Department of Housing, Local Government and Regional Services

Darwin – Consultancy - Review of Councils' Financial Sustainability

Q11 – Q0541

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1 Executive Summary

1.1 Introduction

The Department of Housing, Local Government and Regional Services (DHLGRS) have asked Deloitte to perform a review of the financial sustainability of Councils, through a comprehensive analysis of 2008/09, 2009/10 and 2010/11 Council financial plans, approved budgets and financial statements.

The Councils ('Councils') included as part of this consultancy were:

- East Arnhem Shire Council (EASC)
- West Arnhem Shire Council (WASC)
- Tiwi Islands Shire Council (TISC)
- Victoria Daly Shire Council (VDSC)
- Roper Gulf Shire Council (RGSC)
- Central Desert Shire Council (CDSC)
- MacDonnell Shire Council (MSC)
- Barkly Shire Council (BSC)
- Wagait Shire
- Coomalie Community Government Council
- Belyuen Shire Council.

1.2 Objectives

The objective of this review was to produce a report that includes:

- Financial analysis of the Councils' financial information
- Identification of the critical issues including a risk assessment
- Commentary on Council financial sustainability across core and non-core services and fee-for-service operations
- Commentary on the effectiveness of current funding arrangements
- Commentary on whether the current structure of the Councils is appropriate to meet future service delivery requirements.

The new local government framework has now been in operation for three years: 2008/09, 2009/10 and 2010/11. A detailed assessment of the financial sustainability of the eight larger Councils (EASC, WASC, TISC, VDSC, RGSC, CDSC, MSC and Barkly) and the three smaller Councils (Wagait, Coomalie, Beluyen) was required by DHLGRS with the following to be undertaken:

i. Identification and analysis of all revenue sources provided to each of the shires and the extent to which revenue is tied to core service delivery, fee for service arrangements or is untied to be used at the discretion of the Councils

ii. Identification and analysis of expenses pertaining to core service delivery, fee for service arrangements and non-core activities of Councils

iii. Analysis of how untied funding is applied, for example Commonwealth financial assistance grants and roads funding and the Territory's operational subsidy

iv. Analysis of the extent to which revenue that is available for core service delivery is being used to subsidise non-core services and/or fee for service arrangements or conversely, the extent to which revenue received for the delivery of non-core activities that is being used to subsidise core services

v. Analyse whether current fee for service arrangements have been established on a commercial basis and provide recommendations as to where arrangements should be reviewed or re-negotiated

vi. Analysis of capital expenditure over each of the three years and the extent to which this expenditure has impacted on core service delivery or liquidity of each Council and whether appropriate processes are in place to assess implications of this expenditure

vii. Review the extent to which core services have been undertaken by Councils and identify circumstances where non-core or fee for service activities have taken precedence over core services

viii. Analysis of financial performance for each of the three years compared to plans and approved budgets, using results reported in audited financial statements, or if not available preliminary financial statements (particular emphasis should be placed on operational position, cash levels, ongoing liabilities and opportunities to improve financial performance)

ix. Field visits to Councils to undertake a deeper analysis of financial performance than is possible through financial statements alone

x. Identify the key issues affecting the sustainability of the Councils in terms of core local government services, non-core services, rates revenue and fee for service arrangements

xi. Identification of present and future risks and mitigation strategies for government and Councils, based on information gathered regarding current and future sustainability as outlined in (x).

1.3 Disclaimer

We have relied upon data supplied by Councils and/or gathered by DHLGRS. In some instances, information has been provided by outsourced service providers to the Councils such as accounting and audit firms. The information received has not been subjected to an audit on our part. While much of the data provided has been audited at the individual Council level, there is no check undertaken as to the consistency of reporting practices across Councils. While we have made our best efforts both to ensure that the information provided meets our requirements and to maintain the accuracy of this information after it is received, we accepted and used the information provided in good faith. We are unable to provide any warranties about the accuracy or completeness of the information provided to us by or in relation to individual Councils. It should be noted that a number of Councils have received qualified audit opinions on their financial statements.

Where key data is missing or inadequate, we have to the extent possible, used the data that has been received for analysis.

Where we have exercised judgement (as is always necessary to complete an analysis of this kind), we have done so based on our experience.

We also acknowledge that, notwithstanding the obvious focus of our review, not all challenges to the sustainability of the Councils have a financial context, with capacity, skills, demographic and environmental dimensions also being important.

1.4 Conclusion

1.4.1 Financial analysis of the Councils' financial information

It is important to understand the historical and existing dependency on grant funding by remote councils in the Northern Territory. Whether the funding is tied to service delivery or is received as untied funds to be directed as required by the councils, there are no replacement sources of funding should grants or service delivery payments be discontinued. Reductions in levels of untied funding have resulted in the councils having limited discretion relating to expenditure, even in the event that emergency expenditure may be required as a result of unforseen events. Reductions in levels of tied funding have not resulted in community expectations decreasing in equal proportion. Further reductions in funding will lead to either reductions in service delivery or increasing financial deficits threatening future financial sustainability.

Councils that are financially unsustainable are most likely to be those as characterised by PricewaterhouseCooopers in its 2006 National Financial Sustainability Study of Local Government that exhibit:

- Minimal or negative revenue growth
- Limited access to rate revenue due to relatively small populations reducing the size of the rates income stream coupled with constraints on the size of annual rates increases
- Limited access to strong financial and asset management skills which are critical to identifying sustainability problems, optimising renewals expenditure and improving revenue streams
- Expanding service provision due to rising community demands, coupled with a related tendency by some Councils to step in to provide a non-traditional service
- A tendency to run operating deficits creating a need to defer or underspend on renewal of infrastructure, particularly community infrastructure.

Based upon the best information, we categorise the current finances and financial policies of the Councils subject to our analysis as financially unsustainable based on current practices. This does not mean these Councils are in imminent danger of defaulting on their debt service obligations or that their immediate financial viability is being questioned, however the long term financial sustainability of these Councils will only be achieved through substantial or disruptive adjustments to revenue and/or expenditure.

Whilst this report does list a number of remedial actions that can be taken, largely by Councils and DHLGRS, a number of the suggested actions are outside the control of the Councils and require action from the Northern Territory and Commonwealth Governments, particularly in relation to conditional rating and funding of the roads and infrastructure backlog.

1.4.2 Identification of the critical issues including a risk assessment

Our conclusion, that the Councils which are the subject of the analysis are financially unsustainable in the longer term, is based on consideration of the following critical issues facing the Councils:

- Upon amalgamation, the eight largest Councils inherited roads, infrastructure assets and plant and equipment that were in poor condition or beyond useful life. There have been insufficient funds to repair, maintain, upgrade or replace assets. As a result, there is a significant backlog of infrastructure investment. This is supported by evidence from the ten year plans recently released by the Northern Territory Government for roads, transport and infrastructure
- The Councils are unable to derive a level of own source revenue. The limited number of rateable properties within the Council areas combined with the application of legislated conditional rating has resulted in an inequitable application of rates and user fees making the Councils overly reliant on grant funding

- Planned changes to leasing arrangements are likely to have a detrimental financial impact upon the Councils. The amount is presently unable to be quantified but may result in the Council paying higher leasing costs that will reduce funding available for core service delivery
- The costs associated with policy initiatives introduced by other levels of government have been transferred to the Councils without an equal transfer of funding
- The budgeting and accounting policies, procedures, systems and reporting in place in many Councils are inadequate leading to a high risk of materially misstated financial reports and may result in Councillors and management making inappropriate decisions on the allocation of scarce resources
- Onerous reporting requirements imposed by funding providers has caused inefficiencies, additional costs and administrative requirements that reduce funding available for core service delivery
- The true cost of providing services cannot be determined as for a number of Councils, there is no established and agreed process for allocating indirect costs or funding providers are not funding an appropriate level of overhead.

1.4.3 Council financial sustainability across core and non-core services and fee-for-service operations

Revenue received for funding core services is presently inadequate to maintain, replace or upgrade existing infrastructure required for core service delivery. There are no defined minimum levels of service delivery however service delivery to communities across the Northern Territory is not consistent, suggesting that core funding is not sufficient.

Review of fee-for-service and commercial operations have identified consistent deficits in programs within these arrangements however the absence of a defined and consistent methodology for allocating indirect costs impairs a true determination of which programs are presently not financially sustainable.

There are a number of factors affecting our ability to determine the financial sustainability of core, fee-for-service and commercial operations. These include the current shortcomings in determination and recovery of indirect costs coupled with the inaccuracies in past reporting.

1.4.4 The effectiveness of current funding arrangements

In excess of 80% of revenue received by the Councils under analysis comes from grants. Many of the funding contracts require funds to be tied to the delivery of certain services limiting the discretion of the Councils to direct funding to where it is most needed. Funding contracts are often annual, limiting the ability of Councils to effectively plan or budget as required by the Local Government Act. Furthermore, payments received from funding bodies often arrive after the commencement of the service delivery period causing cash flow difficulties and causing the Councils to lose interest revenue that would otherwise be used to fund core services. Where Councils have funded these programs in the expectation that funding will be received in due course, they have drawn this from funding provided by other funding bodies which could result in breaches of funding contracts.

The reporting and audit requirements under existing funding contracts are onerous causing unnecessary direct and indirect costs and inefficiencies and have, in some, instances, forced Councils to forgo funding rather than absorb the additional costs.

The limited level of untied funding restricts the ability of Councils to direct funds to core service delivery requirements. Proposed future funding arrangements relating to matched funding and to the Natural Disaster Relief and Recovery Arrangements are likely to present further funding difficulties.

1.4.5 The appropriateness of the current structure of the Councils in meeting future service delivery requirements

The hub and spoke structure in place at many Councils is an appropriate structure to deliver services in such widely dispersed geographical situations. There remains duplication of costs unlikely to be addressed irrespective of the structure due to the availability of appropriately skilled employees within communities and the distance between them. For example, funding part of a position is not appropriate where that individual must spend regular amounts of time in a number of areas. The extent of the duplication is not sufficient to present an argument to return the current Council structure to a series of smaller community Councils.

There is an argument that further amalgamation should be considered, particularly where Councils have head offices in the same towns or where smaller Councils are not achieving economies of scale. A number of the remedial actions proposed in Section 4 of this report would enable improved efficiencies and economies of scale if implemented. There is also a need to review existing unincorporated areas and determine their inclusion or otherwise within existing Council jurisdiction.

Irrespective of the delivery model or structure of local government in the Northern Territory, a number of factors will cause the cost of service delivery to be greater than municipal Councils. The distance from any capital city to the Council's headquarters combined with the distance between communities within each Council's boundary will mean increased costs associated with freight and fuel.

There are no nearby major facilities to enable service delivery options to constituent communities as they are remote and access to facilities in urban areas requires long-distance travel by road, sea or air.

There are limited opportunities for Councils to access competitively priced resources. There may be only one provider of a particular service. Competition is eliminated due to the added cost of transport to providers from other areas. In many instances, there may be no local service provider and a reluctance to tender by service providers from outside Council boundaries.

1.4.6 Present and future risks and mitigation strategies for government and Councils as they relate to critical issues identified through the review

In order to determine the appropriate course of action for each Council, financial processes and reporting within the Councils must be improved. We have considered the issues and risks faced by the Councils and provided recommended remedial actions in Section 4 of this report that, if implemented effectively, would enable the Councils to more effectively manage their financial performance and position, with resultant impacts on the financial sustainability of individual Councils.

Even with implementation of the remedial actions there is a need to revisit the present funding arrangements to enable a greater proportion of untied funding and long-term roads and infrastructure plans to be delivered within the Councils. A holistic approach to funding needs to be implemented requiring effective consultation and negotiation to occur within all levels of government.

Existing and future operations have presented the following issues that present a high risk to long term financial sustainability:

- The ability to develop long term plans is impaired
- Agreements are being entered into which are loss making for the Councils
- Core services are not being delivered to an acceptable standard
- Costs are not being appropriately recovered from either funding bodies or users
- Cross subsidisation cannot be identified
- Expectation gaps exist between communities and Councils on acceptable levels of service
- Funds are not available to maintain, repair or replace gifted assets

- There is insufficient funding available for repairs, maintenance upgrade and replacement leading to an increased backlog of infrastructure and capital assets
- There is an inability to make informed decisions on the allocation of scarce resources by all levels of government
- There is a lack of transparency in financial reporting
- Rateable properties may not be identified and rates not collected.

1.5 Acknowledgements

We would like to take this opportunity to thank the Steering Committee for their guidance and assistance and DHLGRS officers and Council staff across the Northern Territory for providing the financial and related data necessary to undertake our analysis, and for assisting with the interpretation of the data.

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Partner
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15 May 2012

2 Background

2.1 Structural Reform

On 31 January 2007, the structural reform of local government was announced by the Northern Territory Government. The intent of structural reform was to transform the way local government services were delivered to all Territorians living in rural and remote communities. The reform involved the establishment of eight large Shires and three small Shires and the retention of five existing municipal Councils (Alice Springs Town Council, City of Darwin, Katherine Town Council, Litchfield and City of Palmerston). Coomalie Community Council, Wagait Council and Belyuen Council remained as existing. The new local government structure came into full effect on 1 May 2008. The Northern Territory is classified into three regions being the Northern Region, Big Rivers Region and Central Australian Region:

- Tiwi Islands Shire Council, City of Darwin, City of Palmerston, Litchfield Council, West Arnhem Shire Council, East Arnhem Shire Council, Coomalie, Wagait and Belyuen are all located within the Northern Region
- Alice Springs Town Council, MacDonnell Shire Council, Central Desert Shire Council and Barkly Shire Council are each part of the Central Australian Region
- Katherine Town Council, Victoria Daly Shire Council and Roper Gulf Shire Council are located within the Big Rivers Region.

CouncilBIZ, a local government subsidiary, was also created as part of the structural reform. Members of CouncilBIZ are Barkly Shire Council, Central Desert Shire Council, East Arnhem Shire Council, MacDonnell Shire Council, Roper Gulf Shire Council, Tiwi Islands Shire Council, Victoria Daly Shire Council, West Arnhem Shire Council and the Local Government Association of the Northern Territory (LGANT).

CouncilBIZ commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the eight member Councils. The implementation of the Councils' financial management system (ShiresBiz) was not totally successful and caused delays for financial and payroll operations resulting in delays to the completion of the 2008-09 audited financial statements and annual reports.

DHLGRS commissioned the ShiresBiz Remediation Project in July 2009 to rectify the problems and to customise the system for each Council. Barkly Shire Council elected to use an alternate accounting system however all other Councils using ShiresBiz and CouncilBIZ were remediated. From April 2010 CouncilBIZ only provided information technology support and help desk services to member Councils.

3 Analysis of Financial Sustainability

3.1 Introduction

This section of the report provides our analysis of the financial sustainability of local government in remote Northern Territory.

The Commonwealth Government defines fiscal sustainability (with 'fiscal' sustainability and 'financial' sustainability being inter-changeable in a public sector context) as:

'…a government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.

…One of the key requirements for sustainable government financial arrangements is a balanced budget over the medium to long term, given a reasonable degree of stability in the overall tax burden.' (Commonwealth Government, Intergenerational Report, May 2002)

The NSW Government defines fiscal sustainability as:

'Fiscal sustainability requires that the Government be able to manage financial risks and financial shocks in future periods without having to introduce significant and economically or socially destabilising expenditure or revenue adjustments in those future periods. What is considered consistent with fiscal sustainability will vary depending on the strength and outlook for the economy, the structure of expenditure and revenue of the budget, the outlook for the State's credit rating, demographic and social trends that will affect the budget, and the nature of financial risks faced by the Government at any given time.' (NSW Government, Fiscal Responsibility Act 2005, section 3(1))

The financial sustainability assessment involves a comparison of a Council's long term financial capacity with its long term financial requirements.

A Council's financial capacity is defined as the total of financial resources (operating and capital) that a Council can mobilise through its existing and prospective revenue raising and financing policies.

A Council's financial requirements refer to the sum total of the spending (both operating and capital) that is required by a Council to meet both its present statutory obligations and any expected additional functions, spending pressures and financial shocks.

If a Council's long term finances are financially sustainable then disruptive rates increases or spending cuts can be avoided. The rating burden will be shared fairly between current and future rate payers.

A Council's financial requirements involve:

- The spending (both operational and capital) necessary to meet both its statutory obligations and any expected spending pressures (which in the case of local government is principally associated with addressing the asset maintenance and renewals backlogs)
- The margin of comfort necessary for the Council to be able to manage any future financial shocks.

3.1.1 Financial 'sustainability' versus financial 'viability'

It is important to note that a Council being classified as financially 'unsustainable' does not mean that the Council's financial viability is necessarily questioned.

The term 'unsustainable' finances in the long term refer only to the unsustainability of a Council's current policies, both revenue raising and spending. Council finances can almost always be corrected with substantial rate increases and/or expenditure cuts, albeit at a considerable cost to ratepayers and the community being served.

By contrast, the term ‘financial viability’ is used in the private sector in relation to whether an entity’s financial performance and position does not jeopardise the interests of its creditors. In the context of the local government, there is no doubt that the local government sector is and also will be financially ‘viable’ in the sense that it will always be able ultimately to meet its debt service obligations. Ratepayers are bound to meet all outstanding obligations under the Local Government Act.

A Council’s finances can be judged to be sustainable in the long term only if they are strong enough currently and in the foreseeable future given likely developments in the Council’s revenue raising capacity and in the demand for and costs of services and infrastructure to allow the Council to manage financial risks and financial shocks over the long term financial planning period without having to introduce substantial or disruptive revenue (or expenditure) adjustments during that period.

3.2 Approach to measuring financial trends

The data set used to determine financial trends for local government in the Northern Territory was based on the eleven Councils listed in section 1.1 of this report. The financial statements produced in accordance with the accounting standards and published in the annual reports for each of the Councils and other data sets as required were used to determine trend analysis and financial sustainability. This information was sometimes difficult to source for all Councils and not provided in some cases. Some of the information provided by the Councils was in a format that was not comparable across all Councils or provided in a raw state which required us to reformat as appropriate to enable analysis.

Financial sustainability relates to the long term financial performance and position of individual Councils rather than to the finances of local government in aggregate. We have examined the financial sustainability of each individual Council in section 5 of this report and summarised the results of Councils.

The sustainability of a Council’s long-term financial performance and position is essential for ratepayers, as it:

- Ensures a reasonable degree of stability and predictability in the overall rate burden
- Promotes a fair sharing in the distribution of Council resources and the taxation required from current and future ratepayers (‘intergenerational equity’)
- Ensures continuation of delivery of essential community services and the efficient operation of infrastructure.

The following are the generally accepted indicators of financial sustainability. These indicators, and their related benchmarks, are consistent with those used in the PricewaterhouseCoopers 2006 National Financial Sustainability Study of Local Government.

Operating Surplus (Deficit) Ratio	**Total operating revenue less total operating expenses divided by total revenue.** It is an indicator of a Council’s ability to meet its operating expenses with its operating revenue stream. The analysis uses a benchmark operating deficit of 10% of total revenue as Councils with deficits larger than this are spending beyond their revenue base and are potentially at risk of sustainability problems.
Interest Coverage Ratio	**Earnings before interest and taxation (EBIT) divided by borrowing costs.** Interest coverage measures a Council’s ability to pay interest on its outstanding debt. The analysis uses an interest coverage benchmark of 3 as Councils with interest coverage below 3 may have problems in repaying debt and associated interest.

Sustainability Ratio	**Capital expenditure divided by depreciation.** The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of one for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.
Current Ratio	**Current assets divided by current liabilities.** The current ratio is an indication of a Council's ability to meet short-term debt obligations. The analysis uses a benchmark value of 1 for the current ratio as a Council recording a current ratio of less than 1 may face difficulty in meeting short-term obligations.
Rates Coverage Ratio	**Total rates revenue as a proportion of total expenses.** Rates coverage indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40%. Less than this may indicate rates cover an inadequate proportion of expenses.
Rates Coverage on Core Service Operations	**Total rates revenue as a proportion of core service revenue received.** Rates coverage on core service operations indicates a Council's ability to cover core service activities through its own revenue. The analysis uses a benchmark of 40%. Less than this may indicate rates cover an inadequate proportion of expenses.

A Council's net financial liabilities can be too low where they are:

a. Associated with current ratepayers being asked to bear an inequitable proportion of the cost of future service potential or

b. Below levels that include more than enough room to absorb unexpected financial risks or financial outlays.

A Council's annual operating financial performance is sustainable if operating deficits will be avoided over the medium to long term, because such deficits inevitably involve services consumed by current ratepayers being paid for either by:

a. Borrowing and so by future ratepayers

b. Deferring funding responsibility for the renewal or replacement of existing assets onto future ratepayers.

A Council's operating surplus can be too high where it is:

a. Associated with current ratepayers being asked to bear an inequitable proportion of the cost of the Council's future service potential

b. Above a level that includes more than enough room to absorb unexpected financial risks or financial outlays.

A Council's annual capital financial performance is sustainable if capital expenditure on the renewal or replacement of existing assets on average approximates the level of the Council's annual depreciation expense, because any shortfall of such capital expenditure against annual depreciation expense would involve future ratepayers being left with an excessive burden when it comes to replacing or renewing the Council's non-financial assets.

A Council's net borrowing can be too low where it results in the Council's net financial liabilities as a ratio of non-financial assets falling below the targeted ratio.

The following financial sustainability indicators have been determined based on the financial position and performance of the individual Councils as at 30 June 2010 and 30 June 2011 and for the years then ended.

For each of individual Councils we have used five key financial key financial performance indicators (KPI) as part of our analysis as discussed above; operating surplus/(deficit) ratio, interest coverage ratio, sustainability ratio, current ratio and rates coverage ratio. In this section we look to collate the results of each individual Council and conclude on the financial sustainability of individual Councils and of local government in the Northern Territory.

A key limitation with the data provided is the lack of consistency and accuracy in the financial information provided. Below are some examples of where the accuracy and inconsistencies were found:

- Treatment of unexpended grants – there was inconsistent treatment of unexpended grants with some Councils recognising unexpended grants as a current liability and others reporting only a note to the financial statements and not included the amounts as liabilities. There was also one Council where there was a mixed treatment of unexpended grants in a particular year with a proportion recognised in current liabilities and the remainder as revenue
- Depreciation expenses – depreciation was recognised by some Councils in operating expenses and by some Councils as other comprehensive income. We also noted that one Council did not recognise depreciation expense in 2009
- Rates and annual charges and user fees and charges – there is inconsistency in what is recorded within each of these revenue accounts
- Housing Maintenance Program grant – in 2009 and 2010 this was provided to all Councils on a grants basis and as such recorded within grants and contributions. In 2011, program funding was no longer provided on a grants basis but on fee for service basis. The recording of this revenue varied amongst the Councils with some electing to record under Other Income and others under User Fees and Charges.
- Grants provided for capital expenditure – some Councils elected to record these grants as other comprehensive income whilst others elected to record under operating income
- The accuracy of the reports showing the revenue, expenses and net surplus/(deficit) by program was in many cases questionable as the numbers in these report did not agree back to the annual financial statements.

3.3 Summary of financial indicators of individual Councils

The table below summarises the results of the individual Councils over the three years. Refer to above for a full explanation and definition of these financial KPI's for the 2010 and 2011 financial years. We have not included analysis for the 2009 financial year due to the lack of accurate financial information available. We have, however calculated the average sustainability ratio for the three years including 2009 through to 2011.

Table 3.3a: Summary of financial indicators for 2010 and 2011 financial years

Council	Operating Surplus/(Deficit) Ratio		Operating Surplus/(Deficit) – own source revenue		Interest Coverage Ratio		Sustainability Ratio			Current Ratio		Rates Coverage Ratio		Rates Coverage on Core Service Revenue	
	2011	2010	2011	2010	2011	2010	2011	2010	Average over three years	2011	2010	2011	2010	2011	2010
Tiwi Islands Shire Council	(10.3 %)	(6.9 %)	(29.1%)	(34.9%)	(257.8)	(27.7)	0.50	1.06	2.07	1.6	1.5	3.7%	3.5%	13.17%	9.23%
Victoria Daly Shire Council	(16.9%)	(6.1%)	(38.9%)	(15.9%)	-	-	0.81	2.08	1.2	1.7	2.7	2.4%	2.7%	13.24%	15.39%
Roper Gulf Shire Council	(3.1%)	(3.9%)	(9%)	(15%)	(5.4)	19.5	0.95	1.06	1.19	2.8	3.6	1.5%	1.7%	7.16%	4.69%
Barkly Shire Council*	(15.8%)	(10.1%)	(242.9%)	(29.0%)	-	-	0.4	0.4	0.7	2.7	2.2	8.6%	7.0%	38.0%	32.3%
MacDonnell Shire Council	(5.9%)	(12.5%)	(17.5%)	(51.6%)	(27.2)	(41.2)	1.04	1.64	1.56	1.3	1.3	1.1%	1%	6.62%	6.06%
Central Desert Shire Council	(25.1%)	(1.7%)	(68.11%)	(11.21%)	15.6	53.2	1.25	1.64	1.28	1.5	1.8	1.6%	1.7%	5.61%	6.74%
West Arnhem Shire Council	(24.5%)	(24.7%)	(45.4%)	(63.7%)	-	-	0.31	0.35	0.31	1.3	2.2	6.6%	5.7%	30.91%	24.88%
East Arnhem Shire Council	(25%)	(10.9%)	(69.6%)	(52.5%)	-	-	1.12	4.32	2.08	2.0	2.8	4.1%	4.1%	19.10%	16.29%
Belyuen Shire Council	(36.9%)	(55.8%)	(85.3%)	(184.4%)	-	-	1.52	0.38	0.90	2.7	6.7	1.7%	0.04%	12.70%	0.30%
Wagait Shire	(62%)	(18%)	(122%)	(38%)	-	-	2.79	1.12	1.76	12.3	5.5	18%	20.2%	58.75%	47.22%
Coomalie Council	(19.2%)	(19.9%)	(47.9%)	(41.4%)	-	-	0.52	1.40	0.83	5.3	3.0	21.1%	14.6%	41.97%	33.85%
Average of all Councils	(20.48%)	(15.5%)	(48.44%)	(48.88%)	(66.2)	(0.95)	0.98	1.40	1.3	3.3	3.0	6.0%	6.0%	14.97%	14.71%

**A three year average of the sustainability ratio was unable to be performed and instead the analysis has been completed over a two year period 2010 and 2011.*

The above results indicate the following:

- All Councils have current ratios (current assets/current liabilities) greater than the benchmark of one. The average across all Councils was 3.3 in 2011 and 3 in 2010 which shows an improvement over the two years. It is important to note that in some cases, current assets includes amounts received from funding bodies which have been recognised as restricted cash however no liability has been recognised for unexpended grants at year end or only a portion of the unexpended grants has been recognised as a liability with the remainder recognised as revenue for the year. Full recognition of unexpended grants balances as a liability would result in a reduced current ratio
- The average operating surplus ratio (total revenue less capital expenditure/total operating expenses) in 2011 is negative 20.48% compared to negative 15.5% in 2010. Eight of the eleven Councils have operating deficits above 10% of revenue with no Councils registering an operating surplus in 2011. Councils with operating deficits have a tendency to defer renewals expenditure, which creates a risk of maintenance backlogs
- The average operating surplus ratio from own source revenue (own source revenue/total expenditure) is consistent with the movement in the operating surplus/(deficit) ratio worsening from negative 48.44% in 2010 to negative 48.88% in 2011
- The rates coverage ratio (rates and annual charges/total operating expenses) across all Councils is well below the benchmark of 40% with the majority of Councils having a ratio less than 10% of total costs. Where rates are less than 40% of Council revenue, there is an indication that own-source revenue generating capacity is constrained and that the Council is likely to have a degree of dependence on grants from other levels of government
- The rates coverage on core service ratio (rates and annual charges/total core revenue) across all Councils is well below the benchmark of 40% except for Coomalie and Wagait Council. Roper Gulf, MacDonnell and Central Desert Councils have a ratio less than 10%. Where rates are less than 40% of Council core service revenue, there is an indication that own-source revenue generating capacity is constrained and that the Council is likely to have a degree of dependence on grants from other levels of government
- The average sustainability ratio across over the three years was 1.3 with four of the eleven Councils having a sustainability ratio of less than one. A ratio of less than 1 indicates that the capital being consumed exceeds the investment in capital
- Only four Councils had borrowings. In 2011 the interest coverage ratio (EBIT/interest expense) for three of the four Councils was less than the benchmark of 3 which indicates that these Councils may have problems in repaying debt and associated interest.

3.4 Financial performance

A Council's operating financial performance is satisfactory if it is running a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

Where a Council is consistently delivering a high operating surplus, this indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs

- Have annual capital expenditure for the renewal or replacement of existing assets that, over time, is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio.

3.4.1 Operating surplus/(deficit)

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. The operating surplus / (deficit) distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

An operating deficit indicates that a portion of costs incurred in that year is being transferred to future ratepayers and so is not being met by current ratepayers.

Operating surplus/(deficit) before capital transfers

When measured after taking account of capital transfers, an operating surplus/(deficit) is the change in a Council's net worth. All transactions that increase a Council's net worth are classified as revenue. In general, transactions that increase net worth result from current operations. Capital transfers are the exception. When negative, the surplus/(deficit) measured after capital transfers indicates that a shortfall has been incurred on current operations and that it has been necessary to incur net financial liabilities or to increase equity in order to finance those operations.

For the purpose of our analysis, we have used the surplus/(deficit) measured after capital transfers as the relevant indicator for the purposes of assessing the sustainability of government operations.

For the purposes of this analysis we have treated capital grants as follows:

- The local roads grant component of Financial Assistance Grants has been treated as an operating grant
- 'Roads to Recovery' grants from the Commonwealth Government have been treated as operating grants as all have been recorded as operating grants in the individual Council's annual audited financial statements
- All other capital grants received from the Northern Territory or Commonwealth Governments have been treated as capital grants
- All other contributions have been treated as operating grants as they are generally not distinguishable between capital or operating grants.

Operating surplus/(deficit) before revaluations

We have also excluded from the operating surplus / (deficit) any movement associated with revaluations, that is, only those flows considered to be 'transaction flows' as opposed to 'other flows':

- 'Transaction flows' represent changes to balance sheet items that come about as a result of policy and managerial decisions
- 'Other flows' represent changes to balance sheet items that do not result from a transaction (e.g. revaluations which arise from price movements, including exchange rate and interest rate movements).

Annual depreciation expense

A Council's operating surplus/(deficit) is dependent on whether the annual depreciation charge is measured appropriately. Councils have discretion in choosing the depreciation method appropriate to the nature of their assets and their expected use of assets taking into account the expected physical wear and tear of the asset, its obsolescence and legal or other limits on the use of the asset.

Depreciation expense measures the consumption of service potential or future economic benefits of non-financial assets with limited useful lives. The recognition of depreciation is essential both:

- To represent the proper cost of operations and the extent to which that cost has been recovered from the current ratepayers through operating revenue
- To ensure that the service potential or future economic benefits of depreciable assets is not overstated.

As many of the activities of Councils are capital intensive, there needs to be significant investment in the non-financial assets that comprise the infrastructure necessary to support local Council services, particularly in relation to the roads network. The depreciation charge is therefore a major expense item for Councils.

The asset lives used for depreciation purposes can and do vary across Councils. We are unable to assess whether the asset lives used are misstated and therefore for the purposes of this analysis we have relied upon the annual depreciation data as reported in the annual audited financial reports over the three years.

Operating surplus for 2010 and 2011

The operating surplus/(deficit) and operating surplus/(deficit) ratios based on total revenue excluding capital grants and based on own source revenue only for each individual Council have been calculated and can be found in section 5 of this report. Table 3.3a above shows the results of our calculations of the operating surplus/(deficit) ratio of the Councils for 2010 and 2011.

For 2010, on average, Councils registered an operating deficit ratio of total revenue (excluding capital grants) of 15.5%. Six Councils incurred operating deficits exceeding 10%. Based on own source revenue, the average operating deficit ratio was 48.88% with all eleven Councils registering operating deficits.

In 2011, the average operating deficit ratio for total revenue (excluding capital grants) was 20.48% and for own source revenue was 48.44% with all Councils registering operating deficits. Eight of the eleven Councils incurred operating deficit ratios exceeding 10%.

Chart 3.4A shows the results of operating surplus/(deficit) ratios (total revenue excluding capital grants) and chart 3.4B shows the results of operating surplus/(deficit) ratios for own-sourced revenue only.

Chart 3.4A: Operating surplus ratio (total revenue excluding capital grants) for all Councils for 2010 and 2011

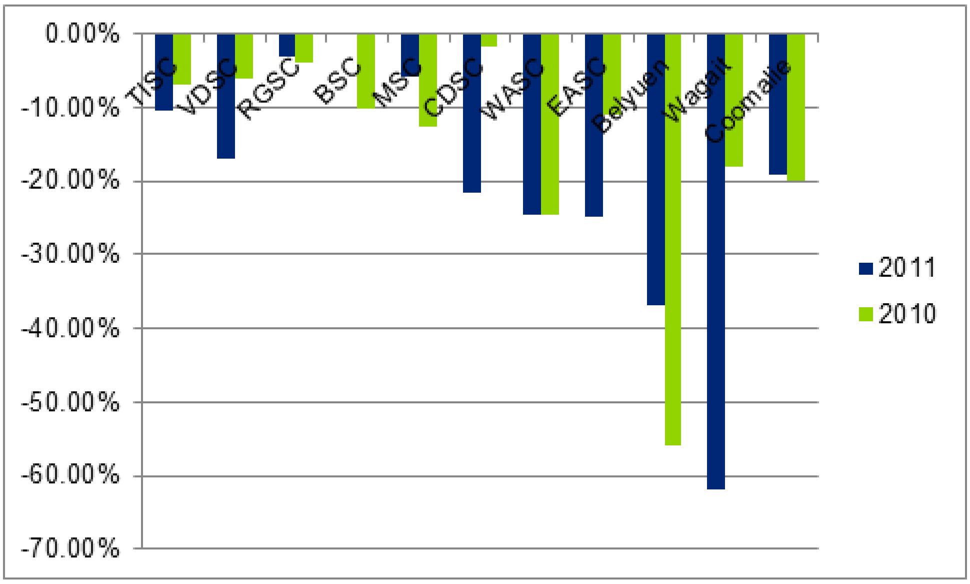
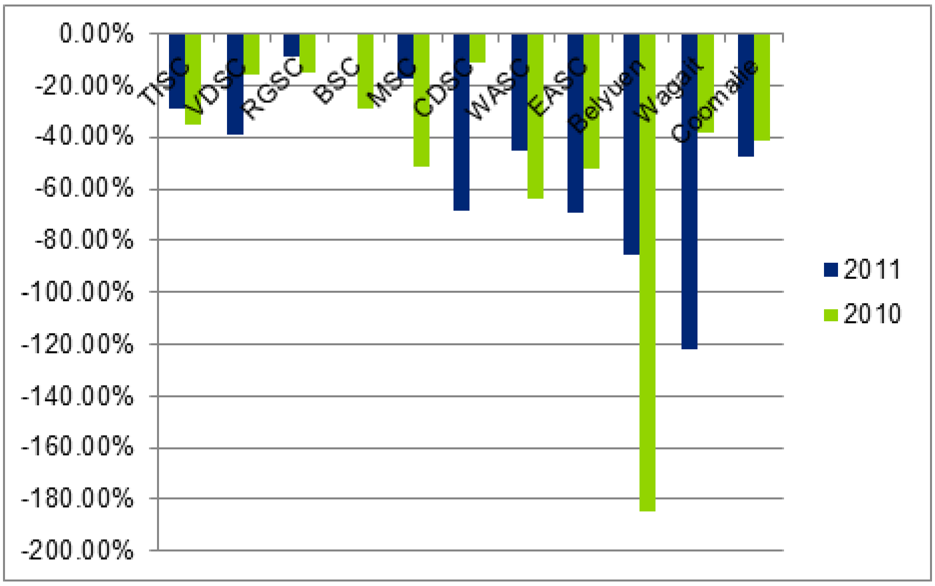


Chart 3.4B: Operating surplus ratio (own-source revenue) for all Councils for 2010 and 2011



A Council's annual operating financial performance is sustainable if operating deficits are avoided over the medium to long term. Over the two years the operating deficit for six of the eleven Councils has worsened while the operating surplus/(deficit) ratios for the remaining Councils have shown signs of improvement.

If the operating deficits continue for multiple periods, the compounded deficit creates debt levels which the Councils will be unable to repay or infrastructure backlogs will be created which they may be unable to fund, rendering them financially unsustainable. It should be noted that the operating surplus/(deficit) ratios do not indicate whether non-financial asset renewals/replacements is adequate and whether adequate facilities are being provided to remote communities.

3.4.2 Revenue

Charts 3.4C and 3.4D below show the sources of revenue receivable by the Councils in 2010 and 2011.

Chart 3.4C: Revenues by source by Council for 2011

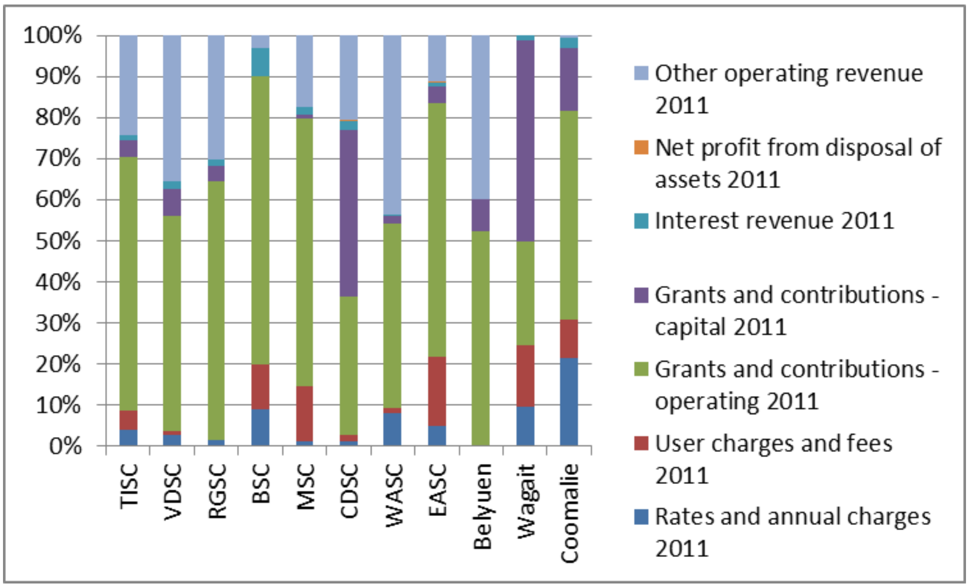
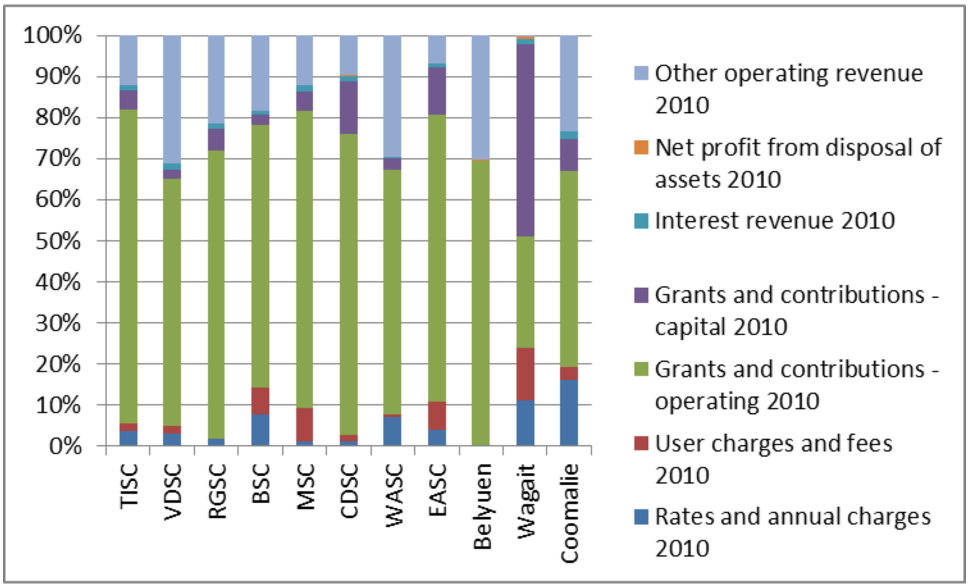


Chart 3.4D: Revenues by source by Council for 2010



The charts above illustrate that all eleven Councils are heavily dependent on operational grants and contributions from the Northern Territory and Commonwealth Governments. Other revenue was the next largest source of revenue. Rates and annual charges and user charges make up on average less than 20% of total revenue. These Councils have limited ability to raise revenues due to the limited number of rateable properties and the constraints imposed by conditional rating. Without grants and contributions the Councils would not be able to raise sufficient own-source revenue to cover their operating expenses.

3.4.3 Grants

The Councils receive a substantial portion of their total revenue from the Northern Territory and Commonwealth Governments in the form of grants. Grants and contributions do not include contract payments for state activities.

Grants provided for operational purposes

In 2009 and 2010 Councils received grant funding for the Housing Maintenance Program. In 2011 the Housing Maintenance Program changed from being a grant based activity to a fee for service activity and was recognised in the Councils' 2011 financial statements as other revenue or user fees and charges.

The total grant funding received for the Housing Maintenance Program was $20.9million in 2009 and $24million in 2010. The change in the accounting for the Housing Maintenance Program represents approximately $20.9million of the difference between the total grants and contributions (operational) received between 2009 and 2011 and approximately $24million between 2010 and 2011. Table 3.4a demonstrates this.

The level of funding received from Northern Territory and Commonwealth Governments varied between Councils as shown in tables 3.4b and 3.4c below. The total operational grant funding provided by both governments decreased by $33.6million (approximately 18%) between 2010 and 2011 and 5% between 2009 and 2010.

Table 3.4a: Total grants and contributions (operational) excluding Housing Maintenance Program grant funding

	2009			2010			2011
	Total grants	less housing maintenance program	Adjusted total grants	Total grants	less housing maintenance program	Adjusted total grants	Total grants
TISC	16,947,942	-	16,947,942	14,085,000	2,769,698	11,315,302	11,414,392
VDSC	32,949,810	5,756,439	27,193,371	23,954,994	4,054,254	19,900,740	20,545,097
RGSC	29,111,957	1,134,920	27,977,037	25,073,645	1,236,531	23,837,114	23,696,966
BSC	21,693,082	895,436	20,797,646	20,501,367	1,416,182	19,085,185	20,153,261
MSC	27,284,951	-	27,284,951	26,838,620	-	26,838,620	22,898,341
CDSC	22,727,423	4,149,324	18,578,099	24,821,179	5,007,507	19,813,672	15,765,197
WASC	16,419,786	3,700,652	12,719,134	19,040,279	3,850,578	15,189,701	12,997,375
EASC	26,448,188	5,305,223	21,142,965	32,473,122	5,665,730	26,807,392	23,742,126
Belyuen	944,129	-	944,129	599,812	-	599,812	693,707
Wagait	221,274	-	221,274	318,189	-	318,189	283,293
Coomalie	1,550,528	-	1,550,528	1,433,137	-	1,433,137	1,354,574
Total	196,299,070	20,941,994	175,357,076	189,139,344	24,000,480	165,138,864	153,544,329

**The total grants figure for BSC for 2011 includes both operational and capital. The portion that relates to capital grants is unknown due to annual financial statements for 2011 not being finalised*

Table 3.4b: Local government funding (operational) provided by Northern Territory and Commonwealth Governments 2011

	TISC*	VDSC	RGSC	BSC**	MSC	CDSC	WASC	EASC	Belyuen	Wagait	Commalie	Total
Total grants and contributions	11,414,392	20,545,097	23,696,966	20,153,261	22,898,341	21,224,083	12,997,375	23,742,126	693,707	283,293	1,354,574	159,003,215
Northern Territory	-	6,956,537	8,504,910	-	6,661,490	6,464,338	5,908,021	12,397,905	424,753	265,626	741,227	48,324,807
Commonwealth	-	13,153,150	14,991,124	-	16,236,851	14,559,665	7,058,097	11,292,521	268,954	17,667	613,347	78,191,376
Other	-	435,410	200,932	-	-	200,080	31,257	51,700	-	-	-	919,379
Northern Territory funding as a % of total grants and contributions	-	34%	36%	-	29%	30%	45%	52%	61%	94%	55%	48%
Commonwealth funding as a % of total grants and contributions	-	64%	63%	-	71%	69%	54%	48%	39%	6%	45%	51%
Other funding as a % of total grants and contributions	-	2%	1%	-	0%	1%	1%	0%	0%	0	0%	1%

Note: Splits of grants and contributions have been obtained from the annual financial statements
**The split between Northern Territory and Commonwealth Government and Other is unknown due to limited information available on the allocation of unexpended grants carried forward against either governments.*
***The total grants and contributions listed for BSC includes both operational and capital grants. The annual financial statements have not been finalised, therefore the portion that relates to capital grants and the split between Northern Territory and Commonwealth Governments are unknown.*

Table 3.4c: Local government funding (operational) provided by Northern Territory and Commonwealth Governments 2010

	TISC**	VDSC	RGSC	BSC	MSC	CDSC	WASC	EASC	Belyuen	Wagait	Commalie	Total
Total grants and contributions	14,085,000	23,954,994	25,073,645	20,501,367	26,838,620	25,506,993	19,040,279	32,473,122	599,812	318,189	1,433,137	189,825,158
Northern Territory	-	10,732,335	10,878,994	11,165,192	14,623,558	11,931,306	9,841,131	16,746,184	515,862	259,358	875,257	87,569,177
Commonwealth	-	12,574,258	13,285,656	9,336,175	12,215,062	13,271,004	9,188,304	15,660,755	83,950	58,831	557,880	86,231,875
Other	-	648,401	908,995	-	-	304,683	10,844	66,183	-	-	-	1,939,106
Northern Territory funding as a % of total grants and contributions	-	45%	43%	54%	54%	47%	52%	52%	86%	82%	61%	56%
Commonwealth funding as a % of total grants and contributions	-	52%	53%	46%	46%	52%	48%	48%	14%	18%	39%	42%
Other funding as a % of total grants and contributions	-	3%	4%	-	-	1%	-	-	-	-	-	2%

Note: Splits of grants and contributions have been obtained from the audited financial statements

**The split between Northern Territory and Commonwealth Government and Other is unknown due to limited information available on the allocation of unexpended grants carried forward against either governments.*

Grants provided for capital purposes

The Councils received in total $9.0million in 2011, $16.4million in 2010 and $26.6million in 2009.

Table 3.4d: Capital funding

	2011	2010	2009	Total
TISC	751,884	905,753	2,380,289	4,037,926
VDSC	2,582,820	810,795	397,007	3,790,622
RGSC	943,922	1,888,375	1,333,586	4,165,883
BSC*	-	-	-	0
MSC	298,174	1,732,654	3,286,215	5,317,043
CDSC	5,092,290	4,105,065	1,318,402	10,515,757
WASC	531,410	879,943	1,574,305	2,985,658
EASC	1,534,689	5,353,684	12,275,045	19,163,418
Belyuen	104,620	-	-	104,620
Wagait	549,977	549,277	159,316	1,258,570
Coomalie	399,434	235,005	183,811	818,250
Total capital grants	12,789,220	16,460,551	22,907,976	52,157,747

**Capital grants for BSC could not be determined due to the annual financial statements not being finalised and no information relating to capital grants being available.*

The table above shows that the majority of the capital grants were provided in 2009 with a 38% decrease noted between 2009 and 2010 and a 27% decrease between 2010 and 2011. The two largest recipients of the capital grants are EASC with $19.2million over the three years and CDSC with $10.5million.

Commonwealth grants

The Commonwealth Government provides funding to Councils through financial assistance grants, specific purpose payments and direct program funding.

Financial Assistance Grants

Financial Assistance Grants consist of two components:

- A general purpose component which is distributed between the States and Territories according to population (i.e., on a per capita basis)
- An identified local road component which is distributed between the States and Territories according to fixed historical shares.

Both components of the grants are untied in the hands of local government, allowing Councils to spend the grants according to local priorities.

Local government grants commissions have been established in each State and the Northern Territory to recommend the distribution of the Financial Assistance Grants to local governing bodies in accordance with the Local Government (Financial Assistance) Act 1995 and the National Principles for allocating grants.

The grants are paid in quarterly instalments to State and Territory Governments for immediate distribution to local governing bodies.

The quantum of the grants pool changes annually in line with changes in population and the Consumer Price Index, so as to maintain its real per capita value. The Northern Territory receives approximately 1% of the total amount of Commonwealth grant money. This amount is divided into General Purpose Grant money and Road Grant money.

Specific Purpose Payments

The Commonwealth Government also provides funding to Councils through specific purpose payments for particular purposes which are usually subject to conditions on expenditure. Specific purpose payments are made directly to Councils or through the Northern Territory Government. Examples of specific purpose payments include Roads to Recovery funding and the Black Spot Program.

NT Councils have received specific purpose payments from the Commonwealth Government in the following areas:

- Education, health and welfare
- Environment and heritage
- Economic development
- Arts and culture
- Community amenities and community development
- Indigenous development
- Law, order and public safety
- Sport, recreation and youth
- Telecommunications
- Transport.

Northern Territory Grants

The Northern Territory Government provides grant funding to Councils in the form of general purpose operational grants, specific purpose grants and direct program funding. These grants are provided for a wide variety of purposes which reflects the different functions required of local governing bodies.

3.4.4 Core versus non-core services grant revenue (operational)

NT Councils are required to deliver core services to the communities within their shire boundaries in accordance with the requirements of the Local Government Act 2008. In addition to the core services they provide, they also undertake non-core service activities such as fee for service activities, commercial service activities and other non-core activities. As the majority of the revenue NT Councils receives for core service activities is grant funding provided by the Northern Territory and Commonwealth Governments, we have only analysed the grant funding provided for operational purposes. Table 3.4e shows the amount of grant funding received for core and non-core services with table 3.4f showing the core versus non-core expressed as a percentage.

Table 3.4e: Grant funding (operational) by core versus non-core services for 2010 and 2011

	2011		2010	
	Core	Non-core	Core	Non-core
TISC	5,498,912	5,915,480	7,034,022	7,050,978
VDSC	7,609,572	12,935,525	7,345,889	16,609,105
RGSC	7,857,917	15,839,049	12,833,288	12,240,357
BSC*	-	-	7,491,704	13,009,663
MSC	6,044,232	16,854,109	6,752,848	20,085,772
CDSC	7,919,730	8,212,063	6,870,130	14,531,798
WASC	7,537,045	5,460,330	8,877,464	10,162,815
EASC	9,856,244	13,885,882	11,527,394	20,945,728
Belyuen	224,025	469,682	188,159	411,653
Wagait	283,293	-	316,299	1,890
Coomalie	1,354,574	-	1,433,137	-
Total for all Councils	54,185,544	79,572,120	70,670,334	115,049,759

**Note: We have been unable to determine the level of grant funding received by BSC that is for operational purposes and capital purposes and core versus non-core service activities.*

Table 3.4f: Grant funding (operational) by core versus non-core expressed as a percentage for 2010 and 2011

	2011		2010	
	Core	Non-core	Core	Non-core
TISC	48%	52%	50%	50%
VDSC	37%	63%	31%	69%
RGSC	33%	67%	51%	49%
BSC*	-	-	37%	63%
MSC	26%	74%	25%	75%
CDSC	49%	51%	32%	68%
WASC	58%	42%	47%	53%
EASC	42%	58%	35%	65%
Belyuen	32%	68%	31%	69%
Wagait	100%	-	99%	1%
Coomalie	100%	-	100%	-
Average across all Councils	53%	59%	49%	56%

**Note: We have been unable to determine the level of grant funding received by BSC that is for operational purposes and capital purposes and core versus non-core service activities.*

Between 49% (2010) and 53% (2011) of the total operational grant funding received by the Councils was for core service activities. This would reduce to 38% (2010) and 41% (2011) if BSC, Wagait and Coomalie are excluded from the calculation. A majority of the funding provided being for non-core service activities. As noted in the footers of the table the portion of total grant funding received for BSC for operational purposes and core versus non-core service activities was unable to be determined.

3.4.5 Untied versus tied grant revenue (operational)

Grant funding for operational activities is provided either as untied funding to be used at the discretion of the Councils as they deem necessary or tied where Councils are required to spend the funding in accordance with the funding agreement. Table 3.4g and table 3.4h below show the untied versus tied components of the operational grant funding provided.

Table 3.4g: Tied versus untied operational grant funding (operational) for 2010 and 2011

	2011		2010	
	Untied	Tied	Untied	Tied
TISC	1,677,058	9,737,334	1,923,647	12,161,353
VDSC	3,984,529	16,560,568	4,006,329	19,948,665
RGSC	4,061,134	19,635,832	4,326,239	20,747,406
BSC*	-	-	3,157,103	17,344,264
MSC*	4,776,041	18,122,300	4,204,646	22,633,974
CDSC	3,374,725	4,545,005	3,657,882	3,212,248
WASC	2,884,309	10,113,066	2,633,083	16,407,196
EASC	6,332,223	17,409,903	5,708,866	26,764,256
Belyuen	155,401	538,306	176,493	423,319
Wagait	253,235	30,058	267,142	51,047
Coomalie	936,242	418,332	870,800	562,337
Total for all Councils	28,434,897	97,110,704	30,932,230	140,256,065

**Note: We have been unable to determine the level of grant funding received by BSC that is for operational purposes and capital purposes and tied versus untied.*

Table 3.4h: Tied versus untied operational grant funding (operational) expressed as a percentage for 2010 and 2011

	2011		2010	
	Untied	Tied	Untied	Tied
TISC	15%	85%	14%	86%
VDSC	19%	81%	17%	83%
RGSC	17%	83%	17%	83%
BSC*	-	-	15%	85%
MSC*	21%	79%	16%	84%
CDSC	43%	57%	53%	47%
WASC	22%	78%	14%	86%
EASC	27%	73%	18%	82%
Belyuen	22%	78%	29%	71%
Wagait	89%	11%	84%	16%
Coomalie	69%	31%	61%	39%
Average across all Councils	34%	66%	31%	69%

**Note: We have been unable to determine the level of grant funding received by BSC and MSC that is for operational purposes and capital purposes and tied versus untied.*

The tables above show that the majority of grant funding provided for operational activities was tied funding with the average across all Councils being approximately 34% allocated as untied funding.

3.4.6 Rates and annual charges

The Councils' rating powers and constraints are set out in the Local Government Act 2008 Part 11.5 Imposition of rates and charges, Division 1 General and special rates and associated regulations.

Land in the Northern Territory is divided into three basic categories being:

- Rateable land
- Conditionally rateable land
- Land that is exempt from rates (exempt land).

All land in the Northern Territory is rateable land unless it is:

- Conditionally rateable land for which there is no approved rating proposal currently in force
- Exempt land.

Conditionally rateable land includes:

- Land held under a pastoral lease
- Land occupied under a mining tenement
- Other land that is classified under the regulations as conditionally rateable land.

Conditionally rateable land is only rateable in accordance with a rating proposal approved by the Minister at least 1 month before the commencement of the financial year for which the rates are declared.

Exempt land includes:

- Crown Land - occupied by the Territory or land owned by the Commonwealth other than for industrial or commercial uses
- Community Land – reserves, parks, sports grounds, gardens, cemeteries or roads which are a public place
- Land Owned by Religious Bodies – churches, manses, teaching buildings etc.
- Public Hospitals
- Land used for a Public Benevolent Institution or Public Charity
- Educational Institutions – schools, universities, tertiary education, youth centres
- Libraries or Museums
- Land exempted under other Acts.

As a result of mining and pastoral properties being either exempt or subject to conditionally rates and other ratepayers who have pensioner concessions, concessions for charitable/benevolent organisations or concessions or exemption for government-owned land, the Councils are unable to draw from a significant potential revenue source.

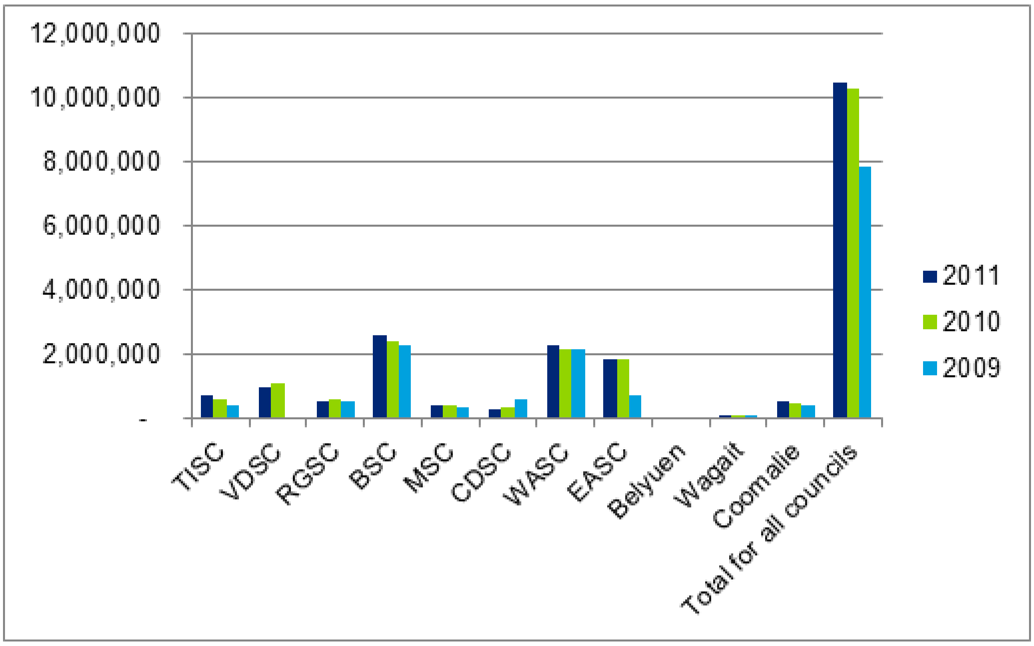
A Council may adopt unimproved capital value, improved capital value, or annual value as the basis of the assessed value of allotments within its area or part of its area. The assessed value of land is the unimproved capital value, the improved capital value or the annual value of the land (according to whichever basis of valuation has been adopted by the Council for the land) as it appears from the valuation roll. However, the unimproved value of a mining tenement is its assessed value and the unimproved value is taken to be 20 times the annual rental payable under the tenement.

A Council must, on or before 31 July in each year, declare rates (general rates) on allotments throughout the area to identify the amount the Council intends to raise for general purposes for the financial year. The declaration must state:

- The amount to be raised for general purposes and, if an amount is to be raised for a special purpose, the amount to be raised for the special purpose
- The basis or bases of the rates
- If the rates are to be payable in instalments – the number of instalments and when they will be payable.

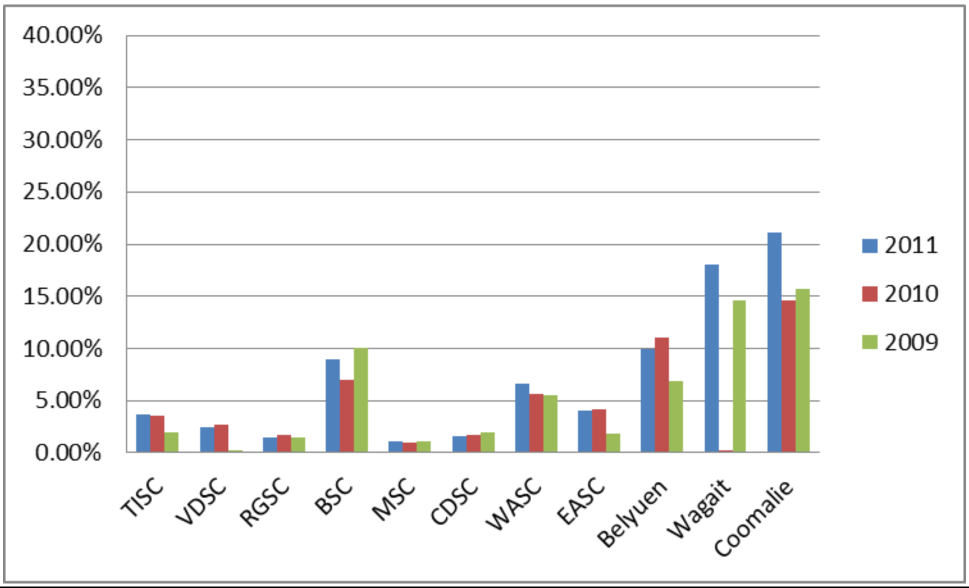
For the Councils subject to this analysis, the total rates and annual charges revenue received in 2009 was $7.9million, $10.4million in 2010 and $10.6million in 2011, an overall increase of $2.7million or 34% since 2009. The increase is partly due to an increase in annual rates and garbage charges and also due to an increase in the number of properties identified as rateable. Chart 3.4E, below shows the rates and annual charges revenue by Council per year.

Chart 3.4E: Rates and annual charges by Council for 2009, 2010 and 2011



The benchmark used in this analysis for the rates coverage ratio is 40% as a result less than this may indicate rates cover an inadequate proportion of expenses. Chart 3.4F below shows that the Councils have a rates coverage ratio for all three years below the benchmark with Coomalie Council having the highest rates coverage ratio ranging from 16% in 2009 to 21% in 2011. With limited opportunities for substantial increases in rates and annual charges revenue it is unlikely that NT Councils will be in a position where the rates and annual charges will reach the benchmark, and will remain heavily reliant upon government funding. Rates and annual charges are derived from core service activities and all is classified as untied funds.

Chart 3.4F: Rates and annual charges by Council for 2009, 2010 and 2011 expressed as a percentage of total operating expenses



3.4.7 Other revenue

Other revenue has increased in aggregate across the Councils by $4.1million over the three years to $60million in 2011 (23% of total revenue). There was a decrease of $6.6million between 2009 and 2010 before an increase to $60million in 2011. Chart 3.4G below shows the level of other revenue attributable to each Council.

Chart 3.4G: Other revenue by Council for 2009, 2010 and 2011

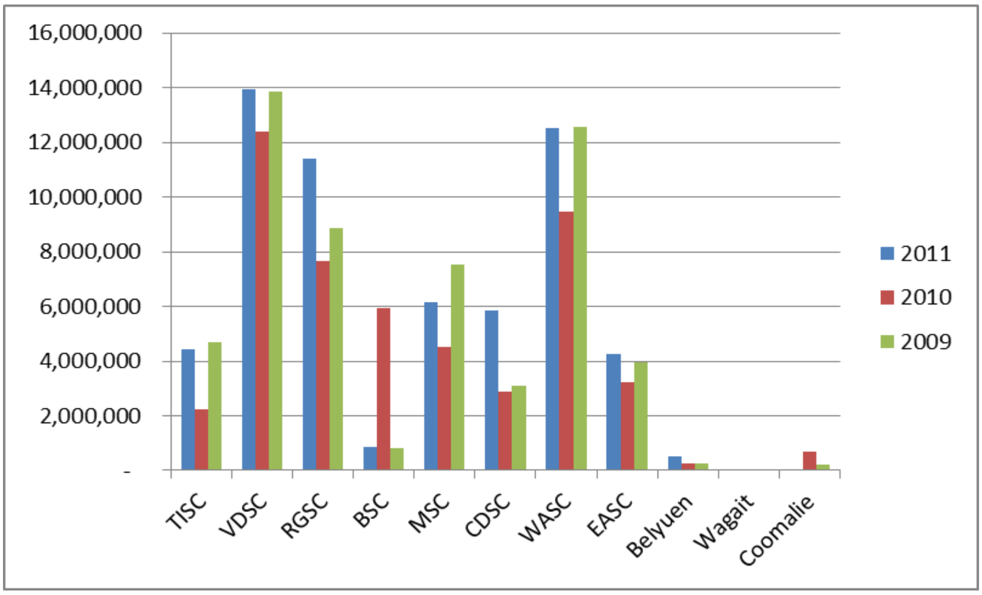
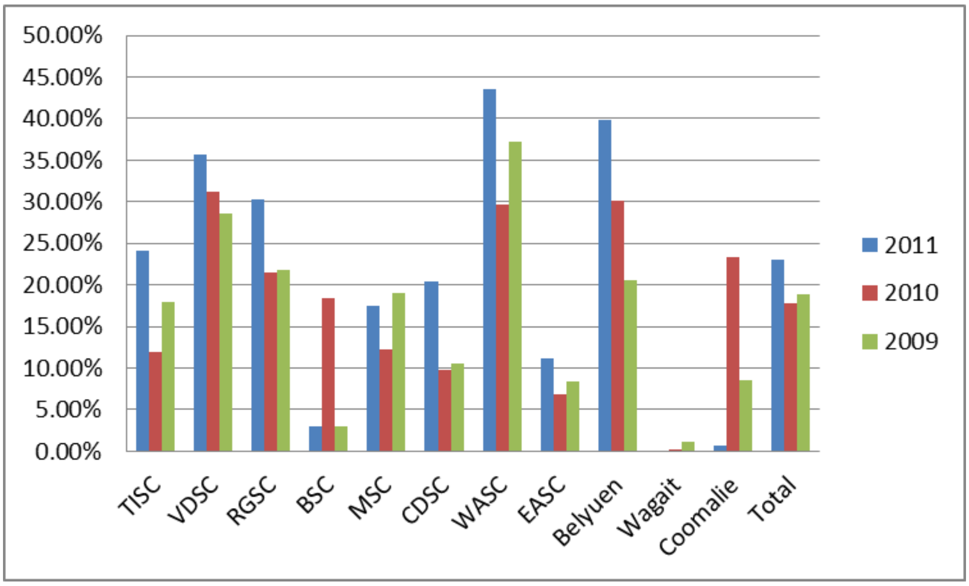


Chart 3.4H below shows other revenue as a percentage of total revenue.

Chart 3.4H: Other revenue by Council as a percentage of total revenue for 2009, 2010 and 2011



For seven of the eleven Councils, other revenue has increased over the three years since 2009. As a percentage of total revenue, the level of other revenue has also increased since 2009 with a decrease noted in 2009 before an increase in 2011. Other revenue generally consists of the following for each Council:

- Contract income
- Sales income
- Service fee income
- Other commercial services income
- Other income.

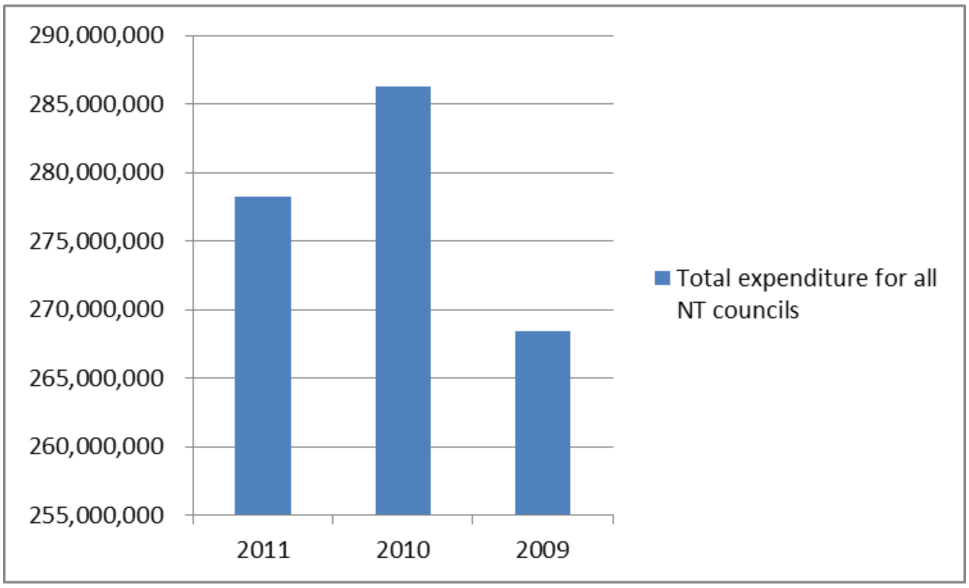
The increases in other revenue as can be seen in chart 3.4H above show other revenue for RGSC and CDSC has increased since 2009 and 2010. The increase is largely due to where the recording of the income associated with the Housing Maintenance Program now provided on a fee for service basis rather than as a grant. All other Councils show other revenue being relatively consistent across the three years.

Other revenue is derived from non-core activities and is generally considered tied to the contract, sources that they were derived from, however surpluses are considered untied.

3.4.8 Expenditure

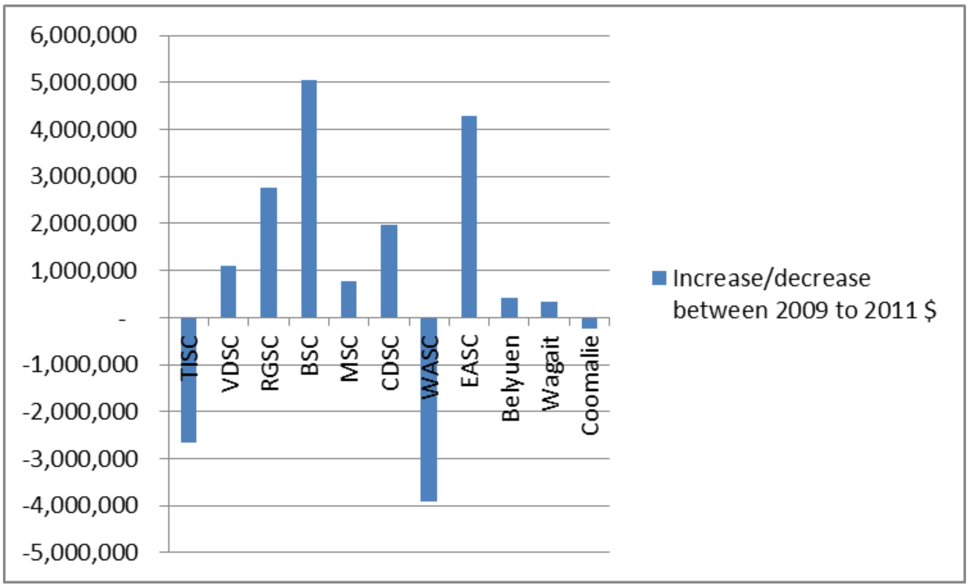
Expenditure by NT Councils has increased in aggregate by $9.8million or 4% since 2009. In 2010 expenditure increased by $17.8million or 7% before decreasing by $8million or 3% to $278million in 2011. Chart 3.4I shows the change in expenditure levels for each year for all Councils subject to analysis.

Chart 3.4I: NT Council expenditure for 2009, 2010 and 2011



The movement in the total expenditure by Council between 2009 and 2011 can be seen in chart 3.4J below.

Chart 3.4J: Increase/decrease in operating expenses by Council between 2009 and 2011



Expenditure for all NT Councils is reported in the annual financial reports under the following categories:

- Employee expenses
- Depreciation
- Materials and contracts
- Finance costs
- Other costs
- Net loss on disposal/impairment loss.

Charts 3.4K to 3.4M show the category and level of expenditure as a percentage of total costs for the each of the three years.

Chart 3.4K: NT Councils operating expenses 2011

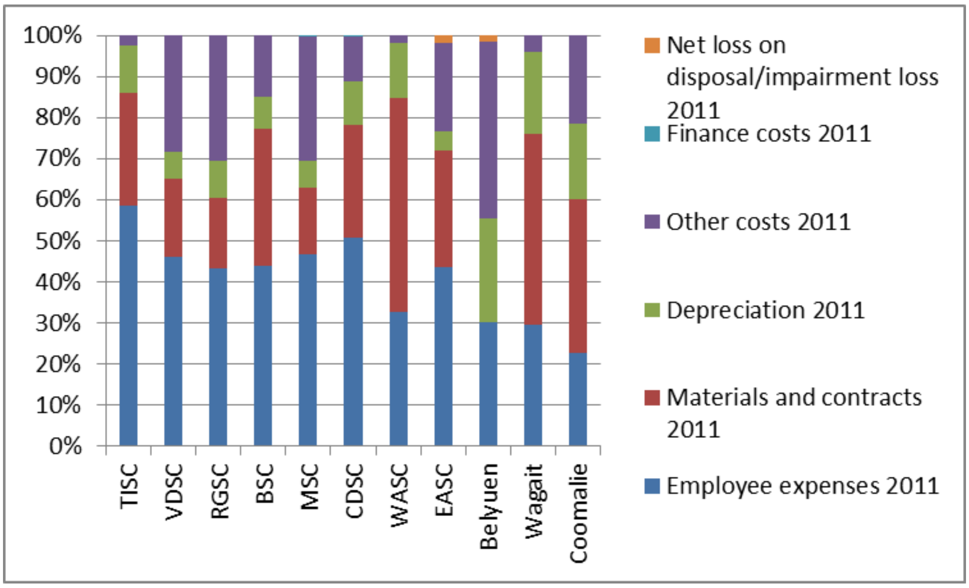


Chart 3.4L: NT Councils operating expenses 2010

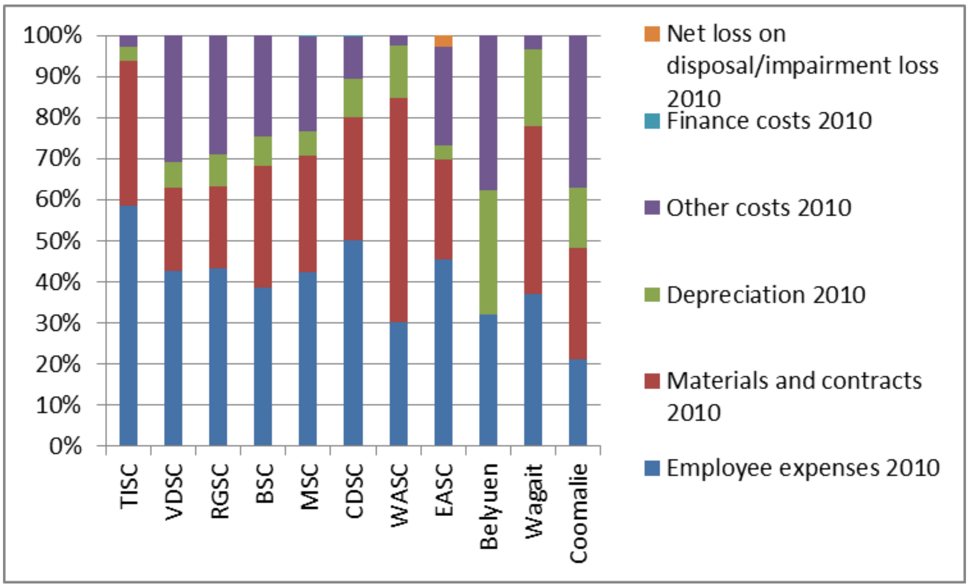
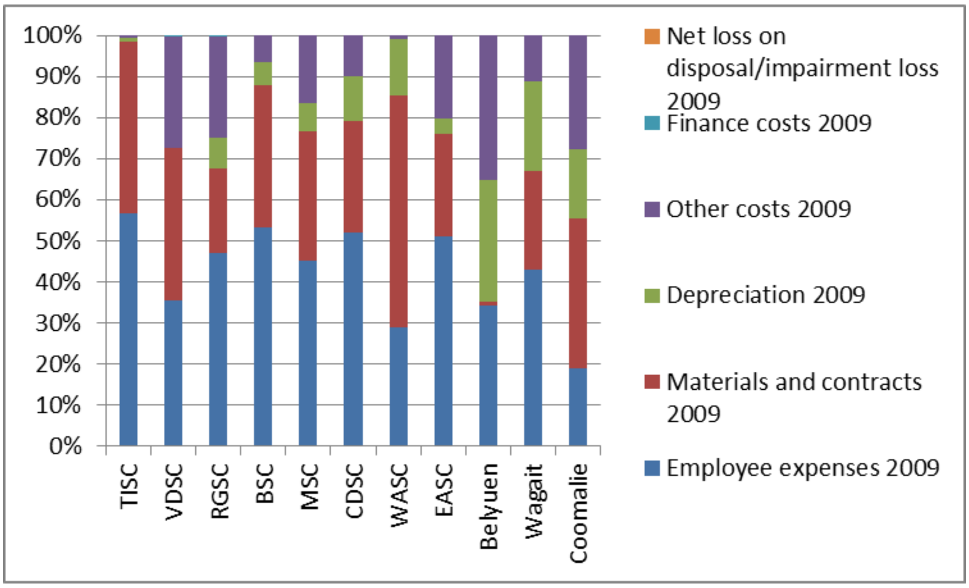


Chart 3.4M: NT Councils operating expenses 2009



Employee costs, as an average over the three year period, represented approximately 44% of total expenses and remained relatively consistent across the three years. Employee costs for the three smaller Councils represent a smaller percentage of their own total costs when compared to the eight larger Councils. Looking at the table for each year the costs per expense category as a percentage of total costs for each Council appear to be consistent year on year.

Depreciation costs for the Councils have increased by $6.8million over the three years and represent approximately 7% of total expenses. On individual Council basis, depreciation costs for 2011 range from 5% of total expenses to 25% with the three smaller Councils having the higher percentages (from 18% to 25% of total costs).

3.4.9 Core, agency and commercial services

We attempted to undertake an analysis of core services, agency services and commercial services for each local government Council by obtaining a report which shows all program services by revenue, expenditure and net surplus/(deficit). However we have been unable to complete this analysis fully due to the following reasons:

- No financial information was received for four Councils
- The financial information provided was for one year only (i.e. 2011) for three Councils
- The financial information received from one Council was for 2011 and 2010
- Of those that provided the financial information either for the three years or less, the net surplus/(deficits) did not agree to the annual financial statements in the majority of the cases
- Some of the reports provided were only showing the surplus/(deficit).

Therefore, based on the above reasons, a comparative analysis for all Councils has not been completed.

3.5 Financial position

A Council's financial position involves the state of its balance sheet, being the relative level – and composition – of its assets and liabilities.

Assets are instruments or entities over which a Council has ownership rights and from which economic benefits may be derived by holding them, or using them, over a period of time. Assets comprise:

- Financial assets, being assets that are in the form of financial claims on other economic units, and comprise cash, securities and other interest-earning financial instruments
- Non-financial assets, being all assets other than financial assets, such as property, plant and equipment and inventory.

Liabilities are a Council's obligations to provide economic value to other economic entities, and include (but are not limited to) interest-bearing obligations.

3.5.1 Measuring debt

There are two main analytical measures of a Council's indebtedness at the end of a particular financial year derivable from its balance sheet. They are:

- Net debt – defined as total interest-bearing liabilities less cash reserves
- Net financial liabilities –total assets less financial assets.

In this analysis we have chosen to use the net financial liabilities as this is considered to be a more comprehensive measure of a Council's reliance on debt (broadly defined). The net financial liabilities of a Council are all financial claims on a Council by other sectors of the economy other than ratepayers less the Council's claims on other sectors.

A Council's financial position is in a healthy state if its net financial liabilities are at levels where the servicing of liabilities can be met comfortably from a Council's annual income (i.e. by current ratepayers) at the existing rating effort.

The net financial liabilities ratio is the sum of a Council's total liabilities less its financial assets, expressed as a % of total annual operating revenue. Use of this ratio effectively allocates a Council's long-term debt across its core and non-core service activities in proportion to the total annual operating revenue attributable to each of these activities, implying the long-term debt ratios for a Council are the same between the two sets of activities.

Using the data obtained for the three years, we have calculated the net financial liabilities ratio of all NT Councils. A large net liability is an indicator of unsustainability.

Table 3.5a shows the net financial liabilities ratios for the Councils for 2009, 2010 and 2011.

Table 3.5a: Net financial liabilities ratios for all the Councils for 2009, 2010 and 2011

	2011	2010	2009
TISC	(15%)	(16%)	(14%)
VDSC	(25%)	(31%)	(35%)
RGSC	(36%)	(38%)	(32%)
BSC	(41%)	(29%)	(40%)
MSC	(8%)	(11%)	(23%)
CDSC	(39%)	(26%)	(23%)
WASC	(1%)	(13%)	(24%)
EASC	(15%)	(30%)	(43%)
Belyuen	(35%)	(115%)	(99%)
Wagait	(115%)	(126%)	(71%)
Coomalie	(47%)	(31%)	(55%)
Average for all NT Councils	(23%)	(26%)	(31%)

From the results in the table above the Councils were, individually and in aggregate, net creditors for each of the three years with financial assets exceeding Council's total liabilities. We can see that in 2009 the ratio was at its peak and each year since has decreased.

Another indicator demonstrating a Council's ability to meet short term debt is the current ratio (current assets divided by current liabilities). A ratio above 1 indicates that the Council has sufficient current assets to meet its current liabilities. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems in meeting its short term obligations. Table 3.5b below shows each of the Councils having a current ratio higher than the benchmark of one.

