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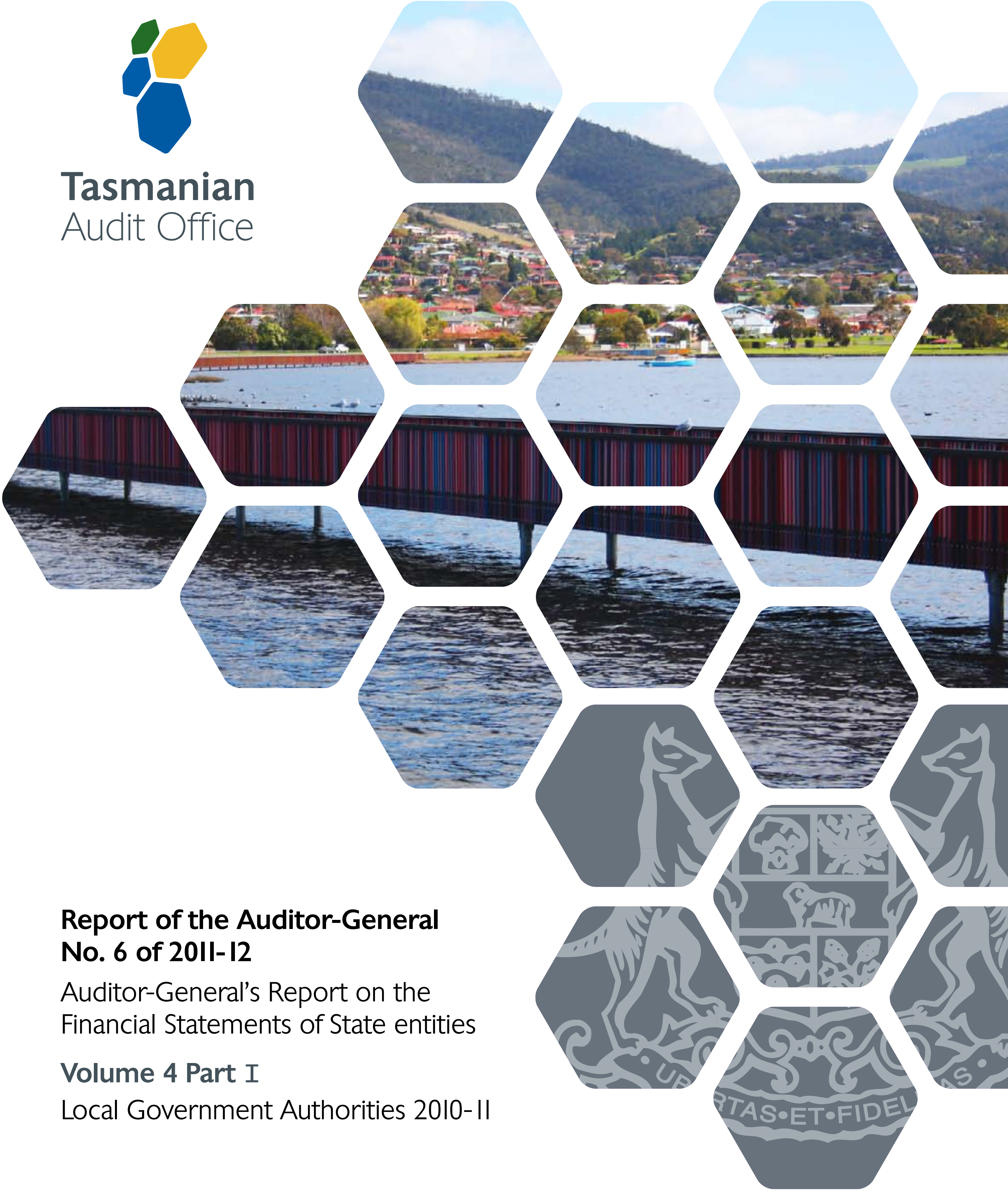

Report of the Auditor-General No. 6 of 2011-12

Auditor-General's Report on the Financial Statements of State entities

Volume 4 Part I

Local Government Authorities 2010-11

November 2011

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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 which includes 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 Sector and the Total State Sector financial statements.

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. 6 of 2011-12

Volume 4
Part I

Local Government Authorities 2010-11

November 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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24 November 2011

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

Report of the Auditor-General No. 6 of 2011-12 – Financial Statements of State entities – Volume 4 – Local Government Authorities 2010-11

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 for the year ended 30 June 2011.

Yours sincerely

H M Blake
Auditor-General

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
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FOREWORD

This Volume details findings from financial audits of 25 local government councils for the year ended 30 June 2011 and our assessments of the financial sustainability of the 25 councils.

The year ended 30 June 2011 saw the requirement that all councils provide complete financial statements for audit within 45 days of 30 June. In the main councils responded positively to this requirement. However, four councils are not included in this Volume because, at the time of preparing it, their audits were incomplete caused by delays in receiving their financial statements or, in the case of one council, financial statements were submitted but the audit delayed due to our assessment of its asset revaluation.

In the Tasmanian context, Local government councils manage significant revenues, expenditures and investments in infrastructure. In the year ended 30 June 2011, for the 25 councils included in this Volume, operating revenues totalled $598.279m, operating expenses totalled $602.364m, investment in new assets was $216.899m and physical non-current assets at 30 June 2011 were $5.870bn. Cash holdings totalled $330.342m.

My assessments as to financial sustainability are based on ratios established following discussion with councils and the Institute of Public Works Engineers Australia and inclusion this year of governance aspects as these relate to audit committees and long-term asset management and financial plans. My conclusion was that financial sustainability is improving but that perhaps excess levels of cash are being held, governance arrangements require improvement and that there are still too many councils incurring operating deficits.

HM Blake
Auditor-General
24 November 2011

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INTRODUCTION

This Report deals with the outcomes from completed financial statement audits of Local Government Authorities reporting for the financial year ended 30 June 2011. The audits of 25 councils were completed by 30 September 2011 and their financial information included in this Report. At there time of preparing this Report, audits of the financial statements of the remaining four councils' were still in progress.

In addition, Chapters on legislative issues, including an update on our local government rating project, financial sustainability and comparative analysis covering all completed councils are 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.

All councils were provided the opportunity to provide us with comments, for inclusion in their respective Chapters, on our "Conclusions as to financial sustainability". Their comments have been included where received.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 14 November 2011.

In addition to this Introduction, this Report includes:

- Part I:
    - An Audit Summary
    - Timeliness and Quality of Financial Statements
    - Legislative Issues
    - Local Government Financial Sustainability
    - Local Government Comparative Analysis
- Part II:
    - Local Government Councils categorised as:
        - Major city councils
        - Medium councils
        - Small 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. Our review of the financial statements covers two financial periods, which represents council operations after the transfer of responsibilities for water and sewerage activities.

However, the financial analysis section of each chapter includes an examination of four years of data.

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

The following four councils' audits were not completed at 30 September 2011 and as a result their financial information is not included in this Report:

- Break O'Day Council – financial statements not received
- Kentish Council – financial statements submitted, delay due to our assessment of Council's asset revaluation
- King Island Council – financial statements not received
- Tasman Council – incomplete financial statements received.

FINANCIAL SUSTAINABILITY RATIOS

Following further research and consultation with councils, we amended the ratios applied in assessing the financial sustainability of councils. While not a ratio, we included an assessment of applicable governance arrangements and we also developed criteria to assess financial sustainability. Details of the ratios, governance arrangements considered and criteria are outlined in the Chapter headed "Local Government Financial Sustainability. "

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 25 councils included in this Report, for the financial year ended 30 June 2011 when they:

- generated total revenues of $689m (2009-10, $899m inclusive of assets brought to account for the first time such as $232m for Launceston City Council's museum assets)
- generated $345m ($317m) in rates
- incurred $228m ($217m) in employee costs employing 3 183 (3 116) full time equivalent employees (FTE) which represented 7.4 (7.3) FTE for every 1000 people living in Tasmania
- excluding capital revenue sources, on a "net operating" basis, for the year ended 30 June 2011 recorded a combined deficit of $4.085m ($25.855m). While still in deficit overall, this is a significant improvement.
- managed total assets recorded at $8.211bn ($7.706bn) of which $5.870bn ($5.337bn) was infrastructure
- held investments of $1.692bn ($1.715bn) in the three regional water Corporations. The decrease in the investment balance was attributable to a write down, based on a change in council's final ownership interests, from the interim allocation order by the Treasurer.
- invested $217m ($209m) in new infrastructure related assets.

Based on data available from the Australian Bureau of Statistics, our major cities' populations represented 42.07% (42.16%) 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 13.50% (13.49%) of the total population, but covered 59.7% of the State's area in square kilometres.

TIMELINESS OF FINANCIAL STATEMENTS

Seven councils failed to meet their statutory financial reporting deadlines.

The financial statements of four (2010, 10) councils required amendment prior to audit completion. The amendments were initiated either by management or the audit process. The improvement indicates that quality was much better than the previous year.

The high level of failure to comply with statutory reporting requirements is disappointing. This is particularly so bearing in mind the Audit Act provided a two year transitional period to allow councils to change processes so they could comply with the new reporting deadlines.

LEGISLATIVE ISSUES

AUDIT ACT 2008

We have sought amendment to the Audit Act to rectify unintended consequences of the *Audit (Consequential Amendments) Act 2008*. This resulted in council joint authorities and the Local Government Association of Tasmania (LGAT) not being subject to the financial audit requirements of the Audit Act. In the interim, we will seek to enter into arrangements to carry out the financial audits of these entities. Until amendments are made, our reports to Parliament will be unable to contain information related to the financial audits of these entities, other than any that are consolidated into the financial statements of member councils.

RATING PROCEDURES – COMPLIANCE BY COUNCILS WITH THE *LOCAL GOVERNMENT ACT 1993*

In December 2009 we completed a report dealing with how council rating procedures complied with the rating provisions in the *Local Government Act 1993* (the Act). A report was initially prepared for tabling in Parliament but converted into a memorandum of findings as input into a proposed comprehensive review by Government of council rating. A steering committee was established to undertake the review with our memorandum of findings provided to it. During the course of our audits of all councils for 2010-11 we again reviewed rating resolutions with a particular focus on issues noted in our memorandum of findings, many of which persisted.

In January 2011 the steering committee provided an interim report recommending Government make some urgent amendments to the Act to provide new tools and legislative clarification for councils for the 2011-12 rating year. An outcome was the *Local Government Amendment Act 2011.*

On 15 November 2011 further changes to rating provisions were proposed with the *Local Government Amendment Bill (No. 2) 2011* (the Bill) being introduced into Parliament. It is pleasing to note that the Bill, if passed, will rectify the more significant issues we had previously identified.

We have also recently become aware of a Supreme Court challenge to rates raised by a Tasmanian council.

We had intended to report to Parliament, before the end of this calendar year, on the outcomes of our work on council rating procedures. Pending the passage of the Bill and, moreover, the outcome of the legal action noted above, we have decided to either defer this report or to not report at all.

FINANCIAL PERFORMANCE OF COUNCILS

LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY

Overall conclusion

Based on a number of sustainability ratios assessed on average over five years and at 30 June 2011 and governance arrangements we concluded, at a consolidated level, councils in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from an operating and asset management perspective and but low risk from a net financial liabilities perspective.

Governance and long-term planning

A number of councils need to address continued operating deficits, consider introducing audit, or equivalent, committees and long-term asset and financial management plans. With regard to the latter, we are aware of and support initiatives currently under way at LGAT.

Investment in existing assets

Councils are generally under investing in existing assets with only five out of 25 councils investing in existing assets, on average over a five year period, in excess of their annual depreciation charge.

On a total road asset consumption basis, at the whole of State level, the 25 councils' road assets had sufficient capacity to continue to provide services to ratepayers. However, some councils need to assess the state of their road networks.

In making this assessment as to road asset consumption we noted relatively low levels of consumption of council road assets with improvements over the period. The roads consumption ratio improved from 58.7% in 2007 to 62.5% in 2011, with all councils within a low or moderate asset sustainability risk. A number of reasons contributed to the improvement including:

- higher capital expenditure on road assets,
- Councils reviewing and extending the useful lives of road asset components and introducing residual values. In particular, residual values have had a significant impact on the depreciation expense and the accumulated depreciation balance. The review was driven by engineers, who now have a greater base of empirical data on road assets.

Net financial liabilities

In almost every case, councils' financial assets exceed total liabilities indicating they are in strong positions to meet short term commitments and there is a capacity to borrow should the need arise. This positive situation arises for two primary reasons:

- levels of borrowings are generally low particularly following the transfer of debt at the time of the establishment of the Regional Water Corporations and
- collectively, councils held significant amounts of cash and investments which totalled $330.342m at 30 June 2011.

Our conclusion, without having assessed councils' future cash requirements, is that councils may be holding cash and investments well beyond their day to day requirements. This requires analysis by each of them taking into account current revenue raising and asset management strategies.

SUMMARY OF FINANCIAL SUSTAINABILITY – INDIVIDUAL COUNCIL CHAPTERS

From our assessment of the financial sustainability of the 25 councils, based on financial performance over the past four financial years, we concluded that:

- No single Tasmanian council is financially unsustainable.
- Three councils were assessed at high financial sustainability risk from an operating perspective, 10 at moderate risk and 12 at low risk.
- Eleven councils were assessed at moderate financial sustainability risk from an asset management perspective, with 14 at low risk.
- All councils were assessed at low risk from a net financial liabilities perspective.
- Twelve councils were assessed at high financial sustainability risk from a governance perspective, nine at moderate risk and four at low risk. In this regard we noted that:
  - nine councils had established audit, or equivalent, committee
  - four had established internal audit arrangements
  - 17 had long-term asset management pans in place
  - 16 had long-term financial management plans in place.

