Auditor-General's Report – Local Government Authorities and Business Units 2009-10

Errata

The following errors were identified in the above report table in the Parliament on 23 June 2011:

Page 8

First dot point – generated total revenue of $931m should be $936m.

Second dot point – generated $332m in rates should be $337m.

Fourth dot point – combined deficit of $31.975m should be $26.811m.

Page 35

Under the heading Comprehensive Income Statements the amount reported as the combined total surplus of $310.242m should be $315.406m with the resulting percentage of 178.9% changing to 181.6%.

Page 36

The line commencing 'Excluding these items' includes reference to a combined deficit of $31.975m which should be $26.811m.

The line commencing 'On a Comprehensive income basis' includes a reference to surplus totalled $2.393m which should be $7.557m.

The paragraph commencing 'Councils generated $331.924m' should be $337.088m.

Tasmanian Audit Office

Strive, lead, excel
To Make a Difference

Report of the Auditor-General

Volume 4 - **Part 1**

Local Government Authorities, including Business Units 2009-10

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (the Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. As defined by the Act, State entity includes all public sector entities and those established under the *Local Government Act 1993*. Specifically, the definition covers an agency, council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

We also audit those elements of the Treasurer's Annual Financial Report which report on financial transactions in the Public Account, the General Government financial report and the Whole of Government financial report.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing financial reports, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to State entities to ensure sound financial management.

In the main accountable authorities prepare financial reports consistent with Accounting Standards and other mandatory financial reporting requirements in Australia. On occasion reports are "special purpose financial reports" such as the Public Account Statements. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, we issue a variety of reports to State entities and Responsible Ministers, and we report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits, compliance audits and carry out investigations. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), legislation, account balances or projects.

Investigations can relate only to public money or to public property.

Performance and compliance audits and investigations are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year. In doing so the Auditor-General is providing information to the Parliament to assist both the Legislative Council and the House of Assembly in their review of the performance of Executive Government.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

TASMANIA

2011
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL No. 1 of 2011

Volume 4
Part 1

Local Government Authorities and Business Units 2009-10

June 2011

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the Audit Act 2008

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

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23 June 2010

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of Local Government Authorities including Business Units for the year ended 30 June 2010.

Yours sincerely

H M Blake
Auditor-General

1. FOREWORD

In recent years my Office has broadened our analysis of the financial performance and position of local government councils by including in reports to Parliament comparative analysis and assessments as to financial sustainability. In the absence of such analyses by other parties, we continue this practice. In doing so I acknowledge that the indicators of financial sustainability used in this Report, the criteria and benchmarks applied, and therefore the conclusions drawn, are not perfect.

My conclusions as to financial sustainability are based on trends drawn from four to five years of historical data, therefore not taking into account strategies councils may be planning to implement in future.

With continuous improvement in mind I have been liaising with various parties, including councils, to develop a suite of financial sustainability indicators that all parties should be applying in assessing, and reporting to ratepayers, this important element of the financial status of councils. It is my view that ownership of the appropriate indicators and reporting outcomes should be owned by councils and those who regulate them rather than me or my Office. However, I will continue to pursue development of appropriate and more widely accepted indicators with an objective being to see sustainability improve.

HM Blake

Auditor-General

23 June 2011

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2. INTRODUCTION

This Report deals with the outcomes from financial statement audits of Local Government Authorities and associated business units reporting for the financial year ended 30 June 2010. In addition, chapters on financial sustainability and comparative analysis covering all councils are again included.

Our Report includes details of matters raised with entity management during the course of audits, but only where the matter(s) raised was significant. The rationale for inclusion or otherwise rests on our perception of the public interest in each point and the need to confine comments to those matters that have more than a managerial dimension.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 10 June 2011.

The Report is based on the administrative arrangements set out under the provisions of the *Administrative Arrangements Act 1990* as at 30 June 2010 and, in addition to this Introduction, includes:

- In Part 1:
    - o An Audit Summary
    - o Timeliness and Quality of Financial Statements
    - o Local Government Financial Sustainability
    - o Local Government Comparative Analysis
    - o Local Government Business Units including Local Government Association of Tasmania
- In Part 2:
    - o Local Government Councils.

PRESENTATION OF FINANCIAL INFORMATION - COUNCILS

The review and analysis of the financial statements of councils covers the comprehensive income statement, statement of financial position, cash flow statement and financial analysis. In reviewing the two financial periods, it is important to recognise 2009-10 was the first year councils was not responsible for water and sewerage activities. Consequently, in most cases, movements in expenditures and revenues, assets and liabilities and cash flows between the two years are likely to vary significantly as a result of the water and sewerage activities being transferred to one of the three water Corporations on 1 July 2009. For this reason, other than in the financial analysis section of each chapter where fours years' data is examined, results for years prior to June 2009 are not included in our analysis.

However, for the Statement of Financial Position, to facilitate comparison with the position at 30 June 2010, that section of the Chapter also shows the position at 1 July 2009 excluding the water and sewerage assets and liabilities transferred to one of the water Corporations.

We also note our decision to re-format the Statement of Comprehensive Income by reporting interest income and expense separately. In the case of many councils this highlighted the relatively high reliance on interest as a source of income.

PRESENTATION OF FINANCIAL INFORMATION – LOCAL GOVERNMENT BUSINESS UNITS

In these chapters, depending on the size of each entity, we provide summarised analysis rather than the more detailed approach taken with councils.

3. AUDIT SUMMARY

OVERVIEW OF LOCAL GOVERNMENT

Tasmania's 29 councils make significant contributions in financial terms to the activities of our State. They manage significant infrastructure associated with the provision of services to ratepayers. These observations are supported by the following statistics for the financial year ended 30 June 2010 when councils:

- generated total revenues of $931m (2008-09, $867m) inclusive of assets brought to account for the first time such as $232m for Launceston City Council's museum assets
- generated $332m ($463m) in rates with 2009-10 being the first financial without water and sewerage charges
- incurred $226m ($240m) in employee costs employing 3 529 (3 607) full time equivalent employees (FTE) which represented 7.7 (8.6) FTE for every 1000 people living in Tasmania
- excluding capital revenue sources, on an "operating" basis, for the year ended 30 June 2010 recorded a combined deficit of $31.975m ($9.236m)
- managed total assets recorded at $7.979bn ($8.126bn) of which $5.549bn ($7.196bn) was infrastructure related with the decline primarily relating to 2009-10 not including water and sewerage assets
- held investments of $1.756bn in the three regional water Corporations. This amount follows the write-down of initial investments in the water Corporations, represented by net assets transferred on 1 July 2009, by $487m
- invested $217m ($255m) in new infrastructure related assets.

Based on data available from the Australian Bureau of Statistics, our major cities' populations represented 42.16% (42.36%) of the total population, but only covered 2.9% of the State area in square kilometres. Conversely, the 13 smaller rural councils combined population represented 13.49% (13.45%) of the total population, but covered 59.7% of the State's area in square kilometres.

FINANCIAL PERFORMANCE OF COUNCILS

Comparative analysis

Key areas related to financial performance of councils in 2009-10 identified from our audits included:

- Of the 29 Tasmanian councils, 16 (2008-09; 15) failed to achieve at least a break even operating margin with breakeven or better being indicated by an operating margin of one or greater than one. A number of these councils have incurred deficits for some years and in some cases budgeted for deficits.
- In 2009-10 the self financing ratio, which includes the capacity of councils to generate operating cash flows, decreased to 22.2% (29.5%) with the decline in the main associated with the loss of water and sewerage associated net cash inflows.
- In the four years to 30 June 2009, councils' revenues from their own sources averaged slightly above 80% but declined to 78% in 2009-10 mainly due to the impact on them of lost water and sewerage revenues.
- Seven councils (six in 2008-09) had rate revenue to operating revenue ratios of less than 50% meaning, in general, they were heavily reliant on recurrent grant funding. Three of these councils also had the lowest average rates per rateable valuation although they generated relatively high rate revenues per head of population.
- Current ratios in the last two years were well above benchmark of one with, individually, no council having a ratio of less than one at 30 June 2010 indicating that councils were in a strong position to meet short term commitments.
- Smaller rural councils' grants per head of population were considerably greater than other councils, for example Flinders, $1 764, and King Island, $1 198, compared to Hobart, $69, or Clarence, $95.
- Rural councils manage a lower level of infrastructure assets, but across larger geographical areas.
- Debt service ratio averaged 1.8 % which is low. Total council borrowings were $64.428m ($164.713m) after transferring $101.525m debt to the three water Corporations on 1 July 2009.
- Rate debtors were $10.448m at 30 June 2010 which represented only 4.7% of total rates raised.
- Nineteen councils were assessed as having Asset renewal ratios below our benchmark of 100% (10). In some cases the benchmark had not been achieved for more than three years.

Financial Sustainability

From our assessment of the financial sustainability of the 29 councils, based on financial performance over the past four financial years, we concluded that:

- No single Tasmanian council is financially unsustainable.
- 12 councils were assessed at moderate risk based on their operating performance. This assessment took into account their operating results, level of dependence on external funding and their self financing capability. So, for example, if a council recorded operating deficits for a number of years in succession, a likely outcome was our assessment of risk at moderate or high.
- All councils were assessed at low risk from a liquidity and debt management perspective. This assessment took into account their liquidity and capacity to manage their debt including, where relevant, defined benefit superannuation obligations.
- 13 councils were assessed at moderate risk for asset management. This assessment took into account:
  - o councils' investments in existing and new assets relative to annual depreciation charges and
  - o the capacity of councils' infrastructure assets to provide services to ratepayers based on their asset consumption ratios.

  The major reasons for a council to be assessed as being at moderate risk for asset management included:
  - o under investment in its existing and new assets, with either the asset renewal or asset investment ratios or both below benchmark, on average, over the four-year period of our assessment and
  - o asset consumption ratios for either road or total infrastructure assets indicating council had utilised in excess of 40% of the service potential of the assets.

WATER AND SEWERAGE REFORMS

Council investments in water corporations

On 1 July 2009, all councils transferred their water and sewerage assets, liabilities and staff (where applicable) to the three regional water corporations. The transfers resulted in initial investments in the three water corporations, based on the recording by councils of infrastructure assets at depreciated replacement cost, totaling net $2.243bn.

However, following the transfer, councils' investments were classified as a financial asset requiring them to record their ownership interest in a water corporation at 30 June 2010 at fair value. In this case fair value was their ownership interest in each corporation's net assets at 30 June 2010. Each corporation reported its water and sewerage assets taken over from councils at fair value based on their discounted future earning capacity rather than depreciated replacement cost. This resulted in most councils having to write down their investment significantly. In total, the investments in the corporations were written down by $487.561m to $1.756bn.

It is noted that the investment of $1.756bn at 30 June 2010 exceeded by $27m the combined net assets of the three water corporations at this date. This difference arose because of changes during the period in ownership interests attributed to individual councils which had not been finally resolved by 30 June 2010 meaning that further write downs will need to be recorded by some councils in 2010-11.

Impact on operating performance of councils

Our high level analysis of the impact on councils of their loss of water and sewerage activities indicates the transfer was most likely to have been a major contributing factor to changes in financial performance between 2008-09 and 2009-10. Areas most impacted were lower:

- rate revenue and user charges income
- interest revenues arising from transfer of cash balances
- employee costs and entitlements, because 432 employees were transferred
- finance costs resulting from the transfer of debt
- depreciation charges
- operating costs, in particular maintenance and bulk water charges
- cash generated from operations leading to reduced self financing capability.

In some cases councils received, in recognition of lost net revenue, priority dividends from the water corporations which totalled $16.190m in 2009-10. This amount represents dividends reported by councils in their cash flow statements in the year ended 30 June 2010.

US SUB-PRIME MARKET DOWNTURN

At 30 June 2010 three Councils continued to hold investments in Collaterised Debt Obligations (CDOs). As discussed in Report No.1 2009, Volume 2 – Local Government Authorities 2007 08, the value of CDOs held by three Councils fell significantly as a result of the US Sub-prime market downturn and these investments were written down or impaired at 30 June 2008. Movements and values in the CDOs are reported below:

Council	Face value 30 June 2009	Face value 30 June 2010	Fair value 30 June 2010	Fair value 30 June 2009	Fair value 30 June 2008
	$'000s	$'000s	$'000s	$'000s	$'000s
Circular Head	4 500	2 500	510	376	117
Huon Valley	4 000	1 000	94	215	782
Sorell	500	500	0	0	204
Total	**9 000**	**4 000**	**604**	**591**	**1 103**

movement in face value represents lost principal

While the above councils were negatively impacted by investing in CDOs, we again note they did not contravene the broad investment guidelines in the *Local Government Act 1993.* In addition, councils must comply with the *Trustee Act 1898*, which also provides broad guidelines and criteria that a trustee should take into account when investing.

MATTERS ARISING FROM CURRENT AUDITS

(including where relevant actions arising from matters previously reported)

Derwent Valley Council

Willow Court transactions

In our report on the activities of Council at 30 June 2009 we provided information regarding the Willow Court redevelopment. Council has now set up the Willow Court and Barracks Working Group Special Committee (the Special Committee) which was charged with the following tasks in part:

- assist Council in the development, protection and promotion of the Willow Court precinct
- make recommendations to Council on specific projects
- monitor projects on behalf of the community
- facilitate communication between the Council and the community.

In addition, Council has been in consultation with the Australian and State governments in relation to funds provided for Willow Court. As previously reported in Volume 2, in December 2009 Council settled its commitments to the Federal government by repaying $0.250m, being unspent funds. The State government agreed to enter into negotiations with Council for a reallocation of $0.750m received to "priority projects" under a new grant deed. These negotiations are expected to be finalised by 30 June 2011.

Derwent Valley Economic Renewal Group Inc. (Valley Vision)

We previously recommended that both Derwent Valley Economic Renewal Group Inc (Valley Vision) and Council take steps to clarify to the Derwent Valley community their respective roles, where these overlap and why. Council responded by transferring all responsibility for Willow Court to the Special Committee and Council is still reviewing the role of Valley Vision.

Launceston City Council

In our report on the activities of Council at 30 June 2009 we noted it accrued costs totalling $25.836m associated with the Invermay flood protection enhancement project with these costs capitalised as property, plant and equipment. At 30 June 2009 Council had invested and/or accrued a total of $30.706m on this project.

During 2009-10, Council's continued acquisition of properties required to facilitate commencement of the Invermay flood protection enhancement project. At 30 June 2010 Council had invested and or accrued a total of $39.400m on this project.

The initial project budget was $39.000m and was to be funded equally by the State Government, the Commonwealth Government and Council. During 2009-10, the budgeted cost for the project increased by approximately $23.000m, with Council seeking additional funding from both the State and Commonwealth Governments. Council is awaiting confirmation of the additional funding.

Northern Midlands Council

In our report on the activities of Council at 30 June 2009 we reported that a receivable relating to remedial and capital works totalling $3.192m expended at the Longford wastewater treatment plant was written off. At that time legal advice was being sought to determine whether any recovery action was possible.

Follow up during the course of the current audit indicated no legal action will be taken to recover the debt and the matter has been finalised confirming the decision to write off this debt at 30 June 2009.

Burnie City Council

After the completion of the audit, we noted that the audited financial statements included a classification error in that revaluation reserves arising from previous revaluations by Council of its water and sewerage assets totalling $22.285m were set off against net assets transferred to Cradle Mountain Water instead of being transferred to Accumulated surpluses.

This resulted in the write down of Council's investment in Cradle Mountain Water being reported as $13.211m when it should have been $35.496m.The impact of this misclassification meant that Council reported a decrement in the 2009-10 revaluation of its remaining assets of $17.447m when this should have been an increment of $4.838m. There was no impact on the reported Comprehensive deficit of $23.650m.

Devonport City Council

An organisational restructure which was implemented during June 2010 resulted in the removal of two directorates with those functions combined into the three remaining functional areas. We are advised the restructure was aimed at assisting Council to reach a balanced budget position and resulted in a number of positions being made redundant.

George Town Council

Prior to the completion of the 2009-10 audit, it was discovered that an employee had allegedly misappropriated funds (alleged fraud) from Council over a number of years. The alleged fraud related to the officer having administrator rights and therefore the ability to manipulate creditor details whilst being employed to process creditor payments. It was alleged that misappropriations commenced in 2004 with the total allegedly misappropriated amounting to $0.416m including $0.186m in 2009-10.

In March 2011, the officer pleaded guilty to charges related to the fraud in the Supreme Court.

Advice from Council is that its Insurers have indicated a claim for the recovery of losses incurred will be accepted, although the full amount of the alleged misappropriation will not be recovered. It is expected that approximately $0.350m will be paid by Council's Insurer in settlement of the claim. This amount was not accrued at 30 June 2010.

Southern Midlands Council

During 2009-10, we noted a Council credit card was used for non-Council related expenditure by an elected member. All credit card transactions were examined and it was determined:

- the majority of transactions related to private fuel purchases
- no impropriety was intended by the custodian of the card.

The matter was referred to Council and it was resolved that the credit card was to be withdrawn and cancelled. A repayment schedule was established to recover all outstanding personal expenditure.

West Coast Council Relocation of Council Offices from Zeehan to Queenstown

In January 2008, following negotiations with TAFE Tasmania (TAFE), Council announced the relocation of Council chambers from Zeehan to Queenstown. The relocation was to occur as soon as suitable modifications to the TAFE building in Queenstown had occurred. The move coincided with discussions with the Department of Health and Human Services' desire to use Council's Zeehan offices to establish a medical clinic.

The decision to relocate Council's premises generated considerable concern in the community. Council were petitioned, public meetings held and an elector poll conducted. Ultimately in July 2008 Council resolved to continue with the relocation consistent with its original decision. The relocation took two years with Council moving into its new premises in Queenstown in March 2009.

Following requests from a number of parties, we decided to, in the public interest, examine Council's compliance with relevant legislative and internal policy requirements as these related to procurements associated with its decision to move. Our work focussed on Council's contracting and internal reporting processes and did not encompass the merits of its decision to relocate.

This examination highlighted a number of areas for improvement Council should consider when embarking on projects and transactions of this nature and size in future and we recommended Council:

- improve its budget management and the accuracy of its initial cost estimates
- strictly complies with its Code, improve its advertisement and documentation supporting subsequent evaluation and contract outcomes
- as provided for under the Regulations, and where appropriate, give consideration to providing an exemption from formal tender processes on grounds of remoteness or locality and/or unavailability of competitive or reliable tenders
- when procuring, not change specifications for works without re-testing the market
- review its Code and include the need to establish a procurement review committee for projects, comprising multiple components, with a total cost exceeding $100 000 and which are subject to significant external interest and scrutiny
- establish outcomes and terms of reference for all significant projects in future
- review its Code to require reporting, oversight and monitoring of progress and outcomes of significant projects. In making this recommendation, we acknowledge that Council was provided with monthly reports about capital costs incurred.

4. TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING REQUIREMENTS

Local Government Councils

Pursuant to the Local Government Act 1993 council General Managers are required to prepare financial statements within 90 days after the end of the financial year and then submit them to us as soon as practicable. We have taken this to mean that General Managers should submit financial statements for audit by no later than 30 September as the 90 day period would end on 28 September. There was no legislated requirement for the audit to be completed within a specified timeframe but in all cases we endeavoured to complete the audits in time for papers to be distributed in advance of council annual general meetings, which must be held by no later than 15 December.

Local Government Joint Authorities

The financial reporting requirements for Joint Authorities are specified in the rules of each authority which may vary.

Local Government Association of Tasmania (LGAT)

The *Local Government Act 1993* requires LGAT to prepare an annual financial statement by 31 August and submit this to the Auditor-General. Signed financial statements were received on 31 August 2010 with re-signed financial statements received on 15 November 2010. Our audit report was issued on 23 November 2010. LGAT provided its financial statements within the statutory deadline.

LOCAL GOVERNMENT JOINT AUTHORITIES

The table below summarises the performance by five Joint Authorities included in this Report in satisfying their legislated financial reporting requirement.

Submission of financial statements for audit by Local Government Joint Authorities for the 2009-10 financial year

Joint Authority	Date initial signed statements received by Audit	Date amended or re-signed statements received by Audit	Date of audit report	Comment
Copping Refuse Disposal Site Joint Authority	2 August	n/a*	25 October	1
Dulverton Regional Waste Management Authority	31 August	23 November	24 November	1
Cradle Coast Authority	16 August	n/a*	19 August	1
Southern Tasmanian Councils Authority	4 October	n/a*	30 November	2
Southern Waste Strategy Authority	14 October	n/a*	27 October	3

* n/a – not applicable

Comments

1. These authorities satisfied their statutory financial reporting deadlines.
2. Southern Tasmanian Councils Authority had no statutory reporting deadline.
3. Southern Waste Strategy Authority did not meet its statutory financial reporting deadline of 30 August.

