.
- More than 80% of Councils have complied with the prudential management arrangements for current/proposed major projects where required under the Local Government Act.
- Around 75% of Councils indicated an understanding of their obligations in relation to efficiency and economy audits.
- All Councils have established their Audit Committee and have adopted or developed a terms of reference for the Committee.
- 65% of Councils have reviewed their specification for the conduct of their annual audit compared with around 35% in 2007 and a further almost 30% are currently reviewing their specification or intend to do so in the next 12 months (see Graph 6 overleaf).

Graph 7: Council and/or its CEO has reviewed its internal control mechanisms and identified areas of strength/improvement.



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Key>	1	2	3	4	5	6
Metro	7%	0%	29%	0%	64%	0%
Country	7%	3%	24%	7%	59%	0%
All Councils	7%	2%	26%	5%	60%	0%

Financial Sustainability Initiatives to Date

The LGA has released financial sustainability information papers dealing with:

- audit committees (including a “Model Terms of Reference for Audit Committees” and a “Model Work Program for Council Audit Committees”);
- external audit incorporating input from the SA Auditor General’s Department (including a “Draft Specification for Audits in Local Government”);
- efficiency and economy audits;
- treasury management; and
- financial policies.

Training for Audit Committee members has been incorporated into the LGA’s Employment and Training Program along with training in the principles of treasury management. Work is currently underway on the preparation of information papers on audit committee reporting, internal controls and risk management.

4. Long-term Financial Management Plan

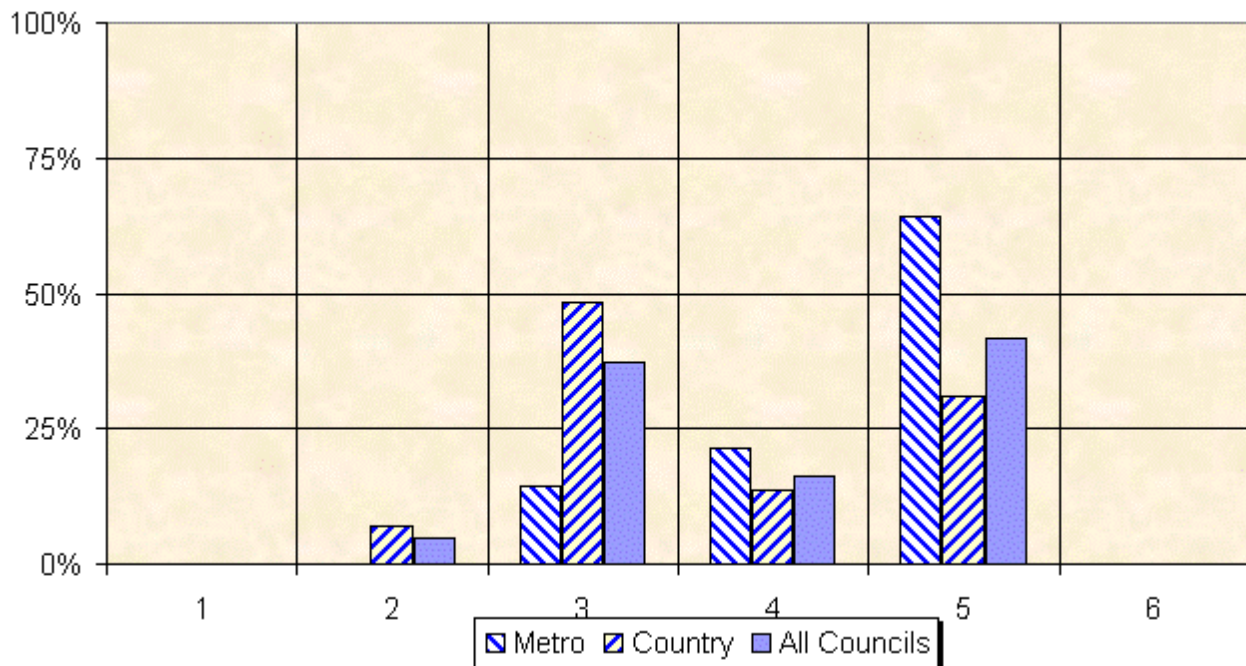
This topic area assesses the status of Councils' long-term financial plans. Councils are required to have Long-term Financial Plans in place by November 2008.