The need for both long-term asset management and long-term financial plans is important. The former establishes a council's asset management requirements and the letter how these will be funded.

COMPARATIVE ANALYSIS

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

- Of the 25 Tasmanian councils, 11 failed to achieve at least a net operating surplus. A number of these councils have incurred deficits for some years and in some cases budgeted for deficits.
- In 2010-11 the self financing ratio, which includes the capacity of councils to generate operating cash flows, decreased slightly to 22.8% (23.1%).
- Councils' revenues from their own sources increased slightly to 79.9% (79.5%)
- Six councils (six in 2009-10) had rate revenue to operating revenue ratios of less than 50% meaning, in general, they were heavily reliant on recurrent grant funding.
- Current ratios in the last three years were well above benchmark of one with, individually, no council having a ratio of less than one at 30 June 2011 indicating that councils were in a strong position to meet short term commitments.
- Smaller rural councils' operating grants per head of population were considerably greater than other councils, for example Flinders, $1 784, and Central Highlands, $819, compared to Hobart, $90, or Clarence, $93.
- Rural councils manage a lower level of infrastructure assets, but across larger geographical areas.
- Rate debtors were $10.669m at 30 June 2011 which represented only 3.1% of total rates raised.
- Sixteen councils were assessed as having asset renewal ratios below our benchmark of 100% (14). In some cases the benchmark had not been achieved for more than four years.

US SUB-PRIME MARKET DOWNTURN

June 2011 two 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 with 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	30 June 2011		30 June 2010		30 June 2009		30 June 2008	
	$'000s Face Value	$'000s Fair Value	$'000s Face Value	$'000s Fair Value	$'000s Face Value	$'000s Fair Value	$'000s Face Value	$'000s Fair Value
Circular Head	2 000	281	2 500	510	4 500	376	4 500	117
Huon Valley	-	-	1 000	94	4 000	215	4 000	782
Sorell	500	0	500	0	500	-	500	204

During 2010-11, Circular Head Council was able to realise one of its CDO investments and transfer $500 000 into an at call deposit account.

Huon Valley Council's CDO investments were realised during 2010-11 for a $0.146m gain on the impaired value. Council ultimately received $0.240m compared to the face of $1.000m for a loss of $0.760m.

Sorell Council did not have any movement in its investment.

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

On page 80 in the Report of the Auditor- General on Local Government Authorities including Business Units 2009-10 (Volume 4 – Part 2), tabled in Parliament in June 2011, we provided information that Council had been in consultation with the Australian and State governments in relation to funds provided for Willow Court. As 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. The Memorandum of Undertaking is to be with Council by the end of the first week in November 2011. Included with this will be a new Grant Deed for the $0.750m to be expended on "priority projects" primarily in Willow Court.

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 a Special Committee and Council was still reviewing the role of Valley Vision.

The role of this entity was reviewed and its functions are now performed by Council. The Annual General Meeting of Valley Vision will be held by the end of November 2011 where its continuing role will be discussed.

LAUNCESTON CITY COUNCIL

Invermay flood protection enhancement project

In our report on the activities of Council at 30 June 2009 we noted it accrued costs totalling $25.836m associated with the 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 was awaiting confirmation of the additional funding at 30 June 2011.

In 2010-11, the increase in the budgeted project cost was revised downwards to $20.250m and the State and Commonwealth Governments committed an additional $6.750m each to the project. Council received $5.750m of the additional funding from the State Government in June 2011. This amount was recorded as a deposit liability at 30 June 2011 as it was subject to funding conditions being met.

Distributions Ben Lomond Water

In 2010-11, Council received distributions from the Ben Lomond Water totalling $2.107m. Council was not initially allocated a priority dividend, but subsequent to 30 June 2010 its eligibility for priority dividends was reassessed.

NORTHERN MIDLANDS COUNCIL

During 2009-10, an issue concerning remedial and capital works totalling $3.192m expended at the Longford wastewater treatment plant was noted. As reported in previous year's Council raised a receivable for this amount which was written off.

During 2010-11 Council received an ex-gratia payment of $0.210m towards operational costs for disposal of trade waste for the period March 2009 to June 2009. This amount was accepted as full and final payment of the outstanding maintenance and operating costs (excluding emergency improvement works) for the period, and responsibility to recover capital expenditure for emergency trade waste expenses was passed to Ben Lomond Water.

BURNIE CITY COUNCIL

Infrastructure Valuations

At 30 June 2011 Council indexed its roads and footpaths based on Australian Bureau of Statistics construction indices and drainage assets based the Consumer Price Index. The indexation was based on Council's last full revaluation of relevant asset classes at 30 June 2005. The considerable time period since the last full revaluation and each subsequent year of indexation increases the risk the carrying amount of roads and drainage assets do not reflect fair value (written down replacement cost). We have recommended Council undertake a full revaluation of these asset classes in 2011-12.

Legal Proceedings

Council has been involved in an ongoing legal dispute related to the proposed sale of foreshore land. Financial settlement depended on the success of an appeal which was listed to come before the Tasmanian Supreme Court.

In October 2011, the Full Court ruled in favour of the appellant. Council is liable for damages and legal costs, which have not yet been determined. Council is currently reviewing its position and may seek further advice on the matter. It is possible that some damages and costs may be covered by insurance.

DEVONPORT CITY COUNCIL

During the year Council identified a misstatement in its financial statements for the year ended 30 June 2010. The variance related to the loss on disposal of property, plant and equipment being overstated by $1.280m and work in progress understated by the same amount. Due to the materiality of the amount Council amended the comparative information in its 2010-11 financial statements.

GEORGE TOWN COUNCIL

Misappropriation

On page 207 of our Report Volume 4, Part 2, 2009-10 Local Government Authorities, including Business Units, we made comment on a misappropriation, discovered in 2009-10. An employee had allegedly misappropriated funds from Council over a number of years. The total allegedly misappropriated amounted to $0.416m, including $0.186m in 2009-10.

In March 2011, the employee pled guilty to charges related to the fraud in the Supreme Court.

Council's Insurers indicated the claim for recovery of losses would be accepted and Council was reimbursed $0.390m with this recognised as non-operating income in 2010-11.

Fire Loss

In June 2010, the Hillwood Football Club clubroom was severely damaged by fire. Council, as owners of the property, subsequently received an insurance payment of $0.250m to enable construction of a new building. This was recognised as non-operating income in 2010-11. In addition, the carrying value of the destroyed building was written off this year.

SOUTHERN MIDLANDS COUNCIL

During 2010-11, Council created two wholly owned subsidiaries, Heritage Building Solutions Pty Ltd and Heritage Education & Skills Centre Pty Ltd. Council created the two companies based on a strategic objective of building on its heritage base to generate employment and business growth and because of its large stock of heritage assets requiring conservation and restoration work. It invested a total of $0.200m in these two companies in 2010-11. It is anticipated the subsidiaries will not require financial support from Council.

GLENORCHY CITY COUNCIL

Council recognised a provision for decommissioning and rehabilitating its landfill site at Jackson Street and to manage the site after closure. The amount of the provision is a combination of estimated restoration costs and the useful life of the landfill. Currently, cost is based on internal estimates. We recommended Council obtain an independent estimate of the cost for capping, rehabilitation and on-going maintenance of the landfill site and its useful life.

HOBART CITY COUNCIL

Council entered into an agreement with a private developer in 2009 to purchase, on a strata title basis, a new car park to be constructed adjacent to the existing Argyle Street Car Park. The extension will add a further 540 car parking spaces and is due to be completed in 2011-12. Council agreed to pay for the additional spaces on a staged basis with progress payments made throughout the construction.

HUON VALLEY COUNCIL

This year Council developed a long-term financial plan which included full cash backing for annual depreciation charges. The plan aims to introduce a new financial model and fiscal discipline to ensure Council is sustainable going forward. This financial plan prompted a detailed review of infrastructure asset registers, which identified assets that were not previously recognised. This resulted in an asset take-up adjustment of $10.392m in 2010-11.

KINGBOROUGH COUNCIL

Asset Revaluation

A significant development during the year related to an asset revaluation that was undertaken during the year. A consequence of the revaluation was that the useful lives of most of Council's assets were extended, including roads, stormwater and bridges. This led to a significant reduction in depreciation expense during 2010-2011, from $9.233m to $7.013m.

Baretta Landfill

During the 2010-11 financial year, Council introduced a fixed rates charge for the Baretta landfill site rehabilitation. This new rates charge raised approximately $0.900m.

MEANDER VALLEY COUNCIL

A significant development during the year was the completion of infrastructure works related to the Westbury Industrial Development at Birralee Road. Council entered into an arrangement with three landowners to construct infrastructure for an industrial subdivision. The costs of the work was payable by the landowners. Council received external contributions of $0.732m towards the development, being grant funding of $0.650m from the Department of Infrastructure, Energy and Resources and $0.082m from private industry.

Council paid all costs associated with the infrastructure works, which totalled $2.528m. Council reduced the assessed contributions receivable from land owners by the external contributions received. The amount receivable from the landowners as at 30 June 2011 was $1.798m, which is recorded as a non-current asset.

WARATAH-WYNYARD COUNCIL

During the audit, it was found that Council had not complied with section 333A(1) of the *Local Government Act 1993* (the Act), which requires Council to invite tenders for any contract it intends to enter into for the supply or provision of goods or services valued at or above the prescribed amount ($100 000). Audit found that a contract valued over $100 000 was awarded based on a select tender process, rather than public tender. It was recommended that Council ensure that contracts are awarded in accordance with the provisions of the Act and Council's Code for Tenders and Contracts in future. Management advised Council is intending to update its procurement and tendering policies in the new financial year. As part of this process, all staff will be briefed on their responsibilities under the policies (which will reflect the Act).

CENTRAL HIGHLANDS COUNCIL

In 2007-08 an engineering firm was engaged by Council to undertake a revaluation of its road, bridge and hydraulic assets which included unsealed roads. The revaluation identified these assets should be written off over 15-20 years with no residual value. During 2010-11 Council, in consultation with the same firm, changed the residual value for unsealed roads to 50%. This caused a reduction in depreciation from $4.700m in 2009-10 to $2.916m in the current year. Residual values and useful lives will be further reviewed when roads are formally revalued in 2011-12.

FLINDERS COUNCIL

Our 2010-11 audit findings included the following:

- Council does not use an asset management system to assist it to manage infrastructure assets. Instead, it continues to maintain asset registers in excel spreadsheets. With long-life infrastructure assets requiring increasing levels of resourcing and management, Council needs to ensure it uses an asset management system which can provide appropriate and reliable information on which to base current and future resource management and funding decisions
- Council indexed its road assets at 30 June 2011 based on ABS construction indices. The indexation was based on Council's last full revaluation of its road assets conducted at 30 June 2006. Considerable time since the last full revaluation and each additional year of indexation increases the risk carrying amounts of roads does not reflect fair value (written down replacement cost).

We recommended Council implement an asset management system and update its road valuation based on a full revaluation.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under Section 17 of the *Audit Act 2008* (the Audit Act) specific dates are set by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year. Transitional provisions applied to Councils whereby the provisions of the Audit Act did not apply until the year ended 30 June 2011.

Our responsibility under Section 19 of the Audit Act is to complete our audit within 45 days of receiving financial statements from councils.

In all cases councils have a 30 June financial year-end making 15 August the statutory date by when financial statements are to be transmitted with our deadline 30 September.

These dates were set to allow sufficient time for audits to be completed and for councils to prepare annual reports and hold annual general meetings.

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 2010-11

Council	Date initial signed statements received by Audit	Date amended or re-signed statements received by Audit	Date of audit report	Comment
Cities				
Clarence	15 August	16 September	21 September	2
Glenorchy	15 August	7 September	7 September	2
Hobart	15 August	n/a*	9 September	1
Launceston	15 August	n/a*	31 August	1
Medium				
Brighton	15 August	n/a*	16 September	1
Burnie	12 August	n/a*	23 September	1
Central Coast	28 September	n/a*	30 September	3
Derwent Valley	15 August	n/a*	23 September	1
Devonport	15 August	n/a*	23 September	1
Huon Valley	12 August	22 September	23 September	2
Kingborough	12 August	n/a*	23 September	1
Meander Valley	15 August	n/a*	23 September	1
Northern Midlands Council	23 August	n/a*	30 September	4
Sorell	24 August	n/a*	26 September	3
Waratah-Wynyard	12 August	6 September	13 September	2
West Tamar	10 August	n/a*	31 August	1
Small				
Break O'Day	8 November	–	–	3
Central Highlands	15 August	n/a*	30 September	1
Circular Head	12 August	n/a*	27 September	1
Dorset	11 August	n/a*	30 September	1
Flinders	15 August	n/a*	28 September	1
George Town	15 August	n/a*	21 September	1
Glamorgan Spring Bay	15 August	n/a*	29 September	1
Kentish	15 August	–	–	1
King Island	–	–	–	3
Latrobe	15 August	n/a*	23 September	1
Southern Midlands	15 August	n/a*	30 September	1
Tasman	11 November	n/a*	14 November	3
West Coast	18 September	n/a*	30 September	3

* *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 or re-signing prior to final completion and audit.
3. These councils submitted their financial statements late therefore failing to comply with the Audit Act.
4. This council was marginally late (no more than one week) in meeting the 15 August deadline for submitting its financial statements.

In summary

Seven councils failed to meet their statutory financial reporting deadlines.

The financial statements of four (2010, 10) councils required amendment prior to audit completion. The amendments were initiated either by management or the audit process. The improvement indicates that quality was much better than the previous year.

At the time of writing this report the audits of three councils had yet to be completed.

The high level of failure to comply with statutory reporting requirements is disappointing. This is particularly so bearing in mind the Audit Act provided a two year transitional period to allow councils to change processes so they could comply with the new reporting deadlines.