LOCAL GOVERNMENT COUNCILS

The table below summarises the performance by Tasmania's 29 councils in satisfying their legislated financial reporting requirement.

Submission of financial statements for audit by Local Government Councils for 2009-10

Council	Date initial signed statements received by Audit	Date amended or re-signed statements received by Audit	Date of audit report	Comment
Major Cities				
Clarence	28 September	22 October	22 October	2
Glenorchy	22 September	n/a*	23 September	1
Hobart	16 September	n/a*	1 October	1
Launceston	29 September	n/a*	20 October	1
Medium				
Brighton	30 September	n/a*	9 November	1
Burnie	31 August	n/a*	15 November	1
Central Coast	30 August	n/a*	20 September	1
Derwent Valley	30 September	12 November	16 November	2
Devonport	5 October	n/a*	25 October	4
Huon Valley	27 September	n/a*	15 October	1
Kingborough	30 September	n/a*	1 October	1
Meander Valley	27 September	n/a*	22 October	1
Northern Midlands Council	30 September	13 December	13 December	2
Sorell	30 September	n/a*	1 December	1
Waratah-Wynyard	25 October	n/a	27 October	3
West Tamar	29 September	n/a*	20 October	1
Small				
Break O'Day	1 December	n/a*	7 December	3
Central Highlands	20 August	22 November	23 November	2
Circular Head	30 September	11 November	11 November	2
Dorset	30 September	25 November	26 November	2
Flinders	28 October	n/a*	30 November	3
George Town	2 December	n/a*	8 December	3
Glamorgan Spring Bay	6 December	n/a*	6 December	3
Kentish	15 September	12 November	19 November	2
King Island	30 September	n/a*	17 November	1
Latrobe	30 September	n/a*	12 November	1
Southern Midlands	20 August	20 September	27 September	2
Tasman	30 September	24 November	24 November	2
West Coast	29 August	29 September	29 September	2

* n/a – not applicable

Comments

1. These Councils satisfied their legislated financial reporting requirements.
2. These Councils all satisfied their legislated responsibilities but the financial statements submitted required amendment prior to final completion and audit.
3. These Councils submitted their financial statements late therefore failing to comply with the *Local Government Act 1993*.
4. This Council was marginally late in meeting the 30 September deadline for submitting its financial statements.

In summary

Six councils (2008-09, eight) and one (two) Joint Authority failed to meet their statutory financial reporting deadlines.

The financial statements of ten (20) councils and one (three) Joint Authority required amendment prior to audit completion. The amendments were initiated either by management or the audit process. The improvement indicates that quality was better than the previous year.

The high level of failure to comply with statutory reporting requirements and the still higher number of occasions where financial statements required amendment is disappointing. This is particularly so bearing in mind that the *Audit Act 2008* (the Audit Act) will, with effect from 30 June 2011 require all State entities reporting at this balance date (including councils and Joint Authorities) to submit financial statements for audit within 45 days, or 15 August 2011.

The 15 August 2011 deadline will mean that all councils and four of the five authorities will need to bring forward the preparation of their financial statements. Based on this year's results, 24 of the councils and 2 of the authorities will need to bring this forward by over two weeks. This may present a significant challenge to some councils and authorities, particularly those that have not been meeting existing deadlines. We continue to work with all councils and authorities to assist in this process.

5. LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY

INTRODUCTION

In Report of the Auditor-General No 1 issued in June 2010, we included, for the first time, an analysis of the financial sustainability of councils by applying seven selected financial ratios assessed over a four year period. A similar analysis is undertaken for councils in this Chapter, with most ratios representing a five year period. However, in this year's analysis, the current ratio was replaced by the liquidity ratio, the investment gap ratio has been replaced by the asset renewal ratio and a road asset consumption ratio and total asset consumption ratio have been included.

It is emphasised that the analysis in the Chapter is limited to financial sustainability and does not include assessing social or environmental sustainability. We also note that the analysis for the 2009-10 financial period and balances at 30 June 2010 were impacted by the transfer from councils of water and sewerage activities on 1 July 2009.

INDICATORS OF FINANCIAL SUSTAINABILITY

A generally accepted definition of financial sustainability is whether local government have sufficient current and prospective financial capacity to meet their current and prospective financial requirements. Therefore, to be sustainable, local government needs to have sufficient capacity to be able to manage future financial risks without having to radically adjust their current revenue or expenditure policies.[1]

The ratios applied to assess financial sustainability were selected because they provide a set of interrelated indicators enabling self and comparative assessment. Because these ratios provide a method to analyse past results they can be helpful as indicators in forecasting and identifying trends. Therefore, councils can use ratios such as those applied here to assess their own current and future financial performance and position.

These ratios also facilitate comparative assessment between councils and can be used to assess both short-term and long-term sustainability. However, this analysis should be read in conjunction with individual Chapters on each council contained in this Report. The various ratios and observations reported below are only indicators of performance or of financial position. They should not be considered in isolation. We note also that other financial sustainability ratios exist which may have relevance but which are not included. Despite these cautions, taken together these ratios can indicate low, moderate or strong financial sustainability. The indicators used in this Report are:

- Operating margin
- Own source revenue
- Self-financing ratio
- Liquidity ratio
- Debt service ratio
- Asset renewal ratio (last year we also included the asset replacement ratio)
- Asset consumption ratio.

In assessing financial sustainability we have tended to consider these ratios in three groups:

- operating performance
- liquidity and debt management
- asset management.

[1] *Victorian Auditor-General's Report Local Government: Results of the 2008-09 Audits*

The table below provides a description of the indicator, how it is calculated and where applicable a generally accepted benchmark result.

Indicator	Formula	Benchmark	Description
Operating margin	$\frac{\text{Operating revenue}}{\text{Operating expenditure}}$	More than 1.0	This ratio serves as an overall measure of operating effectiveness. A result of less than one indicates a deficit. Operating deficits cannot be sustained in the long-term
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	More than 1.0	Current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows the council's ability to pay its short term debts. A ratio of one or more means there is more cash and liquid assets than short-term liabilities.
Debt service ratio	$\frac{\text{Borrowing costs and repayment of borrowings}}{\text{Total revenue}}$		Indicates the capacity of the council to service debt by repaying principal as well as interest on borrowings. The lower the percentage, the more effectively this can occur.
Investment gap	$\frac{\text{Capital spend}}{\text{Depreciation}}$	More than 100%	Indicates whether the council is maintaining its physical capital by reinvesting in or renewing non-current assets. A result of greater than one indicates that spending is faster than the depreciating rate
Renewal gap	$\frac{\text{Renewal and upgrade expenditure}}{\text{Depreciation}}$	At least 100%	Indicates whether the council has been maintaining existing assets at a consistent rate. A result of greater than one indicates that spending on existing assets is greater than the depreciating rate.
Self financing ratio	$\frac{\text{Net operating cash flows}}{\text{Total underlying revenue}}$		This is a measure of the council's ability to fund the replacement of assets from cash generated from operations. The higher the percentage, the more effectively this can be done.
Own source revenue	$\frac{\text{Total revenue less grants \& external funding}}{\text{Total revenue}}$		Represents revenue generated by a council through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments. The higher the percentage, the less the dependance the council has on external funding.

** Where there is no generally accepted benchmark, we have had regard to trends over time when assessing sustainability.*

*** While there is no generally accepted benchmark, we regard assets consumed to an extent greater than 60% as an indication that assets are ageing therefore requiring attention.*

On the following pages we apply these ratios to the consolidated position for all councils over a five year period (liquidity and asset consumption ratios are over four years) and then comparatively averaging the performance to all councils. All data used in calculating the ratios and preparing the various graphs were sourced from audited council financial statements. Also, within the graphs, where relevant, a blue line represents the actual ratio each year and a red line the benchmark for the period under review.

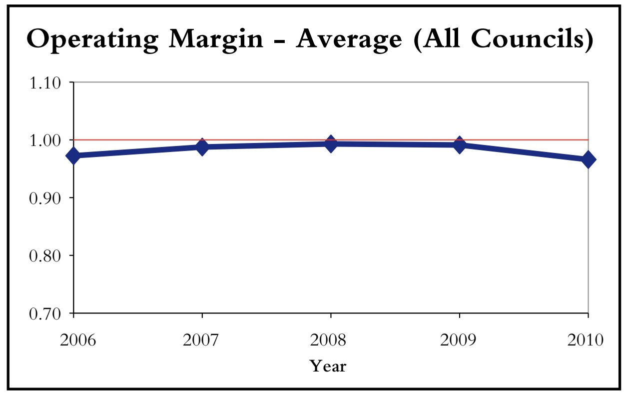
FINANCIAL SUSTAINABILITY TRENDS

OPERATING MARGIN

This ratio serves as an overall measure of financial operating effectiveness. To assure long term financial sustainability, councils should, at a minimum, budget and operate to break even thereby avoiding operating deficits. Doing so would enable councils to generate sufficient revenue to fulfil their operating requirements including coverage of their depreciation charges. Breaking even is represented by an operating margin of one.

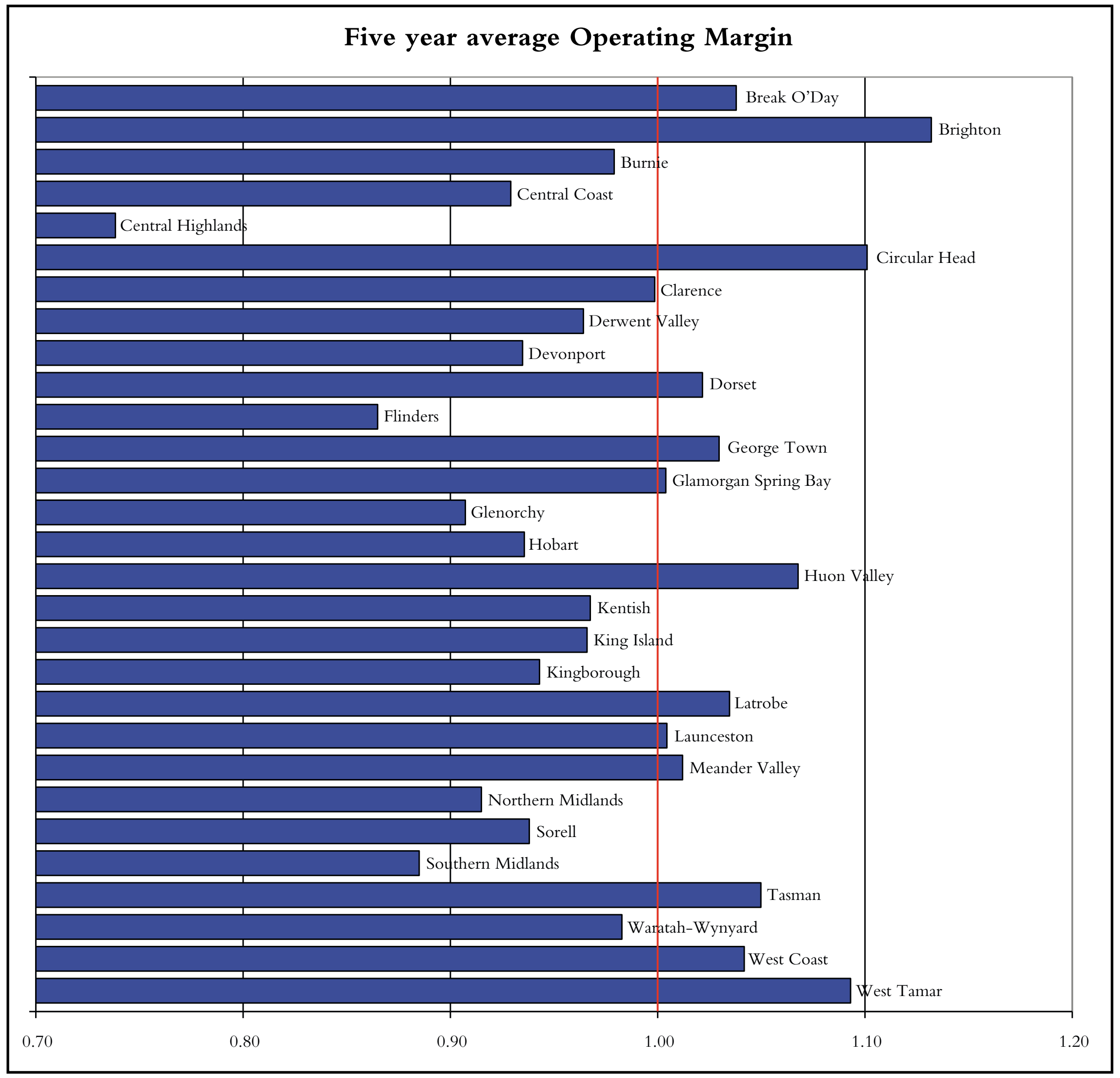
Figure 1 below reports the operating margin achieved on a consolidated basis by all councils in each of the past five years.

Figure 1 Average operating margin achieved by all councils



The average operating margin was below the benchmark of one in all five years under review. The ratio improved from 0.97 in 2005-06 to 0.99 in 2008-09, but declined to 0.97 in 2009-10 with this fall likely, in the main, to have been due to the water and sewerage reforms. A number of council's required priority dividends to overcome lost operating income. Figure 2 below reports the average five-year operating margin achieved by each council.

Figure 2 Five-year average operating margin for each council



The figure shows that 15 councils, on average over the five year period, operated below benchmark. Despite the negative impact of the water and sewerage reforms, this was a slight improvement on the prior year when, on average over four years, 16 councils operated below benchmark. Those councils whose operating margins improved to be above benchmark on average were Meander Valley and Glamorgan Spring Bay while the only council whose operating margins declined to below benchmark on average was Waratah-Wynyard.

Conclusion based on assessment of the operating margin over five years

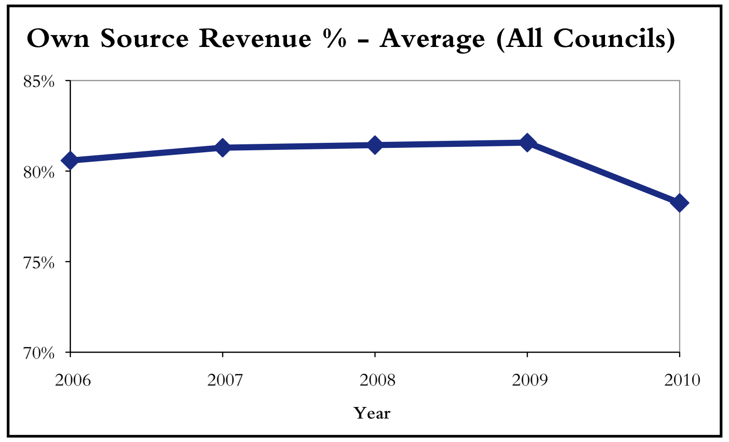
Fifteen councils with an operating margin of less than one remains too high. We acknowledge that in some instances, Hobart City for example, long-term financial management plans have been developed aimed at addressing this. We recommend all councils develop plans with an objective being to move towards positive operating margins in the immediate term.

OWN SOURCE REVENUE RATIO

This ratio calculates the extent to which a council generates revenue from its own sources. The higher the percentage, the less reliant a council is on external funding such as Commonwealth financial assistance grants. There is no generally accepted benchmark for this ratio. However, the higher the reliance on external sources of funding, the greater the financial sustainability risk.

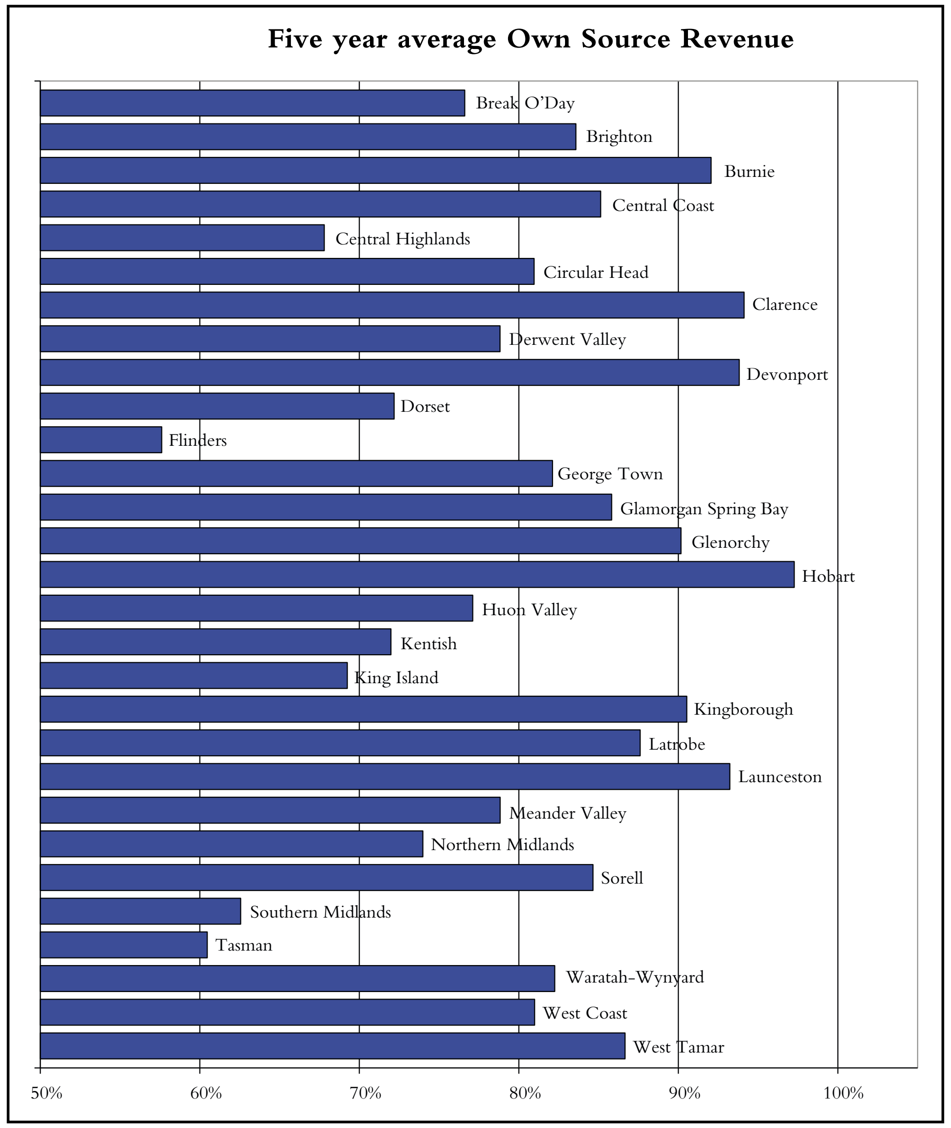
Figure 3 over page reports the own source revenue ratio achieved on a consolidated basis by all councils in each of the past five years.

Figure 3 Average all council own source revenue



Tasmanian councils generated, on average, more than 80% of their revenue from their own sources in the four year period to 30 June 2009 but this declined to 78.2% in 2009-10. The decrease was likely to have been primarily related to the loss of water and sewerage revenue, which on a proportionate basis resulted in grant revenue increasing as a percentage of total revenue. Figure 4 below provides the same information but on a council by council basis.

Figure 4 Five-year average own source revenue by council



In almost every case the percentage own source revenue declined when compared to the average generated in the previous four years with details provided in individual council Chapters.

Conclusion based on assessment of the own source revenue ratio over five years

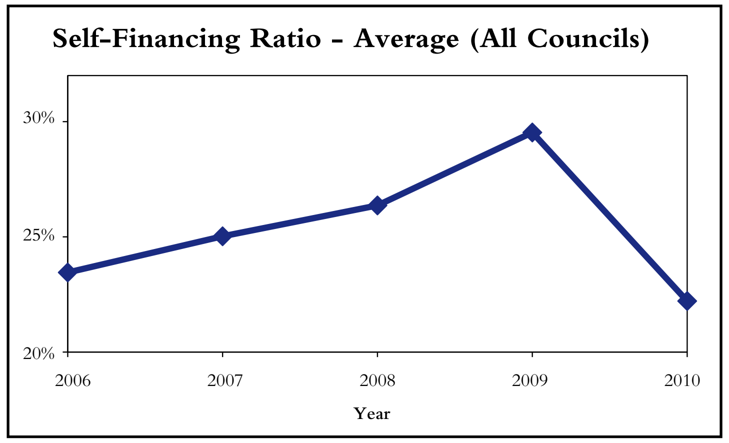
In general, the larger the council, the less reliant it is on external grant funding. These councils are able to generate proportionately higher rate revenues and user charges due to a larger ratepayer base. Conversely, the five lowest ratios were all smaller rural councils whose smaller rate-payer base reduces their capacity to raise revenue from their own sources. Consequently, there was a greater reliance on grant funding.