Table 3.5b: Current ratios for all NT Councils for 2009, 2010 and 2011

	2011	2010	2009
TISC	1.6	1.5	1.7
VDSC	1.7	2.7	5.9
RGSC	2.8	3.6	2.7
BSC	3.3	2.2	2.4
MSC	1.3	1.3	1.8
CDSC	1.5	1.8	1.7
WASC	1.3	2.2	2.4
EASC	2.0	2.8	3.7
Belyuen	2.7	6.7	8.7
Wagait	26.0	5.5	2.9
Coomalie	5.3	3.0	8.4
Average for all NT Councils	4.5	3.0	3.8

3.5.2 Interest coverage ratio

A Council's ability to repay its debt and associated interest is a measure of the appropriateness of its debt levels. This can be measured using the interest coverage ratio (earnings before interest and tax divided by interest expense). The interest coverage ratio indicates the extent to which earnings are available to meet interest payments. A lower interest coverage ratio means less earnings are available to meet interest payments and that the Council is more vulnerable to increases in interest rates. A higher interest coverage ratio indicates that the Council would have no problems repaying the debt or covering the associated interest. We have used a benchmark for the interest coverage ratio of 3 as Councils with interest coverage ratios of below 3 may have problems repaying debt and associated interest. Of the eleven Councils subject to analysis, four Councils had outstanding loans at 30 June during one or more of the years under analysis. For 2011, three of the four Councils had interest coverage ratios below 3 indicating that they may face financial unsustainability as a result of interest on outstanding loans. Table 3.4c shows the interest coverage ratio for the four Councils who had borrowings during the three years.

Table 3.5c: Interest coverage ratio for all NT Councils for 2009, 2010 and 2011

	2011	2010	2009
TISC	(257.8)	(27.7)	-
RGSC	(5.36)	19.46	77.8
MSC	(27.2)	(41.2)	279
CDSC	15.6	53.2	120.8
Average for all NT Councils	(68.7)	0.9	159.2

3.5.3 Non-financial assets and capital expenditure

Based on the annual financial statements, the Councils are the custodians of over $266million in non-financial assets or property, plant and equipment with a total cost of $364million. Each Council has a different combination of non-financial assets. Table 3.5d shows the composition of non-financial assets by type by Council for 2011.

Table 3.5d: Composition of non-financial assets for 2011

	Land	Buildings & infrastructure	Roads	Plant and equipment	Motor vehicles	Other assets	Total
TISC	-	93.0%	-	4.4%	2.0%	0.6%	100%
VDSC	0.2%	94.5%	-	1.9%	3.3%	0.2%	100%
RGSC	1.0%	77.9%	4.7%	7.8%	8.4%	0.3%	100%
BSC	9.3%	77.4%	-	4.2%	7.7%	1.3%	100%
MSC	4.0%	56.9%	-	13.3%	24.4%	1.4%	100%
CDSC	3.3%	88.1%	-	3.0%	5.5%	0.1%	100%
WASC	0.0%	94.7%	-	2.9%	1.7%	0.7%	100%
EASC	0.0%	28.2%	-	37.4%	27.0%	7.4%	100%
Belyuen	0.0%	87.8%	-	10.4%	0.1%	1.7%	100%
Wagait	19.9%	42.6%	23.9%	6.9%	4.9%	1.9%	100%
Coomalie	3.0%	12.0%	80.0%	0.0%	4.4%	0.6%	100%
Total for all Councils	2.0%	83.2%	3.2%	5.1%	5.7%	0.8%	100%

Information published in the Councils' annual financial statements is limited as there are minimal accounting requirements for Councils to group property, plant and equipment into uniform classes and sub categories. This reduces the consistency and comparability of asset data within the annual reports. Some assets have a written down value based on a valuation basis (such as replacement cost or fair value) and others on a historical cost basis.

Capital expenditure

Capital expenditure is any expenditure on non-financial assets that increases the service potential of the asset in question, and which therefore should be added to the asset's value.

Maintenance expenditure is spending on an existing asset which is periodically or regularly required as part of the anticipated schedule of works to ensure that the asset achieves its economic life or period of service between renewal. Maintenance expenditure does not increase the asset's service potential or life and is essential to ensure the safe and effective operation of the asset during its period of service.

Councils should invest in capital expenditure at a level that is equivalent to depreciation to maintain financial viability. Investing in capital expenditure that is equal to annual depreciation assists in ensuring that the asset base of Councils assets are not diminished over time and reduced to a level where they cannot provide adequate infrastructure or assets. It should be noted that funding the equivalent of depreciation does not mean there are sufficient funds held to replace the asset at the end of its useful life due to changes in assets and asset prices over time.

As part of the analysis we have determined the level of capital expenditure by Council for the three years and assessed that against depreciation for same period. Table 3.5e below shows the sustainability ratio.

Table 3.5e Sustainability ratio

	2011	2010	2009	Average
TISC	0.5	1.1	23.8	2.1
VDSC*	0.8	2.1	0.7	1.2
RGSC	1.0	1.1	1.7	1.2
BSC**	-	0.4	0.5	0.5
MSC	1.0	1.6	2.0	1.6
CDSC	1.2	1.6	1.0	1.3
WASC	0.3	0.3	0.3	0.3
EASC	1.1	4.3	1.1	2.1
Belyuen	1.5	0.4	0.8	0.9
Wagait	2.8	1.1	1.0	1.8
Coomalie	0.5	1.4	0.6	0.8
Average	1.0	1.4	3.0	1.3

**No depreciation expense was recorded in the 2009 annual financial statements for VDSC. Therefore have used the depreciation expense for 2010 as an estimate for 2010.*
***Capital expenditure data for 2011 was not available, therefore analysis for BSC has been done for 2009 and 2010 only.*

The table above shows that the capital expenditure undertaken by the Councils over the three year period exceeded the depreciation expenses incurred for same period with an average sustainability ratio of 1.3 over the three years which is above the benchmark of one used in this analysis. Of concern is the decline in the average ratio for the Councils from 3.0 in 2009 to 1.0 in 2011.

The sustainability ratio above should not be looked at in isolation. Whilst the capital expenditure incurred by some Councils is equivalent or exceeds the annual depreciation for some of the years, there are other factors relating to property, plant and equipment that need to be considered as discussed in Section 4.

A primary factor that may contribute to the possible inaccuracy in the capital expenditure ratio and under estimation of any asset renewals gap is that the fixed asset registers for many of the Councils are incomplete, contain records of assets that are non-existent, not fit for purpose and/or assets recorded with a nil written down value and no longer being depreciated but still being used by the Councils.

Therefore it is not sufficient to look at the sustainability ratio in isolation but Councils need to look at all aspects of their accounting treatment and record keeping for their property, plant and equipment in order to determine whether the level of capital expenditure being incurred is sufficient or not. Councils need to ensure that the inputs used in the sustainability ratio are realistic.

Funding for capital expenditure

Funding for capital expenditure comes from capital grants provided by either the Northern Territory or Commonwealth Governments, from Council's own-source revenue or cash reserves. For many of the Councils the level of funding provided has not been sufficient to meet the level capital expenditure required or incurred. To fund capital expenditure, many of the Councils have used cash reserves. This reliance on cash reserves has contributed to many of the Councils having declining cash balances over the three year period under analysis.

The lack of sufficient funding from the Northern Territory and Commonwealth Governments to match the capital requirements of Councils, operating expenses from Council operations exceeding operating income for the last two financial years and the existence and valuation of Council assets are all factors that may be contributing to an infrastructure and asset renewals backlog.

Infrastructure backlog

Renewals backlogs are a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by a renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

As previously mentioned many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government.

There were limited sources of information available to us in respect of the backlogs facing the Councils other than the fixed asset registers and the annual financial statements with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia.

There are approximately 36,000km of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and, within 50kms of the Territory Growth Towns, less than fourteen percent of the 5,000kms of roads is sealed.

A large proportion of the Territory's roads are secondary roads that provide access to the AusLink Network and link rural and primary industries with important supply chains, ports and labour markets. In many cases they represent the sole access corridor linking remote Indigenous communities. Some of the roads were developed in the 1960s and 1970s and many are in critical need of rehabilitation and upgrading. The low quality of second roads means they are prone to flooding and therefore not only inaccessible during these times but also subject to considerable down time so repairs can be affected. Many remote communities are inaccessible for extended periods of time during which limited air or barge services provide the only link to the outside world at seasonally increased costs.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town.

Chart 3.5A: Territory Growth Towns – Road conditions within a 50km radius

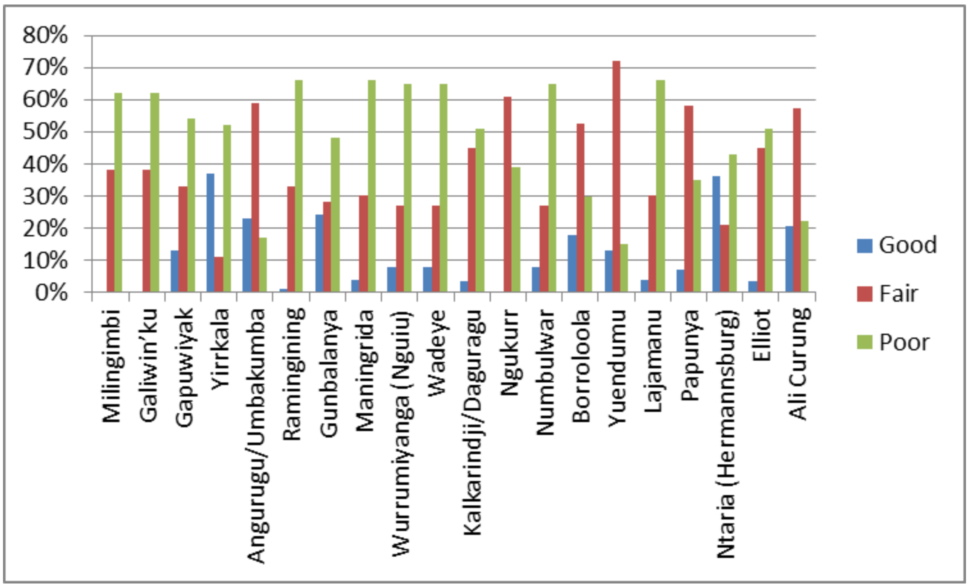


Table 3.5f below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 3.5f: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Milingimbi	9.00	0.50	0.05
Galiwin'ku	208.80	41.82	0.51
Gapuwiyak	791.03	310.50	5.53
Yirrkala	130.20	17.42	0.50
Angurugu/Umbakumba	201.90	59.42	1.82
Ramingining	356.55	80.31	1.77
Gunbalanya	250.60	41.34	0.41
Maningrida	421.35	61.69	1.93
Wurrumiyanga (Nguiu)	246.30	86.07	1.50
Wadeye	511.70	120.73	2.17
Kalkarindji/Daguragu	389.08	169.96	2.90
Ngukurr	378.05	210.26	2.77
Numbulwar	212.33	55.21	0.95
Borroloola	301.50	60.60	2.00
Yuendumu	633.96	116.95	3.11
Lajamanu	229.02	88.17	1.46
Papunya	386.90	136.77	2.15
Ntaria (Hermannsburg)	462.81	46.38	1.80
Elliot	31.50	2.87	0.12
Ali Curung	197.70	22.89	0.67
Total	6,350.28	1,729.86	34.12

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $1,729.86million is required to undertake upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $34.12million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs does not include all communities, only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $1,729.86million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by the Councils with many of them past their useful life and in need of upgrade or replacement. The total costs of renewals backlog is therefore likely to be significantly higher than the $1,729.86million identified in relation to roads backlog.

3.6 Comparative Analysis

3.6.1 General Performance

A number of studies have been conducted on the financial sustainability of local governments in other states. The following reports have been issued as a result of these studies and considered as part of our review:

February 2012	Role and Expectations of Rural-Remote and Indigenous Local Government [Morton Consulting Services]
March 2007	A Review of the Financial Sustainability of Local Government in Tasmania [Access Economics]
November 2006	National Financial Sustainability Study of Local Government in Australia [PricewaterhouseCoopers]
June 2006	Access Economics, Local Government Finances in Western Australia: An Assessment [Access Economics]

In their 2006 National Financial Sustainability Study of Local Government, PricewaterhouseCoopers found, based on a survey of 100 Councils and review of prior reports, that 'up to 10-30% of Councils nationally may face sustainability challenges'. Individual state based reports found it was likely that between 25% and 40% of Councils could be financially unsustainable.

For example, Access Economics, in their state based reports found:

- In New South Wales, 25% of the state's Councils were assessed as financially unsustainable
- In South Australia, 50% of the state's Councils were assessed as financially unsustainable
- In Western Australia, over 50% of the state's Councils were assessed as financially unsustainable.

Each of the Councils included in this analysis have been assessed as financially unsustainable.

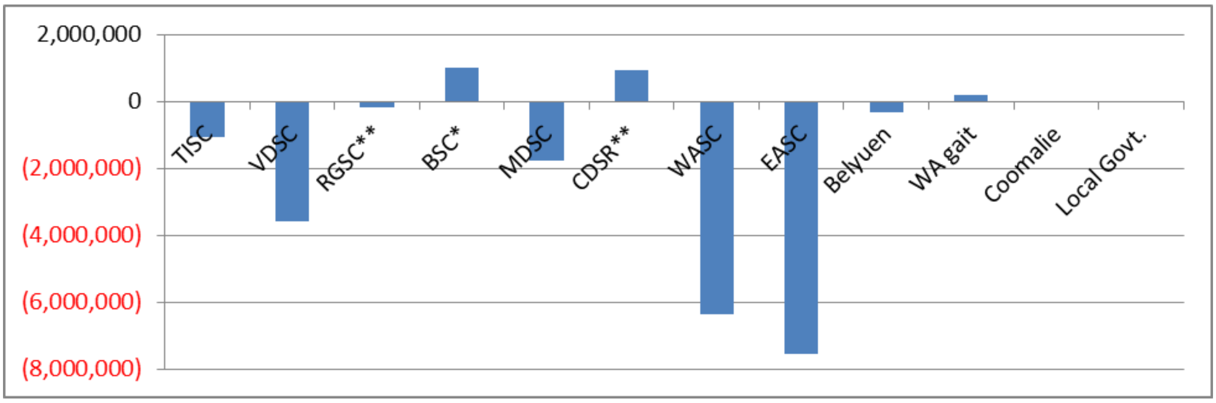
3.6.2 Analysis

A comparative analysis has been performed comparing the Councils to the Local Government sector. As part of the review the 2010/11 data was used for the Councils however the 2009/10 data has been used for the Local Government sector as this is the most recent publically available data.

Sustainability and Performance

A majority of the Councils hold a poor financial performance position compared to the Local Government sector. Only BSC, CDSC, Wagait and Coomalie show a higher net operating result. However all the Councils had a poor performing operating ratio showing that the deficit made by the Councils is larger when compared to the total revenue earned. This indicates that the gap between spending and revenue is larger for the Councils and that it would be harder to bring the Councils back to a break even position.

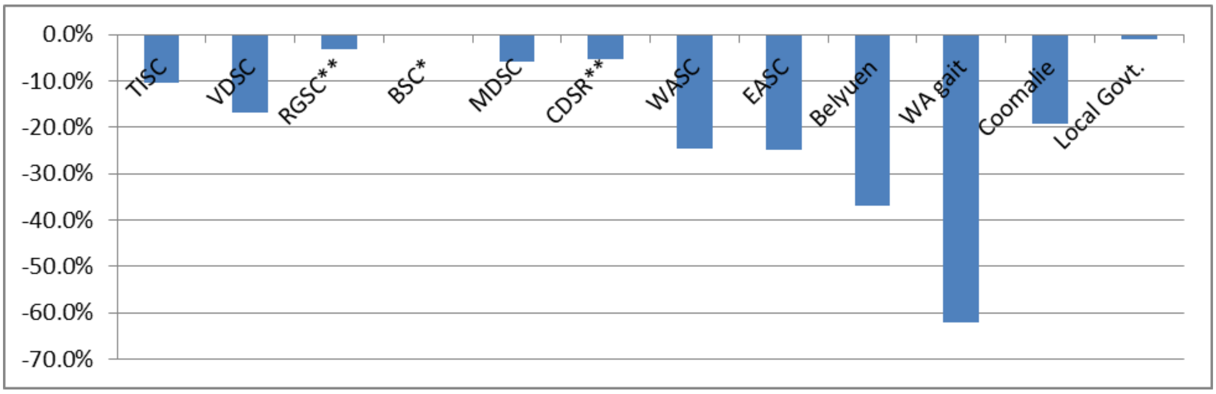
Chart 3.6A: Operating Surplus/(Deficit)



*The operating ratio was not able to be calculated for BSC as the financial data was not available.

** RGSC and CDSC operating surplus has been adjusted to remove the effect of the asset revaluation.

Chart 3.6B: Operating Surplus/(Deficit) Ratio



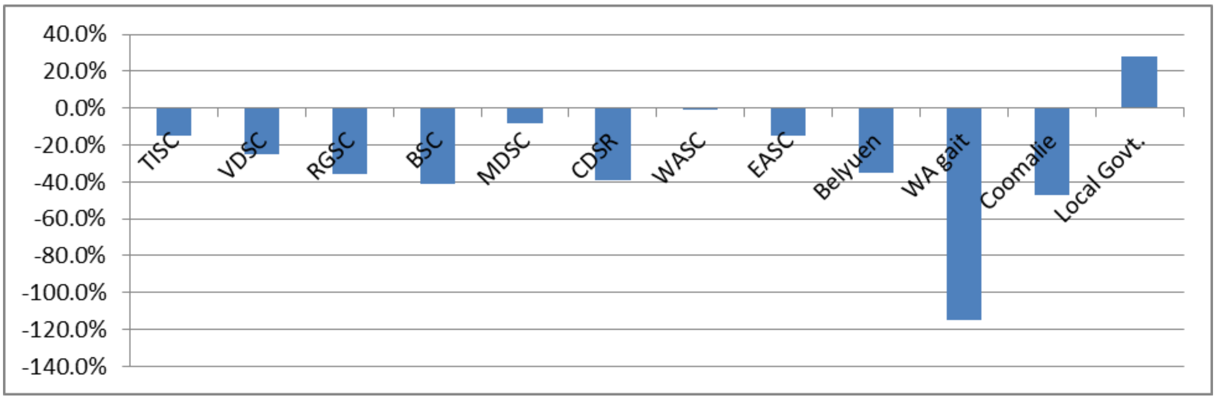
*The operating ratio was not able to be calculated for Barkly as the financial data was not available.

** RGSC and CDSC operating surplus has been adjusted to remove the effect of the asset revaluation.

Debt and Leveraging performance

To date the Councils have rarely used debt as a financing option. This is reflected in the financial liability ratio as the Councils are able to cover their liabilities. Most of the Councils have not taken on any debt and any debt held by the Councils is from the NT Treasury Corporation.

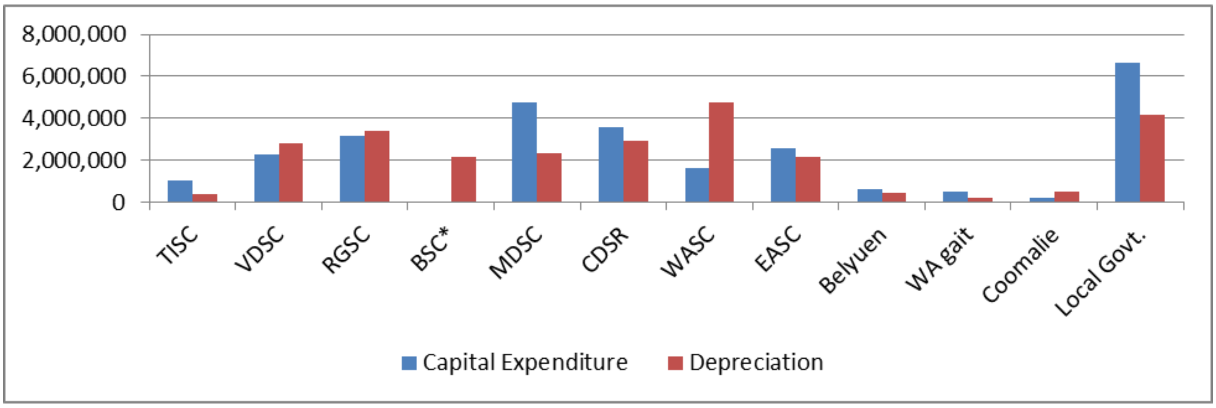
Chart 3.6C: Financial Liability Ratio



Capital spending performance

The average capital and depreciation expenditure incurred by the Councils is lower than that of the Local Government sector. The Councils hold mainly ageing assets past their recommended or useful life and have a limited ability to replace, upgrade or purchase new assets due to limited available funds. The Councils on average spend $2million on capital and incurred $2million in depreciation expenditure. This is significantly lower than the capital and depreciation expenditure by the Local Government sector, $16million and $10million respectively.

Chart 3.6D: Capital Expenditure and Depreciation



*The capital expenditure was not able to be calculated for Barkly as the financial data was not available.

4 Key Issues Affecting Councils

4.1 Prioritised Implementation

Detailed within this section are remedial actions which, if implemented by the Councils, will assist in mitigating the risks that the Councils will become financially unsustainable in the long term.

We note that the amalgamations and restructure presented some issues for the Councils which have negatively impacted their ability to monitor and manage operations. Notwithstanding this we believe that resolution of the issues currently affecting the Council will contribute to the present local government model being effective.

Many of the remedial actions will involve a number of stakeholders working to achieve a common outcome, however all stakeholders with whom we have met have expressed commitment to achieve the outcome intended by the amalgamation, that is to transform the way local government services are delivered to all Territorians living in rural and remote communities.

We have listed below each of the remedial actions and how they would be prioritised on a scale of high, medium and low, where the following definitions apply.

- High – achievement of long term financial sustainability is unlikely without implementation
- Medium – achievement of long term financial sustainability will be delayed without implementation
- Low – implementation should result in improved effectiveness, efficiency or economy.

It is unrealistic to expect the Councils in this analysis to solve the financial sustainability issues affecting them without significant input and assistance from the Northern Territory and Commonwealth Governments. For this reason, we have identified a lead entity that should assume the lead role in implementing remedial actions and noted where the proposed remedial action is outside the control of the Councils, notwithstanding the Councils may have to initiate the remedial action. Furthermore, most remedial actions require an appropriate reaction from the funding providers, for example, development and application of a methodology for allocating overheads will not necessarily lead to appropriate recovery of costs without agreement from the funding providers.

Remedial Action		Priority	Lead	Within Council Control
Governance Related Issues				
4.3.1	Shire Plans, operational and capital budgets and personnel plans should correlate with the Regional Management Plans	High	DHLGRS	Partially
4.3.2	Borrowing guidelines and a borrowing policy should be developed	High	DHLGRS	No
4.3.3	Minimum levels of service delivery need to be established	High	DHLGRS	Partially
4.3.4	Key performance indicators need to be established	High	Councils	Yes

Remedial Action		Priority	Lead	Within Council Control
4.3.5	Councillors need to receive appropriate training in governance and leadership	High	LGANT	Yes
4.3.6	Corporate entities must be more transparent and advice should be sought surrounding establishment	High	Councils	Yes
4.3.7	Opportunities to improve economies of scale, scope and specialisation should be encouraged	Low	Councils	Yes
4.3.8	Audit committees should exist in each of the Councils	High	Councils	Yes
Revenue Related Issues				
4.4.1	Conditional rating should be considered with a view to change or removal	High	DHLGRS	No
4.4.2	Funding requirements should be supported by a business case	High	Councils	Yes
4.4.3	Terms and conditions of grant funding need to be examined and amended where appropriate	High	Councils	No
4.4.4	Cross subsidisation between programs and functions needs to be clearly identified and transparent	High	Councils	Yes
4.4.5	Community expectations surrounding service delivery must be better managed	High	Councils	Yes
4.4.6	Information within the Integrated Land Information System (ILIS) requires updating	Medium	Department of Lands and Planning	No
4.4.7	Councils need to evaluate opportunities to increase own source revenue	Medium	Councils	Partially
4.4.8	Fees and services charges need to be indexed annually	Medium	Councils	Yes
Expenditure Related Issues				
4.5.1	An appropriate methodology to determine and allocate overheads needs to be developed	High	Councils	Yes
4.5.2	Grant reporting requirements need to be evaluated and appropriate to the size of the grant	High	Councils	No

Remedial Action		Priority	Lead	Within Council Control
4.5.3	Funding arrangements need appropriate provision for employee costs	Medium	Councils	No
4.5.4	Whole of life costs must be determined in relation to gifted capital assets	Medium	Councils	Yes
4.5.5	Costs incurred as a result of policy initiatives need to be quantified	Medium	Councils	No
4.5.6	Opportunities to reduce communication costs need to be considered	Low	Councils	Partially
Budgeting Related Issues				
4.6.1	A budgeting framework and methodology needs to be developed	High	Councils	Yes
4.6.2	Capital asset replacement plans and capital budgets need to be established	High	Councils	Yes
4.6.3	Agreed reporting requirements should be developed to enable comparative analysis of Councils	High	DHLGRS	No
Accounting Related Issues				
4.7.1	Templates for annual financial reporting should be established and applied	High	DHLGRS	No
4.7.2	Financial reporting should be more transparent in relation to related party transactions	High	Councils	Yes
4.7.3	The accounting treatment of property, plant and equipment should be improved and consistently applied	High	DHLGRS	Yes
4.7.4	The accounting treatment for unexpended grants should be consistently applied	Medium	Councils	Yes
4.7.5	The accounting treatment of liabilities for annual and long service leave should be consistently applied	Medium	Councils	Yes
Technology related issues				
4.8.1	TechOne application and functionality needs to be applied consistently throughout the Councils	Medium	Councils	Yes

Remedial Action		Priority	Lead	Within Council Control
4.8.2	Supporting information technology systems should be consistent	Medium	Councils	Yes

4.2 Implementation Timeline

Were the remedial actions implemented over the next 15 months, an appropriate level of financial accountability would be in place by 30 June 2013. Implementation would enable a clear strategy to be developed to reduce the infrastructure backlog faced by the Councils, provide accuracy, transparency and accountability over financial results and enable appropriate short to medium term planning.

3 months

- An appropriate methodology to determine and allocate overheads needs to be developed
- The accounting treatment for unexpended grants should be consistently applied
- Councillors need to receive appropriate training in governance and leadership
- Community expectations surrounding service delivery must be better managed
- Templates for annual financial reporting should be established and applied
- The accounting treatment of property, plant and equipment should be improved consistently applied
- The accounting treatment of liabilities for annual and long service leave should be consistently applied

6 months

- Borrowing guidelines and a borrowing policy should be developed
- Agreed reporting requirements should be developed to enable comparative analysis of Councils
- Financial reporting should be more transparent in relation to related party transactions
- A budgeting framework and methodology need to be developed
- Terms and conditions of grant funding need to be examined and amended where appropriate
- Funding requirements should be supported by a business case
- TechOne application and functionality need to be applied consistently throughout the Councils
- Audit committees should exist in each of the Councils
- Corporate entities must be more transparent and advice should be sought surrounding establishment

9 months

- Conditional rating should be considered with a view to change or removal
- Grant reporting requirements need to be evaluated and appropriate to the size of the grant
- Fees and services charges need to be indexed annually
- Information within the Integrated Land Information System (ILIS) requires updating
- Cross subsidisation between programs and functions needs to be clearly identified and eliminated

12 months

- Minimum levels of service delivery need to be established
- Capital asset replacement plans and capital budgets need to be established
- Funding arrangements need appropriate provision for employee costs
- Whole of life costs must be determined in relation to gifted capital assets
- Key performance indicators need to be established
- Councils need to evaluate opportunities to increase own source funding

15 months

- Costs incurred as a result of policy initiatives need to be quantified
- Supporting information technology systems should be consistent

Beyond 15 months

- Shire Plans, operational and capital budgets and personnel plans should correlate with the Regional Management Plans
- Opportunities to improve economies of scale, scope and specialisation should be encouraged
- Opportunities to reduce communication costs need to be considered

4.3 Governance related issues

4.3.1 Shire Plans, operational and capital budgets and personnel plans should correlate with the Regional Management Plans

Issue

Regional Management Plans prepared by DHLGRS are inconsistent with the Councils' plans, budgets and annual reports prepared by Councils.

Section (16) (1) of the Local Government Act mandates that all shires contribute to the Regional Management Plan for their respective area: Northern Region; Central Region; Southern Region. It was noted that there was a slight correlation between the current regional management plan and the funding provided.

Regional Management Plans should be seen as defining the short term (three year) strategy of each Council including a definition of what constitutes core services and the minimum service levels to be delivered by the individual Councils. Budgets should be prepared for both operational and capital aspects of service delivery and should be aligned with the strategic intent of the Council (as reflected in the Regional Management Plan). The annual report is the medium by which Councils should report outcomes achieved against their strategic intent. Analysis of performance over several years should contribute to development of future Council strategy and thus, future Regional Management Plans.

DHLGRS should be seeking input and agreement with the Councils on the content of the Regional Management Plans.

Priority

High

Associated Risk

- Required core services will not be delivered
- Performance will be unable to be assessed and reported upon
- Strategic, operational and staff goals are not aligned.

Remedial Action

The following Council documents should all demonstrate a strong correlation when considering delivery of service and accountability for allocation of funding: Regional Management Plans; Shire Plans; Operational and Capital Budgets; and Annual Reports.

The Shire Plan should reflect the services to be delivered by the Council together with specific targets, which should then be encapsulated in greater detail in any divisional plans and personnel plans. Operational and capital budgets should be determined by allocating resources to achieve the desired outputs. Annual reports should demonstrate how the Council has achieved its objectives through comparison of actual, budget and prior year information and performance reporting against targets.

Individual Councils should be responsible for undertaking an initial comparison of these documents and providing constructive input into the format of the Regional Management Plans, notwithstanding that the DHLGRS is responsible for the collation and refinement of the Regional Management Plans for the three regional areas.

Entity

- DHLGRS (Lead)
- Councils
- LGANT.

4.3.2 Borrowing guidelines and a borrowing policy should be developed

Issue

There is presently a view that, in order to remain cash positive, Councils need to seek funding for acquisition of capital assets and that borrowing, of any form, is considered a last resort. It is unrealistic to expect the current ratepayers to bear the costs of benefits received by future ratepayers and not unusual to seek finance for significant capital infrastructure. Section 123 of the Local Government Act requires borrowing to be approved by the Minister. In principle, the approval of the Minister is a strong control that seeks to mitigate the risk of Councils being placed in a situation where they are unable to meet debts as they become due and payable.

Priority

High

Associated Risk

- Funds will not be available to replace plant, equipment or infrastructure
- Required core services will not be delivered
- Increased likelihood of death or injury where equipment is no longer fit for purpose
- Potential breaches of legislation relating to safety
- Insufficient repairs and maintenance and delayed replacement leading to increased backlog of assets.

Remedial Action

Preparation of Borrowing Guidelines including appropriate terms of repayment, templates to support finance applications and relevant Ministerial approval should be developed by DHLGRS and made available to all Councils. Guidance could be provided to Councillors when deciding the appropriateness of seeking finance and which type of financing vehicle should be chosen.

Entity

- DHLGRS (Lead)
- LGANT
- Councils.

4.3.3 Minimum levels of service delivery need to be established

Issue

There are no defined minimum levels of service delivery from Councils to the communities within their service delivery boundaries. Determining and articulating minimum levels of service will enable Councils to accurately assess the cost of providing minimum levels of core service to communities. It will also provide information relevant to making decisions on whether a service will be continued or discontinued. In some instances, Councils have continued delivery of existing services because of community expectations, notwithstanding that, in a municipal environment, the onus would not be upon Council to provide the service. There are also differences in what are considered 'core services' between communities within the same shire.

Priority

High

Associated Risk

- Required core services will not be delivered
- Expectation gaps will form within communities and Councils on acceptable levels of service
- Performance is unable to be assessed and reported upon
- Inability to compare and benchmark Council performance
- Inability to make informed decisions on the allocation of scarce resources by all levels of government.

Remedial Action

In conjunction with DHLGRS, Councils should derive a minimum level of service to be provided to all Councils. Services provided above the minimum should be subjected to the following considerations:

- Would the service be more appropriately delivered under an agency arrangement (should it be the responsibility of another entity)
- Can the service be delivered under a commercial arrangement
- Is the service presently fully funded or is it running at a deficit.

A considered economic decision can then be made on retaining or ceasing the service. The impacts of ceasing the service will need to be considered and communicated to relevant stakeholders including constituents.

Entity

- DHLGRS (Lead)
- Councils.

4.3.4 Key performance indicators need to be established

Issue

Presently there are no established key performance indicators established and communicated that enable interested stakeholders to evaluate the performance of the Councils. As a result, Councils are unable to monitor and report progress towards reaching community objectives. Similarly, DHLGRS is unable to undertake comparative analysis or benchmarking on a Territory wide or jurisdictional basis.

Priority

High

Associated Risk

- Required core services will not be delivered
- Expectation gaps will form within communities and Councils on acceptable levels of service
- Performance is unable to be assessed and reported upon
- Inability to compare and benchmark Council performance
- Inability to make informed decisions on the allocation of scarce resources by all levels of government.

Remedial Action

Council Shire Plans should include key performance indicators. These may be demonstrated as an attainable range of outputs or a reduction/increase in existing results. Annual reports produced by the Councils should include performance reporting showing actual results against key performance indicators. The key performance indicators should reflect the service delivery required by the Regional Management Plans.

Upon agreeing what constitutes a minimal level of service, at least one key performance indicator should be developed for each service delivered.

Entity

- Councils (Lead)
- DHLGRS.

4.3.5 Councillors need to receive appropriate training in governance and leadership

Issue

Councils comprise the elected members and shire management. Councillors are generally elected based on the popularity of their standards and views as they pertain to social equity and service delivery. Many elected members may have little past experience in management or governance. They may not be aware of their rights or responsibilities in respect of their elected positions.

Priority

High

Associated Risk

- Overreliance on chief executive officers and management to present issues and recommend courses of action to the elected members
- Possible indecisiveness by elected members on the appropriate action to take leading to delays in decision making
- Elected members may not be aware of the tools and independent advisors available to them during the decision making process
- Elected members may be unable to determine if they are appropriately informed to make a decision.

Remedial Action

Roles and responsibilities of Councillors should be clearly defined, established and communicated to the Councillors, management and staff of the Council.

Whilst some elected members have had the benefit of receiving formal training in governance, all newly elected members should be provided with formal training around their roles and responsibilities. The training should be consistently delivered to all Councils. LGANT would be well positioned to take the lead in developing and communicating roles and responsibilities.

Mentors or independent advisors should be introduced to elected members to enable them to seek impartial advice and guidance if or when they feel it necessary.

Some institutions provide training courses to Indigenous Board members under a scholarship arrangement and Councils should identify where they may be eligible to enrol under such a program.

Entity

- LGANT (Lead)
- DHLGRS
- Councils.

4.3.6 Corporate entities must be more transparent and advice should be sought surrounding establishment

Issue

A number of Councils have established, or are considering establishing related corporate entities through which commercial services will be delivered. Types of entity structures are proprietary limited companies and companies limited by guarantee. Examples include Region C controlled by EASC and Latitude 12, controlled equally by EASC and WASC. It is important that the legal, reporting and audit requirements and taxation obligations associated with these entities are given appropriate consideration.

The type and size of corporate entities will dictate the level of reporting and audit requirements, both of which may result in additional costs to the Council. Consolidation of the results of the corporate entity into the results of the Council may be required. Some structures may also restrict the distribution of earnings to the Council.

Councils are presently not subject to taxation. New corporate entities may not be able to attract the same tax concessions and commercial arrangements may be subject to taxation. Councils will need to seek interpretation of the taxation legislation in relation to these arrangements.

Priority

High

Associated Risk

- Inappropriate use of company structure
- Potential breaches of legislation leading to fines and penalties
- Lack of understanding of governance requirements and duties of office holders
- Lack of transparency in financial reporting.

Remedial Action

Councils seek appropriate legal advice prior to establishing a corporate entity and understand the impacts of managing the entity including governance, accounting, taxation and legislative requirements. Results from corporate entities should be clearly reported within annual reports and consolidated appropriately. DHLGRS should be kept informed of the establishment of such entities and determine appropriate reporting mechanisms.

Entity

- Councils (Lead)
- DHLGRS.

4.3.7 Opportunities to improve economies of scale, scope and specialisation should be encouraged

Issue

CouncilBIZ should have achieved savings in administrative expenditure through the provision of financial services and establishment of consistent practices to all the Councils. Whilst the devolution of accounting processes to the Councils was welcomed by the Councils and should result in increased understanding of and accountability for financial results, a number of the recommendations arising from this review relate to establishing consistencies in accounting policies, recording and reporting of financial results. Robust and consistent financial processes and systems would have resulted in improved management of the Councils over the past three years.

East Arnhem Shire Council and West Arnhem Shire Council established a local government subsidiary, Latitude 12, to undertake the administrative and financial processing for both Councils. Latitude 12, in addition to providing administrative support to the two Councils has sought to operate on a commercial basis providing administrative services to unrelated parties.

There remain several small Councils where amalgamation or restructure may result in more economically viable service delivery. Amalgamation may benefit the Councils as they will be able to take advantage of economies of scale, scope and specialisation with a more rational allocation of resources and may hold additional bargaining power to negotiate grants and grant conditions.

There are fears held by communities that amalgamation leads to a loss of services and resources within the community.

LGANT may be positions to assist in securing supply contracts.

Priority

Low

Associated Risk

- Financial savings may not be received
- Opportunities to apply for and receive additional funding may be lost
- Economies of scale may not be achieved.

Remedial Action

That DHLGRS continue to progress the amalgamation of the three smaller Councils in order to leverage resources to achieve the optimal level of service delivery and administrative support. Alternatively, consideration of collectively outsourcing or sharing of some administrative functions may result in improved administration efficiencies.

Entity

- Councils (Lead)
- DHLGRS
- LGANT.

4.3.8 Audit committees should exist in each of the Councils

Issue

Many of the Councils do not have Audit Committees nor risk management and internal audit arrangements. The establishment of internal structures to manage risk and evaluate internal controls assists Councillors in discharging their governance obligations.

Involvement of one or more appropriately skilled independent members to the Audit Committee will provide opportunities to adopt established risk management and internal control practices.

Priority

High

Associated Risk

- Risks are not identified or assessed
- Processes and controls are not assessed for weaknesses and opportunities to improve
- Increased risk of undetected fraud and error
- Lack of understanding of financial responsibilities.

Remedial Action

Councils must form Audit Committees and develop risk management and internal control guidance. Internal controls can then be evaluated continuously and improved. It would be appropriate for a representative from DHLGRS to be invited as an observer to meetings of the Audit Committee.

Entity

- Councils (Lead)
- DHLGRS.

4.4 Revenue related issues

4.4.1 Conditional rating should be considered with a view to change or removal

Issue

Conditional rating and inability to raise untied funding due to the limited number of rateable properties over vast areas has resulted in Councils being overly dependent on grant funding in order to deliver services.

Section 142 of the Local Government Act imposes a conditional rating system on Councils. Restrictions on the ability to rate limit the ability of Councils to raise untied revenue.

Activities of the Councils are limited by the rates they are able to raise. Use of Council resources should be recognised and understood and the application of appropriate rates and user fees should be implemented.

Councils have been further impacted over the period under analysis by delays in received valuation information relating to the unimproved capital value (UCV) of rateable land. The delay in receiving accurate and timely information from the Australian Valuer-General's office negatively impacted the ability of Councils to forecast rate revenue and rate land accordingly.

Priority

High

Associated Risk

- Core services may not be delivered
- Opportunities to increase own source revenue may be missed
- Ratepayers may bear a disproportionate share of taxes.

Remedial Action

The existence and application of conditional rating should be evaluated by DHLGRS with a view to removal of the existing legislated conditions. Recommendations to align the rating models with those of other jurisdictions should be considered, as should the benefits to and impact caused by those rate payers captured under the existing conditional rating system.

Councils should determine a methodology and model for applying rates in order to determine where shortcomings in the existing system can be overcome and propose a consistent rating methodology. It should be noted that this does not imply the same values and charges should be applied across Councils.

Entity

- DHLGRS (Lead)
- Councils.

4.4.2 Funding requirements should be supported by a business case

Issue

More than 80% of Council's revenue comprises grant funding for the provision of services and programs, mostly under annual service agreements, which dictate where and how the services can be delivered. Grant funding has been significantly reduced over the three years since the establishment of the Councils. The reduction has been seen in all areas of grant funding, some reductions have been initiated by the grant provider. In other cases, Councils have chosen not to seek funding due to the cost of administering the grants.

Priority

High

Associated Risk

- Funding may not adequately meet the costs of service delivery
- Agreements may be entered into which are loss making for the Council
- Services may be unable to be delivered
- Costs may not be appropriately recovered.

Remedial Action

There may be limited opportunity for the Councils to seek additional funding where the reductions have been instigated by the funding provider however, the ability to demonstrate the true cost of service delivery is presently impacted by the availability of relevant and accurate financial data and delays in reporting in accordance with the grant.

Development of a consistent grant application and reporting framework would contribute to reducing compliance costs of the Councils and also enable Councils to demonstrate the true cost of service delivery. The development of such a framework would require the involvement of all levels of government.

Entity

- Councils (Lead)
- Northern Territory Government Departments
- Federal Government Departments
- Australian Local Government Association
- Local Government Association of the Northern Territory
- Finance Reference Group
- Local Government Accounting Advisory Committee.

4.4.3 Terms and conditions of grant funding need to be examined and amended where appropriate

Issue

Funding bodies dictate what grants are linked to without consultation with the Councils as to the level of funding required to achieve service delivery. This issue is exacerbated by delays in communicating approval of grant funds. The receipt of grant funding is often delayed and the first instalments of funding for annual programs are often received after the service delivery period has commenced.

For certain funded projects, Councils are required to submit a proposed schedule outlining the budgeted expenditure. There were many instances reported by Councils where the amount of funding received did not meet the proposed budget in the funding application however the Council had little opportunity to refuse the grant offered as employment and service delivery contracts were already in place.

Short term funding does not allow for effective program management, preventing future planning for employment, capital and administrative costs. Further, short-term annual funding counteracts the purpose of long-term financial planning, which is mandated under Section 126(1) of the Local Government Act.

The late notification and receipt of payments, even where funding matches that applied for, negatively impacts the Councils as they may need to negotiate leasing and employment contracts on terms less favourable than what is achievable with appropriate notice of program commencement or cessation. Funding from other sources is used to deliver services until the program funding is received leading to breaches of funding contracts. Councils have experienced lost interest revenue associated with delayed receipt of program funding.

Priority

High

Associated Risk

- Funding may not adequately meet the costs of service delivery
- Agreements may be entered into which are loss making for the Council
- Services may be unable to be delivered
- Costs may not be appropriately recovered
- Funding may be lost.

Remedial Action

A funding timeline be established between funding bodies and the Councils. It is accepted that the budgets of many funding bodies are only approved in May, two months prior to when the Councils' financial year commences. Notwithstanding, preliminary discussion and in principle agreement could be reached prior to this time, thus enabling Councils to prepare more accurate budgets and provide sufficient notice to employees where a program is to be discontinued. Ideally, funding agreements would be for a longer term than one year, enabling leasing arrangements and employee arrangements to be negotiated more effectively and economically.

An escalation index, such as the consumer price index should be included in the funding contracts for grants extending beyond one year.

Entity

- Councils (Lead)
- Northern Territory Government Departments
- Federal Government Departments.

4.4.4 Cross subsidisation between programs and functions needs to be clearly identified and transparent

Issue

The financial records of the Councils identified many programs that have incurred deficits over the three years subject to analysis. Any programs running at a loss are being delivered by using funding from other areas. In some instances, it may be acceptable as untied funding may be used to meet the program shortfall. Councils have advised that the level of untied funding is not sufficient to ensure continued service delivery. Where this is the case and cash flows permit, funds are being drawn from other programs or from untied reserves. Once untied reserves have been fully utilised, Councils may be in a position where they are unable to deliver programs for which the funding was intended and may be unable to meet their debts as and when they fall due.

There may be instances where cross subsidisation is appropriate, for example where surpluses from commercial activities are used to provide core services above a minimum acceptable standard.

Priority

High

Associated Risk

- Funding may not adequately meet the costs of service delivery
- Agreements may be entered into which are loss making for the Council
- Cross subsidisation cannot be identified
- Services may be unable to be delivered
- Costs may not be appropriately recovered
- Inappropriate decisions may be made on the allocation of scarce resources.

Remedial Action

Councils must address their financial recording and reporting systems to enable clear identification of programs incurring deficits. In the event that sufficient program revenue cannot be raised to achieve at best a break-even position, Councils need to effectively demonstrate where the level of funding received is insufficient to deliver the program and either negotiate additional funding or withdraw the program.

Entity

- Councils (Lead)

4.4.5 Community expectations surrounding service delivery must be better managed

Issue

Councils are commonly expected to provide a greater range of services than their regional and urban counterparts. Most Councils administer social programs and operate essential services and enterprises that would otherwise be the responsibility of government agencies, non-government organisations or the private sector. Councils have assumed a 'provider of last resort' role in order to ensure the sustainability of small communities. Past policies have established community expectations of service levels and delivery standards which exceed those that can be sustainability funded by the Councils.

Councils must be positioned to evaluate which programs can and will be delivered within communities. This can only occur if financial information is sufficiently adequate and reliable for Councils to make effective decisions on the allocation of scarce resources. In most Councils subject to analysis as part of this engagement, the present level of financial reporting does not enable Council to effectively evaluate programs.

Councils also have a role in educating communities either directly or through local boards, on what services can be realistically provided given the level of funding received and revenue raised. A number of Councils raised a concern that pressures are placed on them by Local Boards to increase service delivery in the communities.

Priority

High

Associated Risk

- Required core services will not be delivered
- Expectation gaps will form within communities and Councils on acceptable levels of service
- Inability to make informed decisions on the allocation of scarce resources by all levels of government.

Remedial Action

Councils must address their financial recording and reporting systems to enable clear identification of programs incurring deficits. In the event that sufficient program revenue cannot be raised to achieve at best a break-even position, Councils need to effectively communicate the likely withdrawal of the service to the community and the relevant funding body.

Councils also need to be able to demonstrate where the level of funding received is insufficient to deliver the program. In addition to reliable financial reporting, the outcomes must also be able to be demonstrated through reporting against established key performance indicators.

A Services Policy statement stating the roles and functions of Council and funded service delivery levels should be developed by all Councils and used as a basis for evaluating new and existing services and delivery levels.

Local Boards should also assist Councils in setting community expectations of service delivery levels by communicating the reasons behind service delivery levels.

Entity

- Councils (Lead)
- Local Boards
- Funding Providers.

4.4.6 Information within the Integrated Land Information System (ILIS) requires updating

Issue

The Integrated Land Information System maintained by the Department of Lands and Planning provides information including the cadastre, land titles, land valuations, land use, planning and development assessment, building control, land administration and land acquisitions for government purposes.

Officers within a number of Councils advised that information within the Integrated Land Information System pertaining to leases and land ownership is not accurate in all instances, affecting the ability of the Councils to value land, apply and collect rates and maintain controlled property.

Priority

Medium

Associated Risk

- Rateable properties may be missed and rates not collected
- Opportunities to increase own source revenue may be missed
- Ratepayers may have a disproportionate share of taxes.

Remedial Action

The Department of Lands and Planning and the Councils review the information registered within the Integrated Land Information System and update the system accordingly. This data would then provide a reliable base for determining the unimproved capital value of the land and for populating existing rating models.

Entity

- Department of Lands and Planning (Lead)
- Councils.

4.4.7 Councils need to evaluate opportunities to increase own source revenue

Issue

Revenue that is not received in the form of grants from the other tiers of government is known as own source revenue. Such revenue may include rates, service fees and charges and ad hoc charges. In addition, many of the Councils have, or are proposing, to deliver commercial activities with the intent to re-invest surpluses from these activities back into the provision of community services.

Some of the initiatives to raise revenue include tourism levies, contract labour, mechanical workshop services, provision of remote accommodation and facilities.

Whilst Councils should be encouraged to innovate and generate own source revenue, it is important that the Councils make informed decisions to provide services after assessing all costs associated with the activity to avoid generating deficits from these activities. Indirect costs associated with delivering the services such as the cost of administrative staff, consumables and managerial time also need to be considered when determining the cost/benefit of new and existing initiatives.

Priority

Medium

Associated Risk

- Opportunities to increase own source revenue may be missed
- Costs of service delivery may not be recovered from service recipients.

Remedial Action

All new initiatives should be accompanied by a business plan, cash flow and income and expenditure projection. A template for evaluation could be developed and consistently used by all Councils. All existing activities should be subjected to regular review using the same process. The templates should be reviewed annually to ensure that new or increased costs are factored into the analysis. Fees and charges should be established with an appropriate rate of return on each activity generating own source revenue. The Finance Reference Group must provide input to the initial construction and on-going evaluation of the template.

Entity

- Councils (Lead)
- Finance Reference Group.

4.4.8 Fees and services charges need to be indexed annually

Issue

Fees and charges applied for the provision of non-core services must be subject to appropriate indexation to ensure cost recovery. This would necessitate regular evaluation of fees charged for the provision of maintenance, mechanical, accommodation and other services.

Priority

Medium

Associated Risk

- Opportunities to increase own source revenue may be missed
- Costs of service delivery may not be recovered from service recipients.

Remedial Action

As part of the annual planning process, Councils must determine an appropriate escalation factor to apply to fees and charges for both established services and ad hoc services delivered. A fees and charges policy be determined, documented and consistently applied.

Entity

- Councils (Lead).

4.5 Expenditure related issues

4.5.1 An appropriate methodology to determine and allocate overheads needs to be developed

Issue

Restrictions on programs impede appropriate recovery of overhead costs (employment, capital purchases, lease, capital and building maintenance).

Funding provided for certain programs does not allow for the following overhead costs:

- Leases
- Employment and on costs
- Establishment of staff housing, future rent and vehicles
- Administration and reporting
- Capital
- Repairs and maintenance of Council equipment used.

In order to recover overheads and achieve a break-even position (at a minimum) for programs, Councils must be able to identify, charge and recover overhead costs. A consistent approach and methodology to determining and pricing overheads should be established and applied by all Councils.

It should be noted that a number of funding bodies and their approach to evaluating and paying for the true cost of their program were consistently noted as equitable by the Councils, that is, the funding bodies accepted and paid for the overheads.

The net effect of not calculating overheads is a misstatement of core, fee for service and commercial results.

Priority

High

Associated Risk

- Funding may not adequately meet the costs of service delivery
- Agreements may be entered into which are loss making for the Council
- Services may be unable to be delivered
- Costs may not be appropriately recovered
- Misstatement of operational results by category of service.

Remedial Action

Councils need to determine what costs comprise direct and indirect overheads. Agreement should be reached by all Councils as to an appropriate on charging methodology. Overheads should be applied on a consistent basis to all programs delivered by the Councils: core, agency and commercial. Recovery of overheads should be sought from funding providers. Where recovery cannot be achieved, reports should demonstrate the impact on the relevant program enabling management to determine whether to continue providing the service. The determination of overheads should be reviewed with sufficient regularity to ensure that increased or new costs associated with changed processes, new regulations and changed services are recovered.

Entity

- Councils (Lead)
- Finance Reference Group
- Local Government Association of the Northern Territory
- DHLGRS.

4.5.2 Grant reporting requirements need to be evaluated and appropriate to the size of the grant

Issue

A number of Councils observed that funding had not been received, or had been delayed as a result of late acquittal statements and grant reporting on the part of the Councils. The treatment of unspent grant funding is determined by each individual funding body for each individual grant on a case by case basis each year and can depend upon submission of the audited acquittals which are generally due by November 30 each year.

Grant reporting obligations can be quarterly, six-monthly, periodic or annual and are not determined by the size of the grant. It is possible that the smallest grants require the same level of acquittal reporting and audit as the largest grants received by the Councils.

Onerous reporting requirements due to frequency of reporting, detailed reporting requirement and high level of audits required, contributes to inefficiency and increased cost of administration, accounting and audit.

Priority

High

Associated Risk

- Increased costs associated with reporting will reduce funding available for service delivery
- Unnecessary compliance costs are incurred by Councils
- Costs may not be appropriately recovered.

Remedial Action

A consistent approach to grant reporting should be implemented for all Councils. It will require the agreement of the funding bodies and is an area where the DHLGRS could facilitate agreement between the Northern Territory and Commonwealth Governments and all of the Councils on an agreed reporting format. Confidence by external funding providers in the accounting processes and systems within the Councils could lead to acceptance of the audit of the annual financial report together with the inclusion of supporting schedules providing grant information rather than requiring separate audits for acquittal statements.

Entity

- Councils (Lead)
- DHLGRS
- Grant Funding Providers.

4.5.3 Funding arrangements need appropriate provision for employee costs

Issue

Employment costs are the largest expenditure of the Councils. Attracting appropriately qualified employees to remote areas is costly as there is an expectation that the employee will be recompensed for not having access to all services available in urban areas.

In addition to salaries and superannuation, Councils are often required to provide staff accommodation and, depending on an individual’s role, suitable transport. To encourage application for positions from appropriately qualified and experienced individuals, remuneration packages often offer high superannuation than that provided for under the Superannuation Guarantee Charge, above award wages and annual leave entitlements that are above those generally provided in urban corporate employment.

The ideal situation would see local people holding appropriate qualifications and skill sets to deliver Council services however this is not possible in all cases as many people in remote areas have difficulty accessing extended education and training. Furthermore, funded programs often do not include funds for training or up skilling those delivering the program causing the Council to bear the costs of providing appropriate training to workers.

Costs associated with recruitment, including payments to recruitment agencies and for relocation are also high.

Priority

Medium

Associated Risk

- Funding may not adequately meet the costs of service delivery
- Agreements may be entered into which are loss making for the Council
- Services may be unable to be delivered
- Human resources may be unable to be recruited or retained
- Costs may not be appropriately recovered.

Remedial Action

Contracts with funding providers must include provision for recruitment, training and accommodation of personnel delivering the program. Funding providers also need to acknowledge that salary costs are generally higher in remote areas.

Entity

- Councils (Lead)
- Funding Providers.

4.5.4 Whole of life costs must be determined in relation to gifted capital assets

Issue

Many Councils and communities have been gifted capital assets by government bodies and non-government organisations. Examples provided of assets gifted include sporting facilities such as gyms, community facilities such as swimming pools and infrastructure assets as a result of initiatives such as the Commonwealth Intervention.

The donating or funding party often does not plan to provide additional financial support for the ongoing operation and maintenance of the capital asset. The Councils are then required to utilise untied funds for associated costs. Where the Councils have chosen not to continue supporting the asset, this has resulted in community dissatisfaction and, in some instances, negative public commentary on the performance and intent of the Council. Furthermore, the re-direction of untied funds has impacted the Council's ability to deliver core services on a basis consistent with prior periods.

Priority

Medium

Associated Risk

- Funding may not adequately meet the costs of service delivery
- Agreements may be entered into which are loss making for the Council
- Services may be unable to be delivered
- Costs may not be appropriately recovered
- Funds may not be available to replace the gifted asset at the expiration of its useful life.

Remedial Action

Whole of life costing for assets should be considered by the Councils when accepting a gifted capital asset and arrangements should be made with the donating or funding body to also contribute funding either on an annual basis or as a lump sum to be invested and spent over the life of the asset. A formal process for communicating the reasons for not accepting or discontinuing the provision of services related to gifted assets should be developed and used as a basis for communication with the community, and if applicable, the media.

Entity

- Councils (Lead)
- Funding Providers.

4.5.5 Costs incurred as a result of policy initiatives and regulatory changes need to be quantified

Issue

A number of Councils have been positively impacted by policy initiatives such as SIHIP and Working Futures. Along with the benefits, unanticipated costs have been borne by the Councils. These costs include repairs and maintenance of roads impacted by haulage of construction materials and machinery, costs associated with the dumping of commercial waste and unplanned infrastructure costs.

An example of the cost impact of regulatory requirements is the cost of compliance (present and future) with the requirements of the Environmental Protection Act. Discussion with a number of Councils indicated concern, particularly in the tropical top end, that there may be leaching of contaminants from waste facilities into surrounding land. Where this is the case, the Council would be required to restore the land to the appropriate condition and also may be charged with financial penalties. Existing landfill sites are nearing capacity and the cost of developing compliant landfill sites needs to be determined.

Another is the introduction of the Work Health Safety legislation. Councils will need to evaluate their processes against the requirements of the new legislation and ensure changes to, or increases in, responsibilities are communicated to staff members.

Priority

Medium

Associated Risk

- Unrecovered costs associated with initiatives and regulatory change will reduce funding available for service delivery
- Councils incur additional costs not related to service delivery
- Funding may not adequately meet the costs of service delivery
- Services may be unable to be delivered.

Remedial Action

Effective consultation must occur between the Councils and government departments tasked with implementing policies to ensure that the cost of delivering new initiatives is not shifted to the Councils without corresponding financial compensation. The DHLGRS should be involved in determining cost impacts during negotiations with other departments (both state and federal). A communication plan may be of benefit in relation to initiatives such as Working Futures. Councils should proactively plan for future development, particularly for those communities identified as Growth Towns.

Entity

- Councils (Lead)
- DHLGRS
- Northern Territory and Commonwealth Governments.

4.5.6 Opportunities to reduce communication costs need to be considered

Issue

Televisions with analogue reception will not have any coverage after 1 July 2012 and the Councils have recently received correspondence pertaining to the change from analogue to digital communications. A number of Councils presently maintain transmission stations and have been presented options by the Commonwealth Government as to the changeover process.

The Council may, in the future, incur costs to maintain transmission equipment which need to be taken into consideration.

Councils have advised that costs associated with the initial telecommunications contract negotiated by the DHLGRS appear exceptionally high.

Priority

Low

Associated Risk

- Unnecessary or overcharged communication costs reduce the funding available for service delivery.

Remedial Action

The Council needs to consider the whole of life costs associated with maintaining transmission equipment and determine if it is appropriate and possible to recover associated costs through a user pays system.

In relation to existing telecommunication contracts, the Councils should, where possible, seek a competitive cost quotation from service providers upon expiry of existing contracts. It may be advantageous for some Councils to tender as a group where they have similar communications requirements.

Entity

- Councils (Lead)
- DHLGRS
- Department of Business and Employment.

4.6 Budgeting related issues

4.6.1 A budgeting framework and methodology needs to be developed

Issue

The use of a comprehensive budgeting framework and the timely production and approval of budgets is an essential internal control for sound financial management. Weaknesses in this process increase the risk of incurring inappropriate or unauthorised expenditure and the non-achievement of the Councils' objectives and strategic plan. Some Councils do not have an established budgeting framework supported by appropriate templates, budget monitoring tools and reporting. Some Councils prepare their budgets based on prior year results with some adjustments. Few prepare budgets based on program delivery, headcount etc. Budgets are generally prepared for the whole year and not on a month by month basis enabling cash flow implications to be considered. Difficulties in preparing annual reports of actual results to budget are compounded by the lack of a robust budgeting process.

Budgets should be subjected to review and update on a quarterly basis to address changed funding or operational circumstances. Processes for adjusting, reviewing and approving the budget need to be established.

Priority

High

Associated Risk

- Risk of financial misstatement
- Ability to develop long term plans will be impaired
- Opportunities to obtain funding will be missed
- Core services may not be delivered.

Remedial Action

A budget framework should be developed, agreed upon and adopted by all Councils. It should reflect a consistent approach to budgeting and encompass both operational and capital budgets. Core services, agency services and commercial services should be individually budgeted (within a functional framework) and the budgets should be prepared on a monthly basis for the twelve month period.

Entity

- Councils (Lead)
- DHLGRS
- LGANT.

4.6.2 Capital asset replacement plans and capital budgets need to be established

Issue

Capital asset replacement plans are not in place at most Councils. There is presently a national approach to develop asset management plans. Presently, many Councils seek capital funding when they identify a need for additional equipment or infrastructure however there are few long term plans for future needs. Establishing a capital asset replacement plan enables Council to manage infrastructure and other assets to deliver an agreed standard of service. It also enables funding to be considered and arranged in advance reducing costs and inefficiencies often associated with urgent funding requirements. Long term financial plans are required to be established in line with the Local Government Act Part 10.4.3 Long Term Financial Plans.

Budget preparation requires consideration of future capital expenditure. There is a perception that a budget that aims for a break-even position, including depreciation, will see sufficient cash reserves maintained to replace future assets. Even if cash equal to the depreciation expense was reserved, this would not take into consideration increases in the cost of similar replacement assets; new assets which may previously not have existed or costs associated with improved models.

The analysis of capital funding received, capital expenditure, capital assets and repairs and maintenance costs has identified a significant backlog of required infrastructure works.

Priority

High

Associated Risk

- Risk of financial misstatement
- Ability to develop long term plans will be impaired
- Opportunities to obtain capital funding will be missed
- Prioritisation of acquisitions will be impaired
- Core services may not be delivered.

Remedial Action

Councils should be required to develop three year capital asset replacement plans and associated budgets.

Entity

- Councils (Lead)
- Northern Territory and Commonwealth Governments.

4.6.3 Agreed reporting requirements should be developed to enable comparative analysis of Councils

Issue

The present local government structure was formed in 2008 with most of the Councils taking part in this review being formed in that year. Many of the initial difficulties encountered by the Councils have been overcome over the past three years. There are 'legacy' issues which impacted the initial years of operation which, whether resolved or not, may not have resulted in 'financial restitution'.

Notwithstanding the significant improvements, Councils remain unable to track or demonstrate effectively their progress against the intent of government.

The DHLGRS is unable to assess whether the standard model developed for the shires has met the planned objectives of the initial amalgamation strategy.

Priority

High

Associated Risk

- Risk of financial misstatement
- Performance will not be able to be assessed and reported on
- Expectation gaps will form within communities and Councils on acceptable levels of service
- Inability to make informed decisions on the allocation of scarce resources by all levels of government
- Core services will not be delivered.

Remedial Action

A blueprint for what demonstrates 'successful' implementation of the shires should be developed and communicated such that the Councils themselves and stakeholders can assess the progress of the Councils. This 'blueprint' could consider achievements in governance, employment, financial management and service delivery.

Entity

- DHLGRS (Lead)
- LGANT.

4.7 Accounting related issues

4.7.1 Templates for annual financial reporting should be established and applied

Issue

Present internal and external reporting by the Councils varies as a result of differing general ledger structure, accounting policies and reporting functionality.

Councils would benefit from using consistent accounting policies, processes and reporting as employees shifting between different Councils would have transferable skills and could provide assistance to other employees holding similar roles within other Councils. Staff could be seconded between Councils to meet shortfalls in resources. Information used by the Finance Reference Group to evaluate processes and develop good practice would be consistently reported and presented.

Councillors would benefit from receiving regular reporting that is consistent across Councils and those advising them would be positioned to explain performance differences between the Councils.

Users of the financial statements, such as funding and regulatory bodies, would benefit as the financial statements would be consistently presented and prepared using the same accounting practices and policies.

The DHLGRS would be better equipped to develop and make available guidance for accounting and reporting practices.

Priority

High

Associated Risk

- Risk of financial misstatement
- Performance will not be able to be assessed and reported upon
- Expectation gaps will form within communities and Councils on acceptable levels of service
- Inability to make informed decisions on the allocation of scarce resources by all levels of government
- Core services will not be delivered.

Remedial Action

Councils should work together to develop or adopt a standard reporting format. Changes to the existing chart of accounts within the general accounting system may be required. Practices for reporting financial information of related parties, including appropriate consolidation techniques should be considered. Reporting by function within the financial statements should be expanded to enable evaluation of program surpluses and/or deficits and be reported in terms of core; agency or commercial service delivery. Inclusion of reporting items that promote financial transparency should be encouraged such as transactions with employees and related parties, disclosure of remuneration of key personnel and achieve of outcomes.

A suite of reports for both internal and external reporting should be developed to enable those charged with governance to discharge their obligations.

The DHLGRS could assist in making available standard guidance and reporting templates to improve recording and reporting of financial information. Such guidance could form the basis of an Accounting Code of Practice.

Consultation should include the DHLGRS, the Finance Reference Group and the Local Government Accounting Advisory Committee.

Existing financial reports would benefit from the inclusion of ratios to enable regulatory bodies to evaluate the financial performance and sustainability of Councils.

Entity

- DHLGRS (Lead)
- Councils
- Councillors
- Finance Reference Group
- Local Government Accounting Advisory Committee.

4.7.2 Financial reporting should be more transparent in relation to related party transactions

Issue

Presently the Councils are not required to, and generally do not, report transactions with related parties or remuneration of those charged with governance. This has, in some instances, resulted in negative publicity surrounding awarded contracts and remuneration.

This report did not consider compliance with best practice procurement in relation to transactions with related parties so we make no comment as to what extent this occurs and is or is not reported. A review of executive remuneration found that base salary remuneration of chief executives within the Councils was in a consistent range. This does not include package arrangements for housing, motor vehicle and telecommunications, nor costs associated with recruitment.

Base Salary Range	Number of Councils
$200,000 to $220,000	5
$180,000 to $200,000	2
$160,000 to $180,000	1
Less than $100,000	3

Priority

High

Associated Risk

- Risk of financial misstatement
- Reputational risk associated with perceptions on awarded contracts
- Reputational risk associated with external perception of remuneration of senior management and elected members.

Remedial Action

The objective of Australian Accounting Standard AASB124 is to ensure that users of the financial statements can understand how an entity's financial performance or position may have been affected by transactions with related parties. The standard requires disclosure of transactions and balances with related parties and remuneration paid to key personnel. The standard does not apply to general purpose financial statements of not-for-profit public sector entities. Inclusion of related party information would ensure greater transparency around transactions affecting the Councils. It would also enable comparison with costs incurred by other like entities.

Entity

- Councils (Lead).

4.7.3 The accounting treatment of property, plant and equipment should be improved and consistently applied

Issue

A number of issues surrounding accounting for assets have been identified in the present practices within Councils. Most Councils did not have comprehensive asset management plans during the three years under review and a number still do not.

As a result:

- Asset registers are incomplete
- Asset registers contain records of assets that are non-existent or not fit for purpose
- Values within asset registers may not be accurate
- Depreciation expense may be calculated incorrectly
- Insurance costs are being incurred for non-existent assets
- Capital replacement plans are prepared using inaccurate information
- Roads and their values are not recorded
- There may be inadequate valuation of gifted assets
- Assets may be recorded that are not controlled
- Valuation of assets is not occurring with sufficient regularity
- Controlled assets may not be recorded
- Audit opinions are being qualified on the existence and valuation of assets.

Priority

High

Associated Risk

- Risk of financial misstatement
- Ability to develop long term plans will be impaired
- Opportunities to obtain capital funding will be missed
- Prioritisation of acquisitions will be impaired
- Core services may not be delivered.

Remedial Action

An asset management framework should be developed that enables:

- A clear definition of the services to be provided by each of its classes of infrastructure;
- A detailed knowledge of the assets held (thereby allowing predictions to be made about performance)
- The risks associated with managing the infrastructure being well understood

- Asset-related spending to be determined (distinguished between spending on maintenance, renewal, upgrading and expansion of assets)
- The cost of long-lived assets over their useful lives being accurately recognised.

Councils should review their existing asset registers and update them accordingly. Roads should be recognised and valued.

Insurance values should be determined for each asset and competitive quotes sought from insurance providers.

A long-term capital asset replacement program should be formulated and used as the basis for capital expenditure budgets.

Information maintained by the Councils should be consistent and appropriate for the national asset management system.

Entity

- DHLGRS (Lead)
- Councils.

4.7.4 The accounting treatment for unexpended grants should be consistently applied

Issue

Unexpended grants are not being recorded consistently across Councils. Not all Councils are interpreting Australian Accounting Standard AASB 1004 'Contributions' in a like manner, resulting in financial statements that do not comply with Australian Accounting Standards and causing inaccurate interpretation and comparison of Council results at the end of reporting period. It can also cause difficulties in assessing whether there are adequate funds held in relation to unexpended grants.

Applying AASB 1004 'Contributions' may result in the financial statements not meeting the purpose of some users.

The following types of accounting for unexpended grants were observed:

- Recording all unexpended grant funds (except operational grants) as liabilities
- Recording all unexpended grant funds (except operational grants) as reserves within equity
- Recording all grant funds including unexpended grants as revenue
- Recording unexpended grants as either revenue or expense depending on contractual terms or expectations of whether the funds will be reserved.

In addition, some grants require acquittal on a cash basis and some on an accruals basis meaning that the acquittal statements prepared at 30 June may not agree to the reported unexpended grants balance in the financial statements (determined on an accruals basis).

Cash reported as tied funds should be consistent with the related unexpended grant balance. Unexpended grants reported in the financial statements should be consistent with those reported in individual grant acquittal statements.

Priority

Medium

Associated Risk

- Risk of financial misstatement
- Users may not appropriately interpret the financial statements
- Risk of financial loss where unexpended funds are required to be repaid
- Risk that funding agreements will be breached
- Risk that funds will be spent on inappropriate activities.

Remedial Action

The accounting policy for grant recognition, including accounting for unexpended grants, should be the same for all Councils. The treatment and/or disclosure of unexpended grants should enable a user to determine if the Council has sufficient cash (tied funds) at the end of the reporting period to enable the services to be delivered to which the unexpended grants relate. Any difference between the balance of unexpended grants reported in the financial statements and the acquittal report to the funding body should be able to be explained.

The extent to which the agreed accounting policy results in non-compliance with the Australian Accounting Standards should be disclosed in the notes to the financial statements. Councils should consult with their auditors to determine what disclosure is required to avoid, if possible, any qualification to the financial statements.

Consultation should include the DHLGRS, the Finance Reference Group and the Local Government Accounting Advisory Committee.

Entity

- Councils (Lead)
- DHLGRS
- Finance Reference Group
- Local Government Accounting Advisory Committee
- Funding Providers
- Council Auditors.

4.7.5 The accounting treatment of liabilities for annual and long service leave should be consistently applied

Issue

Some Councils have recorded liabilities for employee entitlements for annual leave and long service leave however in many cases the records do not support the balances.

The uncertainty of the accuracy of the employee entitlements can lead to an inaccurate estimation of the employee provisions balance and misstate the Council's financial position. Councils may be required to settle employee entitlements notwithstanding there is no supporting evidence that the payment is due, leading to financial loss for the Council.

Priority

Medium

Associated Risk

- Risk of financial misstatement
- Risk that unrequired payments will be made causing financial loss to the Council.

Remedial Action

Councils should perform a detailed review of all entitlements. Where it can be established that there is no legal liability to pay the entitlement, the provision should be reversed. An appropriate methodology for calculating long service leave liability, including probability factors, should be determined and applied consistently. Councils should also consider and agree the portability of leave entitlements in the event an employee accepts employment with another local government entity.

Entity

- Councils (Lead)
- DHLGRS.

4.8 Technology related issues

4.8.1 TechOne application and functionality need to be applied consistently throughout the Councils

Issue

The TechOne system was implemented by the DHLGRS for and on behalf of all the Councils. As the Councils were still being established, existing staff did not receive sufficient training and there was limited understanding of the system's functionality. Notwithstanding the remediation project commissioned by the DHLGRS, there remain inconsistencies in the use of and reporting functionality related to TechOne across Councils. Reporting of actual results to budgeted figures is limited and is not providing adequate information upon which management and elected members can make informed decisions about scarce resources. There was little evidence of monthly reporting of results against budget and cash flow implications were not considered outside seasonal knowledge of activities.

Many Councils do report, however the data must be downloaded to alternate software and then reconfigured leading to an increased risk of human error.

Comparisons were reported within the annual report between actual results and initial budgets however these are not comprehensive and do not permit individual program evaluation or core, agency and commercial services viability to be assessed.

Priority

Medium

Associated Risk

- Risk of financial misstatement
- Performance will not be able to be assessed and reported upon
- Expectation gaps will form within communities and Councils on acceptable levels of service
- Inability to make informed decisions on the allocation of scarce resources by all levels of government
- Ability to develop long term plans will be impaired
- Councillors and management will not receive adequate or accurate information.

Remedial Action

Following agreement on a budget framework and approach that is consistent with the chart of accounts and reporting requirements of Councils, the TechOne system used by most Councils should be configured to enable the generation of reports showing actual to budgeted results. For those Councils not using TechOne, their accounting systems should be configured such that the same budgeting and reporting framework is used to enable comparison between Councils.

Entity

- Councils (Lead)
- TechOne.

4.8.2 Supporting information technology systems should be consistent

Issue

Information technology resources are not being used efficiently and effectively due to lack of experience, knowledge and training. As a result, in many cases, Councils using the same system are producing different reports, using modules inconsistently and presenting conflicting information between reports from the same system.

Staff changes within the Councils mean further inconsistencies in use as, new users who do not understand the accounting system use supplementary software and new users who have previously had experience with the system face reluctance on the part of existing employees to embrace additional functionality. These issues have seen an overreliance on Excel and other applications to produce required reports.

Efficiency and effectiveness of the Councils is impacted, either positively or negatively by the availability of timely and accurate reporting.

Priority

Medium

Associated Risk

- Risk of financial misstatement
- Increased risk of human error and/or interface error
- Councillors and management will not receive adequate or accurate information
- Loss of key financial information where supplementary software is not backed up.

Remedial Action

One or more service providers should be identified who can deliver consistent training to all users of the same system. Training may be able to be provided face to face or via telecommunications. Alternately, online training modules may be available or able to be developed for all users.

All users and management should be trained in the functionality and application of the system, including all modules.

A summary of reports currently used by the Councils should be developed so that a consistent suite of reports can be generated.

Entity

- Councils (Lead)
- LGANT
- Finance Reference Group.

4.9 Emerging Issues

A number of Government initiatives introduced since the local government restructure have, and will continue to have, a financial impact on the Councils. Councils must be equipped to quantify the impact and be sufficiently involved in consultation with the other levels of Government to ensure that cost shifting does not occur.

4.9.1 Strategic Indigenous Housing and Infrastructure Program

The Strategic Indigenous Housing and Infrastructure Program (SIHIP) is the largest Indigenous housing program undertaken by the Australian and Northern Territory Governments. The joint $672million housing program is intended to deliver 750 new houses, 230 rebuilds of existing houses and 2,500 refurbishments across 73 remote Indigenous communities and a number of community living areas (town camps) in the Northern Territory by 2013.

The SIHIP has impacted the Councils and their communities in a number of ways. Construction of new houses and related infrastructure has increased the maintenance services required to be provided by the Councils. Some Councils have observed that unfunded costs have increased directly as a result of the SIHIP including maintenance of roads and infrastructure as a result of heavy haulage and machinery and increased costs associated with management of waste facilities.

4.9.2 Working Future

On 20 May 2009, the Northern Territory Government announced Working Future, a targeted strategy to improve the lives of Territorians living in remote areas. Working Future is closely linked to the Council of Commonwealth Governments National Indigenous Reform Agreement (Closing the Gap). A central element of Working Future is the Territory Growth Towns strategy, whereby Indigenous communities in 20 locations will become the economic and service delivery centres for their regions, including surrounding communities and homelands, through a ‘hub and spoke’ model of delivery.

Town Plans (NT Planning Scheme Area Plan and Zoning Maps) and Town Centre Urban Design Plans will be developed for each of the Territory Growth Towns. These Plans will provide a framework to guide future growth by identifying areas for specific land uses, enabling services to be programmed for future development within those areas.

Development within the Growth Towns will require the Councils to provide increased infrastructure and community service delivery and may result in an increase in demand for agency services presently delivered by the Councils. Involvement of the Councils in the development of the Town Plans is imperative.

4.9.3 Remote Service Delivery

Remote service delivery is a commitment by governments to work with Indigenous communities to improve the delivery of services to 29 priority remote communities across the Northern Territory, Western Australia, Queensland, New South Wales and South Australia. Of the 29 priority communities, 15 of these are located in the Northern Territory and six are located within the East Arnhem Shire Council.

The following priority communities have been identified in the Northern Territory: Angurugu, Galiwinku, Gapuwiyak, Gunbalanya, Hermannsburg, Lajamanu, Maningrida, Milingimbi, Nguiu, Ngukurr, Numbulwar, Wadeye, Yirrkala, Yuendumu and Umbakumba.

Under the Remote Service Delivery National Partnership Agreement, governments have agreed to develop Local Implementation Plans (LIPs) to guide government investment in the 29 priority remote service delivery communities. Local Implementation Plans are intended to be produced in close partnership with the respective Indigenous communities. The Local Implementation Plans set out for each community agreed priorities, actions, responsibilities and commitments. They detail what services are required and how they will be delivered. Many of these plans refer to future investment in infrastructure and sporting facilities.

4.9.4 Northern Territory Emergency Response

The Northern Territory Emergency Response (NTER), otherwise known as the 'Intervention', was announced on 21 June 2007 by the former Commonwealth Government and received in principle bipartisan support from the then Leader of the Opposition.

The immediate aims of the NTER measures were to protect children and make communities safe. In the longer term they were designed to create a better future for Aboriginal communities in the Northern Territory. A review of the NTER was conducted in October 2008 with a number of recommendations. The financial impact on Councils resulting from future action by the Commonwealth and Northern Territory Governments in implementing the recommendations will need to be evaluated including ongoing costs associated with new or improved infrastructure.

4.9.5 Leases / Land Tenure

The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) currently hold five-year leases over 64 Northern Territory communities. The five year leases enabled the Federal government to provide prompt access for the delivery of services, repair of buildings and development of infrastructure in communities as part of the Northern Territory Emergency Response (NTER). Five year leases are held and administered by the Commonwealth Government and all five year leases will expire on 17 August 2012 regardless of the date of commencement.

At the expiration of the five-year leases, land and infrastructure not subject to a longer term lease will revert back to the control of the land owners. This includes where parties have constructed or renovated buildings or infrastructure, as the construction of a building or investing money in a building on five year leased land does not equate to ownership.

There is concern within Councils that under the new arrangements from August 2012, commercial lease arrangements and associated costs will impact the Councils. The Councils will face increased costs which they will be unable to pass on or absorb.

It was also noted that a number of the Councils' audited financial statements have qualifed opinions in relation to buildings. The qualification recognises the change in government policy noting that the houses should not be recorded as an asset of the Council as they are not able to control the asset due to the uncertainty of the leasing arrangements for the land upon which the asset is situated.

As a result, most Councils have written off the value of the underlying assets as they cannot be held to have control over the infrastructure assets. The uncertainty over ownership of the assets undermines service delivery as:

- Land owners may choose to take control of infrastructure presently used to deliver core and agency services

- The Council may be pressured to take on new leasing arrangements which may extend beyond funding contract periods leaving the Council at a disadvantage if the funding contract is not extended.

The only arrangement likely to provide security of service delivery without presenting possible financial disadvantage to the Councils is for the funding bodies to seek leasing arrangements directly with the land owners over the proposed funding period. This may require funding providers to commit to longer funding periods, i.e. three years, in order for the arrangement to be acceptable to land owners. Funding bodies, including federal and state governments should initiate discussions with land owners to secure future lease arrangements beyond August 2012. These arrangements would need to be secured prior to 30 June 2012 to provide certainty of service delivery.

Leasing arrangements between the Northern Territory Government and the traditional owners need to be formalised as quickly as possible to enable the financial impacts to be assessed. For agency services, the optimal solution for the Councils may be to have the agency hold the lease to mitigate the risk of future costs not being funded. It is also appropriate to consider the equity of the arrangements and to ensure that those receiving rental for the land are making an adequate contribution for the receipt of Council services. Responsibility for maintenance of leasehold infrastructure should be clearly articulated and communicated.

4.9.6 Road and Infrastructure Backlog

The Northern Territory Government is currently developing strategies to better manage these roads including exploring options such as the potential transfer of nearly 7,000 km of its roads to Councils to manage as a part of their local road network.

The Department of Lands and Planning: Building the Future Northern Territory Government: 10 Year Road Strategy was announced in February 2012. The strategy makes the following observations:

> ‘The aging of the road network and the shift to a higher standard of rural roads has meant an increased demand on funding for maintenance. The cost of improving and maintaining road infrastructure is a major budgetary consideration. In the Territory, vast distances, a dispersed population, river and marine barriers, seasonal inundation and a low tax base substantially impact on the standard and high cost of this infrastructure. The need to transport road construction materials long distances and difficult access to materials due to land tenure and environmental concerns also contributes to the cost and complexity of these challenges.
>
> The Territory’s road network comprises:
>
> - 36,000 kilometres of roads
> - 210 bridges
> - Hundreds of river and creek crossings
> - 55 roadside rest areas
> - 260 kilometres of urban cycle ways.
>
> The total asset value of the Northern Territory Government’s road network is $2.3billion, with an estimated reconstruction cost of $3.7billion. Road construction and upgrading costs can vary considerably. The reconstruction of a road to National Highway Standard can cost up to $900,000 per kilometre and upgrading an unsealed arterial road to a sealed standard can cost up to $600,000 per kilometre.