Financial plans link to a Council's strategic plan objectives, service delivery requirements and annual business plans. Councils' long-term financial plans should provide for a level of capital expenditure on the renewal or replacement of existing assets equal to that identified as required in their infrastructure and asset management plans and the achievement of, at least, a break-even operating result within 5 years. The plans should set out the target range for financial liabilities adopted by Council, rating requirements and predicted revenues and provide data for reporting against the key financial indicators adopted by the sector.

Findings

- 85% of metropolitan Councils have developed a long-term financial management plan. The remaining Councils are currently developing their plans. In comparison 45% of country Councils have developed a Long-term Financial Plan (see Graph 8 below).

Graph 8: Council has adopted a Long Term Financial Management Plan.



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Key>	1	2	3	4	5	6
Metro	0%	0%	14%	21%	64%	0%
Country	0%	7%	48%	14%	31%	0%
All Councils	0%	5%	37%	16%	42%	0%

Financial Sustainability Initiatives to Date

A long-term financial planning model, released in late 2007, includes provision for Councils to forecast against the financial sustainability indicators adopted by the sector. The release of this model has been supported by training through the LGA's training program. Financial Sustainability Information Paper 16 provides model formats for Long-term Financial Plan reporting by Local Government and these formats are linked to the formats of the Model Financial Statements and so the LTFP model will be updated each year (where necessary) to maintain alignment with the Model Financial Statements.

Consistent with a decision of the October 2006 Annual General Meeting the LGA now assembles, for each Annual General Meeting, an update report providing the latest values, history and comparisons of key financial indicators for the Local Government sector as a whole. Work is currently progressing between the LGA and the Office for State/Local Government Relations to publish high-level summary information about the financial performance and position for those Councils that agree to participate, in a central and publicly accessible location on the LGA's website (with OSLGR's website linked to that site). It is expected that this information will be available for 25 Councils by the 2008 AGM. Thereafter, it is planned that key financial information on all participating Councils would be updated every 6 months.

5. Service Provision

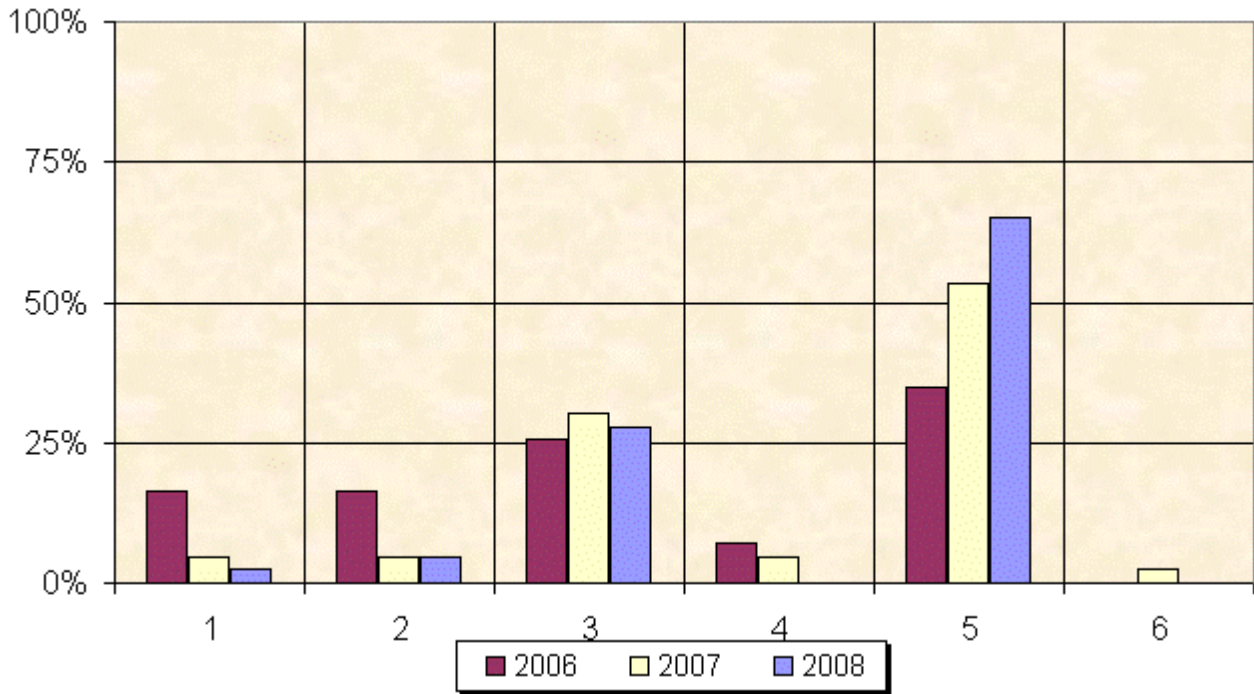
This topic examines the extent to which Councils have undertaken work that will assist them to determine the nature and number of services they will provide and the manner in which these services will be funded.