LEGISLATIVE ISSUES

APPLICATION OF THE AUDIT ACT 2008 TO CERTAIN LOCAL GOVERNMENT ENTITIES

Joint authorities

During 2011 questions arose as to the application of the *Audit Act 2008* (the Audit Act) to a joint authority established pursuant to the *Local Government Act 1993* (the Local Government Act).

Prior to the enactment of the Audit Act, the Local Government Act provided that the rules of a joint authority were to provide for audits to be carried out in accordance with the *Financial Management and Audit Act 1990* (FMAA). In 2009, the *Audit (Consequential Amendments) Act 2008* (the Consequential Amendments Act) amended section 38(1)(j) of the Local Government Act by omitting the reference to FMAA and replacing it with a reference to the Audit Act. On 1 July 2010, section 38(1)(j) was deleted entirely by virtue of section 4 and schedule 2 of the Consequential Amendments Act. As a result there was no longer a requirement that the rules of a joint authority make provision for audits to be carried out in accordance with the Audit Act.

The above amendments mean that in order for a joint authority to be subject to the provisions of the Audit Act, that Act must directly require joint authorities to comply with its provisions. Ultimately this depends on whether a joint authority is a State entity, as defined in the Audit Act.

State entity is defined in section 3 of the Audit Act as follows:

> **"State entity"** includes –
>
> **(a)** an agency; and
>
> **(b)** a council; and
>
> **(c)** a Government Business Enterprise; and
>
> **(d)** a State-owned company; and
>
> **(e)** a State authority that is not a Government Business Enterprise; and
>
> **(f)** the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown; and
>
> **(g)** a Corporation within the meaning of the *Water and Sewerage Corporations Act 2008*;

The meaning of State entity for the purposes of the Audit Act is limited to those bodies specified in the definition above. It turns out that joint authorities are not captured by any of these definitions. The effect of this is that a number of provisions of the Audit Act do not apply to joint authorities, particularly those relating to submission of financial statements for audit by the Auditor-General and therefore inclusion in our reports to Parliament of the results of those audits. Currently the financial audit of joint authorities can only be performed by my Office as an audit by arrangement pursuant to section 28 of the Audit Act.

Joint authorities do meet the definition of a related entity of a State Entity, that is, a council. As a result, the Auditor-General does have the power to carry out an examination or an investigation for the purposes of examining the efficiency, effectiveness and economy with which a joint authority performs its functions.

Local Government Association of Tasmania

Another legislative matter identified was that the Consequential Amendments Act repealed section 331 of the Local Government Act. This section previously imposed a requirement on the Local Government Association of Tasmania (LGAT) to submit its financial statement and other financial records and accounts to the Auditor-General for audit. Like a joint authority, LGAT is not captured by the State entity definition and is similarly not subject to a number of requirements of the Audit Act. Again, the Office can only carry out the financial audit of LGAT if an arrangement is entered into pursuant to section 28 of the Audit Act.

We have sought amendment to the Audit Act to rectify these unintended consequences of the Consequential Amendments Act. In the interim, we will seek to enter in arrangements to carry out the financial audits of these entities. Until amendments are made, our reports to Parliament will be unable to contain information related to the financial audits of these entities, other than any that are consolidated into the financial statements of member councils.

Rating Procedures – Compliance by Councils with the *Local Government Act 1993*

In December 2009 we completed a report dealing with how council rating procedures complied with the rating provisions in the *Local Government Act 1993* (the Act). A report was initially prepared for tabling in Parliament but converted into a memorandum of findings as input into a proposed comprehensive review by Government of council rating. A steering committee was established to undertake the review with our memorandum of findings provided to it. During the course of our audits of all councils for 2010-11 we again reviewed rating resolutions with a particular focus on issues noted in our memorandum of findings, many of which persisted.

In January 2011 the steering committee provided an interim report recommending Government make some urgent amendments to the Act to provide new tools and legislative clarification for councils for the 2011-12 rating year. An outcome was the *Local Government Amendment Act 2011*.

On 15 November 2011 further changes to rating provisions were proposed with the *Local Government Amendment Bill (No. 2) 2011* (the Bill) being introduced into Parliament. It is pleasing to not that the Bill, if passed, will rectify the more significant issues we had previously identified.

We have also recently become aware of a Supreme Court challenge to rates raised by a Tasmanian council.

We had intended to report to Parliament, before the end of this calendar year, on the outcomes of our work on council rating procedures. Pending the passage of the Bill and, moreover, the outcome of the legal action noted above, we have decided to either defer this report or to not report at all.

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 was undertaken for councils in our No 1 Report issued in April 2011, with most ratios representing a five year period although a number of ratio were changed between reports.

This Report repeats this analysis although the financial sustainability ratios were revised following consultation with Councils and the Institute of Public Works Engineers Australia.

The ratios represent an analysis of councils' operating, asset management and net financial liabilities (liquidity) results over the five year period to 30 June 2011. However, the asset renewal funding ratio, a new measure, was only calculated on long-term financial and asset management plans examined during 30 June 2011.

In addition, we have included information on governance arrangement in councils. We examined whether each council had an audit (or similar) committee, and if so what was its charter, and long-term financial and asset management plans at 30 June 2011.

It is emphasised that the analysis in the Chapter is limited to financial sustainability and does not include assessing social or environmental sustainability. Of relevance is that from 1 July 2009, results and balances were impacted by the transfer from councils of their water and sewerage functions.

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.

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 financial 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 high financial sustainability. The indicators used in this Report are:

- Operating surplus ratio
- Asset sustainability ratio
- Asset renewal funding ratio
- Road asset consumption ratio
- Net financial liabilities ratio
- Governance arrangements, particularly audit committees and long-term asset and financial management plans.

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

- operating performance
- asset management
- liquidity and the extent to which net liabilities can be serviced by operating income.

Governance arrangements were assessed separately.

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 surplus ratio	Net operating surplus / Total operating revenue	Greater than 0 - break even operating result	A positive result indicates a surplus, the larger the surplus the stronger the result and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long term. Net result and underlying revenue are obtained from the Comprehensive income statement and are adjusted for one-off material items, asset disposal and fair value adjustments, amounts received specifically for new or upgraded assets, physical resources received free of change (such as developer contributions, operating results from discontinued operations and operating grants received in advance (such as FAGs grants), financial assistance grants received in the wrong financial period, developer contributions and any other material one-off (non-recurring) items of revenue or expenditure.
Asset sustainability ratio	Renewal and upgrade expenditure on existing assets / Depreciation on existing assets	At least 100%	Comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. Expenditure included on the numerator must be expenditure that was 'capitalised', not expensed, on assets that will require future maintenance and depreciation . This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.
Asset renewal funding ratio	Future (planned) asset replacement expenditure / Future asset replacement expenditure (actual) required	At least 90%	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels. This is a most useful measure relying the existence of long-term financial (or separate asset) management plans. Where these may exist, unless they have been independently assured, they will not be used (however, we subsequently decided to accept plans as provided).
Asset consumption ratio - roads	Depreciated replacement cost / Current replacement cost	Between 40% and 80%	Shows the depreciated replacement cost of an entity's depreciable assets relative to their 'as new' (replacement) value . It therefore shows the average proportion of new condition left in assets. Depending on the nature of the entity's assets, this ratio could be calculated in total and by asset class, for example roads, bridges and stormwater assets.
Net financial liabilities ratio	Total liabilities less liquid assets / Total operating revenue	Net financial liabilities between zero to negative 50% of operating income. Positive ratio indicates liquid assets in excess of total liabilities.	The significance of net amount owed compared with the period's income. Indicates the extent to which net financial liabilities could be met by operating income. Where the value is falling over time, it indicates that the entity's capacity to meet its financial obligations from operating income is strengthening. Reasons for an increase in the net financial liabilities ratio will sometimes also result in an entity incurring higher net operating costs (eg from additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the entity's overall operating result. A Council with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through the acquisition of additional assets without detracting from its financial sustainability.

On the following pages we apply these ratios, with the exception of the Asset renewal funding ratio, to the consolidated position for the 25 councils included in this Report, over a five year period 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.

As noted above we have expanded our sustainability assessment of councils to incorporate information on governance arrangement in councils. In conjunction with operating performance, asset management and liquidity and the extent to which net liabilities can be serviced by operating income, we consider governance further facilitates our comparative assessment between councils. The results of our review are detailed below under a Governance section of this Chapter.

In making our assessment of financial sustainability, we adopted the following criteria:

	Low	Moderate	High
Financial sustainability operating perspective	Average operating surplus over the past four year	Average operating deficits < 10% of operating revenue over the past four year	Average operating deficits >10% of operating revenue over the past four year
Financial sustainability asset management perspective	Asset sustainability ratio >100% and average road consumption ratio > 40%	Asset sustainability ratio between 50% and 100% and average road consumption ratio > 40%	Asset sustainability ratio < 50% and average road consumption ratio < 40%
Financial sustainability net financial liabilities perspective	Net financial liabilities ratio > than (50%)	Net financial liabilities ratio between (50%) and (100%)	Net financial liabilities ratio > 100%
Financial sustainability governance perspective	Audit Committee with an active internal audit function and both long term asset and financial management plans.	Audit committee or finance committee with no internal audit function and/ or both long term asset and financial management plans.	No audit committee or either a long term asset management plan or financial management plan, or no plans at all.

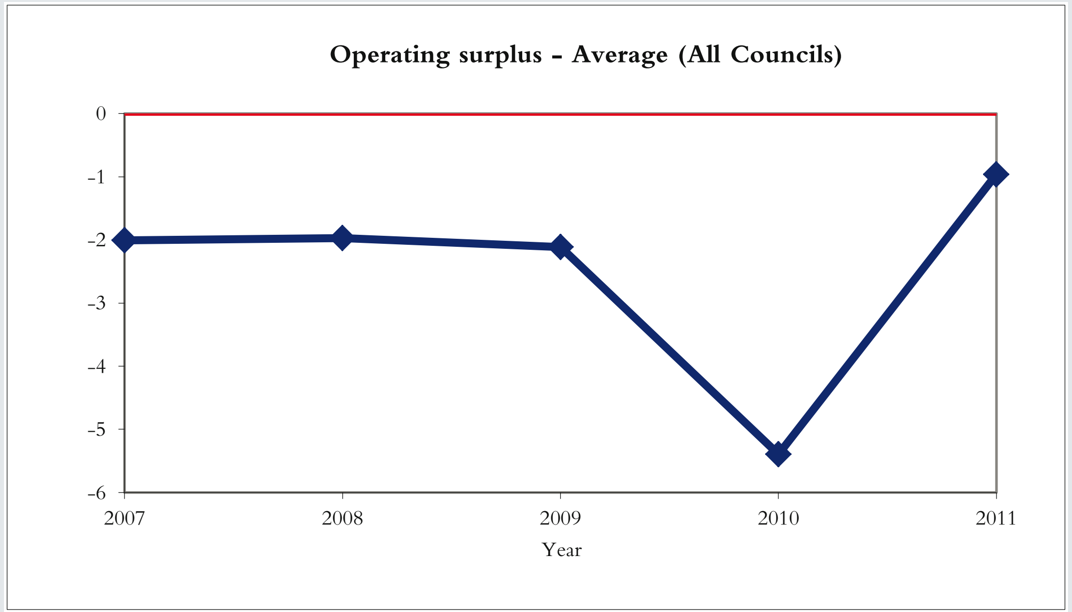
FINANCIAL SUSTAINABILITY TRENDS

Operating surplus ratio

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 surplus ratio of greater than zero.

Figure 1 below shows the operating surplus ratio achieved on a consolidated basis by the 25 councils in each of the past five years.