> Road surveys completed within 50 kilometres of each of the Territory Growth Towns have found a need for an investment of $1.73billion in road infrastructure supporting Growth Towns alone.
>
> The mining industry places unique demands on the road network, due to its geographically dispersed nature and demand for year round heavy vehicle access. However, low traffic volumes, large gross vehicle masses, fluctuating market place values and often remote locations impact on the cost and sustainability of road infrastructure.
>
> The Territory's pastoral industry produces around 580 000 cattle a year from stations spread across the whole of the Territory, with many in remote areas where year-round access is difficult to both build and maintain. Cattle are transported by heavy vehicles, placing greater stress on unsealed roads and increasing maintenance costs for vehicles. The fluctuating market demand for live exports, including the need to move cattle in the Wet Season due to the moving Ramadan calendar, has required more emphasis on a move to year round access to the road network.
>
> The horticultural industry is worth around $120million a year to the Territory economy. As it continues to grow and diversify, the impact of road conditions on the quality of product can be significant and the increasing demand for road access to markets is increasing.
>
> The Territory relies heavily on tourism for wealth and employment, and is a major attraction due to its diverse geographic and cultural experiences. Continued growth in tourism and extension of the tourist season into the Wet Season will increase the demand for all weather access to Territory attractions. Major tourism attractions are spread over a large area, requiring visitors to travel long distances over unsealed roads.
>
> Coastal communities may be serviced by barges during this period for the carriage of freight, whereas the inland communities rely heavily on road access. Air services are sometimes the only alternative transport mode available when roads are inundated.'

Section 186(1) of the Local Government Act stipulates that roads within the local government area for which the Council is constituted, must be under the care, control and management of the Council. Comparison between the shires' roads maintenance budget and the funding received for roads identifies a shortfall in funding. Councils have a tendency to ensure that heavy traffic roads which are used to provide services into the community are maintained regularly, leaving a shortfall of funding for other roads in the Council.

It is imperative that Councils can clearly identify works required and the associated costs of maintaining their controlled roads. Council will also be required to consider impacts on the ongoing maintenance of infrastructure such as barge landings and airstrips.

Councils must undertake a comprehensive review of their existing road network and infrastructure and obtain an understanding of which roads the Northern Territory Government intends to hand to them. Councils need to ensure that all roads, including the type and condition of the roads and infrastructure are recorded in a register and decisions made as to what future development the road will require. Appropriate expertise should be sought to value the roads and to value future reconstruction, repairs and maintenance as required. This information will form the basis of a Roads and Infrastructure Plan for the Councils and can be used to identify and apply for capital and roads funding.

Handover of the roads should also be accompanied by funding equivalent to that presently spent on repairs and maintenance of the same roads by the Northern Territory Government notwithstanding there is widespread acknowledgement that the current funding is not considered adequate for major new works.

The Councils should also establish the ownership and control of the roads to ensure they are not paying repairs and maintenance costs unnecessarily.

4.9.7 Carbon Tax

In July 2011, the Commonwealth Government launched the Clean Energy Future package. The package contains action on four key policies, being carbon price, renewable energy, energy efficiency and land use. The package outlines detail on the proposed carbon tax, compensation packages for households, businesses and industry and a range of support packages to encourage programs and innovation in renewable energy, energy efficiency and land use. It comes into effect from 1 July 2012.

In order to determine the financial impact of the carbon tax, Councils will be required to calculate their emissions. The largest contributor to the calculation of emissions is likely to be the landfill sites currently managed by Councils. Councils are presently engaging experts to calculate estimates of emissions so they can budget and adjust rates and charges accordingly.

4.9.8 Natural Disaster Relief and Recovery Arrangements (NDRRA)

Proposed changes to the application and payment of funds under the NDRRA may result in Councils receiving staged payouts for the total or a proportion of the cost of damages claimed. Funding may occur significantly later that the natural disaster event. This may result in Councils being required to fund initial repairs or reconstruction of assets with reduced reimbursement up to twelve months following the natural disaster event, affecting funds available for core service delivery.

4.9.9 Indigenous Jobs Package Funding

The 2009-10 budget announcement saw the Commonwealth Government announce it would provide $202.4 million over five years to reform Community Development Employment Projects (CDEP) and the Indigenous Employment Program (IEP) in order to meet the Commonwealth Government's targets of halving the employment gap between Indigenous and non-Indigenous Australians within a decade. The funding agreements were for a three year period and are due to finish within the next eighteen months. These sources of funding have supplemented the wages paid to Indigenous personnel for core service delivery. Without a replacement source of funding, delivery of core services within local government areas will be significantly reduced or unable to be delivered.

4.10 Risk Assessment and Management

We were asked to identify the critical issues including a risk assessment including the identification of present and future risks and mitigation strategies for government and the Councils in the context of financial sustainability.

Conditions in existence at the time of this review have resulted in the following risks being identified and rated accordingly:

HIGH risk to long term financial sustainability

- Ability to develop long term plans is impaired
- Agreements are being entered into which are loss making for the Council
- Core services are not being delivered to an acceptable standard
- Costs are not being appropriately recovered from either funding bodies or users
- Cross subsidisation cannot be identified
- Expectation gaps exist between communities and Councils on acceptable levels of service
- Funds are not available to maintain, repair or replace gifted assets
- There is insufficient funding available for repairs, maintenance upgrade and replacement leading to an increased backlog of infrastructure and capital assets
- There is an inability to make informed decisions on the allocation of scarce resources by all levels of government
- There is a lack of transparency in financial reporting
- Rateable properties may not be identified and rates not collected.

MEDIUM risk to long term financial sustainability

- Economies of scale are not being achieved
- Financial savings may not be received or funding may be lost
- Councillors and management do not receive adequate or accurate information
- There is difficulty recruiting and retaining human resources leading to core services not being delivered to an acceptable standard
- The ability to compare and benchmark Council performance is impaired
- Increased costs associated with reporting have reduced funding available for service delivery
- There is increased likelihood of death or injury where equipment is no longer fit for purpose
- Opportunities to apply for and receive additional operational and capital funding are being lost
- Opportunities to increase own source revenue may be being missed
- Financial reports are misstated
- There is an increased risk of financial loss where unexpended funds are required to be repaid.

LOW risk to long term financial sustainability

- There is increased risk of human error and/or interface error
- There is increased risk of undetected fraud and error
- There is a lack of understanding of financial responsibilities
- There is a lack of understanding of governance requirements and duties of office holders
- Key financial information has been lost
- Elected members may be unable to determine if they are appropriately informed to make a decision
- Elected members may not be aware of the tools and independent advisors available to them during the decision making process
- There is an overreliance on chief executive officers and management to present issues and recommend courses of action to the elected members
- There exist potential breaches of legislation and funding agreements
- Processes and controls are not assessed for weaknesses and opportunities to improve
- There is increased reputational risk associated with external perception of remuneration of senior management and elected members
- There is increased reputational risk associated with perceptions on awarded contracts
- There is an increased risk of financial loss where unexpended funds are required to be repaid
- Risks are not identified or assessed
- Strategic, operational and staff goals are not aligned.
- Unnecessary compliance costs are being incurred by Councils.

We did not undertake a detailed whole of entity risk assessment at each Council as this was outside the scope of the analysis. We do recommend that each Council undertake a detailed risk assessment which considers the business processes within the Council, the risks and consequences associated with each business process, any relevant internal controls which mitigate the risk and an appropriate treatment plan where a residual risk remains after the implementation of controls.

Areas of risk that are likely to exist within the Councils' risk universe but have not necessarily been considered in full due to the limited nature of this analysis include:

Risk Type	Examples
Financial Risk	• Failure to comply ensure commercial return on investment • Failure to prevent or detect fraud • Inappropriate acceptance / rejection of projects • Failure to maintain adequate accounting records.
Legislative Risk	• Failure to comply with legislation and guidelines • Failure to effectively manage contracts • Failure to determine and meet taxation obligations.
Personnel Risk	• Death or serious injury of an employee • Failure to implement a performance management system

	• Failure to succession plan for key staff.
Information Technology Risk	• Inability to continue business due to lack of business continuity planning • Failure to safeguard systems and information • Inappropriate level of access to systems.
Governance Risk	• Loss of corporate knowledge • Inability to achieve strategic and operational outcomes • Failure to protect corporate information.
Facilities and Asset Risk	• Failure to adequately insure assets • Failure to ensure fleet meets operational requirement • Failure to recover cost of plant and equipment.
Reputational Risk	• Negative publicity arising from the action of Councils • Negative publicity arising from the action of Councillors • Failure to manage information released to the media.
Political Risk	• Change in delivery of government services leading to lost income • Change in political parties leading to changes in funding.
Social Risk	• Failure to embrace cultural diversity • Failure to respect culture.
Environmental Risk	• Failure to adhere to environmental legislation • Failure to manage facilities (asbestos).
Operational Risk	• Failure to safeguard individuals • Failure to safeguard property • Inadequate public liability insurance.

5 Financial Analysis by Council

5.1 East Arnhem Shire Council

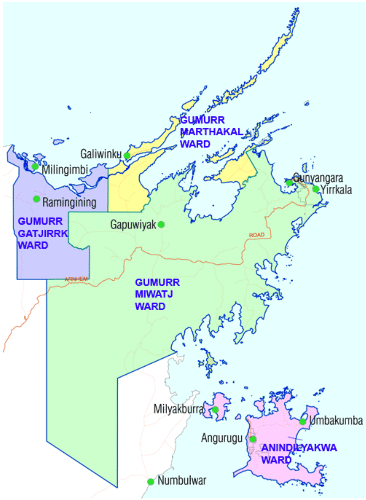
5.1.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, East Arnhem Shire Council (EASC) was incorporated under the *Local Government Act 2008 NT*. Nine of the previous community government Councils were amalgamated into EASC and all assets and liabilities were transferred to the new legal entity.

There are two Special Purpose Mining Towns located within the boundaries of the shire; these are Nhulunbuy on the Gove Peninsula and Alyangula on Groote Eylandt. These towns are established and maintained as a condition of the mining leases and do not fall under the management of EASC.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	9,967
Land size	33,302 km^2
Wards	6
Communities & Outstations	109
Pastoral Leases	0



Elected representatives to Council by ward (2008-2012)

Anindilyakwa	2
Bir Rawarrang	2
Gumurr Gatjirrk	2
Gumurr Marthakal	3
Gumurr Miwatj	3
Gumurr Miyarrka	2

As at 30 June 2011, EASC had 456 staff in its employ and was responsible for managing 1,232km of roads of which approximately 60% are classed as flat bladed track. (LGANT local directory 2011-2012).

As per the Northern Regional Management Plan, EASC is required to deliver services to nine designated communities and has established nine service delivery centres as the bases for delivering services across the shire, located in:

- Angurugu*#
- Galiwin'ku*#
- Gapuwiyak*#
- Gunyangara

- Milingimbi*#
- Milyakburra
- Ramingining*
- Umbakumba*#
- Yirrkala*#.

EASC also has a Corporate Service Centre office located in Darwin.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are seven Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There are six Remote Service Delivery Sites located within the shire.

Challenges of population and geography in EASC

EASC faces significant infrastructure challenges due to its specific geography and demographic profile. EASC's population is 9,967 people with the majority of the population being Indigenous. EASC occupies a land mass of 33,302 km^2. EASC faces a number of challenges impacting the delivery of services as identified in the Regional Management Plan for the Northern Region. Some of the key challenges include:

- A lack of all-weather roads and poor condition of roads to support access to mainland communities and a large number of island communities in the region. The timely and cost effective transport of shire staff, contractors and cargo across the region is a continual challenge
- Recruitment and retention of staff particularly suitably qualified staff
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- The viability of delivery of services to non-Council homelands
- The employment and training of indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Sustainability and alternative revenue generation with a significant portion of revenue coming from grant revenue
- A low level of untied grant revenue received is able to be used at the Councils discretion. The majority of grant revenue is tied which limits the influence EASC has on how funds can be applied
- Quality of communications is impacted with distances in the Council being considerable together with the head office located in Nhulunbuy and key management staff being spread across the Top End
- Lack of secure land tenure for Council assets creates uncertainty over the ownership and control of assets
- Funding agreements for grant funds are generally annually which impacts on future planning and recruitment and retention of staff.

Entities in which EASC has an interest

CouncilBiz

CouncilBiz was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the 8 member Shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. As the Council did not expect to realise any returns from its $50,000 funding contribution to CouncilBiz, this amount was expensed when it was incurred.

Latitude 12 Pty Ltd

EASC has a 50% interest in the joint venture entity Latitude 12 Pty Ltd whose principal activity is the supply of accounting services. The voting power held by EASC is 50% with the balance of 50% resting with WASC. The interest in Latitude 12 Pty Ltd is accounted for in the financial statements using the equity method of accounting.

On 1 July 2010 EASC and WASC entered into an agreement to establish Latitude 12 Pty Ltd. A Loan Agreement was also entered into by both parties to provide funding of $207,500 (unsecured) each for the purpose of funding the cash flow requirements of Latitude 12 Pty Ltd and to assist with the expansion of its operations. The agreement is for a period of three years at an interest rate of 5.75% per annum.

Other entities

- East Arnhem Pty Ltd 1
- East Arnhem Pty Ltd 2
- East Arnhem Pty Ltd 3
- East Arnhem Pty Ltd 4
- East Arnhem Pty Ltd 5.

Region C Pty Ltd

The Contract for the creation of Region C Pty Ltd was dated 1 July 2011. Region C Pty Ltd is a wholly owned commercial enterprise. The aim of the company is to offer affordable housing and maintenance solutions to remote communities in order to improve the quality of life for both indigenous and non-indigenous residents.

Further clarification should be sought from EASC as to the nature and classification of each of these investments as an investment, joint venture, associate or subsidiary. Interests in other entities held by EASC should be transparent and adequately disclosed to enable users of the financial statements of EASC to make informed decisions. Consolidated financial results should be reported as required together with appropriate disclosure.

5.1.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.1a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	12,248,512	21,805,433	23,238,433	(10,989,921)	(47%)
Non-current assets	9,577,873	9,169,083	3,806,116	5,771,757	152%
Total Assets	21,826,385	30,974,516	27,044,549	(5,218,164)	(19%)
Current liabilities	6,162,329	7,760,621	6,308,345	(146,016)	(2%)
Non-current Liabilities	173,357	182,210	253,831	(80,474)	(32%)
Total Liabilities	6,335,686	7,942,831	6,562,176	(226,490)	(3%)
Net Assets	15,490,699	23,031,685	20,482,373	(4,991,674)	(24%)
Equity	15,490,699	23,031,685	20,482,373	(4,991,674)	(24%)

**Balances for 2009 were restated in the 2010 audited financial statements. Therefore we have used the 2009 comparatives as reported in the 2010 audited financial statements*

***Balances for 2010 were restated in the 2011 audited financial statements. Therefore we have used the 2010 comparatives as reported in the 2011 audited financial statements*

There has been a $5million decrease in the financial position for EASC from 30 June 2009 to 30 June 2011. The greatest movements are in the cash and cash equivalents, property plant and equipment and unexpended grant balances. The remaining asset and liability balances remained fairly consistent over the period.

Cash balances analysis

Cash balances comprise cash and cash equivalents as reported in the annual financial statements. Table 5.1b below shows the composition of current assets for the last three years with focus on cash balances.

Table 5.1b: Level and composition of current assets

	2011	2010	2009*
Cash and cash equivalents	6,735,961	17,627,703	19,873,929
Other	5,512,551	4,177,730	3,364,504
Current assets	12,248,512	21,805,433	23,238,433
Cash as % of current assets	55%	81%	86%

**Note: the cash balances used in the table above and our ensuing analysis have come from the 2010 annual financial statements as the balances reported in the comparative column in 2010 differed to the annual 2009 financial statements.*

As can be seen from table 5.1b, cash balances have declined since 2009 by $13.1million with the majority of the decline occurring in 2011 where cash balances decreased by approximately $0.9million. Other current assets have increased by $2.2million since 2009.

The high cash balance at 2009 was due to EASC generating a surplus of $27million ($5.7million excluding 'gain on restructure of local government'. In 2010, the cash balances decreased by

$2.2million to $17.6million. Approximately $11.3million of this balance was funds held for unexpended grants with the unexpended grants reserve increasing from $7.1million at 2009 to $11.3million at 2010.

The cash balances decreased by $10.9million from 30 June 2010 to $6.7million in 2011. The decrease reflects the $7.5million deficit for 2011 and the application of grant funds which reduced the unexpended grants reserve by $6million to $5.3million as at 30 June 2011.

These results indicate that during 2009 and 2010, some of the funded programs were not running at full capacity as resources were committed to the initial establishment of EASC's operations of procedures and controls. As EASC developed procedures and controls, the focus shifted to program delivery resulting in a reduction in unexpended grant balances.

Table 5.1c below shows the composition of the cash balances.

Table 5.1c: Composition of cash balances

	2011	2010*	2009**
Cash and cash equivalents	6,735,961	17,627,703	19,873,929
Restricted cash balances*	5,339,367	11,321,144	7,187,933
Unexpended grants to be repaid	1,302,501	693,799	-
Unrestricted cash and cash equivalents	94,093	5,612,760	12,685,996

**Represents unexpended grants reserve balances at year end*
***Note: the cash balances used in the table above and our ensuing analysis have come from the 2010 annual financial statements as the balances reported in the comparative column in 2010 differed to the 2009 annual financial statements.*

Table 5.1c demonstrates there were sufficient cash balances at each year end to cover the unexpended grants reserve balances, however the level of unrestricted cash balances has decreased by $7.0million in 2010 from 2009 and a further $5.5million in 2011. This indicates that there was insufficient cash generated by EASC during the last two financial years to meet incurred expenses.

It should be noted that the unexpended grants reserve balances reported in the 2009 and 2010 financial statements were qualified by the auditors as sufficient appropriate audit evidence was not available to support the allocation of expenses between activities.

Table 5.1d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt, it is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, then the Council may have problems in meeting its short term obligations

Table 5.1d: Current Ratio

	2011	2010*	2009
Total current assets	12,248,512	21,805,433	23,238,433
Total current liabilities	6,162,329	7,760,621	6,308,345
Net current assets (Working Capital)	6,086,183	14,044,812	16,930,088
Current ratio	1.99	2.81	3.68

**Balances for 2010 were restated in the 2011 audited financial statements. Therefore we have used the 2010 comparatives as reported in the 2011 audited financial statements*

Table 5.1e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.1e: Cash Ratio

	2011	2010*	2009
Total cash balances	6,735,961	17,627,703	19,873,929
Less: unexpended grants reserve (restricted assets)***	5,339,367	11,321,144	7,187,933
Less: unexpended grants to be repaid (restricted assets)**	1,302,501	693,799	-
Total unrestricted cash balances	94,093	5,612,760	12,685,996
Total current liabilities (unrestricted)	4,859,828	7,066,822	6,308,345
Cash Ratio	0.02	0.79	2.01

**Balances for 2010 were restated in the 2011 audited financial statements. Therefore we have used the 2010 comparatives as reported in the 2011 audited financial statements*
***Unexpended grants to be repaid are included in the audited financial statements under current liabilities.*
****Unexpended grants reserve is reported in the audited financial statements under equity.*

Table 5.1d shows that there were sufficient current assets to extinguish current liabilities for each of the three years with current ratios of 3.68, 2.81 and 1.99, however each year the current ratio has decreased by approximately 1 point. If this trend continues then EASC faces the possibility of its current assets being insufficient to meet its current liabilities. The benchmark for the current ratio is one which EASC has exceeded each year.

Table 5.1e shows that there were sufficient cash assets available to cover the amounts identified as 'unexpended grants reserve' and 'unexpended grants to be repaid', however there were insufficient cash assets remaining in 2010 and 2011 to extinguish all current liabilities.

Non-current assets

Non-current assets are property, plant and equipment and work in progress which have increased over the last three years from $3.8million to $9.2million in 2010 and $9.6million in 2011.

Upon formation, $45.1million in property, plant and equipment from the nine existing Councils was transferred to EASC. During 2009 the existence, condition and control of all property, plant and equipment were assessed and the balance of $45.1million was reduced to $3.8million following a write off of $41.4million of assets. The assets written off were considered either non-existent, not fit for purpose or not controlled by EASC.

Part of the write off of property during 2009 was in response to the lease arrangements in Indigenous communities put in place under the Federal Government's Intervention. EASC has considered those assets affixed to leased land to be no longer under the control of the Council and as such, the value attributed to these assets were written off. Of the write off, buildings constituted $38.2million. The valuation and verification process was completed during 2010 and resulted in a further $613,000 being written off.

Table 5.1f below shows the composition of property, plant and equipment for EASC for the 2011 year.

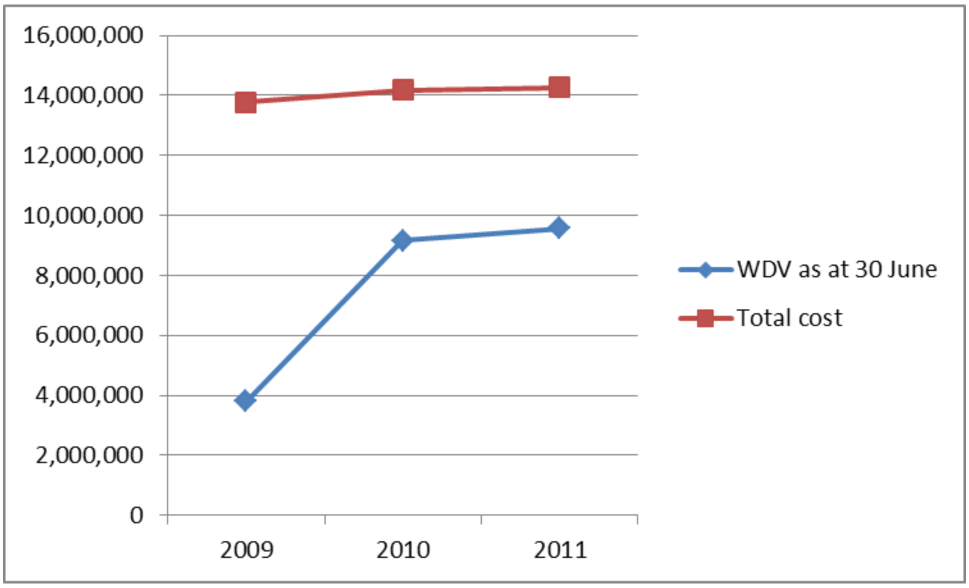
Table 5.1f: Composition of property, plant and equipment (including work in progress) for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Land	-	-	-	-
Buildings	2,550,561	(66,032)	2,484,529	26.9%
Infrastructure	136,674	(11,928)	124,746	1.4%
Equipment	1,574,411	(948,275)	626,136	6.8%
Plant	5,265,138	(1,813,703)	3,451,435	37.4%
Furniture and fittings	40,728	(18,205)	22,523	0.2%
Motor vehicles	7,351,226	(4,853,811)	2,497,415	27.0%
Work in progress	33,244	-	33,244	0.4%
Total	16,951,982	(7,711,954)	9,240,028	100.0%

Note: figures obtained from the 2011 annual financial statements

The majority of property, plant and equipment was plant at 37.4%, followed by motor vehicles at 27% and buildings at 26.9%. Together these represent 91.3% of the total written down value (WDV). As previously mentioned property, plant and equipment increased from $3.8million to $9.2million in 2011 as represented in the chart below.

Chart 5.1A: Total cost/valuation and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



Additions of $6.5million contributed to an increase in total property, plant and equipment from $3.8million in 2009 to $9.2million in 2010 which remained consistent in 2011. Refer to section 5.1.5 for a detailed list of the additions.

Non-current assets in 2011 also included $207,500 for an interentity loan and investments of $130,000. On 1 July 2010 WASC and EASC entered into an agreement to establish Latitude 12 Pty Ltd and both parties contributed $207,500 each.

Liabilities analysis

Current liabilities comprise creditors, provision and other liabilities including unexpended grants to be repaid. The current liability balance remained consistent over the three years with a small increase noted in 2010 before returning to $6.2million in 2011. Non-current liabilities represent employee provisions; these have slightly decreased over the three years consistent with the decrease in employee expenditure.

Equity analysis

Equity is primarily affected by the movement in the unexpended grant balance with the movement in asset revaluation reserves with movements in accumulated funds having little effect. The unexpended grant balance peaked in 2010 at $11.3million; however it decreased the following year to $5.3million. The unexpended grants balance represents a considerable proportion of the cash balance each year.

5.1.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacements of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio (or current ratio). We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of NT Councils in section 3 of this report.

This section provides our analysis of the financial performance of EASC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.1.5.

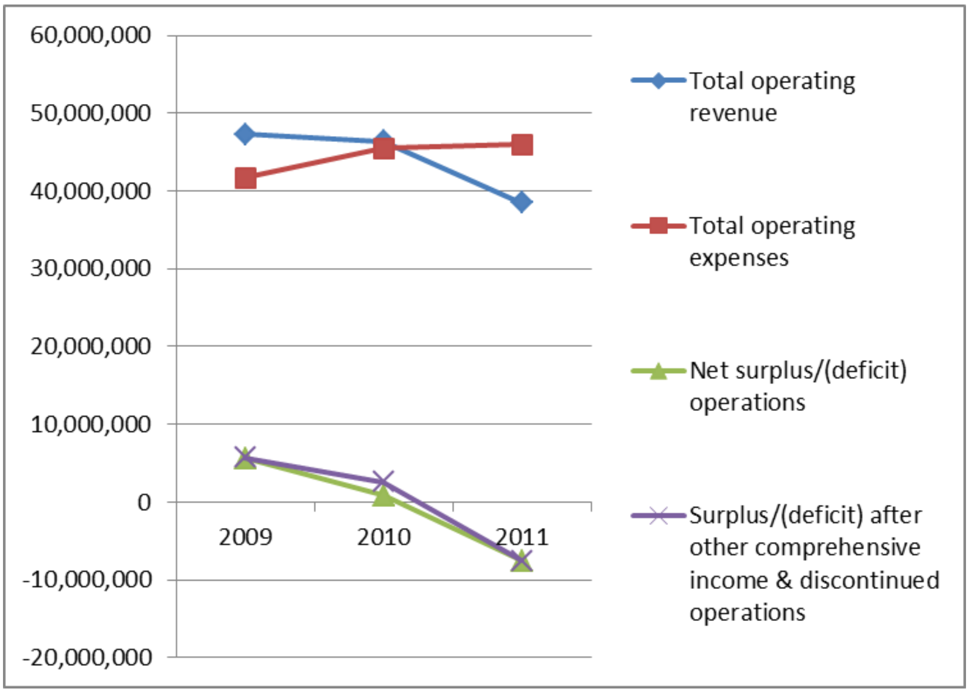
Below is an extract of the Income and Expenditure Statement from the audited financial statements for the last three years.

Table 5.1g: Financial performance (as reported in the audited financial statements)

	2011	2010	2009*	Total increase/(decrease)	
User charges and fees	6,503,969	3,118,618	3,363,654	3,140,315	93%
Rates and annual charges	1,882,149	1,877,771	749,454	1,132,695	151%
Interest	396,733	317,215	507,527	(110,794)	(22%)
Grants and contributions	25,276,815	37,826,806	38,723,233	(13,446,418)	(35%)
Other Operating revenue	4,143,014	3,207,282	3,944,926	198,088	5%
Share of net profits from joint venture	120,340	-	-	120,340	100%
Net profit from disposal of assets	124,717	14,923	38,050	86,667	228%
	38,447,737	46,362,615	47,326,844	(8,879,107)	(19%)
Employee costs	19,981,771	20,656,792	21,245,297	(1,263,526)	(6%)
Materials and contracts	13,120,409	11,029,578	10,490,261	2,630,148	25%
Depreciation and amortisation	2,162,832	1,557,128	1,476,172	686,660	47%
Other costs	9,893,018	10,967,527	8,478,951	1,414,067	17%
Loss on disposal of assets/impairment of plant	831,659	1,272,199	-	831,659	100%
	45,989,689	45,483,224	41,690,681	4,299,008	10%
Net surplus/(deficit) operations	(7,541,952)	879,391	5,636,163	(13,178,115)	(234%)
Profit from discontinued operations	966	147,110	42,156	(41,190)	(98%)
Gain of Asset Revaluation Reserve	-	1,513,158	-	-	-
	966	1,660,268	42,156	(41,190)	(98%)
Total Comprehensive Income	(7,540,986)	2,539,659	5,678,319	(13,219,305)	(233%)

**The 'assets contributed following restructure' recorded in revenue totalling $62.8million and the 'assets written off following restructure' recorded in expenditure of $41.4million in the 2009 financial statements were excluded from this table to allow more comparable figures between the three years. Without excluding those impacts, total revenue would be $110.1million, total expenditure would be $83.1M and the total surplus for the 2008/09 year would be $27.0million.*

Chart 5.1B: Revenue, expenses and net surplus/ (deficit) for 2009, 2010 and 2011



**The chart shows the operating surplus/ (deficit) before other comprehensive income and discontinued operations and after. It also excludes the 'gain on restructure of local government with a net amount of $21.3million.*

Table 5.1g shows EASC's financial performance moved from a $5.7million operating surplus (excluding 'gain on restructure of local government' of $21.3million) in 2009 to a $7.5million operating deficit in 2011. The operating deficit in 2011 was the first deficit incurred by EASC since incorporation. The deficit incurred in 2011 resulted from a decrease in income combined with an increase in expenditure. Income decreased primarily due to grant and contributions decreasing by $13.4million or 35% over the three year period whilst materials and contracts and 'other costs' increased by $2.6million (25%) and $2.2million (26%) respectively. Whilst operating expenses have increased over the three years, employee costs have decreased by $1.2million (6%) with the decrease spread evenly across each of the three years.

Materials and contracts have increased by $2.6million (25%) since 2009 mainly due to materials increasing by $400,000 and contractor costs increasing by $2.1million.

Depreciation expenditure increased from $1.5million to $2.1million, reflecting the property, plant and equipment additions of $6.5million in the previous financial year.

Other costs increased by $1.4million over the three year period. The most notable movements over the three year period were travel and accommodation increasing by $184,000; leasing costs increasing by $600,000; insurance costs increasing by $481,000 and vehicles costs increasing by $227,000.

Employee expenses decreased by $1.2million over the three year period due predominantly to salaries and wages costs reducing by $1million.

Refer to section 5.1.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/ (deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/ (deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/ (deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/ (deficit) against own source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating the operating surplus ratio.

Table 5.1h shows the operating surplus/ (deficit) for EASC and the associated surplus/ (deficit) ratio for the three years from 2009.

Table 5.1h: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	36,913,048	41,008,931	35,051,799
Less: operating expenses (including depreciation expense)***	45,989,689	45,483,224	41,690,681
Operating surplus/(deficit)	(9,076,641)	(4,474,293)	(6,638,882)
Operating surplus/ (deficit) ratio (%)	(25%)	(10.9%)	(18.9%)
Own source revenue*	13,046,205	8,520,886	8,565,561
Operating surplus/ (deficit) ratio (%)	(69.6%)	(52.5%)	(77.5%)

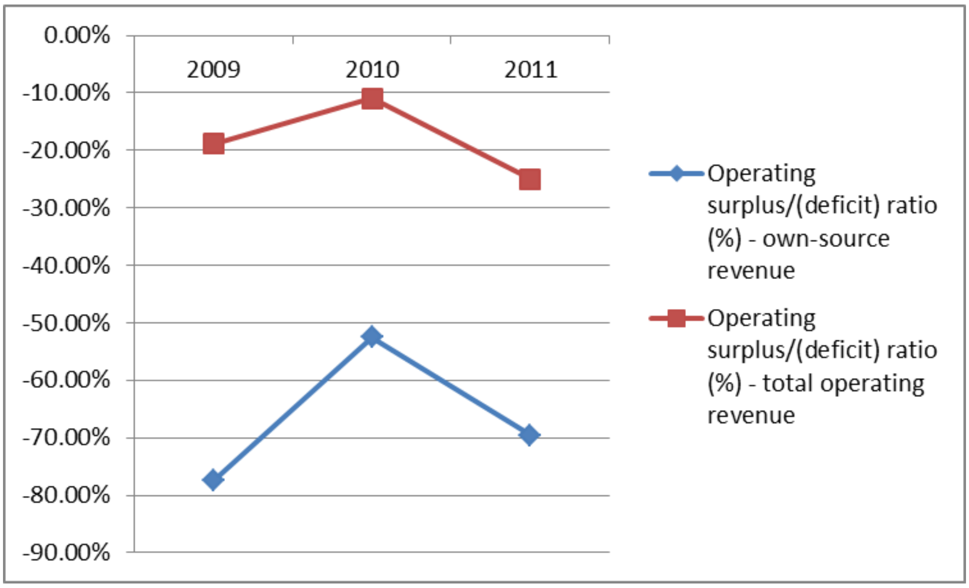
**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*

***Operating revenue does not include capital grants*

****Does not include profit from discontinued operations or gain on asset revaluation reserve*

EASC incurred an operating deficit in 2011 amounting to (69.6%) of their own source revenue and (25%) of total operating revenue. In 2010, the operating deficit was 10.9% of total revenue (52.5% of own source revenue). In 2009, the operating surplus was 18.9% of total revenue (77.5% of own source revenue). The table above and the chart below show decreasing operating results since 2009 which is a trend that is financially unsustainable.

Chart 5.1C: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents less than 5% of total revenue. While rates revenue has increased over the three year period, EASC is limited in how much it can generate through rate revenue due to a limited number of properties that are rateable, legislated conditional rating of pastoral and mining entities, slow or negative growth rates in its communities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.1i: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	1,882,149	1,877,771	749,454
Operating expenses	45,989,689	45,483,224	41,690,681
Rates coverage ratio	4.09%	4.13%	1.80%

The calculations above show that the rates coverage ratio for each of the three years is between 1.80% (2009) and 4.13% (2010), far less than the 40% benchmark. This demonstrates EASC's dependency on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare the financial performance to budgets and plans for each of the three years. Budget and actual results differ in the review due to the data being extracted in different ways. EASC data is also affected by the change made to the general ledger structure during the three years. The Shire Plan is prepared well before the end of previous financial year and as a result is revised during the year.

Analysis of budget versus actual results by category

Below is a table that shows the budgeted figures for core services, non-core services and fee for service arrangements for 2009, 2010 and 2011.

Table 5. 1j: Budget versus actual surplus/ (deficit) by core services, agency services and commercial services

	Budget per shire plan surplus/(deficit)	Budget per general ledger surplus/(deficit)	Actual surplus/(deficit)
2010/11			
Core Services	(7,835,716)	(2,416,877)	(3,385,559)
Agency Services	3,772,169	(60,546)	(1,964,952)
Commercial Services	4,437,769	2,477,423	(2,195,339)
Net surplus/(deficit)	374,222	-	(7,545,850)
2009/10			
Core Services	(3,980,010)	(5,353,410)	(2,006,486)
Agency Services	2,025,810	2,199,610	5,243,399
Commercial Services	1,954,200	3,153,800	3,211,338
Net surplus/deficit	-	-	6,448,252
2008/09			
Core Services	(643,275)	(643,241)	(36,540,053)
Agency Services	(100,366)	(100,370)	4,534,635
Commercial Services	904,793	904,793	2,686,732
Net surplus/deficit	161,182	161,182	(29,318,686)

**Net deficit is $7.5million per audited financial statements*

***Net surplus is $2.5million per audited financial statements compared to $6.5million surplus per the surplus/deficit report provided*

****Net surplus is $27.0million per audited financial statements compared to $29.3million deficit per the surplus/deficit report provided*

***** The2008/09 budgeted figures were taken from the Shire Financial Plan, the net surplus does not add correctly, the correct surplus is $161,152*

As can be seen from table 5.1j, EASC budgeted for surpluses in 2009 and 2011 and a breakeven budget in 2010. Actual results however show that in 2010 and 2011 EASC incurred deficits. The deficit of $29.3million in 2009 was due to EASC writing off property, plant and equipment to the value of $43.1million as these assets were considered either non-existent, not fit for purpose or not controlled by EASC.

Core services were budgeted as loss-making in each of the three years. Actual results also showed EASC incurring deficits for each of the three years.

Agency services were budgeted to make a deficit in 2009 and surplus in the other two years. Actual results showed surpluses for 2009 and 2010 and a deficit in 2011.

Commercial services were budgeted to make a surplus in each of the three years. Actual results showed surpluses for 2009 and 2010 and a deficit in 2011. Both agency and commercial services have been affected by the development of a methodology for calculating and applying overheads.

Analysis of budget versus actual results by standard classification

In 2009 EASC incurred an operating surplus of $5.6million compared to a budgeted operating surplus of $502,000, resulting in the actual results being higher than that budgeted by $5.1million (1030%). Overall actual revenue and expenses were higher than budget by 15.1% and 2.6% respectively. There was no budget for depreciation and amortisation costs yet EASC owned assets from 1 July 2008. Refer to table 5.1k below.

Table 5.1l shows that in 2010, there were several account classifications which did not have a budget despite the prior year showing actual results against these classifications. Again the actual revenue and expenses were higher than budget by 12.8% and 12.0% respectively and the final actual surplus of $1.0million exceeded the budgeted surplus of $502,070.

In 2011 EASC budgeted for a deficit (which is a breach of the Local Government Act 2008) of $8.9million however actual results for 2011 show EASC incurring a loss of $7.5million. From review of the tables below and discussion with EASC staff there have been improvements in the budgeting process over the period under analysis and further enhancements to the budgeting process for the 2012 budget. In 2011 revenue was 3.3% less than budgeted and expenditure 5.5% less than budgeted expenditure.

Table 5.1k: Budget versus actual results for 2009

	Budget	Actual	Difference $	Difference %
User charges and fees	70,000	3,363,654	3,293,654	4705.22%
Rates and annual charges	627,736	749,454	121,718	19.39%
Interest	100,000	507,527	407,527	407.53%
Grants and contributions	11,265,381	38,723,233	27,457,852	243.74%
Other operating revenue	29,035,883	3,944,926	(25,090,957)	(86.41%)
Net profit from disposal of assets	-	38,050	38,050	100.00%
Total Revenue	41,099,000	47,326,844	6,227,844	15.15%
Employee costs	29,022,670	21,245,297	(7,777,373)	(26.80%)
Materials and contracts	10,506,657	10,490,261	(16,396)	(0.16%)
Depreciation and amortisation	-	1,476,172	1,476,172	100.00%
Other costs	1,067,603	8,478,951	7,411,348	694.20%
Total Expenditure	40,596,930	41,690,681	1,093,751	2.69%
Profit from discontinued operations	-	42,156	42,156	100.00%
Surplus / deficit	502,070	5,678,319	5,176,249	1030.98%

Table 5.1l Budget versus actual results for 2010

	Budget	Actual	Difference $	Difference %
User charges and fees	-	3,118,618	3,118,618	100.00%
Rates and annual charges	1,800,000	1,877,771	77,771	4.32%
Interest	-	317,215	317,215	100.00%
Grants and contributions	20,150,100	37,826,806	17,676,706	87.73%
Other operating revenue	19,148,900	3,207,282	(15,941,618)	(83.25%)
Net profit from disposal of assets	-	14,923	14,923	100.00%
Total Revenue	41,099,000	46,362,615	5,263,615	12.81%
Employee costs	31,481,936	20,656,792	(10,825,144)	(34.39%)
Materials and contracts	9,114,994	11,029,578	1,914,584	21.00%
Depreciation and amortisation	-	1,557,128	1,557,128	100.00%
Other costs	-	10,967,527	10,967,527	100.00%
Loss on disposal of assets	-	1,272,199	1,272,199	100.00%
Total Expenditure	40,596,930	45,483,224	4,886,294	12.04%
Profit from discontinued operations	-	147,110	147,110	100.00%
Surplus / deficit	502,070	1,026,501	524,431	104.45%

Table 5.1m: Budget versus actual results for 2011

	Budget	Actual	Difference $	Difference %
User charges and fees	2,198,380	6,503,969	4,305,589	195.85%
Rates and annual charges	1,855,939	1,882,149	26,210	1.41%
Interest	337,529	396,733	59,204	17.54%
Grants and contributions	24,669,445	25,276,815	607,370	2.46%
Other operating revenue	10,699,559	4,143,014	(6,556,545)	(61.28%)
Share of net disposal of association	-	120,340	120,340	100.00%
Net profit from disposal of assets	(2,690)	124,717	127,407	(4736.32%)
Total Revenue	39,758,162	38,447,737	(1,310,425)	(3.30%)
Employee costs	19,526,628	19,981,771	455,143	2.33%
Materials and contracts	15,891,286	13,120,409	(2,770,877)	(17.44%)

Depreciation and amortisation	2,222,369	2,162,832	(59,537)	(2.68%)
Other costs	11,293,935	9,893,018	(1,400,917)	(12.40%)
Loss on disposal of assets	(241,179)	831,659	1,072,838	(444.83%)
Total Expenditure	48,693,039	45,989,689	(2,703,350)	(5.55%)
Profit from discontinued operations	-	966	966	100.00%
Surplus / deficit	(8,934,877)	(7,540,986)	1,393,891	(15.60%)

5.1.4 Revenue and revenue sources

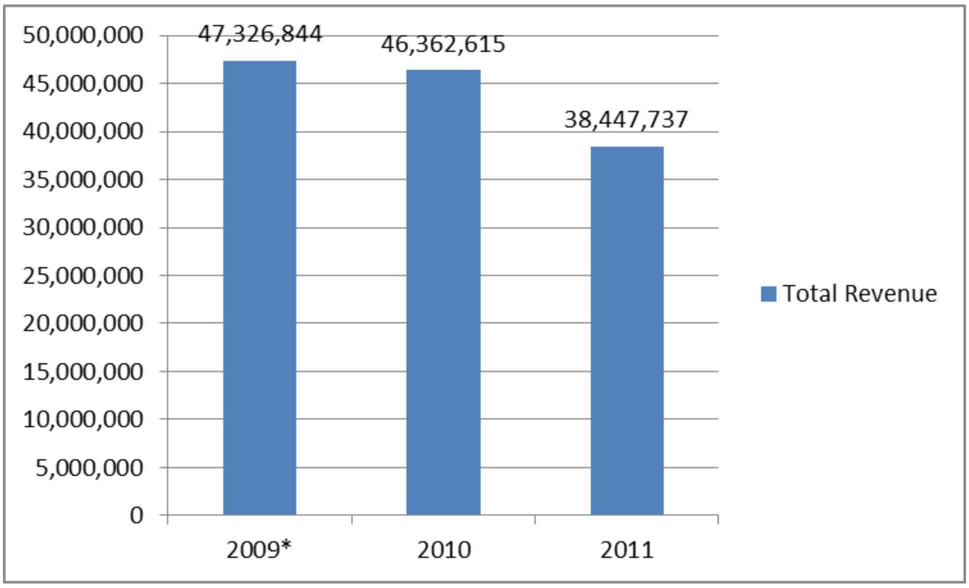
Table 5.1n: Revenue for 2009, 2010 and 2011

	2011	2010	2009*	Total increase/(decrease)	
User charges and fees	6,503,969	3,118,618	3,363,654	3,140,315	93%
Rates and annual charges	1,882,149	1,877,771	749,454	1,132,695	151%
Interest	396,733	317,215	507,527	(110,794)	(22%)
Grants and contributions - operational	23,742,126	32,473,122	26,448,188	(2,706,062)	(10%)
Grants and contributions - capital	1,534,689	5,353,684	12,275,045	(10,740,356)	(87%)
Other Operating revenue	4,263,354	3,207,282	3,944,926	318,428	8%
Net profit from disposal of assets	124,717	14,923	38,050	86,667	228%
	38,447,737	46,362,615	47,326,844	(8,879,107)	(19%)

**The 'assets contributed following restructure' recorded in revenue totalling $62.8millin in the 2009 financial statements were excluded from this table to allow more comparable figures between the three years. Without excluding those impacts, total revenue would be $110.1million.*

The total revenue received in 2011 was $38.4million, $46.4million in 2010 and $47.3million in 2009. Over the three year period the total revenue decreased by almost $8.9million (19%).

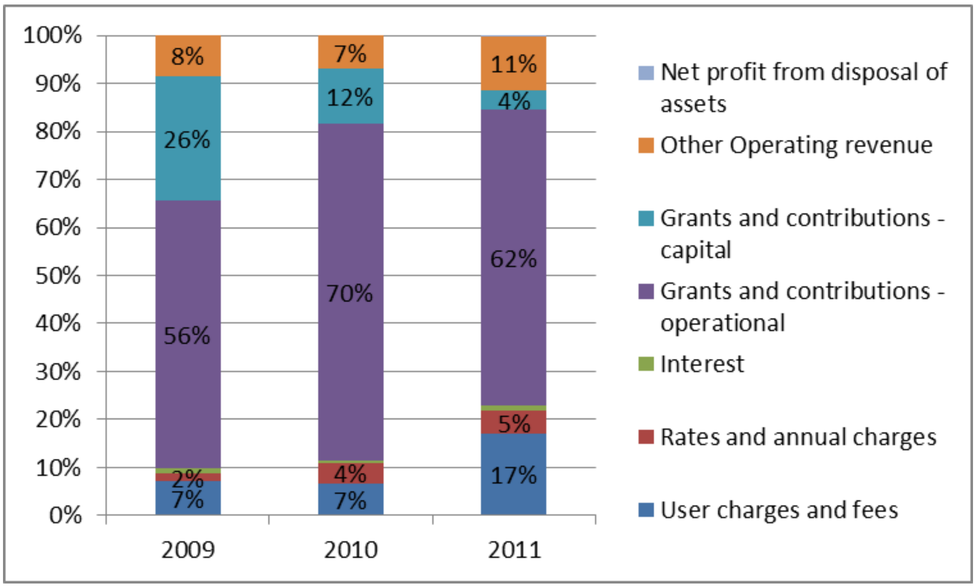
Chart 5.1D: Total revenue by year



EASC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue (including share of net profits from joint venture entities)
- Net profit from disposal of assets.

Chart 5.1E: Revenue analysis by source



The chart above demonstrates the heavy reliance on grants and contributions income and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, EASC's own source revenue is insufficient to cover the costs of delivering core services to its shire communities.

Between 62% (2011) and 56% (2009) of EASC's total revenue was derived from grants and contributions predominantly from the Northern Territory and Commonwealth Governments. User charges and fees contributed between 7% (2009) and 17% (2011) of total revenue. Rates and charges provided less than 5% of the total revenue and other income ranged between 7% (2010) and 11% (2011).

Revenue – untied versus tied

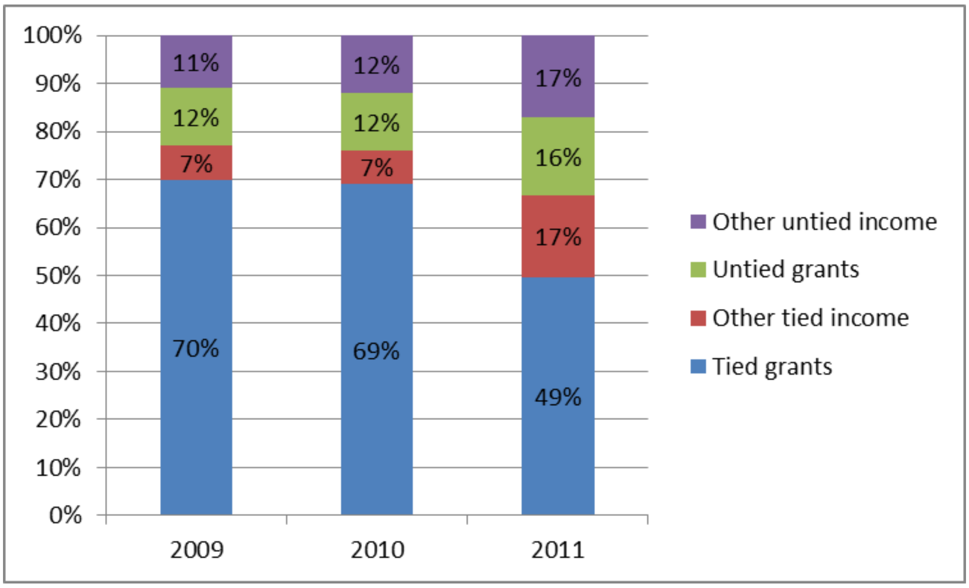
For the purposes of this analysis, all revenue received by EASC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of rates and annual charges, interest, other operating revenue and net profit/(loss) on disposal of assets
- Tied income consists of user charges and fees.

Table 5.1o: Tied versus untied revenue

	2011		2010		2009	
Tied grants	18,944,592	49%	32,117,940	69%	33,109,168	70%
Other tied income	6,503,969	17%	3,118,618	7%	3,363,654	7%
Total tied income	25,448,561	66%	35,236,558	76%	36,472,822	77%
Untied grants	6,332,223	16%	5,708,866	12%	5,614,065	12%
Other untied income	6,666,953	17%	5,417,191	12%	5,239,957	11%
Total untied income	12,999,176	34%	11,126,057	24%	10,854,022	23%
Total operational income	38,447,737	100%	46,362,615	100%	47,326,844	100%

Chart 5.1F: Revenue tied versus untied



The majority of revenue received by EASC in each of the three years was tied.

Grants and contributions (operational)

Grants and contributions (operational) were between 56% and 70% of total revenue over the three years. Decreases in grants and contributions (operational) of $2.7million have contributed to a decline in total revenue.

Included in grants and contributions (operational) for 2009 and 2010 are grants received for the Housing Maintenance Program from the DHLGRS of $5.3million and $5.7million respectively. In 2011 funding for the Housing Maintenance Program changed from being provided as a grant to being provided on a fee for service basis. Therefore, of the $2.7million decrease in operational grants and contributions over the three year period $5.3million relates to the Housing Maintenance Program which means that the real decrease in grants and contributions (operational) is in fact an increase of $2.6million (10%) compared to a 10% decrease as shown in the annual financial statements and table 5.1m.

In 2009, EASC received one off grant funding for the establishment costs which would have contributed to the decrease in grants and contributions reported in the annual financial statements.

A contributing factor to the falling revenue over the three years was the decrease in the Community Development Education Project (CDEP) grant funding which fell from $10.2million during 2009 to $3.6million during 2010 and $1.3million in 2011. Upon the announcement of the phasing out of the CDEP program, EASC sought to reduce their dependence on this funding.

In table 5.1p we can see that the majority of grant revenue is for non-core at 70% in 2009, 35% in 2010 and 42% in 2011. The table demonstrates that core services operational funding decreased over the three years and non-core operational services grant income increased.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	
Match funding	
Roads to recovery	
Library	
Shire Establishment Fund	

CDEP wages funding has been classified as a core services as it supports the training and employment of local people. This does not reflect the classification of the Council.

Table 5.1p: Core versus non-core services grant income (operational)

	2011	2010	2009
Core services	9,856,244	11,527,394	18,639,771
Non-core services	13,885,882	20,945,728	7,808,417
	23,742,126	32,473,122	26,448,188
Core services as a %	42%	35%	70%
Non-core services as a %	58%	65%	30%

**Core services include the following grants: NT Operation Grant, Grants Commission operation and road portion, CDEP Wages funding, Matched funding, Road to Recovery, Library and Museum grant and the Shire Establishment funding.*

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.1q, 5.1r and 5.1s.

Below is a table that shows the composition of grant revenue received by source:

Table 5.1q: Primary sources of grant income (operational)

Source	2011	2010	2009
Northern Territory Government	12,397,905	16,746,184	7,938,201
Commonwealth Government	11,292,521	15,660,755	14,928,538
Other	51,700	66,183	3,581,449
Total grants	23,742,126	32,473,122	26,448,188

The level of funding provided to EASC from the Northern Territory Government for operational purposes has been consistent with that provided by the Commonwealth Government except for 2009 conversely there was a $7million difference. We can also see that the level of funding provided by the Commonwealth Government has decreased over the three years from $14.9million to $11.3million wheras there was an increase of $4.5million since 2009 provided by the Northern Territory Government. Grant funding from other sources has also decreased from $3.5million to $51,700 in 2011.

Grant funding (operational) for core services

Table 5.1p demonstrates that the level of grant income received for core services has decreased by $8.8million or 47% from 2009. Core services revenue is provided by the Northern Territory and Commonwealth Governments to be used by EASC to deliver core services to the communities within its shire boundaries. The funding is generally in the form of financial assistance grants, road funding and operational subsidies as can be seen in the table below.

Table 5.1r: Tied versus untied core services grant and contributions (operational)

	2011	2010	2009
Untied	6,332,223	5,708,866	5,614,065
Tied	3,524,021	5,818,528	13,025,706
Total grants core services	9,856,244	11,527,394	18,639,771
Untied as a %	64%	50%	30%
Tied as a %	36%	50%	70%

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also received from the Northern Territory and Commonwealth Governments. All non-core services funding was tied over the three years. The level of non-core services grant funding has increased by $6.0million or 78%.

Table 5.1s: Tied versus untied non-core services grant and contributions (operational)

	2011	2010	2009
Untied	-	-	-
Tied	13,885,882	20,945,728	7,808,417
Total grants and contributions – non-core services	13,885,882	20,945,728	7,808,417
Untied as a %	-	-	-
Tied as a %	100%	100%	100%

Grants and contributions (capital)

EASC received capital purchase grants from the following sources:

Table 5.1t: Primary sources of capital grants

Source	2011	2010	2009
Northern Territory Government	-	2,265,650	7,515,678
Commonwealth Government	1,419,579	3,088,034	4,759,367
Other	115,110	-	-
Total grants and contributions (capital)	1,534,689	5,353,684	12,275,045

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets. The large amount received in 2009 was to cover costs associated with the purchase of new assets to assist with the establishment of the Council in 2009.

User charges and fees

User charges and fees consists primarily of property lease rental fees and other user charges such as cleaning/house repairs, meals income, staff rental income, Territory Government Subsidies, childcare fees, Medicare fees, shops and merchandise, workshop services, accommodation income, equipment hire and administration income and other user charges.

User fees and charges have increased by $3.1million over the three years from $3.4million in 2009 to $6.5million in 2011. The increase is due to the Housing Maintenance Program funding being provided on a fee for service basis in 2011 compared to a grant in 2009 and 2010. Income received in 2010 and 2011 for the Housing Maintenance Program and recorded under grants and contributions was $5.3million in 2009 and $5.7million in 2010. If recorded under user fees and charges as in 2011, then the total user fees and charges would have been $8.7million in 2009 and $8.8million in 2010 with a $2million difference noted between 2009 and 2011.

User charges and fees make up on average 18% of total revenue over the three years. User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges. Rates and annual charges for 2010 and 2011 were $1.9million and the total for 2009 was $749,000. Rates and annual charges made up 2% of the total revenue for 2009 and increased to 5% for 2011. Although rates and annual charges income increased from 2% to 5% of total revenue, the increase is also due to grants and contributions and user fees and charges decreasing over this same period. There are only a small number of properties that are rateable in EASC limiting the Council's ability to generate income through rates.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of EASC.

Other income

Other operating revenue has increased from $3.9million in 2009 to $4.3million in 2011, an increase of $400,000. The majority of other revenue for 2011 relates to contract fees of $2.9million, other service fee income of $315,000 and diesel and fuel income of $303,000. Other income also includes $120,000 being the share of net profits from joint venture entities.

5.1.5 Capital expenditure

Analysis of capital investment over the three years

Over the three years, EASC purchased property, plant and equipment totalling $1.6million in 2009, $6.5million in 2010 and $2.5million in 2011. The composition of the additions can be seen in table 5.1u and chart 5.1G (excludes work in progress).

Table 5.1u: Additions of property, plant and equipment by asset category

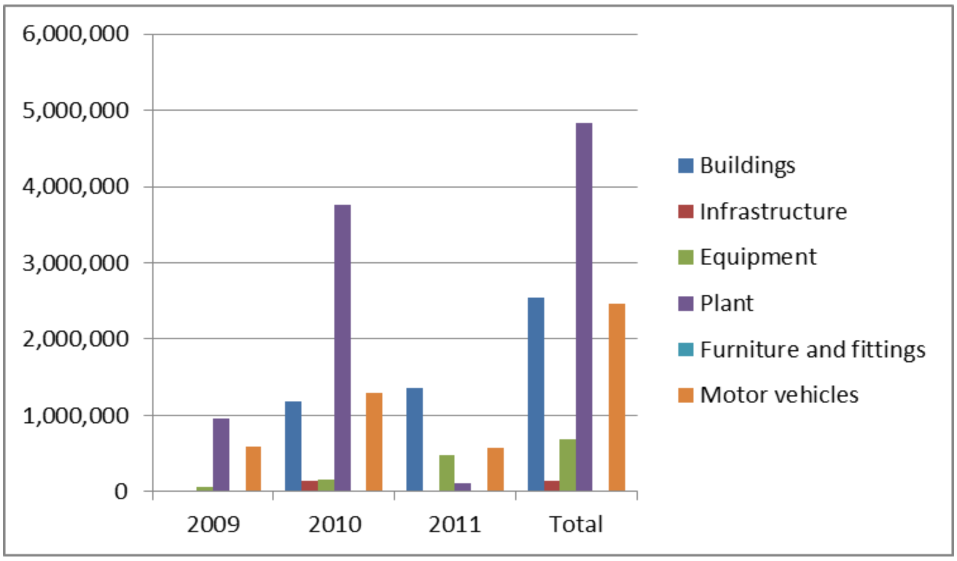
	2011	2010	2009	Total
Buildings	1,362,613	1,188,029	-	2,550,642
Infrastructure	-	136,674	-	136,674
Equipment	474,278	152,892	55,414	682,584
Plant	115,611	3,763,261	953,893	4,832,765
Furniture and fittings	8,028	-	6,073	14,101
Motor vehicles	576,828	1,292,387	589,257	2,458,472
Total	2,537,358	6,533,243	1,604,637	10,675,238

Note: figures obtained from the annual financial statements and does not include work in progress

As can be seen from table 5.1u above, the majority of the additions purchased over the three years related to plant valued at $4.8million (45% of the total assets purchased). Additions to buildings totalled $2.5million (23.8%) with the majority purchased in 2010 and 2011 and $2.5million (23%) for motor vehicles. Additions to furniture and fittings, equipment and infrastructure combined were less than 8% of total additions. Capital expenditure represents 5.5% (2011), 14.4% (2010) and 3.8% (2009) of total expenditure.

The additions can be further demonstrated in the chart below.

Chart 5.1G: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants and over the past two years has not been sufficient to meet the asset expenditure.

Table 5.1v: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for three years
Capital funding	1,534,689	5,353,684	12,275,045	19,163,418
Capital expenditure	2,417,125	6,733,627	1,631,636	10,782,388
Difference	(882,436)	(1,379,943)	10,643,409	8,381,030

Note: Capital expenditure obtained from the annual financial statements and includes work in progress

EASC does not have a cash reserve established to meet future capital expenditure requirements. All capital expenditure incurred by EASC is funded from either capital grants from the Northern Territory or Commonwealth Governments or funded from cash reserves. As we can see from the table above, the capital grants received in 2010 and 2011 did not cover capital expenditure, however in 2009 the capital expenditure incurred was less than the funding received by $10.6million. From this it is reasonable to assume that in 2010 and 2011 the shortfalls of $1.4million in 2010 and $882,000 in 2011 were most likely met through unexpended capital grants from 2009 and/or from cash reserves, depending on whether the $10.6million was repaid back to the funding bodies.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expense. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.1w: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for three years
Capital expenditure	2,417,125	6,733,627	1,631,636	10,782,388
Depreciation expense	2,162,832	1,557,128	1,476,172	5,196,132
Sustainability ratio	1.1	4.3	1.1	2.1

Note: Capital expenditure obtained from the annual financial statements and includes work in progress

The benchmark for the sustainability ratio is 1. As we can see in table 5.1w, the ratio for EASC was 1.1 in 2009 and has increased to 4.3 in 2010 followed by a decrease to 1.1 in 2011 with an average over the three years of 2.1. This indicates EASC is replacing its assets in line with its annual consumption. However, when analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils
- Does not take into consideration whether communities within the Councils are growth towns and therefore whether this asset replacement program will be sufficient for future population growth in the communities.

Non-financial assets, include a large number of assets located across the shire which were transferred from the previous community councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or EASC did not believe they had ownership or control over the assets. Efforts have been made by EASC over the last three years to locate, assess and determine whether they had ownership of the assets or if they were deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of non-financial assets, there may still be a number of assets that are recorded in the books of EASC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist or the EASC does not own or have control over the asset. Therefore it is likely that although the sustainability ratio is positive and indicates that EASC is replenishing its assets in line with its consumption of the assets, there may still be gaps in renewal, replacement or upgrades of infrastructure and plant and equipment items due to the large number of assets recorded in the fixed asset register with nil written down values and not reflected in the depreciation charge each year. The subsequent recognition of some of these assets, as well as the revaluation of assets including the depreciation rates applied have also not provided consistency to the analysis.

Renewals backlog

Renewals backlogs are a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

As previously mentioned many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by EASC buildings accounts for 26.9%, motor vehicles accounts for 27% and plant and equipment accounts for 37.4%. Infrastructure assets account for less than 2% of the total written down value of all non-financial assets.

There were limited sources of information available to us in respect of the backlogs facing EASC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, six are within the EASC Shire. They are; Milingimbi, Galiwin'ku, Gapuwiyak, Yirrkala, Angurugu/Umbakumba and Ramingining.

There are approximately 36,000kms of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50kms of the Territory Growth Towns less than fourteen percent of the 5,000kms of roads is sealed.

A large proportion of the Territory's roads are secondary roads that provide access to the AusLink Network and link rural and primary industries with important supply chains, ports and labour markets. In many cases that represent the sole access corridor linking remote Indigenous communities. Some of the roads were developed in the 1960s and 1970s and many are in critical need of rehabilitation and upgrading. The low quality of second roads means they are prone to flooding and therefore not only inaccessible during these times but also subject to considerable down time so repairs can be effected. Many remote communities are inaccessible for extended periods of time during which limited air or barge services provide the only link to the outside world at seasonally increased costs.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. EASC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in EASC.

Chart 5.1H: Territory Growth Towns (EASC Shire) – Road conditions within a 50km radius

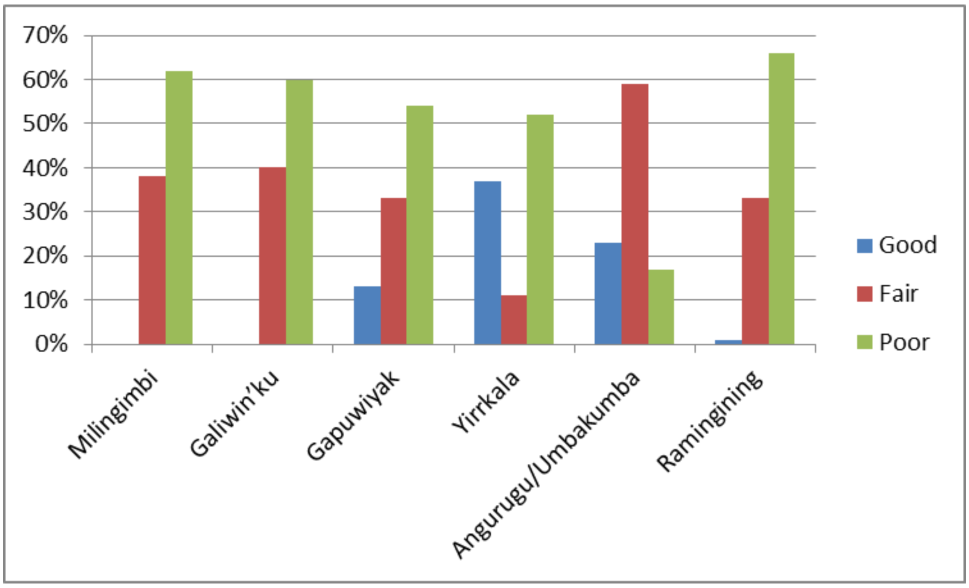


Table 5.1x below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.1x: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in EASC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Milingimbi	9.00	0.50	0.05
Galiwin'ku	208.80	41.82	0.51
Gapuwiyak	791.03	310.50	5.53
Yirrkala	130.20	17.42	0.50
Angurugu/Umbakumba	201.90	59.42	1.82
Ramingining	356.55	80.31	1.77
Total	1697.48	509.97	10.18

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $509.97million is required to undertake upgrades and major repairs to the roads within a 50km radius of EASC's Territory Growth Towns and a further $10.18million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs does not include all communities within EASC, only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $509.97million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by EASC with many of them past their useful life and in need of upgrade or replacement. The total costs of renewals backlog is therefore likely to be significantly higher than the $509.97million identified in relation to roads backlog.

5.1.6 Core services, fee for service arrangements and non-core services

As a shire Council, established under the Local Government Act 2008, there are minimum core services which EASC must provide to the communities within its shire boundaries. For a list of these activities, refer to Appendix 1 of this report.

The following tables and charts show the results for all programs operating as core services, agency services and non-core services for the three years.

Table 5.1y: Summary of surplus/ (deficit) by core services, agency services and commercial services

	2011*	2010**	2009***
Core Services	(3,385,559)	(2,006,486)	(36,540,053)
Agency Services	(1,964,952)	5,243,399	4,534,635
Commercial Services	(2,195,339)	3,211,338	2,686,732
Net surplus/(deficit)	(7,545,850)	6,448,252	(29,318,686)

**Net deficit is $7.5million per annual financial statements*
***Net surplus is $2.5million per annual financial statements compared to $6.5million surplus per the surplus/deficit report provided*
****Net surplus is $27.0million per annual financial statements compared to $29.3million deficit per the surplus/deficit report provided*

As can be seen from table 5.1y, core services programs incurred net deficits indicating that there was insufficient revenue coming in to cover the costs of delivering the services whilst agency and commercial services returned net overall surpluses in 2009 and 2010. A detailed breakdown of surpluses/ (deficits) by program attributed to core services, agency services and commercial services follows. As noted in the footer of the table above, the total surplus/ (deficits) registered in the financial data provided by program does not agree to the deficit reported in the annual financial statements. The analysis below is based on the data provided in the surplus/ (deficits) by program report provided EASC however the accuracy of the data could not be ascertained.

Core services

We were provided with a list of all core services programs for the three years that included thirty-six programs. For the remaining programs, the majority incurred deficits.

Chart 5.1H: Number of core services programs with operating surplus and deficits

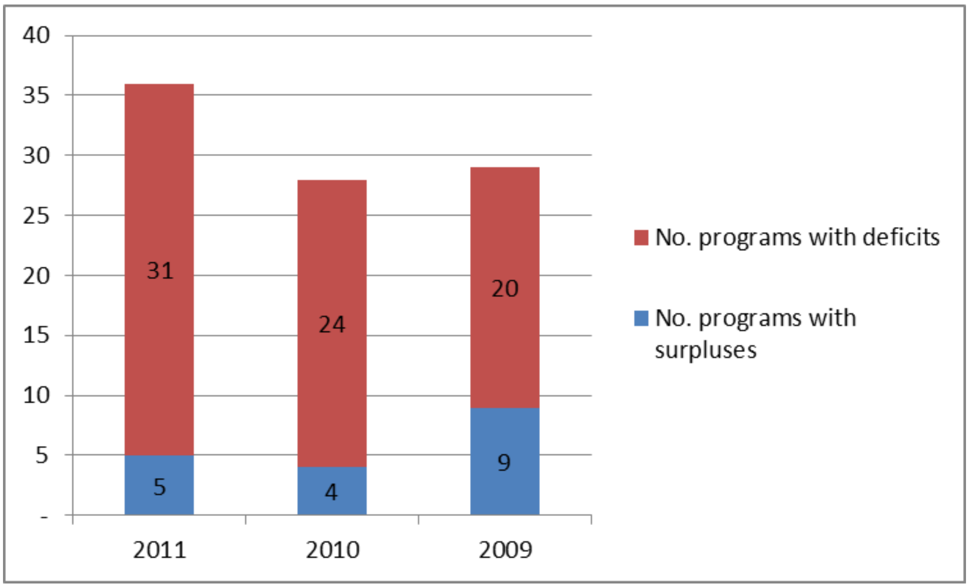


Table 5.1z: Surplus/ (deficit) by program for core services activities

Core services programs	2011	2010	2009
Local & Advisory Boards & Committees	(48,088)	(5,813)	(786)
Administration of Local Laws	(326)	-	-
Advocacy and Representation	(489)	-	-
Asset Management	(933,928)	(2,857,917)	(43,120,368)
Cemetery Management	(7,159)	(3,047)	(1,895)
Executive Leadership	(1,391,067)	(1,194,034)	(334,279)
Sporting & Recreation Core Services	(143,116)	(65,826)	22,271
Community Management	(5,545,020)	(5,222,151)	3,466,601
Companion Animal Control - Core	(203,100)	(37,776)	(68,264)
Council Planning and Reporting	(439,858)	(361,747)	(1,588)
Customer Relationship Management	(63,159)	-	(14,506)
Financial Management	(1,067,888)	(14,378)	(847,941)
Fleet and Plant Management	408,385	(1,472,134)	1,599,849
Governance	(716,788)	(731,501)	724,983
Information Technology & Communications	(1,138,659)	(1,048,567)	(274,358)
Library and Cultural Heritage	(29,580)	(42,410)	(6,298)
Lighting for Public Safety	(23,090)	(31,531)	(18,749)
Local Emergency Management	(28,049)	2,172	785
Local Road Maintenance	(153,156)	(669,946)	(1,272,294)

Core services programs	2011	2010	2009
Local Road Upgrade and Construction	(34,689)	(12,274)	1,083,858
Maint & Upgrade Council Controlled Parks & Open Spaces	(3,243,213)	(1,127,688)	(417,260)
Council Buildings, Facilities and Assets	70,109	2,143,117	598,639
Public and Corporate Relations	(299,445)	(75,605)	(36,489)
Records Management	(322,825)	(120,534)	(112,419)
Revenue Growth	14,746,084	13,317,768	2,681,036
Risk Management	(966,206)	(1,004,962)	(27,475)
Traffic Management on Local Roads	(190,405)	211,519	(2,961)
Train & Employ Local People Council Ops - Core	(33,901)	(97,067)	(8,259)
Waste Management	(796,539)	(593,174)	130,859
Weed Control and Fire Hazard Reduction	(8,868)	(53,346)	(4,752)
Human Resource Management	(729,784)	(837,634)	(277,990)
Community Events	36,459	-	-
Employment and Training - Core	(21,898)	-	-
Executive Leadership Technical Services	(22,840)	-	-
Executive Leadership Corporate Services	2,297	-	-
Executive Leadership Community Services	(45,761)	-	-
	(3,385,559)	(2,006,486)	(36,540,053)

As demonstrated above, core services programs incurred a net deficit of $36million in 2009. In 2010 and 2011 the net deficit decreased to $2.0million and $3.3million respectively.

The majority of the 2011 Core Service Programs reported a deficit with only nine programs returning a surplus, one of which was the program ‘125 - Revenue Growth’ which had a surplus of $14.7million. It is EASC’s policy to record all or most of core services funding against the ‘125 – Revenue Growth’ program rather than allocating to specific programs. Consequently the amount of revenue attributable to each program is unknown.

Revenue received in 2011 by EASC was not allocated to the following core services programs despite receipt of an operational grant from the Northern Territory to cover all core services as defined within the Local Government Act 2008:

- Management of Cemeteries
- Lighting for Public Safety, including Street Lighting
- Sport and Recreation Core Services
- Companion Animal Welfare and Control
- Weeds Control and Fire Hazard Reduction in and around community areas
- Administration of Local Laws
- Customer Relationship Management, including complaints and responses
- Administration of Local Boards, Advisory Bodies and Management Committees

- Advocacy and Representation on local and regional issues
- Financial Management
- Records Management
- Executive leadership Technical Services
- Executive leadership Corporate Services
- Executive leadership Community Services.

The largest deficit incurred for 2009 was to program code '70 – Asset Management' which reported a deficit of $43.1million. The deficit was due to the write off of assets transferred in from the individual Councils on 1 July 2008 as they were considered non-existent, not fit for purpose or not controlled by EASC.

To ensure that the core services documented within the Regional Management Plan are delivered, EASC has developed its chart of accounts to reflect all activities in the Regional Management Plan. Each activity is set up as a function allowing EASC to report by activity. Funding is allocated to each function during the annual budget process. However this, in itself, does not ensure that sufficient funding is provided to run the program at a satisfactory level as funding is not allocated to program level.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which EASC sits within the Northern Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Northern Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which EASC is to assess their performance in the delivery of core services and meeting objectives of the Northern RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including EASC. EASC is required to deliver core services to nine communities as listed in section 5.1.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as expected when measuring whether an output and ultimately the outcome is being achieved.

All Councils have provided the information to the DHLGRS with the exception of EASC and Belyuen. No explanation was provided for why this information was not provided.

The shire plans prepared by EASC include a service delivery plan for each service to be delivered with the following details included:

- A description of the service to be provided
- The primary outcome for the service
- Action id and action description

- Start and completion dates.

There are no KPIs included in any of the service plans listed. Without KPIs listed against each of the actions, determining whether EASC has successfully met the outcomes for each service cannot be measured. Therefore we are unable to make an assessment on whether core services are being successfully delivered to the nine communities or whether the outcomes and identified actions are being achieved.

As part of our analysis, we enquired with management of EASC as to whether they believe there were any shortcomings in the delivery of core services. It is the view of management of EASC that achievement of a satisfactory level of service delivery is limited by the funding provided and that no funding was allocated for some core services out of the operational grants received from the Northern Territory Government.

Agency services

In addition to providing core services to the communities within its shire boundaries, EASC also provides other services on behalf of the Northern Territory and Commonwealth Governments referred to as 'fee for service arrangements' or 'agency services'. Over the three years, EASC entered into agreements with both the Northern Territory and Commonwealth Governments to deliver sixteen programs. Table 5.aa and chart 5.1l show agency services reporting a net surplus with $4.5million in 2009 and $5.2million in 2010 and a net deficit of $2.0million in 2011. Review of the individual programs showed deficits in three programs in 2009 totalling $206,000, one program in 2010 totalling $15,000 and six programs in 2011 totalling $2.8million.

Chart 5.6l demonstrates that, of the sixteen agency services programs undertaken by EASC the majority of the agency services program undertaken returned operating surpluses. For programs where operating deficits were incurred, whilst we are unable to determine how the deficits were funded due to the limited information provided, it is reasonable to assume that the deficits were funded by either programs with operating surpluses for the same period or from cash reserves.

Given that agency services are generally considered 'tied' programs, it is possible that some of the reported surpluses constitute tied unexpended funds.

Chart 5.1l: Number of agency services programs with operating surplus and deficits

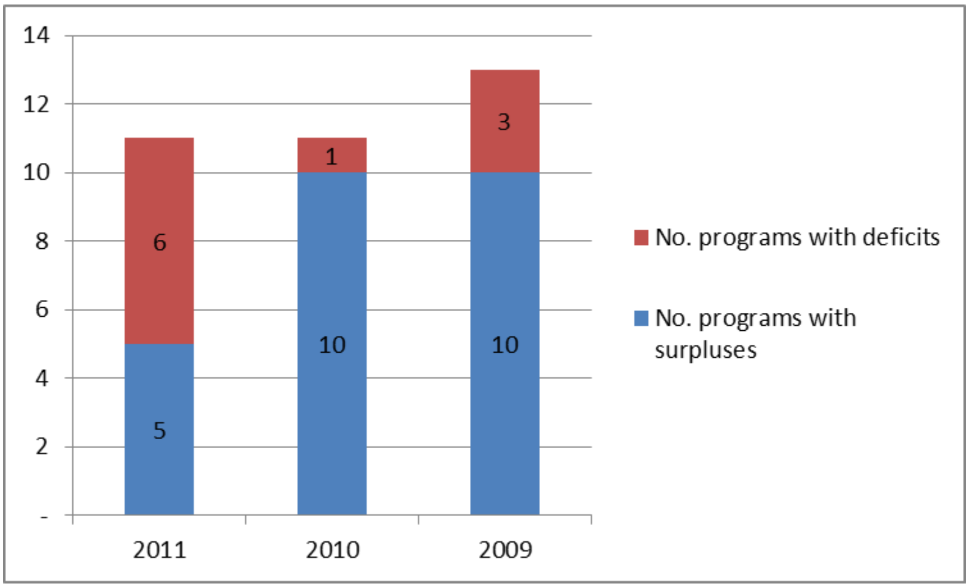


Table 5.1aa: Surplus/ (deficit) by program for agency services activities

Agency services programs	2011	2010	2009
Aged and Disabled Service	103,618	1,459,957	1,093,051
Airstrips	(552)	(15,030)	26,646
Arts and Culture	(42,885)	142,240	-
Centrelink	182,997	565,625	563,623
Childrens Services	(1,053,887)	102,630	-
Community Media	(94,013)	17,381	27,746
Community Safety	(519,144)	784,596	680,357
Employment and Training - Agency	86,220	861,524	1,807,232
Environmental Health	-	-	182,701
Family Finance Skills	137,299	154,859	(203,671)
Youth Sport and Recreation	(1,183,256)	323,508	-
Youth	418,650	846,110	17,748
Economic Development Support	-	-	(814)
Natural and Cultural Resource Management	-	-	82,750
Sport and Recreation	-	-	259,660
Agency Service Management	-	-	(2,394)
	(1,964,952)	5,243,399	4,534,635

Commercial services

Table 5.1ab and chart 5.1J show commercial services reporting a net surplus of $2.6million in 2009, $3.2million in 2010 and a net deficit of $2.1million in 2011. Review of the individual programs showed deficits in three programs in 2009 totalling $1.4million, three programs in 2010 totalling $0.6million and six programs in 2011 totalling $5.2million.

Commercial and other non-core services activities should only be undertaken where EASC will be in a position to make a profit from these activities. Commercial and non-core services should not be undertaken where it is known that the Council will incur recurring losses as this will negatively impact the financial sustainability of the Council.

Chart 5.1J: Surplus/ (deficits) by program for commercial services

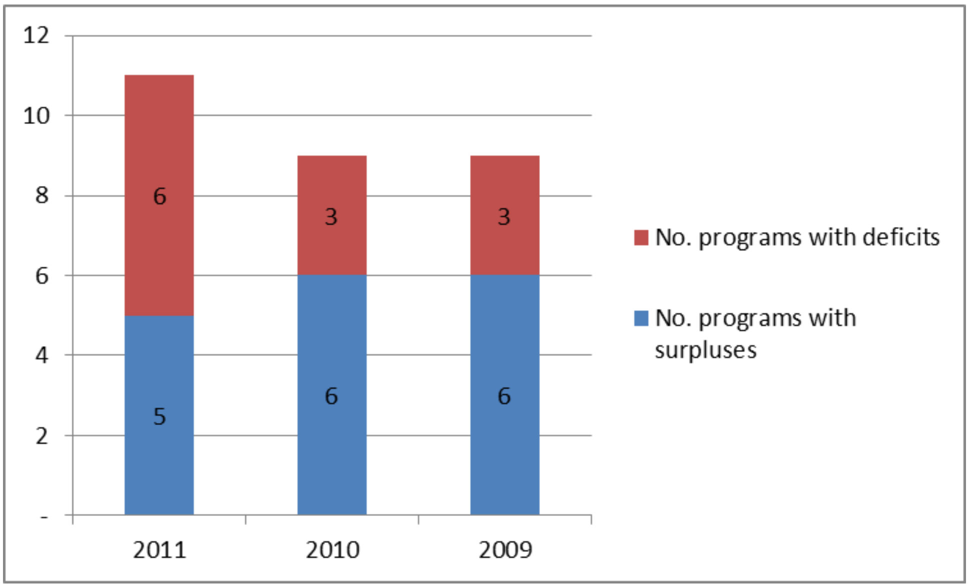


Table 5.1ab: Surplus/ (deficit) by program for commercial services activities

Commercial services programs	2011	2010	2009
Community Stores and Retail	(806,382)	150,948	(497,650)
Economic Development Support	(35,350)	35,516	-
Modular Housing Business	(20,078)	(91,223)	-
Mechanical Workshops	(866,469)	(370,750)	(906,866)
Post Office Agency	50,815	50,403	44,021
Territory Housing Management	-	98,914	3,444,802
Visitor Accommodation	(3,478,352)	3,463,959	346,364
Commercial Services Management	(22,260)	66,120	69,922
Fuel Distribution Services	2,122,018	(192,547)	-
Local Commercial Opportunities	77,580	-	-
NTG Property Program Management	1,392	-	-
NTG Tenancy Program Management	781,747	-	-
Arts and Culture	-	-	(43,560)
Non Council Roads	-	-	14,516
Power, Water and Sewerage	-	-	215,183
	(2,195,339)	3,211,338	2,686,732

Identification and analysis of cross subsidisation

As noted above, both agency services and commercial services achieved net operating surpluses whilst core services incurred deficits for each of the three years. It is therefore reasonable to assume that any programs within the agency services or commercial services groups achieving surpluses are funding loss making programs.

The majority of core services programs are returning operating deficits indicating potential cross subsidisation between programs. EASC is using cash reserves to deliver core services as demonstrated by the cash balances that have decreased from $19.9million in 2009 to $6.7million in 2011.

Some agencies do not allow or allow a small percentage for the recovery of indirect and overhead costs. In some cases the percentage that is allowed to be charged to the program by EASC is not sufficient to cover the actual indirect and overhead costs incurred. As a result, programs showing a surplus or deficit may not be showing the full costs of delivering the programs and therefore it is reasonable to assume that there is a level of cross subsidisation within both core services and fee for service arrangements however the amount cannot be quantified until an appropriate overhead allocation rate is established and consistently applied.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads. As a result, allocation of overheads to programs did not commence until the end of the first year of operation.