Findings

- Only around 10% of Councils have currently adopted policies that underpin their service provision although a further more than 65% are currently progressing the adoption of these policies or plan to do so in the next 12 months.
- Almost 80% of Councils indicate that they have an accurate picture of the costs associated with the delivery of individual services although this drops to around 40% in relation to infrastructure/asset costs for renewal, maintenance etc. More than 50% of Councils indicate currently using the cost indicators information produced by the Local Government Financial Management Group in collaboration with the ABS and the LGA.
- Almost 35% of Councils have undertaken an assessment/review of the mix of services they provide and funding mechanisms to determine whether this mix should continue.
- Approximately 40% of Councils report that they have explored options for resource sharing with other Councils with a further more than 55% indicating that they are currently progressing this or plan to do so in the next 12 months.
- 50% of metropolitan Councils report sharing their experiences with other Councils through the publication of the outcomes of service reviews and experience with efficiency initiatives. This compares with approximately 20% for country Councils.
- Almost 60% of metropolitan Councils indicate that they have a process in place for the regular review of the services they provide and the way in which they are delivered. This compares with approximately 20% for country Councils (see Graph 10 overleaf).

- More than 90% of Councils have addressed, or are currently addressing, areas where skills development in relation to asset management is required (see Graph 13 below).

Graph 13: Council has ascertained its skill requirements in relation to asset management and planning and has a strategy in place to address areas where skills development is required.



Key: 1: No (or not undertaken/commenced) 4: Developed, not adopted by Council
 2: Planned in next 12 months 5: Yes (or completed)
 3: In progress (or under development) 6: Unknown

Key>	1	2	3	4	5	6
2006	16%	16%	26%	7%	35%	0%
2007	5%	5%	30%	5%	53%	2%
2008	2%	5%	28%	0%	65%	0%