Figure 1 Average all councils operating surplus ratio

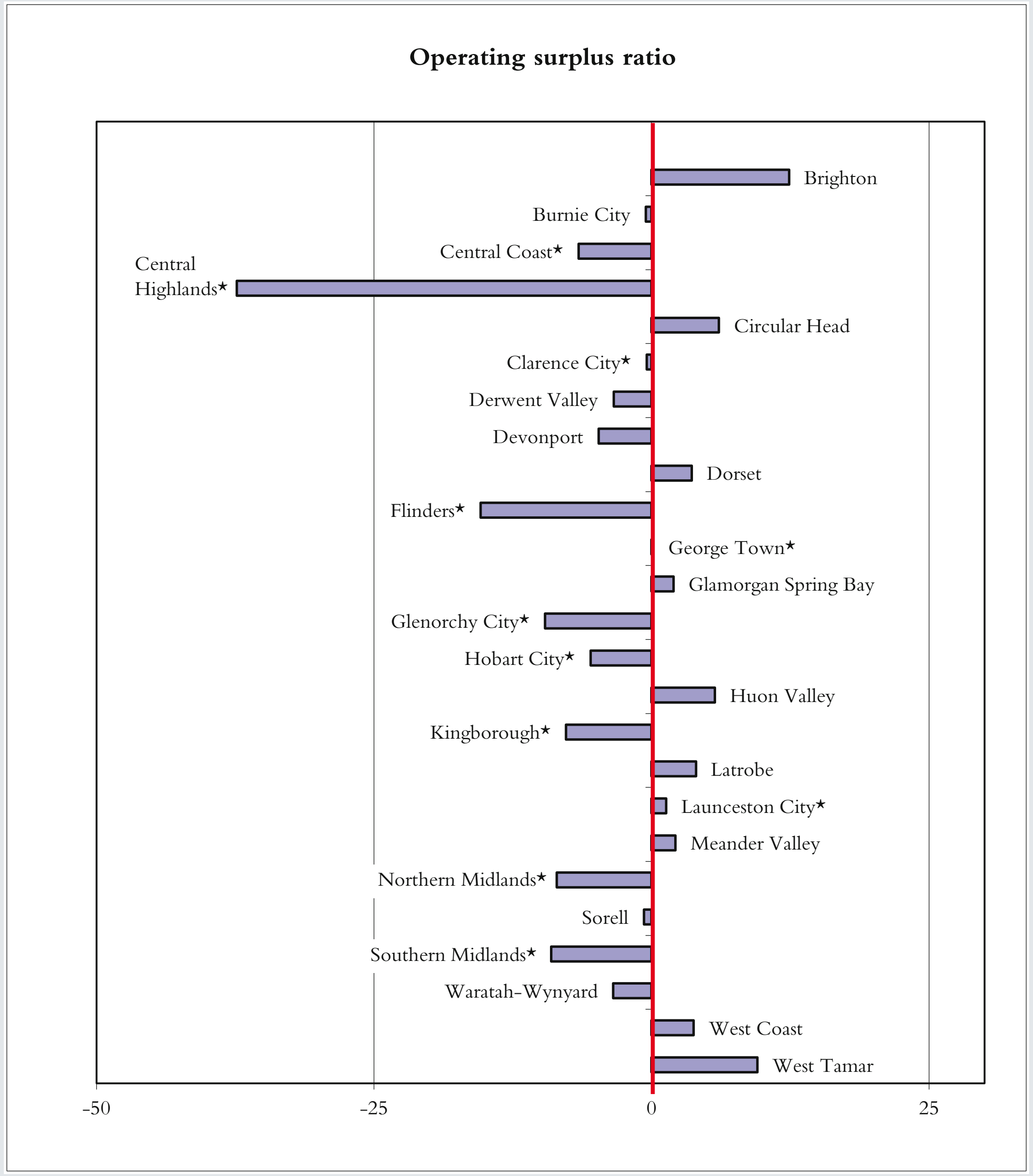


The average operating margin was below the benchmark of zero in all five years under review. The ratio declined to minus 5.4 in 2009-10 with this fall likely, in the main, to have been due to the water and sewerage reforms. A number of council's required priority dividends to overcome lost operating income. However, there was a significant improvement in 2010-11, with a ratio of minus 1.0. The improvement was generally due to councils' improved results during 2010-11. While many factors contributed to this improvement, some of the main ones were:

- higher rates
- receipt of dividends from the water and sewerage corporations
- cost controls and
- in the case of a number councils, re-assessments of the useful lives and residual values of long life infrastructure assets resulting in lower depreciation charges.

Figure 2 below shows the average five-year operating surplus ratio achieved by each council.

Figure 2 Five-year average operating surplus ratio by council



* *Council recorded deficit in 2010-11*

The figure shows that 14 of the 25 councils, on average over the five year period, operated below benchmark. Of the 25 councils, 11 (2009-10, 14) recorded operating deficits, and therefore a negative operating surplus ratio, in 2010-11.

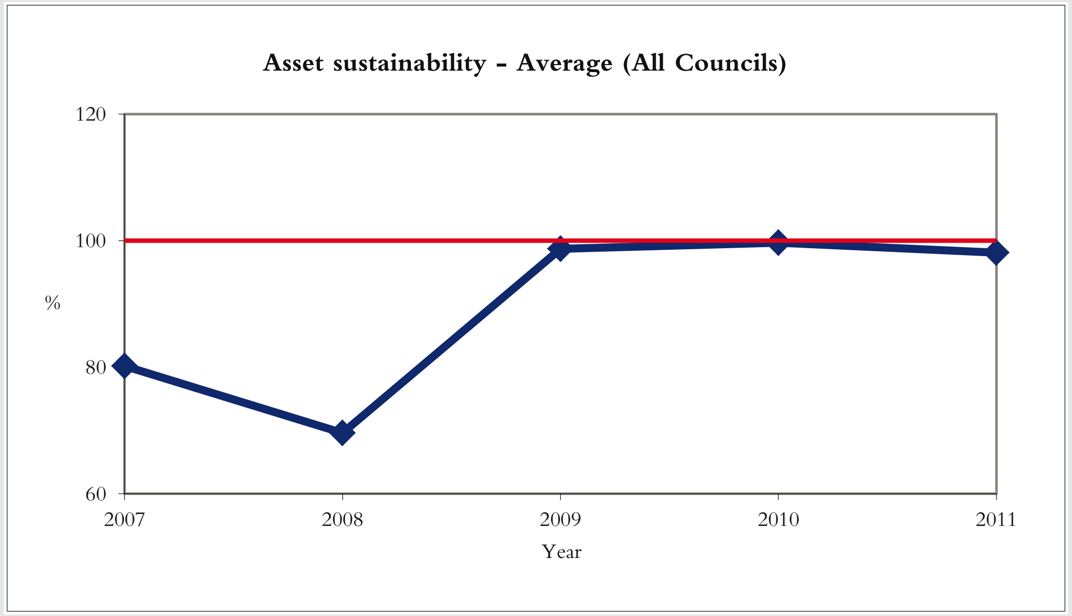
Conclusion based on assessment of the operating surplus ratio

Fourteen councils with an average operating surplus below benchmark is too high. We recommend all councils develop plans with the objective of achieving positive operating margins in the immediate term.

Asset sustainability ratio

This ratio calculates the extent to which councils are maintaining operating capacity through the renewal of their existing asset base. The generally accepted benchmark for this ratio, subject to levels of maintenance expenditure and the existence of long-term asset management plans is 100%. The benchmark is based on a council expending its annual depreciation expense on asset renewals within the year. However, it is acknowledged that this is unlikely to occur every year or evenly over a number of years. As a result, our assessment is based on a five-year average. It is also acknowledged that this ratio has imperfections which are addressed by the asset renewal funding ratio discussed later in this Chapter. However, until all councils have established adequate long-term asset management and financial plans, we will continue to include the asset sustainability ratio in our assessments of financial sustainability.

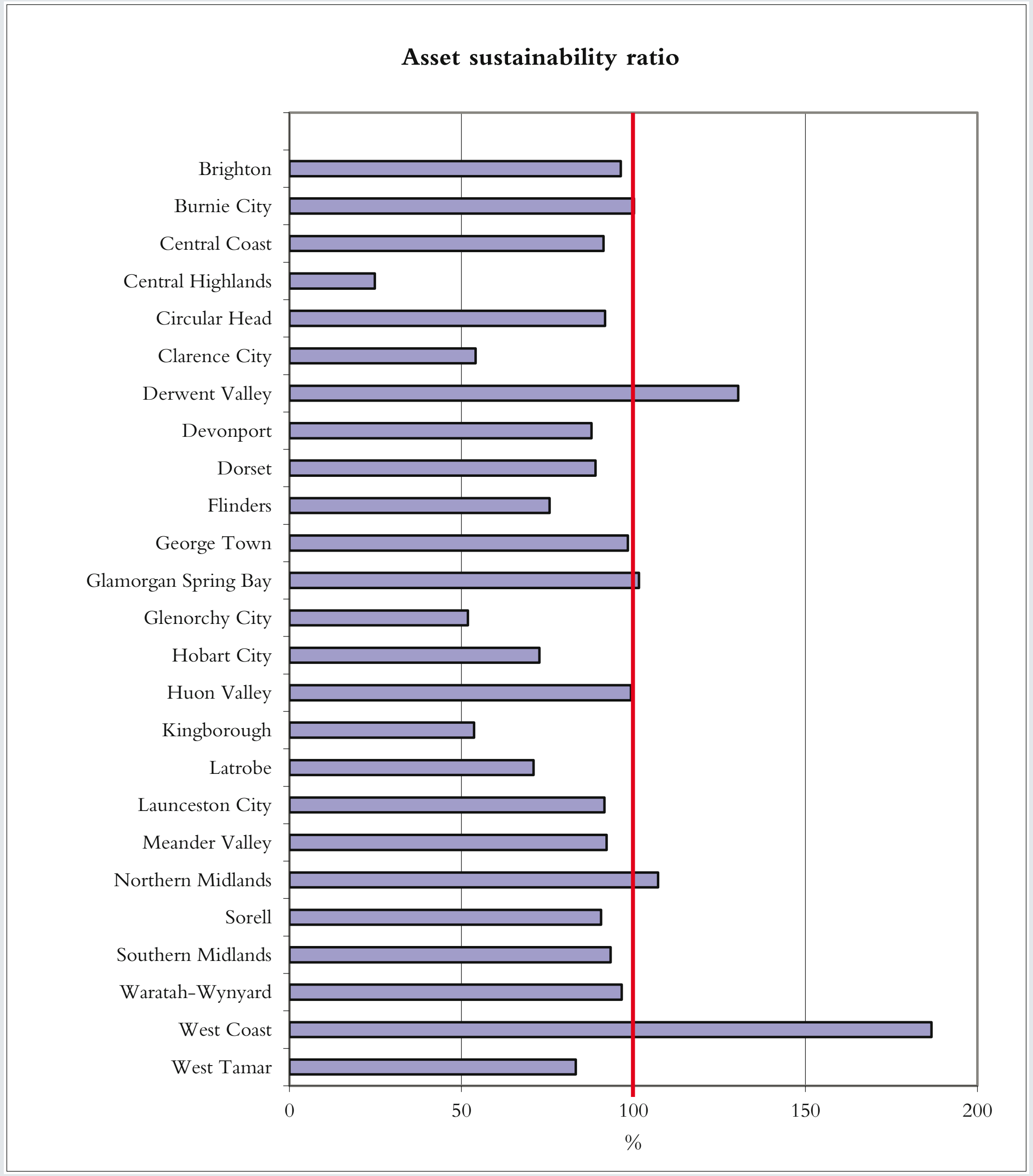
Figure 3 Average asset sustainability ratio



Councils expended, on average, 89% of their depreciation expense on maintaining their existing non-current assets. The average for the last three years was slightly below benchmark and indicates, on the whole, councils were improving their investment in existing assets at a level near to depreciation charges.

Figure 4 below shows the average five-year asset sustainability ratio achieved by each council.

Figure 4 Five-year average asset sustainability ratio by council



In almost every case councils failed to meet the benchmark, with only five councils having an asset sustainability ratio above 100% over the five year period. However, a further nine councils averaged above 90%.

Conclusion based on assessment of the asset sustainability ratio

Although there has been improvement in the average ratio over the period under review, in general, councils failed to match capital expenditure on existing assets to depreciation charges. This indicates an under-investment in existing assets.

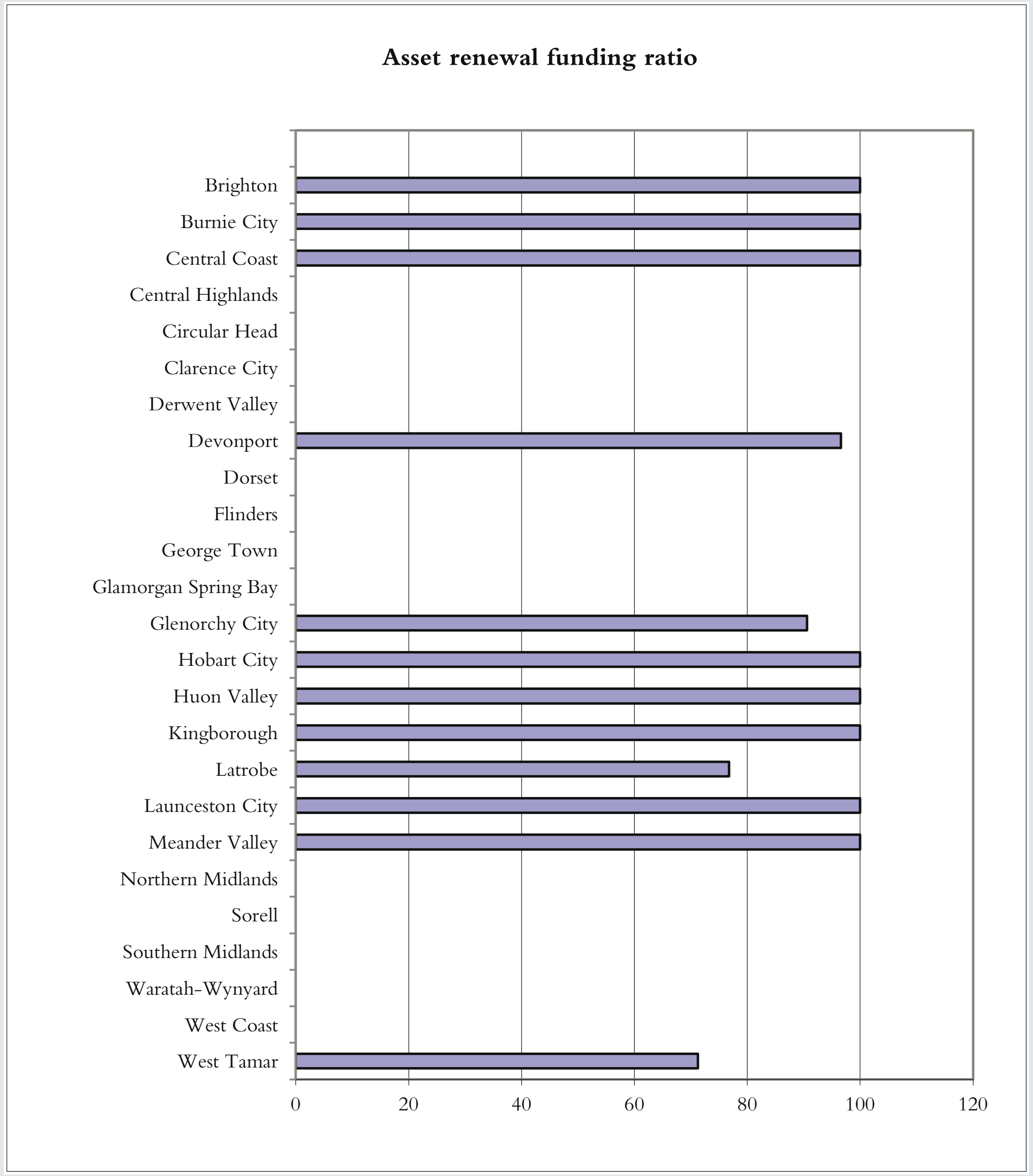
Asset renewal funding ratio

This ratio measures the capacity to fund future asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels.