EASC have identified two types of costs, being direct and indirect costs. Allocating expenditure through direct cost allocation is the preferred methodology, including wages, telephones and daily consumables used to deliver the service which are allocated to the activity at time of purchase or utilisation. Indirect costs, such as costs incurred due to the administration of human resource and payroll or the provision of computer support and hardware, corporate and accounting services and marketing and stakeholder relations represent corporate costs which are necessary and benefit individual services. These indirect costs are usually allocated periodically in an arbitrary manner. EASC approved the following overhead rates in March 2009 to be charged to each activity:

Administration overhead:	20% of revenue
Wages overhead:	42% of employee cost

Allocation of indirect costs has not been consistently received by grant funding bodies and many grant agreements restrict the allocation and recovery of indirect overheads. EASC are required to negotiate the allocation of overheads with each individual funding body for each individual grant. The terms negotiated are dependent on the ability of EASC to demonstrate fair recovery and, in some instances, relationships with funding bodies. An example is East Arnhem Community (Night) Patrols where employee on-costs of 20% of total salaries can be claimed (compared to 42%) and administration on-cost of 12% of total expenditure (compared to 20%). If EASC were to reject these agreements, it may result in communities not being provided with essential services.

During 2011, the wages overhead was reduced from 42% to 33% and superannuation was allocated as a direct cost. This was because funding bodies preferred allocation of direct costs rather than overheads. EASC are presently involved in a working party charged with developing a cost allocation methodology that can be consistently applied to all funding bodies.

Establishment of fee for service arrangements

In addition to the delivery of core services required under the Local Government Act 2008, EASC has entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments. Over the three year period EASC has entered into arrangements with both governments for the delivery of a number of services.

All agency services are funded under an agreement between EASC and the relevant government entity. The following issues have been identified as preventing effective and cost neutral fee for service arrangements:

- EASC submit budgets for the delivery of the services, however in some instances the level of funding received does not reflect the budget submitted by EASC upon application
- Some agency services do not allow for an administration fee, or allow an insufficient fee, to recover all overhead and indirect costs incurred by EASC in delivering the services
- A detailed methodology does not exist to allocate overheads and indirect costs across all programs. Administration costs are not always charged to the program and in some instances, EASC will only allocate overheads to the limit allowed within the funding agreement
- There is no 'profit margin' built into the commercial services budgets as expected in commercial organisations providing commercial services.

5.1.7 Budget processes

Operating budgets

The initial budget for EASC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 the budget was prepared by senior management and presented to Council. The budgets have been approved by the Council as part of the annual management plan. The budget process has developed over the three years and continued to develop further in 2012. In 2011 each program manager is responsible for determining the budget for the program. The executive team review the budgets and request changes as necessary. In accordance with the Local Government Act 2008, EASC prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

In the past three years, overheads were applied to the extent they were allowed within the grant or service contract. In 2012 EASC are looking to apply the set overhead rates to each fee for service (agency) as per the policy by EASC despite the conditions in the grant or service contract. Any overhead costs unable to be claimed under the contract will be offset with a 'Council Contribution' revenue source reflecting the cross subsidization of the program.

For 2009 and 2010 the budgets were manually imported into the general ledger and were not included at a Project Level. As a result during the first two years, the program managers were unable to easily compare budget and actual expenditure as the data and reports were not available in the accounting system. The budget process significantly improved in 2010/11 when the budget was prepared within the accounting system at a project level. Budget vs. actual results are now able to be reviewed within the system at any point in time.

In 2008 reports had not been established to present to the Council. By January 2009, data was provided on the cash balance, accounts receivable, statement of financial performance with budget to actual results reported at total services level and a statement of financial position. In January 2010, the financial data provided included additional reports on accounts payable. The reporting to Council in January 2012 has significantly changed, there is an increased focus on budget and actual results and graphs and the traffic light system is used to review performance. Reviews are now performed on the results of core, agency and commercial services.

Capital budgets and capital management plans.

EASC has not had an asset management plan during the last three financial years nor is there one in place for the 2012 year. Capital expenditure is determined during the annual budgeting process based on current needs and identified and approved funding due to be received during the year. Management advised development of an asset management plan has been hindered by:

- A lack of available funding for purchases when required
- An inability to plan long term due to the short term funding commitments
- Competing priorities in shire development
- No asset management system.

As well as not having a capital management plan in place, EASC does not have specific cash reserves for future capital expenditure. Any unexpected or urgent capital expenditure has to be funded from either cash reserves or other general revenue sources. There are limited unrestricted cash reserves which EASC can use to fund emerging capital purchases. As EASC made an operating deficit in 2011 and the operating surplus ratio is -19.62% there appears insufficient general revenue sources from which to fund capital purchases.

The impact of not having sufficient capital expenditure reserves and capital management plan in place increases the risk that:

- Core services may be ceased temporarily or long term should the capital expenditure be required to replace assets that are used in the delivery of core services and there are no other assets that can be substituted until replacement
- Funds that are tied or restricted for core services, non-core services or fee for service arrangements may be diverted to fund the capital purchase potentially impacting EASC's ability to deliver its core services programs and/or other non-core services or fee for service arrangements.

Cash flow budgets

For the last three years EASC have not prepared cash flow budgets or cash flow forecasts due to being unable to predict the timing of cash flows.

5.1.8 Summary – financial sustainability of EASC

To determine the financial sustainability of EASC we analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis six KPIs were used to assess financial sustainability of EASC. The results of the KPIs are listed in the table below.

Table 5.1ac: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating	Operating deficit <10% of operating revenue	(25%)	(10.9%)	(18.9%)	-

	revenue					
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	1.1	4.3	1.1	2.1
Current ratio	Current assets divided by current liabilities	1.0	1.99	2.81	3.68	-
Rates coverage	Rates revenue divided by total cost	40%	4.1%	4.1%	1.8%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	19.1%	16.3%	4.0%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for EASC is in a healthy position overall with net assets of $15.9million however the net asset position has decreased over the last three years due to continuing operating deficits being registered. The current ratio is healthy at 1.99 in 2011 however this has worsened over the three year period from a healthy 3.68 in 2009 to 1.99 in 2011. On closer inspection the decline in net assets is due to cash balances decreasing with current liabilities (excluding unexpended grants) exceeding the unrestricted cash balances.

EASC does not have any borrowings and as a result there is no pressure from interest rate increases or meeting repayments and therefore no over-reliance on borrowings.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly operating deficits indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years EASC has been incurring operating deficits. Where operating deficits persist, this indicates that operating revenue is insufficient to meet current operations. EASC is heavily reliant on grant funding due to the limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for EASC on average over the last three years was 2.1 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that EASC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008, EASC has undertaken a review of the assets transferred in to determine whether they existed, fit for purpose, and/or under the control of EASC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to the road network surrounding its Territory Growth Towns within EASC which was estimated to be $509million by a study conducted by the Northern Territory Government and included in a submission to the Commonwealth Government for funding. This backlog does not cover other communities within the EASC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions EASC is not financially sustainable in the short term. Being classified as financially unsustainable does not mean EASC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of EASC are to put onto a financially sustainable basis going forward.

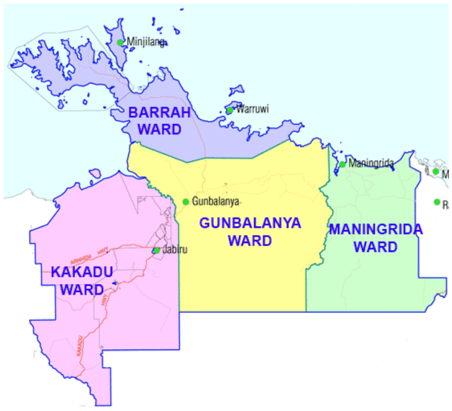
5.2 West Arnhem Shire Council

5.2.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, West Arnhem Shire Council (WASC) was incorporated under the *Local Government Act 2008 NT*. Five of the previous community government Councils were amalgamated into WASC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	6,892
Land size	49,698 km^2
Wards	4
Communities & Outstations	102
Pastoral Leases	0



Elected representatives to Council by ward (2008-2012)

Gunbalanya	3
Kakadu	3
Maningrida	3
Barrah	3

At 30 June 2011, WASC had 194 staff in its employ and was responsible for managing approximately 1,156km of roads of which approximately 60% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Northern Regional Management Plan, WASC is required to deliver services to five designated communities and has established five service delivery centres as the base for delivering services across the shire, located in:

- Gunbalanya*#
- Jabiru
- Maningrida*#
- Minjilang
- Warruwi.

WASC Corporate Service office is located in Jabiru and there is also an administration office located in Winnellie.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are two Growth Towns located within the shire. Jabiru is classified as a main centre.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There are two Remote Service Delivery Sites located within the shire.

Challenges of population and geography in WASC

WASC faces significant infrastructure challenges due to its specific geography and demographic profile. WASC's population is 6,892 people with the majority of the population being indigenous people. WASC occupies a land mass of 49,698 km^2. WASC faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the Northern Region. Some of the key challenges include:

- A lack of all-weather roads and poor condition of roads to support access to mainland communities and a large number of island communities in the region. The timely and cost effective transport of shire staff, contractors and cargo across the region is a continual challenge
- Recruitment and retention of staff particularly suitably qualified staff
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- The viability of delivery of services to non-Council homelands
- The employment and training of indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Sustainability and alternative revenue generation with a significant portion of revenue coming grant revenue
- A low level of untied grant revenue received is able to be used at the Councils discretion. The majority of grant revenue is tied which limits the ability of WASC to allocate funds.
- Quality of communications with distances in shire being considerable and the head office located in Jabiru and key management staff being spread across the Top End
- Lack of secure land tenure for Council assets creating uncertainty over the ownership and control of assets
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff.

Entities in which WASC has an interest

<u>Latitude 12 Pty Ltd</u>

West Arnhem Shire Council has a 50% interest in Latitude 12 Pty Ltd whose principal activity is the supply of accounting services. The voting power held by West Arnhem Shire Council is 50% with the balance of 50% resting with the East Arnhem Shire Council. The interest in Latitude 12 Pty Ltd is accounted for in the financial statements using the equity method of accounting.

On 1 July 2010 West Arnhem Shire Council and East Arnhem Shire Council entered into an agreement to establish the business Latitude 12 Pty Ltd. A loan agreement was also entered into by both parties to provide funding of $207,500 (unsecured) each for the purpose of funding the cash flow requirements of Latitude 12 Pty Ltd and to assist with the expansion of its operations. The agreement is for a period of three years at an interest rate of 5.75% per annum.

CouncilBiz

CouncilBiz was incorporated as a Local Government subsidiary on 10 June 2008. Members of CouncilBiz include the Local Government Association of the Northern Territory and eight shire Councils, including WASC. CouncilBiz provides information technology services to the Councils. Upon the incorporation of CouncilBiz, the Council made an initial funding contribution to CouncilBiz of $50,000. As WASC did not expect to realise any returns from its funding contribution to CouncilBiz, WASC expensed the $50,000 when it was incurred.

5.2.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.2a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	5,065,708	8,521,125	14,144,934	(9,079,226)	(64%)
Non-current assets	64,783,232	67,506,920	70,756,248	(5,973,016)	(8%)
Total Assets	69,848,940	76,028,045	84,901,182	(15,052,242)	(18%)
Current liabilities	3,953,839	3,811,715	5,867,009	(1,913,170)	(33%)
Non-current Liabilities	88,921	27,462	35,136	53,785	153%
Total Liabilities	4,042,760	3,839,177	5,902,145	(1,859,385)	(32%)
Net Assets	65,806,180	72,188,868	78,999,037	(13,192,857)	(17%)
Equity	65,806,180	72,188,868	78,999,037	(13,192,857)	(17%)

The financial position for WASC has decreased over the period from $79million in 2009 to $66million in 2011 (a 17% decrease). Table 5.2a shows the decrease mainly relates to current assets that decreased by $9million (64%) since 2009 and property, plant and equipment which decreased by $6million (8%).

The decrease in the financial position is a direct result of continued large total deficits incurred over the three years subject to analysis (2009: excluding gain on restructure of local government of $82.6million). Management of WASC believe the deficits are a result of excessive spending in the years following the amalgamation due to increasing operational standards of property plant and equipment brought over from the previous Councils. WASC has recently requested financial assistance to support ongoing current operations.

Cash balances analysis

Cash balances comprise cash and cash equivalents and short term deposits which are reported under investments in the annual financial statements. Table 5.2b shows the composition of current assets for the last three years.

Table 5.2b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents*	3,372,574	6,406,221	11,370,230
Other	1,693,134	2,114,904	2,774,704
Current assets	5,065,708	8,521,125	14,144,934
Cash as % of current assets	67%	75%	80%

**Includes cash and cash equivalents and short term deposits reported under investments in the audited financial statements.*

Cash balances comprising between 67% and 80% of current assets have decreased over the three year period by $8million (70%).

The decrease in the cash balance was due to:

- Payments for operating activities exceeding receipts by $3.2million in 2010 and $1.1million in 2011
- $1.7million in 2010 and $1.9million in 2011 invested in assets and payment of a loan of $207,500 to an associated entity.

Table 5.2c shows the composition of the cash balances.

Table 5.2c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	3,372,574	6,406,221	11,370,230
Restricted cash balances*	2,606,802	3,879,848	3,213,259
Unrestricted cash and cash equivalents	765,772	2,526,373	8,156,971

**Represents unexpended grants at year end. Unexpended grants have not been included in the Balance Sheet for each year but shown in the financial statements as a note.*

Table 5.2c demonstrates there was sufficient cash available at 30 June each year to cover unexpended grant liabilities although the level of cash available each year decreased.

Chart 5.2A: Composition of cash balances

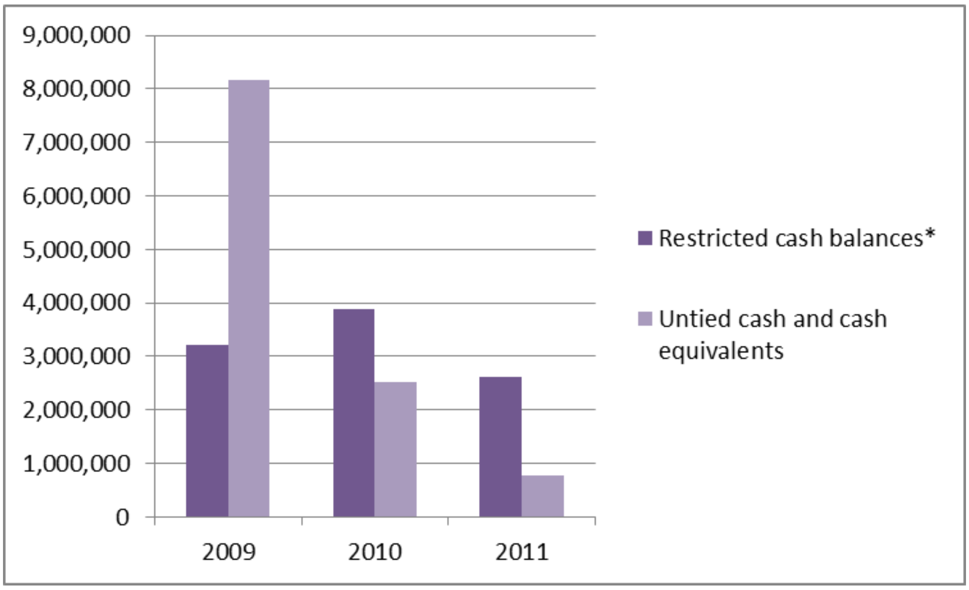


Table 5.2d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems in meeting its short term obligations.

Table 5.2d: Current Ratio

	2011	2010	2009
Total current assets	5,065,708	8,521,125	14,144,934
Total current liabilities	3,953,839	3,811,715	5,867,009
Net current assets (Working Capital)	1,111,869	4,709,410	8,277,925
Current Ratio	1.28	2.24	2.41

Table 5.2e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.2e: Cash Ratio

	2011	2010	2009
Total cash balances	3,372,574	6,406,221	11,370,230
Less: unexpended grants (restricted assets)	2,606,802	3,879,848	3,213,259
Total unrestricted cash balances	765,772	2,526,373	8,156,971
Total current liabilities (unrestricted)*	3,953,839	3,811,715	5,867,009
Cash Ratio (unrestricted)	0.2	0.7	1.4

** Represents unexpended grants. Unexpended grants have not been included in the Balance Sheet for each year but shown in the financial statements as a note.*

The current ratio over the three years has decreased from 2.41 in 2009 to 1.28 in 2011. The cash ratio has also decreased from 1.4 in 2009 to 0.2 in 2011. WASC had sufficient current assets to settle liabilities at 30 June 2011 however there was insufficient cash should creditors have demanded immediate settlement and repayment was required of all unexpended grant monies back to the funding providers. The benchmark for the current ratio is 1.

Non-current assets

Non-current assets are property, plant and equipment, work in progress, loan to joint venture and investments.

The balance of property, plant and equipment has decreased over the last three years from $70.8million to $67.5million in 2010 and $64.8million in 2011.

Upon formation, $75.1million in property, plant and equipment was transferred from the five existing Councils to WASC. At the time of the amalgamation, property, plant and equipment balances from the constituent Councils were initially recognised by WASC at their respective written down values reported at 30 June 2009. In the 2010 financial year, a valuation of property, plant and equipment assets was completed. All assets were measured using the fair value methodology. Where fair value could not be determined using direct market evidence, fair value was determined as depreciated replacement cost. WASC elected to retrospectively apply the revaluation from 1 July 2008 in order to provide more relevant information and present a more accurate carrying value of property, plant and equipment for the 2009 financial year.

Table 5.2f below shows the composition of property, plant and equipment for WASC for the 2011 year.

Table 5.2f: Composition of property, plant and equipment (including work in progress) for 2011

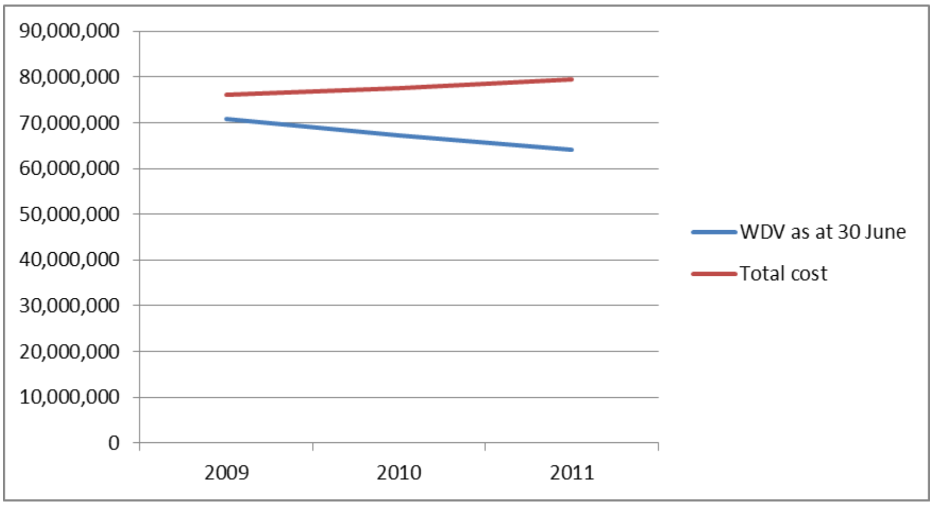
	Cost	Accum Depr.	WDV	% of total WDV
Buildings	35,572,971	(6,704,870)	28,868,101	44.8%
Infrastructure	35,892,192	(3,761,670)	32,130,522	49.9%
Plant and equipment	3,872,362	(1,984,946)	1,887,416	2.9%
Furniture and fittings	188,160	(167,037)	21,123	0.0%
Motor vehicles	3,561,428	(2,452,374)	1,109,054	1.7%
Intangibles	20,500	(6,493)	14,007	0.0%

Store	238,425	(68,483)	169,942	0.3%
Work in progress	245,227	-	245,227	0.4%
Total	79,591,265	(15,145,873)	64,445,392	100.0%

Note: figures obtained from the annual financial statements

Of the balance of property, plant and equipment, buildings at 44.8% and infrastructure at 50%, together represented 95% of the total written down value (WDV). As previously mentioned property, plant and equipment decreased from $70.8million to $642million in 2011 as represented in the chart below.

Chart 5.2B: Total cost and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



The chart above demonstrates that there is a growing gap between the ‘cost’ of the assets and the WDV with the WDV as a percentage of total cost being 93% in 2009, 87% in 2010 and 81% in 2011.

Work in progress in 2011 had a balance of $245,000 and represented less than 1% of non-current assets.

Non-current assets in 2011 also included $207,500 for an inter-entity loan and investments of $130,000 for the establishment of the subsidary Lattitude 12. On 1 July 2010 WASC and EASC entered into an agreement to establish Latitude 12 Pty Ltd and both parties contributed $207,500 each.

Liabilities analysis

Current liabilities comprise creditors, borrowings (credit cards payable), provisions and other liabilities. The current liability balance decreased by $1.9million (33%) over the three years from $5.9million in 2009 to $4million in 2011. The primary reason for the decrease in current liabilities is that accounts payable decreased from $3.6million in 2009 to $2.4million in 2011. Non-current liabilities represent employee provisions which increased by $54,000 from $35,000 to $89,000 in 2011.

Borrowings (credit cards payable) was nil in 2009, $31,000 in 2010 and $7,000 in 2011.

5.2.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

Operating surpluses within Councils may indicate that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio (or current ratio). We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of NT Councils in section 3 of this report.

This section provides our analysis of the financial performance of WASC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.2.2.

Below is an extract of the Income and Expenditure Statement from the audited financial statements for the last three years.

Table 5.2g: Statement of Comprehensive Income (extracted from the audited financial statements)

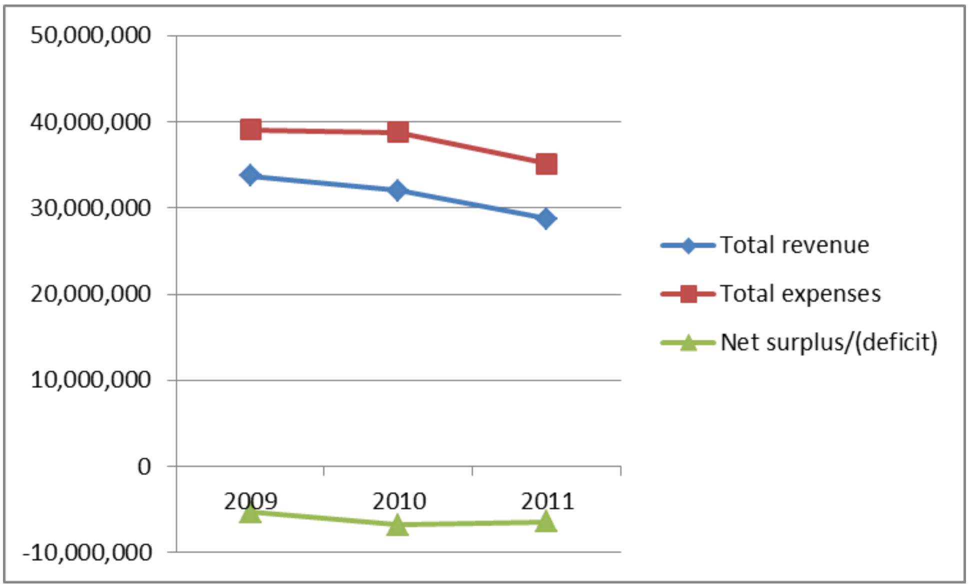
	2011	2010	2009#*	Total increase/(decrease)	
User charges and fees	281,551	289,691	725,104	(443,553)	(61%)
Rates and annual charges	2,329,551	2,208,443	2,156,445	173,106	8%
Interest	99,670	92,149	289,314	(189,644)	(66%)
Grants and contributions	12,997,375	19,040,279	16,419,786	(3,422,411)	(21%)
Other Operating revenue	12,503,926	9,467,169	12,550,137	(46,211)	0%

Total revenue	28,212,073	31,097,731	32,140,786	(3,928,713)	(12%)
Employee costs	11,460,078	11,646,202	11,295,335	164,743	1%
Materials and contracts	18,303,994	21,225,577	22,007,851	(3,703,857)	(17%)
Depreciation and amortisation	4,745,581	4,972,248	5,428,042	(682,461)	(13%)
Finance costs	11,024	13,875	20,952	(9,928)	(47%)
Other costs	605,495	929,940	286,874	318,621	111%
Total expenses	35,126,172	38,787,842	39,039,054	(3,912,882)	(10%)
Net surplus/(deficit) before capital grants	(6,914,099)	(7,690,111)	(6,898,268)	(15,831)	0%
Capital Grants	531,410	879,943	1,574,305	(1,042,895)	(66%)
Total Comprehensive Income	(6,382,689)	(6,810,168)	(5,323,963)	(1,058,726)	20%

 # The figures for the 2009 have been taken from the financial statements as at 30 June 2010, it was noted that the 2009 (depreciation and gain on restructure) figures had been restated. This was a result of the full valuation on all property, plant and equipment performed in July 2009 that was applied retrospectively.

** The 'gain on restructure of Local Government' totalling $35.7million in the 2009 financial statements was excluded from this table to allow more comparable figures between the three years. Had this not been excluded, total comprehensive income for 2009 would have been $35.5million.*

Chart 5.2C: Revenue, expenses and net surplus/(deficit) for 2009, 2010 and 2011



**The net surplus/(deficit) includes all revenue and expeses including capital grants.*

WASC incurred operating deficits of $6.4million in 2011, $6.8million in 2010 and $5.3million in 2009. The graph demonstrates that while expenses have decreased by 10% since 2009, operational revenue has also decreased by 12%. Capital grants shown separately in the financial statements have also decreased over the three years from $1.6million in 2009 to $531,000 in 2011. The graph also shows that operating deficits have occurred each year and are consistent year on year.

Of the decrease in revenue, the most notable is the decrease in grants and contributions (operational) of $3.4million since 2009 (21%). Materials and contracts expenditure decreased by $3.7million (17%) over the three year period, mainly due to large reductions in contract labour and contract material expenditure. The current management of WASC believes that spending over the three years has been excessive. The excessive spending occurred in part due to limited monitoring of spending by management due to deficient financial reporting. A review was completed on the spending patterns in 2012 which found that past levels of spending were not financially sustainable. To control current spending, purchase orders can now only be approved by three staff members holding senior management positions. WASC are already implementing economies of scale arrangements where assets are shared between the communities, but often the transport (e.g. barge) costs are excessive. Further savings are being sought through economies of scale by moving the shared Finance and Administration Centre with East Arnhem Shire Council from Darwin City to Winnellie resulting in reduced lease costs.

Overall operating expenses decreased since 2009 due primarily to materials and contract costs which decreased by $3.7million or 17% since 2009. The primary reason for materials and contract costs decreasing over the three year is due to:

- Contract materials decreasing from $6.7million in 2009 to $2.9million in 2011, decrease of $3.8million
- Material expenses decreasing from $8.0million in 2009 to $7.3million in 2011, a decrease of $775,000
- Communication expenses decreasing from $957,000 in 2009 to $195,000 in 2011, a decrease of $750,000
- Other costs decreasing from $1.1million in 2009 to $555,000 in 2011, a decrease of $605,000.

These decreases were offset by the following most notable increases:

- Contract labour costs from $3.2million in 2009 to $3.6million in 2011
- Software/internet/support costs increasing from nil in 2009 to $628,000 in 2011.

Refer to section 5.2.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.2h shows the operating surplus/ (deficit) for WASC and the associated surplus/ (deficit) ratio for the three years since 2009.

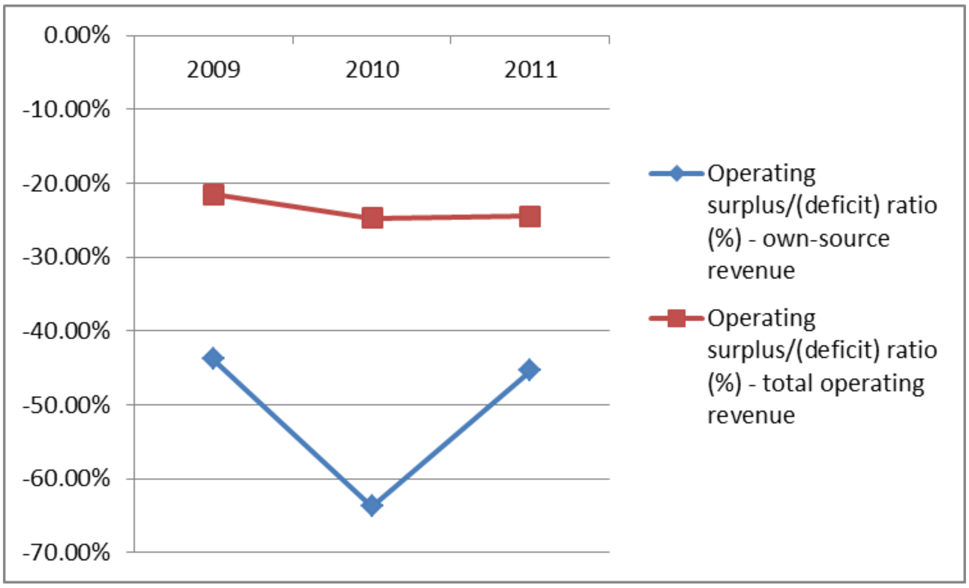
Table 5.2h: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	28,212,072	31,097,731	32,140,786
Less: operating expenses (including depreciation expense)	35,126,172	38,787,842	39,039,054
Operating surplus/(deficit)	(6,914,100)	(7,690,111)	(6,898,268)
Operating surplus/ (deficit) ratio (%)	(24.5%)	(24.7%)	(21.5%)
Own source revenue*	15,214,698	12,057,452	15,721,000
Operating surplus/ (deficit) ratio (%)	(45.4%)	(63.7%)	(43.8%)

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*
***Operating revenue does not include capital grants*

The operating surplus/(deficit) ratio on total revenue (excluding capital grants) is consistent across all three years and the operating surplus/(deficit) ratio on own source revenue has fluctuated with 2009 showing a deficit of 43.8% which worsened in 2010 to 63.7% deficit and then recovered to 45.4% in 2011.

Chart 5.2D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents 8% or less of total revenue. While rates revenue has increased over the three year period, WASC is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, legislated conditional rating limiting the rates chargeable to pastoral and mining entities, slow or negative growth rates in its communities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.2i: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	2,329,551	2,208,443	2,156,445
Operating expenses	35,126,172	38,787,842	39,039,054
Rates coverage ratio	6.63%	5.69%	5.52%

The calculations above show that the rates coverage ratio for each of the three years is between 5.52% and 6.63%, far less than the 40% benchmark. This demonstrates WASC's dependency on government grants to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare the financial performance to budgets and plans for each of the three years.

Analysis of budget versus actual results by category

Below is a table that shows the budgeted figures for core services, non-core services and fee for service arrangements for 2010 and 2011.

Table 5.2j: Budget versus actual surplus/ (deficit) by core services, agency services and commercial services

2010/11	Budget per general ledger surplus/(deficit)	Actual surplus/(deficit)
Core services	(4,110,857)	(8,025,605)
Agency Services	(1,205,009)	(485,274)
Commercial	2,122,650	2,128,191
Net surplus/(deficit)	(3,193,216)	(6,382,688)
Depreciation expense	0	4,745,581
Surplus/(deficit) exl depn	(3,193,216)	(1,637,107)

**The budgeted net surplus/(deficit) for 2011 is based on the revised budget*

2009/10		
Core services	(2,587,018)	(10,181,043)
Agency Services	(195,901)	1,651,357
Commercial Planned	3,195,961	1,719,517
Net surplus/(deficit)	413,042	(6,810,169)
Depreciation expense	0	4,972,248
Surplus/(deficit) exl depn	413,042	(1,837,921)

**The budgeted net surplus/(deficit) for 2011 is based on the revised budget*

As can be seen from table 5.2j, WASC budgeted for a surplus in 2010 and a deficit in 2011. Actual results however show that in 2010 and 2011 WASC incurred deficits. The deficit was not triggered by any one off event and is a result of expenditure exceeding revenue received. Difference in budget and actual are caused by depreciation not being included in the budget estimates.

Core services were budgeted as loss-making in each of the two years. Actual results also showed WASC incurring deficits for each of the two years, the actual deficits were significantly larger than budgeted.

Agency services were budgeted to make a deficit in each of the two years. Actual results showed surpluses for 2010 and a deficit in 2011, in both years results were better than expected.

Commercial services were budgeted to make a surplus in each of the two years and actual result show this occurred.

In order to undertake an analysis of the 2008/09 data, financial data on budget against actual by core, agency and commercial services are required. WASC advised that due to the remediation of the 2009 general ledger these figures cannot be extracted. Therefore we were unable to complete the analysis for 2008/09.

In the minutes dated 11 August 2012 WASC voted to adopt a deficit budget for the 2012 financial year, despite budgeting for a deficit being a breach of the Local Government Act. The original budget deficit included $28.6million in operational expenditure, nearly $1million in capital expenditure and $26.4million in unexpended grant. Since this, WASC has worked with DHLGRS to address this breach and to bring the budget back into a surplus. The current Shire Plan on the website currently does not include the budget.

Analysis of budget versus actual results by standard classifications

Table 5.2l shows budget vs. actual data for 2010 and 2011. The budgeted and actual data differs to that in table 5.2j due to the source of the data. Table 5.2l extracted the budget data from the Shire Plan and the actual data from the audited Financial Statements, compared to table 5.2j where the data was extracted from Technology 1. The Shire Plan is prepared well before the end of previous financial year and as a result is revised during the year.

The financial data for 2009 on budget against actual results was not provided. WASC advised that due to the remediation of the 2009 general ledger these figures cannot be extracted. Therefore we were unable to complete the analysis for 2009.

WASC budgeted for surpluses in both 2010 and 2011, however in both years a deficit was incurred. The deficit is a result of expenditure exceeding revenue received, in both years actual revenue was less than budgeted and actual expenditure exceeded that budgeted.

Table 5.2l: Budget versus actual results for 2010

	Budget	Actual	Difference $	Difference %
User charges and fees	585,000	289,691	(295,309)	(50%)
Rates and annual charges	2,880,000	2,208,443	(671,557)	(23%)
Interest	300,000	92,149	(207,851)	(69%)
Grants and contributions	4,643,500	19,920,222	15,276,722	329%
Other Operating revenue	20,120,633	9,467,169	(10,653,464)	(53%)
Net profit from disposal of assets	0	0	0	0%
Total Revenue	28,849,133	31,977,674	3,128,541	11%
Employee costs	12,152,650	11,646,202	(506,448)	(4%)
Materials and contracts	12,889,386	21,225,577	8,336,191	65%
Depreciation and amortisation	950,000	4,972,248	4,022,248	423%
Finance costs	130	13,875	13,745	10573%
Other costs	2,395,925	929,940	(1,465,985)	(61%)
Total Expenditure	28,388,091	38,787,842	10,399,751	37%
Surplus / (deficit)	461,042	(6,810,168)	(7,271,210)	(1577%)

Table 5.2m: Budget versus actual results for 2011

	Budget	Actual	Difference $	Difference %
User charges and fees	223,563	281,551	57,988	26%
Rates and annual charges	2,474,700	2,329,551	(145,149)	(6%)
Interest	72,000	99,670	27,670	38%
Grants and contributions	3,717,836	13,528,785	9,810,949	264%
Other Operating revenue	27,713,617	12,503,926	(15,209,691)	(55%)
Net profit from disposal of assets	-	0	0	0%
Total Revenue	34,201,716	28,743,483	(5,458,233)	(16%)
Employee costs	12,709,215	11,460,078	(1,249,137)	(10%)
Materials and contracts	13,787,229	18,303,994	4,516,765	33%
Depreciation and amortisation	810,889	4,745,581	3,934,692	485%
Finance costs	24,050	11,024	(13,026)	(54%)
Other costs	5,726,509	605,495	(5,121,014)	(89%)
Total Expenditure	33,057,900	35,126,172	2,068,272	6%
Surplus / deficit	1,143,816	-6,382,689	(7,526,505)	(658%)

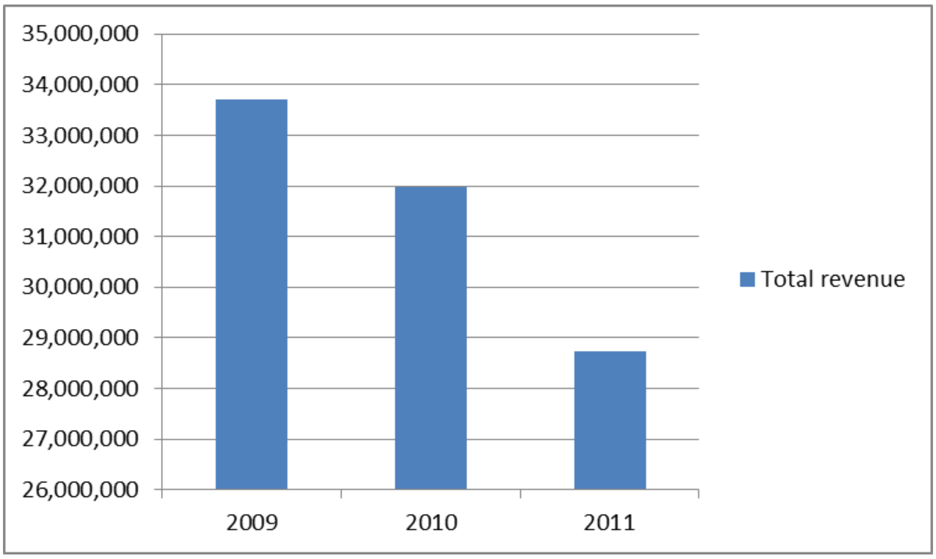
5.2.4 Revenue and revenue sources

Table 5.2n: Revenue for 2009, 2010 and 2011

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	281,551	289,691	725,104	(443,553)	(61%)
Rates and annual charges	2,329,551	2,208,443	2,156,445	173,106	8%
Interest	99,670	92,149	289,314	(189,644)	(66%)
Grants and contributions	12,997,375	19,040,279	16,419,786	(3,422,411)	(21%)
Other Operating revenue	12,503,926	9,467,169	12,550,137	(46,211)	0.4%
Total operational revenue	28,212,073	31,097,731	32,140,786	(3,928,713)	(12%)
Capital grants	531,410	879,943	1,574,305	(1,042,895)	(66%)
Total revenue	28,743,483	31,977,674	33,715,091	(4,971,608)	(15%)

The total revenue received in 2011 was $28.7million compared to $32million in 2010 and $33.7million in 2009. Over the three year period, total revenue decreased by $5million. Refer to chart 5.2E below.

Table 5.2E: Total revenue by year



WASC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue
- Net profit from disposal of assets.

Chart 5.2F: Revenue analysis by source

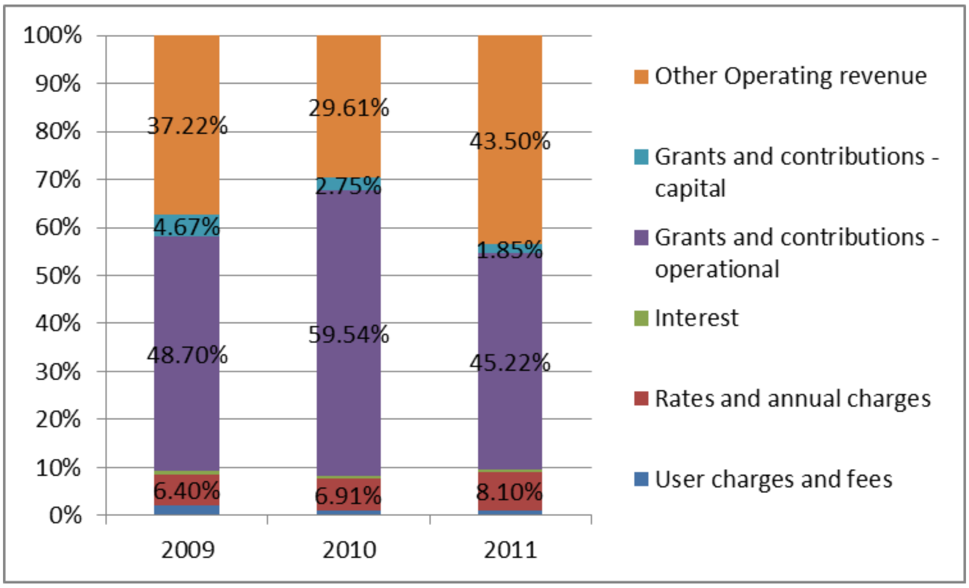


Chart 5.2F demonstrates the heavy reliance on grants and contributions income and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without grants and contributions revenue, WASC's own source revenue is insufficient to cover the costs of delivering core services to its communities.

Revenue – untied versus tied

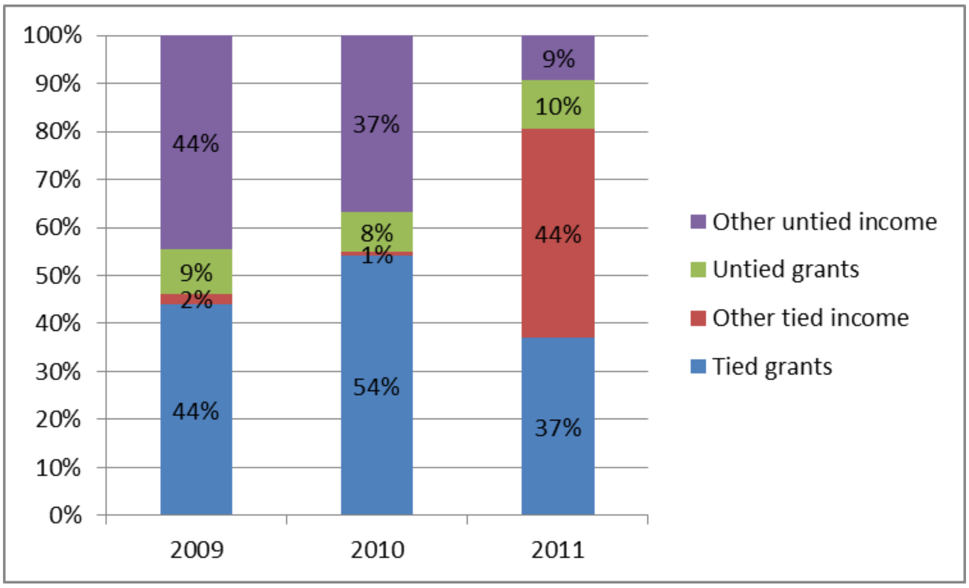
For the purposes of this analysis, all revenue received by WASC has been classified as either tied or untied revenue and has been determined based on the following assumptions:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue.

Table 5.2o: Tied versus untied revenue

	2011		2010		2009	
Tied grants	10,644,476	37%	17,287,139	54%	14,825,065	44%
Other tied income	12,503,926	44%	289,691	1%	725,104	2%
Total tied income	23,148,402	81%	17,576,830	55%	15,550,169	46%
Untied grants	2,884,309	10%	2,633,083	8%	3,169,026	9%
Other untied income	2,710,722	9%	11,767,761	37%	14,995,896	44%
Total untied income	5,595,031	19%	14,400,844	45%	18,164,922	54%
Total income	28,743,433	100%	31,977,674	100%	33,715,091	100%

Chart 5.2G: Revenue tied versus untied



Of the total revenue received in each of the three years, the majority is tied revenue that must be used for a specific purpose and cannot be used at the discretion of WASC. Untied revenue that can be used by WASC for the delivery of core services is limited to between 19% (2011) and 54% (2009) of total revenue.

Grants and contributions (operational)

Grants and contributions (operational) were 49% of the revenue in 2009, 60% in 2010 and 45% in 2011. WASC is reliant on grants and contributions from Northern Territory and Commonwealth Governments to deliver its core services as the level of income it can generate from own source revenue is limited. As can be seen from table 5.2m above and table 5.2o below, total grant revenue (operational) received over the three years has decreased by $3.4million (21%).

Included in grants and contributions (operational) for 2009 and 2010 are grants received for the Housing Maintenance Program from DHLGRS of $3.7million and $3.8million respectively. In 2011 funding for the Housing Maintenance Program changed from being a grant to being provided on a fee for service basis and recorded in other income. Therefore of the $3.4million decrease in operational grants and contributions over the three year period $3.7million relates to the Housing Maintenance Program which means that the real decrease in grants and contributions (operational) is in fact an increase of $300,000 (2%) compared to a 21% decrease as shown in the audited financial statements and table 5.2m.

In 2009 WASC received one off grant funding for establishment costs which would have contributed to subsequent decrease in grants and contributions reported in the audited financial statements and table 5.2m.

Grant revenue is provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.2p and 5.2q.

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	
Match funding	
Roads to recovery	
Library	
Shire Establishment Fund	

CDEP wages funding has been classified as a core services as it supports the training and employment of local people. This does not reflect the classification of the Council.

Table 5.2p: Composition of grant income (operational) by category

	2011	2010	2009
Core services	7,537,045	8,877,464	8,946,867
Non-core services	5,460,330	10,162,815	7,472,919
Total grants and contributions (operational)	12,997,375	19,040,279	16,419,786
Core services as a % of total grants	58%	47%	54%
Non-core services as a % of total grants	42%	53%	46%

**CDEP has been classified as core services*

Below is a table that shows the composition of grant revenue (operational) received by source:

Table 5.2q: Primary sources of grant income

Source	2011	2010	2009
Northern Territory Government	5,908,021	9,841,131	9,422,347
Commonwealth Government	7,058,097	9,188,304	6,890,453
Other	31,257	10,844	106,986
Total grants and contributions (operational)	12,997,375	19,040,279	16,419,786

As can be seen from table 5.2q, the majority of grant income (operational) was received from the Northern Territory Government in 2009 and 2010 however the majority of grant income in 2011 was received from the Commonwealth Government. Northern Territory Government grant funding dropped in 2011 as a result of the restructure of the Territory Housing from a grant to fee for service income. Grants and contributions from other sources amounted to less than 1% per year.

Grant funding (operational) for core services

Table 5.2p shows the level of grant income received for core services has decreased over the three years by $1.4million or 16%. Of this between 30% and 38% is classified as untied funds with the majority of core services funding being tied.

Table 5.2r: Tied versus untied core services grant and contributions (operational)

	2011	2010	2009
Untied	2,884,309	2,633,083	3,169,026
Tied	4,652,736	6,244,381	5,777,841
Total grants (operational) for core services	7,537,045	8,877,464	8,946,867
Untied as a %	38%	30%	35%
Tied as a %	62%	70%	65%

WASC receives a limited amount of untied funding from the Northern Territory and Commonwealth governments generally in the form of financial assistance grants, road funding and operational subsidies. Based on a review of these programs, there is no guidance or direction provided as to how this funding is to cover the core services except for the Northern Territory Grants Commission funding.

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also funded by the Northern Territory and Commonwealth Governments.

Table 5.2s: Tied versus untied non-core services grant and contributions (operational)

	2011	2010	2009
Grants (operational) – non-core services			
Untied	-	-	-
Tied	5,460,330	10,162,815	7,472,919
Total operational grants – non-core	5,460,330	10,162,815	7,472,919
Untied as a % of total grants – non-core services	-	-	-
Tied as a % of total grants – non-core services	100%	100%	100%

Grants and contributions (capital)

WASC received grants for capital purchases during the year as follows:

Table 5.2t: Primary sources of capital grants

Source	2011	2010	2009
Northern Territory Government	74,267	245,000	95,000
Commonwealth Government	457,143	634,943	1,479,305
Other	-	-	-
Total grants and contributions (capital)	531,410	879,943	1,574,305

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets. There has been a decline of $720,000 in capital funding for core service from $1.1million in 2009 to $420,000 in 2011.

User charges and fees

User charges and fees consist primarily of property lease rental fees and also include revenue from user charges, equipment hire and other sources.

Total user charges and fees received was $725,000 (2009), $290,000 (2010) and $282,000 of total revenue (2011) and each year was less than 2.5% of the total revenue received.

User charges and fees, together with grants and contributions were both affected by the change in classification of Housing Maintenance revenue to user charges and fees during the 2010/11 following the previous classification of this revenue as a grant. If the revenue related to Housing Maintenance is excluded from the prior years, income classified as grants and contributions would have increased by $278,000 from 2009.

User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates, water rates and domestic waste charges.

Rates and annual charges increased by $173,000 (8%) over the three years from $2.1million in 2009 to $2.3million in 2011. Rates and annual charges are between 6.7% and 8.2% of total revenue. Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities.

WASC's population in 2008 was 6,892 and they have a limited number of properties that are rateable. In addition to the limited number of properties, the requirements of section 142 of the Local Government Act 2008 that apply conditional rating over land held under pastoral leases and land occupied under mining tenements limit WASC's ability to generate income through rates.

The garbage charge per premises was increased from $238.26 to $372.54 (a 56% increase) for Jabiru and from $150 to $372.54 (a 148% increase) within the communities. The increase in charges contributed an additional $202,000 to total revenue. Rates and water charges increased over the three years by 7%, bringing rate revenue to $1.4million and total water revenue to $488,000 for 2011.

Other revenue

Other operating revenue in 2009 was $12.5million and remained consistent in 2011, however there was a decrease noted of $3.1million in 2010 to $9.5million. In 2011 funding for the Housing Maintenance Program changed from a grant to being provided on a fee for service basis. In 2009 and 2010 Housing Maintenance Program funding was recorded under grants and contributions however in 2011 it was recorded under other income. For comparability purposes if the funding was recorded as other income in 2010 and 2009 then the total other income would have been $13.3million and $16.3million respectively. Therefore a decrease of $3.7million is noted from 2009 to 2011.

Other operating revenue is predominantly considered tied funding as it relates to:

- contract fees provided by WASC on behalf of other entities for services such as essential services, postal agency, housing maintenance, tenancy management, Centrelink services and road contracts ($5.5million in 2011 and $2.9million in 2010)
- sales from Gunbalanya Store (whilst revenue is considered tied, operating surpluses are considered untied) ($5.6million in 2011 and $5.3million in 2010)
- service fees ($512,000 in 2011 and $678,000 in 2010)
- other income

5.2.5 Capital expenditure

Analysis of capital investment over the three years

Over the three years WASC purchased property, plant and equipment totalling $71.05million in 2009, $1.5million in 2010 and $1.6million in 2011. The composition of the additions can be seen in table 5.2u and chart 5.2H (excludes work in progress).

Table 5.2u: Additions of property, plant and equipment by asset category

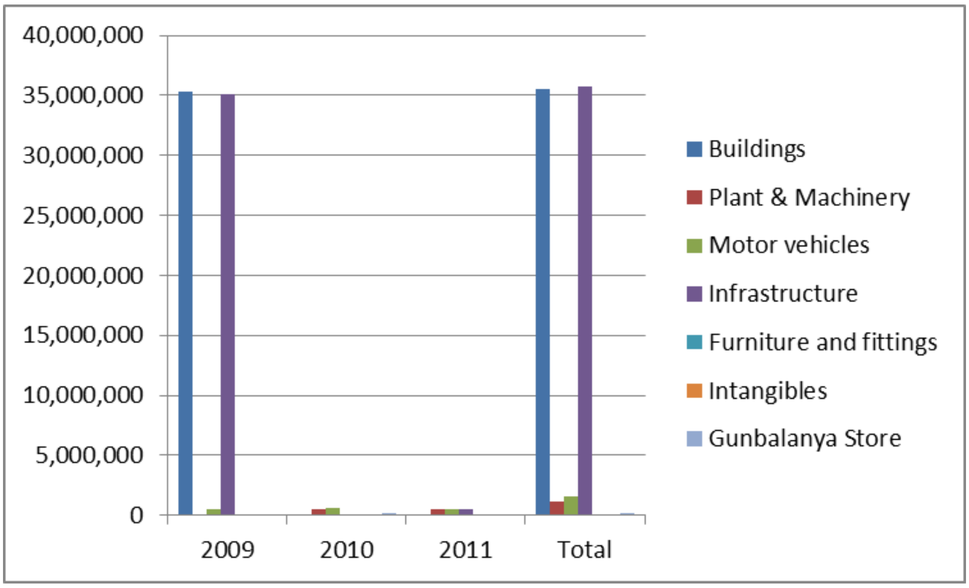
	2011	2010	2009*	Total
Buildings	58,338	88,511	35,346,013	35,492,862
Plant & Machinery	531,755	498,741	131,574	1,162,070
Motor vehicles	518,669	579,107	464,651	1,562,427
Infrastructure	497,450	130,250	35,103,339	35,731,039
Furniture and fittings	-	-	-	-
Intangibles	-	20,500	-	20,500
Gunbalanya Store	27,046	211,379	-	238,425
Total	1,633,254	1,528,488	71,045,577	74,207,323

Note: figures obtained from the annual financial statements and excludes work in progress

Includes assets transferred from the previous existing Councils.

As can be seen from table 5.2u above, the majority of the additions purchased over the three years related to buildings and infrastructure which combined represented 96% of the total additions of which the majority (approximately $70million) related to the transfer of assets through the restructure of local government on 1 July 2008. Other additions included plant and machinery which totalled $1.2million (1.6%) spread across the three years and $1.6million (2.1%) for motor vehicles. Additions to intangibles and Gunbalanya Store combined totalled $238,000 and were less than 1% of total additions. Capital expenditure represents 4.6% (2011), 3.6% (2010) and 182% (2009) of total expenditure.

Chart 5.2H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants and over the past three years and in total has not been sufficient to meet the purchases of new assets. Note the figures below do not include assets transferred in from restructure of local government.

Table 5.2v: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009
Capital funding	531,410	879,943	1,574,305
Capital expenditure	1,684,054	1,722,921	1,308,316
Difference	(1,152,644)	(842,978)	265,989

**Capital expenditure figures were obtained from the annual financial statements and include work in progress. The figures above do not include assets transferred in from restructure of local government*

WASC does not have a reserve established to meet future capital expenditure requirements. All capital expenditure incurred by WASC is funded from either capital grants from the Northern Territory and/or Commonwealth Governments or funded from cash reserves. As we can see from table 5.2v, WASC received capital funding for each of the three years however it was not sufficient to cover the actual expenditure incurred for the three years combined. This trend, if continued, will have an adverse effect on the financial sustainability of the Council.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.2w: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital expenditure	1,684,054	1,722,921	1,308,316	4,715,291
Depreciation expense	5,428,042	4,972,248	4,745,581	15,145,871
Sustainability ratio	0.31	0.35	0.28	0.31

**Capital expenditure figures were obtained from the annual financial statements and include work in progress*

The benchmark for the sustainability ratio is 1. As we can see from the table above, the ratio for WASC was 0.28 in 2009 and has remained steady over the subsequent two years with 0.35 in 2010 and 0.31 in 2011 which, for each year and in total over the three years, is below the benchmark of 1 indicating that assets may be deteriorating at a greater rate than WASC is spending on their renewal or replacement. The average sustainability ratio over the three year period was 0.31. The sustainability ratios calculated above indicate that further investment in capital expenditure should be undertaken to reduce any infrastructure backlogs and future unsustainability of WASC. However, when analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- Capital expenditure incurred each year may not reflect the actual needs of the Council
- Does not take into consideration whether communities within the Council are Growth Towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

It is important to note that many of the assets included in the fixed asset register and used by WASC have no written down value however are still used to deliver services.

Property, plant and equipment includes a large number of assets located across the shire which were transferred from the previous community Councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or WASC did not believe they had ownership or control over the assets. Efforts have been made by WASC over the last three years to locate, assess and determine whether they had ownership of the assets or if they were deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of WASC which are either past their useful life or the WASC does not own or have control over the asset.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by WASC buildings accounts for 48.8% and infrastructure accounts for 49.9%.

There were limited sources of information available to us in respect of the backlogs facing WASC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, two are within the WASC Shire. They are Gunbalanya and Maningrida.

There are approximately 36,000kms of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50kms of the Territory Growth Towns less than fourteen percent of the 5,000kms of roads is sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. WASC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in WASC.

Chart 5.2I: Territory Growth Towns (WASC Shire) – Road conditions within a 50km radius

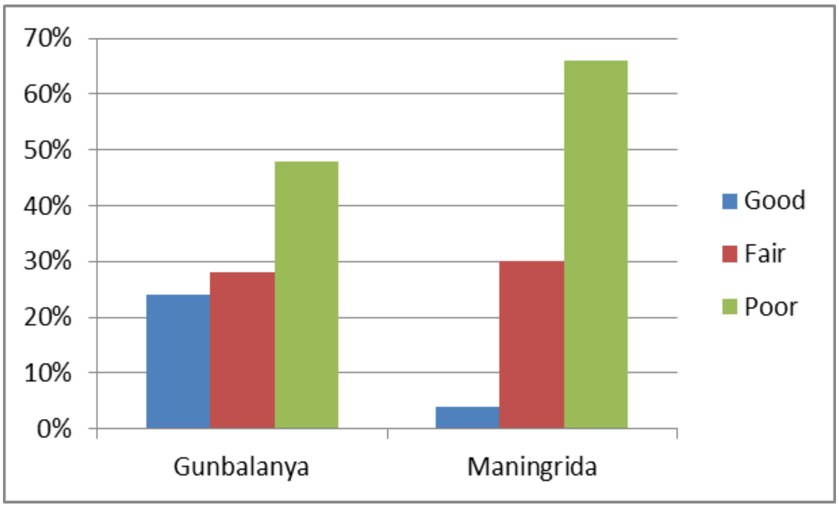


Table 5.2y below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.2y: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in WASC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Gunbalanya	250.60	41.34	0.41
Maningrida	421.35	61.69	1.93
Total	671.95	103.03	2.34

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $103.03million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $2.34million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs do not include all communities within WASC, only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $103.03million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by WASC with many of them past their useful life and in need of upgrade or replacement.

5.2.6 Core services, fee for service arrangements and non-core services

As a shire Council established under the Local Government Act 2008, there are minimum core services which WASC must provide to the communities within its shire boundaries. For a list of these activities refer to Appendix 1 of this report.

The consultancy contract required the following analysis to be performed:

- Identification and analysis of expenses pertaining to core service delivery, fee for service arrangements and non-core activities of the Councils
- Analysis of the extent to which revenue that is available for core service delivery is being used to subsidise non-core services and/or fee for service arrangements or vice versa
- Analyse whether current fee for service arrangements have been established on a commercial basis and provide recommendations as to where arrangements should be reviewed or renegotiated
- Review the extent to which core services have been undertaken by Councils and identify circumstances where non-core or fee for service activities have taken precedence over core services.

In order to undertake an analysis to address the requirements listed above, financial data by program for core services, fee for service arrangements (or agency services) and commercial services are required for each of the three years. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we were unable to complete the requirements listed above.

In the absence of financial data by program for core services, fee for services and commercial services, we have referred to WASC's shire plans for a list of the fee for service arrangements (agency services), commercial services and other Council services which the Council intended to provide during the three year period.

<u>Commercial Services</u>

Commercial Services are services that the Council is undertaking on a full commercial basis with the intention of using profits from commercial activities to improve services to the community. These include:

- Community stores
- Horticulture

- Housing and infrastructure maintenance
- Motor vehicle registry
- Non Council roads
- Post Office agency
- Power, water and sewerage
- Housing management
- Visitor accommodation and tourist information.

Agency Services

Agency Services include services that the Council has agreed to deliver on behalf of other Government Agencies on a fee for service basis. The services include:

- Aged and disabled care
- Airstrips
- Arts and Culture
- Centrelink
- Community Media
- Community Safety (including night patrols, family safety measures)
- Economic Development Support
- Employment and Training
- Environmental Health
- Family programs (Including Child Care)
- Natural and Cultural Resource Management
- Sport and Recreation
- Services for Youth.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which WASC sits within the Northern Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Northern Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which WASC is to assess performance in the delivery of core services and meeting objectives of the Northern RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including WASC. WASC is required to deliver core services to five communities as listed in section 5.2.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as expected when measuring whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, it has been reported that WASC has delivered all services to all five communities except 'Library and cultural heritage services' where it states that this service was provided to Jabiru only. The service is being planned for delivery in Maningrida and Gunbalanya with no service planned for Minjilang or Warruwi. No expected dates for delivery of services have been disclosed. No actual reporting against KPIs has been included and therefore the extent to which service delivery has occurred cannot be determined.

The shire plans prepared by WASC includes a service delivery plan for each service to be delivered with the following details included:

- A description of the service
- Service outputs
- The primary outcome that the service delivers
- An analysis of the current approach to service delivery
- An analysis of future approach to service delivery
- Details of the specific actions to be undertaken relevant to the delivery of the service, including each community that will receive the service
- Financial details relating to the delivery of the service.

The Shire Plans did not include any KPIs to assess service delivery outcomes for each service profiles listed. Without KPIs listed against each of the actions, determining whether WASC has successfully met the outcomes for each service cannot be measured. Therefore an assessment cannot be made on whether core services are being successfully delivered to the five communities or whether the outcomes and identified actions are being achieved. WASC management advised that KPI's are current being developed.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads.

All direct costs are recorded against the actual program to which the expenditure relates. WASC did not establish policies and procedures for calculating and allocating indirect and overhead costs its programs. Over the last three years WASC has begun the process for determining, calculating and allocating indirect and overhead costs against all its programs. There is an unwritten policy to apply 15% of revenue as an overhead cost, however development and application of the methodology is still a work in progress.

All direct costs are recorded against the program to which they relate. For core services programs, WASC receives untied grants from both the Northern Territory and Commonwealth Governments. The funding provided is to cover all costs incurred with the delivery of core services and the budget for core services is determined by WASC based on the level of funding they receive which should include an appropriate amount to cover indirect and overhead costs. Currently overheads are not being charged to core services programs. Should WASC start to apply overheads to the programs, the operating deficits will become larger which will not be financially sustainable in the longer term.

WASC enters into agreements with Governments for the delivery of agency services on their behalf. WASC submits tenders and budgets to win the opportunity to deliver the various agency services. The budgets prepared by WASC and submitted are not always reflected in the actual level of funding and budgets provided in the agreements between WASC and the funding body. Despite this, WASC still accepts the terms of the agreements to deliver the services. There are instances where the agreement does not allow for any indirect or overhead costs to be charged to be recovered. In these cases WASC only includes the amount that the agreement allows, regardless of whether the actual costs are higher. If WASC were to reject these agreements, it may result in communities not being provided with essential services.

Establishment of fee for service arrangements

In addition to the delivery of core services required under the Local Government Act 2008, WASC has entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments. Over the three year period, WASC has entered into arrangements with both governments for the delivery of a number of services.

All agency services are funded under an agreement between WASC and the relevant government entity. The key issues noted with the establishment of fee for service arrangements include, but not limited to (also discussed in the preceding section):

- Generally WASC submit budgets for the delivery of the services, however in some instances the level of funding received does not reflect the budget submitted by WASC upon application
- Some agency services do not allow for an administration fee, or allow for a small fee, to recover all overhead and indirect costs incurred by WASC in delivering the services
- A detailed methodology does not exist to allocate overheads and indirect costs across all programs. Administration costs are not always charged to the program and in some instances, WASC will only allocate overheads to the limit allowed under the funding agreement.
- There is no 'profit margin' built into the budgets for commercial services as expected in a commercial organisation.

5.2.7 Budget processes

Operating budgets

The initial budget for WASC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 and 2011 the budget was prepared by the finance staff and review by senior management prior to being presented to Council. The budgets have been approved by the Council as part of the annual management plan. WASC did not include a three year budget projection in the shire plan in 2010 to 2011 financial years as required by the Local Government Act 2008.

Budgets have been manually imported into the general ledger and were not included at a project level. As a result the program managers were unable to easily compare budgeted and actual expenditure as the data and reports were not readily available from the accounting system. The budget process significantly improved in 2011/12 when the budget was prepared within the accounting system at a project level. Budgets for projects became the responsibility of various managers depending on the service, who are now able to review budget vs. actual results within the system at any point in time.

Reports comparing budgeted and actual results have been provided to the Finance and Policy committee since April 2009. No reports were able to be provided commentary on any large movements between budgets and actual, only a brief summary of the financial position to date is included in the agendas. Financial reporting to the Council's committee has been limited over the past three years with no financial reports noted in the agenda over the three years. From November 2011 financial reports have been presented to the Council that include:

- Profit and loss reporting monthly and year to date results, both budget and actual
- Commentary on the results and variances between actual and budget results
- Top two debtors
- Top five creditors
- Statement of working capital with current year compared to prior year
- Debtors aged analysis
- Creditors aged analysis
- Balance sheet
- Cashflow with current year compared to prior year
- Graphs looking at movements in key ratios.

The current reporting provides a good high-level overview of the financial performance and position of WASC. There is no reporting on the performance of core service, fee for service or commercial services preventing understanding and review of the extent of cross subsidisation between activities. WASC have since improved their reporting, since the adoption of the 2012 budget increased attention has been directed towards the content of finance reports provided to WASC's Finance and Policy committee. Late in 2011 a suite of Managements Reports were developed which include reporting on the performance of core services, fee for service and commercial services. These reports, which are circulated on a monthly basis, enable management to monitor and review all activities.

Capital budgets and capital management plans.

WASC does not have an asset management plan or an asset management system in place.

Despite improvements to their operational budgeting processes over the three years, the process relating to capital expenditure spending is largely unchanged. As part of the budget process, funding allocated to capital expenditure requirements is dependent on available funds after operational budgeting has been finalised. There is very little funding available for capital expenditure in relation to core service delivery.

Roads are funded by Federal Government funded programs being the 'Roads to Recovery' program and the Financial Assistance Grants (FAGs). As these are fixed/pre-determined grants, WASC has no influence on the amounts that have been allocated at a national level. WASC apply for Northern Territory tenders to access additional road funding for state controlled roads within its boundaries.

The impact of not having sufficient capital expenditure reserves and capital management plan in place increases the risk of the following:

- Core services may be ceased temporarily or long term should the capital expenditure be required to replace assets that are used in the delivery of core services and there are no other assets that can be substituted until replacement

Cash flow budgets

For the last three years WASC have not prepared cash flow budgets or cash flow forecasts due to the inability to predict the timing of cash flows.

5.2.8 Summary – financial sustainability of WASC

To determine the financial sustainability of WASC we have analysed the financial data for the three years 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis, six KPIs were used to assess financial sustainability of WASC. The results of the KPIs are listed in the table below.

Table 5.2z: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(24.5%)	(24.7%)	(21.5%)	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	0.31	0.35	0.28	0.31
Current ratio	Current assets divided by current liabilities	1.0	1.3	2.2	2.4	-
Rates coverage	Rates revenue divided by total cost	40%	6.6%	5.7%	5.5%	-
Rates coverage on core service revenue	Rates revenue divided by core service revenue					

KPI	Description	Benchmark	2011	2010	2009	Average*
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	30.9%	24.9%	24.1%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for WASC is in a healthy position overall with net assets of $65.9million however the net asset position has decreased over the last three years due to continuing operating deficits being registered. The current ratio of 1.3 in 2011 has worsened over the three year period from 2.4 in 2009 to 1.3 in 2011. On closer inspection the decline in net assets is due predominantly to cash balances decreasing with current liabilities (excluding unexpended grants) exceeding the unrestricted cash balances.

WASC does not have any borrowings and as a result there is no pressure from interest rate increases or meeting repayments and therefore no over-reliance on borrowings.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly operating deficits indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years WASC has been incurring operating deficits. Where operating deficits persist this indicates that operating revenue is insufficient to meet current operations. WASC is heavily reliant on grant funding due to limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for WASC on average over the last three years was 0.31 indicating that the Council is not replenishing its asset base sufficiently enough to cover consumption. In addition to the negative sustainability ratio are the issues noted in regards to the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that WASC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008 WASC has undertaken a review of the assets transferred in to determine whether they existed, fit for purpose, and/or under the control of WASC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $103million by a study conducted by the Northern Territory Government. This backlog does not cover other communities within the WASC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions WASC is not financially sustainable in the short term. Being classified as financially unsustainable does not mean WASC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of WASC are to put onto a financially sustainable basis going forward.

5.3 Tiwi Islands Shire Council

5.3.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, Tiwi Islands Shire Council (TISC) was incorporated under the *Local Government Act 2008 NT*. Three of the previous community government Councils were amalgamated into TISC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	2,546
Land size	7,501 km^2
Wards	4
Communities & Outstations	10
Pastoral Leases	0

Elected representatives to Council by ward (2008-2012)

Milikapiti	3
Nguiu	5
Pirlangimpi	3
Wurankuwu	1

At 30 June 2011, TISC had 530 staff in its employ including CDEP participants and was responsible for managing 925 km of roads of which approximately 50% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Northern Regional Management Plan, TISC is required to deliver services to four designated communities and has established three service delivery centres as the base for delivering services across the shire, located in:

- Milikapiti
- Pirlangimpi
- Wurrumiyanga *#.

TISC also maintains a Corporate Service office located in Darwin.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There is one Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government

services and facilities and better support for indigenous community governance and leadership. There is one Remote Service Delivery Site located within the shire.

Challenges of population and geography in TISC

TISC faces significant infrastructure challenges due to its specific geography and demographic profile. TISC's population is 2,546 people with the majority of the population being Indigenous. TISC occupies a land mass of 7,501 km^2. TISC faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the Northern Region. Some of the key challenges include:

- The Council's jurisdiction is entirely off-shore, therefore all transportation is via sea or air. The timely and cost effective transport of shire staff, contractors and cargo across the region is a continual challenge
- Recruitment and retention of staff particularly suitably qualified staff
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- The viability of delivery of services to non-Council homelands
- The employment and training of Indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Sustainability and alternative revenue generation with a significant portion of revenue coming grant revenue
- A low level of untied grant revenue received is able to be used at the Councils discretion. The majority of grant revenue is tied limiting the influence has as to how TISC can allocate funds
- Lack of secure land tenure for Council assets creating uncertainty over the ownership and control of assets
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff.

Entities in which TISC has an interest

<u>CouncilBiz</u>

CouncilBIZ was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the 8 member shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. Upon the incorporation of CouncilBiz, TISC made an initial funding contribution to CouncilBiz of $50,000.

5.3.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.3a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	10,599,369	10,587,088	10,196,610	402,759	4%
Non-current assets	36,548,202	37,665,165	5,662,160	30,886,042	545%
Total Assets	47,147,571	48,252,253	15,858,770	31,288,801	197%
Current liabilities	6,765,182	6,906,257	6,168,111	597,071	10%
Non-current Liabilities	329,928	225,315	225,925	104,003	46%
Total Liabilities	7,095,110	7,131,572	6,394,036	701,074	11%
Net Assets	40,052,461	41,120,681	9,464,734	30,587,727	323%
Equity	40,052,461	41,120,681	9,464,734	30,587,727	323%

The financial position of TISC has improved by $30.6million from $9.5million in 2009 to $40.1million in 2011. The majority of the increase incurred in 2010 due to an asset revaluation of $32million.

Cash balances analysis

Cash balances comprise cash and cash equivalents as reported in the annual financial statements. Table 5.3b below shows the composition of current assets for the last three years.

Table 5.3b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	8,000,558	7,074,303	7,936,267
Other	2,598,811	3,512,785	2,260,343
Current assets	10,599,369	10,587,088	10,196,610
Cash as % of current assets	75.48%	66.8%	77.8%

**Note: the balances referred to in the table above came from the audited financial statements*

As can be seen from the table above cash balances comprised between 66.8% in 2010 and 77.8% in 2009 of the total current assets.

Table 5.3c shows the composition of the cash balances.

Table 5.3c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	8,000,558	7,074,303	7,936,267
Restricted cash balances*	2,490,702	3,092,665	1,339,641
Untied cash and cash equivalents	5,509,856	3,981,638	6,596,626

**Represents unexpended grants liabilities at year end*

As can be seen from the table above there was sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Chart 5.3A: Composition of cash balances

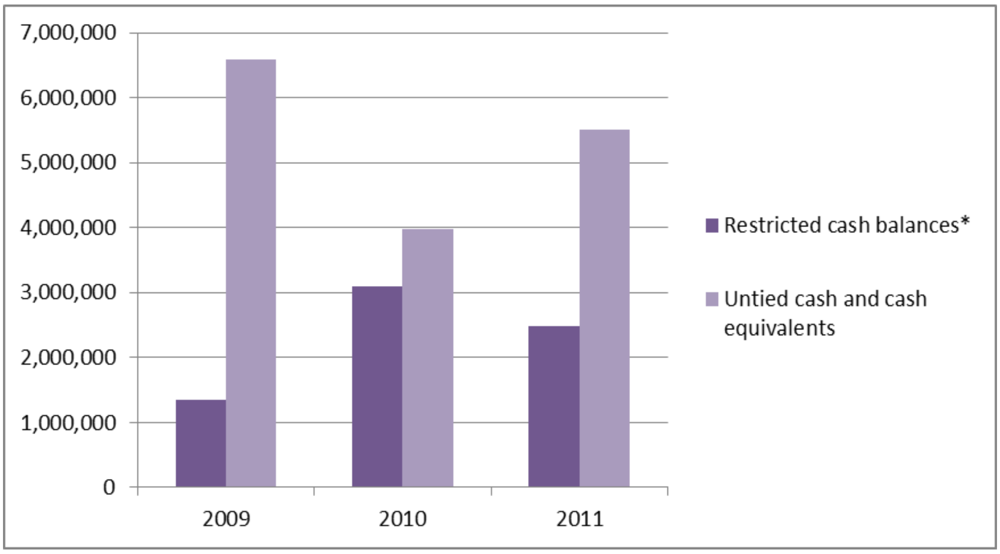


Table 5.3d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, then Councils may have problems in meeting its short term obligations.

Table 5.3d: Current Ratio

	2011	2010	2009
Total current assets	10,599,369	10,587,088	10,196,610
Total current liabilities	6,765,182	6,906,257	6,168,111
Net current assets (Working Capital)	3,834,187	3,680,831	4,028,499
Current Ratio	1.57	1.53	1.65

Table 5.3e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken

into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.3e: Cash Ratio

	2011	2010	2009
Total cash balances	8,000,558	7,074,303	7,936,267
Less: unexpended grants (restricted assets)	2,490,702	3,092,665	1,339,641
Total unrestricted cash balances	5,509,856	3,981,638	6,596,626
Total current liabilities (unrestricted)	4,274,480	3,813,592	4,828,470
Cash Ratio (unrestricted)	1.29	1.04	1.37

Table 5.3d indicates that TISC had sufficient current assets to settle current liabilities at 30 June of each year. The cash ratio in table 5.3e shows that TISC had sufficient cash assets to settle all liabilities at 30 June should creditors have demanded immediate settlement including the repayment of all unexpended grant monies. The benchmark for the current ratio is one. TISC's ratio for each of the three years exceeds this benchmark.

Non-current assets

Non-current assets comprises property, plant and equipment and work in progress. The balance of property, plant and equipment increased by $30.9million (545%) since 2009.

On 1 July 2008, $1.2million in property, plant and equipment was transferred from the four existing communities subject to amalgamation. This balance increased to $36.5million 2011, due to revaluation.

- Buildings with a written down value of $1.1million in 2009 were revalued upward by $29.3million to $30.4million in 2010
- Infrastructure was revalued upward by $2.8million to $5.2million.

Lease arrangements were put in place in Indigenous communities under the Federal Government's Intervention. TISC has considered that it controls those assets affixed to leased land and has recorded the assets in the financial statements as prescribed assets. The Audited Financial Statements for 2010 state that TISC consider the Council has a 'Right of Occupation' under section 6.2 of the Head Lease Agreement.

Upon formation of TISC, property, plant and equipment was considered by management not to be controlled and many assets were written off as part of the gain on restructure as they could not be reliably recognised or measured. TISC has deemed that these assets should be recognised in some form as the Council has responsibility to insure and manage these assets. Consequently, during 2010, the existence, condition and control of all property, plant and equipment were assessed resulting in an upward revaluation of $31.9million.

Table 5.3f below shows the composition of property, plant and equipment for TISC for the 2011 year.

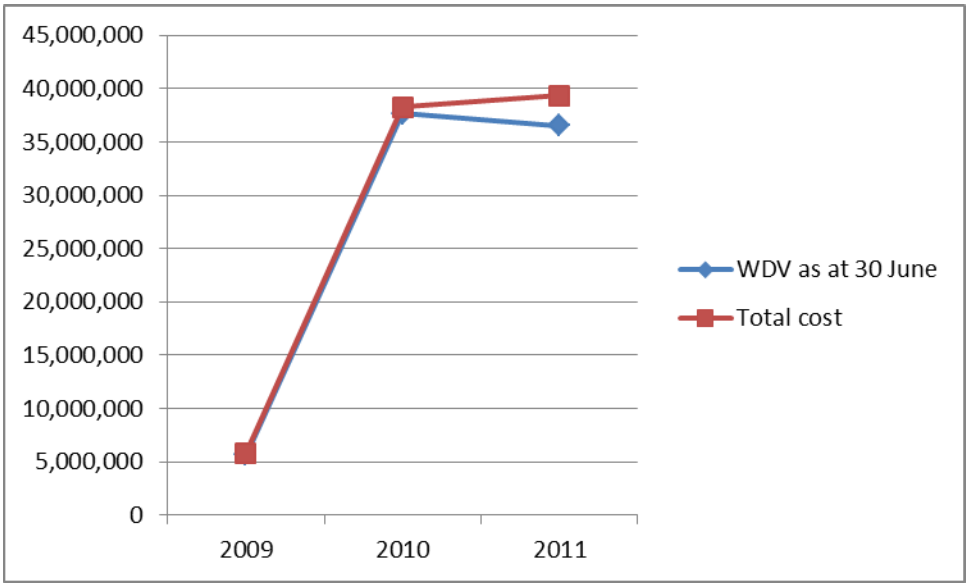
Table 5.3f: Composition of property, plant and equipment (including work in progress) for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Prescribed buildings - at revaluation	30,367,977	1,606,461	28,761,516	78.7%
Plant & Machinery - at cost	2,321,843	696,693	1,625,150	4.4%
Equipment - at cost	96,393	20,340	76,053	0.2%
Motor vehicle - at cost	930,757	202,920	727,837	2.0%
Infrastructure - at revaluation	5,492,390	277,661	5,214,729	14.3%
Work in progress	142,916	-	142,916	0.4%
Total	39,352,276	2,804,075	36,548,201	100.0%

Note: figures obtained from the annual financial statements

The majority of property, plant and equipment comprised buildings at 78.7% and infrastructure at 14.3%. Together these represent 93% of the total written down value (WDV). As previously mentioned property, plant and equipment increased by $30.9million (545%) since 2009 of which the majority is due to revaluation.

Chart 5.3B: Total cost and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



Liabilities analysis

Current liabilities comprise creditors, provisions, other payables, borrowings and unexpended grants. The current liability balance has increased by $597,000 (10%) over the three years from $6.17million in 2009 to $6.8million in 2011. Non-current liabilities increased by $104,000 from $226,000 in 2009 to $330,000 in 2011.

Included in the liabilities are borrowings with a balance of $1million at the end of each year.

There are two main analytical measures of a Council's indebtedness being:

- Net debt, as measured by interest-bearing liabilities less cash reserves
- Net financial liabilities, as measured by total liabilities less total financial assets.

For the purposes of this analysis we consider the net financial liabilities ratio to be the more appropriate measure than the debt ratio. A large net liability is an indicator of unsustainability, where Councils have increased their asset base beyond their financial capacity. The financial liabilities of the Council are all financial claims on a Council by other sectors of the economy other than ratepayers (includes interest-bearing liabilities and all other liabilities) less the Council's financial claims on these sectors.

Table 5.3g: Net financial liabilities

	2011	2010	2009
Total liabilities	7,095,110	7,131,572	6,394,036
Total financial assets*	9,817,774	9,946,385	9,776,348
Net financial liabilities/(assets)	(2,722,664)	(2,814,813)	(3,382,312)
Operating revenue (including operational grants)	17,659,879	17,574,628	23,750,827
Net financial liabilities ratio	(15%)	(16%)	(14%)

**Total financial assets is total cash assets plus receivables*

The net financial liabilities ratio is a sum of a Council's total liabilities less its financial assets, expressed as a percentage of total annual operating revenue. Use of this ratio effectively allocates a Council's long term debt across its core and non-core services activities in proportion to the total annual operating revenue (including operational grants).

The table above indicates that TISC is a net creditor with their total financial assets (cash reserves and receivables) exceeding the TISC's total liabilities owing to other sectors of the economy for each of the three years.

Another measure of a Council's ability to meet its short term liabilities is the current ratio as calculated earlier in this section.

Interest coverage ratio

A measure to determine the appropriateness of a Council's debt levels is its ability to repay the debt and associated interest. This can be measured by the interest coverage ratio. The interest coverage ratio is calculated by earnings before interest and tax (EBIT) divided by interest expense. For the purposes of this analysis we have used a benchmark of 3 as Councils with interest coverage below 3 may have problems in repaying debt and associated interest.

Table 5.3h: Interest coverage ratio

	2011	2010	2009*
EBIT	(1,064,092)	(299,037)	3,998,297
Interest expense	4,128	10,806	-
Interest coverage ratio	(257.8)	(27.7)	N/A

**TISC had no borrowings in 2009*

The interest coverage ratio for TISC is below 3 for both 2010 and 2011 indicating that TISC may have difficulties repaying the debt and associated interest and may face unsustainability. This adverse result is due to a deficit being incurred, not due to high debt of interest balances.

5.3.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of NT Councils in section 3 of this report.

This section provides our analysis of the financial performance of TISC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.3.5.

Below is an extract of the Statement of Comprehensive Income from the audited financial statements for the last three years.