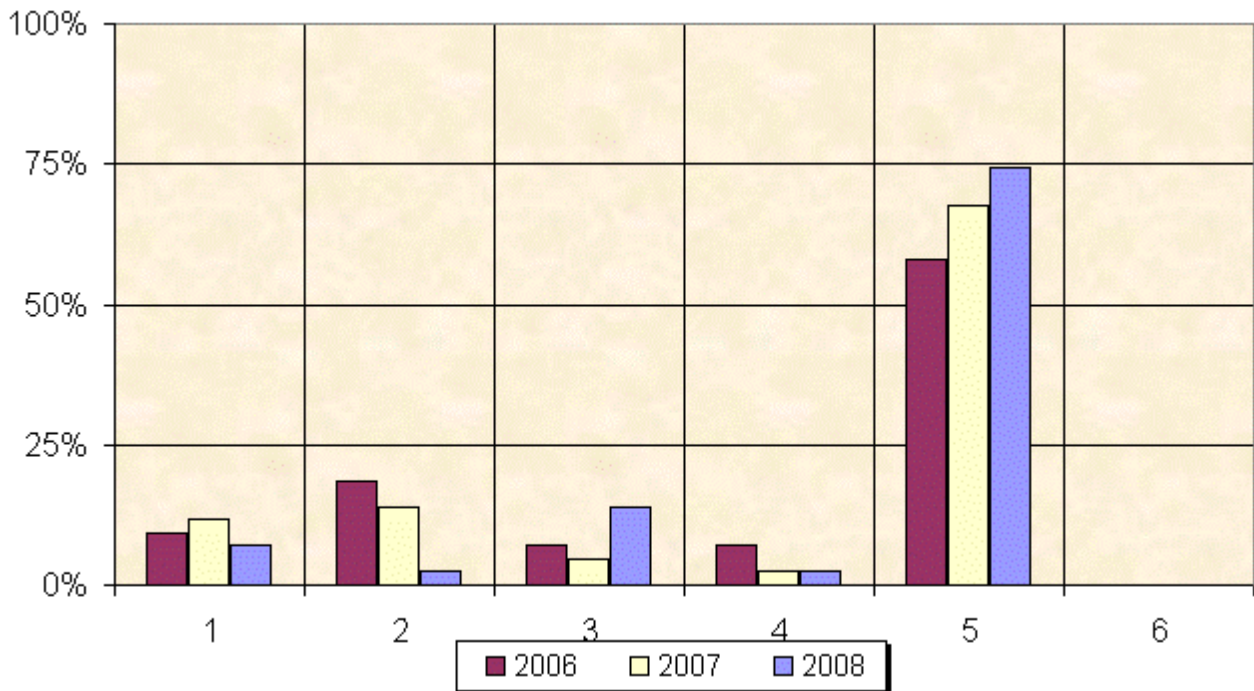
Financial Sustainability Initiatives to Date

Through 2006 the LGA worked with the Institute for Public Works Engineering on the development of templates and other resources to assist Councils in preparing their infrastructure and asset management plans. These templates and other resources are available to Councils and have been supported through 2007 and 2008 by an extensive training and support program.

The LGA's On-site Council Support Program provides some funding for one-to-one assistance for Councils to provide further guidance and mentoring as they work through the process of completing their Infrastructure and Asset Management Plans.

- Around 65% of Councils have considered capacity to pay indicators such as Average Weekly Earnings when assessing their budget and rates decisions.
- More than 70% of Councils use up to date property valuation, demographic and socio-economic information to test the impacts of various rating models and more than 50% have adopted a rate cap.
- Almost 50% of Councils include details in their financial reports on issues such as capacity to bear rates increases, taxation expenditures, government property exemptions and concessions or expenditures due to government policy or regulation.
- Around 75% of Councils have scheduled information sessions for Council Members to assist them to understand the full range of rating and rating concession options available in the Local Government Act (see Graph 15 below).

Graph 15: Council has scheduled information sessions for its Council Members to assist them to understand the full range of rating and rating concession options available in the Local Government Act.



Key: 1: No (or not undertaken/completed) 4: Developed, not adopted by Council
 2: Planned in next 12 months 5: Yes (or completed)
 3: In progress (or under development) 6: Unknown

Key>	1	2	3	4	5	6
2006	9%	19%	7%	7%	58%	0%
2007	12%	14%	5%	2%	67%	0%
2008	7%	2%	14%	2%	74%	0%

District Council of Streaky Bay. The SA Local Government Financial Management Group makes available on a regular basis, information from the “Local Government Price Index” to assist Councils to better estimate real costs of their services.

8. Financial Reporting

This topic examines Councils' approaches to financial reporting to the community.

Findings

- The majority of Councils have neither adopted policies regarding their financial reporting responsibilities to their communities nor consulted with their communities about these.
- Almost 90% of Councils ensure that their internal financial reporting is consistent with external reporting requirements.
- More than 20% of metropolitan Councils indicate that their annual financial statements currently reference their future infrastructure renewal/replacement program as set out in their infrastructure and asset management plan (remembering of course that the Local Government Act requires this plan to be in place by November 2008) however no country Councils are currently doing this.
- The LGA makes the Model Financial Statements available to Councils for use in the preparation of their annual financial reports. Almost all Councils support the preparation of their financial statements in this format (see Graph 17 overleaf).