SELF-FINANCING RATIO

This ratio measures a council's ability to fund asset replacement from cash generated from operations. There is no generally accepted benchmark for this ratio although we would expect an entity to generate operating cash flows at amounts not less than annual depreciation charges.

Figure 5 below reports the self-financing ratio achieved on a consolidated basis by all councils in each of the past five years.

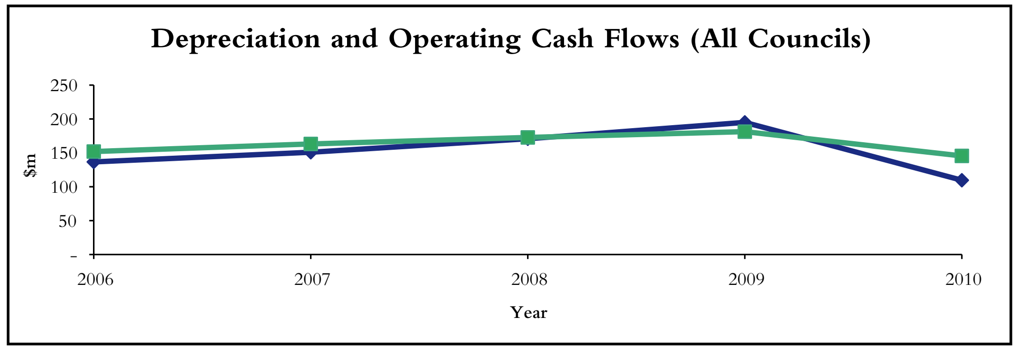
Figure 5 Average self financing ratio for all councils



The self-financing ratio for all councils was 22.2% in 2009-10, a significant decrease from the previous four years which had steadily increased since 2005-06 to 29.5% in 2008-09. This decline represents a total of $85.378m in less cash generated from operations between 2008-09 and 2009-10 and was primarily caused by the loss of water and sewerage net operating cash flows. Priority dividends paid to specific councils to offset the loss of net income were treated as investing cash flows and totalled $16.190m in 2009-10.

Figure 6 below compares consolidated operating cash flows (blue line) generated by all councils in each of the past five years against consolidated depreciation expense (green line) which is included to assist in interpreting the quantum of the self financing ratio. This is done on our basis that we would expect an entity to generate operating cash flows at amounts not less than annual depreciation charges.

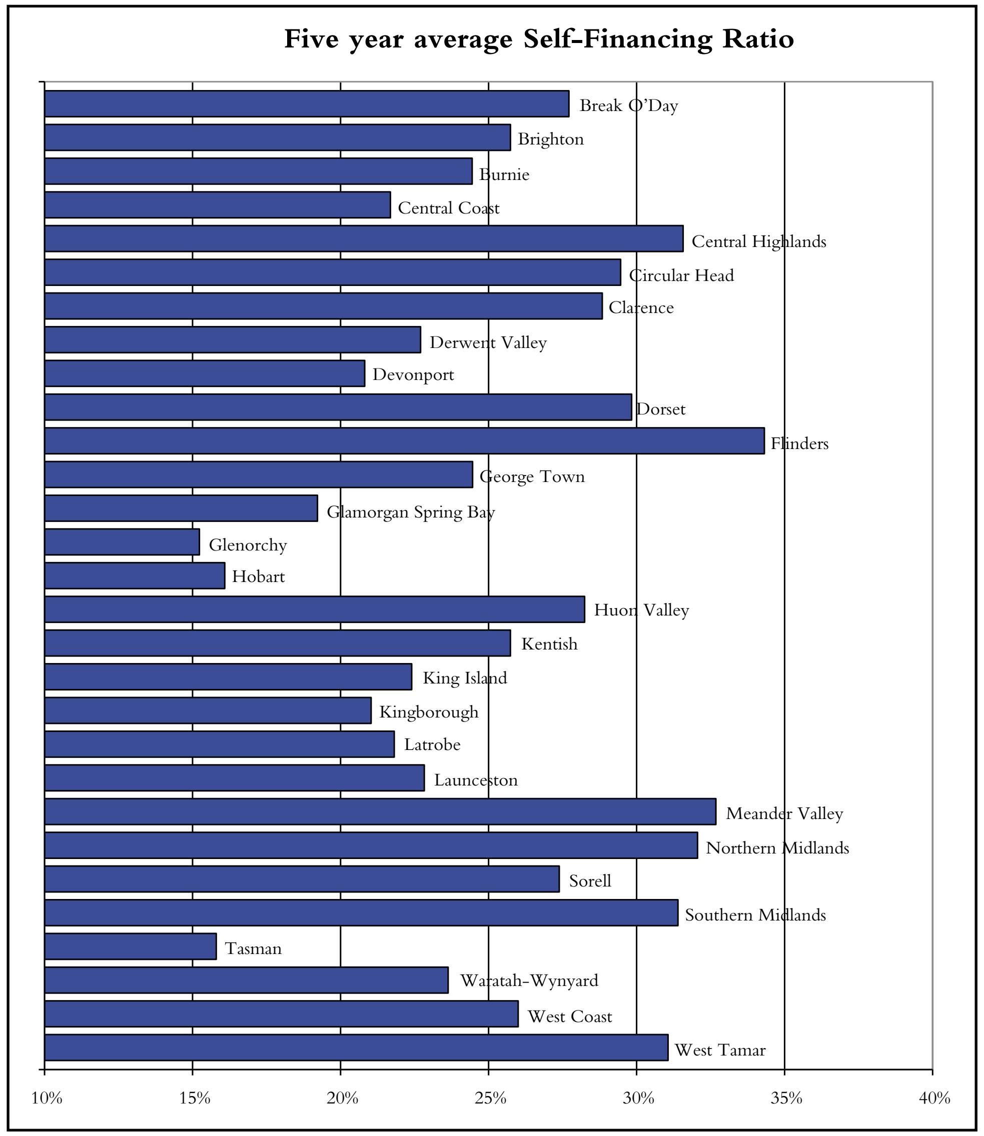
Figure 6 Relationship between depreciation and operating cash flows for all councils



In the first four years under review, total depreciation expense, $669.2m, exceeded total cash flows from operations, $653.4m by $15.8m (2.4%) suggesting that councils, in total, were generating reasonable operating cash flows, on the assumption that in the main they broke even in operating terms. However, in 2009-10, when, as we have been reporting, councils transferred their water and sewerage activities to the three water Corporations, total depreciation expense, $145.5m, exceeded operating cash flows, $109.6m, by $35.9m (24.7%). This confirms our observations under figure 5 to which we add that, in our view, operating cash flows generated in total by all councils for the year ended 30 June 2010 were low requiring attention. This was so even if priority dividends of $16.190m were to have been accounted for as operating cash flows.

Figure 7 below reports the five-year average self –financing ratio for each council.

Figure 7 Five-year average self-financing ratio achieved by each council



As was the case in the own source revenue ratio, in almost every case the percentage self-financing ratio declined when compared to the average generated in the previous four years with details again provided in individual council Chapters.

Conclusion based on assessment of the self-financing ratio over five years

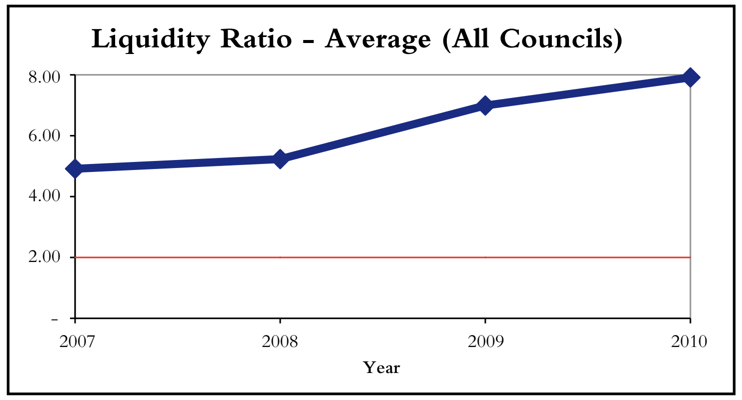
All councils achieved positive self-financing ratios indicating that they all generated sufficient cash from their operations to contribute to asset replacement or repay debt. However, the capacity of councils to generate positive operating cash flows varies significantly with Flinders high at almost 35% and Hobart, Glenorchy and Tasman low at around 15%.

Councils that received priority dividends from the water corporations in part compensation for lost water and sewerage activities were Brighton, Burnie, Circular Head, Devonport, Glenorchy, Hobart, Huon Valley, Kingborough, Latrobe, Launceston , Sorell and West Tamar.

LIQUIDITY RATIO

This ratio indicates a council's ability to meet its short-term commitments. The generally accepted benchmark for this ratio is two to one, that is, liquid assets are expected to double current payables including any current debt obligations. So, the lower the ratio the greater risk of a council not being able to meet its short-term obligations in a timely fashion. Figure 8 details the four-year average ratio for all councils.

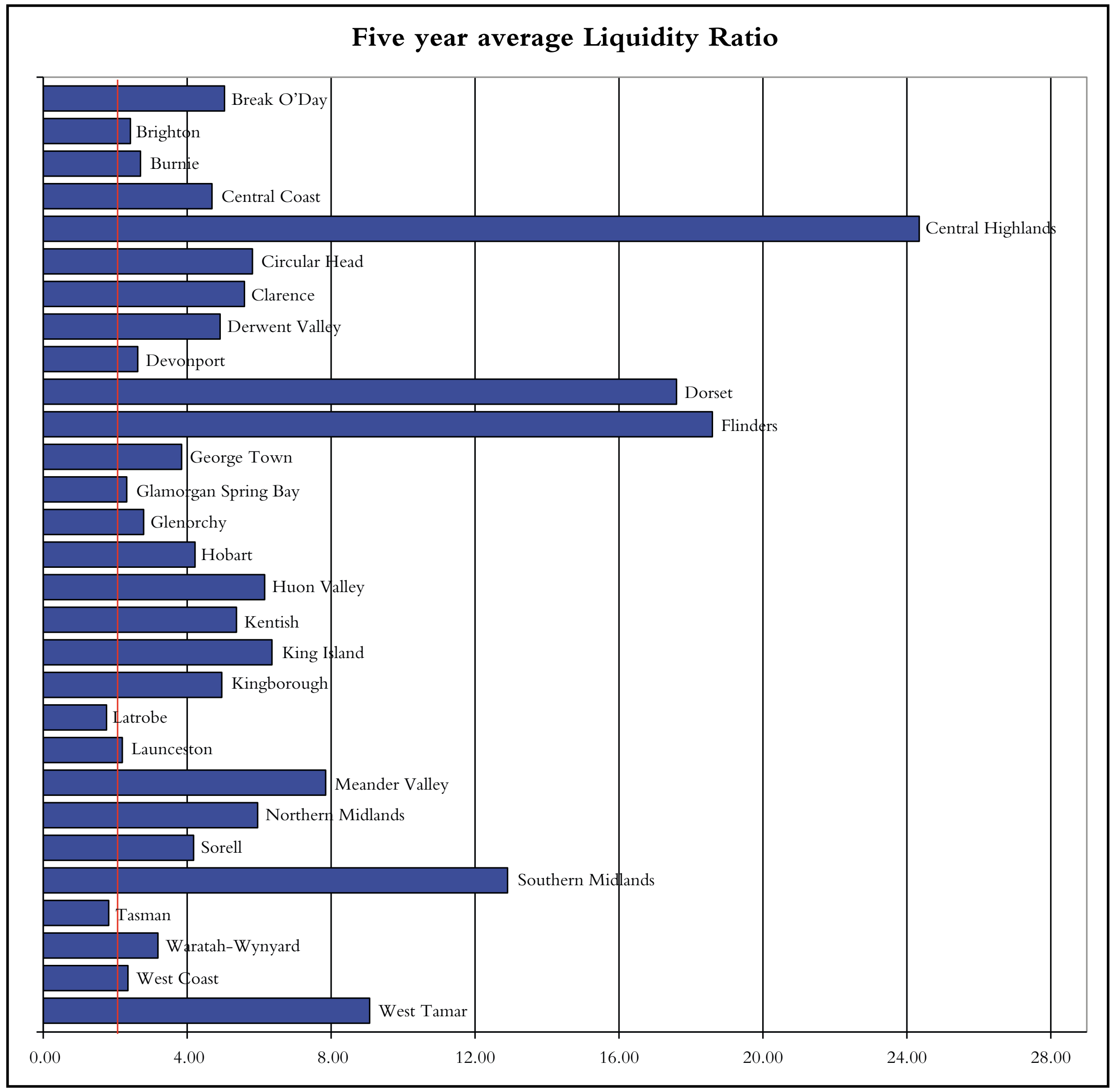
Figure 8 Four-year average liquidity ratio



The average liquidity ratio for all councils was well above the benchmark in each of the four years indicating councils were in a strong position to meet short term commitments.

Figure 9 below reports the four-year average liquidity ratios for each council.

Figure 9 Four-year average liquidity ratio for each council



Only Latrobe and Tasman achieved four-year average liquidity ratios below benchmark although in neither case was the ratio significantly below and, as indicated in their individual Chapters, both have trended upwards over the four year period and recorded strong liquidity balances at 30 June 2010.

Conclusion based on assessment of the liquidity ratio over four years

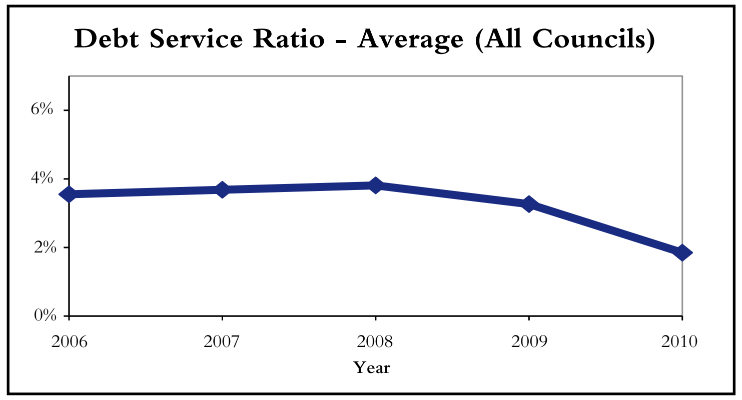
The ratios indicate there were no concerns over the liquidity position of councils.

DEBT SERVICE RATIO

This ratio indicates the capacity of a council to service its debt by paying both principal and interest. The lower the ratio, the stronger is a council's capacity to service debt. The ratio compares total debt servicing costs to total revenue. While there is no well-recognised benchmark, we understand that a ratio of greater than 10% might indicate a council would find it difficult to service its debt.

Figure 10 below reports the debt service ratio achieved on a consolidated basis by all councils in each of the past five years.

Figure 10 Five-year debt service ratio for all councils

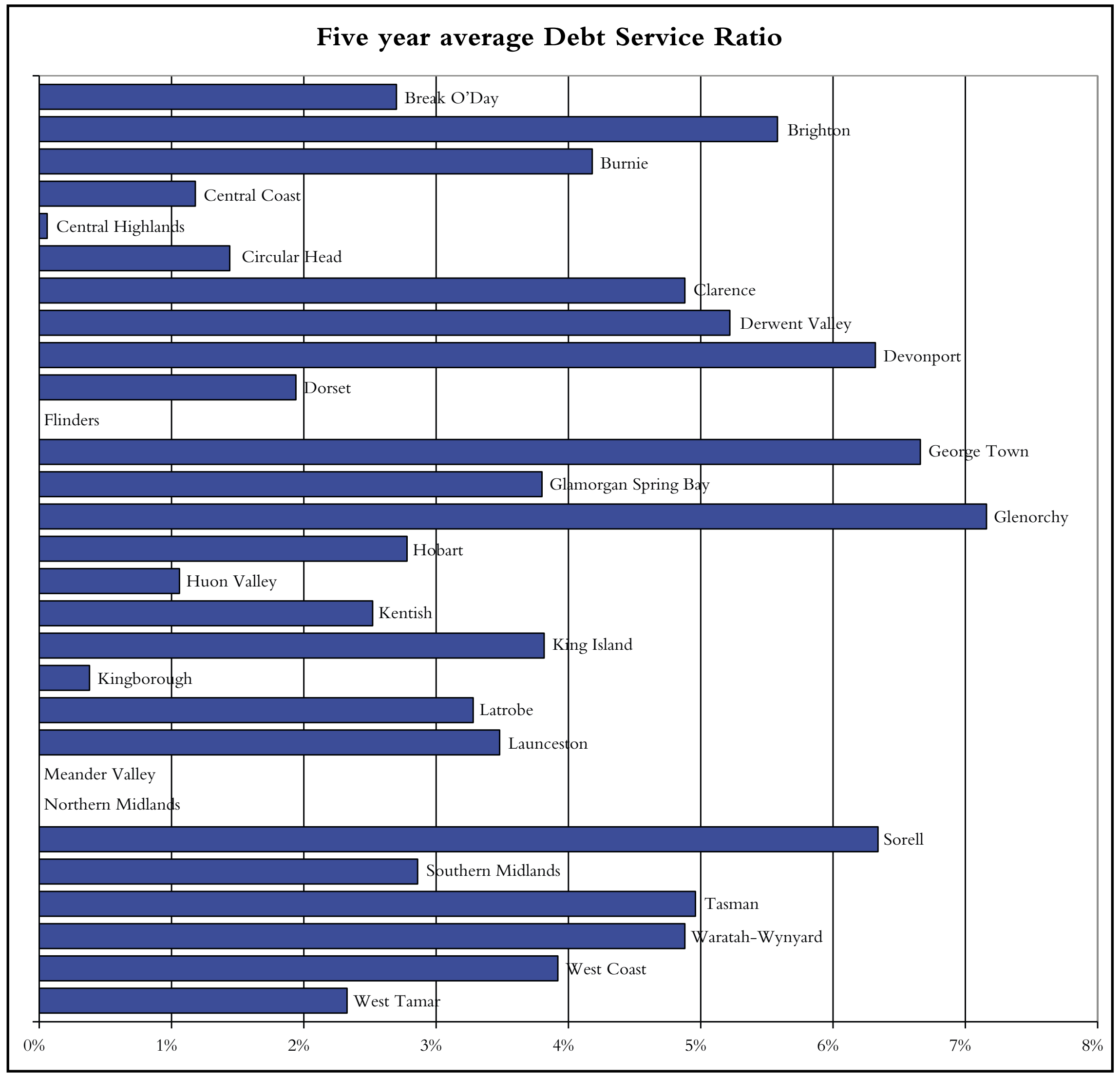


The percentage of councils' revenue required to repay borrowings and cover interest charges decreased from 3.55% in 2005-06 to 1.85% in 2009-10 which, over all councils, is a positive trend. The ratio indicates that, on average, councils were in a strong position to meet their debt obligations from the revenue they generated meaning either revenue was increasing relative to debt service costs or borrowings were declining relative to movements in revenue.

The situation was that in 2009-10 the improvement primarily related to lower debt with this decrease significantly assisted by the transfer of loan debt totalling $101.525m from councils to the three water Corporations on 1 July 2009. Total council related debt at 30 June 2010 was $62.428m ($164.713m at 30 June 2009).

Figure 11 reports the average five-year debt service ratio for each council.

Figure 11 Five-year average debt service ratio by council



While some councils such as Devonport, George Town, Glenorchy and Sorell, had relatively high debt service ratios compared to other councils, none of the debt service ratios indicate concern any councils may have difficulty meeting future loan or interest payments. Flinders and Meander Valley had no debt at any stage during the past five years. In late 2008-09, Northern Midlands borrowed $7.500m to undertake water and sewerage capital work and on 1 July 2009 transferred the total debt to Ben Lomond Water.

Conclusion based on assessment of the debt service ratio over five years

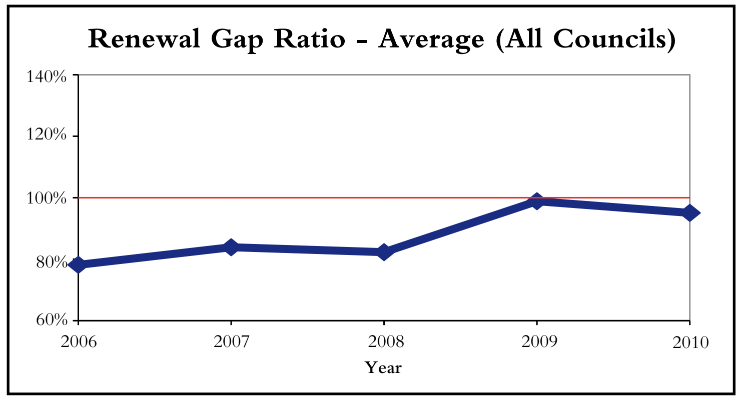
All councils were in a position where they were able to service their debt with, in many cases, their debt service capability improved by the transfer of debt to the water Corporations.