The measure relies on the existence of long-term financial and long-term asset management plans. The ratio measures planned asset replacement requirements against planned asset replacement expenditure. To maintain operating capacity, we would expect a council to fully fund its planned asset requirements.

Figure 5 below shows the asset renewal funding ratio for those councils that had long-term financial and asset management plans. The ratio is calculated at 30 June 2011 on estimated required and planned capital expenditure. The periods covered by financial and asset management plans varied with some extending to up to 20 years. Where there is no blue line, this represents no asset management or financial plans making it difficult to calculate the asset renewal funding ratio.

Figure 5 Asset renewal funding ratio by council



The majority of councils that were able to produce long-term financial and asset management plans have detailed projections of required future capital expenditure. In most cases councils indicated their intention to fully fund the required work.

However, figure 5 also illustrates that 13 many councils had not developed both long-term financial and asset management plans. This is discussed further later in this Chapter.

Conclusion based on assessment of the asset renewal funding ratio

For those councils who have prepared long-term asset and financial management plans, in the main, planned expenditure on asset management was funded.

We recommend that the 13 councils who have still to develop both long-term asset and financial plans do so as soon as possible.

Road consumption ratio

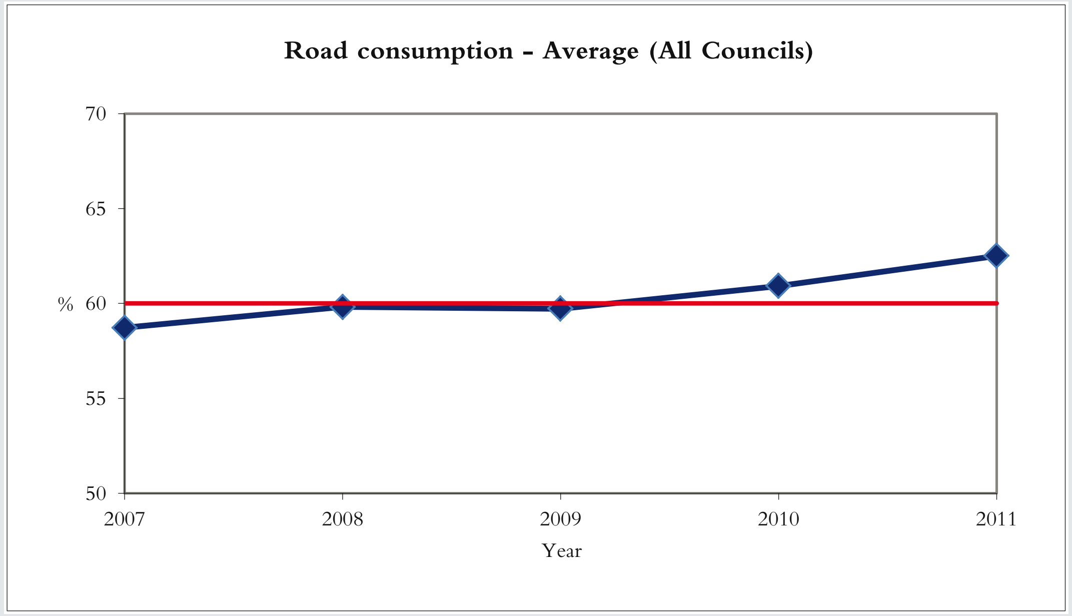
Our review of asset consumption was based only on road infrastructure primarily due to:

- road infrastructure assets representing 47.5%, or $2.794bn, of total infrastructure assets held by councils of $5.870bn
- our identification that other asset classes, such as buildings, were revalued on a net basis (gross replacement cost less accumulated depreciation at the date of the revaluation) making it difficult to calculate consumption ratio.

The ratio indicates the levels of service potential available in existing road infrastructure managed by councils. The higher the percentage, the greater future service potential is available to provide services to ratepayers.

Figure 6 below shows the road asset consumption ratio on a consolidated basis by the 25 councils in each of the past five years.

Figure 6 Average road consumption ratio



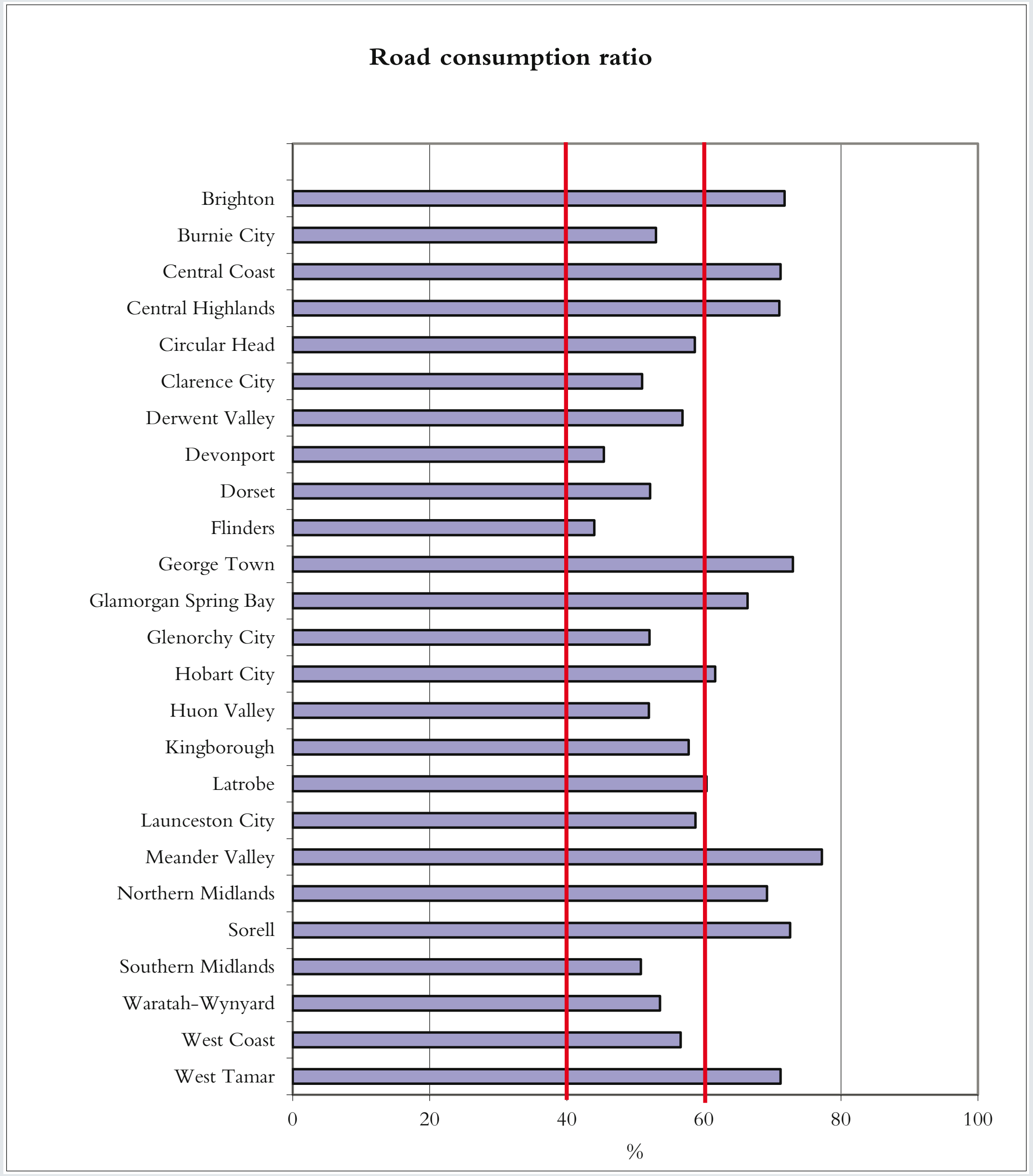
The figures indicate relatively low levels of consumption of council road assets with improvement over the period. The road consumption ratio improved from 58.7% in 2007 to 62.5% in 2011, with all councils within a low or moderate asset sustainability risk. A number of reasons contributed to the improvement including:

- higher capital expenditure on road assets
- Councils reviewing and extending the useful lives of road asset components and introducing residual values. In particular, residual values have had a significant impact on the depreciation expense and the accumulated depreciation balance. The review was driven by engineers, who now have a greater base of empirical data on road assets.

The ratio indicates, on a consolidated basis, councils have sufficient service capacity remaining in their road infrastructure assets.

Figure 7 below shows the five-year average road consumption ratio for each council.

Figure 7 Five-year average road consumption ratio by council



Ten of the 25 councils, on average over the five year period to 30 June 2011, had low asset management risk with the remaining 15 at moderate risk.

Conclusion based on assessment of the asset consumption ratio

There has been an improvement in the level of consumption of road infrastructure assets. At 30 June 2011, only one council, Flinders, was below our high risk benchmark of 40%, with a ratio of 39%.

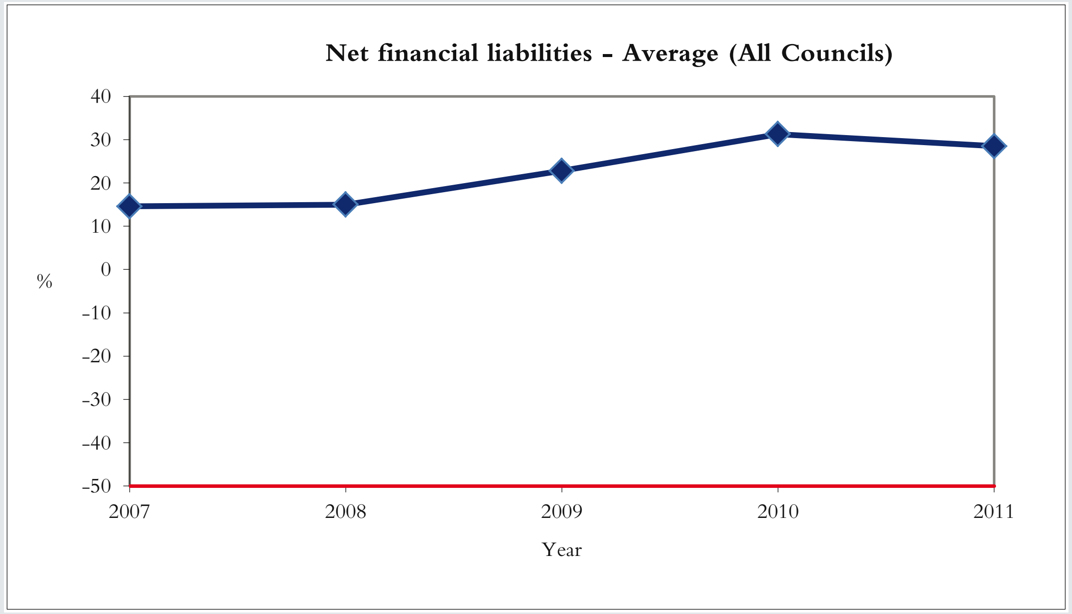
Net financial liabilities ratio

This ratio indicates the net financial obligations of councils compared to their operating income in any one year; specifically, the extent to which net financial liabilities (total liabilities less liquid assets) could be met by operating income.

Where the ratio is positive, it indicates a council's liquid assets exceeded its total liabilities. Conversely a negative ratio indicates an excess of total liabilities over liquid assets. Our benchmark was a ratio of between 0 and minus 50%, with a council having net liabilities at minus 50% or less of one year's operating revenue being considered low risk.

Figure 8 below shows the net financial liabilities ratio on a consolidated basis by the 25 councils in each of the past five years.