Conclusions

The Financial Sustainability Inquiry's report has been in circulation for three years now and since its release both the LGA and member Councils have made considerable progress with programs to address the issues raised.

This paper has reported the results of a survey of Councils, undertaken to measure the current "state of play" as at June 2008 with respect to progress within the Local Government sector in implementing the intent of the Inquiry's recommendations.

The paper shows that significant progress has been made in Councils' financial reporting, audit issues (including establishment of Audit Committees as required under the Local Government Act), monitoring of financial performance and the provision of training and information for both Council Members and staff. Many Councils are well advanced with the preparation of their Infrastructure and Asset Management Plans and Long-term Financial Plans which are required under the Local Government Act to be in place by November 2008 while others are still progressing these.

However not all Councils have the capacity to quickly undertake a significant reform program such as that outlined by the Inquiry's recommendations. In particular many country Councils do not have the resources and expertise available to address all issues raised by the Inquiry. It is important for Councils and the LGA to work co-operatively, sharing the results of their work, their ideas and their expertise so that all Councils can share in the benefits that flow from this collaboration.

The LGA will continue to roll out its Financial Sustainability Program to support Councils' own endeavours and is currently undertaking a review of its Program to advise the direction of this work over the next several years.

This report, provided annually to the LGA's AGM, will enable both the sector as a whole, and individual Councils, to monitor progress towards improved financial sustainability.

Appendix A: Percentage Distribution of All Councils' Responses for Each Issue

Understanding the Financial Sustainability Inquiry Report and its Implications

		No (or not under-taken/commented)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has considered the recommendations in the Inquiry report and its own report prepared by Access Economics (where obtained), with a view to adopting measures to address the recommendations and/or influencing the LGA responses to the report's recommendations.	2006	2	14	14	2	67	0
	2007	5	2	14	2	77	0
	2008	0	2	14	2	74	7
Council has adopted financial sustainability, as defined at the LGA's 2006 March AGM, as one of its key objectives.	2006	9	14	26	12	40	0
	2007	2	7	14	5	70	2
	2008	2	5	9	0	84	0
Council has provided information to its community and/or the media regarding the status of its "financial sustainability" including highlighting the challenges it is facing and/or the actions it is proposing to take.	2006	9	5	5	7	74	0
	2007	2	5	7	2	84	0
	2008	0	2	2	2	93	0

Understanding the Financial Sustainability Inquiry Report and its Implications cont.

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
	%	%	%	%	%	%
Council has established targets for the seven financial sustainability indicators adopted at the LGA April 2007 General Meeting and is regularly reporting on the indicators and targets.	2006	n/a	n/a	n/a	n/a	n/a
	2007	5	14	35	19	28
	2008	0	16	19	9	56

Financial Management Skills Development of Council Members and Staff

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has conducted a workshop/training session to assist Council Members to better understand:							
- their roles and responsibilities in relation to financial management (including the need to recognise that, collectively, Members are accountable for the financial sustainability of their Council);	2006	5	44	16	2	33	0
- how to interpret financial statements and financial information.	2007	5	9	9	0	77	0
	2008	0	7	7	2	84	0
Council includes in its induction program for new Council members information/training to assist the new Members understand:							
- their roles and responsibilities in relation to financial management;	2006	14	33	21	2	30	0
- how to interpret financial statements and financial information.	2007	9	2	19	0	70	0
	2008	7	2	16	0	74	0
All Council Members have attended Financial Sustainability training sessions co-ordinated by the LGA.	2006	n/a	n/a	n/a	n/a	n/a	n/a
	2007	33	7	19	0	40	2
	2008	37	7	21	2	30	2
Council has assessed its financial management skills base within staff, identified training needs and taken steps to address these needs (e.g. recruitment, resource sharing, conducting training etc).	2006	7	23	16	5	49	0
	2007	0	9	26	2	63	0
	2008	5	7	14	2	72	0

Financial Management Skills Development of Council Members and Staff cont.