ASSET RENEWAL RATIO

This ratio indicates the level of investment by a council in its existing property, plant and equipment compared with the loss of service potential through the depreciation expense. While there is no well-recognised benchmark, we consider a ratio of greater than 100% over the longer term might indicate a council is investing sufficiently in its existing infrastructure assets to offset the loss of service potential through continued use.

Figure 12 below reports the asset renewal ratio achieved on a consolidated basis by all councils in each of the past five years.

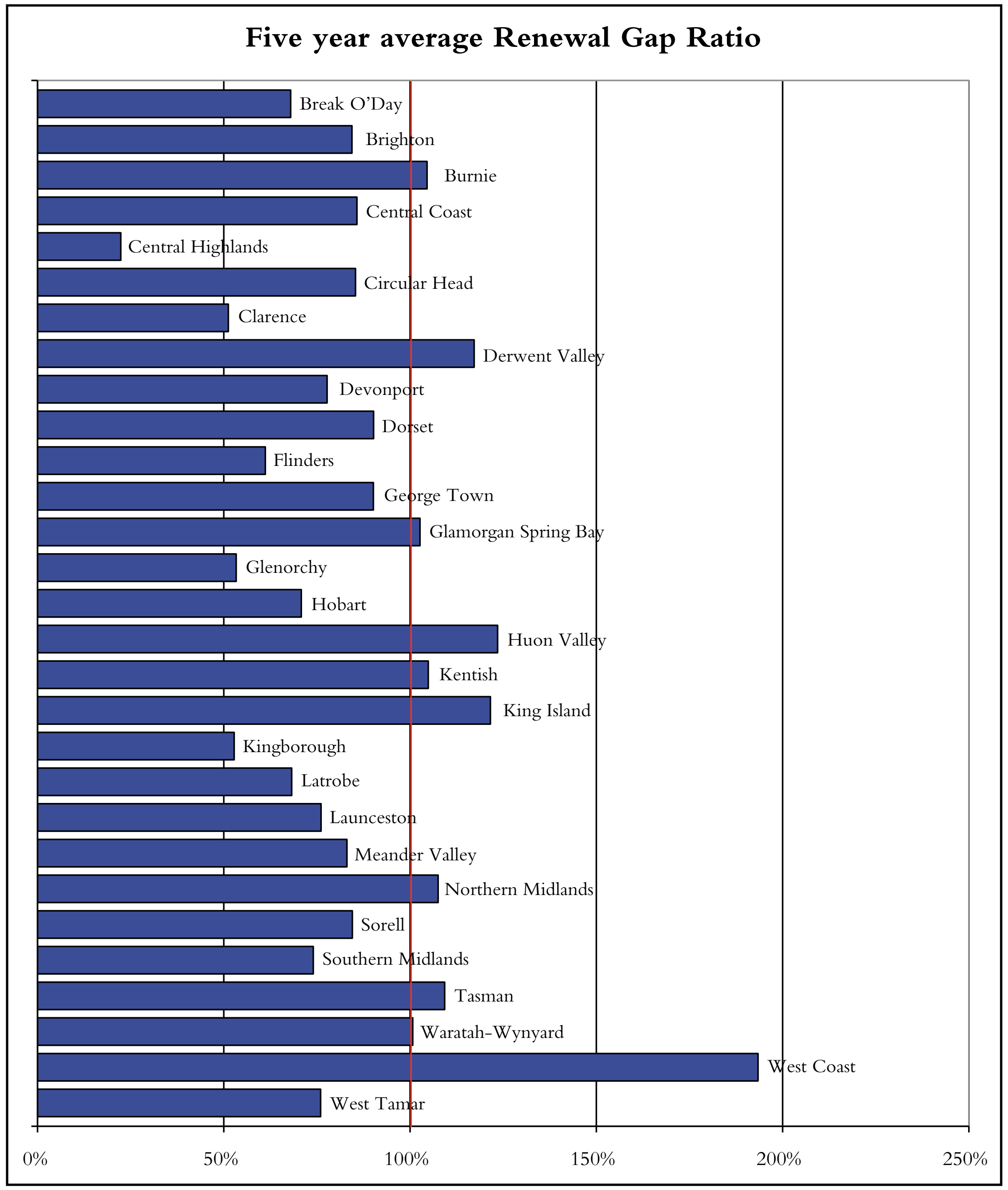
Figure 12 Five-year average asset renewal ratio for all councils



The asset renewal ratio for all councils was 95.1% in 2009-10 and averaged 87.6% over the five-year period indicating levels of investment in existing infrastructure below benchmark. However, the ratio trended upwards over the period.

Figure 13 reports five-year average actual ratios for each council.

Figure 13 Five-year average renewal gap ratio by council



Only 10 (nine on a four-year average basis to 30 June 2009) of the twenty nine councils, on average, invested funds in excess of their depreciation expense on existing infrastructure assets. This indicates little change and that on average councils are under-investing in existing assets.

Conclusion based on assessment of the asset renewal ratio over five years

In the four years to 30 June 2009, on average, councils' level of investment in existing assets, while below our 100% benchmark, was increasing. However, investment declined in 2009-10. Councils are under-investing in existing assets.

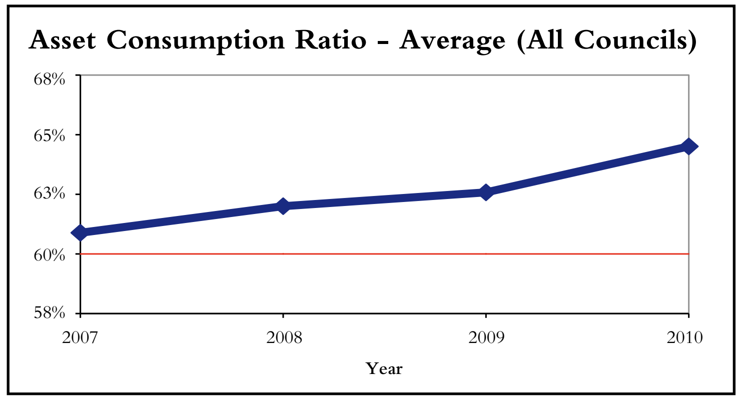
ASSET/ROAD CONSUMPTION RATIOS

These ratios indicate the levels of service potential available in existing infrastructure managed by councils. The higher the percentage, the greater future service potential is available to provide services to ratepayers. While there are no recognised benchmarks, we applied the following criteria when assessing performance:

- asset consumption less than 40% (ratio greater than 60%) indicates low asset management risk
- asset consumption less than 60% but greater than 40% (ratio greater than 40% and lower than 60%) indicates moderate asset management risk and assets are ageing although not significantly
- asset consumption exceeding 60% (ratio less than 40%) indicates high asset management risk and assets are ageing suggesting action may be required by a council.

These ratios are included for the first time. Figure 14 shows the four-year average total asset consumption ratio in total.

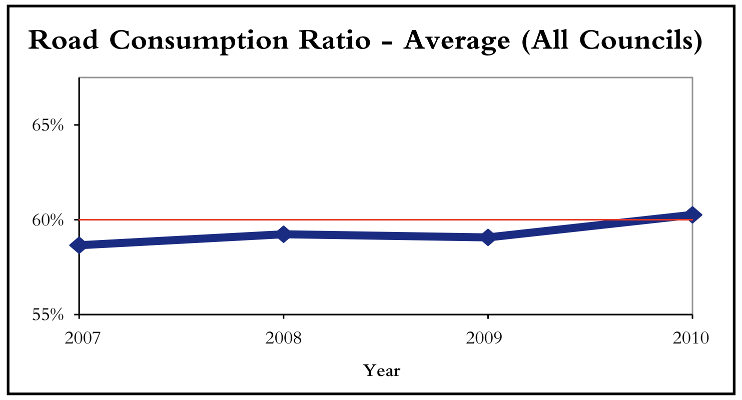
Figure 14 Four-year average total consumption ratio for all councils



Refer comments below figure 15.

Figure 15 shows the four-year average road asset consumption ratio.

Figure 15 Four-year average road consumption ratio for all councils



The figures indicate relatively low levels of consumption of council assets other than roads with improvements over the period in both cases. The roads consumption ratio improved from 58.6% in 2007 to 60.3% in 2010. Both ratios indicate, on a consolidated basis, councils have sufficient service capacity remaining in their infrastructure assets.

Figure 16 reports four-year average total asset and road consumption by council.

Figure 16 Four-year average asset/road consumption ratios

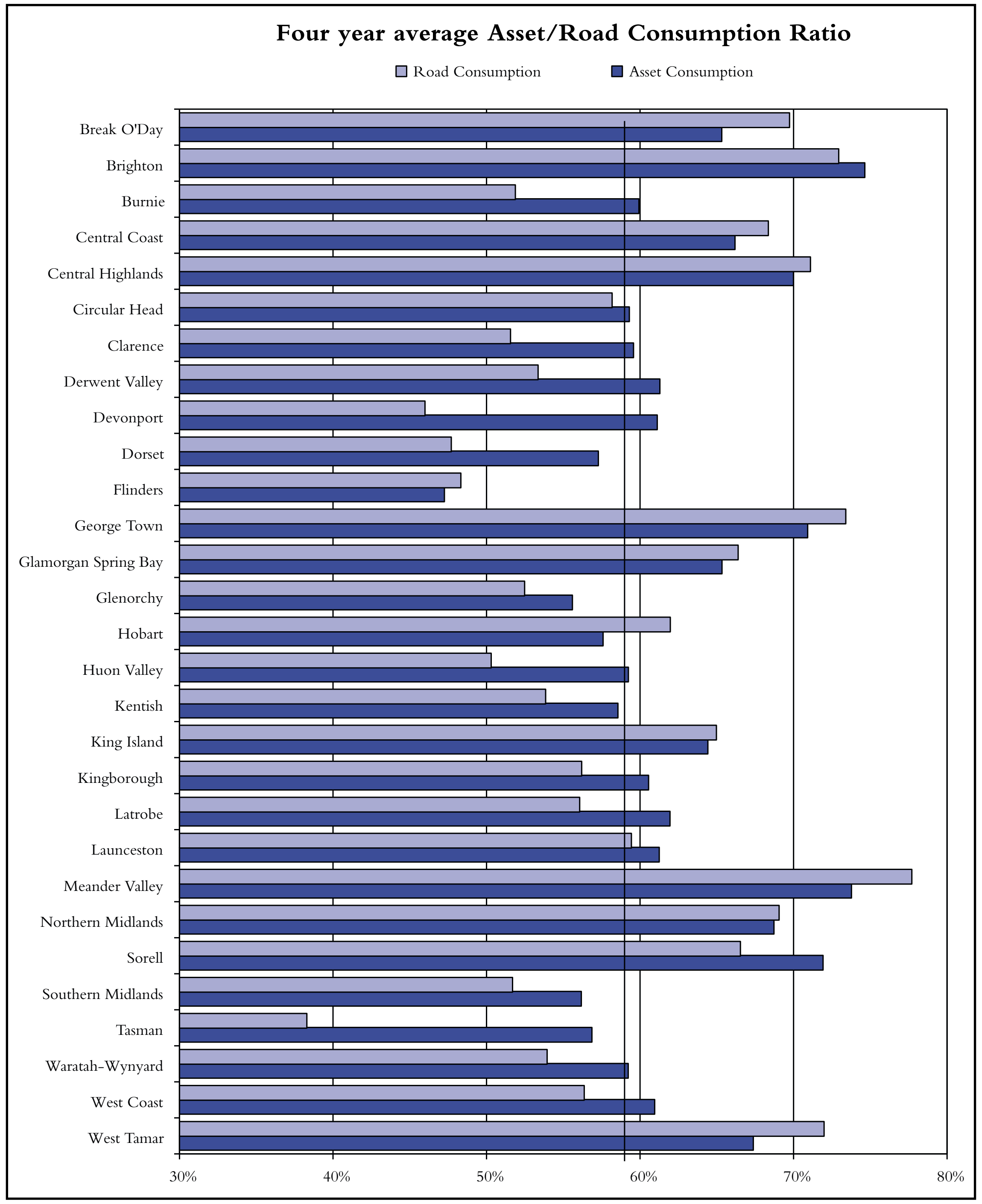


Figure 16 indicates that, on average over the four year period to 30 June 2010:

- 17 councils failed to achieve our benchmark for roads
- 12 councils failed to met our benchmark for total infrastructure assets
- generally, for the smaller councils both road and total consumption were better than benchmark.

Conclusion based on assessment of the asset consumption ratio over four years

This ratio indicates a relatively high number of councils need to assess the age of their road infrastructure assets.

OVERALL FINANCIAL SUSTAINABILITY ASSESSMENT

Based on these ratios we concluded that at 30 June 2010, assessed on average over four to five years, councils in general had a moderate financial sustainability risk from an operating perspective but low risk from a liquidity and debt management perspective. A number of councils need to address continued operating deficits.

On a whole of State basis, councils are generally under investing in existing assets with 10 out of 29 councils investing in existing assets, on average over a five year period, in excess of their annual depreciation charge.

On a total asset basis, at the whole of State level, councils' assets have sufficient capacity to continue to provide services to ratepayers. However, some councils need to assess the ages of their road networks.

Individual assessments are included in each council's chapter.

6. LOCAL GOVERNMENT COMPARATIVE ANALYSIS

INTRODUCTION

Comparative analysis covering financial and other information for all Tasmanian councils has been compiled with results provided in four appendices to this Chapter. The information provided is for the financial year ended 30 June 2010. The appendices have been presented with councils grouped as either major city; other urban and large rural; and other smaller rural. The grouping reflect categories used in a report prepared by the Local Government Division of the Department of Premier and Cabinet; *"Measuring Council Performance in Tasmania 2007-08"*.

The appendices are:

1. Demographics
2. Employee Costs
3. Income Statements
4. Balance Sheets.

This is the fifth year that this analysis has been included in this Report. While only one year's data is provided, where relevant, comparative totals for 2008-09 are included. In contrast to the information reported in prior years, which showed a high degree of consistency in the various ratios, the 2009-10 data was impacted by the transfer of water and sewerage activities to the three water Corporations on 1 July 2009 (refer Audit Summary Chapter in this Report).

Specific financial trend analysis is provided in the Chapter of this Report headed "Local Government Financial Sustainability".

Our analysis of the appendices is of a general nature and should be read in conjunction with the individual Chapters on each council in this Report and the Local Government Financial Sustainability Chapter.

When considering the various ratios and observations reported in this Chapter, it needs to be borne in mind that they are only indicators of performance or of financial position with no account taken of any long-term financial or asset management planning individual councils may have developed. The various ratios should not be considered in isolation. However, taken together various ratios can indicate good or poor financial condition or performance. It is also important to review these ratios over time with the analysis in this Chapter only considering performance for the single 2009-10 financial year.

An example of why a single indicator should not be considered in isolation is the ratio of capital expenditure to depreciation charged in that year. Our target for this ratio is 100% because we would anticipate infrastructure investment, in particular on existing rather than new assets, to approximate the annual depreciation charge. A council or councils could be less than 100% for a variety of reasons and still be adequately managing their asset replacement due to other factors such as their maintenance programs or the timing of asset replacement based on long term asset management plans. Also, a ratio well above 100% may not necessarily indicate a good result because expenditure in a particular year may be due to a one-off investment in a new asset funded, for example, by government grants. In addition, this ratio should be assessed over more than one financial period which is done in individual council Chapters and in the financial sustainability Chapter.

Demographics (note most recent data available is for 2008-09)

The Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth, increased by 5 763, 1.16%, from 2007-08 to 2008-09. Across the State, populations of each municipal area vary considerably, ranging from 897 (2007-08, 905) at Flinders to 65 548 (65 222) at Launceston. The major cities' populations represented 42.16% (212 203) (42.36% and 210 722) of the total population, but only covered 2.9% of the State area in square kilometres (1 986 sq kms). Conversely, the 13 smaller rural councils' combined populations represented 13.49% (67 905) (13.45% and 66 896) of the total population, but covered 59.7% of the State's area in square kilometres (40 474 sq kms).

As noted in previous years, rural councils can face difficulties in providing and maintaining services because they do not have access to the higher ratepayer base of larger councils and in some cases they manage large road networks. This is highlighted in the number of rateable valuations per square kilometre ratio which reflects the population and area disparity between the councils already referred to.

Employee Costs

Table 2 summarises Employee costs, Employee entitlements and Full Time Equivalents (FTE's) for each council.

Councils in Tasmania employed 3 259 (2008-09, 3 607) FTE's at 30 June 2010 and incurred employee costs of $226.467m ($240.236m) for the financial year. A major reason for the decrease in employee numbers by 348 FTE and costs of $13.769m, was the transfer of employees from councils to the three water Corporations on 1 July 2009. Average employee costs per FTE vary from a high of $83 000 per FTE at Burnie City Council to a low of $48 000 per FTE at Derwent Valley Council with the average being $67 000.

Councils' FTEs per 1000 head of population also varies with smaller rural councils having lower population bases and higher ratios. Both Flinders and King Island Councils have ratios above twenty FTEs per 1000 head of population due to their small populations. The average for all councils was 7.7 FTE per 1000 head of population.

At 30 June 2010, the amount of annual, long service and some sick leave accrued by councils for their employees totalled $49.393m ($52.087m) with the decline mainly associated with the transfer of staff following the water and sewerage reforms. On a per FTE basis this equated to $14 744 with variations between councils ranging from $6 556 per FTE at Tasman to $23 645 at Derwent Valley. While the average balance of $14 744 appears reasonable, many councils hold balances for some employees well above two year's entitlements. This has been acknowledged by those councils who are working to reduce their balances.

Comprehensive Income Statements

The combined Total Surplus was $310.242m, an improvement of 178.9% from 2008-09 ($112.017m) and included:

- $72.446m (2008-09, $50.007m) in capital grant funding
- $34.168m ($45.867m) in contributed assets, mainly through subdivisions
- $1.434m ($14.948m) in net Financial Assistance Grants adjustments related to funding received in one financial period by related the subsequent financial period
- $234.312m ($14.404mm) in non-current asset adjustments, including $231.913m related to Launceston City Council recognising its museum collection, which was independently valued during 2009-10
- $2.644m in other non operating revenue including insurance reimbursements, gains on investments and external contributions to capital works

- $1.950m in non-current adjustments resulting in a write down in asset values
- $0.278m ($1.300m) in expenditure incurred by Tasman Council that did not relate to improving its own assets. The expenditure related to the Pirates Bay visitor zone
- $0.252m to adjust the value of a council's interest in an associate
- $0.186m in misappropriation losses recognised
- $0.121m ($0.512m) in unrealised losses from investments in Collateralised Debt Obligations.

Excluding these items, it could be argued that, on an "operating" basis, for the year ended 30 June 2010 councils recorded a combined deficit of $31.975m ($9.236m).

On a Comprehensive income basis, the combined surplus totalled $2.393m, a decrease of $307.849m from the combined Total surplus. The decrease included:

- a net write down of councils' net investments in the new water Corporations of $487.561m (some councils recorded increases in their investments)
- asset write downs and retirements of $0.757m
- fair value net asset revaluation increments of $176.386m
- actuarial gains of superannuation liabilities held by councils.

Revenue raising capacities

Councils generated $331.924m ($462.747m) in rates for the 2009-10 year. The decrease in rating revenue was mainly due to councils not raising water and sewerage rates and associated user charges in 2009-10. Cities, in general, earn a greater percentage of their operating revenue from rates. This was reflected in the rate revenue to operating revenue ratio. In contrast, councils that had a lower rate to operating revenue ratio received a higher percentage of recurrent grant revenue. It was noted that there were seven councils (2008-09, six) with rate revenue to operating revenue ratios of less than 50% meaning that they were heavily reliant on recurrent grant funding. Two of these councils also had the lowest average rates per rateable valuation although they generated relatively high rate revenues per head of population.

Councils' own source revenues represent operating revenue other than recurrent grants. Expressing own source revenues as a percentage of total operating revenues indicated a council's ability to generate its own funding, without relying on recurrent government grants. In general terms, the resulting ratios on Table 3 highlight that, consistent with ratios discussed previously, smaller councils generate lower amounts of own source revenues in percentage terms.

Also reported on Table 3 are the ratios of operating (or recurrent) grants per head of population and operating grants compared to operating revenues. These ratios confirm previous observations that smaller councils were more reliant on recurrent operating grants. To illustrate this point, smaller rural councils' grants per head of population were considerably greater than other councils, for example Flinders, $1 764 and King Island, $1 198 compared to Hobart, $69 or Clarence, $95.