Figure 8 Average net financial liabilities ratio



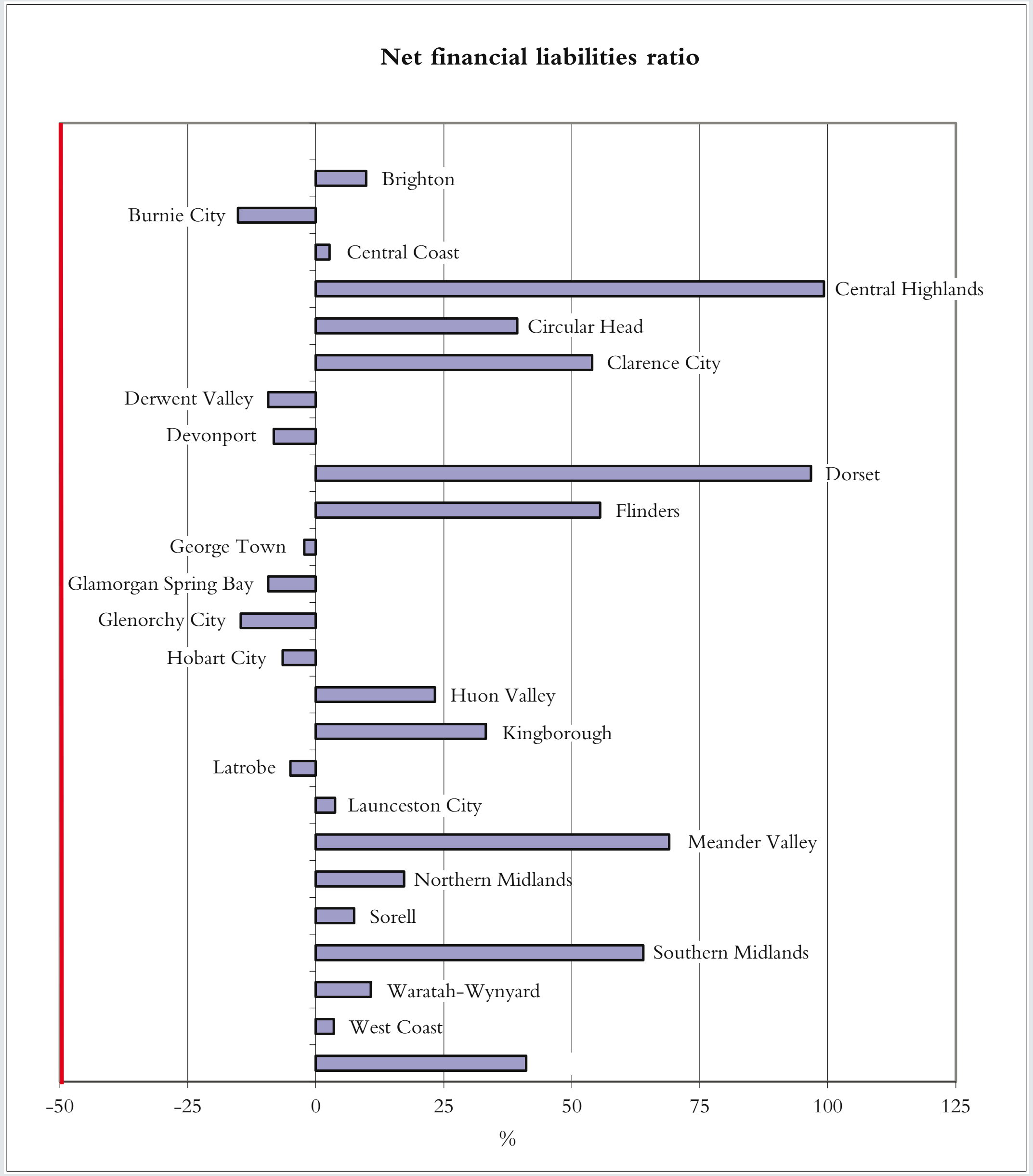
The average net financial liabilities ratio was positive each year. This was because, on a consolidated basis, total liquid assets exceeded total liabilities. At 30 June 2011, the 25 councils had current liabilities of $129.031m and non-current liabilities of $113.191m, which included borrowings of $62.257m. However, cash and financial assets totalled $330.342m, which was $88.120m greater than total liabilities. Operating revenue generated during 2010-11 totalled $598.279m.

While we understand that, to an extent, councils' cash holdings are committed to existing or future programs, this ratio indicates that:

- Collectively, councils are holding cash balances well beyond their day-to-day requirements. This results, as we reported in many individual Chapters of this report, in high levels of investment incomes.
- Generally asset renewal or replacement or investments in new assets are being funded from current rates, existing cash holdings or capital grants with limited use of borrowings.

Figure 9 shows the average five-year net financial liabilities ratio for each council.

Figure 9 Five-year average net financial liabilities by council



Based on our benchmark of between 0 and minus 50%, all councils were in a strong liquidity position. The figure indicates that a number of councils appear to be holding surplus cash balances in comparison to their liabilities.

Conclusion based on assessment of net financial liabilities ratio

All councils were in a position where they were able to service their current commitments, had manageable debt levels and capacity to borrow further should the need arise.

Governance

Our review specifically concentrated on whether each council had:

- an audit committee and, if so, the functions of the committee
- a long-term asset management plan
- a long-term financial management plan.

Our view is that robust audit committee arrangements, and the existence of the financial plans referred to, are indicative of a council's approach to financial sustainability. We acknowledge that councils apply many other governance arrangements which may, or may not, complement or mitigate conclusions drawn in this part of this Chapter.

Table 1 below summarises the results of our review.

Table 1 Summary of governance arrangements

	Audit Committee	Long Term Asset Management Plan	Long-term Financial management Plan
Brighton	N	Y	Y
Burnie	N	Y	Y
Central Coast	N	Y	Y
Central Highlands	Y	N	N
Circular Head	N	N	N
Clarence	Y	Y	Y
Derwent Valley	N	N	N
Devonport	Y	Y	Y
Dorset	N	N	N
Flinders	N	N	N
George Town	N	Y	N
Glamorgan Spring Bay	N	Y	N
Glenorchy	Y	Y	Y
Hobart	Y	Y	Y
Huon Valley	N	Y	Y
Kingborough	N	Y	Y
Latrobe	N	Y	Y
Launceston	Y	Y	Y
Meander Valley	N	Y	Y
Northern Midlands	N	N	N
Sorell	N	N	Y
Southern Midlands	N	N	N
Waratah-Wynyard	N	Y	N
West Coast	N	N	N
West Tamar	N	Y	Y

Based on our review six councils had audit committees. Of those that did not we noted a number had finance Committees that undertook some roles of an audit committee. Seventeen councils had long-term asset management plans and 16 had long-term financial management plans.

Audit Committees

It is now generally accepted that audit committees, or their equivalent, are part of a strong governance framework. All Tasmanian government departments and State owned companies and the majority of government business enterprises have well established and functioning committees and internal audit arrangements. However, local government has been slower to incorporate audit committees into their governance structures.

We acknowledge the major cities have audit committees, although not always internal audit functions, but medium to smaller councils, in general have not yet introduced such committees. In our view, better practice is for there to be:

- an audit committee with independent members, an appropriate Charter and the delegated authority to pursue relevant issues and report findings to management and Council
- a requirement for an audit committee to set and ensure the delivery of an annual internal audit work plan, which reviews issues based on risk.

In addition, audit committees should play a role in reviewing and commenting on:

- year end financial statements, including resolution of accounting issues, with such a review occurring prior to adoption by General Managers. In making this observation, we acknowledge the legislative requirement for General Managers, not Councils, to prepare and sign annual financial statements for submission to audit
- internal audit reports and follow-up of actions taken as a result of such reports
- long-term financial management plans
- long-term asset management plans.

An audit committee does not relieve a Council or a General Manager of their responsibility, but work to assist both in ensuring councils operating efficiently and effectively, manage risk and adopt appropriate internal controls, systems and processes.

We acknowledge that an audit committee, along with an internal audit program, adds to council costs. However, an effective committee can identify improved practices and a reduction of risk potentially leading to lower costs and improved outcomes. Also acknowledged is the availability of skills and lack of economies of scale particularly in medium and smaller councils. However, such councils could:

- reduce the range of the activities allocated to an audit committee in line with its size, risk and other governance arrangements
- resource share an audit committee and or internal audit function and undertake reviews or audits across participating councils.

Long-term Financial Management and Asset Management Plans

We note the Local Government Association of Tasmania (LGAT) is currently managing the Local Government Financial and Asset Reform Project and aims to develop and implement long-term financial and asset management frameworks in all Tasmanian councils. LGAT has noted that local government is committed to the long-term management of assets and services in a sustainable way and at a level acceptable to the community without unplanned rate rises or disruptive cuts.

The project is a partnership between the State and Federal governments and is funded through the Commonwealth's Local Government Reform Fund.

Expected outcomes of the project include:

- a long-term financial planning template
- long-term financial plans implemented in all councils
- asset management plans for major assets in all councils
- guidelines and training for elected members.

From our review of long-term asset management and financial plans, we noted a number of councils had adopted the templates provided by LGAT.

We support LGAT in its reform project and suggest each council implement long-term financial and asset management planning frameworks, where they have not already done so.

Conclusions as to governance arrangements

Overall, not enough councils have audit committees or long-term asset and financial management plans.

OVERALL FINANCIAL SUSTAINABILITY ASSESSMENT

Based on these ratios and governance arrangements we concluded that at 30 June 2011, assessed on average over five years, councils in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from an operating and asset management perspective but low risk from a net financial liabilities perspective.

A number of councils need to address continued operating deficits, introduction of an audit committee and lack of long-term asset and financial management plans.

Councils are generally under investing in existing assets with only five out of 25 councils investing in existing assets, on average over a five year period, in excess of their annual depreciation charge.

On a total road asset basis, at the whole of State level, the 25 councils' road assets had sufficient capacity to continue to provide services to ratepayers. However, some councils need to assess the state of their road networks.

Collectively councils may be holding surplus cash.

Individual assessments are included in each council's Chapter.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS

Comparative analysis covering financial and other information for 25 Tasmanian councils has been compiled with results provided in four attachments to this Chapter. The information provided is for the financial year ended 30 June 2011. The attachments are presented with councils grouped as either major city; other urban and large rural; or other smaller rural. The grouping reflects 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*".

This is the sixth year that this analysis has been included in this Report. While only one year's data is provided, where relevant, comparative totals for 2009-10 are included.

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

The attachments are:

- Demographics
- Employee Costs
- Comprehensive Income Statements
- Statements of Financial Position.

Our analysis of the attachments 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. 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 2010-11 financial year.

Demographics (note most recent data available is for 2009-10)

Comments here are made by reference to Attachment 1.

The Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth, increased by 4 351, 0.86%, from 2008-09 to 2009-10. Across the State, populations of each municipal area vary considerably, ranging from 900 (2008-09, 897) in Flinders to 65 826 (65 548) in Launceston. The major cities' populations represented 42.07% (213 555) (42.16%, 212 203) of the total population, but only covered 2.9% or 1 986 sq kms of the State's area in square kilometres. Conversely, the 13 smaller rural councils' combined populations represented 13.50%, 68 552 (13.49%, 67 905) of the total population, but covered 59.7% or 40 474 sq kms of the State's area in square kilometres.

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

Comments here are made by reference to Attachment 2, which summarises Employee costs, Employee entitlements and Full Time Equivalents (FTE's) for the 25 councils.

The 25 councils in the table employed 3 183 (2009-10, 3 116) FTE's at 30 June 2011 and incurred employee costs of $228.092m ($216.909m) for the financial year. Average employee costs per FTE varied from a high of $86 000 per FTE at Dorset Council to a low of $57 000 per FTE at Central Highlands Council with the average being $69 000.

Councils' FTEs per 1 000 head of population also varied with smaller rural councils having lower population bases and higher ratios. Flinders Council had a ratio above 20 FTEs per 1 000 head of population due to its small population. The average for the 25 councils was 7.4 FTE per 1000 head of population.

At 30 June 2011, the amount of annual, long service and some sick leave accrued by the 25 councils for their employees totalled $50.852m (2009-10, $47.699m). On a per FTE basis this equated to $16 103 with variations between councils ranging from $9 200 per FTE at Flinders to $35 891 at Derwent Valley.

Comprehensive Income Statements

Comments here are made by reference to Attachment 3.

The combined total Surplus for the 25 councils was $83.551m, a decline of 72.89% from 2009-10 ($313.326m) and included:

- $42.597m (2009-10, $69.269m) in capital grant funding
- $19.747m ($34.168m) in contributed assets, mainly through subdivisions
- $21.126m ($234.312m) in non-current asset adjustments, including the recognition of assets not previously recorded
- $3.411m in gains from the revaluation of investment properties
- $0.741m ($1.297m) in net Financial Assistance Grants adjustments related to funding received in one financial period but relating to the subsequent financial period
- $0.460m in other revaluation adjustments resulting in an increase in asset values
- $0.390m in misappropriation losses recovered and $0.250m in fire losses recovered through insurance
- $0.250m ($0.250m) in cash contributions for non-current assets
- $1.798m in private works revenue, offset by $2.528m in associated costs
- $0.469m ($1.950m) in non-current asset adjustments resulting in a write down in asset values.

Excluding these items, it could be argued that, on a "net operating" basis, for the year ended 30 June 2011 councils recorded a combined deficit of $4.085m ($25.855m deficit). While many factors contributed to this improvement, some of the main ones were:

- higher rates
- receipt of dividends from the water and sewerage corporations
- cost controls and
- in the case of a number councils, reviewing useful lives and residual values of long life infrastructure assets resulting in lower depreciation charges.

Although we noted an improvement, 11 councils still recorded a net operating deficit for the 2010-11 financial year.

On a Comprehensive income basis, combined comprehensive surpluses totalled $490.810m (2009-10, deficit $13.015m), an improvement of $503.825m. The change from the total Surplus of $83.551m included:

- fair value net asset revaluation increments of $439.125m
- a net write down in a number of council investment in the water and sewerage corporations of $34.320m based on a change in their final ownership interest, from the interim allocation order by the Treasurer
- a net write up of councils' net investments in the water and sewerage corporations of $11.608m based on the movements in each corporation's net assets during 2010-11.
- asset write downs and retirements of $4.638m
- actuarial losses of $4.922m on defined benefit superannuation schemes.

Revenue raising capacities

The 25 councils raised $345.915m (2009-10, $322.341m) in rates for the 2010-11 year, an increase of 6.8%. 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 six councils (2009-10, 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 in Attachment 3 highlight that, consistent with ratios discussed previously, smaller councils generate lower amounts of own source revenues in percentage terms.

Also reported in Attachment 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, $1 784, and Central Highlands, $819, compared to Hobart, $90, or Clarence, $93.

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 operating revenues for the 25 councils was 25.3% (2009-10, 28.1%), with major cities averaging 22.4% (23.2%), other urban and larger rural 23.4% (25.5%) and other smaller rural councils 29.0% (33.7%). The major cities' ratio improved due to increased revenue, with their combined depreciation expense increasing by $1.112m during 2010-11. The other urban and larger rural councils' ratio improved due to Central Coast and Kingborough Councils reviewing asset lives and residual values, with their combined depreciation expense decreasing by $3.197m in 2010-11. The other smaller rural councils' ratio improved due to Central Highlands Council reviewing asset lives and residual values, with its depreciation expense decreasing by $1.784m.