Table 5.3i: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	840,227	386,929	1,290,018	(449,791)	(35%)
Rates and annual charges	724,321	649,396	420,500	303,821	72%
Interest	230,628	228,501	384,303	(153,675)	(40%)
Grants and contributions	11,414,392	14,085,000	16,947,942	(5,533,550)	(33%)
Other Operating revenue	4,447,084	2,216,120	4,625,609	(178,525)	(4%)
Contributions and donations	2,500	909	77,000	(74,500)	(97%)
Net profit from disposal of assets	727	7,773	5,455	(4,728)	(87%)
	17,659,879	17,574,628	23,750,827	(6,090,948)	(26%)
Employee costs	11,420,518	11,004,140	12,529,589	(1,109,071)	(9%)
Materials and contracts	5,332,838	6,599,068	9,300,044	(3,967,206)	(43%)
Finance costs	4,128	10,806	-	4,128	100%
Other costs	489,129	502,240	110,494	378,635	343%
	17,246,613	18,116,254	21,940,127	(4,693,514)	(21%)
Surplus/(deficit) before capital grants and depreciation	413,266	(541,625)	1,810,700	(1,397,434)	(77%)
Capital Grants Revenue	751,884	905,753	2,380,289	(1,628,405)	(68%)
Operational surplus/(deficit) before depreciation and asset classification	1,165,150	364,128	4,190,989	(3,025,839)	(72%)
Depreciation	349,275	673,970	192,692	156,583	81%
Depreciation Prescribed	1,884,095	-	-	1,884,095	100%
Total Comprehensive Income	(1,068,220)	(309,843)	3,998,297	(5,066,517)	(126%)

**The net gain on restructure totalling $5.4million was excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2009 the total surplus for the year is $9.4million.*

Chart 5.3C: Revenue, expenses and net surplus/(deficit) for 2009, 2010 and 2011

**Total revenue includes capital grants. Total expenses includes depreciation expenses. Net surplus/(deficit) includes capital grants and depreciation expenses.*

TISC recorded a deficit of $1.1million in 2011. Whilst total revenue (including capital grants) remained relatively consistent between 2010 and 2011, total expenses (including depreciation) increased by $690,000 resulting in the net deficit increasing from $309,000 in 2010 to $1.1million in 2011.

A deficit of $309,000 was recorded in 2010. Revenue decreased by $7.6million from the prior year, driven by decreases in grants and contributions, user fees and charges and other operating revenue. Expenditure decreased by $3.3million driven by reductions in employee costs and material and contract cost offset by an increase in depreciation expenses.

A surplus of $4.0million was recorded in 2009. Revenue received totalled $26million, the highest annual revenue over the three years.

A contributor to declining revenue over the three years was the decrease in CDEP grant funding which fell from $7.6million during 2009 to $3.7million during 2010 and to $2.5million during 2011. Expenditure incurred during 2009 was $22.1million, also the highest expenditure over the three years.

Overall, operating expenses excluding depreciation have decreased since 2009 due primarily to materials and contract costs which decreased by $4million or 43% and employee expenses which decreased by $1.1million or 9% since 2009. The primary reason for materials and contract costs decreasing over the three year period are:

- Contract materials decreased from $1.6million in 2009 to $29,000 in 2011, a decrease of almost $1.6million
- Material expenses decreased from $2.1million in 2009 to $1.8million in 2011, a decrease of $300,000
- Bad debts expense decreased from $2.1million in 2009 to negative $67,000, a decrease of over $2.1million.

The primary reasons for the decrease in employee expenses were due to salaries and wages decreasing from $10.3million in 2009 to $9.4million in 2011 (a decrease of $900,000) and annual leave and long service leave movements (as this reported separately in the notes to the financial statements) decreasing by almost $400,000.

Depreciation costs have increased by $2million over the three year period due to the depreciation on prescribed buildings being only charged in 2011 at an amount of $1.9million. No depreciation was charged in 2010 and the balance of buildings – prescribed in 2009 was only $1.06million.

Chart 5.3C above demonstrates the widening of the gap between revenue and expenses resulting in the increased operating deficits.

Refer to section 5.3.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.3j shows the operating surplus/ (deficit) for TISC and the associated surplus/ (deficit) ratio for the three years since 2009.

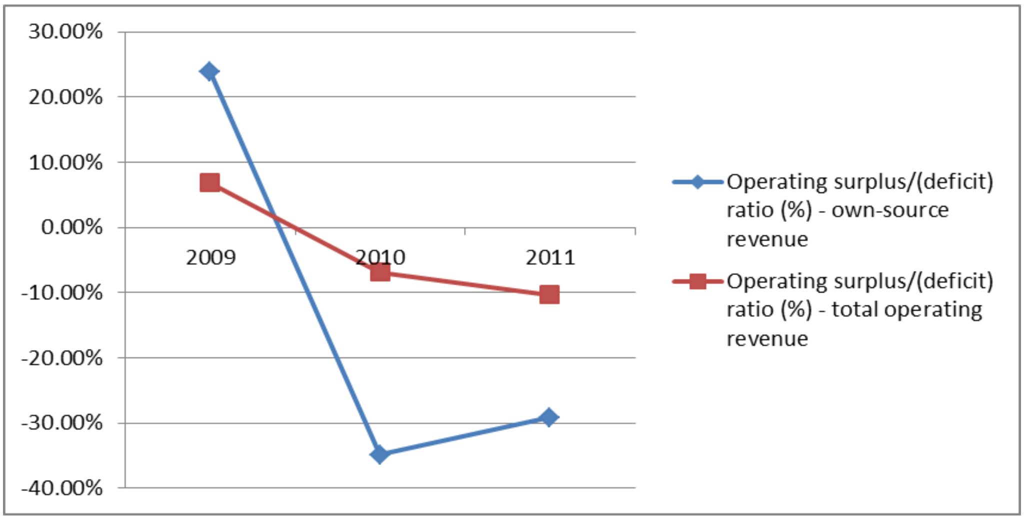
Table 5.3j: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	17,659,879	17,574,628	23,750,827
Less: operating expenses (including depreciation expense)	19,479,983	18,790,224	22,132,819
Operating surplus/(deficit)	(1,820,104)	(1,215,596)	1,618,008
Operating surplus/ (deficit) ratio (%)	(10.3 %)	(6.9 %)	6.8%
Own source revenue*	6,244,760	3,481,855	6,797,430
Operating surplus/ (deficit) ratio (%)	(29.1%)	(34.9%)	23.8%

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*
***Operating revenue does not include capital grants*

The operating surplus/ (deficit) ratio calculated for TISC on total revenue (excluding capital grants) shows an operating surplus for 2009 and operating deficits for 2010 and 2011. The operating surplus/ (deficit) ratios based on own source revenue only reflect the same movement. If TISC continues to incur operating deficits in the coming years then the Council could become financially unsustainable.

Chart 5.3D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents 4% or less of total revenue. While rates revenue has increased over the three year period TISC is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, legislated conditional rating on pastoral and mining entities, slow or negative growth rates in its communities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.3k: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	724,321	649,396	420,500
Operating expenses	19,479,983	18,790,224	22,132,819
Rates coverage ratio	3.7%	3.5%	1.9%

The calculations above show that the rates coverage ratio for each of the three years is between 1.9% and 3.7% and is less than the 40% benchmark. This indicates that TISC is dependent on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we look at the financial performance against budgets and plans for each of the three years.

Analysis of budget versus actual results by category

In order to undertake an analysis of the budget versus actual results by category, financial data on budget versus actual by core, agency and commercial services was required. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we were unable to complete our analysis.

Analysis of budget versus actual results by standard classifications

Based on a review of reports comparing budget to actual expenditure and discussions with staff, the budgets for the years subjected to analysis have not accurately represented revenue, expenditure or the net surplus/deficit position.

Table 5.3l: Budget versus actual surplus/ (deficit) for 2009, 2010 and 2011

	Budget	Actual	Difference
2011*			
Revenue	29,659,710	17,659,879	(11,999,831)
Expenditure	25,820,684	19,479,983	(6,340,701)
Surplus/deficit	3,839,025	(1,068,220)	(9,407,245)
2010**			
Revenue	21,967,685	18,480,381	(3,487,304)
Expenditure	21,601,323	18,790,224	(2,811,099)
Surplus/deficit	366,362	(309,843)	(676,205)
2009***			
Revenue	19,953,955	26,131,116	6,177,161
Expenditure	19,953,955	22,132,819	2,178,864
Surplus/deficit	-	3,998,297	3,998,297

As can be seen from table 5.3l, TISC budgeted to breakeven in 2009 and for surpluses in 2010 and 2011. Actual results however show a surplus in 2009 and a deficit in 2010 that grew into a larger deficit in 2011. The 2009 financial year saw the largest intake of grants and contributions, driven by the $2.8million received as part of the shire establishment funds that were not received in 2010 or 2011. The worsening financial performance is related to the significantly increasing depreciation expenditure with $192,692 recorded in 2009, $673,970 in 2010 and $2.2million in 2011. This is result of an increasing asset balance and depreciation being recorded on buildings and infrastructure in 2011 and not in 2009 and 2010.

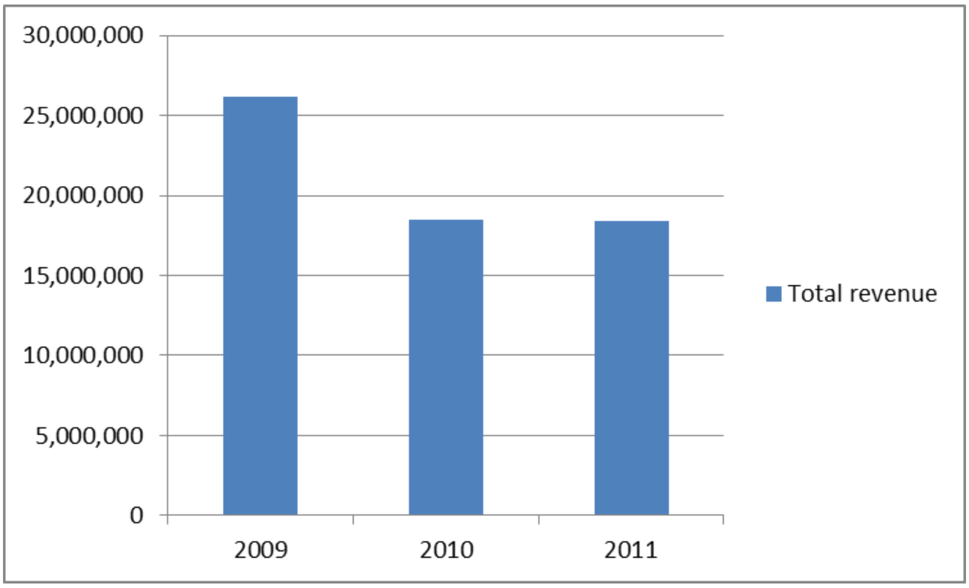
5.3.4 Revenue and revenue sources

Table 5.3m: Revenue for 2009, 2010 and 2011

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	840,227	386,929	1,290,018	(449,791)	(35%)
Rates and annual charges	724,321	649,396	420,500	303,821	72%
Interest	230,628	228,501	384,303	(153,675)	(40%)
Grants and contributions	11,414,392	14,085,000	16,947,942	(5,533,550)	-33%
Other Operating revenue	4,449,584	2,217,029	4,702,609	(253,025)	(5%)
Net profit from disposal of assets	727	7,773	5,455	(4,728)	(87%)
Total operational revenue	17,659,879	17,574,628	23,750,827	(6,210,871)	(26%)
Capital Grants Revenue	751,884	905,753	2,380,289	(1,628,405)	(68%)
Total comprehensive revenue	18,411,763	18,480,381	26,131,116	(7,719,353)	(29.5%)

The total revenue received in 2010 and 2011 was $$18.4million following receipt of $26.1million in 2009. Over the three year period the total revenue decreased by almost $7.8million or 29%. Refer to Chart 5.3E below.

Chart 5.3E: Total revenue by year

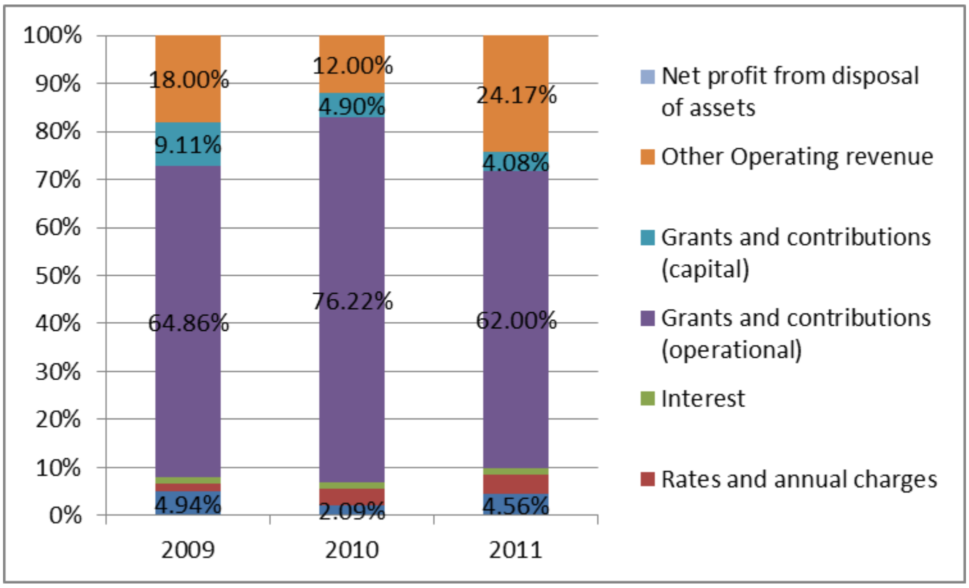


TISC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)

- Other operating revenue
- Net profit from disposal of assets.

Chart 5.3F: Revenue analysis by source



The chart above demonstrates the heavy reliance on grants and contributions income and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, TISC's own source revenue is insufficient to cover the costs of delivering core services to its shire communities.

Between 62% and 76% of TISC's total revenue is derived from grants and contributions predominantly from the Northern Territory and Commonwealth Governments. Rates and charges provide 5% or less of the total operational revenue and other income ranged between 16% and 28% of total operational revenue.

Revenue – untied versus tied

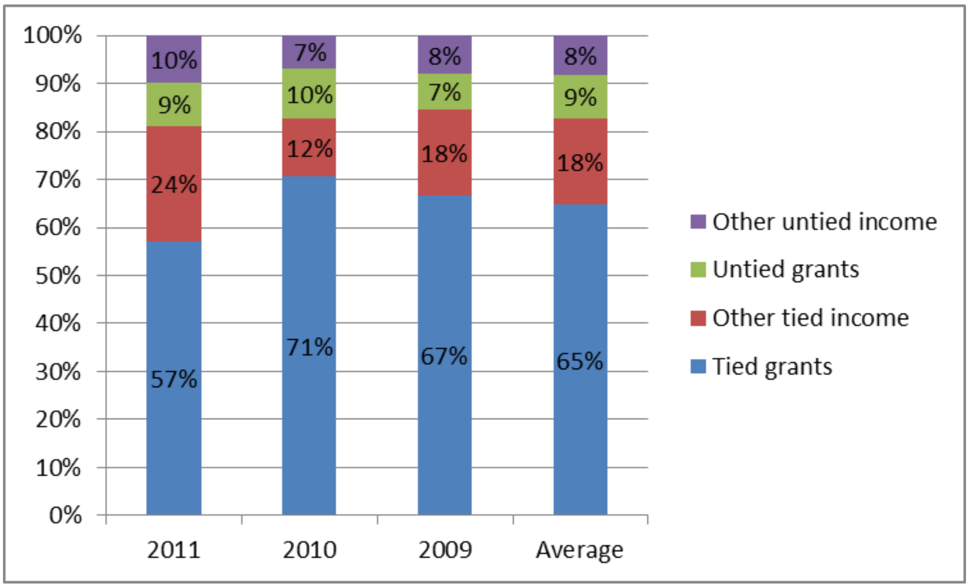
For the purposes of this analysis, all revenue received by TISC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue.

Table 5.3n: Tied versus untied revenue

	2011		2010		2009	
Tied grants	10,489,218	57%	13,067,106	71%	17,404,419	67%
Other tied income	4,449,584	24%	2,217,029	12%	4,702,609	18%
Total tied income	14,938,802	81%	15,284,135	83%	22,107,028	85%
Untied grants	1,677,058	9%	1,923,647	10%	1,923,812	7%
Other untied income	1,795,903	10%	1,272,599	7%	2,100,276	8%
Total untied income	3,472,961	19%	3,196,246	17%	4,024,088	15%
Total operational income	18,411,763	100%	18,480,381	100%	26,131,116	100%

Chart 5.3G: Operational revenue tied versus untied



The majority of revenue received by TISC for all three years was tied. As a proportion of total income tied funds decreased from 85% in 2009 to 81% in 2011.

Grants and contributions (operational)

Grants and contributions (operational) is approximated 68% of total revenue on average, other revenue comprised 19%. All other categories of revenue were less than 4% of total operational revenue reflecting the reliance on grant funding to deliver services. Decreases in grants and contributions (operational) have contributed to a decline in total revenue of 30%.

Included in grants and contributions for 2010 is the Housing Maintenance Program grant of $2.8million. In the prior year this was recorded under other income and in 2011 was also recorded under other income. Funding for the Housing Maintenance Program was provided as a grant in 2010 and prior years however in 2011 it changed from being a grant to a fee for service. Grants and contributions (operational) decreased over the three year period by $7.9million or 41%. The change in recording Housing Maintenance Program funding from a grant basis to a fee for service basis has not had an impact on the movement over the three years however does explain the movement between

2009 and 2010. In 2009 all shires including TISC received one off grant funding for establishment costs which has contributed to the decreased revenue since 2009.

A contributor to declining revenue over the three years was the decrease in CDEP grant funding which fell from $7.6million during 2009 to $3.7million during 2010 and to $2.5million during 2011. Expenditure incurred during 2009 was $22.1million, also the highest expenditure over the three years.

Grant revenue (operational) consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.3o and 5.3p.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	
Match funding	
Roads to recovery	
Library	
Shire Establishment Fund	

CDEP wages funding has been classified as a core services as it supports the training and employment of local people. This does not reflect the classification of the Council.

Table 5.3o: Composition of grant income (operational) by category

	2011	2010	2009
Core services	5,498,912	7,034,022	13,827,346
Non-core services	5,915,480	7,050,978	3,120,596
	11,414,392	14,085,000	16,947,942
Core services as a %	48%	50%	82%
Non-core services as a %	52%	50%	18%

**Core services include the following grants: NT Operation Grant, Grants Commission operation and road portion, CDEP Wages funding, Matched funding, Road to Recovery, Library and Museum grant and the Shire Establishment funding.*

Below is a table that shows the composition of grant revenue received by source:

Table 5.3p: Primary sources of grant income (operational)

Source	2011	2010	2009
Commonwealth Government	10,552,951	7,131,691	7,250,064
Northern Territory Government	1,455,906	8,476,123	10,992,434
Other	554,531	899,525	43,267
Less: unexpended grants*	(1,148,996)	(2,422,339)	(1,337,823)
	11,414,392	14,085,000	16,947,942

**Includes unexpended grants carried forward. There is limited information available to be able to allocate against either governments.*

Grant funding (operational) for core services

Table 5.3o demonstrates that the level of grant income (operational) received for core services has decreased by $8.3million or 60% from 2009. The table below shows the split of grant and contributions (operational) for core services as either tied or untied funds:

Table 5.3q: Tied versus untied core services grant and contributions (operational)

	2011	2010	2009
Untied	1,677,058	1,923,647	1,923,812
Tied	3,821,854	5,110,375	11,903,534
Total grants and contributions (operational) – core services	5,498,912	7,034,022	13,827,346
Untied as a %	30%	27%	14%
Tied as a %	70%	73%	86%

TISC receives a limited amount of untied funding from the Northern Territory and Commonwealth Governments generally in the form of financial assistance grants, road funding and operational subsidies. The decrease in core funding is due to a one off shire establishment grant of $2.8million being received in 2009 and funding for CDEP decreasing by $5million from $7.6million in 2009 to $2.5million in 2011. Cuts were made to the Commonwealth Government Operational Grant in 2011 from the prior year. Management at TISC assert this reduction in funding for core services when TISC was already incurring net deficits has restricted the Council's ability to achieve satisfactory service delivery for all the activities in the Regional Management Plan.

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also funded by the Northern Territory and Commonwealth Governments with a small proportion coming from other non-government sources. Non-core service grants increased in 2011 compared to the balance received in 2009.

Table 5.3r: Tied versus untied non-core services grant and contributions (operational)

	2011	2010	2009
Untied	-	-	-
Tied	5,915,480	7,050,978	3,120,596
Total grants and contributions – non-core services	5,915,480	7,050,978	3,120,596
Untied as a %	-	-	-
Tied as a %	100%	100%	100%

Grants and contributions (capital)

TISC received grants for capital purchases from the following sources:

Table 5.3s: Primary sources of grant income (capital)

Source	2011	2010	2009
Northern Territory Government	473,068	436,909	181,818
Commonwealth Government	278,816	468,844	2,198,471
Total grants and contributions (capital)	751,884	905,753	2,380,289

**Figures have been obtained from the annual financial statements.*

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets.

User charges and fees

User charges and fees consist primarily of property lease rental fees, user charge fee income, landing fees, equipment hire and other user charges.

User charges and fees comprise less than 5% of total revenue for each of the three years. User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges. Rates and annual charges have steadily increased over the three years from $420,000 in 2009 to $649,000 in 2010 to $724,000 in 2011. The increase in 2010 and 2011 was due to a 7% increase in rates since 2009 and a 1002% increase in waste charges.

Rates and annual charges make up less than 5% of the total revenue received for each year. There are only a small number of properties that are rateable in TISC, limiting the Council's ability to generate income through rates.

TISC's population in 2008 was 2,546 with 92% of the population being Indigenous. There are only a small number of properties that are rateable in TISC limiting the Council's ability to generate income through rates.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of TISC.

Other income

Other operating revenue has decreased from $4.7million in 2009 to $2.2million in 2010 and increased to $4.4million in 2011. The majority of other revenue consists of contract fee income, service fee income, and sales income. Other revenue contributes approximately between 12% and 24% of total revenue. The movement in other revenue is due to the Housing Maintenance Program funding of $2.8million being treated and recorded separately in the accounts. In 2009 and 2011 it was recorded in other revenue, however in 2010 it was recorded under grants and contributions. If the Housing Maintenance Program funding had been recorded in other revenue in 2010 then the balance of other revenue would have been $4.9million and comparable to 2009 and 2011.

The majority of other revenue is considered tied income however surpluses are considered untied.

5.3.5 Capital expenditure

Analysis of capital investment over the three years

Over the three years, TISC purchased property, plant and equipment totalling $5.1million in 2009, $753,343 in 2010 and $1.0million in 2011. The composition of the additions can be seen in table 5.3t and chart 5.3H.

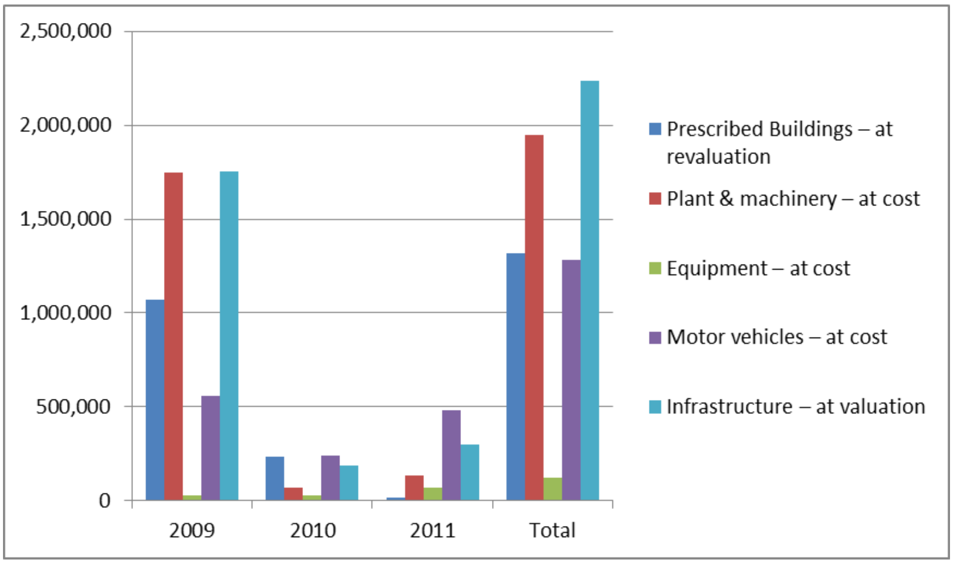
Table 5.3t: Additions of property, plant and equipment by asset category

	2011	2010	2009	Total
Prescribed Buildings – at revaluation	16,180	233,074	1,069,962	1,319,216
Plant & machinery – at cost	134,816	67,230	1,746,186	1,948,232
Equipment – at cost	68,624	26,692	28,674	123,990
Motor vehicles – at cost	481,656	241,982	557,987	1,281,625
Infrastructure – at valuation	299,511	184,365	1,753,021	2,236,897
Total	1,000,787	753,343	5,155,830	6,909,960

Note: figures obtained from the annual financial statements and do not include work in progress.

Capital expenditure for TISC over the three years totalled $6.9million with the expenditure spread across all categories and the majority of the additions occurring in 2009. Capital expenditure represents 5.8% (2011), 4.2% (2010) and 23.5% (2009) of total expenditure.

Chart 5.3H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

TISC funds capital expenditure through capital grants revenue from either the Northern Territory or Commonwealth Governments which has in total across all three years has been insufficient to cover the actual costs incurred as can be seen in the table below.

Table 5.3u: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009
Capital funding	751,884	905,753	2,380,289
Capital expenditure	1,116,406	711,186	4,588,534
Difference	(364,522)	194,567	(2,208,245)

**Figures have been obtained from the annual financial statements and include work in progress*

Table 5.3u above shows that the capital expenditure exceeded capital grants revenue for 2009 and 2011. TISC does not have a capital expenditure reserve established to meet future capital expenditure requirements. All capital expenditure requirements are funded through capital grants from the Northern Territory and/or Commonwealth Government and/or from cash reserves or own-source revenue. As TISC has incurred operational deficits over the last two years, it is reasonable to assume that the shortfall in funding has been met by cash reserves. If TISC continues to incur operating deficits and the capital expenditure exceeds the funding provided then this will be a situation that will lead to financial unsustainability.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure

of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.3v: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Average
Capital expenditure	1,116,406	711,186	4,588,534	6,416,126
Depreciation expense	2,233,370	673,970	192,692	3,100,032
Sustainability ratio	0.5	1.1	23.8	2.1

**Figures have been obtained from the annual financial statements and include work in progress*

The benchmark for the sustainability ratio is 1. As we can see from the table above, the ratio for TISC was 23.8 in 2009, 1.1 in 2010 0.5 in 2011; an average over the three year period of 2.1. The total capital expenditure incurred over the three years indicates that TISC has replenished assets in line with consumption. However, when analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There may be a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Council
- Does not take into consideration whether communities within the Council are Growth Towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

Property, plant and equipment, includes a large number of assets located across the Council which were transferred from the previous community councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or TISC did not believe they had ownership or control over the assets. Efforts have been made by TISC over the last three years to locate, assess and determine whether they had ownership of the assets or if they were deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of TISC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist or the TISC does not own or have control over the asset. Therefore it is likely that although the sustainability ratio over the three year period is positive and indicate that TISC is replenishing its assets in line with the consumption of the assets, there may still be gaps in renewal, replacement or upgrades of infrastructure and plant and equipment items due to the large number of assets recorded in the fixed asset register with nil written down values and not reflected in the depreciation charge each year. The subsequent recognition of some of these assets, as well as the revaluation of assets including the depreciation rates applied have also not provided consistency to the analysis.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by TISC, buildings account for 78% and infrastructure accounts for 14%.

There were limited sources of information available to us in respect of the backlogs facing TISC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, one is located within the TISC Shire being Wurrumiyanga (Nguiu).

There are approximately 36,000km of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50km of the Territory Growth Towns less than fourteen percent of the 5,000km of roads is sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. TISC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in TISC.

Chart 5.2w: Territory Growth Towns (TISC Shire) – Road conditions within a 50km radius

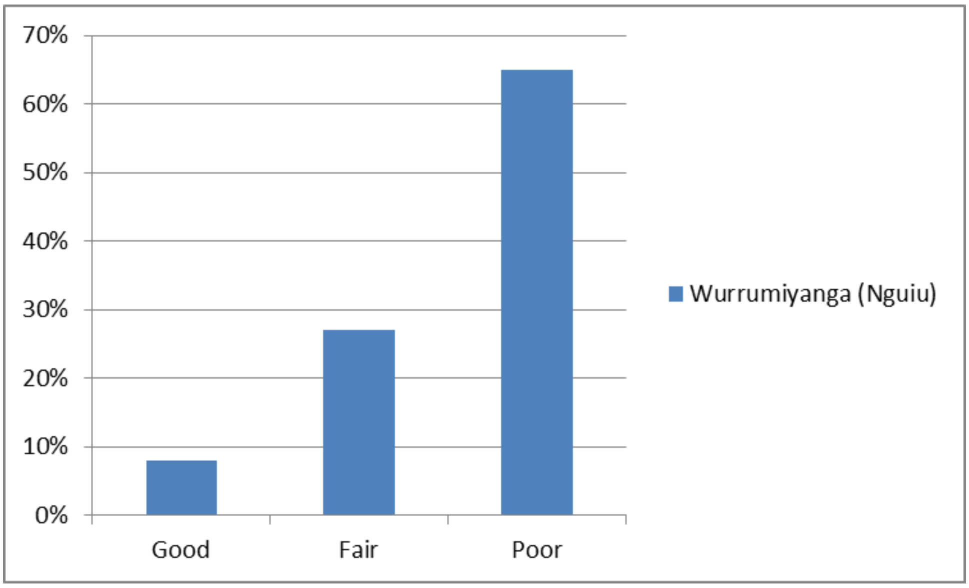


Table 5.3x below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.3x: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in TISC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Wurrumiyanga (Nguiu)	246.30	86.07	1.50
Total	246.30	86.07	1.50

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $86.07million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $1.5million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs do not include all communities within TISC only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $86.7million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available.

5.3.6 Core services, fee for service arrangements and non-core services

As a shire Council, established under the Local Government Act 2008, there are minimum core services which TISC must provide. For a list of these activities refer to Appendix 1 of this report.

The tables and charts following show the net result by core services, agency services and non-core services for 2011 only. Information for 2009 and 2010 was not provided by the Council.

Table 5.3y: Summary of surplus/ (deficit) by core services, agency services and commercial services

	2011*
Core services	(2,591,636)
Agency services	878,759
Commercial services	718,673
Net surplus/(deficit)	(994,204)

**The total surplus/(deficit) reported in the annual financial statements for 2011 is $1.1million which differs to the total deficit reported in the table. The financial data used for this analysis has come from a report generated from the accounting system showing surplus/(deficits) by program*

In 2011, core services programs incurred a net deficit of $2.6million indicating that there is insufficient revenue coming in to cover the costs of delivering core services. A detailed breakdown of surpluses/ (deficits) by program by core services, agency services and commercial services can be seen in table 5.3z, table 5.3aa and table 5.3ab below. As noted in the footer of the table above, the total deficit registered in the financial data provided by program does not agree to the deficit reported in the annual financial statements. The analysis below is based on the data provided in the surplus/deficits by program report provided TISC however the accuracy of the data cannot be ascertained.

Core services

Chart 5.3l shows that twenty-seven of the thirty-six core services programs incurred operating deficits totalling $5.2million and the remaining nine programs returned a surplus totalling $3million.

Of the nine programs returning a surplus the three most significant ones are:

- NT operations shire with a net surplus of $1.5million
- Waste management shire with a net surplus of $480,000
- General rates shire with a net surplus of $384,000.

The programs with the largest deficits incurred are:

- Depreciate/ disposal shire with a net deficit of $2.2million in total
- Corporate service shire with a net deficit of $1.1million
- Civil works shire with a net deficit of $861,000.

Whilst we are unable to determine how the deficits were funded due to the limited information provided, it is reasonable to assume that the deficits were funded by either core services programs with an operating surplus for the same period, surpluses from agency and/or commercial services or from cash reserves.

Chart 5.3l: Number of core services programs with operating surplus and deficits for 2011

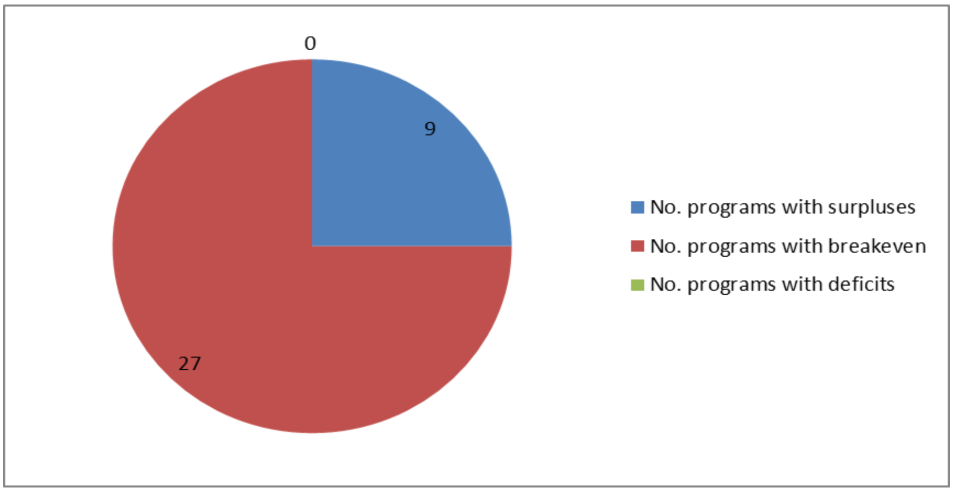


Table 5.3z: Surplus/ (deficit) by program for core services activities

Core services programs	2011
Asset Man Serv Shire	33,308
Corporate Manag Shire	(46,021)
Executive CEO Shire	(32,783)
Exec Comm Devel Shire	(21,675)
Ex Lead CommSer Shire	(11,278)
ITC Solutions Shire	226,108
Corporate Trave Shire	(831)
Community Liaso Milikapiti	(16,601)
Fleet Admin Shire	(5,234)
Financial Mana Shire	(443,124)
Maintain Veh Pirlangimpi	113,105
Maintain Infras Nguiu	(7,949)
Governance Shire	(10,870)
HR Service Shire	(58,465)
Business Develo Shire	(3,833)
Exec Lead Infr Shire	(71,616)
Civil Services Shire	(1,109)
local emergency Shire	(154)
Records Shire	(89,269)
NT Ops Shire	1,454,112
General Rates Shire	384,309

Shire Serv Del Shire	23,804
Comm Waste Shire	272,379
Env Health Shire	(43,129)
Depreciate/Disp Shire	(1,607,556)
Depreciate/Disp Shire	(277,661)
Depreciate/Disp Shire	(124,106)
Depreciate/Disp Shire	(211,116)
Depreciate/Disp Shire	(13,299)
Corporate Servi Shire	(1,123,543)
Waste Mgmt Shire	480,417
Animal Control Nguiu	(17,254)
Civil Works Shire	(860,569)
Essential Servi Shire	(32,654)
Staff Housing Shire	(61,872)
OS Hsg Maint Shire	18,360
Shire Recreatio Nguiu	(6,086)
Parks & Gardens Shire	(151,950)
Comm Events Shire	(76,313)
Pool Management Nguiu	(143,358)
Library Shire	(1,354)
Horticulture Shire	(202,317)
Ferry (Barge) Shire	(178,245)
FAA Rds Shire	818,428
Infra Disaster Shire	(34,262)
Outstations Ess Shire	46,244
CDEP Partic Wag Shire	193,680
Matching Funds Shire	(307,878)
CTG Repairs Lib Pirlangimpi	-
Lighting Upgrad Nguiu	5,440
Admin Services Nguiu	(249,619)
Council & Membe Shire	(339,323)
FAGS Shire	222,946
OS Hsg Mgmt Shire	-
Total core services programs	(2,591,636)

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which TISC sits within the Northern Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Northern Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which TISC is to assess performance in the delivery of core services and meeting objectives of the Northern RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including TISC. TISC is required to deliver core services to four communities as listed in section 5.3.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as expected when measuring whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, it has been reported that TISC has delivered all services to all four communities except 'Library and cultural heritage services' where it states that this service was provided to Nguiu only. The service is being planned for delivery in other three communities. The expected dates are disclosed. No actual reporting against KPIs has been included and therefore the extent to which service delivery has occurred cannot be determined.

The shire plans prepared by TISC include a service delivery plan for each service to be delivered with the following details included:

- A description of the service
- The primary outcome that the service delivers
- Actions to be taken to deliver service.

The Shire Plans did not include any KPIs to assess service delivery outcomes for each service profiles listed. Without KPIs listed against each of the actions, determining whether TISC has successfully met the outcomes for each service cannot be measured. Therefore an assessment cannot be made on whether core services are being successfully delivered to the four communities or whether the outcomes and identified actions are being achieved.

As part of the analysis, discussions were held with management of TISC. It is the view of management that achievement of a satisfactory level of service delivery is limited by the funding provided and that no funding was allocated for some core services out of the operational grants received from the Northern Territory Government.

Agency services

In addition to providing core services to the communities within its shire boundaries, TISC also provides other services on behalf of the Northern Territory and Commonwealth Governments referred to as 'fee for service arrangements' or 'agency services'. In 2011, TISC entered into agreements with both the Northern Territory and Commonwealth Governments to deliver forty-three programs. As seen in table 5.3y above, agency services returned an overall operating surplus of $879,000 for 2011. Refer to table 5.3aa below for a complete list of agency services.

Of the 43 agency services programs undertaken by TISC during 2011, 17 programs incurred operating deficits totalling $694,000. Whilst we are unable to determine how the deficits were funded due to the limited information provided, it is reasonable to assume that the deficits were funded by either programs with an operating surplus for the same period or from cash reserves.

Chart 5.3J: Number of agency services programs with operating surplus and deficits for 2011

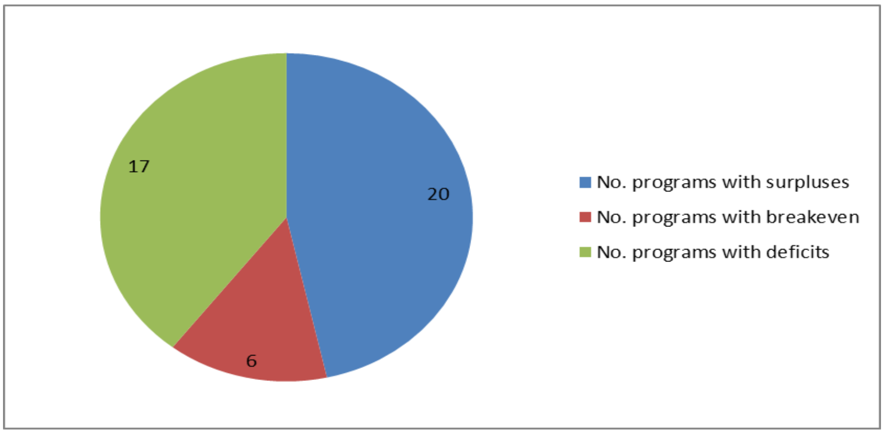


Table 5.3aa: Surplus/ (deficit) by program for agency services activities

Agency services program	2011
Aft School Care Nguiu	(6,804)
Children Servic Nguiu	1,447
TIYDU Shire	(1,676)
Night Patrol Shire	46,535
Active Remote Shire	(7,086)
Vacation Care Nguiu	(20,245)
Ind Womens Prog Shire	409
Skins Group Shire	1
Shire Facilitie Nguiu	151,909
NT JOBS Shire	(57)
Child Care Cap Nguiu	125,651
Sawmills Shire	(1,900)
Sport & Rec Shire	5
DOHA Sport & Re Shire	(46)
ISRP Non Funded Milikapiti	(623)
IBP Shire	24,115
CDEP Comm Dev S Shire	(301,235)

CDEP Work Readi Shire	646,408
CDEP Service Fe Shire	(172,506)
CDEP Comm Dev S Shire	106,990
CDEP Act Gen In Shire	139,110
RLCIP $30K Base Shire	7,071
NTG-Closing Gap Shire	7,880
NTG - SPG Capit Shire	(2,767)
Outstation ESS Shire	158,658
Outstation ES C Shire	(1)
RLCIP Strategic Nguiu	7,991
CTG Repairs Pub Shire	(8,397)
SPG Slashing an Shire	103,759
100 Year NT Shire	(4)
NAPCAN protect Wurrumiyanga	1
Community Fitne Pirlangimpi	38,156
Youth Activitie Pirlangimpi	2,769
Barge Land Upgr Nguiu	(6,480)
Project Tiwi Shire	(106,448)
Cultural and Se Shire	(57,298)
Balance Sheet Shire	3,468
Total Fee for Services	878,759

Commercial and other non-core services

TISC operated 13 commercial services programs during the 2011 year. These generated a combined operating surplus of $719,000. Of these, three programs incurred operating deficits ($319,000) while the remaining ten programs made a surplus ($1.03million).

As we were not provided with the financial data for the 2009 and 2010 financial years, we were unable to perform a trend analysis. Commercial services activities should only be undertaken where TISC will be in a position to make a profit from these activities. Commercial services should not be undertaken where it is known that the Council will incur recurring losses as this will negatively impact the financial sustainability of the Council.

Chart 5.3K: Number of commercial services programs with operating surplus and deficits for 2011

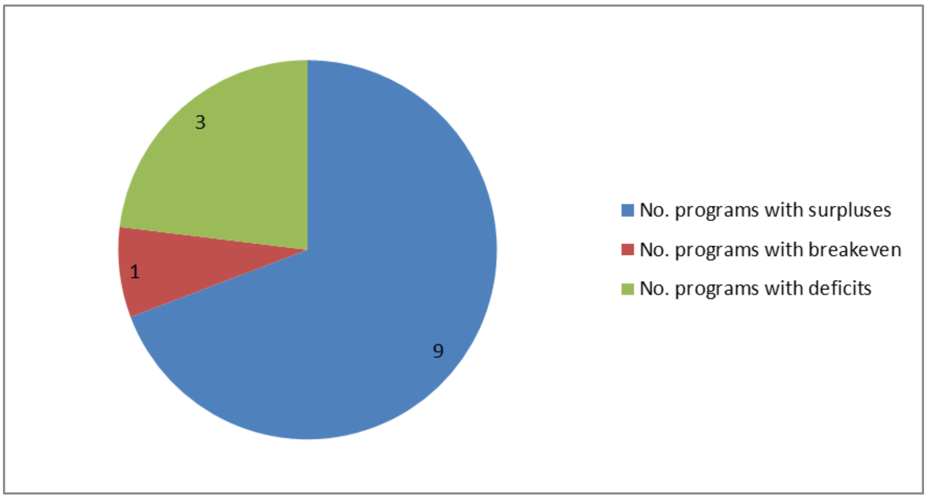


Table 5.3ab: Surplus/ (deficit) by program for commercial services and other non-core services activities

Commercial services programs	2011
Fuel Nguiu	145,690
Post Office Shire	6,362
Centrelink Melv Shire	66,487
Airport Mainten Shire	289,629
Airport Inspect Nguiu	177,297
Mechanical Work Shire	(291,500)
Territory Housi Shire	168,681
Mowing Business Shire	865
Transit Accomod Nguiu	42,359
Commercial Buil Shire	139,868
CTG Fem Wkshop Shire	-
Sea Cat Ferry S Shire	(722)
Power Cards Ranku	(26,344)
Total for Commercial services programs	718,673

Identification and analysis of cross subsidisation

As noted above, core services achieved a net operating deficit whilst agency services and commercial services had net operating surpluses of $879,000 and $719,000 respectively for 2011. It is therefore reasonable to assume that there is an element of cross subsidisation with agency and commercial services cross subsidising core services.

Also of significance is the level of funding provided to cover indirect overhead costs. Some agencies do not allow or allow a small percentage for the recovery of indirect and overhead costs. In some cases the percentage that is allowed to be charged to the program by TISC is not sufficient to cover the actual indirect and overhead costs incurred. As a result programs that are showing a surplus or deficit may not be showing the full costs of delivering the programs and therefore it is reasonable to assume that there is a level of cross subsidisation with both core services and fee for service arrangements which however cannot be quantified until an appropriate overhead allocation rate is established and applied recording the true indirect and overhead costs.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads.

All direct costs are recorded against the actual program to which the expenditure relates. TISC did not establish policies and procedures for calculating and allocating indirect and overhead costs to programs. Over the last three years, TISC has begun the process for determining, calculating and allocating indirect and overhead costs against all its programs; however the methodology is still a work in progress.

TISC received untied grants from both the Northern Territory and Commonwealth Governments to deliver core services. The funding provided is to cover all costs incurred with the delivery of core services including overheads. The budget for core services funding is determined by TISC based on the level of funding. Overheads are not being calculated and charged to core services program.

TISC enters into agreements with Governments for the delivery of agency services on their behalf. TISC submits tenders and budgets to win the opportunity to deliver the various agency services. The budgets prepared by TISC and submitted often are not reflected in the final agreements. Despite this, TISC still sign the agreements and deliver the services. If TISC were to reject these agreements, it may result in communities not being provided with essential services. In many instances there is generally an administration expense or an administration fee provided for in the budgets; however there are instances where the agreement does not allow for any indirect or overhead costs to be charged to the program. In these instances, TISC only allocates the amount that the agreement allows them to charge, regardless of whether the actual costs are higher. In these instances, there is amount of indirect and overhead costs that are not being charged to the program and therefore not recovered, however we are unable to quantify the amount due to the limitations of the information provided and because TISC had not established an appropriate allocation methodology for charging indirect and overhead costs to programs.

Establishment of fee for service arrangements

In addition to the delivery of core services as required under the Local Government Act 2008, TISC has entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments. Over the three year period TISC have entered into arrangements with both governments for the delivery of a number of services.

All agency services are funded under an agreement between TISC and the relevant government entity. The key issues noted with the establishment of fee for service arrangements include, but not limited to (also discussed in the preceding section):

- Generally TISC submit budgets for the delivery of the services, however in some instances the level of funding provided does not always reflect the budget submitted by TISC
- Some agency services do not allow for an administration fee, or allow for a small fee, to cover all overhead and indirect costs incurred by TISC in delivering the services

- A detailed allocation methodology for the allocation of all overheads and indirect costs across all programs. Administration costs are not always charged to the program or the amount charged in accordance with the funding agreement budgets is in some instances not sufficient.
- There is no 'profit margin' built into the budgets as would normally be seen if the organisation was a for-profit-entity.

5.3.7 Budget processes

Operating budgets

The initial budget for TISC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 and 2011 the budget was prepared by the finance staff and review by senior management prior to being presented to Council. The budgets have been approved by the Council as part of the annual management plan. TISC did not include a three year budget projection in the shire plan in 2010 to 2011 financial years as required by the Local Government Act 2008.

Budget reporting was inadequate in the early years of operation. No reports were provided with commentary on variances between budget and actual results, only a summary of the financial position to date is included in the Council agenda. Financial reporting to the Council has been limited over the past three years with no financial reports noted in the agenda over the three years. In the December 2010 Council meeting, the agenda notes the following financial reports were presented to the Council:

- Current cash and bank account balances
- Year to date income and expenditure balances including a breakdown on where revenue was obtained
- Brief written summary on the current surplus/deficit
- Review on key accounts receivable balances
- Review on key accounts payable balances
- Review on current ratio
- Review on current financial obligations.

Prior to December 2010, no financial reports were provided to the Committee. The current reporting provides a basic overview of TISC's financial performance however there is no reporting on the performance of core service, fee for service or commercial services preventing a review of cross subsidisation between activities. No reports were able to be provided that compared budget and actual results or provided commentary on any large movements.

Prior to 2012 the budgets sat outside of Technology 1. As a result for 2009, 2010 and 2011 the program managers were unable to easily compare budget and actual expenditure as the data and reports were not available in the accounting system. The budget process significantly improved in 2012 when the budget was prepared within the accounting system at a project level. Budget against actual results are now able to be reviewed within the system at any point in time.

Capital budgets

TISC does not have specific cash reserves set aside for capital expenditure. Any unexpected or urgent capital expenditure is funded from general revenue sources. TISC's untied cash and cash equivalents for 2011 were $5.5million.

TISC did not have an asset management plan in place during the last three years nor is there one in place for 2012. Capital expenditure is determined during the annual budget process based on current needs considered in conjunction with committed funding for the year. Management advised development of an asset management plan has been hindered by:

- A lack of available funding for purchases when required
- An inability to plan long term due to the short term funding commitments
- Competing priorities in shire development
- No asset management system.

No asset management policy has been implemented to track the use of portable or attractive assets, determine the whole of life cost of each asset or apply an appropriate charge out rate in order for the cost of utilisation to be applied to the relevant programs.

Cash flow budgets

For the last three years TISC have not prepared cash flow budgets or cash flow forecasts due to the inability to reliably predict the timing of cash flows.

5.3.8 Summary – financial sustainability of TISC

To determine the financial sustainability of TISC we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis, six KPIs were used to assess financial sustainability of TISC. The results of the KPIs are listed in the table below.

Table 5.3ac: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(10.3%)	(6.9%)	6.8%	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	(257.8)	(27.7)	N/A	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	0.5	1.1	23.8	2.1

KPI	Description	Benchmark	2011	2010	2009	Average*
Current ratio	Current assets divided by current liabilities	1.0	1.57	1.53	1.65	-
Rates coverage	Rates revenue divided by total cost	40%	3.7%	3.5%	1.9%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	13.2%	9.2%	3.0%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the following conclusions:

Financial position

The balance sheet for TISC is in a healthy position overall. Net assets of $40million have increased over the last three years due to predominantly to revaluation increments of TISC's non-current assets. The current ratio is healthy at 1.57 in 2011 and has only slightly declined over the three year period with cash assets remaining consistent across all three years.

The interest coverage ratio for TISC for 2010 was (27.7) and for 2011 was (257.8) and well below the benchmark of 3 used in this analysis. TISC interest expenditure made up 0.02% of total expenditure in 2011, the adverse interest coverage ratio is due to the net deficits incurred. Any large unexpected events with adverse cash flows could potentially place pressure on TISC to meet interest payments and may face financial unsustainability due to interest on outstanding loans.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly, operating surpluses indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last two years TISC has been incurring operating deficits. Where operating deficits persist this indicates that operating revenue is insufficient to meet current operations. TISC is heavily reliant on grant funding due to the limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for TISC on average over the last three years was 2.1 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets although the ratio for 2011 was 0.5 and below the benchmark of 1. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that TISC inherited a significant number of assets from previous councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008 TISC has undertaken a review of the assets transferred in to determine whether they existed, fit for purpose and/or under the control of TISC. There are indicators that there is a renewals backlog in asset upgrades and replacements (in addition to the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available. A study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $86million by a study conducted by the Northern Territory Government. This backlog does not cover other communities within the TISC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions TISC is not financially sustainable in the long term. Being classified as financially unsustainable does not mean TISC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of TISC are to put onto a financially sustainable basis going forward.

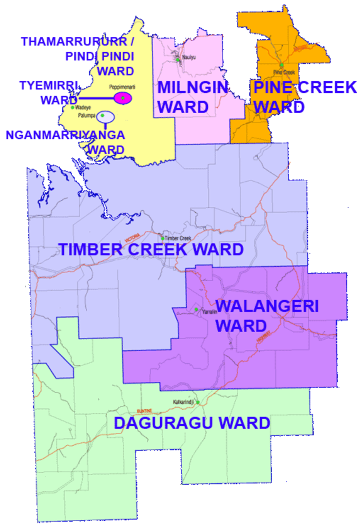
5.4 Victoria Daly Shire Council

5.4.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, Victoria Daly Shire Council (VDSC) was incorporated under the *Local Government Act 2008 NT*. Eight of the previous community government Councils were amalgamated into VDSC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	6,924
Land size	167,575 km^2
Wards	8
Communities & Outstations	69
Pastoral Leases	39



Elected representatives to Council by ward (2008-2012)

Pine Creek	1
Milngin	1
Tyemirri	1
Nganmarriyanga	1
Thamarrururr/Pindi Pindi	4
Timber Creek	1
Walangeri	1
Daguragu	1

At 30 June 2011, VDSC had 350 staff in its employ and was responsible for managing 1,105 km of roads of which approximately 40% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Big Rivers Regional Management Plan, VDSC is required to deliver services to 11 designated communities and has established eight service delivery centres as the base for delivering services across the shire, located in:

- Daguragu/Kalkaringi*
- Nauiyu
- Palumpa
- Peppimenarti
- Pine Creek
- Timber Creek
- Wadeye*#

- Yarralin.

VDSC also maintains a Corporate Service office located in Katherine.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are two Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There is one Remote Service Delivery Site located within the shire.

Challenges of population and geography in VDSC

VDSC faces significant infrastructure challenges due to its specific geography and demographic profile. VDSC's population is 6,924 people with the majority of the population being Indigenous. VDSC occupies a land mass of 167,575 km^2. VDSC faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the Big Rivers Region. Some of the key challenges include:

- A lack of all-weather roads and poor condition of roads to support access to communities. The timely and cost effective transport of shire staff, contractors and cargo across the region is a continual challenge
- Recruitment and retention of staff particularly suitably qualified staff
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- The viability of delivery of services to non-Council homelands
- The employment and training of indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Sustainability and alternative revenue generation with a significant portion of revenue coming grant revenue
- A low level of untied grant revenue received is able to be used at the Council's discretion.
- Lack of secure land tenure for Council assets creating uncertainty over the ownership and control of assets
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff.

Entities in which VDSC has an interest

CouncilBiz

CouncilBIZ was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the 8 member Shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. Upon the incorporation of CouncilBiz, VDSC made an initial funding contribution to CouncilBiz of $50,000.

5.4.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.4a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	24,005,725	20,299,051	20,837,105	3,168,620	15%
Non-current assets	54,563,140	55,086,974	31,261,173	23,301,967	74%
Total Assets	78,568,865	75,386,025	52,098,278	26,470,587	51%
Current liabilities	14,320,611	7,520,665	3,517,198	10,803,413	307%
Non-current Liabilities	-	25,020	223,677	(223,677)	(100%)
Total Liabilities	14,320,611	7,545,685	3,740,875	10,579,736	283%
Net Assets	64,248,254	67,840,340	48,357,403	15,890,851	33%
Equity	64,248,254	67,840,340	48,357,403	15,890,851	33%

The financial position of VDSC improved by $16million (33%) from $48million in 2009 to $64million in 2011. The majority of the increase incurred in 2010 with a $3.6million decrease occurring between 2010 and 2011.

Cash balances analysis

Cash balances comprise cash and cash equivalents and short term deposits as reported in the annual financial statements. Table 5.4b below shows the composition of current assets for the last three years.

Table 5.4b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	21,785,558	18,841,890	19,278,905
Other	2,220,167	1,457,161	1,558,200
Current assets	24,005,725	20,299,051	20,837,105
Cash as % of current assets	91%	93%	93%

Note: the balances referred to in the table above came from the audited financial statements

As can be seen from table 5.4b, cash balances comprised between 91% and 93% of the total current assets over the three years.

Table 5.4c below shows the composition of the cash balances.

Table 5.4c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	21,785,558	18,841,890	19,278,905
Restricted cash balances*	7,555,902	1,559,581	-
Unrestricted cash and cash equivalents	14,229,656	17,282,309	19,278,905

**Represents unexpended grants balances at year end*

Table 5.4c demonstrates that there was sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Chart 5.4A: Composition of cash balances

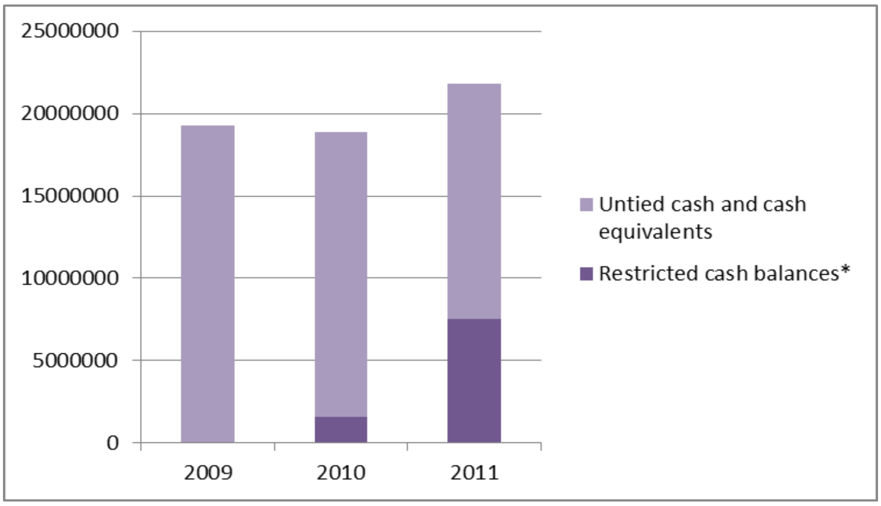


Table 5.4d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, then Councils may have problems meeting its short term obligations.

Table 5.4d: Current Ratio

	2011	2010	2009
Total current assets	24,005,725	20,299,051	20,837,105
Total current liabilities	14,320,611	7,520,665	3,517,198
Net current assets (Working Capital)	9,685,114	12,778,386	17,319,907
Current Ratio	1.68	2.70	5.92

The current ratio for VDSC is 1.68 in 2011 compared to 5.92 in 2011 and 2.7 in 2010. It has decreased over the three year period due to current liabilities increasing by more than the cash balances.

Table 5.4e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.4e: Cash Ratio

	2011	2010	2009
Total cash balances	21,785,558	18,841,890	19,278,905
Less: unexpended grants (restricted assets)	7,555,902	1,559,581	-
Total unrestricted cash balances	14,229,656	17,282,309	19,278,905
Total current liabilities (unrestricted)	6,764,709	5,961,084	3,517,198
Cash Ratio (unrestricted)	2.10	2.90	5.48

Table 5.4d above indicates that VDSC had sufficient current assets to settle current liabilities at the end of each year. The cash ratio in table 5.4e shows that VDSC had sufficient cash assets to settle all liabilities at 30 June should creditors have demanded immediate settlement including repayment of all unexpended grant monies. The benchmark for the current ratio is 1 and VDSC has exceeded this each year.

Non-current assets

Non-current assets comprise property, plant and equipment and work in progress. The balance of property, plant and equipment has increased by $23.2million (75%) since 2009.

On 1 July 2008, $29.4million in property, plant and equipment was transferred from the existing communities. The audit opinion for each of the three years has been qualified with respect to the property, plant and equipment balance. In 2009 only the value of those assets VDSC could physically identify and were controlled, was included in the end of year balance.

VDSC obtained an independent valuation as at 30 June 2010 of some classes of property, plant and equipment at Daguragu, Kalkarindji, Timber Creek, Nauiyu and Pine Creek. However property, plant and equipment at other locations were not valued and are still recorded at their 30 June 2009 values. The assets that were not subjected to revaluation was a conscious decision made by VDSC because they were assets that they believed they did not own and did not want to incur the cost of valuing these assets if they were not Council assets. The revaluation of property, plant and equipment on 30 June 2010 increased the value by $23million (75%) to $55million. The valuation process represents a breach of AASB 116 Property, Plant and Equipment which requires all assets within a class of assets to be revalued.

Table 5.4f below shows the composition of property, plant and equipment for VDSC for the 2011 year.

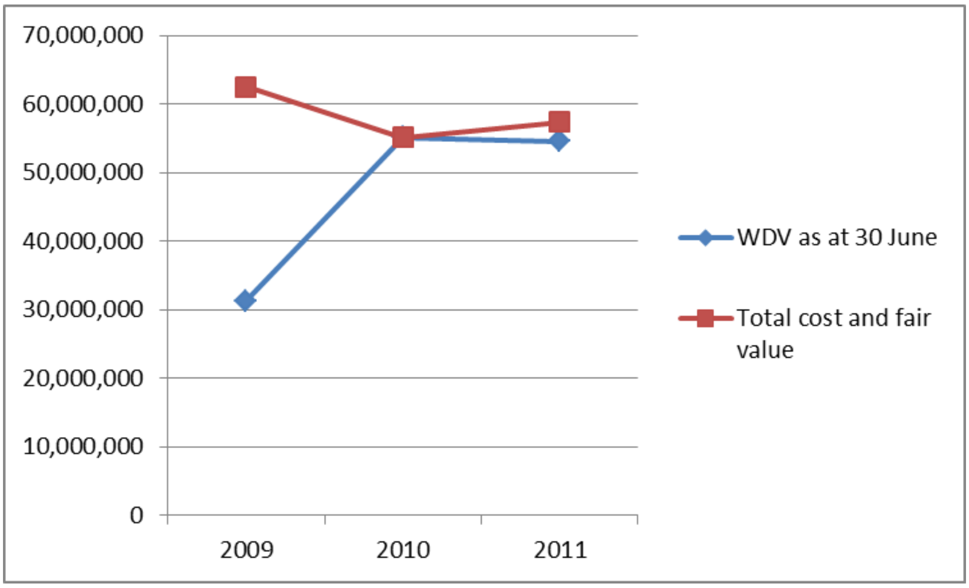
Table 5.4f: Composition of property, plant and equipment for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Land	87,000	-	87,000	0.2%
Buildings	34,352,535	(1,192,847)	33,159,688	60.8%
Infrastructure	19,505,962	(1,098,728)	18,407,234	33.7%
Plant and equipment	1,141,974	(122,690)	1,019,284	1.9%
Furniture and fittings	115,399	(17,171)	98,228	0.2%
Motor vehicles	2,174,445	(382,739)	1,791,706	3.3%
Total	57,377,315	(2,814,175)	54,563,140	100%

Note: figures obtained from the annual financial statements

The majority of property, plant and equipment was buildings (60.8%) and infrastructure (33.7%). Together these represent 95% of the total written down value (WDV). As previously mentioned property, plant and equipment increased by $23.2million (75%) since 2009 mainly as a result of the revaluation performed in 2010.

Chart 5.4B: Total cost and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



Liabilities analysis

Current liabilities comprise creditors, provisions, other payables and unexpended grants. The current liability balance has increased by $10.8million (307%) over the three years from $3.5million in 2009 to $14.3million in 2011. Non-current liabilities decreased to nil in 2011 from $223,677 in 2009. The increase in current liabilities is due to the following:

- Unexpended grants increased by $7.6million in 2011 from nil in 2009.

- Trade creditors increased by $1.7million from $2.1million in 2009 to $3.8million in 2011
- Provisions for employee entitlements increased from $736,000 in 2009 to $2.2million in 2011.

5.4.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of Councils in section 3 of this report.

This section provides our analysis of the financial performance of VDSC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.4.5.

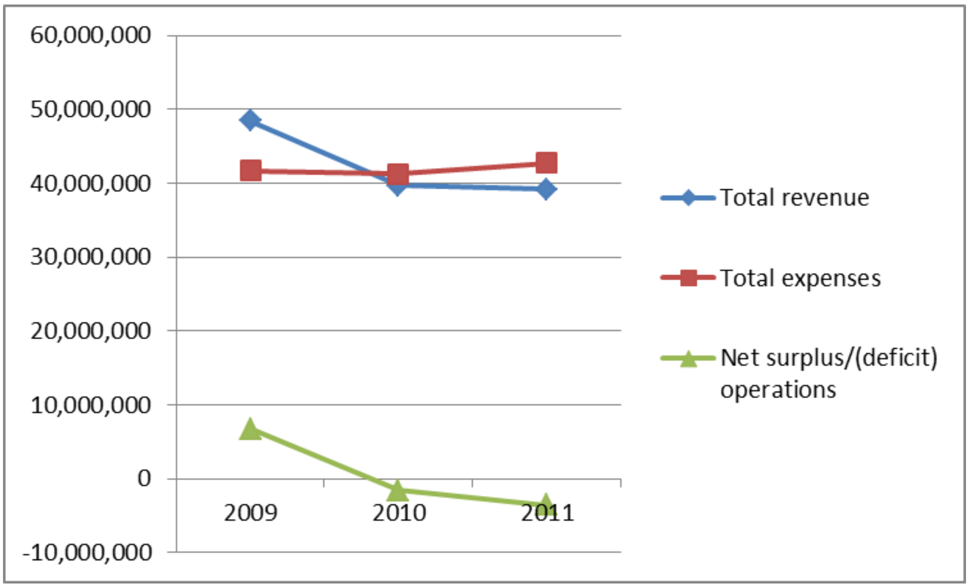
Below is an extract of the Statement of Comprehensive Income from the audited financial statements for the last three years.

Table 5.4g: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	392,941	798,788	517,177	(124,236)	(24%)
Rates and annual charges	1,007,204	1,130,746	83,964	923,240	1100%
Interest	670,577	647,193	600,915	69,662	12%
Grants and contributions	23,127,917	24,765,789	33,346,817	(10,218,900)	(31%)
Other Operating revenue	13,945,833	12,384,945	13,863,579	82,254	1%
Total revenue	39,144,472	39,727,461	48,412,452	(9,267,980)	(19%)
Employee costs	19,712,113	17,545,684	14,776,419	4,935,694	33%
Materials and contracts	8,116,199	8,395,846	15,506,845	(7,390,646)	(48%)
Depreciation and amortisation	2,794,825	2,564,615	-	2,794,825	100%
Finance costs	25	-	60,406	(60,381)	(100%)
Other costs	12,113,396	12,784,814	11,304,306	809,090	7%
Total expenses	42,736,558	41,290,959	41,647,976	1,088,582	3%
Surplus/(deficit) for the year	(3,592,086)	(1,563,498)	6,764,476	(10,356,562)	(153%)

**The net gain on restructure totalling $39.5million was excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2009 the total surplus for the year is $46.3million.*

Chart 5.4C: Revenue, expenses and net surplus/(deficit) for 2009, 2010 and 2011



VDSC recorded a deficit of $3.6million in 2011. The deficit increased from the prior years as revenue decreased by 19% over the three years and expenditure increased by 3% over the same period.

In 2011, a deficit of $3.6million was recorded with revenue decreasing from the prior year by $583,000. The decrease in revenue was driven largely by grants and contributions decreasing by $1.6million. Employee expenditure increased by $2.2million.

A deficit of $1.6million was recorded in 2010. Revenue decreased by $8.7million from the prior year, driven by decreases in grants and contributions. This decrease was partially offset by decreases in materials and contract expenditure of $7.1million.

A surplus of $6.8million was recorded in 2009. Revenue received totalled $48.4million with grants contributions totalling $33million. The expenses for 2009 were $41.6million however depreciation expense had a nil balance.

The performance in 2009 is not directly comparable to the performance in other year as one off grants were received to support the establishment of the shires. VDSC advised that the 2012 result show a larger deficit, however this is a result of the unexpended grant balance being understated in 2011. The unexpended grant balance changes after the release of the financial statements due to new information provided by the funding bodies on the treatment of the unspent funding. Management of VDSC advised they will continue to strive to ensure the shires' spending is within it means in future year.

Overall operating expenses have increased since 2009 by $1.1million. Materials and contract costs decreased by $7.4million or 48% and employee expenses increased by $4.9million or 33% since 2009. Other costs increased marginally by $800,000. The primary reason for materials and contract costs decreasing over the three year period are:

- Contractor costs decreased from $8.5million in 2009 to $4.3million in 2011, a decrease of $4.2million
- Contract materials decreased from $6.2million in 2009 to $3.5million in 2011, decrease of almost $1.6million.

The primary reasons for the increase in employee expenses were due to salaries and wages increasing from $12.4million in 2009 to $15million in 2011 (an increase of $2.6million), employee leave benefits increasing from $1.4million to $1.9million (an increase of $500,000) and other staff costs increasing from $140,000 to $1.1million in 2011 (an increase of almost $1million).

Depreciation costs increased since 2009 by $2.7million due to no depreciation being charged in 2009 with the movement between 2010 and 2011 being less than 10%.

Refer to section 5.4.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.4h shows the operating surplus/ (deficit) for VDSC and the associated surplus/ (deficit) ratio for the three years since 2009.

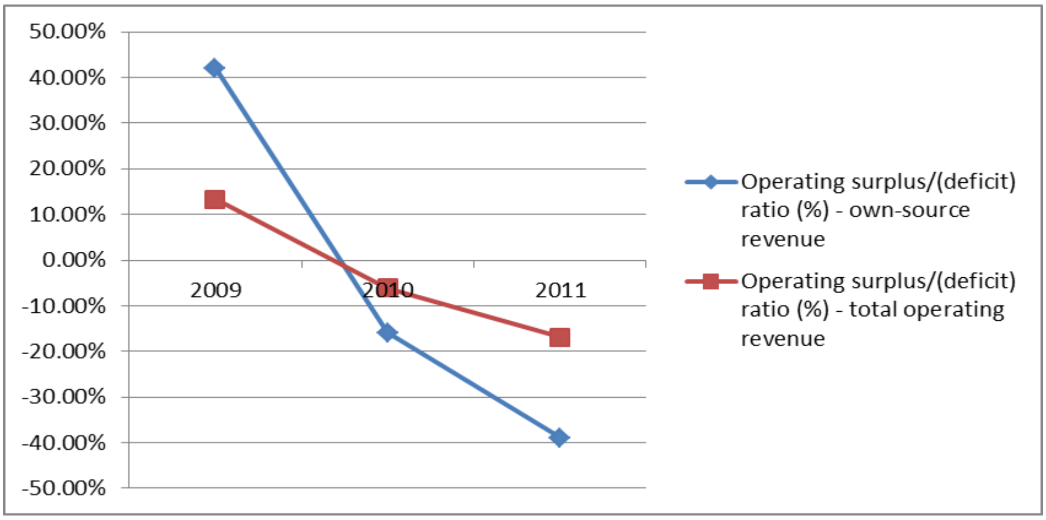
Table 5.4h: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	36,561,652	38,916,666	48,015,445
Less: operating expenses (including depreciation expense)	42,736,558	41,290,959	41,647,976
Operating surplus/(deficit)	(6,174,906)	(2,374,293)	6,367,469
Operating surplus/ (deficit) ratio (%)	(16.9%)	(6.1%)	13.3%
Own source revenue*	16,016,555	14,961,672	15,065,635
Operating surplus/ (deficit) ratio (%)	(38.9%)	(15.9%)	42%

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*
***Operating revenue does not include capital grants*

The operating surplus/ (deficit) ratio calculated for VDSC on total revenue (excluding capital grants) shows an operating surplus for 2009 and operating deficits for 2010 and 2011. The operating surplus/ (deficit) ratios based on own source revenue reflect the same movement in ratios. If VDSC continues to incur operating deficits then the Council could become financially unsustainable.

Chart 5.4D: Net Surplus/(deficit) ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents less than 3% of total revenue. While rates revenue has increased over the three year period, VDSC is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, legislated conditional rating applied to pastoral and mining entities, slow or negative growth rates in its communities and, socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40%, a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.4i: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	1,007,204	1,130,746	83,964
Operating expenses	42,736,558	41,290,959	41,647,976
Rates coverage ratio	2.4%	2.7%	0.2%

The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that VDSC is dependent on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare financial performance to budgets and plans for each of the three years.

Analysis of budget versus actual results by category

Based on a review of reports comparing budget to actual expenditure and discussions with staff, the budgets for the years subjected to analysis do not accurately represent revenue, expenditure or the net surplus/deficit position. Finalised budgets that are tabled to the public and to DHLGRS cannot be compared against the actual results at year end due to different reporting formats. As a result and for the purpose of this report, the actual results against budget reported in Note 2(a) of the financial statements have been subjected to analysis. The data is categorised by function, but it does not provide transparency with regard to performance by category of core services, agency services and commercial services.

The actual data shown in table 5.4j for all three years does not agree to the audited financial statements.

Table 5.4j: Actual versus budget - Components of functions

2010/11 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public service	7,645,392	11,475,681	21,681,942	30,284,531	(14,036,550)	(18,808,850)
Public order and safety	43,724	71,201	56,154	91,441	(12,430)	(20,240)
Economic affairs	8,364,625	13,621,123	3,258,928	5,306,902	5,105,697	8,314,221
Environmental protection	4,550	7,409	34,028	55,412	(29,478)	(48,003)
Housing and community amenities	6,774,462	11,031,671	6,215,987	10,122,239	558,475	909,432
Health	4,114,157	6,699,593	3,101,734	5,050,913	1,012,423	1,648,680
Recreation, culture and religion	1,795,732	2,924,239	1,684,638	2,743,297	111,094	180,942
Social protection	3,534,180	5,755,129	2,167,865	3,530,194	1,366,315	2,224,935
TOTAL	32,276,822	51,586,046	38,201,276	57,184,929	(5,924,454)	(5,598,883)

2009/10 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public service	12,150,695	4,447,346	16,800,941	10,587,705	(4,650,246)	(6,140,359)
Public order and safety	36,250	4,387,943	7,130	1,670,110	29,120	2,717,833
Economic affairs	8,061,165	15,147,738	3,310,529	8,028,902	4,750,636	7,118,836
Environmental protection	463,108	257,324	6,112	530,411	456,996	(273,087)
Housing and community amenities	6,907,492	6,756,211	6,775,209	8,905,239	132,283	(2,149,028)
Health	3,543,442	-	2,450,740	14,157	1,092,702	(14,157)
Recreation, culture and religion	1,397,401	979,625	1,310,843	1,198,172	86,558	(218,547)
Education	-	130,361	-	30,036	-	100,325
Social protection	1,517,386	4,439,754	2,434,731	2,464,973	(917,345)	1,974,781
Elimination	-	(76,317)	2,467,885	-	(2,467,885)	(76,317)
TOTAL	34,076,939	36,469,985	35,564,120	33,429,705	(1,487,181)	3,040,280

2008/09 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public service	10,756,108	8,692,223	9,301,726	8,994,772	1,454,382	(302,549)
Public order and safety	2,387,167	2,625,200	1,483,015	80,000	904,152	2,545,200
Economic affairs	15,545,470	12,892,966	14,803,339	13,868,612	742,131	(975,646)
Environmental protection	133,168	172,182	439,755	604,577	(306,587)	(432,395)
Housing and community amenities	5,604,155	6,233,865	5,578,126	6,608,754	26,029	(374,889)
Health	71,044	66,560	217,580	106,564	(146,536)	(40,004)
Recreation, culture and religion	2,872,327	925,813	1,385,994	1,226,612	1,486,333	(300,799)
Education	233,318	-	88,309	100,682	145,009	(100,682)
Social protection	5,150,873	3,476,940	4,381,490	3,186,712	769,383	290,228
TOTAL	42,753,630	35,085,749	37,679,334	34,777,285	5,074,296	308,464

The tables demonstrate potential cross-subsidisation. The majority of functions report actual deficits in each of the three years suggesting that those functions are either being delivered using funds outside their allocated income or are subsidised from other programs or from VDSC's cash reserves.

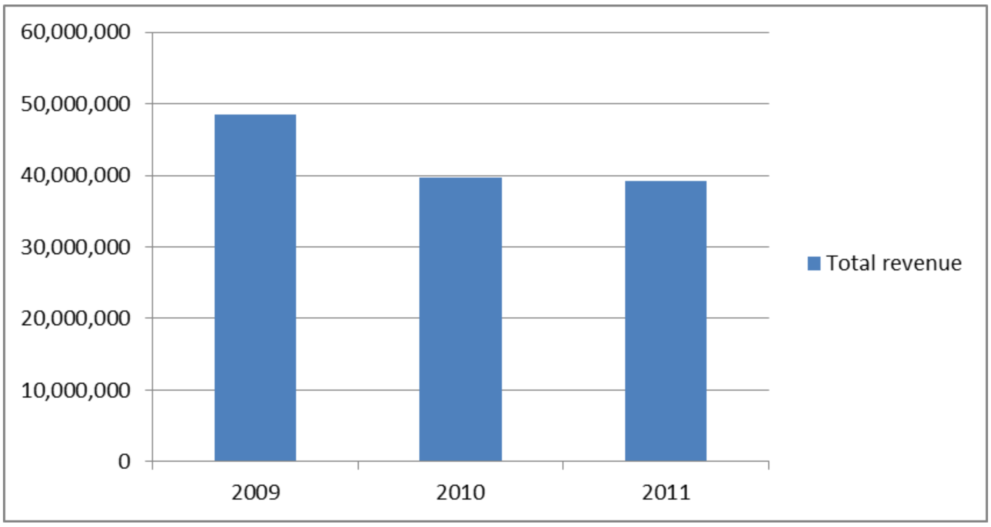
5.4.4 Revenue and revenue sources

Table 5.4k: Revenue for 2009, 2010 and 2011

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	392,941	798,788	517,177	(124,236)	(24%)
Rates and annual charges	1,007,204	1,130,746	83,964	923,240	1100%
Interest	670,577	647,193	600,915	69,662	12%
Grants and contributions - operational	20,545,097	23,954,994	32,949,810	(12,404,713)	(38%)
Grants and contributions - capital	2,582,820	810,795	397,007	2,185,813	551%
Other Operating revenue	13,945,833	12,384,945	13,863,579	82,254	1%
	39,144,472	39,727,461	48,412,452	(9,267,980)	(19%)

The total revenue received in 2010 and 2011 was $39million and $48million in 2009. Over the three year period total revenue decreased by almost $9.3million (19%).

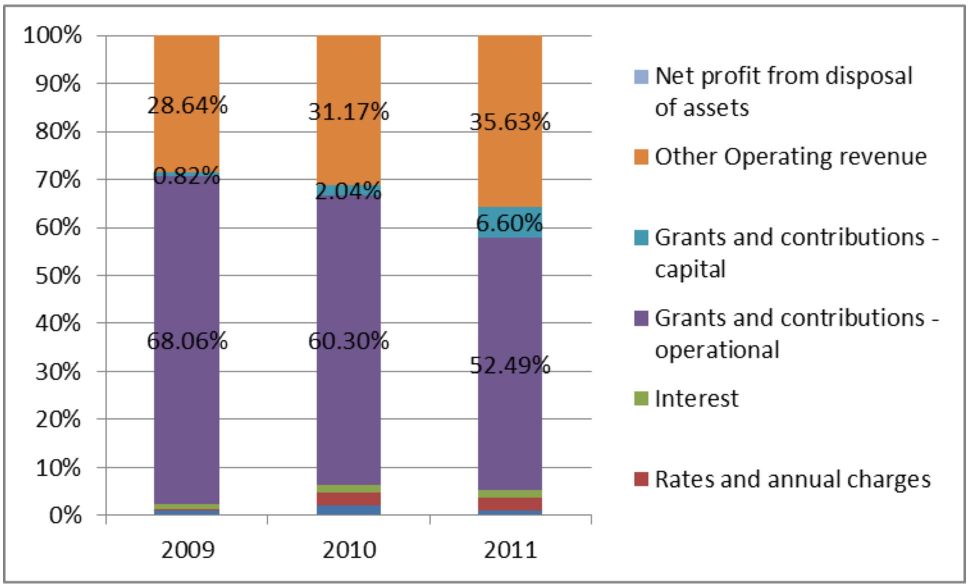
Chart 5.4E: Total revenue by year



VDSC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue
- Net profit from disposal of assets.

Chart 5.4F: Revenue analysis by source



The chart above demonstrates the heavy reliance on grants and contributions income and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, VDSC's own source revenue is insufficient to cover the costs of delivering core services to its shire communities.

Between 59% (2011) and 69% (2009) of VDSC's total revenue was derived from grants and contributions predominantly from the Northern Territory and Commonwealth Governments. Rates and charges provided less than 3% of the total revenue and other income ranged between 29% (2009) and 36% (2011).

Revenue – untied versus tied

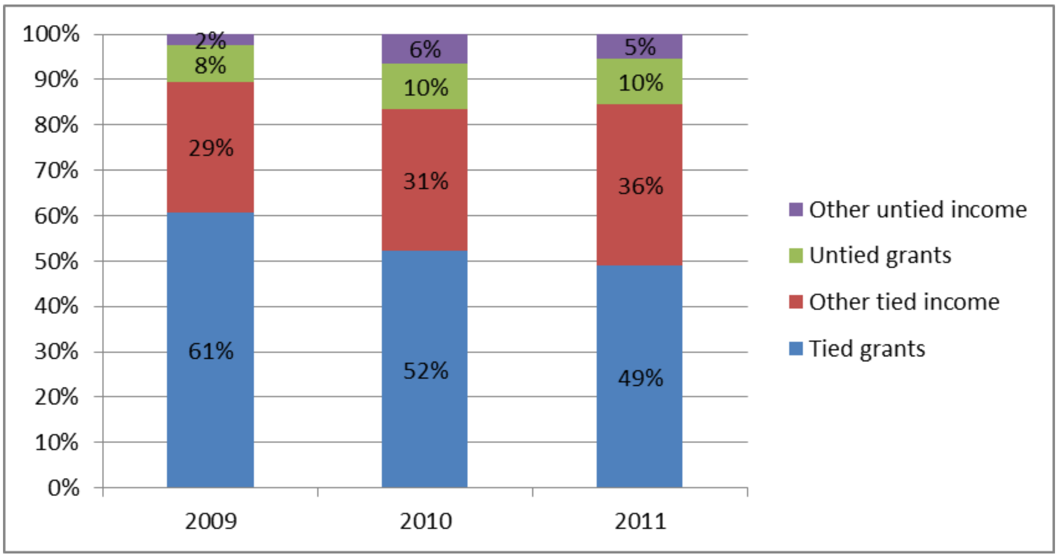
For the purposes of this analysis, all revenue received by VDSC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue (other operating revenue mainly consist of commercial services, why the surplus for commercial activities is untied revenue, a majority of the revenue balance is offset with commercial service expenditure hence is considered tied).