Depreciation coverage

The depreciation to operating revenue ratio provides an indication of the extent to which a council was funding, from current revenues, its future asset replacement through depreciation. There is no benchmark for this ratio except that, as previously noted, we anticipate that councils should at least budget to breakeven on an operating basis therefore fully covering annual depreciation charges.

The ratio of depreciation to current revenues for all councils was 27.5%, with major cities averaging 23.5%, other urban and larger rural 25.5% and other smaller rural councils 30.6%. There were considerable fluctuations in the smaller rural council percentages, these varying between 17.3% at Tasman, which had a comparatively low infrastructure assets base with non-current infrastructure assets per head of population of $6 168, to 84.5% at Central Highlands where the non-current infrastructure assets per head of population was $46 091. This highlighted the importance of having long term asset management plans and budgeting to ensure that operating revenues are sufficient to cover all operating costs, including depreciation. It is acknowledged that the latter will be more difficult in regional communities with significant infrastructure.

However, it is inappropriate to consider this ratio in isolation with further discussion about this when reviewing the depreciation to capital expenditure ratios later in this Chapter.

Balance Sheet

Comments here are made by reference to Table 4.

Management of working capital

On the basis that a working capital ratio of one or better is effective, all councils manage their working capital (total current assets less total current liabilities expressed as a ratio greater or less than one) effectively with most exhibiting a ratio of well above one at 30 June 2010. This ratio provides an indication as to whether or not an entity can meet its short term commitments from existing current assets.

It is noted, however, that all councils had large or reasonably large bank and investment balances some of which are committed to future capital projects. Details are provided in individual Chapters.

Management of infrastructure and other non-current assets

Included in total non-current assets, amounting to $7.574bn (2008-09; $7.672bn), were infrastructure assets controlled by councils at 30 June 2010 totalling $5.549bn ($7.196bn). The majority of the balance was roads and bridges infrastructure. The decrease in infrastructure assets was due to the transfer of water and sewerage infrastructure to the three water Corporations. To offset the transfer, councils recorded, on 1 July 2009, an initial investment totalling $2.244bn, which reflected the carrying value of all the transferred assets and liabilities. At 30 June 2010, following the subsequent fair value valuation of the investments, councils collectively decreased their investment in these Corporations to $1.756bn. The $0.488bn lower carrying amount arose from adoption by the Corporations of a valuation approach based on their future income earning capacities as against the depreciated replacement cost approach adopted by councils.

In 2009-10 payments made by councils for property, plant and equipment totalled $217.428m ($254.783m) and depreciation charged on these assets totalled $145.508m ($181.321m). A useful measure to assess the extent to which a council was adequately investing in its non-current asset base is expenditure on all assets expressed as a percentage of depreciation with an ideal target of 100%. However, a better measure for this ratio is to express expenditure on existing assets as a percentage of depreciation. This particular measure is further assessed in the Chapter dealing with Financial Sustainability.

For all councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 147.5% (144.0%) indicating that most councils were re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100%. In each case, further details are provided in individual council chapters of this Report.

Another indicator which can be used to assess whether or not a council is adequately re-investing in its non-current asset base is to compare rate revenue to non-current infrastructure assets. This ratio indicates the level of rating undertaken in relation to the infrastructure bases being managed by each council. The higher the ratio the better. Lower ratios were noted in the rural councils possibly indicating that these councils were under-rating. As noted previously under the Income Statement discussion in this Chapter, the smaller rural councils had a greater dependence on grant funding and earned lower rate revenue per rateable valuation.

The analysis of non-current infrastructure assets per square kilometre and per head of population confirms the concentration of infrastructure and people in the major cities and larger urban areas. Rural councils manage lower levels of infrastructure assets, but across a larger geographical area.

The ratio of non-current infrastructure assets per rateable valuation indicated that each rateable valuation supported a fairly consistent level of infrastructure. We have not analysed why it is that some councils vary significantly from the average of $19 635.

Management of debt

We have included in our analysis relevant ratios around debt management because how councils manage debt and associated interest costs can have short and long term impacts on rating strategies and asset replacement programs. Inter-generational equity also needs to be considered as does the impact of asset replacement programs and any effect of proposed new initiatives.

A review of the debt service ratio and the cost of debt for each council indicated that the majority of councils are managing their debt appropriately. Kingborough had the highest cost of debt, 12.7%, due to several interest only loans with interest rates well above current market rates. This Council has investigated early settlement of these loans, but doing so would incur costs equal to interest charges over the remaining loan terms. The final interest only loan will be settled in 2011-12.

It is noted that Huon Valley, Meander Valley, Northern Midlands, Break O'Day, Central Highlands and Flinders Councils did not hold any loan debt at 30 June 2010.

The indebtedness ratio complements the current ratio and illustrates a council's ability to meet longer term commitments. The ratio compares non-current liabilities to a council's own source revenue, the lower the percentage the stronger a council's position to meet longer term liabilities. Those councils with ratios well above the average of 17.4% (2008-09; 24.0%) were, in general, holding higher levels of non-current borrowings at 30 June 2010 than the councils with lower ratios. The decrease in the average between years was assisted by the transfer of loan debt to the three water Corporations on 1 July 2009. However, the ratios indicate all councils can meet future longer term debt commitments.

Collection of rates

Rate debts owing to councils at 30 June 2010 totalled $10.448m ($12.987m) with an average per council of $360 000 ($448 000). The decrease in rate debtors was primarily due to rates raised in 2009-10 excluding water and sewerage charges, which reduced the amount of rate revenue raised and corresponding debt.

Expressing rate debtors as a percentage of rates raised indicated that, in general, councils were recovering outstanding rate debts in a reasonable timeframe. King Island Council at 14.4% had the highest ratio. It is noted, however, that all councils had significant power under the *Local Government Act 1993* to recover rate debts against a property.

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Table 1 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS Demographics - 2009-10

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Clarence	52,140	377	138.3	24,264	64.4	0.5
Glenorchy	44,628	120	371.9	20,910	174.3	0.5
Hobart	49,887	78	641.2	23,534	302.5	0.5
Launceston	65,548	1,411	46.5	29,296	20.8	0.4
Brighton	15,807	171	92.4	6,698	39.2	0.4
Burnie	19,877	610	32.6	19,452	31.9	1.0
Central Coast	21,732	931	23.3	10,373	11.1	0.5
Derwent Valley	10,036	4,104	2.4	4,967	1.2	0.5
Devonport	25,518	111	229.9	11,701	105.4	0.5
Huon Valley	15,134	5,498	2.8	9,883	1.8	0.7
Kingborough	33,464	719	46.5	16,094	22.4	0.5
Meander Valley	19,547	3,320	5.9	9,472	2.9	0.5
Northern Midlands	12,602	5,126	2.5	6,475	1.3	0.5
Sorell	13,127	583	22.5	8,336	14.3	0.6
Waratah-Wynyard	14,117	3,526	4.0	7,466	2.1	0.5
West Tamar	22,223	690	32.2	10,792	15.6	0.5
Break O'Day	6,410	3,521	1.8	6,309	1.8	1.0
Central Highlands	2,324	7,976	0.3	3,798	0.5	1.6
Circular Head	8,300	4,891	1.7	4,770	1.0	0.6
Dorset	7,377	3,223	2.3	5,101	1.6	0.7
Flinders	897	1,994	0.4	1,270	0.6	1.4
George Town	6,830	653	10.5	4,283	6.6	0.6
Glamorgan Spring Bay	4,500	2,522	1.8	5,456	2.2	1.2
Kentish	6,281	1,155	5.4	3,638	3.1	0.6
King Island	1,700	1,094	1.6	1,568	1.4	0.9
Latrobe	9,616	600	16.0	5,409	9.0	0.6
Southern Midlands	6,054	2,611	2.3	3,700	1.4	0.6
Tasman	2,374	659	3.6	3,854	5.8	1.6
West Coast	5,242	9,575	0.5	4,728	0.5	0.9
Total	**503 292**	**67 849**	**7.4**	**273 597**		
Average per Council	**17 355**	**2 340**	**57**	**9,434**	**29.2**	**0.7**
Total 2008-09	**497,529**	**67,849**	**7.3**	**277,073**	**30.9**	**0.8**
Average per Council 2008-09	**17,156**	**2,340**	**60.0**	**9,554**		
Average Population per square kilometre for Tasmania				**7.33**		
Average Rateable properties per square kilometere				**4.08**		
Average Rateable properties per Head of Population				**0.54**		

Table 2 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS Employee Costs - 2009-10

Council	Total Employee Costs	FTE's	Average Cost per FTE *	FTE per 1000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Clarence	13,862	217	64	4.2	29.0	27.6	**2,882**	**13,281**
Glenorchy	20,361	254	80	5.7	42.8	37.7	**5,828**	**22,945**
Hobart	43,330	591	73	11.8	51.0	45.9	**9,861**	**16,685**
Launceston	28,439	410	69	6.3	36.7	37.0	**6,143**	**14,983**
Brighton	3,164	47	67	3.0	26.1	29.2	**756**	**16,085**
Burnie	13,378	162	83	8.2	41.9	40.4	**1,817**	**11,216**
Central Coast	9,098	142	64	6.5	45.2	41.9	**2,129**	**14,993**
Derwent Valley	2,963	62	48	6.2	34.0	31.3	**1,466**	**23,645**
Devonport	13,412	168	80	6.6	44.6	39.5	**2,335**	**13,899**
Huon Valley	8,198	131	63	8.7	43.2	43.3	**965**	**7,366**
Kingborough	10,072	162	62	4.8	37.5	31.7	**1,773**	**10,944**
Meander Valley	5,162	75	69	3.8	31.1	33.9	**1,158**	**15,440**
Northern Midlands	4,215	65	65	5.2	31.7	28.2	**1,099**	**16,908**
Sorell	5,070	78	65	5.9	37.6	39.4	**916**	**11,744**
Waratah-Wynyard	5,093	88	58	6.2	39.7	35.9	**1,250**	**14,205**
West Tamar	6,353	89	71	4.0	32.5	36.7	**1,571**	**17,652**
Break O'Day	4,376	61	72	9.5	43.6	37.8	**783**	**12,836**
Central Highlands	1,542	27	57	11.6	27.7	16.7	**540**	**20,000**
Circular Head	3,503	52	67	6.3	29.7	30.0	**686**	**13,192**
Dorset	3,891	51	76	6.9	36.6	37.1	**1,144**	**22,431**
Flinders	1,259	20	64	22.1	33.0	31.1	**359**	**18,131**
George Town	2,825	38	74	5.6	33.5	32.4	**421**	**11,079**
Glamorgan Spring Bay	2,759	45	61	10.0	30.4	32.5	**451**	**10,022**
Kentish	1,978	30	66	4.8	26.5	26.7	**307**	**10,233**
King Island	1,986	34	58	20.0	37.2	35.2	**486**	**14,294**
Latrobe	2,850	42	68	4.4	30.4	31.6	**587**	**13,976**
Southern Midlands	2,897	44	66	7.3	40.5	35.6	**1,014**	**23,045**
Tasman	1,218	18	68	7.6	22.0	25.9	**118**	**6,556**
West Coast	3,213	56	57	10.7	34.9	35.3	**548**	**9,786**
Total	**226 467**	**3 259**					**49 393**	
Average per Council	**7 809**	**112**	**67**	**7.7**	**35.5**	**34.1**	**1 703**	**14 744**
Total 2008-09	**240 236**	**3 607**					**52 087**	
Average per Council 2008-09	**8 284**	**124**	**64**	**8.6**	**31.4**	**30.9**	**1 796**	**13 797**

* *Staff costs include capitalised salaries and wages*

LOCAL GOVERNMENT COMPARATIVE ANALYSIS

Income Statements - 2009-10

Council	Operating Revenue *	Non-Operating Revenue *	Total Revenue	Operating Expenditure	Non-Operating Expenditure **	Total Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit) to Total Revenue	Operating Surplus/ (Deficit)	Comprehensive Surplus/ (Deficit)	Operating Margin	Underlying Result
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%			No.	%
Clarence	47,782	12,607	60,389	50,244	-	50,244	10,145	16.8	(2,462)	9,062	0.95	(5.2)
Glenorchy	47,583	7,447	55,030	53,949	-	53,949	1,081	2.0	(6,366)	(53,828)	0.88	(13.4)
Hobart	90,200	6,710	96,910	94,368	-	94,368	2,542	2.6	(4,168)	(177,866)	0.96	(4.6)
Launceston	77,553	259,277	336,830	76,760	1,950	78,710	258,120	76.6	793	127,779	1.01	1.0
Brighton	12,122	1,682	13,804	10,847	-	10,847	2,957	21.4	1,275	17,861	1.12	10.5
Burnie	31,908	8,427	40,335	33,075	252	33,327	7,008	17.4	(1,167)	(23,650)	0.96	(3.7)
Central Coast	20,108	4,708	24,816	21,694	-	21,694	3,122	12.6	(1,586)	20,516	0.93	(7.9)
Derwent Valley	8,710	853	9,563	9,460	-	9,460	103	1.1	(750)	(722)	0.92	(8.6)
Devonport	30,075	3,757	33,832	33,975	-	33,975	(143)	(0.4)	(3,900)	(43,862)	0.89	(13.0)
Huon Valley	18,977	998	19,975	18,926	121	19,047	928	4.6	51	2,064	1.00	0.3
Kingborough	26,879	10,336	37,215	31,806	-	31,806	5,409	14.5	(4,927)	6,559	0.85	(18.3)
Meander Valley	16,609	1,930	18,539	15,205	-	15,205	3,334	18.0	1,404	747	1.09	8.5
Northern Midlands	13,299	3,044	16,343	14,949	-	14,949	1,394	8.5	(1,650)	27,417	0.89	(12.4)
Sorell	13,491	2,150	15,641	12,859	-	12,859	2,782	17.8	632	3,509	1.05	4.7
Waratah-Wynyard	12,818	1,456	14,274	14,204	-	14,204	70	0.5	(1,386)	(7,030)	0.90	(10.8)
West Tamar	19,533	4,376	23,909	17,303	-	17,303	6,606	27.6	2,230	(156)	1.13	11.4
Break O'Day	10,046	863	10,909	11,582	-	11,582	(673)	(6.2)	(1,536)	5,163	0.87	(15.3)
Central Highlands	5,562	690	6,252	9,230	-	9,230	(2,978)	(47.6)	(3,668)	2,121	0.60	(65.9)
Circular Head	11,783	2,279	14,062	11,680	-	11,680	2,382	16.9	103	417	1.01	0.9
Dorset	10,635	1,362	11,997	10,502	-	10,502	1,495	12.5	133	39,880	1.01	1.3
Flinders	3,820	241	4,061	4,046	-	4,046	15	0.4	(226)	4,889	0.94	(5.9)
George Town	8,432	1,351	9,783	8,723	186	8,909	874	8.9	(291)	1,363	0.97	(3.5)
Glamorgan Spring Bay	9,064	644	9,708	8,490	-	8,490	1,218	12.5	574	24,759	1.07	6.3
Kentish	7,456	1,398	8,854	7,412	-	7,412	1,442	16.3	44	3,698	1.01	0.6
King Island	5,332	722	6,054	5,638	-	5,638	416	6.9	(306)	3,001	0.95	(5.7)
Latrobe	9,385	829	10,214	9,007	-	9,007	1,207	11.8	378	(175)	1.04	4.0
Southern Midlands	7,157	1,789	8,946	8,131	-	8,131	815	9.1	(974)	885	0.88	(13.6)
Tasman	5,543	331	5,874	4,701	278	4,979	895	15.2	842	1,153	1.18	15.2
West Coast	9,206	2,747	11,953	9,113	-	9,113	2,840	23.8	93	12,003	1.01	1.0
Total	**591 068**	**345 004**	**936 072**	**617 879**	**2 787**	**620 666**	**315 406**		**(26 811)**	**7 557**		
Average per Council	**20 382**	**11 897**	**32 278**	**21 306**	**96**	**21 402**	**10 876**	**11.1**	**(925)**	**261**	**0.97**	**(4.9)**
Total 2008-09	**734 970**	**131 612**	**866 582**	**744 206**	**10 359**	**754 565**	**112 017**		**(9 236)**			
Average per Council 2008-09	**25 344**	**4 538**	**29 882**	**25 662**	**370**	**26 019**	**3 863**	**12.3**	**(318)**		**0.99**	**(2.2)**

* *Operating revenue includes 2010 Financial Assistance Grant received in June 2009.*

** *Non operating revenue and expenditure include capital grants, contributed assets and revaluation and impairment adjustments. Also, Non operating revenue includes 2011 Financial Assistance Grant received in June 2010.*

LOCAL GOVERNMENT COMPARATIVE ANALYSIS

Income Statements - 2009-10 (continued)

Council	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Rateable Revenue to Operating Revenue	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants *	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	$'000s	%	$	$	%	$'000s	%	$'000s	$	%	%
Clarence	35,120	73.5	1,447	674	73.5	42,834	89.6	4,948	95	10.4	25.7
Glenorchy	19,810	41.6	947	444	41.6	42,260	88.8	5,323	119	11.2	29.2
Hobart	55,051	61.0	2,339	1,104	61.0	86,766	96.2	3,434	69	3.8	17.6
Launceston	47,013	60.6	1,605	717	60.6	70,556	91.0	6,997	107	9.0	20.4
Brighton	6,095	50.3	910	386	50.3	9,811	80.9	2,311	146	19.1	20.0
Burnie	17,217	54.0	885	866	54.0	28,981	90.8	2,927	147	9.2	22.9
Central Coast	10,914	54.3	1,052	502	54.3	16,223	80.7	3,885	179	19.3	29.9
Derwent Valley	4,802	55.1	967	478	55.1	6,353	72.9	2,357	235	27.1	23.5
Devonport	20,666	68.7	1,766	810	68.7	27,880	92.7	2,195	86	7.3	22.8
Huon Valley	7,698	40.6	779	509	40.6	14,431	76.0	4,546	300	24.0	21.3
Kingborough	15,605	58.1	970	466	58.1	23,810	88.6	3,069	92	11.4	34.4
Meander Valley	8,779	52.9	927	449	52.9	12,022	72.4	4,587	235	27.6	26.0
Northern Midlands	6,566	49.4	1,014	521	49.4	9,202	69.2	4,097	325	30.8	33.1
Sorell	8,673	64.3	1,040	661	64.3	11,436	84.8	2,055	157	15.2	26.8
Waratah-Wynyard	7,314	57.1	980	518	57.1	9,995	78.0	2,823	200	22.0	22.4
West Tamar	11,680	59.8	1,082	526	59.8	16,758	85.8	2,775	125	14.2	23.2
Break O'Day	5,862	58.4	929	915	58.4	7,394	73.6	2,652	414	26.4	31.5
Central Highlands	2,531	45.5	666	1,089	45.5	3,698	66.5	1,864	802	33.5	84.5
Circular Head	5,933	50.4	1,244	715	50.4	8,879	75.4	2,904	350	24.6	20.5
Dorset	5,365	50.4	1,052	727	50.4	7,428	69.8	3,207	435	30.2	31.6
Flinders	1,041	27.3	820	1,161	27.3	2,238	58.6	1,582	1,764	41.4	37.0
George Town	5,681	67.4	1,326	832	67.4	6,832	81.0	1,600	234	19.0	21.4
Glamorgan Spring Bay	5,273	58.2	966	1,172	58.2	7,107	78.4	1,957	435	21.6	16.1
Kentish	4,081	54.7	1,122	650	54.7	5,057	67.8	2,399	382	32.2	23.4
King Island	1,581	29.7	1,008	930	29.7	3,296	61.8	2,036	1,198	38.2	23.1
Latrobe	5,018	53.5	928	522	53.5	7,736	82.4	1,649	171	17.6	24.1
Southern Midlands	3,422	47.8	925	565	47.8	4,355	60.8	2,802	463	39.2	43.0
Tasman	3,223	58.1	836	1,358	58.1	4,302	77.6	1,241	523	22.4	17.3
West Coast	5,074	55.1	1,073	968	55.1	7,091	77.0	2,115	403	23.0	25.0
Total	**337 088**							**86 337**			
Average per Council	**10 785**	**53.0**	**1 090**	**732**	**53.7**	**17 405**	**78.3**	**2 977**	**351**	**21.7**	**27.5**
Total 2008-09	**462 747**							**84 688**			
Average per Council 2008-09	**15 674**	**57.9**	**1 417**	**948**	**57.9**	**22 424**	**81.6**	**2 920**	**351**	**18.4**	**27.3**

* Operating grant revenue excludes 2010 Financial Assistance Grant

Table 3 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Income Statements - 2009-10