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
	%	%	%	%	%	%
Council has a co-ordinated program for staff to attend relevant LGA Financial Sustainability (and related) training sessions.						
2006	n/a	n/a	n/a	n/a	n/a	n/a
2007	5	2	7	7	79	0
2008	0	2	5	2	91	0

Financial Information, Assessment and Governance

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has reviewed its financial governance practices, including adopting policies in relation to issues such as:							
- managing borrowings and financial assets;	2006	7	30	37	5	21	0
- funding strategies for major categories of services;	2007	5	19	53	9	14	0
- recognising and managing financial risks;	2008	0	19	37	9	35	0
- the number and nature of services it will provide.							
Council has established its Audit Committee and adopted a terms of reference for the Committee.	2006	n/a	n/a	n/a	n/a	n/a	n/a
	2007	0	2	2	2	93	0
	2008	0	0	0	2	98	0
Council has reviewed its specification for the conduct of its annual audit.	2006	26	33	12	5	23	2
	2007	14	30	16	7	30	2
	2008	7	14	14	5	60	0
Council and/or its CEO has reviewed its internal control mechanisms and identified areas of strength/improvement.	2006	2	23	19	2	53	0
	2007	2	21	30	7	40	0
	2008	7	2	26	5	60	0

Financial Information, Assessment and Governance cont.

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has undertaken a financial risk assessment.							
	2006	19	37	19	9	16	0
	2007	12	47	14	9	16	2
	2008	14	30	28	5	23	0
Council has complied with prudential management arrangements for current/proposed major projects where required under the Local Government Act.							
	2006	0	7	7	2	77	7
	2007	2	2	9	7	74	5
	2008	5	0	5	7	74	9
Council understands its obligations in relation to the conduct of an efficiency and economy audit, including situations where this type of audit is warranted.							
	2006	14	16	14	2	51	2
	2007	5	9	9	5	70	2
	2008	7	7	9	2	74	0

Long Term Financial Management Plan

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has adopted a Long Term Financial Management Plan.							
	2006	0	21	33	7	40	0
	2007	2	16	30	7	44	0
	2008	0	5	37	16	42	0
Council's long-term financial plan links to its strategic plan objectives, service delivery requirements and annual business plan.							
	2006	2	35	28	2	33	0
	2007	2	19	37	5	37	0
	2008	0	7	40	9	44	0
Council's long-term financial plan provides for the achievement of, at least, a break-even operating result within 5 years.							
	2006	5	23	26	7	40	0
	2007	0	21	28	2	47	2
	2008	0	5	37	5	53	0
Council's long-term financial plan provides for a level of capital expenditure on the renewal or replacement of existing assets equal to that identified as required in its Infrastructure and Asset Management Plan within 5 years.							
	2006	5	28	35	7	26	0
	2007	0	28	47	2	23	0
	2008	0	5	53	9	33	0

Long Term Financial Management Plan cont.

		No (or not under-taken/commented)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has adopted an appropriate target range for its net financial liabilities, taking into account:							
- asset renewal and replacement needs identified in its Infrastructure and Asset Management Plan; and	2006	5	44	30	9	12	0
- the level of net financial liabilities projected in its Long Term Financial Plan.	2007	2	28	40	14	16	0
	2008	0	9	37	12	42	0
Council's long-term financial plan projects its rating requirements, predicted revenue from grants, fees, fines and service charges etc.							
	2006	0	23	23	2	51	0
	2007	0	21	26	2	51	0
	2008	0	5	37	7	51	0
Council has published, in its Long Term Financial Plan, current and projected information relating to key financial sustainability indicators and a comparison of actual values against benchmark values.							
	2006	23	33	30	2	12	0
	2007	7	19	33	12	30	0
	2008	7	9	40	7	37	0
Council supports the publication of sector wide comparative information in a standard format.							
	2006	n/a	n/a	n/a	n/a	n/a	n/a
	2007	12	5	7	0	65	12
	2008	5	2	12	7	67	7