There were considerable fluctuations in the smaller rural council percentages, these varying between 17.2% at Glamorgan Spring Bay, which had a comparatively low infrastructure assets base with non-current infrastructure assets per head of population of $10 989, to 52.9% at Central Highlands where the non-current infrastructure assets per head of population was $45 483. This highlighted the importance of having long-term asset management plans (further information included in the Local Government Financial Sustainability Chapter of this Report) 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.

Statements of Financial Position

Comments here are made with reference to Attachment 4.

Management of working capital

On the basis that a working capital ratio of one or better is effective, all councils manage working capital (total current assets less total current liabilities expressed as a ratio greater or less than one) effectively with most achieving a ratio of well above one at 30 June 2011. 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. The significant cash balances are further illustrated by the net financial liabilities ratio (total liabilities less liquid assets divided by operating revenue expressed as a percentage). Many councils have positive percentages meaning liquid assets exceeded total liabilities. This is further examined in the Local Government Sustainability Chapter of this Report.

Management of infrastructure and other non-current assets

Included in total non-current assets, amounting to $7.842bn (2009-10, $7.320bn), were infrastructure assets controlled by the 25 councils at 30 June 2011 totalling $5.870bn ($5.337bn).

In 2010-11 payments made by councils for property, plant and equipment totalled $216.899m (2009-10, $209.088m) and depreciation charged on these assets totalled $135.943m ($138.414m). 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 the 25 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 152.7% (2009-10, 153.0%) indicating 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 Comprehensive Income Statement discussion in this Chapter, 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 $22 134.

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 interest coverage ratio for each council (cash interest payments divided by net operating cash flows expressed as a percentage) indicated that all of the councils are able to meet their loan interest charges. Our benchmark for this ratio is 3:1, with net operating cash flows being at least three times the interest payments. All councils were above the benchmarks, with only Glenorchy City recording a single digit percentage of 3.62%.

It is noted that Brighton, Huon Valley, Kingborough, Meander Valley, Northern Midlands, Central Highlands and Flinders Councils did not hold any loan debt at 30 June 2011.

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 16.8% (2009-10, 16.8%) were, in general, holding higher levels of non-current borrowings at 30 June 2011 than the councils with lower ratios. However, the ratios indicate all councils can meet future longer term debt commitments.

Collection of rates

For the 25 councils, rate debts owing to councils at 30 June 2011 totalled $10.669m (2009-10, $9.557m) with an average per council of $427 000 ($382 000). Expressing rate debtors as a percentage of rates raised indicated that, in general, councils were recovering outstanding rate debts in a reasonable timeframe. Central Highlands Council at 13.0% 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.

Attachment 1 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Demographics - 2010-11

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	52,935	377	140.4	23,618	62.6	0.4
Glenorchy	44,716	120	372.6	21,091	175.8	0.5
Hobart	50,078	78	643.7	23,534	302.5	0.5
Launceston	65,826	1,411	46.7	29,934	21.2	0.5
Brighton	16,358	171	95.7	6,937	40.6	0.4
Burnie	19,892	610	32.6	19,468	31.9	1.0
Central Coast	21,747	931	23.4	10,433	11.2	0.5
Derwent Valley	10,118	4,104	2.5	4,954	1.2	0.5
Devonport	25,551	111	230.2	11,827	106.5	0.5
Huon Valley	15,372	5,498	2.8	10,048	1.8	0.7
Kingborough	34,171	1,094	31.2	16,095	14.7	0.5
Meander Valley	19,694	3,320	5.9	9,472	2.9	0.5
Northern Midlands	12,654	5,126	2.5	6,475	1.3	0.5
Sorell	13,407	583	23.0	8,370	14.4	0.6
Waratah-Wynyard	14,096	3,526	4.0	7,407	2.1	0.5
West Tamar	22,476	690	32.6	10,820	15.7	0.5
Central Highlands	2,322	7,976	0.3	3,674	0.5	1.6
Circular Head	8,263	4,891	1.7	4,778	1.0	0.6
Dorset	7,355	3,223	2.3	5,124	1.6	0.7
Flinders	900	1,994	0.5	1,117	0.6	1.2
George Town	6,892	653	10.6	4,321	6.6	0.6
Glamorgan Spring Bay	4,507	2,522	1.8	5,564	2.2	1.2
Latrobe	10,020	600	16.7	5,500	9.2	0.5
Southern Midlands	6,146	2,611	2.4	3,495	1.3	0.6
West Coast	5,251	9,575	0.5	4,757	0.5	0.9
Total*	**490 747**	**61 795**	**7.9**	**258 813**		
Average per Council*	**19 630**	**2 472**	**69**	**10 353**	**33.2**	**0.7**
Total 2009-10	**486 527**	**61 420**	**7.9**	**258 228**		
Average per Council 2009-10	**19 461**	**2 457**	**69**	**10 329**	**33.4**	**0.7**

Average Population per square kilometre for Tasmania	7.94
Average Rateable properties per square kilometre	4.19
Average Rateable properties per Head of Population	0.53

* *Total and averages based on 25 councils' information, comparative information amended to reflect 25 councils.*

Source

Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2009-10. Local Government areas taken from ABS website "2001 Census Community Profile Series" Statistics estimated at 30 June 2005. Rateable properties obtained from council

Attachment 2 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Employee Costs - 2010-11

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	14,846	220	67	4.2	29.8	29.5	**3,308**	**15,036**
Glenorchy	20,514	273	75	6.1	40.1	37.6	**5,661**	**20,736**
Hobart	46,041	596	77	11.9	47.9	46.8	**10,778**	**18,084**
Launceston	30,523	418	73	6.4	37.2	36.9	**6,418**	**15,354**
Brighton	3,068	48	64	2.9	26.0	29.5	**777**	**16,188**
Burnie	14,783	192	77	9.7	42.3	43.0	**2,050**	**10,677**
Central Coast	9,374	141	66	6.5	46.1	45.0	**2,173**	**15,411**
Derwent Valley	3,052	46	66	4.5	31.1	31.3	**1,651**	**35,891**
Devonport	12,279	160	77	6.3	37.1	37.8	**2,518**	**15,738**
Huon Valley	9,222	130	71	8.5	45.8	47.6	**1,219**	**9,377**
Kingborough	10,050	169	59	4.9	33.6	31.7	**1,803**	**10,669**
Meander Valley	5,334	77	69	3.9	31.1	33.3	**1,207**	**15,675**
Northern Midlands	4,662	64	73	5.1	33.0	31.3	**1,383**	**21,609**
Sorell	5,262	79	67	5.9	37.6	38.9	**894**	**11,316**
Waratah-Wynyard	5,146	83	62	5.9	36.5	36.6	**1,356**	**16,337**
West Tamar	6,516	92	71	4.1	32.9	36.7	**1,619**	**17,598**
Central Highlands	1,583	28	57	12.1	28.7	22.3	**551**	**19,679**
Circular Head	4,082	56	73	6.8	33.1	33.4	**795**	**14,196**
Dorset	4,275	50	86	6.8	35.8	38.8	**1,004**	**20,080**
Flinders	1,443	20	72	22.2	36.1	31.3	**184**	**9,200**
George Town	3,320	46	72	6.7	38.3	35.6	**577**	**12,543**
Glamorgan Spring Bay	3,132	51	61	11.3	33.8	35.2	**584**	**11,451**
Latrobe	2,895	45	64	4.5	29.8	31.4	**673**	**14,956**
Southern Midlands	3,270	46	71	7.5	39.6	35.6	**1,139**	**24,761**
West Coast	3,420	53	65	10.1	33.0	34.8	**530**	**10,000**
Total **	**228 092**	**3 183**					**50 852**	
Average per Council **	**9 124**	**127**	**69**	**7.4**	**35.9**	**35.7**	**2 034**	**16 103**
Total 2009-10	**216 909**	**3 116**					**47 699**	
Average per Council 2009-10	**8 676**	**125**	**67**	**7.3**	**36.1**	**34.5**	**1 908**	**15,346**

* *Staff costs include capitalised salaries and wages*

** *Total and averages based on 25 councils' information, comparative information amended to reflect the 25 councils.*

Attachment 3 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Income Statements - 2010-11

Council	Operating Revenue *	Non-Operating Revenue *	Total Revenue	Operating Expenditure	Non-Operating Expenditure **	Total Expenditure	Net Operating Surplus/ (Deficit)	Operating Surplus (Deficit)	Operating Surplus/ (Deficit) to Total Revenue	Comprehensive Surplus/ (Deficit)
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s		$'000s	%	
Clarence	49,753	4,019	53,772	50,302	64	50,366	-549	3,406	6.3	10,907
Glenorchy	51,116	11,100	62,216	54,492	-	54,492	-3,376	7,724	12.4	44,873
Hobart	96,119	2,500	98,619	98,376	-	98,376	-2,257	243	0.2	(7,052)
Launceston	82,017	9,397	91,414	82,640	-	82,640	-623	8,774	9.6	137,017
Brighton	11,821	885	12,706	10,402	-	10,402	1,419	2,304	18.1	4,335
Burnie	34,919	3,636	38,555	34,405	-	34,405	514	4,150	10.8	18,631
Central Coast	20,330	4,292	24,622	20,843	-	20,843	-513	3,779	15.3	46,475
Derwent Valley	9,808	410	10,218	9,742	-	9,742	66	476	4.7	4,729
Devonport	33,074	9,175	42,249	32,514	-	32,514	560	9,735	23.0	(13,705)
Huon Valley	20,156	11,362	31,518	19,379	-	19,379	777	12,139	38.5	26,000
Kingborough	29,936	4,084	34,020	31,657	19	31,676	-1,721	2,344	6.9	60,967
Meander Valley	17,133	3,535	20,668	16,039	2,528	18,567	1,094	2,101	10.2	9,600
Northern Midlands	14,121	1,931	16,052	14,876	-	14,876	-755	1,176	7.3	7,662
Sorell	13,998	1,049	15,047	13,510	-	13,510	488	1,537	10.2	5,580
Waratah-Wynyard	14,098	6,610	20,708	14,066	-	14,066	32	6,642	32.1	37,195
West Tamar	19,807	3,610	23,417	17,757	-	17,757	2,050	5,660	24.2	9,048
Central Highlands	5,517	141	5,658	7,099	-	7,099	-1,582	(1,441)	(25.5)	(1,010)
Circular Head	12,339	799	13,138	12,221	-	12,221	118	917	7.0	28,661
Dorset	11,928	2,932	14,860	11,017	-	11,017	911	3,843	25.9	1,056
Flinders	3,996	779	4,775	4,603	-	4,603	-607	172	3.6	4,088
George Town	8,670	1,089	9,759	9,321	-	9,321	-651	438	4.5	2,278
Glamorgan Spring Bay	9,278	383	9,661	8,894	-	8,894	384	767	7.9	2,001
Latrobe	9,702	1,845	11,547	9,216	-	9,216	486	2,331	20.2	36,194
Southern Midlands	8,264	1,818	10,082	9,173	-	9,173	-909	909	9.0	5,138
West Coast	10,379	2,866	13,245	9,820	-	9,820	559	3,425	25.9	10,142
Total ***	**598 279**	**90 247**	**688 526**	**602 364**	**2 611**	**604 975**	**(4 085)**	**83 551**		**490 810**
Average per Council ***	**23 931**	**3 610**	**27 541**	**24 095**	**104**	**24 199**	**(163)**	**3 342**	**12.3**	**19 632**
Total 2009-10	**562 691**	**341 690**	**904 381**	**588 546**	**2 509**	**591 055**	**(25 855)**	**313 326**		**(5 458)**
Average per Council 2009-10	**22 508**	**13 668**	**36 175**	**23 542**	**100**	**23 642**	**(1 034)**	**12 533**	**11.6**	**(218)**

** 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 the net result of Financial Assistance Grant received in advance.*
**** Total and averages based on 25 councils' information, comparative information amended to reflect the 25 councils.*