Council	Operating Revenue *	Non-Operating Revenue **	Total Revenue	Operating Expenditure	Non-Operating Expenditure **	Total Expenditure	Surplus/ (Deficit)	Surplus/ (Deficit) to Total Revenue	Operating Surplus/ (Deficit)	Comprehensive Surplus/ (Deficit)
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%		
Clarence	47,782	12,607	60,389	50,244	-	50,244	10,145	16.8	(2,462)	9,062
Glenorchy	47,583	7,447	55,030	53,949	-	53,949	1,081	2.0	(6,366)	53,828)
Hobart	85,036	6,710	91,746	94,368	-	94,368	(2,622)	(2.9)	(9,332)	(183,030)
Launceston	77,553	259,277	336,830	76,760	1,950	78,710	258,120	76.6	793	127,779
Brighton	12,122	1,682	13,804	10,847	-	10,847	2,957	21.4	1,275	17,861
Burnie	31,908	8,427	40,335	33,075	252	33,327	7,008	17.4	(1,167)	23,650)
Central Coast	20,108	4,708	24,816	21,694	-	21,694	3,122	12.6	(1,586)	20,516
Derwent Valley	8,710	853	9,563	9,460	-	9,460	103	1.1	(750)	(722)
Devonport	30,075	3,757	33,832	33,975	-	33,975	(143)	(0.4)	(3,900)	43,862)
Huon Valley	18,977	998	19,975	18,926	121	19,047	928	4.6	51	2,064
Kingborough	26,879	10,336	37,215	31,806	-	31,806	5,409	14.5	(4,927)	6,559
Meander Valley	16,609	1,930	18,539	15,205	-	15,205	3,334	18.0	1,404	747
Northern Midlands	13,299	3,044	16,343	14,949	-	14,949	1,394	8.5	(1,650)	27,417
Sorell	13,491	2,150	15,641	12,859	-	12,859	2,782	17.8	632	3,509
Waratah-Wynyard	12,818	1,456	14,274	14,204	-	14,204	70	0.5	(1,386)	(7,030)
West Tamar	19,533	4,376	23,909	17,303	-	17,303	6,606	27.6	2,230	(156)
Break O'Day	10,046	863	10,909	11,582	-	11,582	(673)	(6.2)	(1,536)	5,163
Central Highlands	5,562	690	6,252	9,230	-	9,230	(2,978)	(47.6)	(3,668)	2,121
Circular Head	11,783	2,279	14,062	11,680	-	11,680	2,382	16.9	103	417
Dorset	10,635	1,362	11,997	10,502	-	10,502	1,495	12.5	133	39,880
Flinders	3,820	241	4,061	4,046	-	4,046	15	0.4	(226)	4,889
George Town	8,432	1,351	9,783	8,723	186	8,909	874	8.9	(291)	1,363
Glamorgan Spring Bay	9,064	644	9,708	8,490	-	8,490	1,218	12.5	574	24,759
Kentish	7,456	1,398	8,854	7,412	-	7,412	1,442	16.3	44	3,698
King Island	5,332	722	6,054	5,638	-	5,638	416	6.9	(306)	3,001
Latrobe	9,385	829	10,214	9,007	-	9,007	1,207	11.8	378	(175)
Southern Midlands	7,157	1,789	8,946	8,131	-	8,131	815	9.1	(974)	885
Tasman	5,543	331	5,874	4,701	278	4,979	895	15.2	842	1,153
West Coast	9,206	2,747	11,953	9,113	-	9,113	2,840	23.8	93	12,003
Total	585 904	345 004	930 908	617 879	2 787	620 666	310 242		(31 975)	2 393
Average per Council	20 204	11 897	32 100	21 306	96	21 402	10 698	10.9	(1 103)	83
Total 2008-09	734 970	131 612	866 582	744 206	10 359	754 565	112 017		(9 236)	
Average per Council 2008-09	25 344	4 538	29 882	25 662	370	26 019	3 863	12.3	(318)	

Council	Operating Margin	Underlying Result	Self Financing Ratio	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Rate Revenue to Operating Revenue	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants *	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	No.	%	%	$'000s	%	$	$	%	$'000s	%	$'000s	$	%	%
Clarence	0.95	(5.2)	23.6	35,120	73.5	1,447	674	73.5	42,834	89.6	4,948	95	10.4	25.7
Glenorchy	0.88	(13.4)	1.5	19,810	41.6	947	444	41.6	42,260	88.8	5,323	119	11.2	29.2
Hobart	0.90	(11.0)	12.7	49,887	58.7	2,120	1,000	58.7	81,602	96.0	3,434	69	4.0	18.7
Launceston	1.01	1.0	18.7	47,013	60.6	1,605	717	60.6	70,556	91.0	6,997	107	9.0	20.4
Brighton	1.12	10.5	25.4	6,095	50.3	910	386	50.3	9,811	80.9	2,311	146	19.1	20.0
Burnie	0.96	(3.7)	16.0	17,217	54.0	885	866	54.0	28,981	90.8	2,927	147	9.2	22.9
Central Coast	0.93	(7.9)	21.5	10,914	54.3	1,052	502	54.3	16,223	80.7	3,885	179	19.3	29.9
Derwent Valley	0.92	(8.6)	21.8	4,802	55.1	967	478	55.1	6,353	72.9	2,357	235	27.1	23.5
Devonport	0.89	(13.0)	19.3	20,666	68.7	1,766	810	68.7	27,880	92.7	2,195	86	7.3	22.8
Huon Valley	1.00	0.3	22.9	7,698	40.6	779	509	40.6	14,431	76.0	4,546	300	24.0	21.3
Kingborough	0.85	(18.3)	6.2	15,605	58.1	970	466	58.1	23,810	88.6	3,069	92	11.4	34.4
Meander Valley	1.09	8.5	30.8	8,779	52.9	927	449	52.9	12,022	72.4	4,587	235	27.6	26.0
Northern Midlands	0.89	(12.4)	30.8	6,566	49.4	1,014	521	49.4	9,202	69.2	4,097	325	30.8	33.1
Sorell	1.05	4.7	33.1	8,673	64.3	1,040	661	64.3	11,436	84.8	2,055	157	15.2	26.8
Waratah-Wynyard	0.90	(10.8)	16.7	7,314	57.1	980	518	57.1	9,995	78.0	2,823	200	22.0	22.4
West Tamar	1.13	11.4	30.1	11,680	59.8	1,082	526	59.8	16,758	85.8	2,775	125	14.2	23.2
Break O'Day	0.87	(15.3)	14.4	5,862	58.4	929	915	58.4	7,394	73.6	2,652	414	26.4	31.5
Central Highlands	0.60	(65.9)	26.6	2,531	45.5	666	1,089	45.5	3,698	66.5	1,864	802	33.5	84.5
Circular Head	1.01	0.9	17.8	5,933	50.4	1,244	715	50.4	8,879	75.4	2,904	350	24.6	20.5
Dorset	1.01	1.3	38.3	5,365	50.4	1,052	727	50.4	7,428	69.8	3,207	435	30.2	31.6
Flinders	0.94	(5.9)	39.3	1,041	27.3	820	1,161	27.3	2,238	58.6	1,582	1,764	41.4	37.0
George Town	0.97	(3.5)	16.0	5,681	67.4	1,326	832	67.4	6,832	81.0	1,600	234	19.0	21.4
Glamorgan Spring Bay	1.07	6.3	21.6	5,273	58.2	966	1,172	58.2	7,107	78.4	1,957	435	21.6	16.1
Kentish	1.01	0.6	15.7	4,081	54.7	1,122	650	54.7	5,057	67.8	2,399	382	32.2	23.4
King Island	0.95	(5.7)	16.0	1,581	29.7	1,008	930	29.7	3,296	61.8	2,036	1,198	38.2	23.1
Latrobe	1.04	4.0	23.3	5,018	53.5	928	522	53.5	7,736	82.4	1,649	171	17.6	24.1
Southern Midlands	0.88	(13.6)	35.5	3,422	47.8	925	565	47.8	4,355	60.8	2,802	463	39.2	43.0
Tasman	1.18	15.2	21.0	3,223	58.1	836	1,358	58.1	4,302	77.6	1,241	523	22.4	17.3
West Coast	1.01	1.0	27.5	5,074	55.1	1,073	968	55.1	7,091	77.0	2,115	403	23.0	25.0
Total				331 924							86 337			
Average per Council	0.97	(5.1)	22.2	10 600	52.9	1 082	729	53.6	17 226	78.2	2 977	351	21.8	27.5
Total 2008-09				462 747							84 688			
Average per Council 2008-09	0.99	(2.2)	29.5	15 674	57.9	1 417	948	57.9	22 424	81.6	2 920	351	18.4	27.3

* Operating revenue includes 2010 Financial Assistance Grant received in June 2009.

** Non operating revenue and expenditure include capital grants, contributed assets and revaluation and impairment adjustments. Also, Non operating revenue includes 2011 Financial Assistance Grant received in June 2010.

Table 4 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Employee Costs – 2009-10

Council	Current Assets	Current Liabilities	Working Capital	Current Ratio	Non-Current Assets	Non Current Liabilities	Debt Service Ratio	Cost of Debt	Indebtedness Ratio	Rate Debtors	Rate Debtors to Rates Raised	Payments for Property, Plant & Equipment	Depreciation $000	Capital Expenditure to Depreciation Ratio	Rate Revenue to Non-Current Infrastructure Assets	Non-Current Infrastructure Assets per Square Kilometre	Non-Current Infrastructure Assets per Head of Population	Non-Current Infrastructure Assets per Rateable Valuation
Council	$000	$000	$'000s	No.	$'000s	$'000s	%	%	%	$'000s	%	$'000s		%	%	$	$	$
Clarence	50,414	7,328	43,086	6.9	606,498	1,628	1.6	5.3	3.8	1,397	4.0	13,878	12,271	113.1	8.7	1,075,615	7,777	16,712
Glenorchy	25,145	9,317	15,828	2.7	627,746	12,290	4.4	5.7	29.1	426	2.2	10,839	13,881	78.1	4.6	3,564,800	9,585	20,458
Hobart	42,417	18,065	24,352	2.3	872,532	25,881	0.5	5.6	31.7	764	1.5	20,274	15,918	127.4	7.7	8,369,666	13,053	27,669
Launceston	73,468	35,961	37,507	2.0	,268,491	27,080	3.1	5.3	38.4	626	1.3	28,033	15,855	176.8	6.1	543,352	11,696	26,170
Brighton	6,001	2,317	3,684	2.6	159,416	858	4.3	7.3	8.7	103	1.7	3,591	2,429	147.8	5.9	605,485	6,550	15,458
Burnie	10,789	6,212	4,577	1.7	313,666	3,571	0.5	7.4	12.3	886	5.1	22,688	7,314	310.2	6.7	419,289	12,867	13,149
Central Coast	6,335	3,965	2,370	1.6	348,944	3,623	0.9	5.3	22.3	290	2.7	13,986	6,022	232.2	3.9	301,666	12,923	27,075
Derwent Valley	3,005	2,445	560	1.2	85,871	1,540	1.6	5.4	24.2	477	9.9	4,294	2,050	209.5	7.9	14,894	6,091	12,306
Devonport	14,482	5,339	9,143	2.7	403,466	5,326	2.4	6.9	19.1	401	1.9	8,406	6,867	122.4	7.0	2,642,261	11,493	25,065
Huon Valley	10,660	3,823	6,837	2.8	173,624	659	-	-	4.6	205	2.7	5,390	4,040	133.4	5.7	24,384	8,859	13,565
Kingborough	16,998	6,018	10,980	2.8	542,420	4,567	0.1	12.7	19.2	354	2.3	16,211	9,233	166.3	3.6	598,825	12,866	26,753
Meander Valley	16,728	1,761	14,967	9.5	250,165	1,743	-	-	14.5	297	3.4	7,157	4,313	165.9	4.4	59,782	10,154	20,954
Northern Midlands	8,805	1,753	7,052	5.0	241,003	209	-	-	2.3	234	3.6	5,672	4,405	128.8	3.3	38,550	15,680	30,518
Sorell	9,597	2,682	6,915	3.6	194,378	3,148	4.6	6.9	27.5	592	6.8	4,648	3,618	128.5	5.3	280,273	12,448	19,602
Waratah-Wynyard	6,901	2,297	4,604	3.0	119,527	628	2.1	5.3	6.3	82	1.1	3,568	2,865	121.7	7.9	26,136	6,528	12,343
West Tamar	16,366	3,723	12,643	4.4	221,453	1,050	2.0	6.6	6.3	408	3.5	10,450	4,539	215.6	7.2	234,020	7,266	14,962
Break O'Day	7,627	1,745	5,882	4.4	108,692	210	-	-	2.8	354	6.0	3,274	3,160	103.6	7.1	23,385	12,845	13,051
Central Highlands	7,040	744	6,296	9.5	116,282	38	-	-	1.0	220	8.7	1,625	4,700	34.6	2.4	13,429	46,091	28,203
Circular Head	8,214	1,676	6,538	4.9	108,490	495	1.1	6.3	5.6	225	3.8	4,127	2,419	170.6	6.9	17,648	10,399	18,095
Dorset	16,188	2,374	13,814	6.8	148,251	1,567	0.7	3.8	21.1	294	5.5	6,669	3,364	198.2	4.3	38,999	17,039	24,641
Flinders	8,134	432	7,702	18.8	39,610	225	-	-	10.1	86	8.3	1,128	1,412	79.9	2.7	19,125	42,514	30,028
George Town	4,775	1,235	3,540	3.9	99,869	2,716	3.4	9.0	39.8	125	2.2	2,939	1,808	162.6	7.3	119,335	11,409	18,194
Glamorgan Spring Bay	2,699	1,092	1,607	2.5	85,180	566	1.5	3.8	8.0	153	2.9	1,889	1,461	129.3	11.1	18,865	10,573	8,720
Kentish	5,104	675	4,429	7.6	71,533	1,849	3.2	6.4	36.6	138	3.4	2,597	1,743	149.0	6.6	53,205	9,784	16,892
King Island	4,195	1,114	3,081	3.8	57,965	686	6.9	6.4	20.8	228	14.4	1,704	1,231	121.3	3.0	48,976	31,518	34,171
Latrobe	5,793	1,731	4,062	3.3	118,039	1,649	1.1	5.3	21.3	95	1.9	2,173	2,258	96.2	5.4	154,510	9,641	17,139
Southern Midlands	9,133	1,541	7,592	5.9	86,139	1,005	1.9	5.7	23.1	324	9.5	3,324	3,075	108.1	4.6	28,782	12,413	20,311
Tasman	1,951	772	1,179	2.5	15,636	995	5.4	6.7	23.1	171	5.3	765	960	79.7	22.0	22,220	6,168	3,799
West Coast	6,048	1,973	4,075	3.1	88,751	1,468	0.3	1.8	20.7	493	9.7	6,129	2,297	266.8	8.0	6,623	12,097	13,412
Total	**405 012**	**130 110**	**274 902**		**7 573 637**	**107 270**				**10 448**		**217 428**	**145 508**					
Average per Council	**13 966**	**4 487**	**9 479**	**4.5**	**261 160**	**3 699**	**1.8**	**4.9**	**17.4**	**360**	**4.7**	**7 498**	**5 018**	**147.5**	**6.5**	**667 728**	**13 735**	**19 635**
Total 2008-09	**454 107**	**213 590**	**240 517**		**7 671 702**	**178 849**				**12 987**		**254 783**	**181 321**					
Average per Council 2008-09	**15 659**	**7 365**	**8 294**	**4.0**	**264 541**	**6 202**	**3.4**	**5.5**	**24.0**	**448**	**3.8**	**8 786**	**6 252**	**144.0**	**6.8**	**947 645**	**16 067**	**22 895**

7. LOCAL GOVERNMENT BUSINESS UNITS

COPPING REFUSE DISPOSAL SITE JOINT AUTHORITY

INTRODUCTION

The Copping Refuse Disposal Site Joint Authority (the Authority) was established as a joint authority under Section 30 of the *Local Government Act 1993* and gazetted on 1 March 2001. The Authority trades under the name of Southern Waste Solutions.

The principal objectives of the Authority are to manage a putrescibles landfill disposal site which conforms to the Development Proposal and Environmental Management Plan (DP&EMP) and associated permit conditions issued by the then Environmental Management and Pollution Control Board. It must successfully manage the landfill disposal site business and balance area by:

- operating efficiently in accordance with sound commercial practice
- maximising the net worth of the Authority's assets
- operating the site to maximise benefits to member Councils.

The Authority is jointly owned by the Clarence City, Kingborough (from 1 July 2009), Sorell and Tasman Councils. It also has long-term contracts for waste disposal and transport with the Huon Valley, Break O'Day and Glamorgan Spring Bay Councils.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 2 August 2010 and an unqualified audit report was issued on 25 October 2010.

The audit was completed satisfactorily with no major matters outstanding.

KEY FINDINGS AND DEVELOPMENTS

Key developments in 2009 10 included:

- Kingborough Council became a participating council on 1 July 2009 by purchasing a 20% shareholding for $0.274m
- the rules of the Authority were amended from 1 July 2009 to alter the structure of the organisation. The Authority's Board was replaced by the position of a Chief Executive Officer, which was filled in October 2009. The savings from no longer paying the Board were offset by salary costs for the new position.

FINANCIAL RESULTS

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09
	$'000s	$'000s
Operating Revenue	2 962	2 532
Total Revenue	**2 962**	**2 532**
Employee costs	355	279
Finance costs	356	303
Depreciation	506	316
Other expenses	1 869	1 590
Total Expenses	**3 086**	**2 488**
Profit (Loss) from operations	**(124)**	**44**
Comprehensive Profit (Loss)	**(124)**	**44**

Comment

The Authority recorded a Loss from operations of $0.124m in 2009-10, which was a $0.168m decrease when compared to the Profit of $0.044m in the previous year. The deterioration in the operating result was primarily due to increased expenditure, including:

- Employee costs, $0.076m, mainly due to the employment of a full-time administration officer, from August 2009, and an operations manager from February 2011. To some extent these replaced work previously done using casual employees and administration fees paid to Clarence City Council for regular assistance with administration and financial matters
- Depreciation, by $0.190m to $0.506m. This mainly reflected a full year's depreciation on the second cell of $0.150m, capitalised on 1 July 2009
- Finance costs, $0.053m, associated with a full year's interest on $2.000m in new borrowings in 2008-09 associated with the Lutana Waste Transfer Station (LWTS) capital works
- Other expenses, $0.279m, related to operating costs resulting from a full year of operations at the LWTS.

These expenditure increases were mainly offset by increased Operating revenue of $0.430m due to the full year's operation of the LWTS and the medical waste treatment plant. The LTWS and medical waste treatment plant were officially opened by the Minister for Health on 31 October 2008, but after experiencing some unexpected delays, due to final construction difficulties and a fire, commenced normal operations in early 2009.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09
	$'000s	$'000s
Cash and financial assets	441	777
Receivables	311	248
Other	67	223
Total Current Assets	**819**	**1 248**
Payables	498	758
Borrowings	358	314
Provisions - employee benefits	9	0
Total Current Liabilities	**865**	**1 072**
Working Capital	**(46)**	**176**
Property, plant and equipment	5 952	5 849
Other	100	100
Total Non-Current Assets	**6 052**	**5 949**
Borrowings	5 377	5 375
Provisions - employee benefits	3	0
Total Non-Current Liabilities	**5 380**	**5 375**
Net Assets	**626**	**750**
Contributed Capital	23	23
Reserves	627	627
Accumulated (deficits) surpluses	(24)	100
Total Equity	**626**	**750**

Comment

Total Equity decreased $0.124m during 2009-10 due to the operating loss for the year.

Net Assets decreased by a corresponding amount to $0.626m. Reasons for line item movements included:

- decreased Cash and financial assets, $0.336m, due mainly to payments for property plant and equipment, $0.609m, offset partly by cash generated from operations, $0.228m, and net proceeds from borrowings, $0.046m
- Receivables increased, $0.063m, related to operations of the LWTS
- Other current assets, which included prepayments and accruals, reduced by $0.156m because 2008-09 included accrued income amounting to $0.223m. This year all invoicing was completed through accounts receivable resulting in no entry for accrued income required at 30 June 2010
- decreasing Payables, $0.260m, because in 2008-09 the balance included a number of creditors invoices related to capital expenditure

Property, plant and equipment increased by $0.103m due to new additions, mainly the new second cell, and Work in Progress of $0.609m less accumulated depreciation of $0.506m.

FINANCIAL ANALYSIS

	Bench Mark	2009-10	2008-09
Financial Performance			
Profit (Loss) from operations ($'000s)		(124)	44
Return on assets		(1.8%)	0.7%
Return on equity*	15.0%	(18.0%)	6.0%
Financial Management			
Current ratio	>1	0.95%	1.16%
Indebtedness ratio		181.6%	212.3%
Debt to equity		863.3%	660.2%
Debt to total assets		84.4%	81.1%
Cost of debt	6.9%	6.0%	6.5%
Debt collection	30 days	38	36
Creditor turnover	30 days	60	61
Capital expenditure/depreciation		120.4%	924.1%
Returns to Shareholders			
Dividend paid or payable ($'000s)		0	0
Othert Information			
Staff numbers (FTEs)		4.6	3.0
Average staff costs ($'000s)		77	78
Average leave balance per FTE ($'000s)		3	0

* *Industry specific rate of return*

Comment

The negative return on assets and equity reflected the loss of $0.124m incurred in 2009-10.