Table 5.4l: Tied versus untied revenue

	2011		2010		2009	
Tied grants	19,143,388	49%	20,759,460	52%	29,411,479	61%
Other tied income	13,945,833	36%	12,384,945	31%	13,863,579	29%
Total tied income	33,089,221	85%	33,144,405	83%	43,275,058	89%
Untied grants	3,984,529	10%	4,006,329	10%	3,935,338	8%
Other untied income	2,070,722	5%	2,576,727	6%	1,202,056	2%
Total untied income	6,055,251	15%	6,583,056	17%	5,137,394	11%
Total operational income	39,144,472	100%	39,727,461	100%	48,412,452	100%

Chart 5.4G: Revenue tied versus untied



The majority of revenue received by VDSC for all three years was tied.

Grants and contributions (operational)

Grants and contributions were between 59% and 69% of total revenue over the three years, of which grants provided for operational activities comprised 68% (2009) and 52% (2011); other revenue comprised 29% to 36% of total revenue. All other categories of revenue are 3% or below of total revenue reflecting the reliance on grant funding to deliver services. Decreases in grants and contributions have contributed to a decline in total revenue.

Included in grants and contributions (operational) for 2009 and 2010 are grants received for the Housing Maintenance Program from DHLGRS of $5.8million and $4million respectively. In 2011 funding for the Housing Maintenance Program changed from being provided as a grant to being provided on a fee for service basis amounting to $1.4million. Therefore of the $12.4million decrease in operational grants and contributions over the three year period, $5.8million relates to the Housing Maintenance Program which means that the real decrease in grants and contributions is approximately $6.6million (20%) compared to 38% showing in the annual financial statements and table 5.4j.

In 2009, all shires including VDSC received one off grant funding for the establishment costs which would have contributed to the decrease in grants and contributions reported in the annual financial statements and table 5.4j.

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.4m and 5.4n.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	

NT Grants Commission - Roads

Match funding

Roads to recovery

Library

Shire Establishment Fund

Table 5.4m: Composition of grant income (operational) by category

	2011	2010	2009
Core services	7,609,572	7,345,889	5,474,254
Non-core services	12,935,525	16,609,105	27,276,311
	20,545,097	23,954,994	32,750,565
Core services as %	37%	31%	17%
Non-core services as %	63%	69%	83%

**CDEP funding has been classified as core services*

Table 5.4n: Primary sources of grant income (operational)

Source	2011	2010	2009
Northern Territory Government	6,956,537	10,732,335	14,840,562
Commonwealth Government	13,153,150	12,574,258	15,516,458
Other	435,410	648,401	2,393,545
Total grants	20,545,097	23,954,994	32,750,565

The majority of the funding provided to VDSC has come from the Commonwealth Government. We can also see that while the level of funding provided by the Commonwealth Government has remained relatively constant across all three years, the amount of funding provided by the Northern Territroy Government has decreased by almost 50% since 2009. Grant funding from other sources has also decreased from $2.4million to $435,000 in 2009.

Grant funding (operational) for core services

Grant funding (operational) for core services and as a percentage of total revenue, comprised 11% in 2009, 18% in 2010 and 19% in 2011.

Table 5.4o: Tied versus untied core services grant and contributions (operational)

	2011	2010	2009
Grants (operational) - core services			
Untied	3,984,529	4,006,329	3,935,338
Tied	3,625,043	3,339,560	1,538,916
Total grants (operational) - core services	7,609,572	7,345,889	5,474,254
Untied grants as %	52%	55%	72%
Tied grants as %	48%	45%	28%

In 2011 untied grants comprised 52% of total core services revenue and in 2009 untied funding comprised 73%. Untied core services decreased to nil in 2010 before returning to $4million 2011. Tied funding for core services has also increased over the three years from $1.5million in 2009 to $7.3million in 2010 then decreasing to $3.6million in 2011.

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also received from the Northern Territory and Commonwealth Governments. All non-core services funding was tied over the three years. The level of non-core services grant funding (operational) has decreased by $14.5million.

Table 5.4p: Tied versus untied non-core services grant and contributions (operational)

	2011	2010	2009
Grants (operational) – non-core services			
Untied	-	-	-
Tied	12,935,525	16,609,105	27,276,311
Total grants (operational) - non-core services	12,935,525	16,609,105	27,276,311
Untied grants as %	-	-	-
Tied grants as %	100%	100%	100%

Grants and contributions (capital)

VDSC received grants for capital purchases during the year as follows:

Table 5.4q: Primary sources of capital grant income

	2011	2010	2009
Northern Territory Government	999,949	121,015	81,500
Commonwealth Government	1,582,871	689,780	315,507
Total grants and contributions (capital)	2,582,820	810,795	397,007

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets.

User charges and fees

User charges and fees consists primarily of property lease rental fees and other user charges such as landfill tips charges, administration fees, equipment hire, landing fees and other user charges.

User charges and fees make less than 2% of total revenue for each of the three years. User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges. Rates and annual charges for 2010 and 2011 were $1million and the total for 2009 was $84,000. Rates and annual charges make up less than 3% of the total revenue received for each year. There are only a small number of properties that are rateable in VDSC limiting the Council’s ability to generate income through rates.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of VDSC.

Other income

Other operating revenue has remained consistent across all three years at $13.9million with a $1million decrease from the prior year noted in 2010 before increasing again to $13.9million in 2011. In 2011 the Housing Maintenance Program funding previously recorded under grants and contributions was recorded under other income. This is due to Housing Maintenance being provided on a fee for service basis compared to being provided as a grant in the two preceding years. Should the Housing Maintenance Program funding have remained as a grant then the total other income in 2011 would have been $12.5million which is comparable to the $12.3million received in 2010.

The majority of other revenue for 2011 relates to sales of $6.4million, service fees of $1.5million, contract fees of $1.5million and other income of $4.3million.

5.4.5 Capital expenditure

Analysis of capital investment over the three years

For all Councils we have been able to obtain the details of additions of capital expenditure incurred over the three year period from the movement schedule for property, plant and equipment from the annual financial statements. However for VDSC the annual financial statements do not include the movement schedule and we have been unable to obtain a copy of the fixed asset registers for the three years. As a result we are unable to present the total capital additions by category of property, plant and equipment. We have been able to obtain the total capital expenditure for each year by obtaining the total payments for capital purchases from the Statement of Cash Flows in the annual financial statements.

Over the three years, VDSC purchased property, plant and equipment totalling $1.7million in 2009, $5.3million in 2010 and $2.3million in 2011 as represented in table 5.4r.

Table 5.4r: Additions of property, plant and equipment by asset category

	2011	2010	2009	Total
Total capital expenditure	2,270,991	5,343,980	1,691,049	9,306,020

Note: figures obtained from the annual financial statements and include work in progress

As can be seen from the table above, capital expenditure for VDSC over the three years totalled $9.3million with the majority of the expenditure incurred in 2010 (57% of the total expenditure). Capital expenditure represents 5.3% (2011), 12.9% (2010) and 4.1% (2009) of total expenditure.

Analysis of capital expenditure and impact on core service delivery and liquidity of Council

VDSC funds capital expenditure through capital grants revenue from either the Northern Territory or

Table 5.4s: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital funding	2,582,820	810,795	397,007	3,790,622
Capital expenditure	2,270,991	5,343,980	1,691,049	9,306,020
Difference	311,829	(4,533,185)	(1,294,042)	(5,515,398)

**Figures obtained from the annual financial statements and includes work in progress*

VDSC established a capital expenditure reserve in 2009 with $7.6million transferred into the reserve. As at 30 June 2011 the balance was $7.6million. To date all capital expenditure incurred by VDSC is funded from either capital grants from the Northern Territory and/or Commonwealth Governments, from cash reserves or from own source revenue. Given that VDSC has registered operating deficits for the last two years, it is reasonable to assume that the shortfall of capital grants has been funded from cash reserves. If this trend continues of using cash reserves to fund capital expenditure due to shortfalls in capital grants, own source revenue does not grow or operating deficits continue to be incurred then VDSC will become financially unsustainable. Management advised they will continue to make further efforts to bring VDSC operations into a surplus and ensure funding is set aside for capital expenditure reserve.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure

of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.4t: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for the three years
Capital expenditure	2,270,991	5,343,980	1,691,049	9,306,020
Depreciation expense	2,794,825	2,564,615	2,564,615*	7,924,055
Sustainability ratio	0.8	2.1	0.6	1.2

Note: Figures obtained from the annual financial statements and includes work in progress
**The annual financial statements did not include depreciation expense for 2009, therefore we have assumed a depreciation expense equal to that charged in 2010 for the purpose of completing this analysis.*

The benchmark for the sustainability ratio is 1. As we can see from the table above, the ratio for VDSC was 2.1 in 2010 and 0.8 in 2011. In 2009, VDSC incurred capital expenditure of $1.7million however did not record depreciation for the year. For the purposes of this analysis we have assumed a depreciation charge of the amount equal to that in 2010. Although it is highly likely that the actual charge would have been different we feel that it is more representative than a depreciation expense of nil. Therefore based on this assumption the sustainability ratio calculated for 2009 was 0.6 which is less than the benchmark of 1 however for the three years in total the sustainability ratio was 1.2 which is above the benchmark. When analysing the sustainability ratio however, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Council
- Does not take into consideration whether communities within the Council are Growth Towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

Property, plant and equipment includes a large number of assets located across the shire which were transferred from the previous community councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or the VDSC did not believe they had ownership or control over the assets. Efforts have been made by the VDSC over the last three years to locate, assess and determine whether they had ownership of the assets or if they were deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of VDSC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist or the VDSC does not own or have control over the asset. Therefore it is likely that although the sustainability ratio over the three year period is positive and indicates that VDSC is replenishing its assets in line with the consumption of the assets, there may still be gaps in renewal, replacement or upgrades of infrastructure and plant and equipment items due to the large number of assets recorded in the fixed asset register with nil written down values and not reflected in the depreciation charge each year. The subsequent recognition of some of these assets, as well as the revaluation of assets including the depreciation rates applied have also not provided consistency to the analysis.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by VDSC, buildings account for 61% and infrastructure accounts for 34%.

There were limited sources of information available to us in respect of the backlogs facing VDSC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, two are located within the VDSC Shire being Wadeye and Kalkarindji/Daguragu.

There are approximately 36,000kms of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and, within 50km of the Territory Growth Towns, less than fourteen percent of the 5,000kms of roads is sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. VDSC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in VDSC.

Chart 5.4H: Territory Growth Towns (VDSC Shire) – Road conditions within a 50km radius

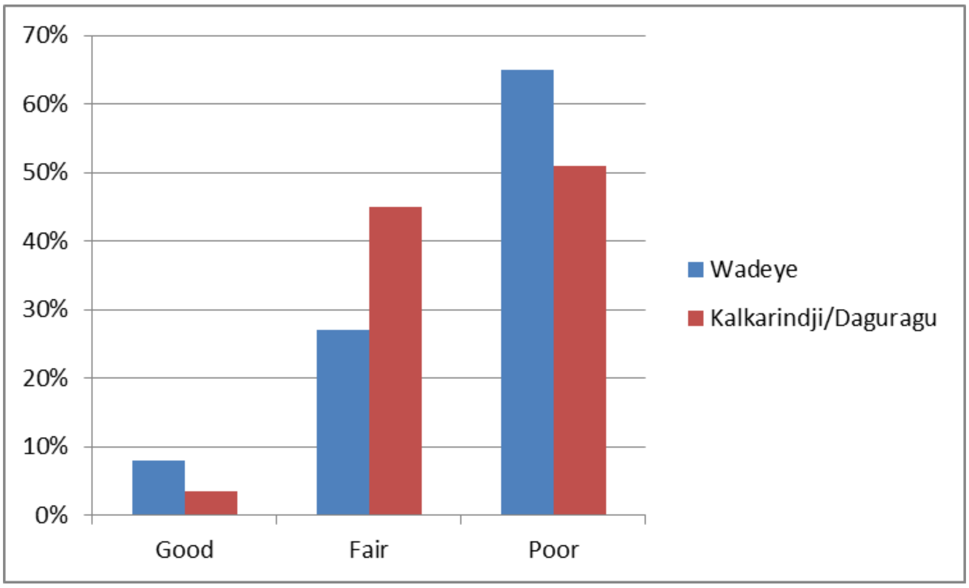


Table 5.4u below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.4u: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in VDSC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Wadeye	511.70	120.73	2.17
Kalkarindji/Daguragu	389.08	169.96	2.90
Total	900.78	290.69	5.07

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $290.69million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $5.07million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs does not include all communities within VDSC only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $290.69million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by VDSC with many of them past their useful life and in need of upgrade or replacement. The total cost of the renewals backlog is therefore likely to be significantly higher than the $290.69million identified in relation to roads backlog.

5.4.6 Core services, fee for service arrangements and non-core services

As a shire council established under the Local Government Act 2008, there are minimum core services which VDSC must provide to the communities within its shire boundaries. For a list of these activities refer to Appendix 1 of this report.

The consultancy contract required the following analysis to be performed:

- Identification and analysis of expenses pertaining to core service delivery, fee for service arrangements and non-core activities of the Councils
- Analysis of the extent to which revenue that is available for core service delivery is being used to subsidise non-core services and/or fee for service arrangements or vice versa
- Analyse whether current fee for service arrangements have been established on a commercial basis and provide recommendations as to where arrangements should be reviewed or renegotiated
- Review the extent to which core services have been undertaken by Councils and identify circumstances where non-core or fee for service activities have taken precedence over core services.

In order to undertake an analysis to address the requirements listed above, financial data by program for core services, fee for service arrangements (or agency services) and commercial services are required for each of the three years. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we are unable to complete the requirements as listed above.

In the absence of financial data by program for core services, fee for services and commercial services, we have referred to VDSC's shire plans for a list of the fee for service arrangements (agency services), commercial services and other Council services which the Council intended to provide during the three year period.

<u>Commercial Services</u>

Commercial services are services that the Council undertakes to deliver under contract or agreement on a full commercial basis with the intention of using the profits made from these commercial activities to improve services to the community. The following commercial services may be undertaken by the Council:

- Barge Landing Maintenance
- Community Stores and Retail
- Employment and Training
- Horticulture
- Indigenous Art Enterprises
- Non Council Roads
- Post Office Agency
- Power, water and Sewerage Essential Services
- Territory Housing and Related Infrastructure Repairs and Maintenance
- Territory Housing Tenancy Management

- Visitor Accommodation and Tourist Information.

Agency Services

Agency services include services that the Council has agreed to deliver on behalf of other Government Agencies on a fee for service basis. It is anticipated that these services would be fully funded by the relevant agency and that funding would include a contribution to administrative costs associated with delivering the service. Subject to funding provided by the relevant agencies, the following agency services will be delivered by the Council:

- Aged and Disabled Care
- Airstrips Maintenance
- Centrelink
- Community Media
- Community Safety
- Environmental Health and Life Skills
- Family Services (Including Child Care)
- Natural Resource Management
- Outstation/Homeland Municipal Services
- Sport and Recreation and Youth Services.

Other Council Services

These are services that the Council chooses to deliver from its own-source revenue. These are services that are, as of yet, not funded on an agency or commercial basis. The following additional services will be delivered by the shire:

- Swimming Pools
- Borrow Pits Operations
- Economic Development.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which VDSC sits within the Big Rivers Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Big Rivers Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which VDSC is to assess performance in the delivery of core services and meeting objectives of the Big Rivers Region RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including VDSC. VDSC is required to deliver core services to eleven communities as listed in section 5.4.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as one would expect in the measurement of whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, it has been reported that VDSC has delivered all services to ten of the eleven communities with the following exceptions:

- ‘Library and cultural heritage services’ where it states that this service was provided to three of ten communities only. No service is planned for delivery to the remaining seven communities and explanations for why this service will not be delivered have not been disclosed
- ‘Administration of local laws’ where it states that this service was provided to two of the ten communities only. No service is planned for delivery to the remaining eight communities and explanations for why this service will not be delivered have not been disclosed
- ‘Revenue growth’ where it states that this service was not provided to any of the communities. No service is planned for delivery to any of the communities and explanations for why this service will not be delivered have not been disclosed
- ‘Council planning’ and ‘IT and Communications’ where it states that this service was provided to all except one community. Service is planned for delivery however expected dates for delivery have not been disclosed.

Kybrook Farm is the eleventh community where the Pine Creek Aboriginal Advancement Association is funded through the Outstation Program to deliver municipal services to Kybrook Farm.

No actual reporting against KPIs has been included in the Regional Management Plan Report and therefore the extent to which service delivery has occurred to the ten communities cannot be determined and assessed.

The shire plans prepared by VDSC includes a service delivery profile for each service to be delivered with the following details included:

- A description of the service
- The primary outcome that the service delivers
- Actions to be taken to deliver service. These do not include KPIs.

The Shire Plans did not include any KPIs to assess service delivery outcomes for each service profiles listed. Without KPIs listed against each of the actions, determining whether VDSC has successfully met the outcomes for each service cannot be measured. Therefore an assessment cannot be made on whether core services are being successfully delivered to all communities or whether the outcomes and identified actions are being achieved.

VDSC believe that they have achieved a satisfactory level of service delivery, considering the limited government funding received for core services. Management of VDSC stated that there are still inequities in service provision across the Northern Territory communities. Service provision requirements are not based on future demographic and statistical analysis. Smaller communities and homelands have received limited services, with homeland funding decreasing each year. Management of VDSC have asserted that there has been a decrease in the level of satisfaction of service delivery in regards to housing.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads.

All entities, including Councils, incur direct and indirect costs in delivering/selling their services or producing and selling products. All direct costs are recorded against the actual program to which the expenditure relates. LGANT released a policy providing guidance on how reasonable overhead cost can be calculated for the councils. VDSC has adopted the overhead policies in applying administration, vehicle and general overheads.

Allocation of indirect costs has not been consistently received by grant funding bodies and many grant agreements restrict the allocation and recovery of indirect overheads. VDSC are required to negotiate the allocation of overheads with each individual funding body for each individual grant. The terms negotiated are dependent on the ability of VDSC to demonstrate fair recovery and, in some instances, relationships with funding bodies. If VDSC were to reject these agreements, it may result in communities not being provided with essential services.

VDSC was unable to provide income and expenditure financial data. Review of VDSC's financials revealed that there does not appear to be a clear definition of which costs should be included in a corporate services charge out rate. There has not been any transparent decision on how to fund program deficits. All surpluses and deficits are rolled into equity as part of the end of year processes.

5.4.7 Budget processes

Operating budgets

The initial budget for VDSC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 and 2011 the budget was prepared using the top down approach where senior management prepared the budget. The budgets have been approved by the Council as part of the annual management plan. VDSC did not include a three year budget projection in the shire plan in 2010 to 2011 financial years as required by the Local Government Act 2008.

In 2008 reports had not been established to present to the Council, VDSC established and report financial reports to the Council from December 2008Council. Reporting by VDSC to the Council has improved over the three years, the follow information is currently being presented to Council:

- Cash balances
- Total income and expenditure actual vs. budget including an explanation on the differences
- Income by source including commentary
- Listing of payments over $10,000 for the month
- A detailed review of the current ratio.

Reporting is still limited, there are no reviews performed on the results of core, agency and commercial services.

Capital budgets

VDSC does not have specific cash reserves set aside for capital expenditure. Any unexpected or urgent capital expenditure is funded from general revenue sources. VCSC's untied cash and cash equivalents for 2011 were $14.2million.

VDSC did not have an asset management plan in place during the last three years nor is there one in place for 2012. Capital expenditure is determined during the annual budget process based on current needs considered in conjunction with committed funding for the year. Management advised development of an asset management plan has been hindered by:

- A lack of available funding for purchases when required

- An inability to plan long term due to the short term funding commitments
- Competing priorities in shire development
- No asset management system.

No asset management policy has been implemented to track the use of portable or attractive assets, determine the whole of life cost of each asset or apply an appropriate charge out rate in order for the cost of utilisation to be applied to the relevant programs.

Cash flow budgets

For the last three years VDSC have not prepared cash flow budgets or cash flow forecasts due to being unable to predict the timing of cash flows.

5.4.8 Summary – financial sustainability of VDSC

To determine the financial sustainability of VDSC we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis six KPIs were used to assess financial sustainability of VDSC. The results of the KPIs are listed in the table below.

Table 5.4v: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(16.9%)	(6.1%)	13.3%	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	0.8	2.1	0.6	1.2
Current ratio	Current assets divided by current liabilities	1.0	1.68	2.70	5.92	-

| KPI | Description | Benchmark | 2011 | 2010 | 2009 | Average* |

Rates coverage	Rates revenue divided by total cost	40%	2.4%	2.7%	0.2%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	13.2%	15.4%	1.5%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the following conclusions:

Financial position

The balance sheet for VDSC is in a healthy position overall with net assets of $64.2million however the net asset position has decreased since 2010 by $3.5million predominantly due to continuing operating deficits being registered. The current ratio is healthy at 1.68 in 2011 however this has declined over the three year period from a very healthy 5.92 in 2009 to 1.68 in 2011

VDSC does not have any borrowings and as a result there is no pressure from rate increases or meeting repayments and therefore no over-reliance on borrowings.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly, operating surpluses indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last two years VDSC has been generating operating deficits with the deficits increasing each year. Where operating deficits persist, indications are that operating revenue is insufficient to meet current operations. VDSC is heavily reliant on grant funding due to limited ownsource revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for VDSC on average over the last three years was 1.2 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that VDSC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008, VDSC has undertaken a review of the assets transferred in to determine whether they existed, fit for purpose, and/or under the control of VDSC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $291million by a study conducted by the Northern Territory Government. This backlog does not cover other communities within the VDSC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions VDSC is not financially sustainable in the medium term. Being classified as financially unsustainable does not mean VDSC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of VDSC are to put onto a financially sustainable basis going forward.

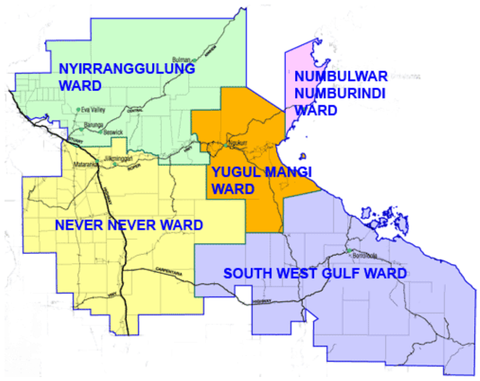
5.5 Roper Gulf Shire Council

5.5.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, Roper Gulf Shire Council (RGSC) was incorporated under the *Local Government Act 2008 NT*. Nine of the previous community government Councils were amalgamated into RGSC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	6,962
Land size	185,176 km^2
Wards	5
Communities & Outstations	96
Pastoral Leases	52



Elected representatives to Council by ward (2008-2012)

Never Never	3
Numbulwar/Numburindi	1
Nyrranggulung	3
South West Gulf	3
Yugul Mangi	2

At 30 June 2011, RGSC had 350 staff in its employ and was responsible for managing 975 km of roads of which approximately 50% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Big Rivers Regional Management Plan, RGSC is required to deliver services to 14 designated communities and has established eight service delivery centres as the base for delivering services across the shire, located in:

- Barunga
- Beswick
- Borroloola*
- Bulman
- Eva Valley
- Jilkminggan
- Mataranka
- Ngukurr*#
- Numbulwar*#.

RGSC also maintains a Corporate Service office located in Katherine.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are three Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There are two Remote Service Delivery Sites located within the shire.

Challenges of population and geography in RGSC

RGSC faces significant infrastructure challenges due to its specific geography and demographic profile. RGSC's population is 6,962 people with the majority of the population being Indigenous. RGSC occupies a land mass of 185,176 km^2. RGSC faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the Big Rivers Region. Some of the key challenges include:

- A lack of all-weather roads and poor condition of roads to support access to communities. The timely and cost effective transport of shire staff, contractors and cargo across the region is a continual challenge
- Recruitment and retention of staff particularly suitably qualified staff
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- The viability of delivery of services to non-Council homelands
- The employment and training of indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Sustainability and alternative revenue generation with a significant portion of revenue coming grant revenue
- A low level of untied grant revenue received is able to be used at the Councils discretion
- Lack of secure land tenure for Council assets creates uncertainty over the ownership and control of assets
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff
- Information Technology systems and communication networks are unreliable, inconsistent coverage and constant operating issues. Mobile phone coverage across the shire
- Continuation of services during wet season.

Entities in which RGSC has an interest

<u>CouncilBiz</u>

CouncilBIZ was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the 8 member Shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. Upon the incorporation of CouncilBiz, RGSC made an initial funding contribution to CouncilBiz of $50,000.

5.5.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.5a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	21,906,588	19,454,793	21,716,469	190,119	1%
Non-current assets	36,953,059	16,702,529	16,527,461	20,425,598	124%
Total Assets	58,859,647	36,157,322	38,243,930	20,615,717	54%
Current liabilities	7,767,758	5,375,587	7,954,073	(186,315)	(2%)
Non-current Liabilities	658,535	606,661	698,881	(40,346)	(6%)
Total Liabilities	8,426,293	5,982,248	8,652,954	(226,661)	(3%)
Net Assets	50,433,354	30,175,074	29,590,976	20,842,378	70%
Equity	50,433,354	30,175,074	29,590,976	20,842,378	70%

The financial position for RGSC has improved by 70% over the three year period from $29.6million in 2009 to $50.4million in 2011, with the majority of the increase occurring in the 2011 year. Table 5.5a shows that the majority of the increase relates to property, plant and equipment with an increase of $20.4million (124%) increase since 2009 due to asset revaluation.

Cash balances analysis

Cash balances comprise cash and cash equivalents and short term deposits which are reported under investments in the annual financial statements. Table 5.5b below shows the composition of current assets for the last three years.

Table 5.5b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	18,146,317	14,531,263	18,614,054
Other	3,760,271	4,923,530	3,102,415
Current assets	21,906,588	19,454,793	21,716,469
Cash as % of current assets	82%	75%	86%

**Note: the balances referred to in the table above are from the audited financial statements*

As shown in the table 5.5b, cash balances comprise most of the current assets (75% and above) and have remained relatively consistent over the three year period with 2010 showing a decrease of $4.1million which then increased to $18.1million in 2011.

The decrease in cash balances in 2010 was due to:

- Payments for operating activities exceeding receipts by $1.1million
- $2.9million in payments for capital assets
- Payment for investment of $200,000
- Repayments of borrowings were $33,000 during the year.

Table 5.5c shows the composition of the cash balances and demonstrates there was sufficient cash available at 30 June each year to cover unexpended grant liabilities. Note that the restricted cash balances represent unexpended grants reported in the annual financial statements. RGSC have advised that this amount represents the amounts where the funding agreements have a clause in them requiring unexpended grants to be recognised or repaid if unspent at year end and does not include all unexpended grants that are considered restricted or tied to specific activities. Therefore the level of unrestricted cash balances is likely to be considerably less than the amounts noted in table 5.5c below however the amount cannot be quantified.

Table 5.5c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	18,146,317	14,531,263	18,614,054
Restricted cash balances*	1,133,032	1,057,848	1,988,185
Unrestricted cash and cash equivalents	17,013,285	13,123,415	16,625,869

**Represents unexpended grants reserve balances at year end*

Chart 5.5A: Composition of cash balances

It should be noted that the unexpended grant balances reported in the 2009 and 2010 financial statements were qualified by the auditors as sufficient appropriate audit evidence was not available to support the existence, completeness and valuation of the unexpended grants balance.

Table 5.5d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, then Councils may have problems meeting its short term obligations.

Table 5.5d: Current Ratio

	2011	2010	2009
Total current assets	21,906,588	19,454,793	21,716,469
Total current liabilities	7,767,758	5,375,587	7,954,073
Net current assets (Working Capital)	14,138,830	14,079,206	13,762,396
Current Ratio	2.82	3.62	2.73

Table 5.5e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.5e: Cash Ratio

	2011	2010	2009
Total cash balances	18,146,317	14,531,263	18,614,054
Less: unexpended grants (restricted assets)	1,133,032	1,057,848	1,988,185
Total unrestricted cash balances	17,013,285	13,123,415	16,625,869
Total current liabilities (unrestricted)	6,634,276	4,317,739	5,965,888
Cash Ratio (unrestricted)	2.56	3.04	2.79

Tables 5.5d and 5.5e indicate that RGSC had sufficient cash reserves to settle all reported liabilities at 30 June should creditors have demanded immediate settlement. This includes the ability to repay all unexpended grant monies back to the funding providers. The benchmark for the current ratio is 1 and the current ratio calculated for RGSC for each of the three years exceeds this benchmark.

A current ratio above 3 is considered high suggesting the optimal return for the Council may not be achieved. The current ratio for RGSC ranges from 2.73 to 3.62 over the three years.

Non-current assets

Non-current assets are property, plant and equipment. The balance of property, plant and equipment has increased over the last three years from $16.5million to $16.7million in 2010 and $36.9million in 2011.

The land, buildings and infrastructure were independently valued at 30 June 2011 by the Australian Valuation Office (AVO). All the properties were valued in accordance with the Australian Accounting Standard AASB 116 Property, Plant and Equipment and are reported at depreciated replacement cost.

As a result the properties were revalued upwards by $20.4million (shown as an asset revaluation increment in the Statement of Comprehensive Income).

Table 5.5f below shows the composition of property, plant and equipment for RGSC for the 2011 year.

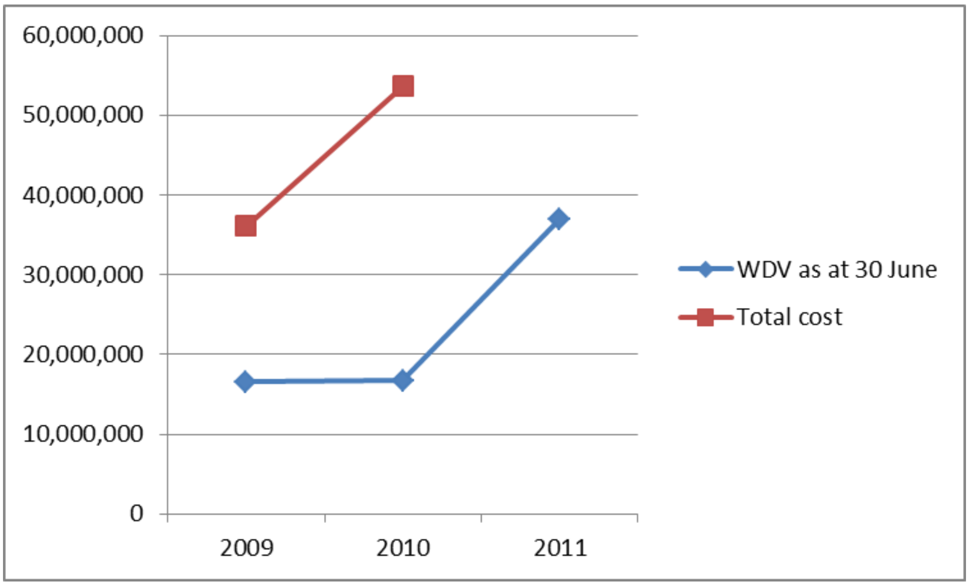
Table 5.5f: Composition of property, plant and equipment for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Land	363,755	-	363,755	1.0%
Buildings and infrastructure	36,070,177	(7,301,300)	28,768,877	77.9%
Roads	1,820,508	(91,025)	1,729,483	4.7%
Plant and equipment	8,182,958	(5,309,230)	2,873,728	7.8%
Furniture and fittings	193,174	(85,357)	107,817	0.3%
Motor vehicles	7,028,073	3,918,674	3,109,399	8.4%
Total	53,294,890	(8,868,238)	36,953,059	100.0%

Note: figures obtained from the annual financial statements

The majority of property, plant and equipment comprised of buildings and infrastructure at 77.9%. The remaining categories were all less than 10% of the total written down value (WDV). As previously mentioned, property, plant and equipment increased by $20.4million or 55% since 2009 of which the majority is due to a revaluation performed in 2011. The relationship between the cost and written down value is shown in Chart 5.5B below.

Chart 5.5B: Total cost and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



In addition to the revaluation of land, buildings and infrastructure, there were capital acquisitions of plant and equipment. These capital purchases will be discussed later in the report.

Liabilities analysis

Current liabilities comprise creditors, unexpended grants, borrowings, provisions and other liabilities. The current liability balance remained consistent over the three years however there was a decrease of $2.5million noted in 2010 and then an increase to $7.7million in 2011. Non-current liabilities represent borrowings and employee provisions, the balances of which have remained consistent across all three years

Included in the liabilities are borrowings, with balances at 30 June each year of $467,000 in 2009, $434,000 in 2010 and $398,000 in 2011.

There are two main analytical measures of a Council's indebtedness and these are:

- Net debt, as measured by interest-bearing liabilities less cash reserves
- Net financial liabilities, as measured by total liabilities less total financial assets.

For the purposes of this analysis we consider the net financial liabilities ratio to be a more appropriate measure than the debt ratio. A large net liability is an indicator of unsustainability, where Councils have increased their asset base beyond their financial capacity. The financial liabilities of the Council are all financial claims on a Council by other sectors of the economy other than ratepayers (includes interest-bearing liabilities and all other liabilities) less the Council's financial claims on these sectors.

Table 5.5g: Net financial liabilities

	2011	2010	2009
Total liabilities	8,426,293	5,982,248	8,652,954
Total financial assets*	21,453,569	18,920,133	21,234,423
Net financial liabilities/(assets)	(13,027,276)	(12,937,885)	(12,581,469)
Operating revenue (including operational grants)	36,279,153	33,782,234	39,281,643
Net financial liabilities ratio	(35%)	(38%)	(32%)

**Total financial assets is total cash assets plus receivables*

The net financial liabilities ratio is a sum of a Council's total liabilities less its financial assets, expressed as a percentage of total annual operating revenue. Use of this ratio effectively allocates a Council's long term debt across its core and non-core services activities in proportion to the total annual operating revenue (including operational grants).

The table above indicates that RGSC is a net creditor with their total financial assets (cash reserves and receivables) exceeding RGSC's total liabilities owing to other sectors of the economy for each of the three years.

Another measure of a Council's ability to meet its short term liabilities is the current ratio as calculated earlier in this section.

Interest coverage ratio

A measure to determine the appropriateness of a Council's debt levels is its ability to repay the debt and associated interest. This can be measured by the interest coverage ratio. The interest coverage ratio is calculated by earnings before interest and tax (EBIT) divided by interest expense. For the purposes of this analysis we have used a benchmark of 3 as Councils with interest coverage below 3 may have problems in repaying debt and associated interest. This adverse result is due to a deficit being incurred, not due to a high debt of interest balances.

Table 5.5h: Interest coverage ratio

	2011	2010	2009
EBIT	(156,927)	615,734	6,035,103
Interest expense	29,263	31,637	77,568
Interest coverage ratio	(5.36)	19.46	77.80

The interest coverage ratio for RGSC has declined over the three years with the ratio being below 3 for 2011 indicating that RGSC may have difficulties in repaying the debt and associated interest.

5.5.3 Financial performance

A Council's operating financial performance is satisfactory if it is running a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio (or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of Councils in section 3 of this report).

This section provides our analysis of the financial performance of RGSC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.5.5.

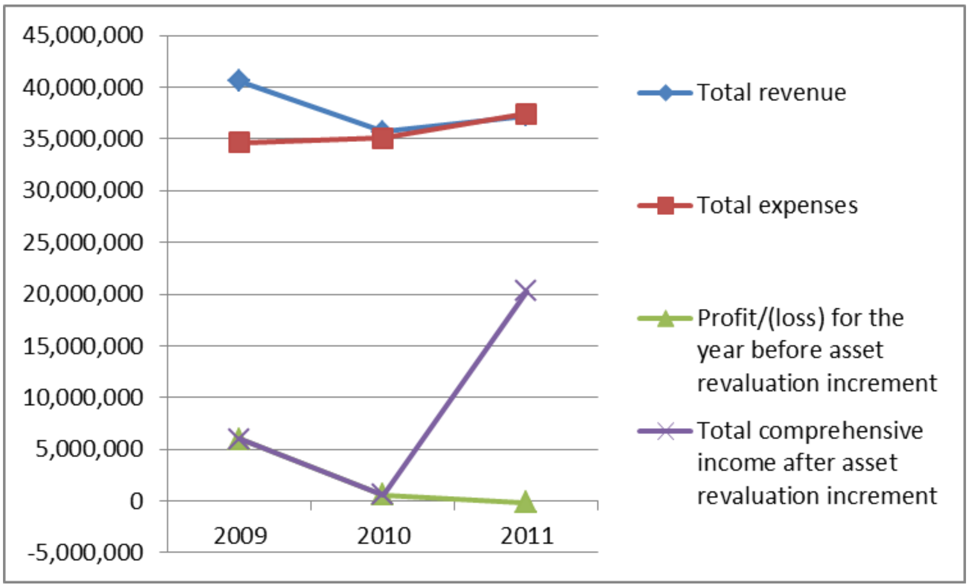
Below is an extract of the Income and Expenditure Statement from the audited financial statements for the last three years.

Table 5.5i: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	29,682	42,092	107,363	(77,681)	(72%)
Rates and annual charges	562,425	601,707	528,109	34,316	6%
Interest	570,951	407,260	561,289	9,662	2%
Grants and contributions	24,640,888	26,962,020	30,445,543	(5,804,655)	(19%)
Other Operating revenue	11,398,591	7,650,844	8,847,617	2,550,974	29%
Net profit from disposal of assets	20,538	6,686	125,308	(104,770)	(84%)
Total revenue	37,223,075	35,670,609	40,615,229	(3,392,154)	(8%)
Employee costs	16,217,399	15,138,010	16,235,108	(17,709)	0%
Materials and contracts	6,337,492	7,045,313	7,240,501	(903,009)	(12%)
Depreciation and amortisation	3,400,178	2,759,484	2,516,386	883,792	35%
Finance costs	29,263	31,637	77,568	(48,305)	(62%)
Other costs	11,424,933	10,112,068	8,588,131	2,836,802	33%
Total expenses	37,409,265	35,086,512	34,657,694	2,751,571	8%
Profit/(loss) for the year	(186,190)	584,097	5,957,535	(6,143,725)	(103%)
Asset Revaluation Increment	20,444,471	-	-	20,444,471	100%
Total Comprehensive Income	20,258,281	584,097	5,957,535	14,300,746	240%

**The 'gain on restructure of local government' recorded in revenue totalling $43.7million and the 'assets written off following restructure' recorded in expenditure of $22.6millionin the 2009 financial statements were excluded from this table to allow more comparable figures over the three years. Without excluding these items from the 2009 results, total revenue was $84.2million, total expenditure was $57.3million and the total surplus for the year was $27.0million.*

Chart 5.5C: Revenue, expenses and net result for 2009, 2010 and 2011



**The chart shows the profit/(loss) for the year before asset revaluation increment so comparable with other Councils included in this report and after.*

RGSC achieved an operating surplus of $5.9million in 2009, $584,000 in 2010 and incurred an operating deficit of $186,000 in 2011 (excluding asset revaluation increment), a decline of $6.1million since 2009. The operating deficit incurred in 2011 is the first year a deficit has been incurred since incorporation on 1 July 2008. Over the three years, income has decreased by $3.3million whilst over the same time, expenses have increased by $2.8million. The primary reason for revenue decreasing over this period is due to grants and contributions decreasing by $5.8million, this was partially offset by increases in other operating revenue. User fees and charges have also decreased over the three years by $77,000 to just under $30,000.

Expenses increased over the three years primarily due to other costs increasing by $2.8million offset by decreases noted in all other expense categories in the table above. All expenses recognised under this category either increased or decreased by relatively small percentages. There were no major movements noted. Employee expenses were consistent with prior year and materials and contracts decreased by $903,000 due predominantly to contractor costs decreasing from $3.6million to $3million in 2011. Depreciation expenditure has increased by $884,000 since 2009 due to the value of assets increasing as a result of a valuation undertaken in 2011.

Refer to section 5.5.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits greater than 10% are spending beyond their revenue base and potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.5j below shows the operating surplus/ (deficit) for RGSC and the associated surplus/ (deficit) ratio for the three years since 2009.

Table 5.5j: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

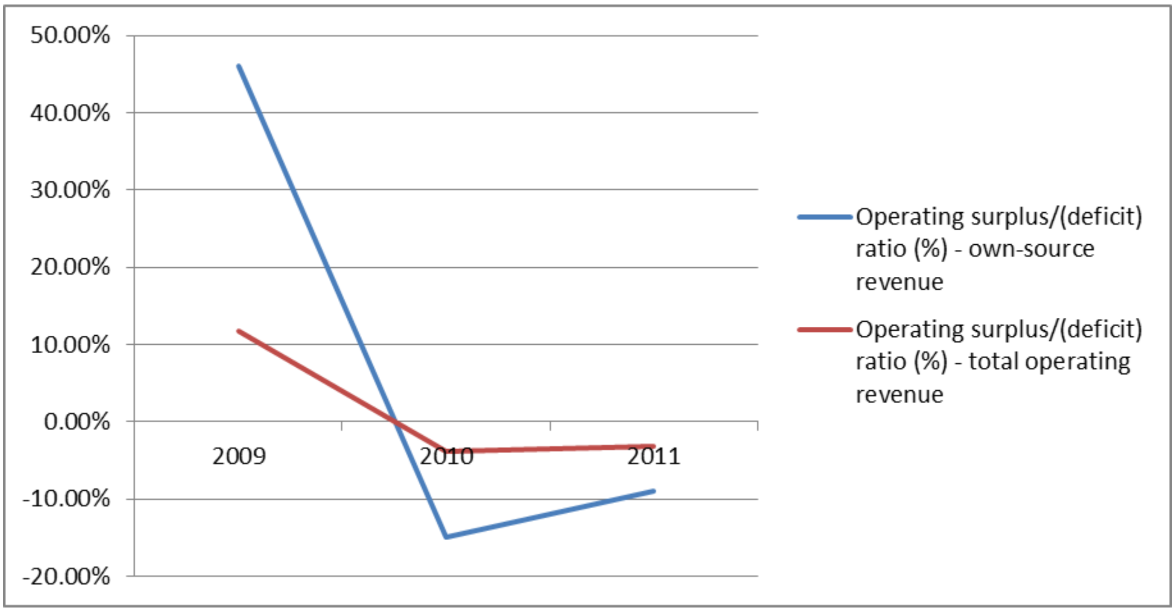
	2011	2010	2009
Operating revenue**	36,279,153	33,782,234	39,281,643
Less: operating expenses (including depreciation expense)	37,409,265	35,086,512	34,657,694
Operating surplus/(deficit)	(1,130,112)	(1,304,278)	4,623,949
Operating surplus/ (deficit) ratio (%)	(3.1%)	(3.86%)	11.77%
Own source revenue*	12,561,649	8,701,903	10,044,378
Operating surplus/ (deficit) ratio (%)	(8.99%)	(14.99%)	46.04%

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*

***Operating revenue does not include capital grants*

The operating surplus/(deficit) ratio calculated for RGSC on total revenue (excluding capital grants) above shows a worsening operating surplus over the three years with 2011 and 2010 having operating deficit ratios of -3.1% and -3.86% respectively. The operating surplus/ (deficit) ratios based on own source revenue reflect the same movement. Whilst the ratios show an improvement in 2011 compared to 2010, if the ratios do not show continued improvement and a return to surplus is not achieved then the Council may become financially unsustainable.

Chart 5.5D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents less than 2% of total revenue. While rates revenue has increased over the three year period, RGSC is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, slow or negative growth rates in its communities, legislated conditional rating applied to pastoral and mining entities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.4k: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	562,425	601,707	528,109
Operating expenses	37,409,265	35,086,512	34,657,694
Rates coverage ratio	1.5%	1.7%	1.5%

The benchmark used in this analysis is 40% for rates coverage ratio. A result less than this may indicate that rates collected by RGSC cover an inadequate proportion of expenses. The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that RGSC is dependent on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare the financial performance to budgets and plans for each of the three years.

Analysis of budget versus actual results by category

Below is a table that shows the budgeted figures for core services, non-core services and fee for service arrangements for 2009, 2010 and 2011.

In order to undertake an analysis of the 2009 and 2010 data, financial data on budget vs. actual by core, agency and commercial services are required. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we were unable to complete the review for 2009 and 2010.

There are significant differences with the 2011 actuals showing a deficit of $4.5milllion compared to the budgeted deficit of $40,241.

Table 5.5l: Budget versus actual surplus/ (deficit) by core services, agency services and commercial services

2010/11	Budget per general ledger surplus/(deficit)	Actual surplus/(deficit)*	Variance
Core services	(202,941)	(5,843,622)	(5,640,681)
Agency Services	167,174	1,417,817	1,250,643
Commercial	76,008	147,294	71,286
Other services	0	(260,068)	(260,068)
Net surplus/(deficit)	(40,241)	(4,538,579)	(4,498,338)

**The net surplus/(deficit) for 2011 in the reports provided by RGSC and used in the table above differ to the audited financial statements by $4.4million*

Analysis of budget versus actual results by standard classifications

In order to undertake an analysis of the budget versus actual results by standard classifications, financial data on budget to actual is required. The financial data has not been received. Therefore we were unable to complete the review.

5.5.4 Revenue and revenue sources

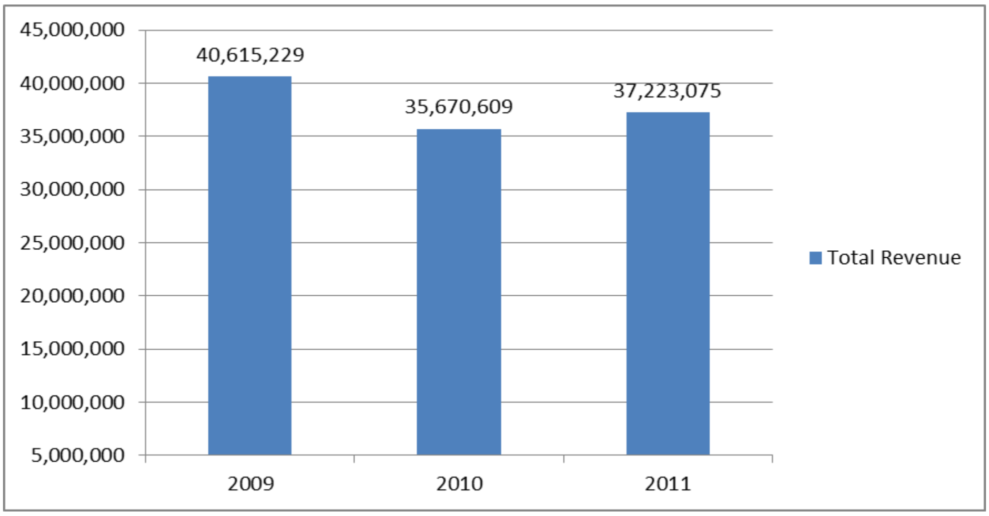
Table 5.5m: Revenue for 2009, 2010 and 2011

	2011	2010	2009*	Total increase/(decrease)	
User charges and fees	29,682	42,092	107,363	(77,681)	(72%)
Rates and annual charges	562,425	601,707	528,109	34,316	6%
Interest	570,951	407,260	561,289	9,662	2%
Grants and contributions - operational	23,696,966	25,073,645	29,111,957	(5,414,991)	(19%)
Grants and contributions – capital	943,922	1,888,375	1,333,586	(389,664)	(29%)
Other Operating revenue	11,398,591	7,650,844	8,847,617	2,550,974	29%
Net profit from disposal of assets	20,538	6,686	125,308	(104,770)	(84%)
Total Revenue	37,223,075	35,670,609	40,615,229	(3,392,154)	(8%)

**The 'gain on restructure of local government' recorded in revenue totalling $43.7million and the 'assets written off following restructure' recorded in expenditure of $22.6million in the 2009 financial statements were excluded from this table to allow more* *comparable figures over the three years. Without excluding these items from the 2009 results, total revenue is $84.2million, total expenditure is $57.3million and the total surplus for the year is $27.0million.*

The total revenue received in 2011 was $37.2million compared to $35.7million in 2010 and $40.6million in 2009. Over the three year period the total revenue decreased by almost $3.4million. Refer to Chart 5.5E below.

<u>Chart 5.5E: Total revenue by year</u>



RGSC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue
- Net profit from disposal of assets.

Chart 5.5F: Revenue analysis by source

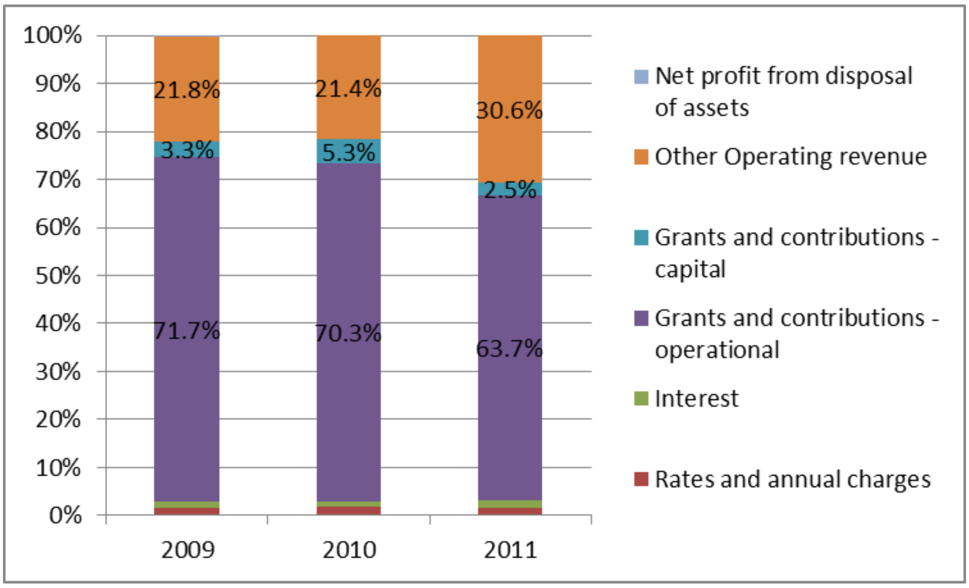


Chart 5.5F demonstrates the heavy reliance on grants and contributions funding and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, RGSC's own source revenue is insufficient to cover the costs of delivering core services to its communities as the level of income it generates from own sources is limited.

Revenue – untied versus tied

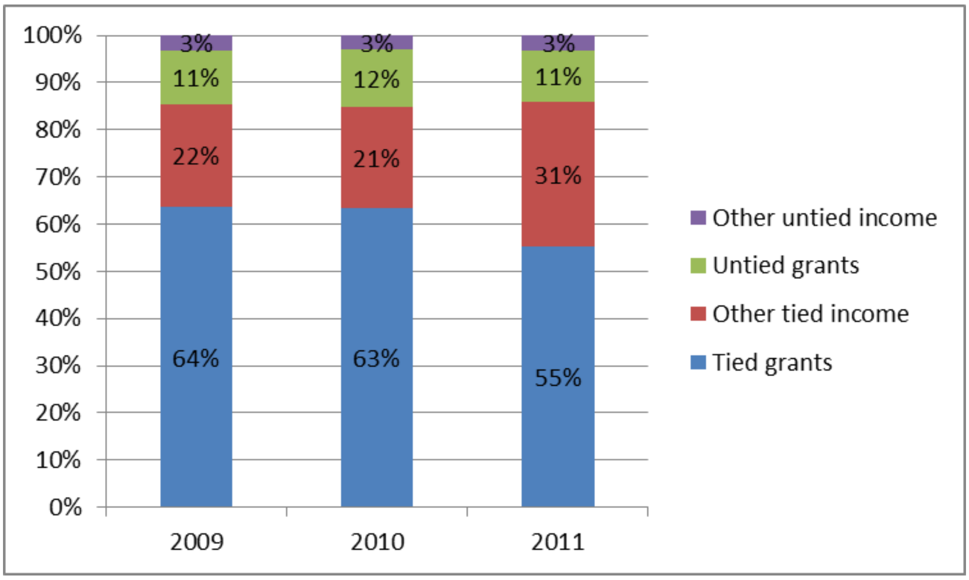
For the purposes of this analysis, all revenue received by RGSC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue.

Table 5.5n: Tied versus untied revenue

	2011		2010		2009	
Tied grants	20,579,754	55%	22,635,781	64%	25,831,472	64%
Other tied income	11,398,591	31%	7,650,844	21%	8,847,617	22%
Total tied income	31,978,345	86%	30,286,625	85%	34,679,089	86%
Untied grants	4,061,134	11%	4,326,239	12%	4,614,071	11%
Other untied income	1,183,596	3%	1,057,745	3%	1,322,069	3%
Total untied income	5,244,730	14%	5,383,984	15%	5,936,140	14%
Total income	37,223,075	100%	35,670,609	100%	40,615,229	100%

Chart 5.5G: Revenue tied versus untied



Of the total revenue received for each of the three years, the majority is tied revenue that must be used for a specific purpose and cannot be used at the discretion of RGSC. Untied revenue that can be used by RGSC for the delivery of core services is limited to 20% or less of the total revenue.

Grants and contributions (operational)

Table 5.5m shows that total grant revenue (operational) received over the three years has decreased by $5.4million or 19%. Included in grants and contributions (operational) for 2009 and 2010 are grants received for the Housing Maintenance Program from the DHLGRS of $3.4million and $3.8million respectively. In 2011 funding for the Housing Maintenance Program changed from being provided as a grant to being provided on a fee for service basis. Therefore of the $5.4million decrease in operational grants and contributions, $3.4million relates to the Housing Maintenance Program which means that the real decrease in grants and contributions is approximately $2million (7%).

In 2009, all shires including RGSC received one off grant funding for establishment costs.

Untied grant revenue has decreased by $700,000 (11.6%) over the three years since 2009.

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.5o and 5.5p.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	
Match funding	
Roads to recovery	
Library	
Shire Establishment Fund	

CDEP wages funding has been classified as a core services as it supports the training and employment of local people. This is not reflect the classification of the Council.

Table 5.5o: Composition of grant income (operational) by category

	2011	2010	2009
Core services	7,857,917	12,833,288	15,104,487
Non-core services	15,839,049	12,240,357	14,007,470
Total grants and contributions	23,696,966	25,073,645	29,111,957
Core services as a % of total grants	33%	51%	52%
Non-core services as a % of total grants	67%	49%	48%

Table 5.5p shows the composition of grant revenue (operational) received by source:

Table 5.5p: Primary sources of grant income (operational)

Source	2011	2010	2009
Northern Territory Government	8,504,910	10,878,994	12,589,845
Commonwealth Government	14,991,124	13,285,656	16,168,472
Other	200,932	908,995	353,640
Total grant revenue (operational)	23,696,966	25,073,645	29,111,957

Grant funding (operational) for core services

Table 5.5q demonstrates that the level of grant income received in 2011 for core services has remained consistent compared to 2009, however in 2010, funding provided for core services was all tied. Untied core services funding is generally in the form of financial assistance grants, road funding and operational subsidies.

Table 5.5q: Tied versus untied core services grant and contributions (operational)

	2011	2010	2009
Grants -core services			
Untied	4,061,134	4,326,239	4,614,071
Tied	3,796,783	8,507,049	10,490,416
Total core services grants	7,857,917	12,833,288	15,104,487
Untied grants as % of total core services	52%	34%	31%
Tied grants as % of total core services	48%	66%	69%

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also funded by the Northern Territory and Commonwealth Governments with a small proportion coming from other non-government sources. All non-core services funding is tied income.

Table 5.5r: Tied versus untied non-core services grant and contributions (operational)

	2011	2010	2009
Untied	-	-	-
Tied	15,839,049	12,240,357	14,007,470
Total grants and contributions – non-core services	15,839,049	12,240,357	14,007,470
Untied as a %	0%	0%	0%
Tied as a %	100%	100%	100%

Grants and contributions (capital)

RGSC received grants for capital purchases from the following sources:

Table 5.5s: Primary sources of capital grants

	2011	2010	2009
Northern Territory Government	8,000	578,758	-
Commonwealth Government	935,922	1,309,617	1,333,586
Total grants and contributions (capital)	943,922	1,888,375	1,333,586

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets with the majority of the funding being provided by the Commonwealth Government.

User charges and fees

User charges and fees are primarily property lease rental fees and other user charges..

Total income for user charges and fees represents a small portion of the total revenue received by RGSC. Total user charges and fees received was $107,000 (2009), $42,000 (2010) and $30,000 of total revenue (2011) and each year is less than 1% of the total revenue received.

User charges and fees are considered untied income to be used for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges.

Rates and annual charges increased by $34,000 (6%) over the three years from $528,000 in 2009 to $562,000 in 2011. Rates and annual charges comprise less than 2% of total revenue. RGSC's population is 6,962, the Council has a limited number of properties that are rateable and there are legislative restrictions on rating.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of RGSC. Rates and annual charges are funded through charges to constituents including private and commercial residents, mining companies for extractive activities and pastoralists.

Other income

Other operating revenue has increased by $2.6million (29%) over the three years since 2009 to $11.4million in 2011. The primary reason for the significant increase on prior years is because income previously received from DHLGRS for Housing Maintenance was recorded under Grants and Contributions in the 2009 and 2010 financial years. In 2011, funding provided for Housing Maintenance is no longer provided as grant but on a fee for service basis as contract revenue under other income in the financial statements. The total amount recognised in other income in 2011 that related to Housing Maintenance was $2.3million.

Other operating revenue is predominantly considered tied funding as it relates to:

- Contract fees provided by RGSC on behalf of other entities for services such as essential services, postal agency, housing maintenance, tenancy management, Centrelink services and road contracts.
- Sales from Numbulwar Store and fuel and Mataranka Store (whilst revenue is considered tied, operating surpluses are considered untied)
- Service fees
- Other income.

5.5.5 Capital expenditure

RGSC was established as a body corporate on 16 October 2007 and during the 2008 financial year approximately $480,000 in capital expenditure was incurred. The Council came into full operation on 1 July 2008 and property, plant and equipment valued at $10.9million was transferred from the nine amalgamated Councils to RGSC.

Analysis of capital investment over the three years

Over the two years RGSC purchased property, plant and equipment totalling $3.3million in 2010 and $3.2million in 2011. The composition of the additions can be seen in tables 5.5t and chart 5.5H. Note the financial information for the actual capital expenditure amounts in 2009 could not be determined therefore it has been excluded from the table below.

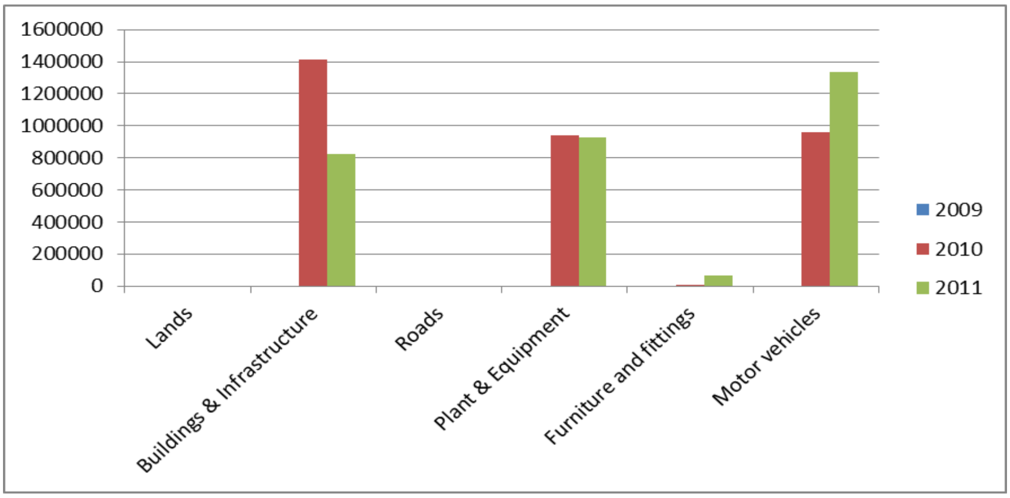
Table 5.5t: Additions of property, plant and equipment by asset category

	2011	2010	Total
Lands	-	-	-
Buildings & Infrastructure	824,482	1,412,568	2,237,050
Roads	-	-	-
Plant & Equipment	928,581	942,834	1,871,415
Furniture and fittings	64,416	2,877	67,293
Motor vehicles	1,335,130	961,302	2,296,432
Total	3,152,609	3,319,581	6,472,190

Note: figures obtained from the annual financial statements and do not include work in progress. The financial statements for 2009 did not include a movement schedule showing the total acquisitions purchased by category therefore the figures for 2009 could not be obtained.

As can be seen from table 5.5t, the capital expenditure was only incurred was in the 2010 and 2011 and related to buildings and infrastructure ($2.2million), plant and equipment ($1.9million) and motor vehicles ($2.3million). There were no additions to roads or land during the three years with a small amount spent on furniture and fittings. There were no purchases of capital items in 2009. Capital expenditure represents 8.4% (2011), 9.5% (2010) and 0% (2009) of total expenditure.

Chart 5.5H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants and, over the past three years, has not been sufficient to meet the amount spent on new or replacement capital items.

Table 5.5u: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for the three years
Capital funding	943,922	1,888,375	1,333,586	4,195,883
Capital expenditure	3,234,991	2,935,866	4,175,174	10,346,031
Difference	(2,208,687)	(1,431,143)	(2,841,588)	(6,150,148)

**Figures have come from the annual financial statements and include work in progress*

RGSC does not have cash reserves established to meet future capital expenditure requirements. All capital expenditure incurred by RGSC is funded from either capital grants from the Northern Territory and/or Commonwealth Governments or funded from the cash.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expense. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of one for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.5v: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for the three years
Capital expenditure	3,234,991	2,935,866	4,175,174	10,346,031
Depreciation expense	3,400,178	2,759,484	2,516,386	8,676,048
Sustainability ratio	0.9	1.1	1.7	1.2

**Figures have come from the annual financial statements and include work in progress*

The benchmark for the sustainability ratio is 1. As we can see from table 5.5v, the ratio for RGSC was 1.7 in 2009 and has decreased over the subsequent two years to 1.1 in 2010 and 0.9 in 2011. Where the ratio is below the benchmark of 1, this indicates that assets were being consumed at a greater rate than they are being renewed or replaced. Over the three year period however the ratio was 1.2 and above the benchmark of 1 indicating that over the three year period RGSC was replenishing the assets in line with consumption. A positive capital expenditure/depreciation expense ratio relieves future ratepayers from renewing or replacing assets consumed in the current period. The sustainability ratio over the last three years has shown a decrease. When analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Council
- Does not take into consideration whether communities within the Council are Growth Towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

Property, plant and equipment, includes a large number of assets located across the shire which were transferred from the previous community Councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or the RGSC did not believe they had ownership or control over the assets. Efforts have been made by the RGSC over the last three years to locate, assess and determine whether they had ownership of the assets or if they were deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of RGSC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist or the RGSC does not own or have control over the asset. Therefore it is likely that although the sustainability ratio could be positive and indicate that RGSC is replenishing its assets in line with its consumption of the assets, there may still be gaps in renewal, replacement or upgrades of infrastructure and plant and equipment items due to the large number of assets recorded in the fixed asset register with nil written down values and not reflected in the depreciation charge each year. The subsequent recognition of some of these assets, as well as the revaluation of assets including the depreciation rates applied have also not provided consistency to the analysis.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by RGSC buildings and infrastructure accounts for 78% and roads accounts for 5%.

There were limited sources of information available to us in respect of the backlogs facing RGSC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, and 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, three are located within the RGSC Shire being Ngukurr, Numbulwar and Borroloola.

There are approximately 36,000km of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50km of the Territory Growth Towns less than fourteen percent of the 5,000km of roads is sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. RGSC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in RGSC.

Chart 5.5l: Territory Growth Towns (RGSC Shire) – Road conditions within a 50km radius

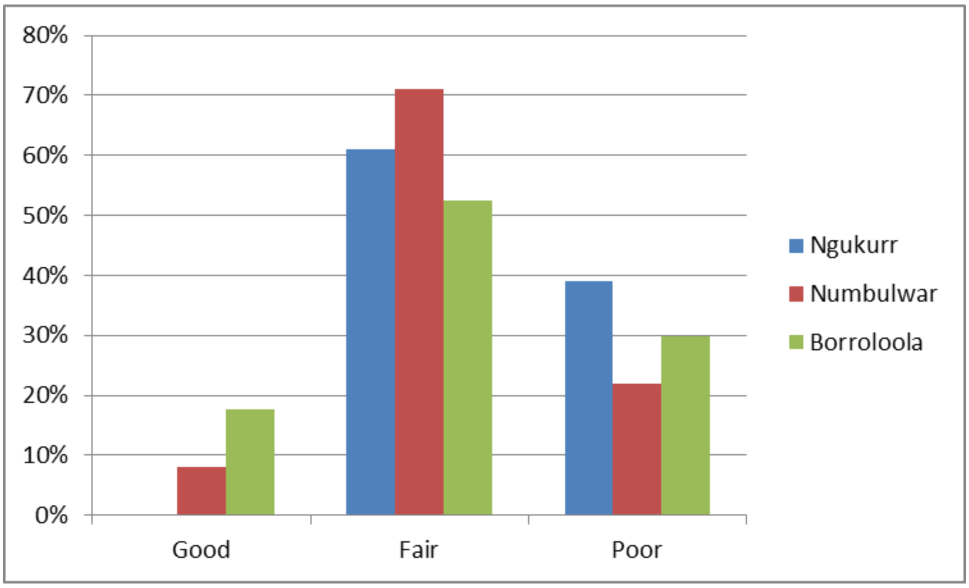


Table 5.5w below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.5w: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in RGSC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Ngukurr	378.05	210.26	2.77
Numbulwar	212.33	55.21	0.95
Borroloola	301.50	60.60	2.00
Total	891.88	326.07	5.72

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $326.07million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $5.72million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs does not include all communities within RGSC only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $326.07million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by RGSC with many of them past their useful life and in need of upgrade or replacement. The total costs of renewals backlog is therefore likely to be significantly higher than the $326.07million identified in relation to roads backlog.

5.5.6 Core services, fee for service arrangements and non-core services

As a shire Council, established under the Local Government Act 2008, there are minimum core services which RGSC must provide to the communities within its shire boundaries. For a list of these activities refer to Appendix 1 of this report.

The consultancy contract required the following analysis to be performed:

- Identification and analysis of expenses pertaining to core service delivery, fee for service arrangements and non-core activities of the Councils
- Analysis of the extent to which revenue that is available for core service delivery is being used to subsidise non-core services and/or fee for service arrangements or vice versa
- Analyse whether current fee for service arrangements have been established on a commercial basis and provide recommendations as to where arrangements should be reviewed or renegotiated
- Review the extent to which core services have been undertaken by Councils and identify circumstances where non-core or fee for service activities have taken precedence over core services.

In order to undertake an analysis to address the requirements listed above, financial data by program for core services, fee for service arrangements (or agency services) and commercial services are required for each of the three years. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we were unable to complete the requirements as listed above.

In the absence of financial data by program for core services, fee for services and commercial services, we have referred to RGSC's shire plans for a list of the fee for service arrangements (agency services), commercial services and other Council services which the Council intended to provide during the three year period.

<u>Commercial Services</u>

Commercial Services are services that the Council undertakes on a full commercial basis with the intention of using profits from commercial activities to improve services to the community as listed in the Shire Plans and include the following:

- Airstrips
- Boat Ramp and Barge Landing Maintenance
- Borrow Pit Operations
- Coast and River Maritime Navigation Markers
- Community Housing and Building New Construction
- Community Stores
- Horticulture
- Housing and Repairs Maintenance, Management and Construction
- Housing Tenancy Management
- Mainstream Services (Postal Services, Centrelink etc.)

- Non Council Roads
- Power, Water and Sewerage
- Visitor Accommodation and Tourist Information.

Agency Services

Agency Services include services that the Shire Council has agreed to deliver on behalf of other Government Agencies on a fee for service basis. It is anticipated that these services would be fully funded by the relevant agency and that funding would include a contribution to administrative costs associated with delivering the service. Below is a list of services (as listed in the shire plans) that RGSC intended to provide subject to funding provided by the relevant agencies the following Agency Services will be delivered by the Shire:

- Aged and Disabled Care
- Arts and Culture
- Community Media
- Community Safety
- Economic Development Support
- Employment and Training
- Environmental Health
- Family Services (Including Child Care)
- Family Finance Skills
- Natural and Cultural Resource Management
- Outstation/Homeland Municipal
- Sport and Recreation
- Youth Services.

Other Council Services

These are services that the Council chooses to deliver from its own-source revenue. These are services that are, as of yet, not funded on an agency or commercial basis. The services include:

- Swimming Pools

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads.

All entities, including Councils, incur direct and indirect costs in delivering/selling their services or producing and selling products. All direct costs are recorded against the actual program to which the expenditure relates. RGSC did not establish policies and procedures for calculating and allocating indirect and overhead costs its programs. Over the last three years, RGSC has begun the process of determining, calculating and allocating indirect and overhead costs against all its programs; however it is still a work in progress. RGSC have encountered ongoing challenges and complexities in establishing a common methodology for charging indirect cost and overheads to programs.

For core services programs, RGSC received untied grants from both the Northern Territory and Commonwealth Governments. The funding provided is to cover all costs incurred with the delivery of core services including overheads. The budget for core services funding is determined by RGSC based on the level of funding and, as with other programs, overheads are not being calculated and charged to core services program.

RGSC enters into agreements with Governments for the delivery of agency services on their behalf. RGSC will submit tenders and budgets to win the opportunity to deliver the various agency services. The budgets prepared by RGSC and submitted to the Governments generally do not reflect the actual level of funding and budgets included in the agreements which both RGSC and the relevant Government entity sign and agree to. Despite this, RGSC still sign the agreements and deliver the services. In many instances there is generally an administration expense or an administration fee included in the budgets however there are instances where the agreement does not allow for any indirect or overhead costs to be charged to the program. In these cases RGSC only allocates the amount that the agreement allows them to charge, regardless of whether the actual costs are higher. In these instances, there is amount of indirect and overhead costs that are not being charged to the program and therefore not recovered, however we were unable to quantify the effect due to the limitations of the information provided and because RGSC had not established an appropriate allocation methodology for charging indirect and overhead costs to programs. If RGSC were to reject these agreements, it may result in communities not being provided with essential services.

Establishment of fee for service arrangements

In addition to the delivery of core services required under the Local Government Act 2008, RGSC has entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments. Over the three year period, RGSC have entered into arrangements with both governments for the delivery of a number of services as previously identified.

All agency services are funded under agreements between RGSC and the relevant government entity. The key issues noted with the establishment of fee for service arrangements include:

- Generally RGSC submit budgets for the delivery of the services, however in some instances the level of funding received does not reflect the budget submitted by RGSC upon application
- Some agency services do not allow for an administration fee, or allow for a small fee, to recover all overhead and indirect costs incurred by RGSC in delivering the services
- A detailed methodology does not exist to allocate overheads and indirect costs across all programs. Administration costs are not always charged to the program and in some instances, RGSC will only allocate overheads to the limit allowed under the funding agreement.
- There is no 'profit margin' built into the budgets for commercial services as expected in a commercial organisation.

5.5.7 Budget processes

Operational budgets

The initial budget for RGSC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 and 2011 the budget was prepared by senior management and presented to Council. The budgets have been approved by the Council as part of the annual management plan. In accordance with the Local Government Act 2008, RGSC prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

The budget process has developed over the three years and continued to develop further in 2012. In 2012 each program manager is responsible for determining the budget for the program. The executive team review the budgets and request changes as necessary.

Budget reporting was inadequate in the early years of operation. No reports were able to be generated providing commentary on any large movements between budgets and actual, only a summary of the financial position to date was included in the Council agenda. Financial reporting to the Council has been limited over the past three years. In the December 2011 Council agenda, financial reports are presented to the Council that include:

- Current cash and bank balances
- Balance sheet
- Income statements by service group
- Income statement by account category
- Statement of cash balances
- Accounts receivable aged analysis report
- Accounts payable aged analysis report
- Expenditure reports by community.

The current reporting provides a good high-level overview of RGSC's financial performance and position. However there is no reporting on the performance of core service, fee for service or commercial services preventing a review of cross subsidization between activities. No reports were provided that compared budget and actual results or provided commentary on any large movements. Budget vs. actual reports are reviewed by executive management.

Prior to March 2011 the budgets sat outside of Technology 1. As a result for 2009, 2010 and 2011 the program managers were unable to easily compare budget and actual expenditure as the data and reports were not available in the accounting system. The budget process significantly improved in 2012 when the budget was prepared within the accounting system at a project level. Budget vs. actual results are now able to be review within the system at any point in time.

Capital budgets and capital management plans.

RGSC does not have an asset management plan or an asset management system in place. They have identified the need for one and have instigated a program to develop an asset management plan but have not been able to identify a system that works well.

Despite improvements to their budgeting processes over the three years, the process relating to capital expenditure spending has not changed much. RGSC have a 'wish list' of capital assets which are identified through their operational planning and budgeting processes. Items identified are given a priority rating. Grant opportunities are looked for to match the needs identified. Sometimes there is specific capital funding included in agency funding. The allocation of these funds does not often match the priority of capital expenditure requirements as documented in the list.

As part of the budgeting process, funding allocated to capital expenditure requirements is dependent on available funds after operational budgeting has been finalised. There is very little funding available for capital expenditure in relation to core service delivery.

Roads are funded by Federal Government funded programs being the 'Roads to Recovery' program and the Financial Assistance Grants (FAGs). As these are fixed/pre-determined grants, the Council is unable to influence the amounts that have been allocated at a national level. RGSC apply for Northern Territory tenders to access additional road funding for state controlled roads within its boundaries.

The impact of not having sufficient capital expenditure reserves and capital management plan in place increases the risk that:

- Core services may be ceased temporarily or long term should the capital expenditure be required to replace assets that are used in the delivery of core services and there are no other assets that can be substituted until replacement
- Funds that are tied or restricted for core services, non-core services or fee for service arrangements may be diverted to fund the capital purchase and potentially impacting RGSC's ability to deliver its core services programs and/or other non-core services or fee for service arrangements.

Cash flow budgets

For the last three years RGSC have not prepared cash flow budgets or cash flow forecasts due to being unable to predict the timing of cash flows.

5.5.8 Summary – financial sustainability of RGSC

To determine the financial sustainability of RGSC we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis six KPIs were used to assess financial sustainability of RGSC. The results of the KPIs are listed in the table below.

Table 5.5x: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(3.1%)	(3.86%)	11.77%	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	(5.36)	19.46	77.80	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	0.9	1.1	1.7	1.2
Current ratio	Current assets divided by current	1.0	2.82	3.62	2.73	-

	liabilities					
Rates coverage	Rates revenue divided by total cost	40%	1.5%	1.7%	1.5%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	7.2%	4.7%	3.5%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for RGSC is in a healthy position overall with net assets of $50.4million with the net asset position increasing over the last three years due to an asset revaluation increment in 2011. The current ratio is healthy at 2.82 in 2011 which is consistent with 2009 at 2.73 however in 2010 the current ratio peaked at 3.62.

The interest coverage ratio for RGSC for 2009 and 2010 both exceeded the benchmark of 3 however in 2011 it declined to (5.36) and well below the benchmark of 3 used in this analysis. RGSC interest expenditure made up 0.2% of total expenditure in 2011, the adverse interest coverage ratio is due to the net deficits incurred. Any large unexpected events with adverse cash flows could potentially place pressure on RGSC to meet interest payments and may face financial unsustainability due to interest on outstanding loans.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly, operating surpluses indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years RGSC has been running at operating deficits. Where operating deficits persist, indications are that operating revenue is insufficient to meet current operations. RGSC is heavily reliant on grant funding due to limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for RGSC on average over the last three years was 1.2 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that RGSC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008 RGSC has undertaken a review of the assets transferred in to determine whether they existed, fit for purpose, and/or under the control of RGSC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $61million by a study conducted by the Northern

Territory Government and included in a submission to the Commonwealth Government for funding. This backlog does not cover other communities within the RGSC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions RGSC is not financially sustainable in the long term. Being classified as financially unsustainable does not mean RGSC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of RGSC are to put onto a financially sustainable basis going forward.

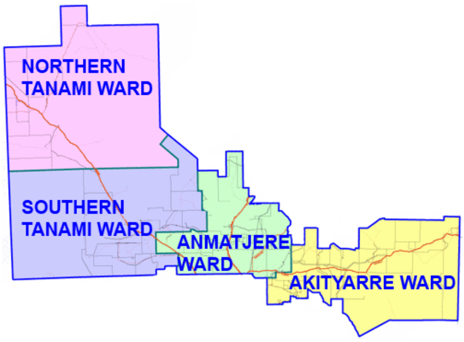
5.6 Central Desert Shire Council

5.6.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, Central Desert Shire Council (CDSC) was incorporated under the *Local Government Act 2008 NT*. Nine of the previous community government Councils were amalgamated into CDSC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au.

Population	4,591
Land size	282,090 km^2
Wards	4
Communities & Outstations	66
Pastoral Leases	30



Elected representatives to Council by ward (2008-2012):

Northern Tanami	2
Southern Tanami	4
Anmatjere	4
Akityarre	2

At 30 June 2011, CDSC had 570 staff including 280 CDEP participants in its employ and was responsible for managing 2,111 km of roads of which approximately 80% are classed as flat bladed track. (LGANT local directory 2011-2012)

As per the Central Australian Regional Management Plan, CDSC is required to deliver services to 12 designated communities and has established nine service delivery centres as the base for delivering services across the shire, located in:

- Atitjere
- Engawala
- Lajamanu*
- Laramba
- Nyirripi
- Anmatjere
- Willowra
- Yuelamu
- Yuendumu*.

CDSC also maintains a Corporate Service office located in Alice Springs.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are two Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There are two Remote Service Delivery Sites located within the shire.

Challenges of population and geography in CDSC

CDSC faces significant infrastructure challenges due to its specific geography and demographic profile. CDSC's population is 4,591 people with the majority of the population being Indigenous. CDSC occupies a land mass of 28,090 km^2. CDSC faces a number of challenges impacting on the delivery of services as identified in the CDSC Shire Plan 2011-12 and the Regional Management Plan for the Central Australia Region. Some of the key challenges include:

- Geographical size and remoteness of Council
- Lack of operational capability to undertake core work
- Lack of staff housing and accommodation
- Poor standard of many Council owned assets and the associated costs of maintenance including ability to maintain plant and equipment in good working condition
- Financial sustainability
- Uncertainty around future of intervention process
- Increasing legislative compliance requirements, particularly in work health and safety and asset management
- Handover of road assets to local government without sufficient funding
- Reduction in funding for infrastructure development in communities that are not 'Growth Towns'
- A lack of all-weather roads and poor condition of roads to support access to communities. The timely and cost effective transport of shire staff, contractors and cargo across the region is a continual challenge
- Recruitment and retention of staff particularly suitably qualified staff
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- The viability of delivery of services to non-Council homelands
- The employment and training of Indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Alternative revenue generation with a significant portion of revenue coming grant revenue
- A low level of untied grant revenue received is able to be used at the Council's discretion
- Lack of secure land tenure for Council assets creates uncertainty over the ownership and control of assets
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff

- ICT systems and communication networks are unreliable, inconsistent coverage and constant operating issues. Mobile phone coverage across the Council.

Entities in which CDSC has an interest

CouncilBiz

CouncilBIZ was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the 8 member Shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. Upon the incorporation of CouncilBiz, CDSC made an initial funding contribution to CouncilBiz of $50,000.

5.6.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.6a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	24,674,602	17,389,260	16,595,636	8,078,966	49%
Non-current assets	41,489,378	20,380,238	18,846,049	22,643,329	120%
Total Assets	66,163,980	37,769,498	35,441,685	30,722,295	87%
Current liabilities	16,816,177	9,453,767	9,523,731	7,292,446	77%
Non-current Liabilities	1,172,574	1,172,888	1,198,440	(25,866)	(2%)
Total Liabilities	17,988,751	10,626,655	10,722,171	7,266,580	68%
Net Assets	48,175,229	27,142,843	24,719,514	23,455,715	95%
Equity	48,175,229	27,142,843	24,719,514	23,455,715	95%

The financial position for CDSC has improved by 95% over the three year period from $24.8million in 2009 to $48million in 2011 with the majority of the increase occurring in the 2011 year. Table 5.6a shows the majority of the increase relates to property, plant and equipment with a $22.6million (120%) increase since 2009 with current assets increasing by $8million (49%) offset by an increase in current liabilities of $7.3million (77%) since 2009. The majority of the increase occurred in the year between 2010 and 2011 and is due to funds received in 2011 from a Community Development Employment Program (CDEP) grant of over $9million being received, but not spent, just prior to 30 June 2011.