Service Provision

		No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has an accurate picture of the costs associated to the delivery of individual services.	2006	5	5	26	2	63	0
	2007	0	2	14	2	81	0
	2008	0	7	19	0	74	0
Council has an accurate picture of its infrastructure/asset costs for renewal, maintenance etc relevant to the services it delivers	2006	2	21	47	2	28	0
	2007	0	5	44	9	42	0
	2008	0	5	51	9	35	0
Council has undertaken an assessment/review of the mix of services provided and funding mechanisms to determine whether this mix should continue.	2006	23	19	35	5	19	0
	2007	14	19	23	5	37	2
	2008	14	26	28	5	28	0
Council has adopted a service provision policy that will underpin its further decision making regarding:	2006	35	28	33	0	5	0
- the services it will provide;							
- the link between these services and its strategic plan, including financial management and asset management plans;	2007	23	30	33	2	12	0
- funding approach (user pays, rates, government grants etc);							
- commitments to publish outcomes of service reviews/assessments;							
and consulted its community regarding this policy.	2008	23	28	33	5	12	0

Service Provision cont.

		No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has put in place a process for the regular review of its services and the nature of their delivery.	2006	26	16	30	2	23	2
	2007	12	23	21	7	35	2
	2008	14	23	26	5	33	0
Council has comprehensively explored options for resource sharing as an approach to more efficient service delivery and has identified those options it will pursue and the partners it will seek to engage with.	2006	2	14	40	0	44	0
	2007	7	14	30	7	42	0
	2008	5	16	40	2	35	2
Council has published the results of the outcomes of its service reviews and experience with efficiency initiatives.	2006	44	21	16	2	16	0
	2007	42	16	16	5	21	0
	2008	33	23	12	2	30	0
Council is using the cost indicators information produced by the Local Government Financial Management Group in collaboration with the ABS and the LGA to understand the real cost of delivering services in a Local Government setting.	2006	28	26	19	5	23	0
	2007	12	19	12	7	51	0
	2008	12	12	19	7	51	0

Infrastructure and Asset Management Plan

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has adopted an Asset/Infrastructure Policy that will assist it to make decisions regarding:							
- maintenance programs, including quantifying renewal, replacement or backlog;	2006	7	40	33	5	16	0
- procurement of new assets;							
- recording of assets (asset register);							
- valuation/revaluation of assets, including non-financial assets;	2007	2	28	47	7	16	0
- distinguishing between capital expenditure for renewal, replacement and for new/upgraded assets;							
- valuations and depreciation costs;							
- and related matters.	2008	0	14	51	9	26	0
Council has consulted its community regarding its Asset/Infrastructure Policy.							
	2006	42	33	19	2	5	0
	2007	16	56	12	5	12	0
	2008	19	28	37	2	14	0
Council has put in place mechanisms to prepare and adopt an Infrastructure and Asset Management Plan.							
	2006	5	23	33	0	40	0
	2007	0	23	37	0	40	0
	2008	0	9	37	7	47	0
Council has adopted an independently verified valuation methodology for its non-financial assets which results in annual adjustments to the 'fair value' of infrastructure assets (thus avoiding the need for specific re-valuations every 5 years).							
	2006	37	12	16	5	30	0
	2007	14	26	21	5	33	2
	2008	14	16	19	7	44	0

Infrastructure and Asset Management Plan cont.

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council ensures it records and reports its annual capital expenditure distinguishing between the renewal or replacement of existing assets and acquiring new assets or upgrading existing assets.	2006	19	21	21	7	33	0
	2007	0	2	19	5	74	0
	2008	0	5	12	2	81	0
Council has ascertained its skill requirements in relation to asset management and planning and has a strategy in place to address areas where skills development is required.	2006	16	16	26	7	35	0
	2007	5	5	30	5	53	2
	2008	2	5	28	0	65	0