Current ratio was slightly below the benchmark in 2009-10 and significantly less than 2008-09 reflecting, a large reduction in cash at bank offset partly by reduced accounts payable at year end.

Debt ratios were high reflecting the Authority was highly leveraged with a high level of debt used to fund infrastructure requirements. The large increase in the Debt to equity ratio in 2009-10 mainly resulted from decreased equity, due to the deficit incurred that year. Indebtedness ratio decreased in 2009-10 due to higher Operating revenue. Debt to Total Assets ratio, while increasing slightly, stabilised and remained high reflecting the highly geared nature of the business. Cost of debt was slightly lower than the prior year.

While debt collection was above benchmark, there are no concerns over the collectability of debts. The high days reflected that more than one month's charges were outstanding for a number of the Authority's larger clients.

Creditor turnover was significantly above the benchmark. This was due to a large creditor account that had been in dispute since 30 June 2009 of $0.103m. Adjusting for this, the Creditor turnover remained above benchmark but reduced to 44 days for 2009-10 and 49 days for 2008-09. This resulted from the Authority processing all payments in the first week of each following month.

Capital expenditure to depreciation ratio was well above the benchmark in both years under review with the exceptionally high ratio in 2008-09 reflecting the LTWS capital expenditure. Due to the nature of the Authority's operations, it was expected that capital expenditure would not be constant on an annual basis. This ratio would be better assessed on a cycle consistent with the Authority's operations.

CRADLE COAST AUTHORITY

INTRODUCTION

Cradle Coast Authority (the Authority) was established in 2000 as a joint authority under section 38 of the *Local Government Act 1993* (the Act), by its participating Councils; Burnie City, Devonport City, Waratah-Wynyard, Central Coast, Latrobe, Kentish, Circular Head, King Island and West Coast. These municipality areas combine to form the Cradle Coast region.

The Authority's aim is to identify areas of importance for economic development and to organise partnerships between the different levels of government, industry and community groups to address these areas throughout the Cradle Coast region.

The Authority is engaged in a range of regional initiatives including:

- Tourism
- Natural Resource Management (NRM)
- Health
- Industry development
- Education, Training and Workforce Development
- Transport
- Local Government
- any other issues identified by its Board or councils.

The Board has eight directors comprising business and community leaders who are chosen by the representative councils.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 16 August 2010. An unqualified audit report was issued on 19 August 2010.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10 Actual $'000s	2008-09 Actual $'000s
Government grants	3 362	4 124
Council contributions	795	828
Other Income	1 045	785
Total Revenue	**5 202**	**5 737**
Employee expenses	1 844	1 589
Depreciation	72	40
Other expenses	5 337	4 211
Total Expenses	**7 253**	**5 840**
Net Deficit	**(2 051)**	**(103)**

Comment

The Authority recorded a Net Deficit of $2.051m in 2009-10 in comparison to a $0.103m Net Deficit in 2008-09. The increase in the deficit of $1.948m related to a decrease in grant funding of $0.762m and increased expenditure $1.126m. The Authority's expenditure mainly comprised project payments and included the following in 2009-10:

- regional planning initiatives
- coastal pathways
- development of tourism zone marketing groups
- social benchmarking.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09
	$'000s	$'000s
Cash	2 732	5 292
Receivables	561	213
Total Current Assets	**3 293**	**5 505**
Payables	151	303
Provisions - employee benefits	93	72
Total Current Liabilities	**244**	**375**
Working Capital	**3 049**	**5 130**
Property, plant and equipment	226	176
Total Non-Current Assets	**226**	**176**
Provisions - employee benefits	41	21
Total Non-Current Liabilities	**41**	**21**
Net Assets	**3 234**	**5 285**
Total Equity	**3 234**	**5 285**

Comment

For the reasons outlined in the Abridged Comprehensive Income Statement section of this Chapter, Total Equity decreased by $2.051m in 2009-10. Net Assets decreased correspondingly with reasons for line item movements including:

- lower Cash $2.560m, due to the Authority incurring increased project expenditure as noted in the Abridged Comprehensive Income Statement section of this Chapter
- higher Receivables $0.348m, with the majority of the increase due to a number of invoices outstanding at 30 June 2010 relating to grant funding.

Capital expenditure to depreciation ratio was well above the benchmark in both years under review with the exceptionally high ratio in 2008-09 reflecting the LTWS capital expenditure. Due to the nature of the Authority's operations, it was expected that capital expenditure would not be constant on an annual basis. This ratio would be better assessed on a cycle consistent with the Authority's operations.

DULVERTON REGIONAL WASTE MANAGEMENT AUTHORITY

INTRODUCTION

The Dulverton Regional Waste Management Authority was established as a joint authority under Section 38 of the *Local Government Act 1993* effective 1 January 1995. The Authority was established for the purpose of conducting a licensed waste disposal landfill.

The Devonport City, Central Coast, Latrobe and Kentish Councils are the four participants in the Authority. Each of the four Councils initially made contributions by way of loans to the Authority in proportion to their population.

The Board was re-constituted in 2008 with four directors. In accordance with the Authority's revised rules, the Board may perform all the functions and exercise all of the powers of the Authority except those which are to be performed by the representatives or participating Councils.

Each participating Council is now represented by two persons who are appointed to vote on its behalf at representatives' meetings. The powers and duties of the representatives are outlined in the rules of the Authority and include:

- review of the Board's performance
- appointment, suspension and dismissal of directors
- approval of the Authority's strategic plan, annual plan and budget.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 31 August 2010 with amended statements received on 23 November 2010. An unqualified audit report was issued on 24 November 2010.

The audit was completed satisfactorily with no issues outstanding.

FINANCIAL RESULTS

The Authority is a for-profit entity and is expected to generate profits, pay tax and provide dividends to its owner Councils. It achieved profits and a positive working capital position in both years under review.

In 2009-10 the Authority's net assets increased by $0.744m. This increase comprised a profit of $0.386m and an upward revaluation of assets, net of tax, of $0.432m, offset by dividends paid of $0.074m.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	**2008-09**
	$'000s	$'000s
Operating revenue	4 763	2 985
Total revenue	**4 763**	**2 985**
Employee costs	228	188
Borrowing costs	84	63
Depreciation	301	306
Other expenses	3 620	1 803
Loss on sale of assets	65	0
Total expenses	**4 298**	**2 360**
Profit from operations before:	**465**	**625**
Income tax expense	(166)	(236)
Profit after taxation	**299**	**389**
Rehabilitation provision reassessment net of tax	87	160
Profit for the year	**386**	**549**
Other comprehensive income		
Revaluation increment net of tax	432	122
Comprehensive income	**818**	**671**

Comment

In 2009-10 the Authority recorded a Profit from operations of $0.465m, lower by $0.160m compared to the prior year primarily due to the offsetting effects of:

- an increase in Operating revenue of $1.778m due mainly to reimbursements from new recycling and green-waste contracts totalling $1.445m and revenue earned from advisory services of $0.151m
- an increase in Other expenses of $1.817m due mainly to expenditure on the new recycling and green-waste contracts of $1.443m plus new compactor payments of $0.115m
- a Loss on sale of $0.065m relating to the disposal of a landfill compactor
- an increase in Employee costs of $0.040m primarily due to the addition of an extra staff member two thirds through the year.

The Rehabilitation provision was reassessed during the year resulting in a reduction of the provision to $0.087m, compared with $0.160m in the prior year. Further details about this provision are included in the Statement of Financial Position section of this Chapter.

The Authority's Comprehensive income for 2009-10 was $0.818m, after accounting for an upward revaluation of assets of $0.432m.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09
	$'000s	$'000s
Cash	800	623
Receivables	745	417
Other assets	67	136
Total Current Assets	**1 661**	**1 176**
Payables	600	312
Borrowings	242	149
Provisions - employee benefits	20	15
Property, plant and equipment	6 096	5 223
Deferred tax assets	201	225
Total Non-Current Assets	**6 297**	**5 448**
Borrowings	860	686
Provisions - employee benefits	3	2
Defferred tax liabilities	958	842
Total Non-Current Liabilities	**2 467**	**2 263**
Net Assets	**4 629**	**3 885**
Contributed Capital	1 747	1 747
Reserves	2 473	2 041
Retained earnings (Accumulated losses)	409	97
Total Equity	**4 629**	**3 885**
Total Current Assets	1 661	1 176
Total Current Liabilities	(862)	(476)
Total Non-Current Assets	6 297	5 448
Total Non-Current Liabilities	(2 467)	(2 263)
Net Assets	**4 629**	**3 885**
Total Equity	**4 629**	**3 885**

Comment

Total Equity increased by $0.744m in 2009-10, due to the profit of $0.386m and an upward revaluation
of assets net of tax of $0.432m, offset by dividends paid of $0.074m.

Current assets increased by $0.485m primarily due to higher Cash assets of $0.177m and Receivables of $0.328m. This was offset by increased Current liabilities of $0.386m, mainly due to:

- higher trade and other payables of $0.288m caused in part by June invoices under the new recycling contract
- a rise in current borrowings of $0.093m (refer increase in non-current borrowings below).

Non-current assets increased by $0.849m due to higher property, plant and equipment assets of $0.873m. The rise was due to capital additions of $0.781m and a gross asset revaluation increment of $0.618m, offset by depreciation of $0.301m and asset disposals of $0.225m.

Non-current liabilities increased by $0.204m due to:

- a rise in non-current borrowings of $0.174m due to a new loan of $0.455m offset by principal loan repayments of $0.188m
- higher deferred tax liabilities of $0.116m offset by
- a decrease in the rehabilitation provision of $0.087m as a result of the downwards reassessment.

The rehabilitation provision includes two components – rehabilitation and aftercare. These provisions are required to ensure long term environmental sustainability.

The aftercare provision is to cover the cost of maintaining the site for a period of 20 years after closure. The provision is to cover monitoring, management, financing of contingent liabilities and maintenance.

Rehabilitation only includes costs associated with the rehabilitation of the currently utilised portion (or cell) of the landfill. This occurs progressively as cells are completed. The environmental protection notice requires rehabilitation on a two yearly basis. As a result, the Authority must review future costs and discount the provision for rehabilitation and aftercare to present value each year.

FINANCIAL PERFORMANCE

	Bench Mark	2009-10	2008-09
Financial Performance			
Result from operations ($'000s)		465	625
Return on assets		7.5%	10.3%
Return on equity *	15%	9.1%	15.5%
Financial Management			
Current ratio	>1	1.93	2.47
Indebtedness Ratio		51.8%	75.8%
Debt to equity		23.8%	21.5%
Debt to total assets		13.8%	12.6%
Cost of debt	7.5%	7.0%	7.0%
Debt collection	30 days	57	52
Creditor turnover	30 days	47	57
Capital expenditure/depreciation	100%	260%	26%
Returns to Shareholders			
Dividends paid or payable ($'000s)		0	74
Other Information			
Staff numbers (FTEs)		2	2
Average staff costs ($'000s)		114	94
Average leave balance per FTE ($'000s)		12	9

* *industry specific rate of return*

Comment

Financial performance ratios showed that the Authority recorded operating surpluses in both years under review, resulting in positive Returns on assets and equity.

The Authority's Current ratio was above the benchmark of one in both years.

Indebtedness ratio decreased in 2009-10 due to the higher Operating revenue in that year. The Debt to equity and total assets ratios and the Cost of debt were fairly consistent with the prior year.

Debt collection remained significantly above benchmark. There were no doubts over the collectability of debts, rather the high days was a reflection that more than one month's charges were outstanding for a number of the Authority's larger clients.

Creditor turnover was also significantly above benchmark. The Authority has a policy of paying all invoices within thirty days. The higher turnover was due to increased supplier balances owing at 30 June related to the new recycling contract.

Capital expenditure to depreciation ratio was well below 100% in 2008-09 but significantly above 100% in 2009-10. Due to the nature of the Authority's operations, it was expected that the Capital expenditure would not be constant on an annual basis. This ratio would be better assessed on a cycle consistent with the Authority's operations.

Average staff costs and Average staff entitlements increased in 2009-10 primarily due the addition of an extra staff member.

NORTHERN TASMANIAN REGIONAL DEVELOPMENT BOARD

INTRODUCTION

The Northern Tasmanian Regional Development Board (known as Northern Tasmania Development or the Board) was established as a Company in 1992. It is owned by eight shareholders being Break O'Day, Dorset, Flinders, George Town, Launceston City, Meander Valley, Northern Midlands and West Tamar Councils.

The principal activities of the Board are to identify and facilitate economic and community development opportunities for the benefit of the residents of Northern Tasmania. The Board provides tourism development and marketing for Northern Tasmania. The Board manages projects which are either funded by shareholder councils, or by State or Commonwealth governments.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 17 December 2010 and an unqualified audit report was issued on 23 December 2010.

The audit was completed satisfactorily with no major items outstanding.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	**2008-09**
	Actual	Actual
	$'000s	$'000s
Government grants	558	616
Council contributions	393	547
Other Income	81	100
Total Revenue	**1 032**	**1 262**
Employee expenses	480	708
Depreciation	3	13
Other expenses	662	594
Total Expenses	**1 145**	**1 315**
Deficit Before Income Tax	**(113)**	**(53)**
Income Tax Benefit	**74**	**31**
Net Deficit	**(39)**	**(22)**

Comment

The Board recorded a Deficit before income tax benefits of $0.113m in 2009-10 in comparison to a deficit of $0.053m in 2008-09. The increase in Deficit before income tax of $0.060m was due to revenues declining at a higher rate than expenditure.

Government grants revenue declined $0.058m mainly due to a strategic review during 2009-10 which resulted in the decision to reduce focus on project areas. This in turn resulted in less funding being required from the councils with their contributions reduced by $0.154m. Government grant funding also included $0.331m in unspent funds received in advanced in the prior year, expensed in the current year as projects were completed.

In re-focussing the Board's structure there was a reduction in permanent staffing. Whilst Employee expenses declined $0.288m, 32%, Other expenses increased $0.067m, with increases in project and consultant expenditure. Depreciation declined with disposal of a motor vehicle in the prior year and from other assets held being fully depreciated. The main area of activity during the year was on regional planning projects.

The Board's Income tax benefit included bringing to account tax losses of $0.074m, resulting in a Net deficit of $0.039m.

STATEMENT OF FINANCIAL POSITION

	2009-10	2008-09
	$'000s	$'000s
Cash	261	541
Receivables	31	176
Total Current Assets	**293**	**717**
Payables	165	181
Income in Advance	59	331
Provisions - employee benefits	12	38
Total Current Liabilities	**236**	**551**
Working Capital	**57**	**166**
Property, plant and equipment	8	11
Deferred Tax Assets	4	0
Total Non-Current Assets	**12**	**11**
Deferred Tax Liabilities	0	70
Total Non-Current Liabilities	**0**	**70**
Net Assets	**68**	**107**
Total Equity	**68**	**107**

Comment

For the reasons outlined in the Abridged Comprehensive Income Statement section of this Chapter, Total Equity decreased $0.039m in 2009-10.

Net Assets decreased by a corresponding amount to $0.068m. Reasons for line item movements included:

- a decrease in Cash of $0.280m, with the Board expending $1.528m on operations whilst receipts from operations was $1.243m, a net cash outflow of $0.285m
- Receivables declined $0.144m as grant and council contributions outstanding in 2008-09 were received
- Income received in advance decreased $0.272m, as funds were expended on project works
- Provisions for employee entitlements decreased $0.026m, with a reduction of full time staff from 5.46 FTEs in 2008-09 to 1 in 2009-10
- Deferred tax liabilities declined $0.070m as temporary differences were recognised.

SOUTHERN TASMANIAN COUNCILS AUTHORITY

INTRODUCTION

The Southern Tasmanian Councils Authority (the Authority) was created on 1 July 2006 under section 29 of the *Local Government Act 1993*.

The Authority operates as a joint authority of the twelve Southern Tasmanian Councils (Councils). The functions of the Authority are to enable members to work together to facilitate and coordinate agreed regional development strategies and actions to achieve sustainable economic, environmental and social outcomes for the southern region of Tasmania.

The Authority is funded by Councils' contribution and operational grants for the specific activities undertaken. The Authority had two joint Chief Executive Officers and seven Project Officers as at 30 June 2010. Hobart City Council provided employment and accounting services.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 4 October 2010 and an unqualified audit report was issued on 30 November 2010.

The audit was completed satisfactorily with no major items outstanding.

ABRIDGED COMPREHENSIVE INCOME STATEMENT

	2009-10	2008-09
	Actual	Actual
	$'000s	$'000s
Government grants	581	781
Council contribution	426	283
Other income	28	41
Total Revenue	**1 035**	**1 105**
Employee expense	360	267
Depreciation	7	4
Other expenses	581	592
Total Expenses	**948**	**863**
Net Surplus	**87**	**242**

Comment

The Authority is a not-for profit entity and operates on a break-even basis. There is no expectation of dividends or taxation equivalent returns from its activities.

In 2009-10 the Authority recorded a Net Surplus of $0.087m (2008-09; $0.242m). A major revenue source of the Authority was Government grants, $0.581m (2009, $0.781m), which included:

- Southern Regional Planning Initiative Project, $0.433m (2009, $0.184m). The purpose of the project is to undertake a jointing planning initiative between State and Local

Government to introduce coordinated, consistent and contemporary planning schemes based on comprehensive regional land use and infrastructure investment strategy in the Southern Tasmanian Region

- Southern Weeds Strategy Programme, $0.124m (2009, $0.154m).

In 2008-09, the Authority received $0.237m from the Southern Tasmanian Youth Transitions Taskforce and $0.113m from the Regional Coordination of Tasmanian Water and Sewerage Reform. The grants were not repeated in 2009-10.

The second significant revenue area for the Authority was Councils Contribution $0.426m (2009, $0.283m), which included:

- Councils' subscription fees of $0.165m (2009, $0.162m)
- Regional Geographic Information System Development, $0.120m (2009, $0.121m)
- Climate Change Program, $0.086m (2009, Nil)
- Biodiversity Program, $0.055m (2009, Nil).

Revenue received was expended on:

- Employee expenses, $0.360m (2009, $0.267m)
- Consultancy services for joint Chief Executive Officers $0.146m (2009, $0.141m)
- Other expenses of $0.581m included consultancy of $0.189m (2009, $0.129m). The increase was due primarily to additional external consultancy including the Southern Regional Planning Initiative Project.

STATEMENT OF FINANCIAL POSITION

	30 June 2010	30 June 2009
	$'000s	$'000s
Cash	583	505
Receivables	117	45
Total Current Assets	**700**	**550**
Payables	93	48
Provisions - employee benefits	28	15
Total Current Liabilities	**121**	**63**
Working Capital	**579**	**487**
Property, plant and equipment	9	14
Total Non-Current Assets	9	14
Net Assets	**588**	**501**
Total Equity	**588**	**501**

Comment

Total Equity increased by $0.087m, which represented the Authority's Net Surplus. Total Assets included Cash, $0.583m ($0.505m; 2008-09) and grant Receivables, $0.117m ($0.045m). Of the cash balance, $0.276m related to unexpended grant commitments.

Total Current Liabilities included Payables of $0.093m ($0.048m; 2008-09) and Employee entitlement of $0.028m ($0.015m). The increase in Payable was primarily due to an unpaid invoice to Department of Justice, $0.044m for the provision of services related to the Southern Regional Planning Initiative Project.

SOUTHERN WASTE STRATEGY AUTHORITY

INTRODUCTION

The Southern Waste Strategy Authority (the Authority) is a joint authority established under the *Local Government Act 1993*. The Authority is a body corporate, whose powers and functions are specified in its rules, as adopted by the member Councils. The members of the Authority are drawn largely from the '62'-telephone area code based around Hobart and represent all Southern, Eastern and Central councils. Each member Council appoints a councillor to represent it and vote on its behalf at general meetings of the Authority. The purpose of the Authority is to facilitate integrated regional strategic waste planning in Southern Tasmania and implementation thereof.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 14 October 2010 and an unqualified audit report was issued on 27 October 2010.

The Rules of the Authority state that financial statements must be prepared within 60 days after year end. The Authority prepared and issued its financial statements for audit during the first week of August 2010. However, the Authority failed to comply with the 60 day deadline for the certification of its financial statements.