Council	Operating Surplus Ratio	Self Financing Ratio	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
	No.	%	$'000s	%	$	$	%	$'000s	%	$'000s	$	%	%
Clarence	(1.10)	27.7	36,949	74.3	1,564	698	74.3	44,817	90.1	4,936	93	9.9	25.2
Glenorchy	(6.60)	6.2	23,112	45.2	1,096	517	45.2	45,741	89.5	5,375	120	10.5	28.4
Hobart	(2.35)	14.3	58,455	60.8	2,484	1,167	60.8	91,622	95.3	4,497	90	4.7	16.4
Launceston	(0.76)	19.3	50,228	61.2	1,678	763	61.2	75,574	92.1	6,443	98	7.9	19.8
Brighton	12.00	22.1	6,470	54.7	933	396	54.7	9,648	81.6	2,173	133	18.4	20.8
Burnie	1.47	16.7	17,910	51.3	920	900	51.3	31,141	89.2	3,778	190	10.8	20.8
Central Coast	(2.52)	24.9	11,566	56.9	1,109	532	56.9	16,516	81.2	3,814	175	18.8	24.8
Derwent Valley	0.67	23.0	5,057	51.6	1,021	500	51.6	6,768	69.0	3,040	300	31.0	20.2
Devonport	1.69	22.7	22,233	67.2	1,880	870	67.2	30,104	91.0	2,970	116	9.0	21.7
Huon Valley	3.85	19.1	8,336	41.4	830	542	41.4	15,580	77.3	4,576	298	22.7	20.2
Kingborough	(5.75)	18.1	18,312	61.2	1,138	536	61.2	26,550	88.7	3,386	99	11.3	23.4
Meander Valley	6.39	34.8	9,191	53.6	970	467	53.6	12,556	73.3	4,577	232	26.7	27.2
Northern Midlands	(5.35)	30.3	7,109	50.3	1,098	562	50.3	10,171	72.0	3,950	312	28.0	31.2
Sorell	3.49	28.2	9,177	65.6	1,096	684	65.6	11,693	83.5	2,305	172	16.5	27.0
Waratah-Wynyard	0.23	22.3	7,754	55.0	1,047	550	55.0	10,998	78.0	3,100	220	22.0	20.5
West Tamar	10.35	21.2	12,538	63.3	1,159	558	63.3	17,202	86.8	2,605	116	13.2	23.3
Central Highlands	(28.68)	22.6	2,680	48.6	729	1,154	48.6	3,616	65.5	1,901	819	34.5	52.9
Circular Head	0.96	19.0	6,219	50.4	1,302	753	50.4	9,660	78.3	2,679	324	21.7	20.9
Dorset	7.64	30.8	5,600	46.9	1,093	761	46.9	8,151	68.3	3,777	514	31.7	26.9
Flinders	(15.19)	20.6	1,142	28.6	1,022	1,269	28.6	2,390	59.8	1,606	1,784	40.2	35.6
George Town	(7.51)	26.7	5,746	66.3	1,330	834	66.3	7,033	81.1	1,637	238	18.9	21.5
Glamorgan Spring Bay	4.14	25.2	5,651	60.9	1,016	1,254	60.9	7,391	79.7	1,887	419	20.3	17.2
Latrobe	5.01	26.0	5,374	55.4	977	536	55.4	8,087	83.4	1,615	161	16.6	24.4
Southern Midlands	(11.00)	26.4	3,617	43.8	1,035	589	43.8	5,263	63.7	3,001	488	36.3	38.5
West Coast	5.39	22.7	5,489	52.9	1,154	1,045	52.9	8,078	77.8	2,301	438	22.2	23.0
Total ***			**345 915**							**81 929**			
Average per Council ***	**(0.94)**	**22.8**	**13 837**	**54.7**	**1 187**	**737**	**54.7**	**20 654**	**79.9**	**3 277**	**318**	**20.1**	**25.3**
Total 2009-10			**317 177**							**78 009**			
Average per Council 2009-10	**0.96**	**23.1**	**11 752**	**53.4**	**1 100**	**691**	**54.2**	**19 181**	**79.5**	**3 120**	**307**	**20.5**	**28.1**

** Operating grant revenue excludes 2010 Financial Assistance Grant*
**** Total and averages based on 25 councils' information, comparative information amended to reflect the 25 councils.*

Attachment 4 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Balance Sheets - 2010-11

Council	Current Assets	Current Liabilities	Working Capital	Current Ratio	Net Financial Liabilities Ratio *	Non-Current Assets	Non Current Liabilities	Loan Debt *	Interest coverage *	Indebtedness Ratio
	$000	$000	$'000s	No.	%	$'000s	$'000s		%	%
Clarence	53,082	8,684	44,398	6.1	85	615,996	1,533	1,138	151.96	3.4
Glenorchy	29,016	8,688	20,328	3.3	12	667,677	11,848	10,466	3.62	25.9
Hobart	33,757	18,349	15,408	1.8	-16	879,082	30,539	7,955	33.09	33.3
Launceston	66,126	37,707	28,419	1.8	-1	1,415,538	28,022	15,378	17.20	37.1
Brighton	4,731	1,464	3,267	3.2	27	163,408	99	-	92.11	1.0
Burnie	11,084	4,063	7,021	2.7	5	330,435	4,089	2,110	30.95	13.1
Central Coast	6,746	4,772	1,974	1.4	-15	396,812	4,620	2,340	47.63	28.0
Derwent Valley	3,485	2,557	928	1.4	-11	90,637	1,945	1,973	21.37	28.7
Devonport	11,428	5,886	5,542	1.9	-7	397,260	7,944	8,378	19.07	26.4
Huon Valley	13,393	3,917	9,476	3.4	18	197,115	789	-	-	5.1
Kingborough	16,876	6,947	9,929	2.4	18	604,429	4,558	-	284.00	17.2
Meander Valley	18,337	2,226	16,111	8.2	81.2	258,759	1,881	-	-	15.0
Northern Midlands	2,578	1,863	715	1.4	2	255,142	349	-	-	3.4
Sorell	10,408	3,165	7,243	3.3	31	199,268	2,786	3,082	16.61	23.8
Waratah-Wynyard	7,661	2,267	5,394	3.4	29	155,857	553	195	183.88	5.0
West Tamar	8,028	2,724	5,304	2.9	21	237,601	811	902	62.56	4.7
Central Highlands	7,454	709	6,745	10.5	119	114,822	37	-	-	1.0
Circular Head	10,114	2,214	7,900	4.6	46	137,269	1,976	2,195	82.75	20.5
Dorset	17,046	2,238	14,808	7.6	108	148,231	1,575	350	134.93	19.3
Flinders	8,103	511	7,592	15.9	29	43,806	223	-	-	9.3
George Town	5,069	1,306	3,763	3.9	4	101,859	2,652	2,576	12.37	37.7
Glamorgan Spring Bay	2,981	1,496	1,485	2.0	8	87,344	607	531	77.03	8.2
Latrobe	7,137	1,787	5,350	4.0	25	152,747	1,451	390	92.52	17.9
Southern Midlands	9,277	1,679	7,598	5.5	78	91,200	934	906	31.04	17.7
West Coast	4,991	1,812	3,179	2.8	15	99,691	1,370	1,392	21.83	17.0
Total **	**368 908**	**129 031**	**239 877**			**7 841 985**	**113 191**	**62 257**		
Average per Council **	**14 756**	**5 161**	**9 595**	**4.2**	**28.5**	**313 679**	**4 528**	**2 490**	**56.7**	**16.8**
Total 2009-10	**386 135**	**125 804**	**260 331**			**7 319 811**	**103 530**			
Average per Council 2009-10	**15 445**	**5 032**	**10 413**	**4.5**		**292 792**	**4 141**			**16.8**

Council	Rate Debtors	Rate Debtors to Rates Raised	Payments for Property, Plant & Equipment	Depreciation $000	Total 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
	$'000s	%	$'000s		%	%	$	$	$
Clarence	1,424	3.9	10,319	12,513	82.5	8.9	1,095,942	7,805	17,494
Glenorchy	377	1.6	12,572	14,506	86.7	5.0	3,859,558	10,358	21,959
Hobart	952	1.6	28,213	15,764	179.0	8.9	8,439,409	13,111	27,899
Launceston	911	1.8	39,787	16,254	244.8	5.4	657,383	14,091	30,987
Brighton	100	1.5	4,469	2,459	181.7	6.0	627,018	6,555	15,456
Burnie	1,045	5.8	9,470	7,270	130.3	6.6	446,444	13,690	13,989
Central Coast	314	2.7	8,559	5,045	169.7	3.5	352,470	15,089	31,453
Derwent Valley	566	11.2	3,018	1,978	152.6	7.7	16,020	6,498	13,271
Devonport	414	1.9	22,299	7,174	310.8	7.0	2,866,901	12,455	26,907
Huon Valley	227	2.7	4,617	4,078	113.2	5.3	28,816	10,306	15,767
Kingborough	158	0.9	11,123	7,013	158.6	3.7	449,507	14,391	30,554
Meander Valley	377	4.1	5,878	4,662	126.1	4.5	61,657	10,394	21,611
Northern Midlands	371	5.2	5,083	4,410	115.3	3.5	39,896	16,162	31,584
Sorell	522	5.7	4,452	3,784	117.7	5.5	288,791	12,558	20,115
Waratah-Wynyard	141	1.8	3,287	2,892	113.7	6.7	32,997	8,254	15,708
West Tamar	467	3.7	14,842	4,610	322.0	7.1	254,822	7,823	16,250
Central Highlands	349	13.0	1,125	2,916	38.6	2.5	13,240	45,483	28,746
Circular Head	353	5.7	3,704	2,579	143.6	5.4	23,529	13,927	24,085
Dorset	386	6.9	4,591	3,211	143.0	4.3	40,332	17,674	25,369
Flinders	42	3.7	1,274	1,421	89.7	2.8	20,192	44,736	36,045
George Town	190	3.3	2,199	1,868	117.7	7.1	123,522	11,703	18,667
Glamorgan Spring Bay	260	4.6	2,571	1,600	160.7	11.4	19,638	10,989	8,901
Latrobe	171	3.2	2,606	2,368	110.1	4.3	208,800	12,503	22,778
Southern Midlands	314	8.7	4,223	3,185	132.6	4.7	29,637	12,591	22,141
West Coast	238	4.3	6,618	2,383	277.7	7.4	7,758	14,146	15,615
Total **	**10 669**		**216 899**	**135 943**					
Average per Council **	**427**	**3.1**	**8 676**	**5 438**	**152.7**	**5.8**	**800 171**	**14 532**	**22 134**
Total 2009-10	**9 557**		**209 088**	**138 414**					
Average per Council 2009-10	**382**	**4.2**	**8 364**	**5 537**	**153.0**	**5.9**	**768 653**	**13 521**	**20 060**

* *First year information included in table.*

** *Total and averages based on 25 councils' information, comparative information amended to reflect the 25 councils.*

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 entitled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising six volumes, satisfies this requirement each year. The volumes are:

- Volume 1 – Analysis of the Treasurer's Annual Financial Report
- Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities
- Volume 3 – Government Business Enterprises, State Owned Corporations, and Water Corporations and Superannuation Funds
- Volume 4 – Local Government Authorities
- Volume 5 – Other State entities 30 June
- Volume 6 - Other State entities 31 December, including University of Tasmania.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplemented by financial analysis applying the indicators documented in the Financial Performance 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.

Departments are required to present budget amounts on the face of their primary statements. As a consequence details and commentary in relation to these amounts have been 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

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Operating surplus (deficit) ($'000s)		Own source revenue percentage
Operating surplus ratio	>0	Net operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets	5.21%	EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	Between 40% and 80%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Asset sustainability ratio	>100%	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt	6.9%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness Ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio	3:1	Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000)		Amount of community service obligation funding received from Government
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Government guarantee fees ($'000)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTE's
Average recreational leave balance	20 days [3]	Actual annual leave provision days due divided by average FTE's
Average staff costs (2) ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Employee costs (2) as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls
Staff numbers FTEs		Effective full time equivalents

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.
3 May vary in some circumstances because of different award entitlements.

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger surplus and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by a council through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of council's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – 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).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – 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).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **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.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **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.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents (FTEs).

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.

APPENDIX 2 - AUDIT STATUS

Entity	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Clear opinion issued	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
LOCAL GOVERNMENT AUTHORITIES											
MAJOR CITY COUNCILS											
Clarence City Council	15 August 2011	15 August 2011	16 September 2011	✓	21 September 2011			✓			
Glenorchy City Council	15 August 2011	15 August 2011	7 September 2011	✓	7 September 2011		✓				
Hobart City Council	15 August 2011	15 August 2011		✓	9 September 2011			✓			
Launceston City Council	15 August 2011	15 August 2011		✓	31 August 2011		✓				
MEDIUM COUNCILS											
Brighton Council	15 August 2011	15 August 2011		✓	16 September 2011			✓			
Burnie City Council	15 August 2011	12 August 2011		✓	23 September 2011				✓		
Central Coast Council	15 August 2011	28 September 2011		✓	30 September 2011				✓		
Derwent Valley Council	15 August 2011	15 August 2011		✓	23 September 2011				✓		
Devonport City Council	15 August 2011	15 August 2011		✓	23 September 2011				✓		
Huon Valley Council	15 August 2011	12 August 2011	22 September 2011	✓	23 September 2011				✓		
Kingborough Council	15 August 2011	12 August 2011		✓	23 September 2011				✓		
Meander Valley Council	15 August 2011	15 August 2011		✓	23 September 2011				✓		
Northern Midlands Council	15 August 2011	23 August 2011			30 September 2011				✓		
Sorell Council	15 August 2011	24 August 2011		✓	26 September 2011				✓		
Waratah-Wynyard Council	15 August 2011	12 August 2011	6 September 2011	✓	13 September 2011			✓			
West Tamar Council	15 August 2011	10 August 2011		✓	31 August 2011		✓				

Entity	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Clear opinion issued	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
SMALL COUNCILS											
Break O'Day Council	15 August 2011	8 November 2011									
Central Highlands Council	15 August 2011	15 August 2011		✓	30 September 2011				✓		
Circular Head Council	15 August 2011	12 August 2011		✓	27 September 2011				✓		
Dorset Council	15 August 2011	11 August 2011		✓	30 September 2011				✓		
Flinders Council	15 August 2011	15 August 2011		✓	28 September 2011				✓		
George Town Council	15 August 2011	15 August 2011		✓	21 September 2011			✓			
Glamorgan-Spring Bay Council	15 August 2011	15 August 2011		✓	29 September 2011				✓		
Kentish Council	15 August 2011	15 August 2011									
King Island Council	15 August 2011										
Latrobe Council	15 August 2011	15 August 2011		✓	23 September 2011				✓		
Southern Midlands Council	15 August 2011	15 August 2011		✓	30 September 2011				✓		
Tasman Council	15 August 2011	11 November 2011			14 November 2011						✓
West Coast Council	15 August 2011	18 September 2011		✓	30 September 2011				✓		

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

APPENDIX 4 - RECENT REPORTS

TABLED	TITLE
November 2011 No.5 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 3 – Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11
November 2011 No.4 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 2 – Executive and Legislature, Government Departments and other General Government Sector entities 2010-11
November 2011 No.3 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 1 – Analysis of the Treasurer's Annual Financial Report 2010-11
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Tasmanian Audit Office

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Our Vision

STRIVE I LEAD I EXCEL I TO MAKE A DIFFERENCE

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

Availability of reports

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 the Office.

This report is printed on recycled paper.

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.

Tasmanian
Audit Office

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