Annual Planning, Budgeting and Rating

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has analysed its budget inputs to be able to present its budget proposals to the community on a “no policy change/policy change” format.	2006	28	21	9	2	40	0
	2007	16	14	5	0	53	12
	2008	14	12	16	2	49	7
Council has considered the “Local Government Price Index” prepared by the Local Government Financial Management Group in co-operation with the LGA and the ABS to better estimate the real costs of the provision of Council services.	2006	16	14	2	0	67	0
	2007	9	5	5	0	81	0
	2008	5	2	7	2	81	2
Council has considered a range of indicators of capacity to pay including Average Weekly Earnings in assessing its budget and rates decisions.	2006	21	7	14	2	56	0
	2007	14	9	5	2	70	0
	2008	19	7	9	0	63	2
Council has a communications plan to inform its ratepayers of the percentage of its revenue (including rates) spent on the various services it provides, including administration.	2006	2	5	7	2	84	0
	2007	5	5	7	5	79	0
	2008	7	5	7	0	81	0

Annual Planning, Budgeting and Rating cont.

		No (or not under-taken/commented)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has developed and implemented a communication plan to inform its community about any infrastructure backlog, services issues and rating proposals, including mechanisms for the community to have input, prior to the setting of the budget.	2006	14	19	14	2	51	0
	2007	7	16	5	7	65	0
	2008	2	5	23	0	70	0
Council's financial reporting includes detail on such issues as:							
- factors affecting the capacity of individual ratepayers to bear increases in their per-property rates bill;	2006	26	14	23	5	30	2
- tax expenditures;							
- rating exemptions for government properties or concessions for properties that result from government policy;	2007	23	9	14	2	49	2
- the proportion of their total expenditures due to State Government policy/regulation.	2008	28	9	14	0	49	0
Council has scheduled information sessions for its Council Members to assist them to understand the full range of rating and rating concession options available in the Local Government Act.	2006	9	19	7	7	58	0
	2007	12	14	5	2	67	0
	2008	7	2	14	2	74	0
Council has up to date property valuation, demographic and socio-economic information and a system in place to "test" various rating models to understand the impact of potential changes in rating methods and quantum on all segments of its community.	2006	9	7	12	2	70	0
	2007	7	2	7	5	79	0
	2008	12	2	12	0	72	2

Annual Planning, Budgeting and Rating cont.

		No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has adopted a rate cap in order to slow the impact of uneven valuation growth, recognising the impact on other ratepayers.	2006	30	0	0	5	65	0
	2007	35	0	0	0	65	0
	2008	35	2	0	0	60	2
Council has prepared its annual budget based on the requirements of its long term financial plan supported by its infrastructure and asset management plan.	2006	5	33	23	0	40	0
	2007	9	16	28	5	42	0
	2008	5	16	35	9	33	2

Financial Reporting

		No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown
		%	%	%	%	%	%
Council has adopted a policy regarding its financial reporting responsibilities to the community.	2006	53	19	16	0	12	0
	2007	35	37	16	2	9	0
	2008	26	37	16	2	19	0
Council has consulted the community about this policy.	2006	60	23	9	0	7	0
	2007	44	40	9	2	5	0
	2008	42	35	14	0	9	0
Council ensures its internal financial reporting is consistent with external reporting requirements.	2006	7	12	9	2	70	0
	2007	5	9	9	5	72	0
	2008	0	5	5	2	88	0
Council's annual financial statements reference its future infrastructure renewal/replacement program as set out in its Infrastructure and Asset Management Plan.	2006	26	35	30	0	9	0
	2007	23	28	37	2	9	0
	2008	9	19	56	9	7	0

Financial Reporting cont.

	No (or not under-taken/commenced)	Planned in next 12 months	In progress (or under development)	Developed, not adopted by Council	Yes (or completed)	Unknown	
	%	%	%	%	%	%	
Council has endorsed that its financial statements will be prepared in the format of the Model Financial Statements for SA Local Government.	2006	16	16	16	12	40	0
	2007	7	0	7	14	72	0
	2008	0	0	2	2	95	0
Council has endorsed that its budget papers and reports on financial outcomes will include a summary statement in the format as agreed at the LGA's General Meeting in March 2006.	2006	12	14	19	5	44	7
	2007	5	7	5	5	74	5
	2008	0	2	5	2	91	0