Apart from the delay in submitting its financial statements, the audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2009-10	2008-09
	Actual	Actual
	$'000s	$'000s
Total Revenue	321	323
Total Expenses	353	231
Net Surplus (Deficit)	**(32)**	**92**
Total Assets	368	410
Total Liabilities	105	115
Net Assets	**263**	**295**
Total Equity	**263**	**295**

Comment

The Authority's Net Deficit of $0.032m in 2009-10 was primarily caused by an increase in expenses, up $0.122m, due mainly to higher advertising expenses, $0.055m (2008-09, $0.003m). In addition, the household hazardous waste program was launched in 2009-10 and contributed to additional expenses, $0.077m (2008-09, nil).

Net Assets decreased by $0.032m due mainly to property, plant and equipment reducing by $0.009m caused by the annual depreciation charge, and lower trade and other receivables which reduced by $0.052m to $0.004m. This was caused by a $0.050m debt being owed from the Environment Protection Authority in the prior year.

LOCAL GOVERNMENT ASSOCIATION OF TASMANIA

INTRODUCTION

Founded in 1911, the Local Government Association of Tasmania (LGAT) is an incorporated body under the *Local Government Act 1993*.

LGAT is the peak body for local government in Tasmania and is part of a national network of associations. It is funded by councils and other income earned through projects sponsored on behalf of local government, and a range of services and sponsorships. A General Management Committee (GMC) of eight members provides oversight to LGAT's operations.

The objectives of LGAT are to:

- promote the efficient administration and operation of local government in the State of Tasmania
- represent and protect the interests, rights and privileges of members of LGAT
- foster and promote relationships between local government, the government of Tasmania and the Commonwealth of Australia
- provide support services to members of LGAT.

Since December 1999, LGAT has provided administrative support to LGAT ASSIST (formerly named LGAT Welfare Fund). The LGAT ASSIST Board of directors is appointed by the LGAT GMC.

LGAT *ASSIST* provides local government employees with support and assistance during times of health, financial and general personal difficulty. Support and assistance include:

- low interest loans to council employees who are employed on a permanent basis and who are members of Quadrant Superannuation
- access to financial counselling to assist with household management
- three bursaries annually, to enable council employees or their dependents to attend the University of Tasmania (conditions apply)
- non-refundable grants in cases of extraordinary financial hardship.

Financial results of LGAT *ASSIST* are reported separately in the financial statements of LGAT.

AUDIT OF THE 2009-10 FINANCIAL STATEMENTS

Signed financial statements were received on 31 August 2010. The financial statements were re–signed on 15 November 2010. An unqualified audit report was issued on 23 November 2010.

The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL INFORMATION

Abridged Comprehensive Income Statement LGAT General

	2009-10	2008-09
	$'000s	$'000s
Grants	810	207
Subscriptions	1 030	995
Investment income	154	191
Other income	286	375
Total Revenue	**2 280**	**1 767**
Depreciation	36	35
Employee costs	709	744
Other expenses	1 421	885
Total Expenses	**2 166**	**1 663**
Surplus	**114**	**104**

Comment

The Association recorded a surplus of $0.114m in 2009-10 with both revenue, 29%, and expenditure, 30%, increasing significantly this financial year. Main changes in line items were as follows:

- Grants income increased $0.603m, 291.8%, principally due to higher expenditure on government grants discussed under Other expenses below. It is noted that LGAT accounts for grants received on an 'earned' basis. That is, grants are initially brought to account on receipt as an "unexpended" liability and transferred to revenue as expenditure is incurred on the projects for which the grants were provided
- Investment income fell by $0.037m principally due to a fall in investments held of $0.461m
- Other income fell $0.089m due to one-off water and sewerage funding of $0.065m received in the prior year and to lower conference revenue, $0.023m
- Other expenses increased $0.536m, 60.6% mainly due to increases in grant expenditure on programs for which funding was received prior to 2009-10 including:
    - Electronic Development Assessment Program (eDAIS), $0.302m, funded by the Commonwealth Department of Families, Housing, Community Services and Indigenous Affairs. The eDAIS, program is to develop, enhance and implement end-to-end processes in specified local government areas in Tasmania. Funding was received in 2009, $0.250m, and 2010, $0.180m, but most work on the project was undertaken in 2009-10
    - Household hazardous waste program (HHW), $0.242m. This program is to deliver and promote long-term improved management outcomes for hazardous waste in Tasmania. HHW funding was received in June 2008 from the then Department of Environment, Parks, Heritage and the Arts. However, the project did not start until March 2009 due to delays in the employment of a project officer.

Abridged Balance Sheet LGAT General

	2009-10	2008-09
	$'000s	$'000s
Total Current Assets	2 694	3 561
Total Current Liabilities	602	1 072
Working Capital	**2 092**	**2 489**
Total Non-Current Assets	622	117
Total Non-Current Liabilities	22	29
Net Assets	**2 692**	**2 578**
Total Equity	**2 692**	**2 578**

Comment

Total Equity increased by $0.114m due to the Surplus recorded in 2009-10. This was also reflected in higher Net Assets of the same amount because:

- At 30 June 2009 LGAT's primary current assets were a loan of $2.000m to Onstream and cash and investments of $1.462m. The $2.000m loan was recovered this year of which $1.500m was invested and $0.500m applied to grant expenditures referred to earlier. At 30 June 2010 LGAT's total cash and investments totalled $3.000m, including $0.500m held in a long term investment, classified as a non-current asset
- Receivables increased $0.094m principally due to two invoices issued in June to Southern Waste Strategy Authority and Northern Tasmanian Waste Management. These organisations agreed to participate in the HHW program and contribute $0.075m
- The main current liability at 30 June 2009 was Unexpended grants which totalled $0.726m. These related to grants received in 2007-08 and 2008-09 relating to expenditures still to be incurred. At 30 June 2010, this balance dropped to $0.322m as grants were expended as detailed earlier in this Chapter.

FINANCIAL ANALYSIS – LGAT GENERAL

	Bench Mark	2009-10	2008-09
Financial Performance			
Result from operations ($'000s)		114	104
Operating margin	>1.0	1.05	1.06
Underlying result ratio		5.0%	5.9%
Financial Management			
Current ratio	>1	4.5	3.3
Debt collection	30 days	41	18
Creditor turnover	30 days	25	68
Other Information			
Staff numbers (FTEs)		7.6	8.2
Average staff costs ($'000s)		93	91
Average leave balance per FTE ($'000s)		23	22

Comment

The Financial Performance ratios show that LGAT recorded operating surpluses in each year of the review period, resulting in Operating margins above benchmark and positive Underlying result ratios.

LGAT's Current ratio was above the benchmark in each year which indicated it was able to meet all short-term liabilities when they fell due.

LGAT's Debt collection days worsened from the prior year. The higher Debt days in 2009-10 resulted from a one-off increase in debtors relating to two waste authorities being billed for household hazardous waste participation in June 2010. Without these invoices, the debt collection ratio would have been 20 days – well under benchmark.

Creditor turnover was high at 30 June in prior years due to the timing of LGAT's annual local government conference resulting in high costs in June each year. In 2009-10 the conference was held a month earlier resulting in a lower end of year creditors' balance.

Average staff costs and Average leave per FTE increased slightly over the period, consistent with award increases.

Abridged Income Statement – LGAT Assist

	2009-10	2008-09
	$'000s	$'000s
Investment income	61	68
Other income	1	2
Total Revenue	**62**	**69**
Other expenses	56	48
Total Expenses	**56**	**48**
Surplus (Deficit)	**6**	**21**

Comment

In 2009-10 LGAT ASSIST recorded a Surplus of $6000, compared to $21,000 in 2008-09. The lower Surplus was mainly due to a drop in investment income relating to lower interest rates and a one off assistance payment.

Abridged Balance Sheet – LGAT Assist

	2009-10	2008-09
	$'000s	$'000s
Total Current Assets	1 028	995
Total Current Liabilities	6	5
Working Capital	**1 022**	**990**
Total Non-Current Assets	130	156
Total Non-Current Liabilities	0	0
Net Assets	**1 152**	**1 146**
Total Equity	**1 152**	**1 146**

Comment

Total Equity increased due to the Surplus of $6000 recorded in 2009-10.

Net Assets comprised mainly cash, $0.784m, (2009, $0.741m) and Financial Assets, $0.370m ($0.407m) which were financial support loans advanced to eligible council employees. Financial assets fell $0.037m in 2009-10 due to net repayments of these loans. Cash assets increased by a similar amount.

8. APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report now satisfies this requirement each year.

During the 2010 calendar year four reports were tabled:

- Local Government Authorities, Including Business Units and Other State Entities tabled on 10 June 2010 – this report dealt with the audit of the financial statements of Local Government Authorities and other State entities for the year ended 30 June 2009, as well as two State entities that reported at 31 December 2009
- Analysis of Treasurer's Annual Financial Report 2009-10 tabled on 16 November 2010 – reporting on the audit of the General Government Financial Statements and Public Account Statements and the Total State Financial Statements for the year ended 30 June 2010
- Executive and Legislature, Government Departments and other General Government State Sector Entities 2009-10 – tabled on 16 November 2010 – dealing with the audit of the financial statements of Executive and Legislature, Government Departments and other General Government Sector State Entities for the year ended 30 June 2010
- Government Business Enterprises, State Owned Companies and Superannuation Funds 2009-10 tabled on 18 November 2010 – this report dealt with the audit of the financial statements of Government Business Enterprises, State Owned Companies and Superannuation Funds for the year ended 30 June 2010.

During 2011 calendar year one report has been tabled:

- Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania – tabled on 26 May 2011 – reporting on the audit of the financial statements of 18 State entities for the year ended 30 June 2010 and eight State entities that reported at 31 December 2010

This Report now covers the 30 June 2010 audits of the financial statements of Local

Government Authorities, and associated business units.

This Report comprises two volumes:

- Part 1 – Audit Summary, Timeliness and Quality of Financial Statements, Local Government Financial Sustainability, Local Government Comparative Analysis, Local Government Business Units including Local Government Association of Tasmania
- Part 2 – Local Government Councils

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Balance Sheet and Cash Flow Statement (noted as Cash Position) supplemented by financial analysis applying the indicators documented in the Financial Analysis sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

STATUS OF AUDITS

All audits for the year ended 30 June 2010 have been completed.

Appendix 2 provides details of the status of all audits included in this report.

FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance
- additional performance indicators used in the local government comparative analysis.

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Performance		
Net operating surplus (deficit) ($'000s)		Operating Revenue less Operating Expenses
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying result ratio		Operating Net Surplus divided by Operating Revenue
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Financial Management		
Current ratio	>1	Current Assets divided by Current Liabilities
Liquidity ratio		Current Assets (cash and receivables) divided by Current Liabilities (excluding employee provisions and unearned revenue)
Indebtedness ratio		Non Current Liabilities divided by Own Source Revenue
Cost of debt	6.9%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Debt service ratio		Borrowing costs plus Repaid borrowings divided by Operating revenue
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Asset investment ratio	>100%	Total Payments for Property, plant and equipment divided by Depreciation expenses

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Asset renewal ratio *	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Road asset consumption ratio	60%	Road infrastructure depreciated replacement cost divided by Gross road infrastructure replacement cost
Total asset consumption ratio	60%	Property, plant & equipment depreciated replacement cost divided by Gross property, plant & equipment replacement cost
Other Information		
Rates per capita ($)		Rates revenue divided by population of municipality
Rates to operating revenue		Rates revenue divided by operating revenue
Rates to rateable property ($)		Rates revenue divided by number of raetable properties in municipality
Operating cost to rateable property ($)		Operating costs divided by number of rateable properties in municipality
Employee costs expensed ($'000s)		Total employee costs per Comprehensive Income Statement
Employee costs capitalised ($'000s)		Capitalised employee costs
Total Employee costs ($000s)		Total Employee costs per Comprehensive Income statement plus capitalised employee costs
Employee costs (2) as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Staff numbers FTEs		Effective full time equivalents
Average staff costs (2) ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers

* *Relevant to local government authorities.*

[1] *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

[2] *Employee costs include capitalised employee costs, where applicable, plus on-costs.*

An explanation of the performance indicators is provided below:

FINANCIAL PERFORMANCE

- Net operating surplus (deficit) – summarises operating revenue transactions and operating expense transactions incurred in the same period of time and calculates the difference.
- Operating margin – this ratio serves as an overall measure of operating effectiveness.
- Underlying results ratio - this ratio provides a measure of the strength of the operating result. The higher the ratio, the stronger the result. Negative results indicate an operating deficit that can not be sustained in the longer term.
- Self financing ratio – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.
- Own source revenue – represents revenue generated by a council' through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.

FINANCIAL MANAGEMENT

- Current ratio – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- Liquidity ratio –liquid current assets (cash and receivables) should exceed current liabilities (excluding employee provision and uneanred revenue) by a ratio of 2:1. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- Indebtedness ratio – compliments the liquidity ratio and illustrates a council's ability to meet longer term commitments.
- Cost of debt – reflects the average interest rate applicable to debt.
- Debt service ratio – indicates the capacity of the entity to service debt by repaying principal as well as interest on borrowings.
- Debt collection – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- Creditors turnover – indicates how extensively the entity utilises credit extended by suppliers.
- Asset investment ratio – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- Asset renewal ratio – indicates whether the entity is maintaining its physical capital by reinvesting in or renewing existing non-current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).

OTHER INFORMATION

- Rates per capita ($) – indicates the level of rating revenue being raised per head of population.
- Rates per operating revenue – indicates level of rating revenue against all revenue raised. The lower the opercentage, the more likely the council is reliant of grant funding.
- Rates per rateable property – indicates the level of rating revenue charged against rateable properties in the municipal area. (the rateableproperty number was provided by the respective councils and not subject to audit)
- Operating costs to rateable property – indicates the level of operating expenditure per rateable property.

- Employee costs expensed ($'000s) – represents the level of employee costs expensed, ie. included in the Income Statement. This together with the Employee costs Capitalised will provide a total employee cost figure for use in other related ratios.
- Employee costs capitalised ($'000s) – represents employee costs that have been capitalised rather than expensed.
- Total employee costs ($'000s) – represents employee costs expenses plus capitalised employee costs.
- Staff numbers FTEs – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).
- Employee costs as a percentage of operating expenses indicates the relative significance of employee costs compared to other operating expenses.
- Average staff costs – measures the average cost of employing staff in the entity for the year.
- Average leave balance per FTE ($'000s) – indicates the extent of unused leave at balance date.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

9. APPENDIX 2 – AUDIT STATUS

Entity	Balance Date	Financial statements: Financial Statement Deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Audit opinion signed	Weeks Between Balance Date and Opinion Issued	Timeliness of audit opinion issue from balance date: < 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
LOCAL GOVERNMENT AUTHORITIES												
Cities												
Clarence City Council	30 June 2010	30 September 2010	28 September 2010	22 October 2010	22 October 2010	16.3						•
Glenorchy City Council	30 June 2010	30 September 2010	22 September 2010	-	23 September 2010	12.1				•		
Hobart City Council	30 June 2010	30 September 2010	16 September 2010	-	1 October 2010	13.3				•		
Launceston City Council	30 June 2010	30 September 2010	29 September 2010	-	20 October 2010	16.0					•	
Medium												
Brighton Council	30 June 2010	30 September 2010	30 September 2010	-	9 November 2010	18.9						•
Burnie City Council	30 June 2010	30 September 2010	31 August 2010	-	15 November 2010	19.7						•
Central Coast Council	30 June 2010	30 September 2010	30 August 2010	-	20 September 2010	11.7			•			
Derwent Valley Council	30 June 2010	30 September 2010	30 September 2010	12 November 2010	16 November 2010	19.9						•
Devonport City Council	30 June 2010	30 September 2010	5 October 2010	-	25 October 2010	16.7						•
Huon Valley Council	30 June 2010	30 September 2010	27 September 2010	-	15 October 2010	15.3					•	
Kingborough Council	30 June 2010	30 September 2010	30 September 2010	-	1 October 2010	13.3				•		
Meander Valley Council	30 June 2010	30 September 2010	27 September 2010	-	22 October 2010	16.3						•
Northern Midlands Council	30 June 2010	30 September 2010	30 September 2010	13 December 2010	13 December 2010	23.7						•
Sorell Council	30 June 2010	30 September 2010	30 September 2010	-	1 December 2010	22.0						•
Waratah-Wynyard Council	30 June 2010	30 September 2010	25 October 2010	-	27 October 2010	17.0						•
West Tamar Council	30 June 2010	30 September 2010	29 September 2010	-	20 October 2010	16.0					•	
Small												
Break O'Day Council	30 June 2010	30 September 2010	1 December 2010	-	7 December 2010	22.9						•
Central Highlands Council	30 June 2010	30 September 2010	20 August 2010	22 November 2010	23 November 2010	20.9						•
Circular Head Council	30 June 2010	30 September 2010	30 September 2010	11 November 2010	11 November 2010	19.1						•
Dorset Council	30 June 2010	30 September 2010	30 September 2010	25 November 2010	26 November 2010	21.3						•
Flinders Council	30 June 2010	30 September 2010	28 October 2010	-	30 November 2010	21.9						•
George Town Council	30 June 2010	30 September 2010	2 December 2010	-	8 December 2010	23.0						•
Glamorgan-Spring Bay Council	30 June 2010	30 September 2010	6 December 2010	-	6 December 2010	22.7						•
Kentish Council	30 June 2010	30 September 2010	15 September 2010	12 November 2010	19 November 2010	20.3						•
King Island Council	30 June 2010	30 September 2010	30 September 2010	-	17 November 2010	20.0						•
Latrobe Council	30 June 2010	30 September 2010	30 September 2010	-	12 November 2010	19.3						•
Southern Midlands Council	30 June 2010	30 September 2010	20 August 2010	20 September 2010	27 September 2010	12.7				•		
Tasman Council	30 June 2010	30 September 2010	30 September 2010	24 November 2010	24 November 2010	21.0						•
West Coast Council	30 June 2010	30 September 2010	29 August 2010	29 September 2010	29 September 2010	13.0				•		
Local Government Business Units												
Copping Refuse Disposal Site Joint Authority	30 June 2010	30 September 2010	2 August 2010	-	25 October 2010	16.7						•
Dulverton Regional Waste Management Authority	30 June 2010	30 September 2010	31 August 2010	23 November 2010	24 November 2010	21.0						•
Cradle Coast Authority	30 June 2010	30 September 2010	16 August 2010	-	19 August 2010	7.1	•					
Southern Tasmanian Councils Authority	30 June 2010	No date	4 October 2010	-	30 November 2010	21.9						•
Southern Waste Strategy Authority	30 June 2010	30 August 2010	14 October 2010	-	27 October 2010	17.0						•
Northern Tasmanian Development Board	30 June 2010	No date	17 December 2010	-	23 December 2010	25.1						•
Local Government Association of Tasmania	30 June 2010	30 September 2010	31 August 2010	15 November 2010	23 November 2010	20.9						•

10. APPENDIX 3 – ACRONYMS AND ABBREVIATIONS

CDO	Collateralised Debt Obligation
DP&EMP	Development Proposal and Environmental Management Plan
eDAIS	Electronic Development Assessment Program
FTE	Full Time Equivalents
GMC	General Management Committee
HHW	Household Hazardous Waste Pilot Collection Program
LGAT	Local Government Association of Tasmania
LWTS	Lutana Waste Transfer Station
NRM	Natural Resource Management

11. APPENDIX 4 – RECENT REPORTS

MONTH AND YEAR	REPORT TITLE
May 2011	Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
May 2011	Special Report No. 97 Follow up of Special Reports 69-73
April 2011	Special Report No. 96 Appointment of the Commissioner for Children
February 2011	Special Report No. 95 Fraud control
November 2010	Analysis of Treasurer's Annual Financial Report
November 2010	Executive and Legislature, Government Department and other General Government State Sector Entities
November 2010	Government Business Enterprises, State Owned Companies and Superannuation Funds
November 2010	Special Report No. 94 Election promise: five per cent price cap on electricity prices
November 2010	Special Report No. 93 Investigations 2004-2010
October 2010	Special Report No. 92 Public sector productivity: a ten-year comparison
September 2010	Special Report No. 91 Follow up of special reports: 62-65 and 70
July 2010	Special Report No. 90 Science education in public high schools
June 2010	Special Report No. 89 Post-Year 10 enrolments
June 2010	Special Report No. 88 Public Trustee: management of deceased estates
June 2010	Special Report No. 87 Employment of staff to support MPs

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AUDIT MANDATE AND STANDARDS APPLIED

MANDATE

Section 17(1) of the *Audit Act 2008* states that "… An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects. …"

Under the provisions of section 18, the Auditor-General:

"...(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1)."

Under the provisions of section 19, the Auditor-General:

"...(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority."

STANDARDS APPLIED

Section 31 specifies that:

"… The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards. …"

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

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