Cash balances analysis

Cash balances comprise cash and cash equivalents and short term deposits which are reported under investments in the annual financial statements. Table 5.6b below shows the composition of current assets for the last three years.

Table 5.6b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents**	21,530,500	14,745,234	14,158,057
Other	3,144,102	2,644,026	2,437,579
Current assets	24,674,602	17,389,260	16,595,636
Cash as % of current assets	87%	85%	85%

**Note: the balances referred to in the table above came from the audited financial statements*
***Cash and cash equivalents includes short term deposits recorded under investments in the audited financial statements.*

Table 5.6b demonstrates cash balances are above 85% of current assets over the three year period.

Table 5.6c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	21,530,500	14,745,234	14,158,057
Restricted cash balances*	15,617,316	6,782,107	6,498,604
Unrestricted cash and cash equivalents	5,913,184	7,963,127	7,659,453

**Represents unexpended grants reserve balances at year end*

As can be seen from table 5.6c, CDSC had sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Chart 5.6A: Composition of cash balances

Table 5.6d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The

benchmark used in this analysis for the current ratio is one. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems in meeting its short term obligations.

Table 5.6d: Current Ratio

	2011	2010	2009
Total current assets	24,674,602	17,389,260	16,595,636
Total current liabilities	16,816,177	9,453,767	9,523,731
Net current assets (Working Capital)	7,858,425	7,935,493	7,071,905
Current Ratio	1.47	1.84	1.74

Table 5.6e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is one.

Table 5.6e: Cash Ratio

	2011	2010	2009
Total cash balances	21,530,500	14,745,234	14,158,057
Less: unexpended grants (restricted assets)	15,617,316	6,782,107	6,498,604
Total unrestricted cash balances	5,913,184	7,963,127	7,659,453
Total current liabilities (unrestricted)	5,559,566	5,141,445	4,933,216
Cash Ratio (unrestricted)	1.06	1.54	1.55

The benchmark for the current ratio is one. As we can see from the table above, the current ratios for each of the three years were 1.55, 1,54 and 1.06 indicating that CDSC had sufficient current assets to cover its current liabilities. The cash ratio calculated in table 5.6e shows that there were also sufficient cash assets at 30 June for 2010 and 2011 to cover the remaining current liabilities (after unexpended grants) should creditors demand immediate settlement and grant funding bodies require repayment of unexpended funds.

Non-current assets

Non-current assets are property, plant and equipment and work in progress (fixed assets). The balance of property, plant and equipment increased over the three years from $18.8million to $20.3million in 2010 and $41.4million in 2011, an overall increase of 120% over the three years. Of the non-current balance $39.8million relates to property, plant and equipment and $1.7million relates to work in progress.

In 2011 the land, buildings and infrastructure were independently valued at 30 June 2010. As a result the properties were revalued upward by $20.5million (shown as a gain on revaluation of property, plant and equipment in the Statement of Comprehensive Income).

If property, plant and equipment had not been revalued in 2011, and no adjustment made, net assets would be approximately $20million less (revaluation of $20.5million less additional depreciation charged because of revaluation), which would provide a similar net asset figure in 2011 to that of 2009.

Table 5.6f below shows the composition of property, plant and equipment for CDSC for the 2011 year.

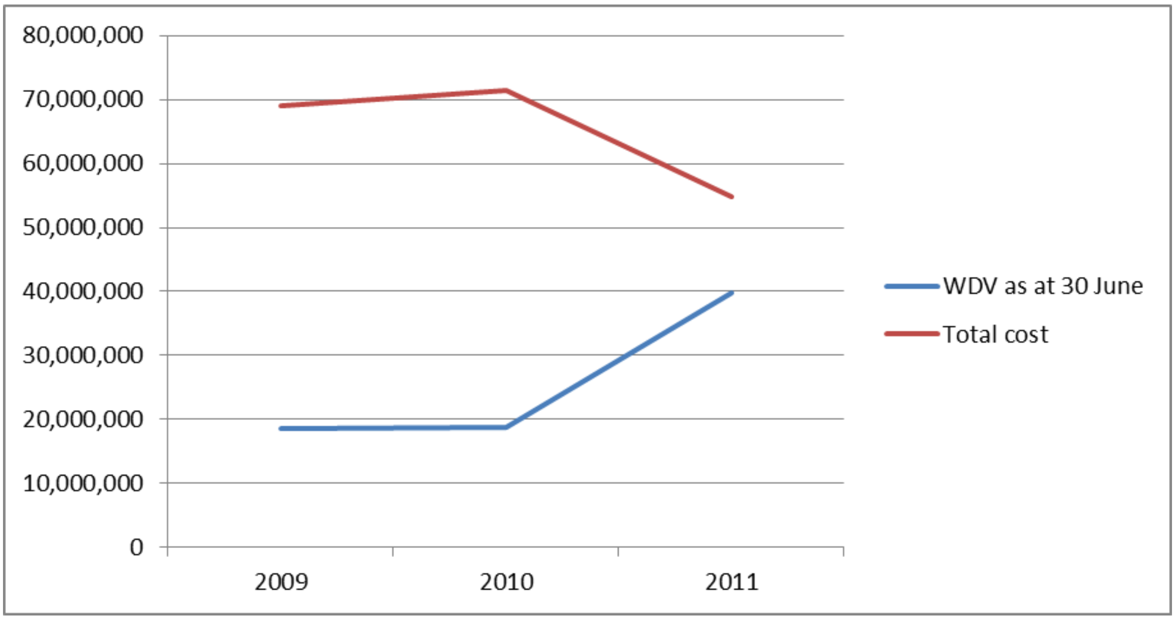
Table 5.6f: Composition of property, plant and equipment for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Land	1,310,000	-	1,310,000	3.3%
Buildings	35,059,682	(1,585,002)	33,474,680	84.2%
Infrastructure	2,284,384	(742,966)	1,541,418	3.9%
Plant and equipment	7,944,702	(6,732,268)	1,212,434	3.0%
Motor vehicles	6,738,824	(4,558,084)	2,180,740	5.5%
Office equipment	1,121,539	(1,101,023)	20,516	0.1%
Leasehold improvements	347,616	(331,569)	16,047	0.04%
Total	53,496,747	(15,050,912)	39,755,835	100.0%

Note: figures obtained from the annual financial statements

The majority of property, plant and equipment comprised of buildings at 84.2%. The remaining categories were all less than 10% of the total written down value (WDV). As previously mentioned property, plant and equipment increased by $20.4million or 55% since 2009 of which the majority is due to the revaluation performed in 2011. The relationship between the cost and written down value is shown in Chart 5.6B below.

Chart 5.6B: Total cost/valuation and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



In addition to the revaluation of property, plant and equipment there were capital acquisitions. These capital purchases will be discussed later in this report.

Liabilities analysis

Liabilities comprise trade and other payables, provisions for employee entitlements, borrowings and unexpended grants. Current liabilities for 2011 comprise creditors of $3.2million, borrowings of $978,000, provisions of $2.5million, unexpended grants of $11.3million and other liabilities. The current liability balance remained consistent between 2009 and 2010 however increased by $7.2million between 2010 and 2011. The primary reason for the increase in current liabilities was due to unexpended grants which increased by $7million.

Included in total liabilities are borrowings with a balance at 30 June each year of $1.03million in 2009, $995,000 in 2010 and $977,600 in 2011.

There are two main analytical measures of a Council's indebtedness, these are:

- Net debt, as measured by interest-bearing liabilities less cash reserves
- Net financial liabilities, as measured by total liabilities less total financial assets.

For the purposes of this analysis we consider the net financial liabilities ratio to be the more appropriate measure. A large net liability is an indicator of unsustainability, where Councils have increased their asset base beyond their financial capacity. The financial liabilities of the Council are all financial claims on a Council by other sectors of the economy other than ratepayers (includes interest-bearing liabilities and all other liabilities) less the Council's financial claims on these sectors.

Table 5.5g: Net financial liabilities

	2011	2010	2009
Total liabilities	17,988,751	10,626,655	10,722,171
Total financial assets*	24,623,595	17,358,796	16,561,386
Net financial liabilities/(assets)	(6,634,844)	(6,732,141)	(5,839,215)
Operating revenue (including operational grants)	26,253,065	29,010,637	27,289,761
Net financial liabilities ratio	(25%)	(23%)	(21%)

**Total financial assets is total cash assets plus receivables*

The net financial liabilities ratio is a sum of a Council's total liabilities less its financial assets, expressed as a percentage of total annual operating revenue. Use of this ratio effectively allocates a Council's long term debt across its core and non-core services activities in proportion to the total annual operating revenue (including operational grants).

The table above indicates that CDSC is a net creditor with their total financial assets (cash reserves and receivables) exceeding CDSC's total liabilities owing to other sectors of the economy for each of the three years.

Another measure of a Council's ability to meet its short term liabilities is the current ratio as calculated earlier in this section.

Interest coverage ratio

A measure to determine the appropriateness of a Council's debt levels is its ability to repay the debt and associated interest. This can be measured by the interest coverage ratio. The interest coverage ratio is calculated by earnings before interest and tax (EBIT) divided by interest expense. For the purposes of this analysis we have used a benchmark of 3 as Councils with interest coverage below 3 may have problems in repaying debt and associated interest.

Table 5.6h: Interest coverage ratio

	2011	2010	2009
EBIT	1,008,282	2,469,749	3,489,469
Interest expense	64,490	46,420	28,886
Interest coverage ratio	15.6	53.2	120.8

**EBIT for 2009 does not include the gain on restructure of local government of $20.08million*

The interest coverage ratio for CDSC has declined over the three years however the ratio is still above three for 2011 indicating that CDSC currently does not have any problems with repaying its debt and associated interest.

5.6.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of NT Councils in section 3 of this report.

This section provides our analysis of the financial performance of CDSC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.6.5.

Below is an extract of the Statement of Comprehensive Income from the audited financial statements for the last three years.

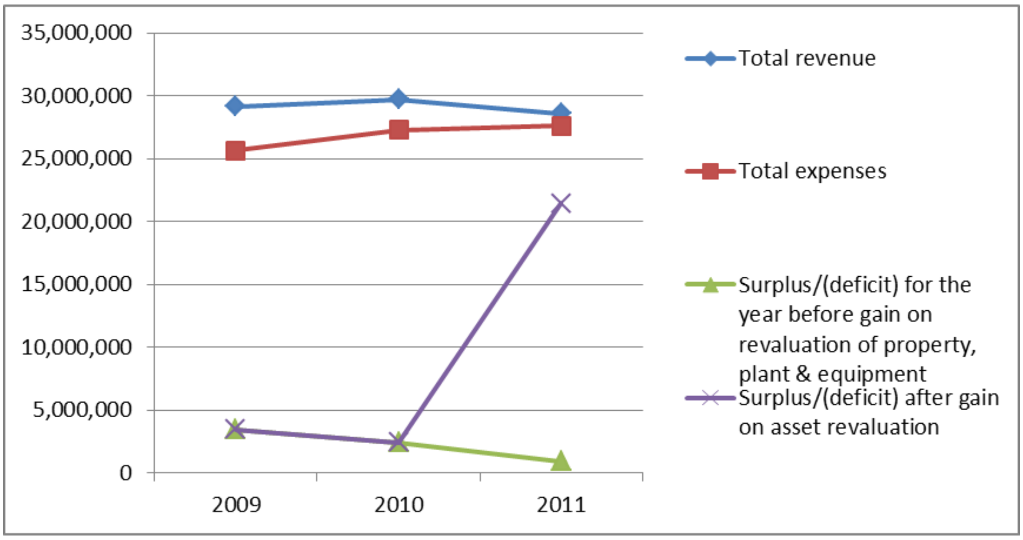
Table 5.6i: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
Rates and annual charges	444,485	463,277	476,523	(32,038)	(7%)
User charges and fees	305,134	356,950	607,933	(302,799)	(50%)
Interest	606,002	459,012	388,572	217,430	56%
Grants and contributions	21,224,083	25,506,993	24,566,500	(3,342,417)	(14%)
Other Operating revenue	5,846,779	2,890,656	3,082,848	2,763,931	90%
Net profit from disposal of assets	143,405	18,563	6,462	136,943	2119%
Revenue from ordinary activities	28,569,888	29,695,451	29,128,838	(558,950)	(1.92%)
Employee costs	14,052,420	13,685,846	13,335,644	716,776	5%
Materials and contracts	7,581,216	8,124,858	7,003,698	577,518	8%

Depreciation and amortisation	2,933,500	2,616,653	2,754,500	179,000	6%
Interest charges	64,490	46,420	28,886	35,604	123%
Other operating expenses	2,994,470	2,798,345	2,545,527	448,943	18%
Expenses for ordinary activities	27,626,096	27,272,122	25,668,255	1,957,841	8%
Surplus/(deficit) for the year	943,792	2,423,329	3,460,583	(2,516,791)	(72.72%)
Gain on revaluation of property, plant and equipment	20,505,015	-	-	20,505,015	100%
Total Comprehensive Income for the year	21,448,807	2,423,329	3,460,583	17,988,224	519.8%

**The 'gain on restructure of local government' recorded in revenue totalling $20million in the 2009 financial statements were excluded from this table to allow more comparable figures between the three years. Without the above exclusion, in 2009 total revenue is $49.2million and the total surplus for the year is $23.5million.*

Chart 5.6C: Revenue, expenses and net result for 2009, 2010 and 2011



**The chart shows the surplus/(deficit) for the year before gain on revaluation iof property, plant and equipment so comparable with other Councils included in this report and after.*

In 2009 CDSC achieved an operating surplus of $3.4million, $2.4million in 2010 and $943,000 in 2011, a decrease of $2.5million since 2009. Over the three years, income decreased by $559,000 whilst expenses increased by $1.9million. Grants and revenue decreased by $3.3million which was offset by an increase of $2.9million in other operating revenue primarily due to income related to Housing Maintenance being reclassified in 2011.

All expense categories increased over the three years with employee expenses, materials and contracts and depreciation and amortisation costs increasing marginally between 5% and 8%, whilst other costs increased by 18%. There were no significant movements in any of the expenses grouped under other costs.

Refer to section 5.6.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.6j below shows the operating surplus/ (deficit) for CDSC and the associated surplus/ (deficit) ratio for the three years since 2009.

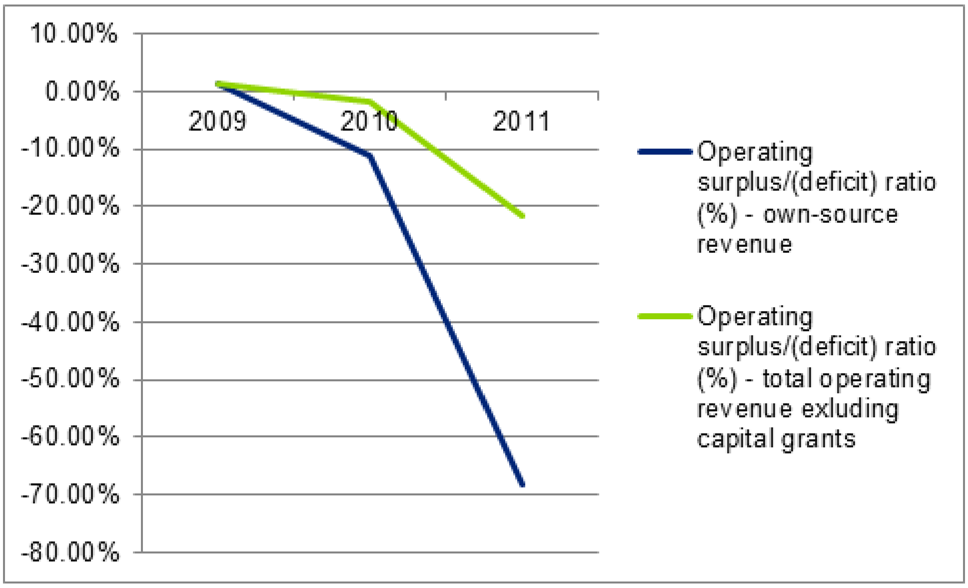
Table 5.6j: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	22,723,109	26,804,795	26,045,990
Less: operating expenses (including depreciation expense)	27,626,096	27,272,122	25,668,255
Operating surplus/(deficit) (excluding capital grants)	(4,902,987)	(467,327)	377,735
Operating surplus/ (deficit) ratio (%)	(21.5%)	(1.7%)	1.45%
Own source revenue*	7,202,400	4,169,895	4,555,876
Operating surplus/ (deficit) ratio (%)	(68.1%)	(11.2%)	8.29%

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*
***Operating revenue does not include capital grants*

The operating surplus/ (deficit) ratio calculated for CDSC on total revenue (excluding capital grants) above shows operating surpluses in 2009 and an operating deficit in 2010 and 2011. The operating surplus/ (deficit) ratios based on own source revenue only, reflect the same trend as total revenue (excluding capital grants). If CDSC continues to register operating deficits in the coming years it will become financially unsustainable.

Chart 5.6D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents 2% or less of total revenue. While rates revenue has increased over the three year period CDSC is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, legislated conditional rating applied to pastoral and mining entities, slow or negative growth rates in its communities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.4k: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	444,485	463,277	476,523
Operating expenses	27,626,096	27,272,122	25,668,255
Rates coverage ratio	1.6%	1.7%	1.9%

The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that CDSC is dependent on government grants to be able to deliver core services.

Analysis of budget versus actual results by category

The variance between actual surplus and budgeted surplus varies widely between Core Services, Agency Services and Commercial Services. A factor contributing to the variance is CDSC's practice of including depreciation in actual cost whilst excluding depreciation from the budgets.

As can be seen from table 5.5l, CDSC budgeted for surpluses for each of the three years. Actual results show a better than expected surplus in 2009 and 2010, and in 2011, a surplus lower than expected was incurred. The smaller surplus is 2011 is due to expected revenue not being received for the core service Local Government Administration.

Core services budgeted for a deficit in 2009 and surpluses in 2010 and 2011. Actual results showed CDSC incurring a surplus in 2009 and deficits for 2010 and 2011.

Agency services were budgeted to make a deficit in 2010 and surpluses in the other two years. Actual results showed surpluses for all three years.

Commercial services were budgeted to make a surplus in each of the three years. Actual results show a declining financial performance with the surpluses in 2009 reducing in 2010 and a deficit being incurred in 2011.

It is noted that the total surplus is funded through agency services and agency surpluses represent monies received to provide a specific services, usually non-core. In most instances CDSC will be required to repay any surplus or to spend the funding on the specified service in the following year.

Table 5.5l: Budget versus actual surplus/ (deficit) by core services, agency services and commercial services

2010/11	Budget per general ledger surplus/(deficit)	Actual surplus/(deficit)	Variance
Core services	727,409	(2,360,887)	(3,088,296)
Agency services	1,250,000	3,407,034	2,157,034
Commercial services	212,648	(102,353)	(315,001)
Net surplus/(deficit)	2,190,057	943,794	(1,246,263)
Depreciation			2,933,500
Difference ex depn.			1,687,235
2009/10			
Core services	240,136	(3,067,671)	(3,307,807)
Agency services	(62,014)	4,509,394	4,571,408
Commercial services	164,827	956,169	791,342
Net surplus/deficit	342,949	2,397,892	2,054,943
Depreciation			2,616,653
Difference ex depn.			561,710
2008/09			
Core services	(286,224)	20,205,212	20,491,436
Agency services	630,500	2,177,449	1,546,949
Commercial services	841,106	1,159,281	318,175
Net surplus/deficit	1,185,382	23,541,942	22,356,560
Depreciation			2,754,500
Difference ex depn.			19,602,060

Analysis of budget versus actual results by standard classifications

In 2009 and 2010, the actual surplus was higher than budgeted surplus by $1.45million and $2.08million. In 2011, the actual surplus was lower than budgeted surplus by $1.25million. Between 2010 and 2011 there was a $4.3million decrease in total amount of grants received. Where expenditure remained constant this contributed to the decrease in actual surplus.

Table 5.5m: Budget versus actual surplus/ (deficit)

	2011	2010	2009
Actual surplus	943,792	2,397,892	23,541,942
Budgeted surplus	2,190,057	343,249	1,185,382
Variance	(1,246,265)	2,054,643	22,356,560
Less: gain on restructure	0	0	20,908,028
Variance	(1,246,265)	2,054,643	1,448,532

5.6.4 Revenue and revenue sources

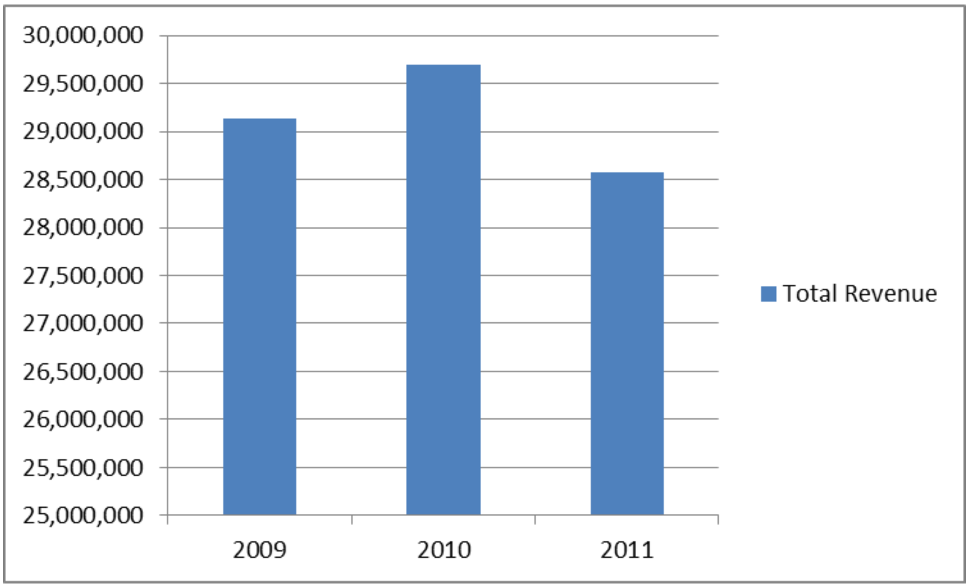
Table 5.6n: Revenue for 2009, 2010 and 2011

	2011	2010	2009*	Total increase/(decrease)	
User charges and fees	444,485	463,277	476,523	(32,038)	(7%)
Rates and annual charges	305,134	356,950	607,933	(302,799)	(50%)
Interest	606,002	459,012	388,572	217,430	56%
Grants and contributions – operational	15,765,197	22,833,566	22,727,423	(6,962,226)	(44%)
Grants and contributions - capital	5,458,886	2,673,427	1,839,077	3,619,809	197%
Other Operating revenue	5,846,779	2,890,656	3,082,848	2,763,931	90%
Net profit from disposal of assets	143,405	18,563	6,462	136,943	2119%
Total Revenue	28,569,888	29,695,451	29,128,838	(558,950)	(1.92%)

**The 'gain on restructure of local government' recorded in revenue totalling $20million in the 2009 financial statements were excluded from this table to allow more comparable figures between the three years. Without the above exclusion, in 2009 total revenue is $49.2million and the total surplus for the year is $23.5million.*

The total revenue received, excluding the gain on restructure of local government, was $28.6million in 2011 compared to $29.6million in 2010 and $29.1million in 2009. Over the three year period, total revenue decreased by $559,000.

Chart 5.6E: Total revenue by year



CDSC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue
- Net profit from disposal of assets.

Chart 5.6F: Revenue analysis by source

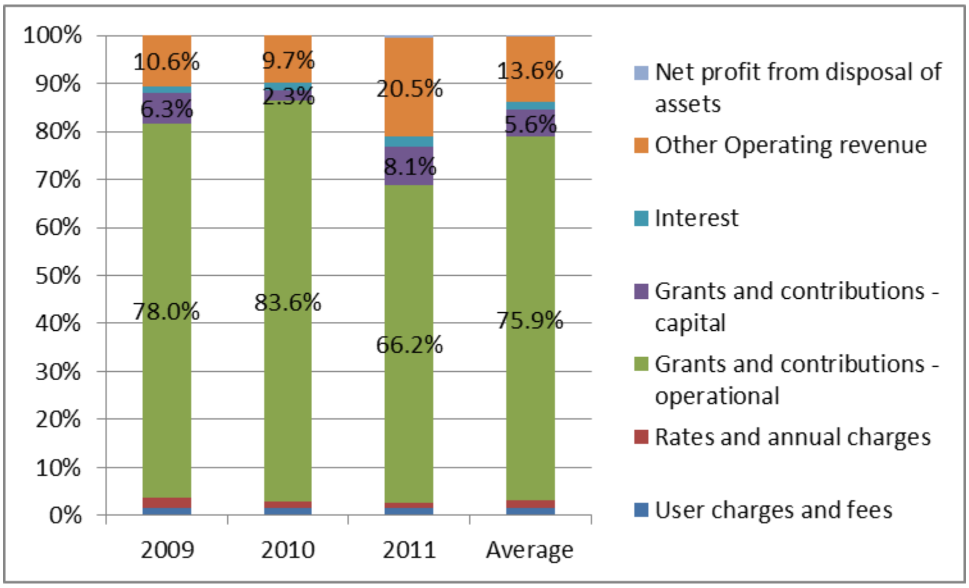


Chart 5.6F demonstrates the reliance on grants and contributions income and the very limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, CDSC's own source revenue is insufficient to cover the costs of delivering core services to its communities.

Revenue – untied versus tied

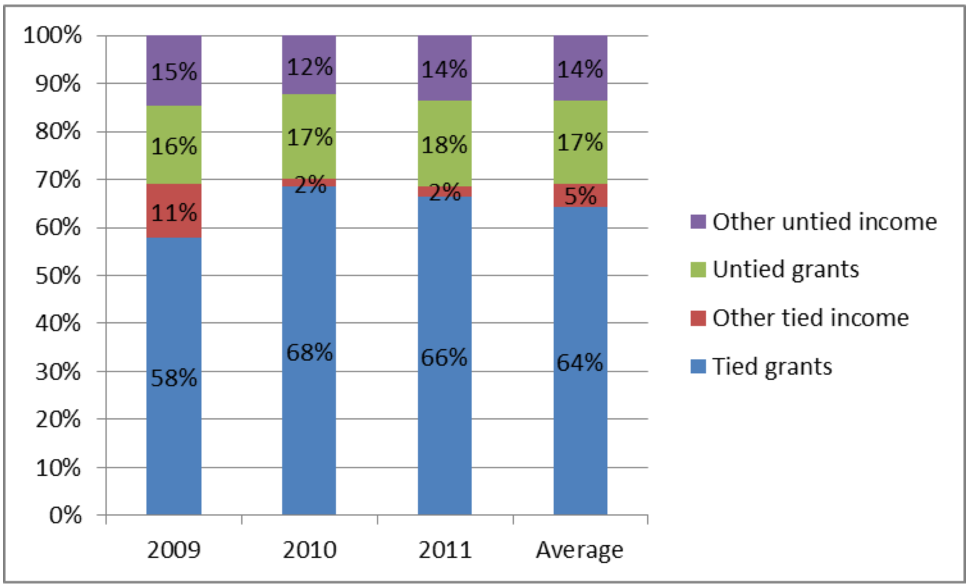
For the purposes of this analysis, all revenue received by CDSC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue.

Table 5.6o: Tied versus untied revenue

	2011		2010		2009	
Tied grants	16,527,900	58%	20,314,033	68%	19,335,377	66%
Other tied income	3,170,883	11%	522,350	2%	610,488	2%
Total tied income	19,698,783	69%	20,836,383	70%	19,945,865	68%
Untied grants	4,696,183	16%	5,192,960	17%	5,231,123	18%
Other untied income	4,174,922	15%	3,666,108	12%	3,951,850	14%
Total untied income	8,871,105	31%	8,859,068	30%	9,182,973	32%
Total income	28,569,888	100%	29,695,451	100%	29,128,838	100%

Chart 5.6G: Revenue tied versus untied



Of the total revenue received in each of the three years, the majority is tied revenue that must be used for a specific purpose and cannot be used at the discretion of CDSC. Untied revenue that can be used by CDSC for the delivery of core services is approximately 30% of total revenue.

Grants and contributions (operational)

Grants and contributions comprise 84% of the revenue for 2009, 86% for 2010 and 74% for 2011. CDSC is heavily reliant on grants and contributions from Northern Territory and Commonwealth Governments to deliver its core services as the level of income it can generate from own source revenue is limited (own source revenue is discussed later in this report). As can be seen from table 5.6o, total grant revenue received over the three years has decreased by $3.8million (16%).

Grant revenue received from DHLGRS for the Housing Maintenance Program in 2009 and 2010 was provided to CDSC on a grant basis and as such recorded as grants and contributions in the 2009 and 2010 financial years. In 2011, however funding provided for Housing Maintenance Program was recorded as other income as it was received on a fee for service basis. The total amount recognised in other income in 2011 that related to the Housing Maintenance Program was $3.1million which accounts for the majority of the decrease in grant revenue over the three years of $3.8million.

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.6n and 5.6o.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	

Match funding

Roads to recovery

Library

Shire Establishment Fund

Indigenous Employment & Training Co-ordinator and Trainee

RLCIP Yuelamu Office

GBM Community Capacity Fund

GBM Flexible Funding

Media Campaign Election

Closing the Gap - Purchase of Furniture

Closing the Gap - Capacity Building

SPG-Professional Development Councillors

Lajamanu Library - WETT

Dog Health Program

Women Governance & Leadership

Fire Warden

Engawalla Community Laundry

Willowra Community Laundry Upgrade

Laramba Waste Disposal

Laramba Multipurpose Community Space

Lajamanu Bobcat Mixing Bucket

Atitjere Community Bus

Mulgabore Community Laundry

Wilora and Alyuen Slasher

Engawalla Waste Disposal

Harts Range Workshop & Roof Extension

Willowra Rubbish Removal

Pmara Jutunta and Nturiya Ride on Mower

Pmara Jutunta, Nturiya and Wilora Grave Fencing

Pmara Junta Fire Trailer

Harts Range Rubbish Trialer

Wilora Washing Machine

Willowra Additional Washing Machine

Engawalla Backhoe Loader

Lajamanu Engraving Machine

Wilora Security Yard and Shed

Maintenance Exchange Washing Machines

Pmara Jutunta, Nturiya and Wilora Playground Shade

4 x 4 Animal Management Vehicle

Lajamanu Football Oval

Nyirripi Mechanical Workshop

Festival Fund Grant

NAIDOC Grant

Desert Mob Art Sales

Ti Tree Electronic Notice Boards

Yuelamu Construction of Meeting Facility

SPG Engawala Demountable

SPG Demountable Willowra

Engawala Small Tipper

SPG Yuelamu Office

Harts Range Construct Training Facility

SPG Rates Compensation - One off grant to compensate for rates

Termite Treatment

Willowra Workshop Roof

Lajamanu RTVC Facility

Yuendumu Street Naming

Heart Foundation

Australia Day Grant

Australia Day Grant Laramba

Laramba Activity Centre

CDEP wages funding has been classified as a core services as it supports the training and employment of local people. This does not reflect the classification of the Council.

Table 5.6p: Composition of grant income (operational) by category

	2011	2010	2009
Core services	7,919,730	6,870,130	9,774,810
Non-core services	8,212,063	14,531,798	13,473,288
Total grants and contributions	16,131,793	21,401,928	23,248,098
Core services as a % of total grants	49%	32%	42%
Non-core services as a % of total grants	51%	68%	58%

Table 5.6q shows the composition of grant revenue received by source:

Table 5.6q: Primary sources of grant income (operational)

Source	2011	2010	2009
Northern Territory Government	5,193,010	11,765,851	11,915,275
Commonwealth Government	10,738,703	9,331,394	11,316,237
Other	200,080	304,683	16,586
Total grant income received	16,131,793	21,401,928	23,248,098

**Figures have been obtained from the annual financial statements*

CDSC received the majority of its funding from the Commonwealth and Northern Territory Government. Grants from other sources amounted to less than 2% of total grants and contributions income per year.

Revenue from the Northern Territory Government has increased over the three years, particually when accounting for the reclassification of grant funding received from DHLGRS in the 2009 and 2010 years to agency service income within other operating revenue.

Grant funding (operational) for core services

Tables 5.6o and table 5.6p above show the level of grant income received for core services has decreased over the three years by $1.8million, dropping $2.9million in 2010 and increasing by $1.0million in 2011.

Table 5.6r: Tied versus untied core services grant and contributions income (operational)

	2011	2010	2009
Untied	3,374,725	3,657,882	3,373,804
Tied	4,545,005	3,212,248	6,401,006
Total grants core services	7,919,730	6,870,130	9,774,810
Untied as a %	43%	53%	35%
Tied as a %	57%	47%	65%

Core services revenue is provided by the Northern Territory and Commonwealth Governments. In 2009 and 2011 there were five untied grants and in 2010 there were four untied grants.

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also funded by the Northern Territory and Commonwealth Governments. All non-core services funding is tied income.

Table 5.6s: Tied versus untied non-core services grant and contributions income

	2011	2010	2009
Untied	1,321,458	1,535,078	1,857,319
Tied	6,890,605	12,996,720	11,615,969
Total	8,212,063	14,531,798	13,473,288
Untied as a %	16%	11%	14%
Tied as a %	84%	89%	86%

Grants and contributions (capital)

CDSC received grants for capital purchases from the following sources:

Table 5.6t: Primary sources of capital grant income

	2011	2010	2009
Northern Territory Government	1,271,328	165,455	263,191
Commonwealth Government	3,820,962	3,939,610	1,055,211
Other	0	0	0
Total grants and contributions (capital)	5,092,290	4,105,065	1,318,402

**Figures have been obtained from the annual financial statements and include unexpended grants*

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets.

User charges and fees

User charges and fees consist primarily of visitor accommodation charges and equipment hire.

Total income for user charges and fees represents a small portion of the total revenue received by CDSC. Total user charges and fees received were $607,000 (2009), $357,000 (2010) and $305,000 (2011). Revenue from equipment hire has increased slightly whilst revenue from visitor accommodation has declined by 50% between 2009 and 2011.

User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges. Rates and annual charges have decreased slightly each year, $477,000 (2009), $463,000 (2010) and $444,000 (2011). Rates and annual charges represent 2% or less of total revenue. CDSC's population is 4,591 and they have a limited number of properties that are rateable. CDSC's rating ability is restricted by the requirements of section 142 of the Local Government Act 2008 which applies conditional rating over land held under pastoral leases and land occupied under mining tenements.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of CDSC. Rates and annual charges are funded through charges to constituents including private and commercial residents, mining companies for extractive activities and pastoralists.

Other income

Other operating revenue has increased by $2.8million (90%) over the three years since 2009.

Income previously received from DHLGRS for Territory Housing Maintenance was recorded as other income in 2011 and as grants and contributions in the 2009 and 2010 financial years. In 2011, funding provided for Territory Housing Maintenance was recorded as other income as it is received on a fee for service basis. The total amount recognised in other income in 2011 that related to Territory Housing Maintenance was $3.1million.

Other operating revenue is a mixture of tied and untied funding as it relates to contract fees provided by CDSC on behalf of other entities for services such as essential services, postal agency, housing maintenance, tenancy management, Centrelink services and road contracts.

Table 5.6u: Tied versus untied other operating revenue

	2011	2010	2009
Untied	2,675,896	2,368,306	2,472,360
Tied	3,170,884	522,350	610,488
Total	5,846,780	2,890,656	3,082,848
Untied as a %	46%	82%	80%
Tied as a %	54%	18%	20%

5.6.5 Capital expenditure

Upon formation, $18.5million in property, plant and equipment was transferred from the nine existing Councils to CDSC.

Analysis of capital investment over the three years

Over the three years CDSC purchased property, plant and equipment totalling $2.7million in 2009, $3million in 2010 and $3.5million in 2011. The composition of the additions can be seen in table 5.6v and chart 5.6H below.

Table 5.6v: Additions of property, plant and equipment by asset category

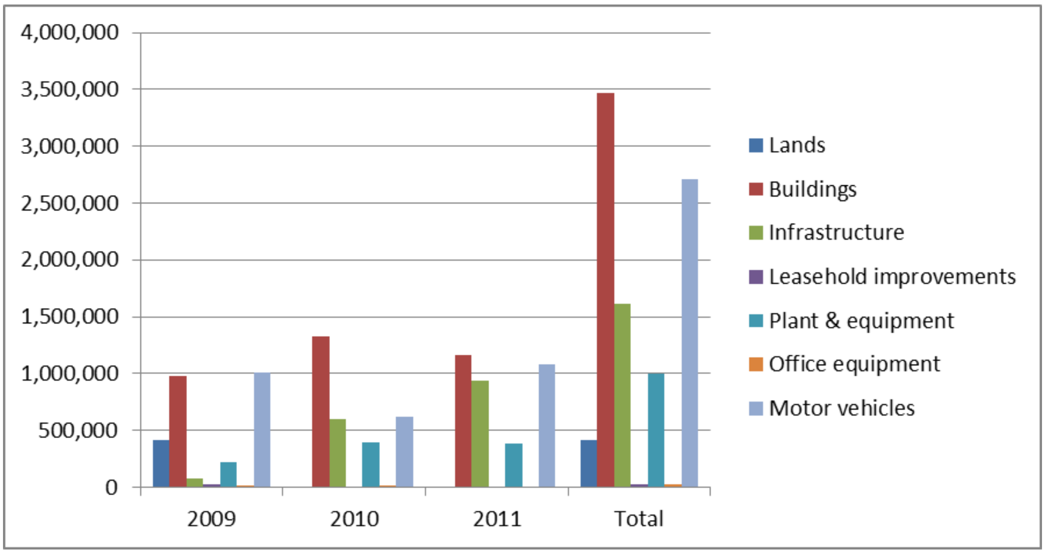
	2011	2010	2009	Total
Lands	-	-	410,159	410,159
Buildings	1,158,774	1,326,622	982,320	3,467,716
Infrastructure	932,267	602,656	78,174	1,613,097
Leasehold improvements	-	-	22,195	22,195
Plant & equipment	379,757	398,327	215,351	993,435
Office equipment	-	13,482	13,783	27,265
Motor vehicles	1,076,723	622,087	1,006,696	2,705,506
Total	3,547,521	2,963,174	2,728,678	9,239,373

Note: figures obtained from the annual financial statements and do not include work in progress

The capital expenditure incurred was evenly spent over the three years with additions to buildings totalling ($3.5million), infrastructure ($1.6million), plant and equipment ($993,000) and motor vehicles ($2.7million). Capital expenditure represents 12.8% (2011), 10.9% (2010) and 12.6% (2009) of total expenditure.

The additions can be further demonstrated in chart 5.6H below.

Chart 5.6H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants, CDSC have maintained capital spending within the limits of the funding provided. However CDSC management believe capital funding over the past three years has not been sufficient to meet the asset expenditure.

Table 5.6w: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital funding	11,587,128	3,767,149	3,670,327	19,024,604
Capital expenditure	3,657,138	4,278,418	2,728,678	10,664,234
Difference	7,929,990	(511,269)	941,649	8,360,370

Note: Figures have been obtained from the annual financial statements and include work in progress

CDSC does not have a cash reserve established to meet future capital expenditure requirements. All capital expenditure incurred by CDSC is funded from either capital grants from the Northern Territory or Commonwealth Governments or funded from own-source revenue or cash reserves. As we can see from the table above, CDSC has received capital grants and the total capital expenditure incurred was less than the grant funding provided in total for all three years. In 2011 CDSC received capital expenditure late in the year for CDEP purposes which has been recognised as an unexpended grant at year end to be spent in the following year.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.6x: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Average
Capital expenditure	3,657,138	4,278,418	2,728,678	10,664,234
Depreciation expense	2,933,500	2,616,653	2,754,500	8,304,653
Sustainability ratio	1.25	1.64	0.99	1.28

Note: Figures have been obtained from the annual financial statements and include work in progress

The benchmark for the sustainability ratio is 1. As we can see in table 5.6x, the ratio for CDSC was 0.99 in 2009 and has increased over the subsequent two years to 1.64 in 2010 and 1.25 in 2011 with an average over the three year period of 1.28. This indicates CDSC is replacing its assets in line with its annual consumption. However, when analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils

- Does not take into consideration whether communities within the Councils are growth towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

Property, plant and equipment, includes a large number of assets located across the shire which were transferred from the previous community Councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or the CDSC did not believe they had ownership or control over the assets. Efforts have been made by the CDSC over the last three years to locate, assess and determine whether they had ownership of the assets or if they were deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of CDSC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist or the CDSC does not own or have control over the asset. Therefore it is likely that although the sustainability ratio could be positive and indicate that CDSC is replenishing its assets in line with its consumption of the assets, there may still be gaps in renewal, replacement or upgrades of infrastructure and plant and equipment items due to the large number of assets recorded in the fixed asset register with nil written down values and not reflected in the depreciation charge each year. The subsequent recognition of some of these assets, as well as the revaluation of assets including the depreciation rates applied have also not provided consistency to the analysis.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by CDSC buildings accounts for 84% and infrastructure accounts for 4% with motor vehicles accounting for 5.5%.

There were limited sources of information available to us in respect of the backlogs facing CDSC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, three are located within the CDSC Shire being Yuendumu and Lajamanu.

There are approximately 36,000km of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50kms of the Territory Growth Towns less than fourteen percent of the 5,000kms of roads is sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. CDSC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in CDSC.

Chart 5.6l: Territory Growth Towns (CDSC Shire) – Road conditions within a 50km radius

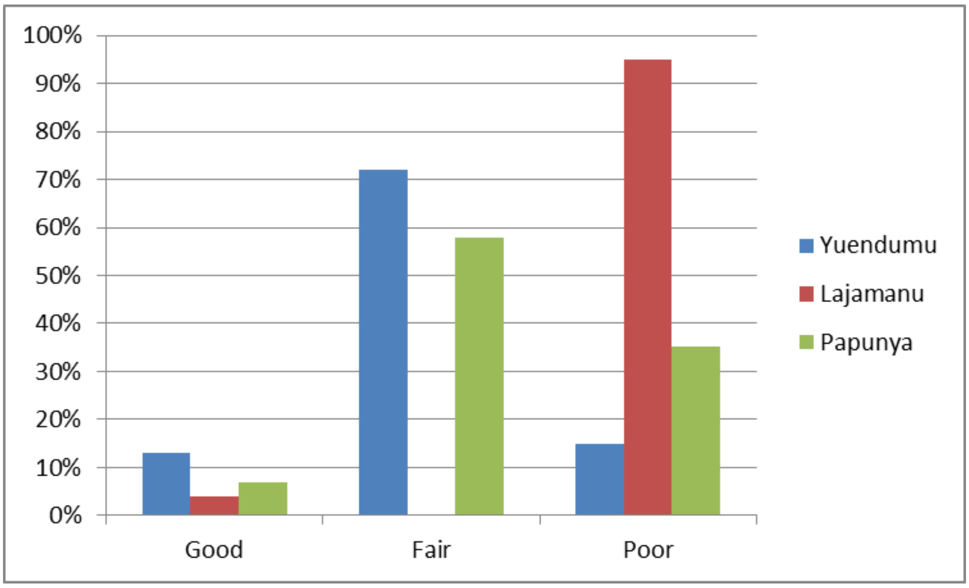


Table 5.6y below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.6y: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in CDSC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Yuendumu	633.96	116.95	3.11
Lajamanu	229.02	88.17	1.46
Total	862.98	205.12	4.57

Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.

From the table above, it is estimated that $205.12million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $4.57million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs does not include all communities within CDSC only those classified as Territory Growth Towns. Therefore it is highly probable that the true infrastructure backlog exceeds the $205.12million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by CDSC with many of them past their useful life and in need of upgrade or replacement. The total costs of renewals backlog is therefore likely to be significantly higher than the $205.12million identified in relation to roads backlog.

5.6.6 Core services, fee for service arrangements and non-core services

As a shire council established under the Local Government Act 2008, there are minimum core services which CDSC must provide to the communities within its shire boundaries. For a list of these activities refer to Appendix 1 of this report.

The following tables and charts show all programs by core services, agency services and non-core services for the three years.

Table 5.6z: Summary of surplus/ (deficit) by core services, agency services and commercial services

	2011	2010	2009*
Core services	(2,360,888)	(3,042,054)	123,848
Agency services	3,407,034	4,509,394	2,177,449
Commercial services and other non-core activities**	(102,353)	956,169	1,159,281
Net surplus/(deficit)	943,793	2,423,509	3,460,578

** Does not include gain on restructure of local government*

*** 2009 and 2010 unexpended grant funds for the Housing and Maintenance Program were returned in 2011.*

As can be seen from the table above, core services programs overall for 2010 and 2011 incurred deficits indicating that there is insufficient revenue coming in to cover the costs of delivering core services. Agency services have reported net surpluses in each of the three years.

A detailed discussion on surpluses / (deficits) by program by core services, agency services and commercial services and other non-core activities follows.

Core services

Of the 30 core services programs delivery, the numbers returning a surplus were: two in 2009, five in 2010 and six in 2011. The combined results were deficits of $2,360,888 in 2011 and $3,042,054 in 2010. In 2009 CDSC made a net surplus of $124,000 from core service programs.

Chart 5.6J: Number of core services programs with operating surplus and deficits

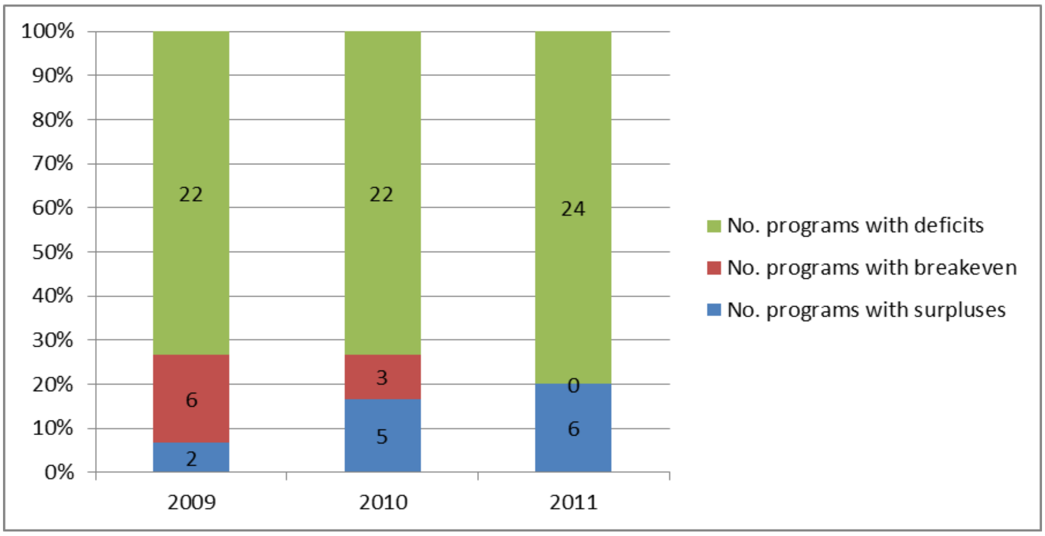


Table 5.6aa: Surplus/ (deficit) by program for core services activities

	2011	2010	2009
Core Services - Local Infrastructure			
Construct and Upgrade Parks, Reserves and Open Spaces	(13,802)	64,159	(544,986)
Construct and Upgrade Blgd, Facilities & Fixed Assets	843,569	(658,611)	(270,644)
Lighting for Public Safety, including	(27,524)	-	-
Cemetery Management	(3,201)	(2,811)	(6,655)
Traffic Management of Local Roads	(26,920)	(76)	(8,186)
Community Swimming Pools	(40,486)	(157)	-
Local Road Upgrade and Construction	295,012	320,542	-
Local Road Maintenance	773,541	945,775	(283,109)
Shire Services Management	(3,079,089)	(3,180,447)	(2,026,590)
Fleet and Plant Management	(362,410)	(344,853)	(1,279,188)
	(1,641,309)	(2,856,479)	(4,419,358)
Core Services - Local Environment			
Waste management (inc. litter reduction)	(268,540)	(366,236)	(174,038)
Weed and Fire Hazard Reduction	(6,371)	(580)	(3,394)
Companion Animal Welfare and Control	(124,918)	(2,144)	(185,281)
	(399,829)	(368,961)	(362,713)
Core Services - Civic Services			
Library and Cultural Heritage	33,577	38,916	(4,280)
Civic Events	(22,279)	-	-

Local Emergency Services	(627)	(100,960)	(2,439)
	10,671	(62,044)	(6,719)
Core Services - Community Engagement			
Staff Training	(7,373)	(8,998)	(38,990)
Public and Corporate Relations	(35,333)	(31,754)	-
Governance	(472,043)	(809,015)	(303,399)
Customer Relationship Management	(35,814)	-	(19,099)
Advocacy and Representation on Local and	(70,604)	(322)	(1,630)
Administration of Local Boards, Advisory	62,560	(10,732)	(4,178)
	(558,607)	(860,821)	(367,296)
Core Services - Local Government Administration			
Financial Management	(316,412)	(737,180)	3,224,364
Revenue Growth	6,285,304	6,868,809	6,012,126
Human Resource Management	(360,130)	(420,564)	(244,567)
Asset Management	(3,115,295)	(2,643,804)	(2,902,569)
Executive Leadership	(571,229)	(623,397)	(162,905)
Records Management	(53,534)	(70,981)	(140,238)
Risk Management	(441,001)	(212,843)	(156,945)
Operate Shire Headquarter	(200,745)	(3,388)	-
Information Technology and Communication	(998,771)	(1,050,401)	(349,332)
	228,186	1,106,251	5,279,934
Total core services programs	(2,360,888)	(3,042,054)	123,848

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which CDSC sits within the Central Australian Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Central Australian Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which CDSC is to assess performance in the delivery of core services and meeting objectives of the Central Australian Region RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including CDSC. CDSC is required to deliver core services to nine communities as listed in section

5.6.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as one would expect in the measurement of whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, the following has been noted:

- For three communities the majority of the core services have not been delivered and service delivery is not planned to be delivered. Explanations for why service delivery has not occurred or why it is not planned to be delivered were not disclosed
- 'Library and cultural heritage services' has only been delivered to two communities. Explanations for why the service has not been provided or will not be provided to the other seven communities have not been disclosed.

No actual reporting against KPIs have been included in the Regional Management Plan Report and therefore the extent to which service delivery has occurred cannot be determined and assessed.

From the review of the shire plans for CDSC, outcomes and strategies were identified however did not include KPIs to measure and assess performance and ultimate achievement of outcome. Without establishing KPIs performance achieving the desired outcome cannot be assessed.

Agency services

In addition to providing core services to the communities within its shire boundaries, CDSC also provides other services on behalf of the Northern Territory and Commonwealth Governments referred to as 'fee for service arrangements' or 'agency services'. Over the three years, CDSC entered into agreements with both the Northern Territory and Commonwealth Governments to deliver approximately twelve programs. As seen in table 5.6ab, agency services returned an overall operating surplus of $2.2million (2009), $4.5million (2010) and $3.4million (2011).

Chart 5.6K demonstrates that, of the twelve agency services programs undertaken by CDSC the majority of the agency services program undertaken returned operating surpluses. For programs where operating deficits were incurred, whilst we are unable to determine how the deficits were funded due to the limited information provided, it is reasonable to assume that the deficits were funded by either programs with operating surplus's for the same period or from cash reserves.

Given that agency services are generally considered 'tied' programs, it is possible that most of the reported surpluses constitute tied unexpended funds.

Chart 5.6K: Number of agency services programs with operating surplus and deficits

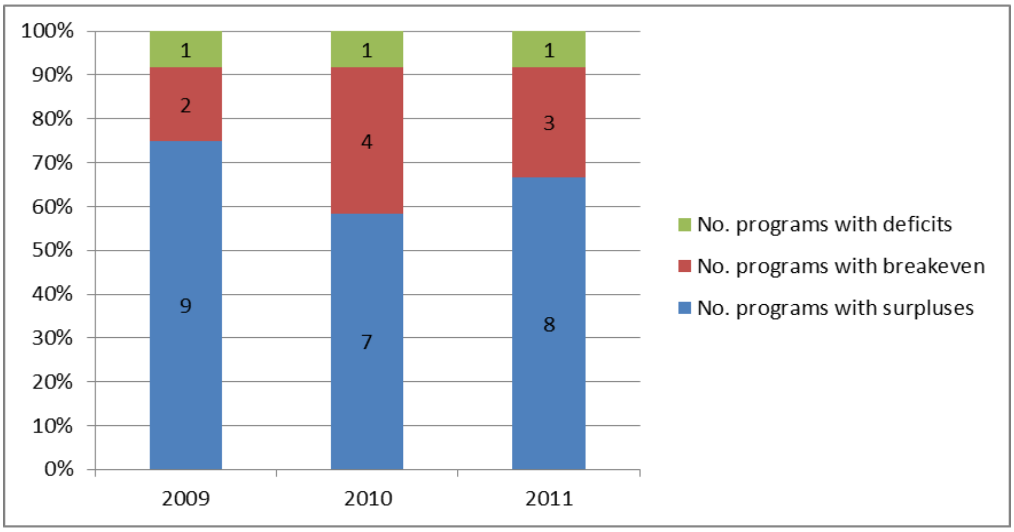


Table 5.6ab: Surplus/ (deficit) by program for agency services activities

Agency services programs	2011	2010	2009
Sport & Recreation	773,659	487,677	36,592
Aged and Disabled Care	290,123	573,100	654,784
Children Services	110,929	542,680	6,712
Arts and Culture	-	-	(30,544)
Employment and Training (CDEP)	1,463,280	1,312,263	248,836
Community Safety	222,802	1,311,055	662,486
Family Finance Skills	-	(446)	-
Community Media	-	-	22,033
Airstrips	(3,094)	36,310	432
Outstation Services	330,882	246,755	570,230
Centrelink	213,115	-	5,888
Economic Development Support	5,339	-	-
Total for Agency services programs	3,407,034	4,509,394	2,177,449

Commercial and other non-core services

CDSC operated eight commercial services programs during the three years which incurred combined operating surpluses of $1.2million in 2009 and $1million in 2010 and an operating deficit of $102,000 in 2011. Of these, two programs (different ones in each year) incurred combined operating deficits of $45,000 in 2009, $30,000 in 2010 and $1.2million in 2011 which were all offset by programs that made surpluses.

Commercial and other non-core services activities should only be undertaken where CDSC will be in a position to make a profit from these activities. Commercial and non-core services should not be undertaken where it is known that the Council will incur recurring losses as this will negatively impact the financial sustainability of the Council.

Included in commercial services in 2011 is the Housing Maintenance Program which in the previous two years was included in agency services. In 2009 and 2010 the Housing Maintenance Program was provided by the Northern Territory Government on a grant basis however in 2011 changed to being provided on a fee for service basis and as such CDSC have now classified this service as a commercial service. The Housing Maintenance Program for 2011 registered a deficit of $1.2million. This is due to unexpended grants for the two prior years being repaid to the Northern Territory in 2011.

Chart 5.6L: Number commercial services programs with operating surplus and deficits

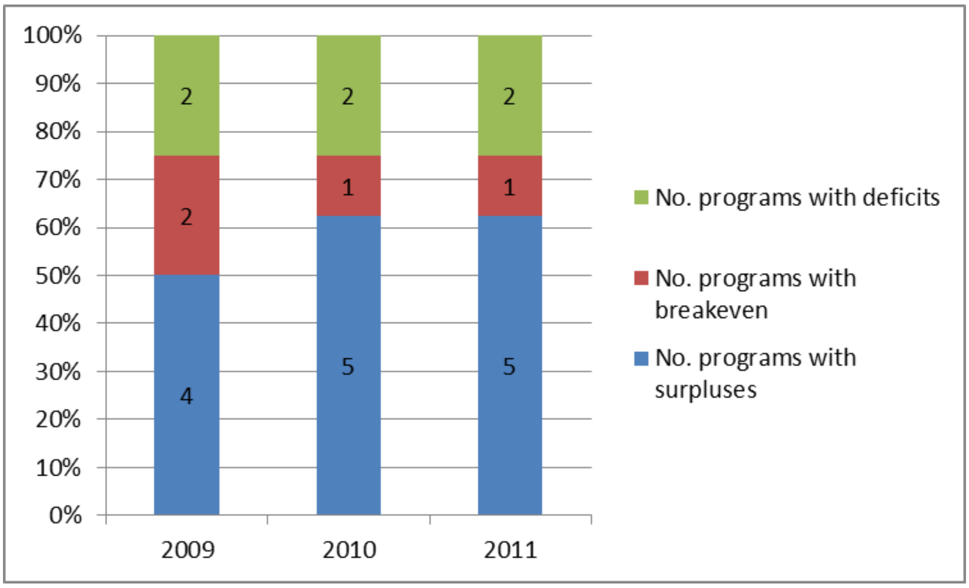


Table 5.6ac: Surplus/ (deficit) by program for commercial services and other non-core services activities

Commercial services programs	2011	2010	2009
Housing Maintenance - TH	506,996	278,938	118,132
OHDC - Non Council Roads	24,874	27,088	-
Post Office	(8,417)	(27,060)	(19,735)
Power, Water and Sewers	454,727	254,037	439,013
Visitor Accommodation & Tourist Info	85,374	(5,051)	120,243
Housing Management	(1,174,206)	427,395	527,241
Commercial & Fee for Service Work	-	-	(25,613)
Operate Shire Headquarter	8,298	823	-
Total for Commercial services programs	(102,353)	956,170	1,159,281

Identification and analysis of cross subsidisation

Agency services incurred operating surpluses in all three years, commercial services achieved operating surpluses in two of the three years with a loss incurred in 2011 of $102,000 and core services overall incurred operating surplus of $124,000 in 2009 and an operating deficit of$3million in 2010 and $2.4million in 2011. It is therefore reasonable to assume that there is an element of cross subsidisation with agency and commercial services cross subsidising core services and cross subsidisation with in each of the core services, agency services and commercial services themselves.

Another matter to be considered is the level of funding provided to cover indirect overhead costs. Some agencies do not allow or allow a small percentage for the recovery of indirect and overhead costs. In some cases the percentage that is allowed to be charged to the program by CDSC is not sufficient to cover the actual indirect and overhead costs incurred. As a result programs that are showing a surplus or deficit may not be showing the full costs of delivering the programs and therefore it is reasonable to assume that there is a level of cross subsidisation with both core services and fee for service arrangements which however cannot be quantified until an appropriate overhead allocation rate is established and applied recording the true indirect and overhead costs.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads. As a result, allocation of overheads to programs did not commence until the end of the first year of operation.

All entities, including Councils, incur direct and indirect costs in delivering/selling their services or producing and selling products. All direct costs are recorded against the actual program to which the expenditure relates. LGANT released guidance on how to allocate overhead cost for Councils. CDSC has adopted the overhead policies in applying administration, vehicle and general overheads.

For core services programs, CDSC received untied grants from both the Northern Territory and Commonwealth Governments. The funding provided is to cover all costs incurred with the delivery of core services including overheads. The budget for core services funding is determined by CDSC based on the level of funding and, as with other programs, overheads are not being calculated and charged to core services program.

CDSC enters into agreements with Governments for the delivery of agency services on their behalf. CDSC will submit tenders and budgets to win the opportunity to deliver the various agency services. The budgets prepared and submitted to the Governments generally do not reflect the actual level of funding and budgets included in the agreements which both CDSC and the relevant Government entity sign and agree to. Despite this, CDSC often sign the agreements and deliver the services. If CDSC were to reject these agreements, it may result in communities not being provided with essential services. In many instances there is generally an administration expense or an administration fee included in the budgets however there are instances where the agreement does not allow for any indirect or overhead costs to be charged to the program. In these cases CDSC only allocates the amount that the agreement allows them to charge, regardless of whether the actual costs are higher. In these instances, there is amount of indirect and overhead costs that are not being charged to the program and therefore not recovered. We were unable to quantify the effect due to the limitations of the information provided and because CDSC had not established an appropriate allocation methodology for charging indirect and overhead costs to programs.

Establishment of fee for service arrangements

In addition to the delivery of core services required under the Local Government Act 2008, CDSC have entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments. All agency services are funded under agreements between CDSC and the relevant government entity. The key issues noted with the establishment of fee for service arrangements include, but not limited to:

- Generally CDSC submit budgets for the delivery of the services, however in some instances the level of funding received does not reflect the budget submitted by CDSC upon application
- Some agency services do not allow for an administration fee, or allow for a small fee, to recover all overhead and indirect costs incurred by CDSC in delivering the services
- A detailed methodology does not exist to allocate overheads and indirect costs across all programs. Administration costs are not always charged to the program and in some instances, CDSC will only allocate overheads to the limit allowed under the funding agreement.
- There is no ‘profit margin’ built into the budgets for commercial services as expected in a commercial organisation.

5.6.7 Budget processes

Operating budgets

The initial budget for CDSC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 and 2011 the budget was prepared by the finance staff and the manager of each program. The budget is then reviewed by executive management with changes being made as required prior to being presented to Council. The budgets have been approved by the Council as part of the annual management plan. In accordance with the Local Government Act 2008, CDSC prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

CDSC Management advised that in 2008 financial reports were established and presented to the Council. Reporting by CDSC to the Council has improved over the three years; the following information is currently being presented to Council:

- A review of revenue and expenditure including budget vs. actual
- Detailed review on currently employment figures
- Balance Sheet summary
- Review of cash balances
- Accounts Receivable Aged Analysis
- Review of the movement in assets
- Total income and expenditure actual compared to budget including an explanation on the differences
- Income by source including commentary
- Listing of payments over $10,000 for the month
- A detailed review of the current ratio.

Despite the improvements in reporting, no individual reviews have been performed on the results of core, agency and commercial services.

Capital budgets and capital management plans.

CDSC does not have specific cash reserves set aside for capital expenditure. Any unexpected or urgent capital expenditure is funded from general revenue sources. CDSC's untied cash and cash equivalents for 2011 were $5.9million.

CDSC did not have an asset management plan in place during the last three years nor is there one in place for 2012. Management advised development of an asset management plan has been hindered by:

- A lack of available funding for purchases when required
- An inability to plan long term due to the short term funding commitments
- Competing priorities in shire development
- No asset management system.

Capital expenditure is determined during the annual budget process based on current needs considered in conjunction with committed funding for the year. Capital expenditure requirements are dependent on available funds after operational budgeting has been finalised. There is very little funding available for capital expenditure in relation to core service delivery.

No asset management policy has been implemented to track the use of portable or attractive assets, determine the whole of life cost of each asset or apply an appropriate charge out rate in order for the cost of utilisation to be applied to the relevant programs.

Cash flow budgets

For the last three years CDSC have not prepared cash flow budgets or cash flow forecasts due to the inability to predict the timing of cash flows.

5.6.8 Summary – financial sustainability of CDSC

To determine the financial sustainability of CDSC we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis, six KPIs were used to assess financial sustainability of CDSC. The results of the KPIs are listed in the table below.

Table 5.6ad: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(21.5%)	(1.7%)	1.45%	-

KPI	Description	Benchmark	2011	2010	2009	Average*
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	15.6	53.2	120.8	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	1.25	1.64	0.99	1.28
Current ratio	Current assets divided by current liabilities	1.0	1.47	1.84	1.74	-
Rates coverage	Rates revenue divided by total cost	40%	1.6%	1.7%	1.9%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	5.6%	6.7%	4.9%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for CDSC is in a healthy position overall with net assets of $48million however the increase in net asset position over the last three years is due predominantly to a revaluation increment in 2011. The current ratio is healthy at 1.47 in 2011 however this has dropped over the three year period from 1.74 in 2009.

The interest coverage ratio for CDSC for all three years exceeds the benchmark of 3 and indicates that CDSC would be able to repay debt and associated interest.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly, operating surpluses indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last two years CDSC has been incurring operating deficits of 1.7% in 2010 and 21.5% in 2011. Where operating deficits persist indications are that operating revenue is insufficient to meet current operations. CDSC is heavily reliant on grant funding due to the limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for CDSC on average over the last three years was 1.28 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that CDSC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008 CDSC has undertaken a review of the assets transferred in to determine whether they existed, fit for purpose, and/or under the control of CDSC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $205.12million by a study conducted by the Northern Territory Government. This backlog does not cover other communities within the CDSC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions CDSC is not financially sustainable in the medium term. Being classified as financially unsustainable does not mean CDSC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of CDSC are to put onto a financially sustainable basis going forward.

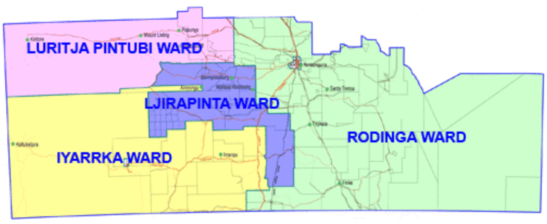
5.7 MacDonnell Shire Council

5.7.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, MacDonnell Shire Council (MSC) was incorporated under the *Local Government Act 2008 NT*. 14 of the previous community government Councils were amalgamated into MSC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	7,200
Land size	268,784 km^2
Wards	4
Communities & Outstations	172
Pastoral Leases	33



Elected representatives to Council by ward (2008-2012)

Rodinga	4
Ljirapinta	3
Luritja Pintubi	3
Lyarrka	2

At 30 June 2011, MSC had 446 staff in its employ and was responsible for managing 1,732 km of roads of which approximately 70% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Central Australian Regional Management Plan, MSC is required to deliver services to 14 designated communities and has established 14 service delivery centres as the base for delivering services across the shire, located in:

- Amoonguna
- Areyonga
- Docker River
- Finke
- Haasts Bluff
- Hermannsburg*#
- Imanpa
- Kintore
- Mt Liebig
- Mutitjulu
- Papunya*

- Santa Teresa
- Titjikala
- Wallace Rockhole.

MSC provides services to 13 of the above 14 communities, Mutitjulu is located in a National Park and currently under a 99 year lease to the Federal Government. As a result services to Mutitjulu are provided by another party. MSC also maintains a Corporate Service office located in Alice Springs.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are two Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There is one Remote Service Delivery Site located within the shire that is also a Northern Territory Government Growth Town.

Challenges of population and geography in MSC

MSC faces significant infrastructure challenges due to its specific geography and demographic profile. MSC's population is 7,200 people with the majority of the population being Indigenous. MSC occupies a land mass of 268,784 km^2. MSC faces a number of challenges impacting on the delivery of services as identified in the Shire Plan. Some of the key challenges include:

- The sustainability of the Shire is dependent upon stable, long term grant funding arrangements with the Australian Government and the Northern Territory Government. Changes in these arrangements and the policies which drive them have the potential to disrupt the Council's capacity to deliver core services and agency services to the communities. It is noted that during the current planning cycle there will be at least one Federal election and one Northern Territory election. It is also noted, that as a total, grant funding has been decreasing year on year.
- With the move to some services being provided under a Service Level Agreement (contract) as compared to a grant, there is increased reliance on the Council's ability to process the workload. Administrative and logistical solutions have proven difficult to implement due to access to skilled resources.
- The Council provides services in communities situated on Aboriginal freehold land held by land trusts. In relation to the NTER the Federal Government obtained five year leases over the communities. Under the terms of an Administrative Authority granted to the Council by FaHCSIA in 2008, the Council occupies and uses a number of buildings and facilities in the communities. This gives rise to significant risks:
  - Availability risk – there is no certainty that these assets will continue to be available for occupancy and use by the Council after the termination of the five year leases.
  - Economic risk - there is no certainty that funding will be available to pay for commercial rents and other outgoings that may become payable for the assets after the termination of the five year leases
- The Council has a very low level of untied funding. This seriously constrains the ability of elected Councillors and management to set priorities and initiate action. This limits the capacity for the Council to make a material difference to the lives of residents and places the Council at a material disadvantage compared with local government in other parts of Australia.

- The Council has a very low rates base. At the present time, revenues from rates, fees and charges from the Shire's 268,000 square kilometres of land cover barely 2% of the Council's budgeted expenditure on core services and support services. Most of the land in the Council is exempt Land Trusts or conditionally rateable pastoral leases.
- Some departments / grant providers will not consider paying an administrative fee that will cover the Council's overheads and costs in the provision of a service. This means that the Council either must cover these costs or not provide the service. Given the Council's low ratepayer base and the low level of untied funding, this issue is likely to emerge more strongly over this planning period.
- The Council continues to experience difficulty in filling all vacant positions in the communities and at head office. The Council's capacity to consistently deliver high quality services depends upon the recruitment and retention of capable, motivated staff at all levels. A key success factor for staff recruitment and retention is the availability and quality of staff housing.
- The size of the Council and the distances between communities poses a significant challenge in the delivery of local government services. The unsealed roads to many of the communities are prone to damage and disruption in adverse weather conditions. Information technology solutions are varied in their availability in different communities.

Entities in which MSC has an interest:

CouncilBiz

CouncilBIZ was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, ICT and Business Systems support services to the 8 member Shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. Upon the incorporation of CouncilBiz, MSC made an initial funding contribution to CouncilBiz of $50,000.

5.7.2 Financial position

Below is an extract from the annual financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.7a: Financial position as reported in the annual financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	12,695,772	16,457,126	19,089,783	(6,394,011)	(33%)
Non-current assets	10,207,381	10,736,686	9,783,594	423,787	(4%)
Total Assets	22,903,153	27,193,812	28,873,377	(5,970,224)	(21%)
Current liabilities	9,848,994	12,207,333	10,364,973	(515,979)	(5%)
Non-current Liabilities	-	-	-	-	-
Total Liabilities	9,848,994	12,207,333	10,364,973	(515,979)	(5%)
Net Assets	13,054,159	14,986,479	18,508,404	(5,454,245)	(29%)
Equity	13,054,159	14,986,479	18,508,404	(5,454,245)	(29%)

The financial position for MSC has decreased over the three year period from $18.5million in 2009 to $13million in 2011 (a 29% decrease), with 19% of the decrease occurring between the years 2009 and 2010. The table above shows that the majority of the decrease relates to current assets with a decrease of $6.4million (33%) since 2009.

Cash balances analysis

Cash balances comprise cash and cash equivalents and short term deposits which are reported under investments in the annual financial statements. Table 5.7b below shows the composition of current assets for the last three years.

Table 5.7b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	10,574,013	14,011,574	18,121,841
Other	2,121,759	2,445,522	967,942
Current assets	12,695,772	16,457,126	19,089,783
Cash as % of current assets	83%	85%	95%

**Note: the balances referred to in the table above came from the annual financial statements*

As shown in the above table, cash balances represent 83% or above of current assets however the balance has decreased over the three years by $7.5million or 42%.

The decrease in cash balances in 2010 and 2011 was due to payments for operating activities exceeding receipts by $2.5million in total for both years and $5million in net payments for capital assets for both years combined.

Table 5.7c below shows the composition of the cash balances and demonstrates there was sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Table 5.7c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	10,574,013	14,011,574	18,121,841
Restricted cash balances*	4,948,246	5,601,402	3,604,355
Repayment of unaccrued grant liabilities**	-	2,945,006	418,990
Total	4,948,246	8,564,408	4,023,345
Unrestricted cash and cash equivalents	5,625,767	5,447,166	14,098,496

**Represents unexpended grants and grants received in advance at year end*

***Included in other operating expenses is 'repayment of unaccrued grant liabilities'. This has been included as unexpended grant liabilities at 30 June the year prior to being recorded in the annual financial statements.*

Chart 5.7A: Composition of cash balances

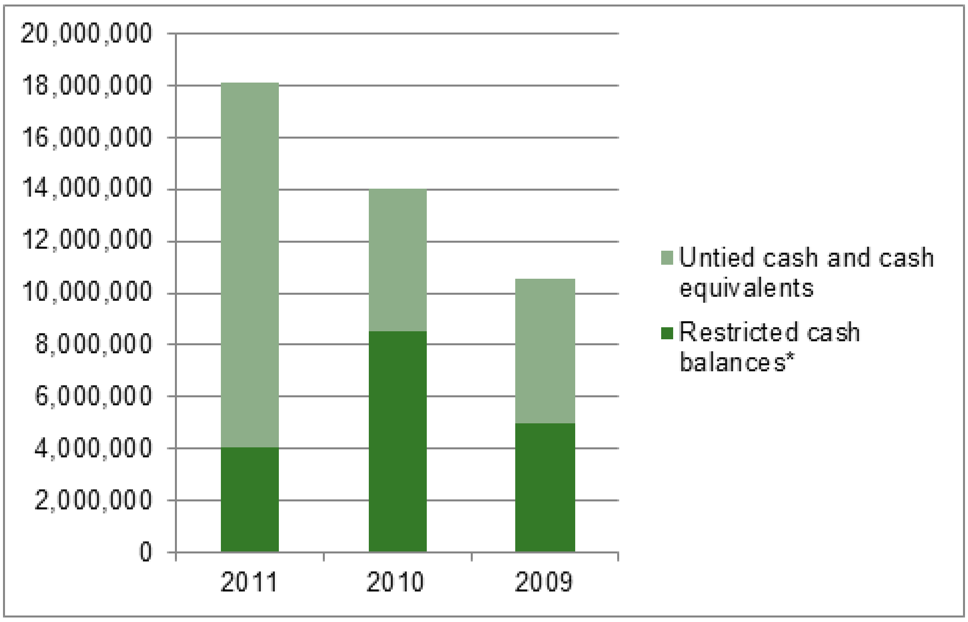


Table 5.7d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is one. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems in meeting its short term obligations.

Table 5.7d: Current Ratio

	2011	2010	2009
Total current assets	12,695,772	16,457,126	19,089,783
Total current liabilities	9,848,994	12,207,333	10,364,973
Net current assets (Working Capital)	2,846,778	4,249,793	8,724,810
Current Ratio	1.3	1.3	1.8

Table 5.7e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether, after all restricted assets have been deducted there are sufficient cash assets to settle all other liabilities should creditor's immediate payment. The benchmark used for this analysis is 1.

Table 5.7e: Cash Ratio

	2011	2010	2009
Total cash balances	10,574,013	14,011,574	18,121,841
Less: unexpended grants & repayment of unaccrued grant liabilities**	4,948,246	8,564,408	4,023,345
Total unrestricted cash balances	5,625,767	5,447,166	14,098,496
Total current liabilities (unrestricted)	4,900,748	6,605,931	6,760,618
Cash Ratio (unrestricted)	1.1%	0.8%	2.1%

***Included in other operating expenses is 'repayment of unaccrued grant liabilities'. This has been included as unexpended grant liabilities at 30 June the year prior to being recorded in the annual financial statements.*

The current ratio and cash ratio above indicate that MSC had sufficient current assets and cash assets to settle its liabilities at 30 June each year except for in 2010 where the cash ratio was below 1. Both ratios have decreased over the three year period.

Non-current assets

Non-current assets consist of property, plant and equipment and capital work in progress. Non-current assets increased over the last three years from $9.8million in 2009 to $10.7million in 2010 and $10.2million in 2011. Of this, capital works comprised $34,000 in 2011, $175,000 in 2010 and nil in 2009.

Table 5.7f below shows the composition of property, plant and equipment for MSC for the 2011 year.

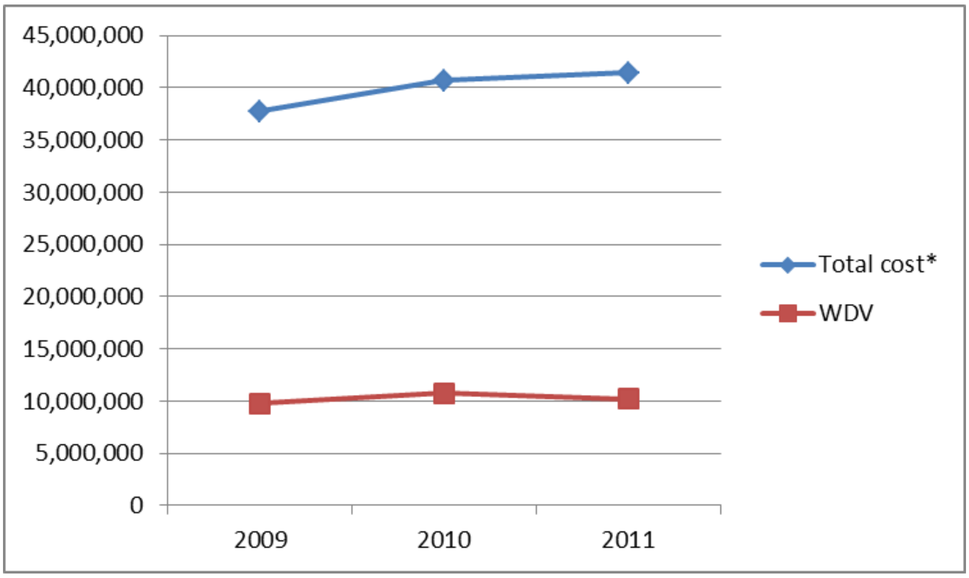
Table 5.7f: Composition of property, plant and equipment for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Land	404,250	-	404,250	4.0%
Buildings and facilities	30,323,507	(24,515,916)	5,807,591	56.9%
Plant and equipment	5,209,890	(3,852,014)	1,357,876	13.3%
Furniture and fittings	278,711	(166,478)	112,233	1.1%
Motor vehicles	5,186,902	(2,695,621)	2,491,281	24.4%
work in progress	34,150	-	34,150	0.3%
Total	41,437,410	(31,230,029)	10,207,381	100.0%

Note: figures obtained from the annual financial statements

The majority of the property, plant and equipment balance was attributed to buildings and facilities at 56.9% followed by motor vehicles at 24.4% and plant and equipment at 13.3%. The remaining categories were all less than 10% of the total written down value (WDV). The relationship between the cost and written down value is shown in Chart 5.7B below.

Chart 5.7B: Cost and accumulated depreciation for property, plant and equipment at 2009, 2010 and 2011



Additions to property, plant and equipment will be discussed later in section 5.7.5 of this report.

Liabilities analysis

Current liabilities comprise trade and other payables, borrowings, employee provisions and deferred grant income. The current liability balance decreased over the three years by $516,000 or 5% from $10.4million in 2009 to $9.8million in 2011. Deferred grant income made up the majority of the balance at $3.6million in 2009, $5.6million in 2010 and $4.9million in 2011. Trade and other payables ranged from $4.7million in 2009 to $2.8million in 2011 and employee benefits went from $1million in 2009 to $1.5million in 2010 to $1.1million in 2011.

There were no non-current liabilities reported in the audited financial statements for 2009, 2010 or 2011.

Included in current liabilities are borrowings with a balance owing at 30 June of $1million in 2009, $995,000 in 2010 and $972,000 in 2011.

There are two main analytical measures of a Council's indebtedness. These are:

- Net debt, as measured by interest-bearing liabilities less cash reserves
- Net financial liabilities, as measured by total liabilities less total financial assets.

For the purposes of this analysis we consider the net financial liabilities ratio to be the more appropriate measure than the debt ratio. A large net liability is an indicator of unsustainability, where Councils have increased their asset base beyond their financial capacity. The financial liabilities of the Council are all financial claims on a Council by other sectors of the economy other than ratepayers (includes interest-bearing liabilities and all other liabilities) less the Council's financial claims on these sectors.

Table 5.7g: Net financial liabilities

	2011	2010	2009
Total liabilities	9,848,994	12,207,333	10,364,973
Total financial assets*	12,678,390	16,165,759	18,831,713
Net financial liabilities/(assets)	(2,829,396)	(3,958,426)	(8,466,740)
Operating revenue (including operational grants)	34,742,569	35,219,171	36,360,815
Net financial liabilities ratio	(8%)	(11%)	(23%)

**Total financial assets is total cash assets plus receivables*

The net financial liabilities ratio is the sum of a Council's total liabilities less its financial assets, expressed as a percentage of total annual operating revenue. Use of this ratio effectively allocates a Council's long term debt across its core and non-core services activities in proportion to the total annual operating revenue (including operational grants).

The table above indicates that MSC is a net creditor with their total financial assets (cash reserves and receivables) exceeding total liabilities owed to other sectors of the economy for each of the three years.

A measure to determine the appropriateness of a Council's debt levels is its ability to repay debt and associated interest. This can be measured by the interest coverage ratio. The interest coverage ratio is calculated by earnings before interest and tax (EBIT) divided by interest expense. For the purposes of this analysis we have used a benchmark of 3 as Councils with interest coverage below 3 may have problems in repaying debt and associated interest.

Table 5.7h: Interest coverage ratio

	2011****	2010***	2009**
EBIT*	(1,709,079)	(2,614,038)	3,608,477
Interest expense	62,864	63,416	12,911
Interest coverage ratio	(27.2)	(41.2)	279

**The operating surplus/(deficit) before other comprehensive income was used to calculate the interest coverage ratio for each year.*

***The 'net assets transferred free of charge upon restructure of local government' with a balance of $27.6million and 'impairment adjustment for assets transferred to Shire upon restructuring of local government with a balance of $(12.6)million were excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2009 EBIT would be $18.5million.*

****The 'net assets transferred free of charge upon restructure of local government' with a balance of $(905,000) and impairment adjustment for assets transferred to Shire upon restructuring of local government with a balance of $61,000 were excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2010 EBIT would be $3.5million.*

*****The 'transfer operation and control of stores at Titlikala and Santa Teresa back to independent indigenous entities' with a balance of $(160,000) was excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2011 EBIT would be $3.5million.*

The interest coverage ratio for MSC has declined over the three years with the ratio being below three for 2010 and 2011 indicating that MSC may experience difficulties in repaying the debt and associated interest and may face unsustainability if it continues to register operating deficits. This adverse result is due to a deficit being incurred, not due to high debt of interest balances.

5.7.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio (or current ratio). We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of Councils in section 3 of this report.

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.7.5.

This section provides our analysis of the financial performance of MSC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio, rates coverage ratio and sustainability ratio
- Analysis of actual performance against budgets and plans.

Below is an extract of the Statement of Comprehensive Income from the annual financial statements for the last three years.

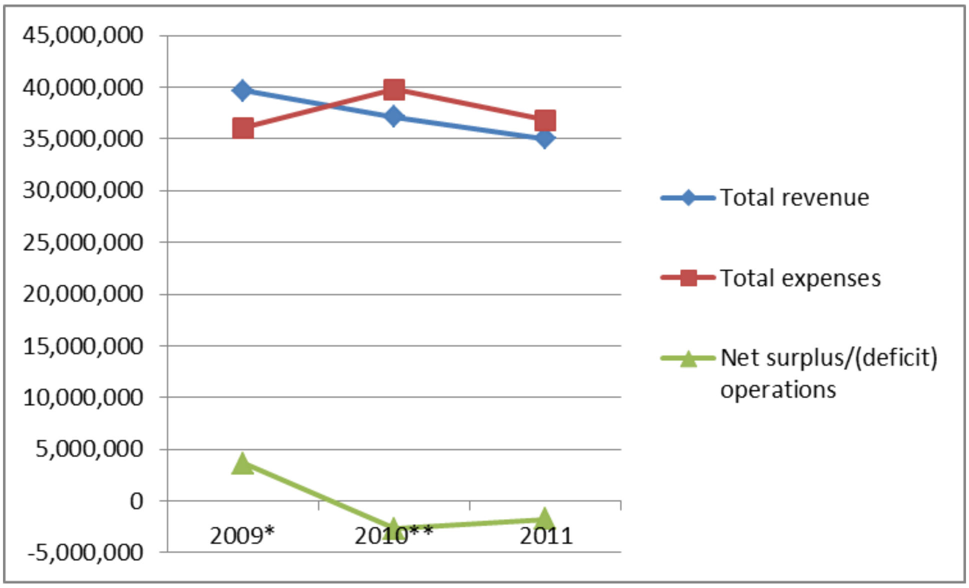
Table 5.7i: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010**	2009*	Total increase/(decrease)	
User charges – waste management	93,088	93,300	92,850	238	0.3%
User charges & fees - rent	4,602,690	2,965,279	621,305	3,981,385	640.8%
Rates	400,079	409,219	393,144	6,935	2%
Interest	606,282	543,213	450,893	155,389	34%
Grants and contributions	23,196,515	28,571,274	30,571,166	(7,374,651)	(24%)
Income from commercial operations	5,868,668	4,225,939	4,145,348	1,723,320	42%
Reimbursements & other income	273,421	143,601	3,372,324	(3,098,903)	(92%)
	35,040,743	36,951,825	39,647,030	(4,606,287)	(12%)
Employee costs	17,214,511	16,893,810	16,302,152	912,359	6%
Materials and consumables	5,973,518	11,280,175	11,362,543	(5,389,025)	(47%)
Depreciation and amortisation	2,325,846	2,328,403	2,397,023	(71,177)	(3%)
Interest charges	62,864	63,416	12,911	49,953	387%
Other costs	11,235,947	9,063,475	5,976,835	5,259,112	88%
	36,812,686	39,629,279	36,051,464	761,222	2%
Net surplus/(deficit) operations	(1,771,943)	(2,677,454)	3,595,566	(5,367,509)	(149%)
	-	-	-	-	-
Total Comprehensive Income	(1,771,943)	(2,677,454)	3,595,566	(5,367,509)	(149%)

**Included in the audited statement of financial position under other comprehensive income is 'Net assets transferred free of charge upon restructure of local government' totalling $25.6million and 'Less: impairment of net assets transferred to the shire upon restructuring of local government' totalling $12.7million. For the purpose of this analysis we excluded both from this table to allow more comparable figures between the three years. Without the above exclusion, the 2009 total net surplus/deficit would be $18.5million.*

***Included in the annual statement of financial position under other comprehensive income is 'Net assets transferred free of charge upon restructure of local government' totalling $(905,000) and 'Less: impairment of net assets transferred to the shire upon restructuring of local government' totalling $61,000. For the purpose of this analysis we excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2010 total net surplus/deficit would be $2.6million.*

Chart 5.7C: Revenue, expenses and net result for 2009, 2010 and 2011



MSC incurred an operating surplus of $3.6million in 2009, and operating deficits of $2.7million in 2010 and $1.8million in 2011. The graph demonstrates that total revenue,e which exceeded total expenses in 2009, has decreased steadily over the three years despite expenses increased in 2010 followed by a decrease in 2011. The increase in expenses in 2010 exceeded the increase in revenue resulting in an operating deficit for the year. The decrease in expenses in 2011 and is consistent with the decrease in revenue.

The performance in 2009 is not directly comparable to the performance in other year as one off grants were received to support the establishment of the Shires and the limitations on the Councils to provide services as resources were being allocated to the administrating the merger of the Councils. MSC have reduced the deficit made in 2011 compared to 2010 and advised that further efforts have been made in 2012 and will continued to be made to ensure the Council is spending within its means.

Of the $4.6million decrease in revenue, grants and contributions decreased by $7.4million (24%) and net profit from disposals decreased by $3.1million (92%). These were offset by increases in user charges and fees of $4million and other operating revenue of $1.7million. Expenses have only decreased by 2% since 2009 of which materials and consumables decreased by $5.4million or 47% offset by a $5.3million increase in other costs. Other operating expenses increased from $5.9million in 2009 to $9.2million in 2010 due to an increase in contract labour by $2.4million over the three years and repayment of unaccrued grant liabilities being $2.9million in 2011 compared to $418,000 in 2010 and nil in 2009. Employee expenses have only increased by 6% since 2009.

Employee costs increased by $912,000 or 6% since 2009 due mainly to salaries and wages increasing by $531,000 and superannuation contributions increasing by $367,000. Other expenses increased by $5.3million over the three year period with contract labour costs increasing by $2.6million and repayment of unaccrued grant liabilities in 2011 of $2.9million which in 2009 was nil and in 2010 was $418,000. All other movements are considered minor.

Refer to section 5.7.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the spending on outputs consumed wholly in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.7j shows the operating surplus/(deficit) for MSC and the associated surplus/(deficit) ratio for the three years from 2009.

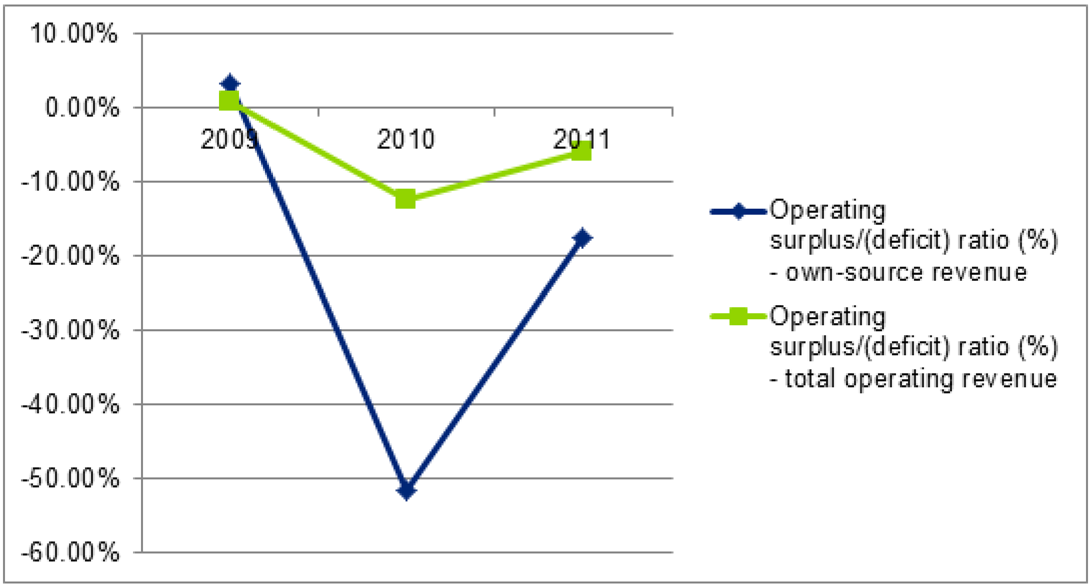
Table 5.7j: Operating surplus/(deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	34,742,569	35,379,560	36,360,815
Less: operating expenses (including depreciation expense)	36,812,686	39,789,668	36,051,464
Operating surplus/(deficit)	(2,070,117)	(4,410,108)	309,351
Operating surplus/(deficit) ratio (%)	(5.9%)	(12.5%)	0.9%
Own-source revenue*	11,844,228	8,540,940	9,075,864
Operating surplus/(deficit) ratio (%)	(17.5%)	(51.6%)	3.4%

**Own-source revenue excludes all government grants, gains/(losses) on disposal of assets, revaluations of assets and discontinued operations*
***Operating revenue excludes capital grants*

The operating surplus/(deficit) ratio calculated for MSC on total revenue (excluding capital grants) shows an operating surplus for 2009 and operating deficits for 2010 and 2011. The operating surplus/(deficit) ratios based on own source revenue reflect the same movement in ratios. If MSC continues to incur operating deficits then the Council could become financially unsustainable.

Chart 5.7D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents less than 2% of total revenue and has remained steady over the three year period. MSC like all local government Council's is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, legislated conditional rating of pastoral and mining entities, slow or negative growth rates in its communities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40%, a result less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.4k: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	400,079	409,219	393,144
Operating expenses	36,812,686	39,629,279	36,051,464
Rates coverage ratio	1.1%	1%	1.1%

The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that MSC is dependent on government grants to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare financial performance to budgets and plans for each of the three years.

Analysis of budget versus actual results

The consultancy contract required an analysis of the financial performance against approved budgets and plans using the results reported in the audited financial statements for each of the years. To complete this analysis we requested the approved budgets and plans for all three years. MSC have provided the following documents and/or referred us to their website to obtain:

- Annual reports for all three years from their website for budget versus actual results
- MacDonnell shire plan 2010 – 2014 appendix 1 and appendix 2 for the 2010/11 budget
- MacDonnell shire income and expenditure at 30 June 2011 (obtained from the TechOne accounting system).

We have reviewed all the documents listed above and have attempted to undertake an analysis of the financial performance against budget and plans, however were unable to complete the analysis due to the information provided being incomparable to the figures reported in the audited financial statements and/or the figures reported in the budget. The plans did not agree with each other. MSC advised that the budget within Technology One differs to the budget presented to the Council, the budget presented to the Council is a high level budget, where the budget entered into the TechOne accounting system is a detailed budget. Further in 2010 there was a late amendment to the Council budget. MSC advised that they plan to align these budgets in the future in efforts to improve consistent reporting.

In relation to the annual reports, we were only able to obtain the annual report for the 2010/11 year, however we were able to obtain the audited financial statements for all three years. We have considered the annual report for 2010/11 and the audited financial statements for all three years however these did not include budgeted numbers.

We analysed the 'MacDonnell Shire Plan 2010 – 2014 Appendix 1 and Appendix 2 for the 2010/11 budget', which provided budgeted numbers for the 2011 year only. Upon review of the financial data included in the appendices, we found that the format or presentation of the financial information was inconsistent to the presentation in the annual report and the audited financial statements for 2011. Therefore we were unable to perform a comparison of the financial information. No budgeted numbers were provided for the 2010 and 2009 years.

The 'MacDonnell Shire Council Monthly Statement of Income and Expenditure at 30 June 2011 (obtained from TechOne)' shows the budget year to date against the actual results for year ended 30 June 2011. Both total actual revenue and expenditure reported in this report differed to that reported in the annual report and audited financial statements by $242,000 with the operating deficit being the same between reports. The year to date budget for revenue and expenses reported in this report was $31.3million and $39.2million respectively compared to the $37.9million reported for both revenue and expenses in the MacDonnell Shire Plan 2010 – 2014 Appendix 1 and Appendix 2 for the 2010/11 budget'.

The 'MacDonnell Shire Income and Expenditure at 30 June 2011' report was generated by a senior finance staff member at MSC in response to our request for information. This report included a detailed budget versus actual results comparison by directorate by program for the 2011 year only. While the actual results agreed to the annual report and the audited financial statements for 2011, the total budget numbers differed to the budget numbers presented in the 'MacDonnell Shire Plan 2010 – 2014 Appendix1 and Appendix 2 for the 2010/11 budget':

- The difference between total revenue figures was $2.6million
- The difference between total expenditure figures was $5.2million
- The difference between the operating surplus/deficit was $3.2milion.

We also note from review of the 'MacDonnell Shire Income and Expenditure at 30 June 2011' report that the budget columns did not add throughout the report. We also noted that the allocations at a service level did not agree to those in the 'MacDonnell Shire Plan 2010 – 2014 Appendix 1 and Appendix 2 for the 2010/11 budget'.

We have therefore not attempted to complete an analysis on the financial information presented in the 'MacDonnell Shire Income and Expenditure at 30 June 2011' report as we are unsure of the accuracy of the data.

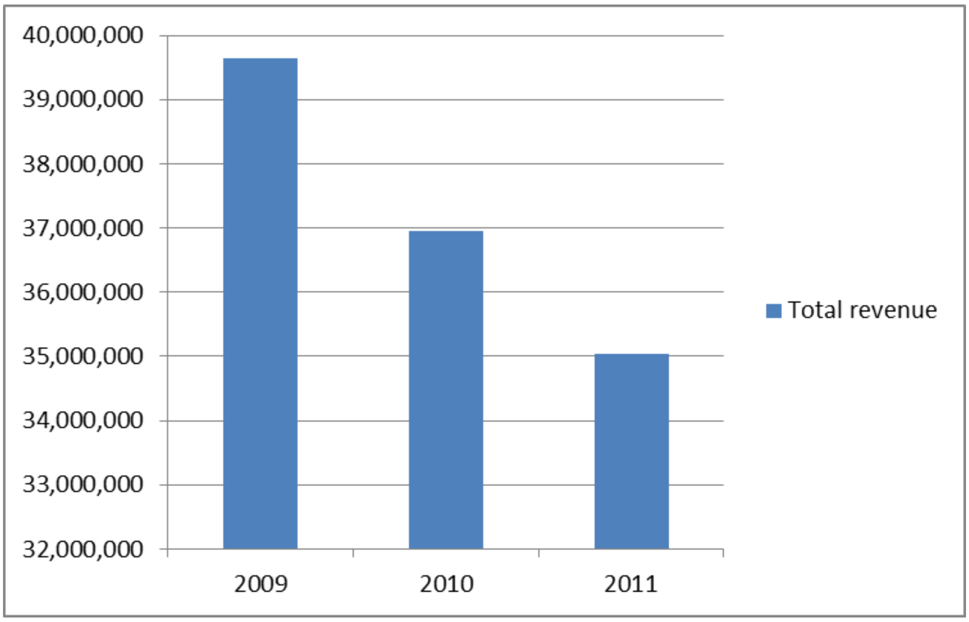
5.7.4 Revenue and revenue sources

Table 5.7l: Revenue

	2011	2010	2009	Total increase/(decrease)	
User charges – waste management	93,088	93,300	92,850	238	0.3%
User charges & fees - rent	4,602,690	2,965,279	621,305	3,981,385	640.8%
Rates	400,079	409,219	393,144	6,935	2%
Interest	606,282	543,213	450,893	155,389	34%
Grants and contributions – operational	22,898,341	26,838,620	27,284,951	(4,386,610)	(16%)
Grants and contributions - capital	298,174	1,732,654	3,286,215	(2,988,041)	(91%)
Income from commercial operations	5,868,668	4,225,939	4,145,348	1,723,320	42%
Reimbursements & other income	273,421	143,601	3,372,324	(3,098,903)	(92%)
Total revenue	35,040,743	36,951,825	39,647,030	(4,606,287)	(12%)

The total revenue received in 2009 was $40million and decreased by $4.6million to $35million in 2011, a decrease of $4.6million. Refer to chart 5.7E below.

Chart 5.7E: Total revenue by year

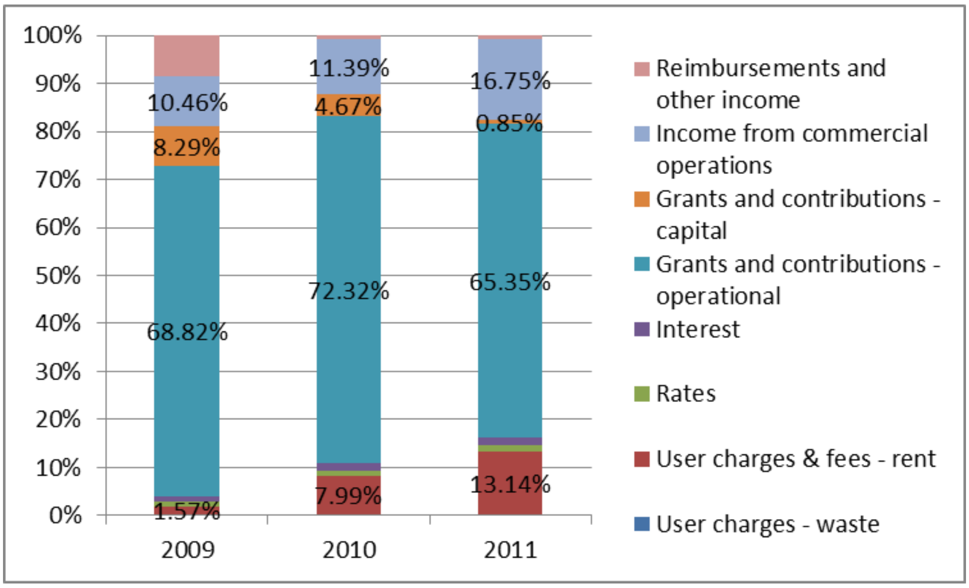


MSC generated revenue from the following sources:

- User charges and fees for waste management and rent
- Rates

- Interest
- Grants and contributions (for operational and capital purposes)
- Other operating revenue
- Net profit from disposal of assets.

Chart 5.3F: Revenue analysis by source



The chart above demonstrates the heavy reliance on grants and contributions income and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, MSC's own source revenue is insufficient to cover the costs of delivering core services to its shire communities.

Over the three year period, the level of grants and contributions (predominantly from the Northern Territory and Commonwealth Governments) decreased from $30.6million in 2009 to $23million in 2011, a decrease of $7.4million (24%). Rates and user charges - waste provided approximately 1% or less of the total revenue and user fees and charges – rent increased from less than 2% of total revenue ($621,000) in 2009 to 13% ($4.6million) in 2011.

Revenue – untied versus tied

For the purposes of this analysis, all revenue received by MSC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of the NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of rates and annual charges, interest, other operating revenue and net profit/(loss) on disposal of assets

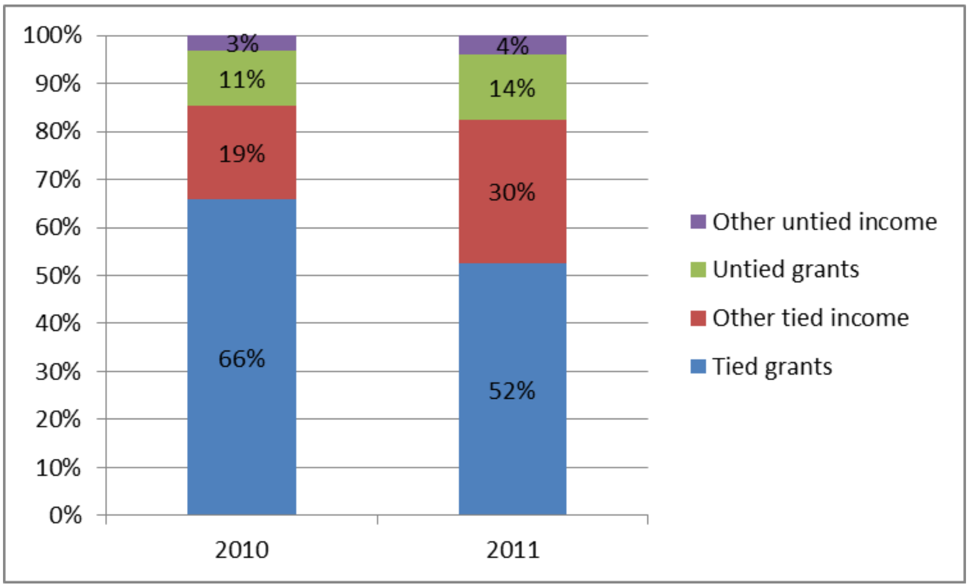
- Tied income consists of user charges and fees.

Table 5.7m: Tied versus untied revenue

	2011		2010	
Tied grants	18,420,474	53%	24,366,628	66%
Other tied income	10,471,358	30%	7,191,218	19%
Total tied income	28,891,832	82%	31,557,846	85%
Untied grants	4,776,041	14%	4,204,646	11%
Other untied income	1,372,870	4%	1,189,333	3%
Total untied income	6,148,911	18%	5,393,979	15%
Total revenue	35,040,743	100%	36,951,825	100%

Note: tied vs. untied revenue has not been determined for 2009 due to insufficient detail available to enable us to identify

Chart 5.7G: Revenue tied versus untied



Of the total revenue received in each of the two years, the majority is tied revenue that must be used for a specific purpose and cannot be used at the discretion of MSC. Untied revenue that can be used by MSC for the delivery of core services was 14% (2010) and 18% (2011) of total revenue.

Grants and contributions (operational)

Grants and contributions (operational) comprise 69% of the revenue for 2009, 73% for 2010 and 65% for 2011. MSC is heavily reliant on grants and contributions from Northern Territory and Commonwealth Governments to deliver its core services as the level of income it can generate from own source revenue is limited (own source revenue is discussed later in this report). As can be seen from table 5.7l, total grant revenue received over the three years has decreased by $4.4million (16%).

Revenue received from DHLGRS for the Housing Maintenance Program in 2009 and 2010 was provided to MSC on a grant basis and recorded as grants and contributions in the 2009 and 2010 financial years. In 2011, funding provided for Housing Maintenance Program was recorded as other income as it was received on a fee for service basis.

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in tables 5.7n and 5.7o.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
Match funding	
Roads to recovery	
Library	
Shire Establishment Fund	

Note, we were unable to obtain the breakdown of operational grant income by core and non-core services for 2009 therefore the table below excludes the 2009 financial data.

Table 5.7n: Composition of grant income (operational) by category

	2011	2010
Core services	6,044,232	6,752,848
Non-core services	16,854,109	20,085,772
Total grants and contributions	22,898,341	26,838,620
Core services as a % of total grants (operational)	26%	25%
Non-core services as a % of total grants (operational)	74%	75%

Note: core vs. non-core revenue has not been determined for 2009 due to insufficient detail available to enable us to identify

Table 5.7o: Primary sources of grant income (operational)

Source	2011	2010	2009
Northern Territory Government (NTG)	6,661,490	14,623,558	14,043,607
Commonwealth Government (Com)	16,236,851	12,215,062	13,241,344
	22,898,341	26,838,620	27,284,951
% of grants (operational) from NTG	29.1%	54.5%	51.5%
% of grants (operational) from Com	70.9%	45.5%	48.5%

MSC received the majority of its funding from the Northern Territory Government in 2009 and 2010 with 51.5% and 54.5% respectively. In 2011, the Commonwealth Government provided the majority with 70.9% of total grant income (operational).

The decrease in the level of operational grants from the Northern Territory Government is predominantly due to operating grants (as classified in the annual financial statements) decreasing by approximately $4million over the three year period. The majority of the decrease, $3.5million, relates to revenue provided for the Housing Maintenance Program recorded as grant revenue in 2009 and in 2010 as recorded in user charges and fees – rent, as it became a commercial operation.

Grants (operational) provided by the Commonwealth Government have increased over the three year period by approximately $3million due to operating grants (as classified in the annual financial statements) increasing by $4million offset by a $800,000 decrease in agency services grants.

Grant funding (operational) for core services

Table 5.7n above and table 5.7p below shows the level of grant income received for core services has remained relatively stable over the two years with 2011 increasing from 2010 by $709,000 (10%).

Table 5.7p: Tied versus untied core services grant and contributions income (operational)

	2011	2010
Untied	4,776,041	4,204,646
Tied	1,268,191	2,548,202
Total grants core services	6,044,232	6,752,848
Untied as a %	79%	62%
Tied as a %	21%	38%

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also funded by the Northern Territory and Commonwealth Governments. All non-core services funding is classified as tied income.

Table 5.6q: Tied versus untied non-core services grant and contributions income

	2011	2010
Untied	-	-
Tied	16,854,109	20,085,772
Total grants and contributions – non-core services	16,854,109	20,085,772
Untied as a %	-	-
Tied as a %	100%	100%

Grants and contributions (capital)

MSC received the following grants for capital purchases during the year:

Table 5.7r: Primary sources of capital grant income

	2011	2010	2009
Northern Territory Government	-	114,091	501,125
Commonwealth Government	298,174	1,618,563	2,785,090
Other	-	-	-
Total grants and contributions (capital)	298,174	1,732,654	3,286,215

**Figures have been obtained from the annual financial statements*

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets.

User charges – waste management

User charges – waste management for all three years was approximately $93,000 and represented less than 1% of the total revenue received for each of the three years.

User charges and fees - rent

User charges and fees - rent has increased from $621,000 in 2009 to $4.6million in 2011, an increase of $4million (640%) over the three year period, however excluding a change is classification of revenue the actual increase would be $0.5million (83%). Included in this account is the Housing Maintenance Program fee for service income from the Northern Territory Government which was previously recorded under operational grant income. The total revenue received for the Housing Maintenance Program in 2011 was approximately $3.5million.

Included in this category of income is user charges and fees for service fees. The rent received over the three years has increased from less than 2% of total revenue in 2009 to just over 13% of total revenue in 2010 or from $620,000 to $4.6million. Service User charges for waste management have remained steady across all three years at approximately $93,000 per year.

Rates

Rates consist primarily of general rates. Rates have remained steady over the three year period at approximately $400,000 per year and represent less than 2% of total revenue. MSC's population is 7,200 and they have a limited number of properties that are rateable. MSC's rating ability is restricted by the requirements of section 142 of the Local Government Act 2008 which applies conditional rating over land held under pastoral leases and land occupied under mining tenements.

Rates revenue is considered core services revenue to deliver core service activities to all communities of MSC. Rates are funded through charges to residential dwellings.

Income from commercial operations

Income from commercial operations increased from $4.1million in 2009 to $5.9million in 2011. Income from commercial operations is made up of contract fees, service fees and sales. Income from commercial operations represents 10.5% of total revenue in 2009 and increased to 16.8% of total revenue in 2011.

Reimbursements and other income

Included in this category of income is fundraising and donations, gains from disposals of plant, equipment and vehicles and reimbursements. Due to the nature of this income it is considered to be untied funding. Reimbursements and other income have decreased from $3.4million in 2009 to $273,000 in 2011. The decrease is attributable to a reduction in disposals of property plant and equipment.

5.7.5 Capital expenditure

Analysis of capital investment over the three years

Over the three years, MSC purchased property, plant and equipment totalling $4.8million in 2009, $3.6million in 2010 and $2.6million in 2011. The composition of the additions can be seen in table 5.7s and chart 5.7l.

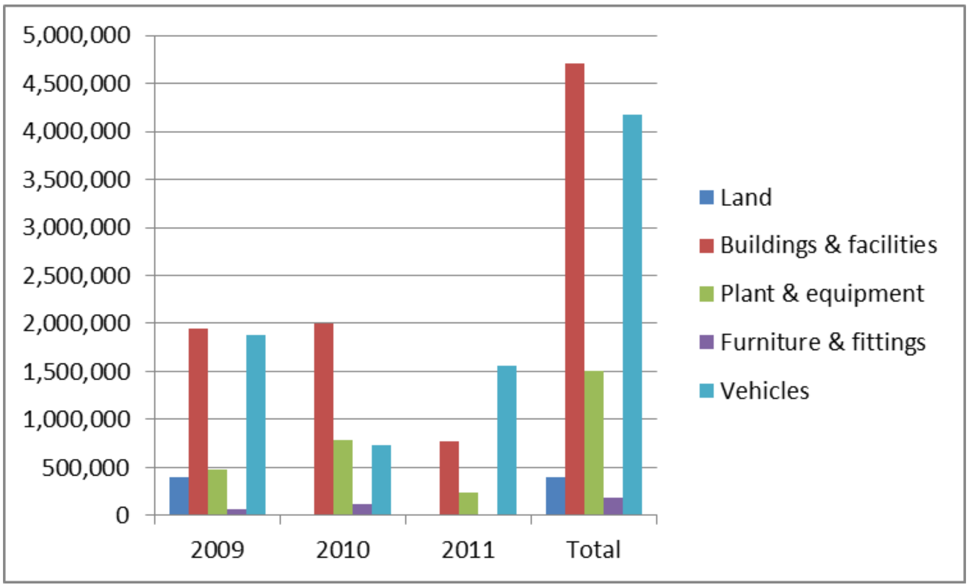
Table 5.7s: Additions of property, plant and equipment by asset category

	2011	2010	2009	Total
Land	-	-	404,250	404,250
Buildings & facilities	765,383	2,000,819	1,940,995	4,707,197
Plant & equipment	237,999	790,195	478,327	1,506,521
Furniture & fittings	-	116,869	65,871	182,740
Vehicle	1,558,600	729,465	1,885,570	4,173,635
Total	2,561,982	3,637,348	4,775,013	10,974,343

Note: figures obtained from the annual financial statements and do not include work in progress

Capital expenditure for MSC over the three years totalled $11million with the expenditure spread across all categories. Capital expenditure represents 7% (2011), 9.2% (2010) and 13.2% (2009) of total expenditure.

Chart 5.7l: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants and over the past three years has not been sufficient to meet the asset expenditure.

Table 5.7t: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital funding	298,174	1,732,654	3,286,215	5,317,043
Capital expenditure	2,421,190	3,812,290	4,775,013	11,008,493
Difference	(2,263,808)	(1,904,694)	(1,488,888)	(5,691,450)

Note: Figures have been obtained from the annual financial statements and include work in progress

Table 5.7t above shows that the capital expenditure exceeded capital grants revenue for all three years by $1.5million or more.

MSC does not have a cash reserve established to meet future capital expenditure requirements. MSC has made capital purchases totalling $11million over the three years. Total capital grants received over the three year period were $5.3million, $5.7million less than the actual purchases. Funding for the difference has come from either untied cash reserves or own-source revenue. As MSC has incurred operating deficits over the last two years it is reasonable to assume that it has come from cash reserves. If the trend continues and MSC continue to make operating deficits then this situation may lead to MSC becoming financially unsustainable in the future.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of one for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.7u: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Average
Capital expenditure	2,561,982	3,637,348	4,775,103	11,008,493
Depreciation expense	2,325,846	2,328,403	2,397,023	7,051,272
Sustainability ratio	1.04	1.64	1.99	1.56

Note: Figures have been obtained from the annual financial statements and include work in progress

The benchmark for the sustainability ratio is 1. As we can see in table 5.7u, the ratio for MSC was 1.99 in 2009 and has decreased over the subsequent two years to 1.64 in 2010 and 1.04 in 2011 with an average over the three year period of 1.56. This indicates MSC is replacing its assets in line with its annual consumption. However, when analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils
- Does not take into consideration whether communities within the Councils are growth towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

Property, plant and equipment includes a large number of assets located across the shire which were transferred from the previous community Councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or the MSC did not believe they had ownership or control over the assets. Efforts have been made by the MSC over the last three years to locate, assess and determine whether they have ownership of the assets or if they are deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of MSC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist or the MSC does not own or have control over the asset. Therefore it is likely that although the sustainability ratio is positive indicating that MSC is replenishing its assets in line with its consumption of the assets, there may still be gaps in renewal, replacement or upgrade of infrastructure and plant and equipment items due to the large number of assets recorded in the fixed asset register with nil written down values and not reflected in the depreciation charge each year. The subsequent recognition of some assets, as well as the revaluation of assets including changes to the depreciation rates applied have also affected the accuracy of the analysis.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory and throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by MSC buildings and facilities accounts for 57%, plant and equipment accounts for 24% and plant and equipment accounts for 13%.

There were limited sources of information available to us in respect of the backlogs facing MSC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, two are located within the MSC Shire being Ntaria (Hermannsburg) and Papunya.

There are approximately 36,000kms of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50kms of the Territory Growth Towns less than fourteen percent of the 5,000kms of roads are sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. MSC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in MSC.

Chart 5.6J: Territory Growth Towns (MSC Shire) – Road conditions within a 50km radius

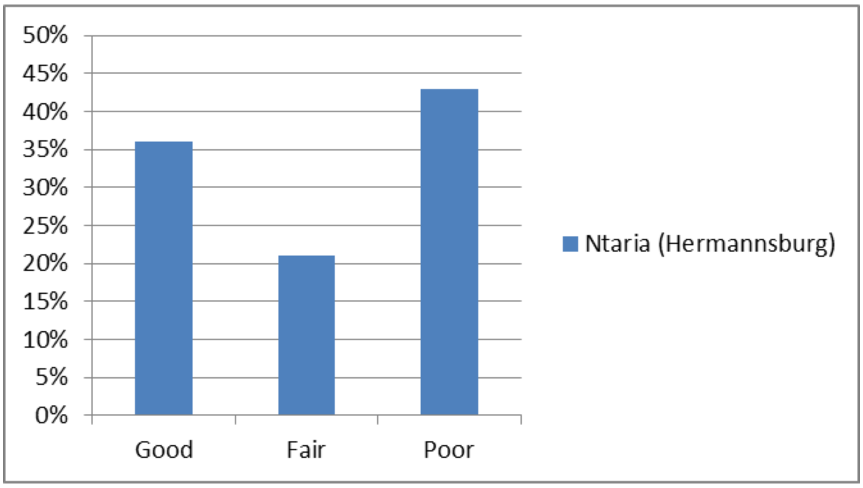


Table 5.7v below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.7v: Estimated cost of upgrades and ongoing annual maintenance of roads within 50km radius of Territory Growth Towns in MSC Shire

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Ntaria (Hermannsburg)	462.81	46.38	1.80
Papunya	386.9	136.77	2.15
Total	849.71	183.15	3.95

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $183.15million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $3.95million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs do not include all communities within MSC only those classified as Territory Growth Towns. Therefore the true infrastructure backlog exceeds the $183.15million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by MSC with many of them past their useful life and in need of upgrade or replacement.

5.7.6 Core services, fee for service arrangements and commercial services

As a shire council established under the Local Government Act 2008, there are minimum core services which MSC must provide. For a list of these activities refer to Appendix 1 of this report.

The tables and charts following show the net result by core services, agency services and non-core services for 2011 only. The surplus/(deficit) financial data by program was provided for 2010 however the total surplus/(deficits) for all programs did not agree to the annual financial statements and the accuracy of the data provided cannot be ascertained as the Council has not previously analysed the information at this level, therefore we have not included it in the table or our analysis. We were not provided with the surplus/ (deficit) for each service in 2009.

Table 5.7w: Summary of surplus/ (deficit) by core services, agency services and commercial services

	2011
Core services	(3,343,306)
Agency services	(477,634)
Commercial services	2,049,001
Net surplus/(deficit)	(1,771,939)

**The total surplus/(deficit) reported in the annual financial statements for 2011 is $1,771,931 which differs to the total deficit reported in the annual financial statements by $8.*

In 2011, core services programs incurred a net deficit of $3.5million indicating that there was insufficient revenue coming in to cover the costs of delivering core services. A detailed breakdown of surpluses/ (deficits) by program by core services, agency services and commercial services can be seen in table 5.7x below. The analysis below is based on the data from the surplus/deficits by program report provided MSC however the accuracy of the data cannot be ascertained.

A detailed discussion on surpluses/ (deficits) by program by core services, agency services and commercial services and other non-core activities follows.

Core services

We were provided with a list of all core services programs for 2011 which included thirty-one programs. Of the thirty-one services programs listed, two had a nil balance, nine programs registered a surplus and 20 registered deficits. As we were not provided with the financial data for the 2009 and 2010 financial years, we were unable to perform a trend analysis.

Chart 5.7K: Number of core services programs with operating surplus and deficits for 2011

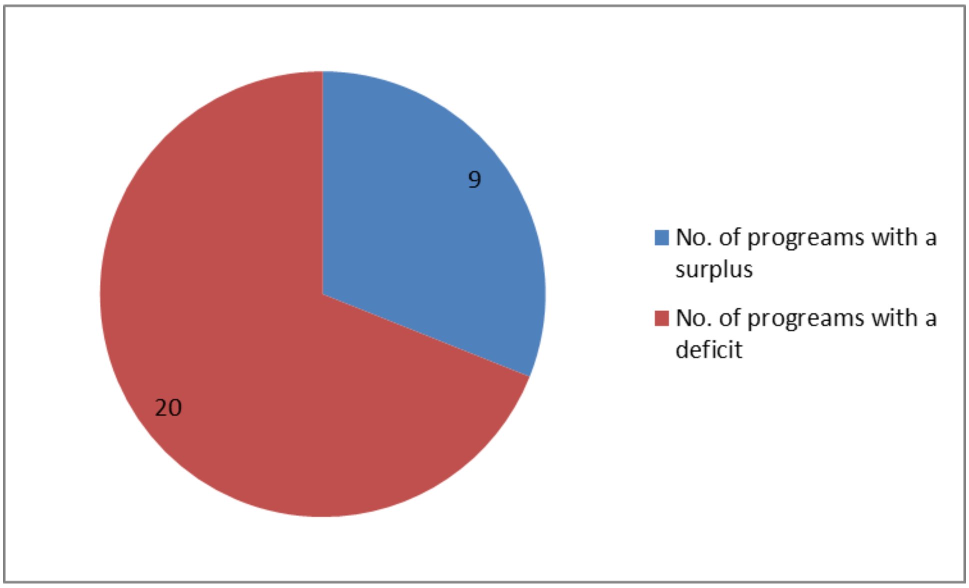


Table 5.7x: Surplus/ (deficit) by program for core services activities

Core services programs	2011
CEO's Office	(628,458)
Manage Corporate Services	(95,717)
Manage ITC & Records	(880,400)
Procurement Department	-
Manage HR	(392,697)
Training & Development *(Includes 124)*	50,682
Manage Finance	(795,425)
Corporate Income & Expenses	5,701,821
Manage Governance	(123,435)
Governance Development	33,866
Local Boards	(157,865)
Elected Members & Council Meetings	(288,049)
Elections	-
Communications	(105,068)
Manage Shire Buildings & Facilities	(662,917)
Staff Housing	(114,293)
Maintain RoadsCouncil	126,414
Outstations Civil Works	(393,515)
Operate Shire HQ Facility	(244,910)

Manage Shire Service Delivery	(2,966,055)
Civil Works	(1,721,834)
Animal Management	(114,675)
Broadcasting	59,998
Parks and Public Spaces	91,406
Waste Management	92,908
Emergency Services	(7,695)
Outstations Housing Repairs & Maint.	(222,651)
Operate Swimming Pools	20,800
Library	(14,025)
Fleet Management	855,491
Fleet Workshop Alice Springs	(447,008)
Total core services programs	(3,343,306)

As demonstrated above, core services programs incurred a net deficit of $3.3million in 2011. We were provided with the surplus / (deficit) for each service in 2010 however as the total surplus deficit did not agree to the annual financial statements we have not included it in the table or our analysis. We were not provided with the surplus deficit for each service in 2009.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australian) of which MSC sits within the Central Australian Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Central Australian Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators for which MSC is to assess their performance in the delivery of core services and meeting objectives of the Central Australian Region RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including MSC. MSC is required to deliver core services to thirteen communities as listed in section 5.7.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs expected when measuring whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, the following has been noted that all services have been provided to all thirteen communities with the exception of the following two services:

- ‘Local road construction, upgrading’ – this service has not been delivered but is planned to be delivered. Expected delivery dates have not been disclosed

- 'Local emergency services' – this service has not been delivered but is planned to be delivered. Expected delivery dates have not been disclosed.

No actual reporting against KPIs was included in the Regional Management Plan Report and therefore the extent to which service delivery has occurred cannot be determined and assessed. MSC believe they have provided local road construction and upgrading services throughout the three years. MSC also advised that since the review was performed they have implemented a program to provide local emergency services.

From the review of the shire plans for MSC, outcomes and strategies were identified however did not include KPIs to measure and assess performance and ultimate achievement of outcome. MSC advised that they have developed key KPIs and key actions and that these are included in the 2011/12 Shire Plan.

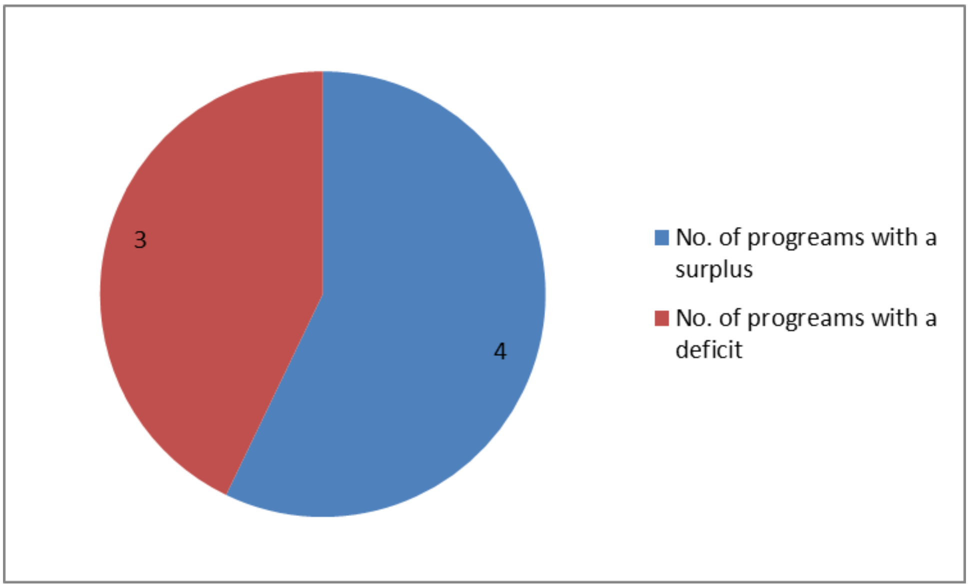
Agency services

In addition to providing core services to the communities within its shire boundaries, MSC also provides other services on behalf of the Northern Territory and Commonwealth Governments referred to as 'fee for service arrangements' or 'agency services'. MSC entered into agreements with both the Northern Territory and Commonwealth Governments to deliver approximately thirteen programs. Table 5.7y and chart 5.7L show agency services reporting a net deficit of $477,000 in 2011. Review of the individual programs showed deficits in three programs in 2011 totalling $565,000. As we were not provided with the financial data for the 2009 and 2010 financial years, we were unable to perform a trend analysis.

Chart 5.7L demonstrates that, of the seven agency services programs undertaken by MSC the majority of the agency services program undertaken returned operating deficit. For programs where operating deficits were incurred, whilst we are unable to determine how the deficits were funded due to the limited information provided, it is reasonable to assume that the deficits were funded by either programs with operating surplus's for the same period or from cash reserves.

Given that agency services are generally considered 'tied' programs, it is possible that some of the reported surpluses constitute tied unexpended funds.

Chart 5.7L: Number of agency services programs with operating surplus and deficits for 2011



This report is intended solely for the information and internal use of the DHLGRS in accordance with our letter of proposal of October 2011, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than the DHLGRS for our work, for this report, or for any reliance which may be placed on this report by any party other than the DHLGRS.

Table 5.7y: Surplus/ (deficit) by program for agency services activities

Agency services program	2011
Manage Agency Services	266
Community Safety	20,521
Youth Development	54,199
Aged Care	(398,281)
Child Care	(70,056)
Nutrition	(97,247)
Self Funded Sport and Rec	12,964
Total Fee for Services	(477,634)

Commercial and other non-core services

MSC operated five commercial services programs during 2011 which incurred combined operating surpluses of $2.0million in 2011. Of the six programs, one program registered an operating deficit of $13,000 in 2011 which was offset by the three remaining programs that generated surpluses.

Commercial and other non-core services activities should only be undertaken where MSC will be in a position to make a profit from these activities. Commercial and non-core services should not be undertaken where it is known that the Council will incur recurring losses as this will negatively impact the financial sustainability of the Council.

Chart 5.7L: Number of commercial services programs with operating surplus and deficits for 2011

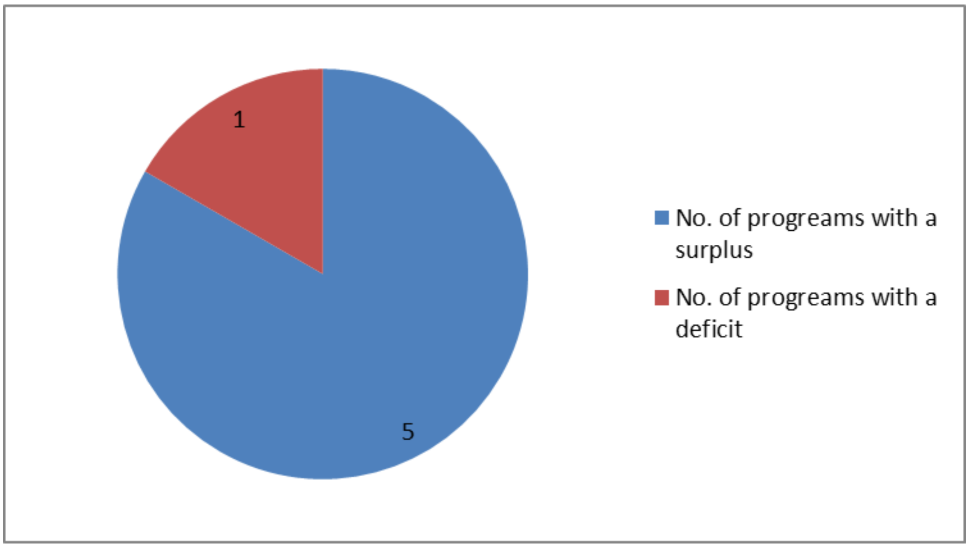


Table 5.7z: Surplus/ (deficit) by program for commercial services and other non-core services activities

Commercial services programs	2011
Territory Housing Repairs & Maint.	615,134
Territory Housing Tenancy Management	887,865
Centrelink	118,941
Operate Community Stores	(13,619)
Essential Services	399,960
Postal Agencies	40,720
Total for Commercial services programs	2,049,001

Identification and analysis of cross subsidisation

As noted above, both agency services and commercial services achieved net operating surpluses whilst core services incurred deficits for 2011. It is therefore reasonable to assume that any programs within the agency services or commercial services groups achieving surpluses are funding loss making programs.

The majority of core services programs are returning operating deficits indicating potential cross subsidisation between programs. MSC is using cash reserves to deliver core services as demonstrated by the decreased in cash balances from 2009 to 2011.

Some agencies do not allow or allow a small percentage for the recovery of indirect and overhead costs. In some cases the percentage that is allowed to be charged to the program by MSC is not sufficient to cover the actual indirect and overhead costs incurred. As a result, programs showing a surplus or deficit may not be showing the full costs of delivering the programs and therefore it is reasonable to assume that there is a level of cross subsidisation within both core services and fee for service arrangements however the amount cannot be quantified until an appropriate overhead allocation rate is established and consistently applied. If MSC were to reject these agreements, it may result in communities not being provided with essential services.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policy to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads. As a result, allocation of overheads to programs did not commence until the end of the first year of operation and were still not adequately designed or implements at the end of 2011.MSC advised that will aim to further develop cost allocation procedures in 2012.

MSC have identified two types of costs, being direct and indirect costs. Allocating expenditure through direct cost allocation is the preferred methodology, including wages, telephones and daily consumables used to deliver the service which are allocated to the activity at time of purchase or utilisation. Indirect costs, such as costs incurred due to the administration of human resource and payroll or the provision of computer support and hardware, corporate and accounting services and marketing and stakeholder relations represent corporate costs which are necessary and benefit individual services. These indirect costs are usually allocated periodically in an arbitrary manner. MSC allocate overhead rates at 15% of costs to each activity. Allocation of indirect costs has not been consistently received by grant funding bodies and many grant agreements restrict the allocation and recovery of indirect overheads.

Establishment of fee for service arrangements

In addition to the delivery of core services required under the Local Government Act 2008, MSC has entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments.

All agency services are funded under an agreement between MSC and the relevant government entity. The following issues have been identified as preventing effective and cost neutral fee for service arrangements:

- MSC submit budgets for the delivery of the services, however in some instances the level of funding received does not reflect the budget submitted by MSC upon application
- some agency services do not allow for an administration fee, or allow an insufficient fee, to recover all overhead and indirect costs incurred by MSC in delivering the services
- a detailed methodology does not exist to allocate overheads and indirect costs across all programs. Administration costs are not always charged to the program
- there is no 'profit margin' built into the commercial services budgets as expected in commercial organisations providing commercial services.

5.7.7 Budget processes

Operating budgets

Budgets have been prepared at a high level to meet the statutory requirements of reporting in the Shire Plans. They are reported as core services, agency services and commercial services. They have been difficult to prepare as agency and special purpose funding has quite often not been confirmed until after the commencement of the financial year. The budgets are based on historical cost and prior learning.

Comparison of the actual results to budget only commenced in 2011-12. Prior to this MSC did not analyse actual results against budget for each program.

Capital budgets

MSC advised that for 2011 there was an asset management plan in place, however we were not provided with a copy of the asset management plan. Capital expenditure is determined during the annual budgeting process based on current needs and identified and approved funding due to be received during the year.

Cash flow budgets

For the last three years MSC have not prepared cash flow budgets or cash flow forecasts due to the difficulty in predicting the timing of cash flows.

5.7.8 Summary – financial sustainability of MSC

To determine the financial sustainability of MSC we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis, six KPIs were used to assess financial sustainability of MSC. The results of the KPIs are listed in the table below.

Table 5.7aa: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(5.9%)	(12.5%)	0.9%	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	(27.2)	(41.2)	279	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	1.04	1.64	1.99	1.56
Current ratio	Current assets divided by current liabilities	1.0	1.3	1.3	1.8	-
Rates coverage	Rates revenue divided by total cost	40%	1.1%	1%	1.1%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	6.6%	6.1%	-	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for MSC is in a healthy position overall with net assets of $13.1million however the net asset position has decreased over the last three years due to continuing operating deficits being incurred. The current ratio for both 2010 and 2011 was 1.3 which declined from 1.8 in 2009. On closer inspection, the decline in net assets is due predominantly to cash balances decreasing with current liabilities (excluding unexpended grants) exceeding the unrestricted cash balances in 2010.

The interest coverage ratio for MSC for 2009 exceeded the benchmark of 3 however in 2010 and 2011 it has declined to (41.2) for 2010 and (27.2) for 2011, both well below the benchmark of 3 used in this analysis. MSC interest expenditure made up 0.1% of total expenditure in 2011, the adverse interest coverage ratio is due to the net deficits incurred. Any large unexpected events with adverse cash flows could potentially place pressure on MSC to meet interest payments.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly operating deficits indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years MSC has been incurring net operating deficits. Where operating deficits persist this indicates that operating revenue is insufficient to meet current operations. MSC is heavily reliant on grant funding due to limited own-source revenue it can generate.

The sustainability ratio for MSC on average over the last three years was 1.56 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets. As previously discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that MSC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008 MSC has undertaken a review of the assets transferred in to determine whether they existed, were fit for purpose, and/or under the control of MSC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $183.15million by a study conducted by the Northern Territory Government. This backlog does not cover other communities within the MSC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions MSC is not financially sustainable in the medium term. Being classified as financially unsustainable does not mean MSC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of MSC are to put onto a financially sustainable basis going forward.

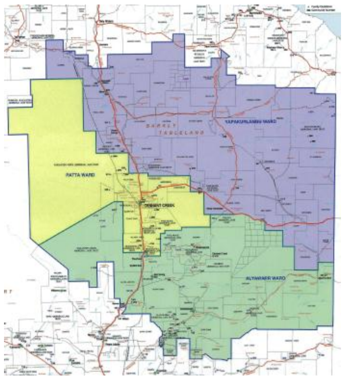
5.8 Barkly Shire Council

5.8.1 Introduction

On 1 July 2008, as a result of the Northern Territory local government reform program where 59 organisations were reduced to 16 Councils, Barkly Shire Council (BSC) was incorporated under the *Local Government Act 2008 NT*. Six of the previous community government councils were amalgamated into BSC and all assets and liabilities were transferred to the new legal entity.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	7,452
Land size	322,694 km^2
Wards	3
Communities & Outstations	94
Pastoral Leases	49



Elected representatives to Council by ward (2008-2012)

Alyawarr	5
Patta	5
Yapakurlangu	2

At 30 June 2011, BSC had 260 staff in its employ and was responsible for managing 621 km of roads of which approximately 80% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Central Australian Regional Management Plan, BSC is required to deliver services to six designated communities and has established six service delivery centres as the base for delivering services across the shire, located in:

- Ali Curung*
- Alpurrurulam
- Arlparra
- Ampilatwatja
- Elliott*
- Wuntunugurra.

BSC also maintains a Corporate Service office located in Tennant Creek.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are two Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government

services and facilities and better support for indigenous community governance and leadership. There are no Remote Service Delivery Sites located within the shire.

Challenges of population and geography in BSC

BSC faces significant infrastructure challenges due to its specific geography and demographic profile. BSC's population is 7,452 people with the majority of the population being indigenous people. BSC occupies a land mass of 322,694 km^2. BSC faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the Central Australia Region. Some of the key challenges include:

- Achieving a level of funding that is stable and long term that ensures the financial sustainability of the Council
- A low level of untied grant revenue received is able to be used at the Council's discretion
- Alternative revenue generation with a significant portion of current revenue coming from grant revenue
- The Council has a very low rates basis with the majority of the land being exempt Lands Trust or conditionally rateable pastoral leases
- Poor standard of many Council owned assets and the associated costs of maintenance including ability to maintain plant and equipment in good working condition
- Poor condition of local roads to support access to communities. The Council inherited aged and ill-maintained road infrastructure which is prone to damage and disruption during adverse weather conditions
- Handover of road assets to local government without sufficient funding
- Reduction in funding for infrastructure development in communities that are not 'Growth Towns'
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- Financial sustainability
- Lack of secure land tenure for Council assets creates uncertainty over the ownership and control of assets
- Recruitment and retention of staff particularly suitably qualified staff
- The employment and training of Indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff
- The viability of delivery of services to non-Council homelands
- Information technology systems and communication networks are unreliable, inconsistent coverage and constant operating issues. Mobile phone coverage across the Shire.
- Significant resources required for the reporting and acquittal processes associated with grants.

Entities in which BSC has an interest:

CouncilBiz

CouncilBIZ was incorporated as a Local Government subsidiary on 10 June 2008 and commenced operations on 1 July 2008 providing administrative, information technology and business systems support services to the 8 member Shires. It is a Local Government subsidiary, created as part of the Northern Territory Local Government Reform Agenda, under the Local Government Act 2008 and Regulations. Upon the incorporation of CouncilBiz, BSC made an initial funding contribution to CouncilBiz of $50,000.

5.8.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009 and 2010. The 2011 audited financial statements were not complete at the time this report was prepared, unaudited 2011 financial statement data has been used. Some areas within this section have not been completed due to the lack of finalised numbers.

Table 5.8a: Financial position as reported in the audited financial statements for 2009 and 2010 and system generated in 2011

	2011	2010	2009	Total increase/(decrease)	
Current assets	19,508,549	17,190,148	17,594,975	1,913,574	11%
Non-current assets	40,316,677	38,379,816	20,537,189	19,779,488	96%
Total Assets	59,825,226	55,569,964	38,132,164	21,693,062	57%
Current liabilities	5,911,362	7,985,947	7,365,040	(1,453,678)	(20%)
Non-current Liabilities	79,322	79,322	16,001	63,321	396%
Total Liabilities	5,990,684	8,065,269	7,381,041	(1,390,357)	(19%)
Net Assets	53,834,542	47,504,695	30,751,123	23,083,419	75%
Equity	53,834,542	47,504,695	30,751,123	23,083,419	75%

**The annual financial statements for 2011 have not been finalised and therefore figures included in the table above are based on unaudited numbers.*

The financial position for BSC has improved over the three year period from $30.8million in 2009 to $53.8million in 2011 (75%), with the majority of the increase occurring in the 2011 year. Most of the increase relates to property, plant and equipment which increased by $19.7million (96%) from 2009.

Cash balances analysis

Cash balances comprise cash and cash equivalents. Table 5.8b below shows the composition of current assets for the each of the three years under analysis.

Table 5.8b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	17,888,968	16,055,906	16,311,090
Other	1,619,580	1,134,242	1,283,885
Current assets	19,508,549	17,190,148	17,594,975

Cash as % of current assets	92%	93%	93%

As can be seen from the table, cash balances have comprised 92% to 93% of the current assets over the period under analysis and have increased by $1.6million or 9.7% since 2009.

Table 5.8c below shows the composition of the cash balances. Note the table only includes 2009 and 2010 as the annual financial statements for 2011 have not been finalised and the restricted or unexpended grants at year end are not available.

Table 5.8c: Composition of cash balances

	2010	2009
Cash and cash equivalents	16,055,906	16,311,090
Restricted cash balances*	4,349,803	5,393,245
Unrestricted cash and cash equivalents	11,706,103	10,917,845

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

Chart 5.8A: Composition of cash balances

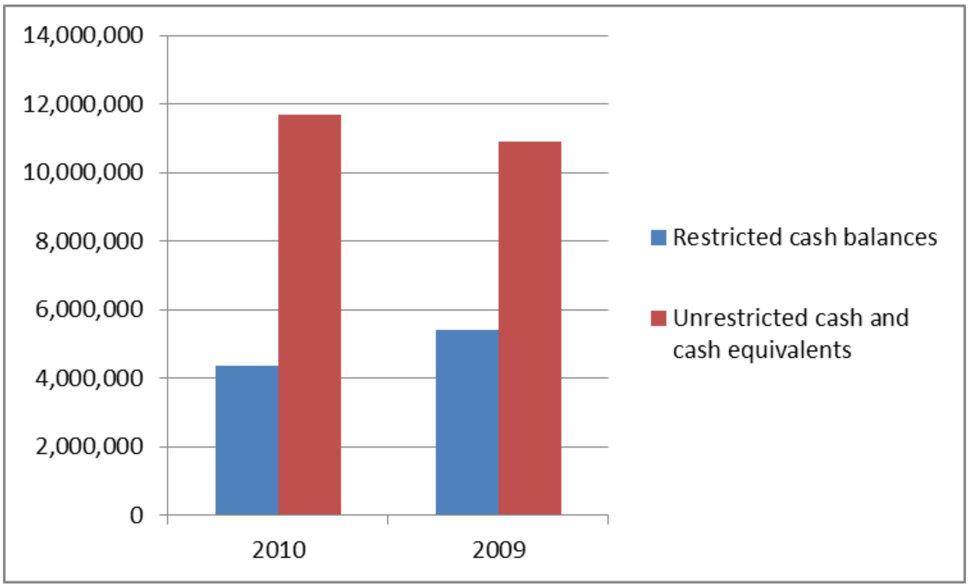


Table 5.8d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is one. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems meeting its short term obligations.

Table 5.8d: Current Ratio

	2011	2010	2009
Total current assets	19,508,549	17,190,148	17,594,975
Total current liabilities	5,911,362	7,985,947	7,365,040
Net current assets (Working Capital)	13,597,186	9,204,201	10,229,935
Current Ratio	3.30	2.15	2.39

Table 5.8e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.8e: Cash Ratio

	2010	2009
Total cash balances	16,055,906	16,311,090
Less: unexpended grants (restricted assets)	4,349,803	5,393,245
Total unrestricted cash balances	11,706,103	10,917,845
Total current liabilities (unrestricted)	7,985,947	7,365,040
Cash Ratio (unrestricted)	1.47	1.48

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

Both tables above demonstrate that BSC had sufficient cash reserves to settle all current liabilities, including unexpended grants, at 30 June should creditors and funding providers have demanded immediate settlement. BSC has exceeded the benchmark of 1 in each of the years subject to analysis suggesting BSC could cover all its current liabilities.

Non-current assets

Non-current assets are property, plant and equipment. The balance of property, plant and equipment has increased over the last three years from $20.5million in 2009 to $38.3million in 2010 and then to $40.3million in 2011.

In 2010 the buildings, furniture and office equipment, plant and equipment, sealed roads, unsealed roads and other infrastructure were independently valued. As a result of the revaluation, the property, plant and equipment was revalued upward by $19.1million (shown as an asset revaluation increment in the Statement of Comprehensive Income).

The annual financial statements for 2011 have not been finalised, therefore we cannot complete our analysis of property, plant and equipment by showing the composition of assets.

Liabilities analysis

An analysis of current liabilities cannot be performed due to the 2011 annual financial statements not being finalised.

5.8.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio (or current ratio). We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of NT Councils in section 3 of this report.

This section provides our analysis of the financial performance of BSC over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.8.5.

Below is an extract from the Statement of Comprehensive Income from the audited financial statements for 2009 and 2010. The audited financial statements were not available for 2011 and therefore unaudited financial data was used.

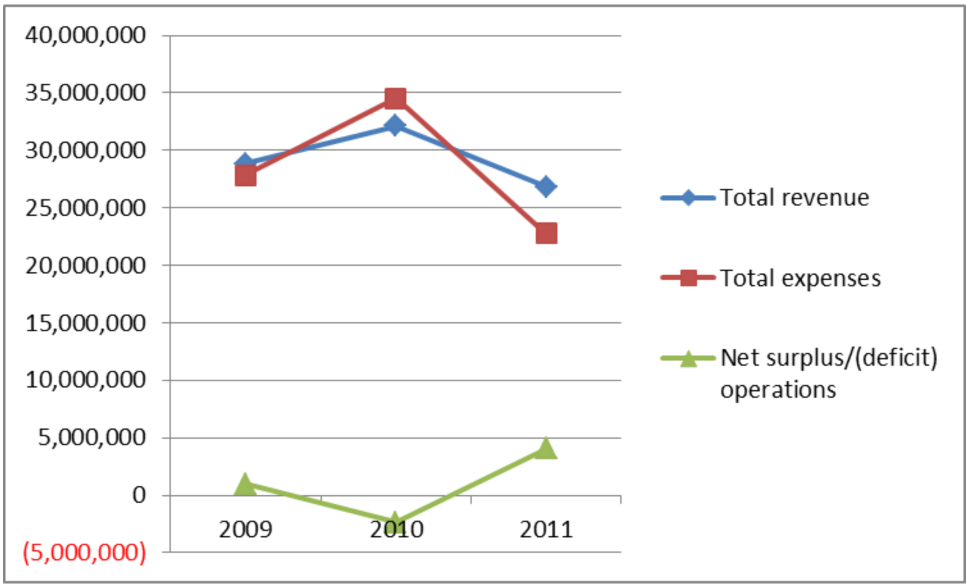
Table 5.8f: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009*	Total increase/(decrease)	
User charges and fees	3,161,172	2,198,678	784,925	2,376,247	303%

Rates and annual charges	2,597,007	2,422,261	2,310,560	286,447	12%
Interest	2,010,718	306,118	153,946	1,856,772	1206%
Grants and contributions	20,153,261	21,270,411	22,707,819	(2,554,558)	(11%)
Other Operating revenue	847,576	5,929,909	818,397	29,179	4%
Net profit from disposal of assets	45,199	-	32,583	12,616	39%
	28,814,933	32,127,377	26,808,230	2,006,703	7%
Employee costs	12,219,749	13,262,179	12,147,399	72,350	1%
Materials and contracts	9,275,449	10,317,184	7,857,404	1,418,045	18%
Depreciation and amortisation	2,150,000	2,472,753	1,281,443	868,557	68%
Finance costs	9,553	-	15,678	(6,125)	(39%)
Other costs	4,164,843	8,463,108	1,468,377	2,696,466	184%
	27,819,594	34,515,224	22,770,301	5,049,293	22%
Net surplus/(deficit) operations	995,339	(2,387,847)	4,037,929	(3,042,590)	(75%)
Gain of Asset Revaluation Reserve	-	19,141,419	-	-	-
Total Comprehensive Income	995,339	16,753,572	4,037,929	(3,042,590)	(75%)

**The 'gain on restructure of local government' recorded in revenue totalling $26.7M in the 2009 financial statements were excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2009 total revenue is $53.5M and the total surplus for the year is $30.7M.*

Chart 5.8B: Revenue, expenses and net result for 2009, 2010 and 2011



BSC achieved operating surpluses of $4million in 2009 and $1million in 2011 and an operating deficit of $2.3million in 2010. The operating deficit incurred in 2010 is the only deficit incurred since incorporation on 1 July 2008. Over the three years income has increased by $2.4million (7%) whilst at the same time expenses increased by $5million (22%). The primary reason for revenue increasing over this period was due to the increase in user charges and fees of $2.3million and an increase in interest of $1.9milion slightly offset by a decrease in grants and contributions of $2.6million.

Expenses increased over the three years in all expense categories except finance cost. Finance cost is made up of bank charges, it is not in relation to debt cost.

Refer to section 5.8.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.8g below shows the operating surplus/(deficit) for BSC and the associated surplus/(deficit) ratio for the three years since 2009. Due to the annual financial statements not being finalised, the portion of grants and contributions that relates to capital grants is not known. Therefore the 2011 operating surplus/deficit ratio has not been completed.

Table 5.8g: Operating surplus/(deficit) ratio for 2009 and 2010

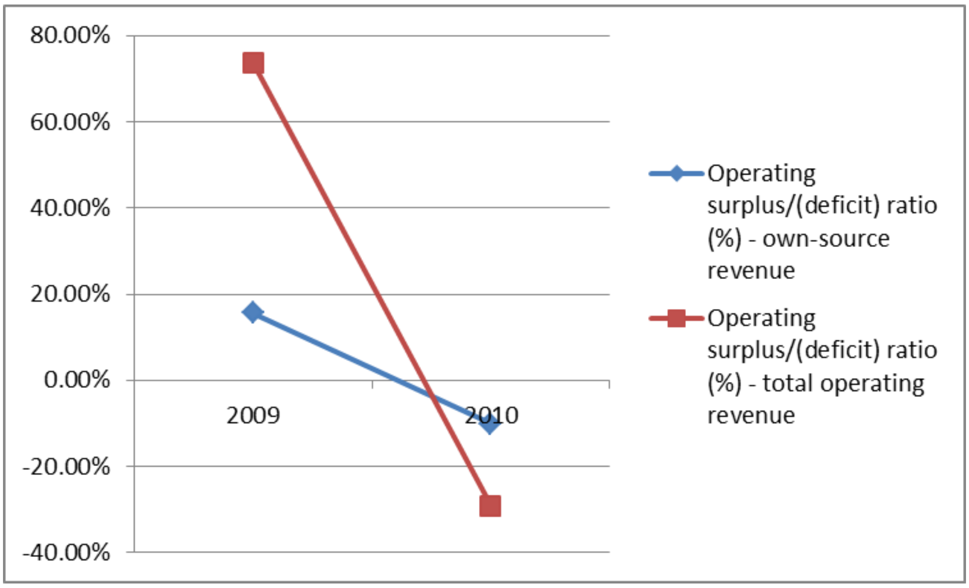
	2010	2009
Operating revenue***	31,358,333	25,793,493
Less: operating expenses (including depreciation expense)	34,515,224	22,770,301
Operating surplus/(deficit)	(3,156,891)	(3,028,192)
Operating surplus/(deficit) ratio (%)	(10.1%)	11.7%
Own-source revenue**	10,856,966	4,100,411
Operating surplus/(deficit) ratio (%)	(29.1%)	73.7%

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

***Own-source revenue excludes all government grants, gains/(losses) on disposal of assets, revaluations of assets and discontinued operations*
****Operating revenue does not include capital grants*

The operating surplus/(deficit) ratio calculated for BSC on total revenue (excluding capital grants) above fluctuated over the two years, from 11.7% in 2009 to (10.1%) in 2010. The operating surplus/(deficit) ratios based on own source revenue only, reflects the same movement over the period. The benchmark ratio is 10% which BSC was below for 2010. If BSC continues to register deficits in the coming years, then it may face financial unsustainability.

Chart 5.8C: Operating surplus ratio for 2009 and 2010



Rates coverage analysis

Rates revenue represents 10% or less of total revenue. While rates revenue has increased over the three year period, BSC is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable, legislated conditional rating of pastoral and mining entities, slow or negative growth rates in its communities and socio and demographic factors. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.8h: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	2,597,007	2,422,261	2,310,560
Operating expenses	27,819,594	34,515,224	22,770,301
Rates coverage ratio	9%	7%	10%

The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that BSC is dependent on government grants to deliver core services.

Analysis of performance compared to budgets and plans

In this section we look at the financial performance against budgets and plans for each of the three years under analysis.

Below is a table that shows the budgeted figures for core services, non-core services and fee for service arrangements for 2009, 2010 and 2011.

In 2011 a budget was only prepared for core services that budgeted for a surplus of $440,820 and other services that budgeted for a deficit of $226,056, resulting in a net surplus of $214,764. Core services actual results show a loss of $2.0million, this is a difference of $2.5million to the budgeted surplus. Agency services and commercial services were not budgeted for however incurred actual results of $5.6million surplus and a $231,851 deficit respectively. Other budgeted services represents the cost to maintain the swimming pool. As no revenue is received for this service it is always budgeted to make a deficit. The final result was a $3.3million surplus that is better than the expected $214,000 surplus. As the surplus is funded through agency services and agency surpluses represent monies received to provide a specific service, usually non-core, in most instances BSC will be required to repay any surplus or to spend the funding on the specific service in the following year.

In order to undertake an analysis of the 2009 and 2010 data, actual financial data actual by core, agency and commercial services is required. The financial performance of each program has not been provided by BSC for 2009 and 2010. During the 2010 financial year the chart of accounts was updated. As a result the performance of each program and the performance of the core, agency and commercial services for 2009 and 2010 cannot be reviewed. Therefore we are unable to complete the detailed analysis for 2009 and 2010.

Table 5.8i: Budget versus actual surplus/(deficit) by core services, agency services and commercial services

2010/11	Budget per general ledger surplus/(deficit)	Actual surplus/(deficit)	Variance
Core services	440,820	(2,079,374)	(2,520,194)
Agency Services	-	5,683,454	5,683,454
Commercial	-	(231,851)	(231,851)
Other services	(226,056)	-	226,056
Net surplus/(deficit)	214,764	3,372,229	3,157,465

The budgeted surplus for 2010 in the standard format is $0.6million, this differs to the budgeted surplus for 2010 by service that is $0.2million.

Analysis of budget versus actual results by standard classifications

In 2009 BSC incurred an operating surplus of $4.0million compared to a budgeted operating surplus of $1.3million, resulting in the actual results being better than that budgeted by $2.7million (207%) difference. Overall actual revenue and expenses differed to the budget by 52% and 39% respectively.

In 2010 an operating surplus was budgeted of $0.5million compared to an actual deficit of $2.5million. The deficit was planned to be absorbed by the reserves transferred over from the previous Councils. In 2011 the actual surplus of $0.9million is an improved result compared to the budgeted surplus of $0.6million.

In each of the three years there was no budgeted expenditure for depreciation and amortisation, finance cost and other cost despite expenditure being incurred against those categories in all three years.

Table 5.8j: Budget versus actual results for 2009

	Budget	Actual	Difference $	Difference %
User charges and fees	1,879,997	784,925	(1,095,072)	(58.25%)
Rates and annual charges	2,216,195	2,310,560	94,365	4.26%
Interest	530,000	153,946	(376,054)	(70.95%)
Grants and contributions	8,193,971	22,707,819	14,513,848	177.13%
Other Operating revenue	4,806,461	818,397	(3,988,064)	(82.97%)
Net profit from disposal of assets	-	32,583	32,583	100.00%
Total Revenue	17,626,624	26,808,230	9,181,606	52.09%
Employee costs	7,951,264	12,147,399	4,196,135	52.77%
Materials and contracts	8,361,352	7,857,404	(503,948)	(6.03%)
Depreciation and amortisation	-	1,281,443	1,281,443	100.00%
Finance costs	-	15,678	15,678	100.00%
Other costs	-	1,468,377	1,468,377	100.00%
Total Expenditure	16,312,616	22,770,301	6,457,685	39.59%
Surplus / deficit	1,314,008	4,037,929	2,723,921	207.30%

Table 5.8k: Budget versus actual results for 2010

	Budget	Actual	Difference $	Difference %
User charges and fees	3,156,410	2,198,678	(957,732)	(30.34%)
Rates and annual charges	2,503,334	2,422,261	(81,073)	(3.24%)
Interest	250,000	306,118	56,118	22.45%
Grants and contributions	19,260,192	21,270,411	2,010,219	10.44%
Other Operating revenue	2,021,437	5,929,909	3,908,472	193.35%
Net profit from disposal of assets	-	0	0	0.00%
Total Revenue	27,191,373	32,127,377	4,936,004	18.15%
Employee costs	15,518,578	13,262,179	(2,256,399)	(14.54%)
Materials and contracts	11,121,899	10,317,184	(804,715)	(7.24%)
Depreciation and amortisation	-	2,472,753	2,472,753	100.00%
Finance costs	-	-	-	0.00%
Other costs	-	8,463,108	8,463,108	100.00%
Total Expenditure	26,640,477	34,515,224	7,874,747	29.56%

Surplus / deficit	550,896	(2,387,847)	(2,938,743)	(533.45%)

The budgeted surplus for 2010 in the standard format is $0.5million, this differs to the budgeted surplus for 2010 by service that is $0.1million.

Table 5.8l: Budget versus actual results for 2011

	Budget	Actual	Difference $	Difference %
User charges and fees	3,272,642	3,161,172	(111,470)	(3.41%)
Rates and annual charges	2,595,957	2,597,007	1,050	0.04%
Interest	100,000	2,010,718	1,910,718	1910.72%
Grants and contributions	19,885,721	20,153,261	267,540	1.35%
Other Operating revenue	2,088,831	847,576	(1,241,255)	(59.42%)
Net profit from disposal of assets	-	45,199	45,199	100%
Total Revenue	27,943,151	28,814,933	871,782	3.12%
Employee costs	16,133,385	12,219,749	(3,913,636)	(24.26%)
Materials and contracts	11,197,572	9,275,449	(1,922,123)	(17.17%)
Depreciation and amortisation	-	2,150,000	2,150,000	100.00%
Finance costs	-	9,553	9,553	100.00%
Other costs	-	4,164,843	4,164,843	100.00%
Total Expenditure	27,330,957	27,819,594	488,637	1.79%
Surplus / deficit	612,194	995,339	383,145	62.59%

The budgeted surplus for 2010 in the standard format is $0.6million, this differs to the budgeted surplus for 2010 by service that is $0.2million.

5.8.4 Revenue and revenue sources

Table 5.8m: Revenue as reported in the audited financial statements

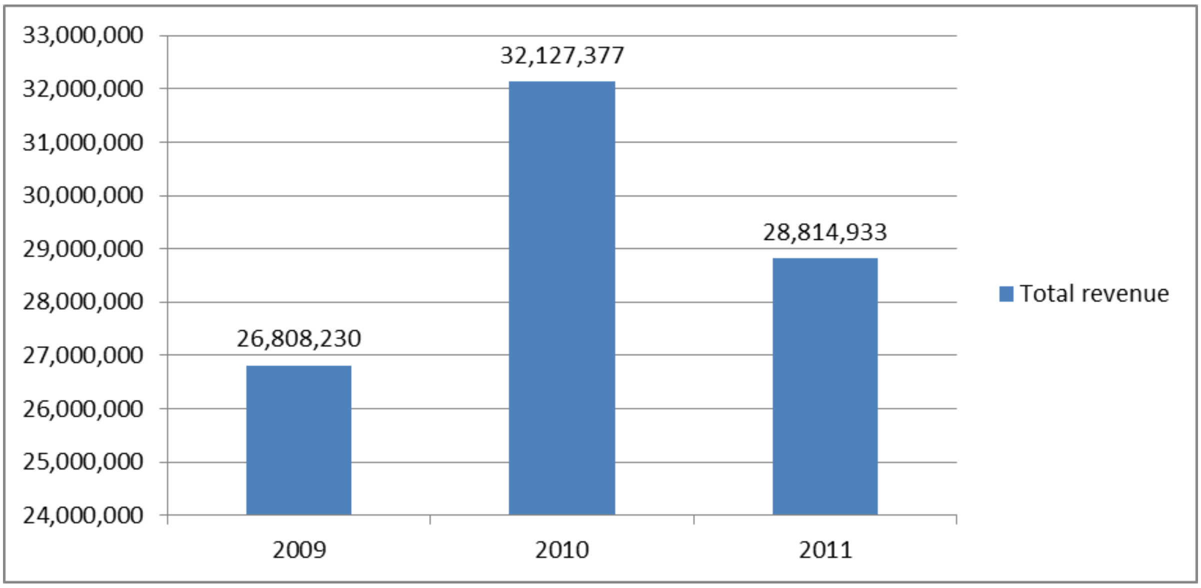
	2011	2010	2009*	Total increase/(decrease)	
User charges and fees	3,161,172	2,198,678	784,925	2,376,247	303%
Rates and annual charges	2,597,007	2,422,261	2,310,560	286,447	12%
Interest	2,010,718	306,118	153,946	1,856,772	1206%
Grants and contributions - operational	20,153,261	20,501,367	21,693,082	(1,539,821)	(7%)
Grants and contributions - capital	-	769,044	1,014,737	(1,014,737)	(100%)
Other Operating revenue	847,576	5,929,909	818,397	29,179	4%
Net profit from disposal of assets	45,199	-	32,583	12,616	39%
Total Revenue	28,814,933	32,127,377	26,808,230	2,006,703	7%

**The 'gain on restructure of local government' recorded in revenue totalling $26.7M in the 2009 financial statements were excluded from this table to allow more comparable figures between the three years. Without the above exclusion in 2009 total revenue is $53.5M and the total surplus for the year is $30.7M.*

***Note the table only includes the split between operation and capital grants for 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

The total revenue received in 2011 was $28.8million compared to $32.1million in 2010 and $26.8million in 2009. Over the three year period the total revenue has decreased by $2.0million. Refer to chart 5.8D below.

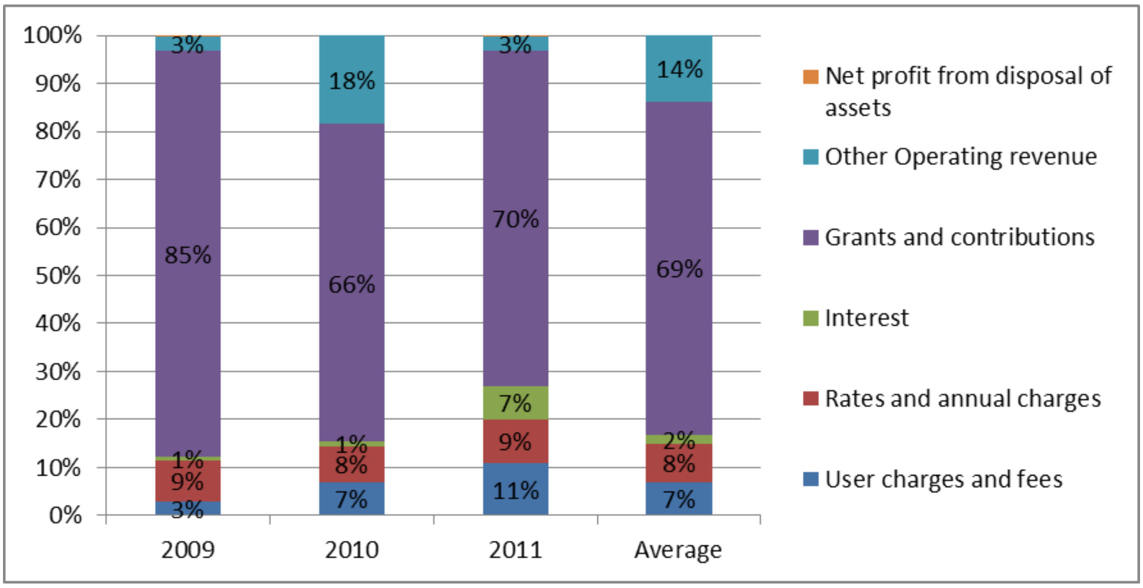
Chart 5.8D: Total revenue by year



BSC generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions
- Other operating revenue
- Net profit from disposal of assets.

Chart 5.8E: Revenue analysis by source



The chart above clearly demonstrates the reliance on grants and contributions income and the limited own source generated revenue, particularly rates and annual charges and user charges and fees. Without the receipt of grants and contributions revenue, BSC's own source revenue is insufficient to cover the costs of delivering core services to its communities.

Revenue – untied versus tied

For the purposes of this analysis, all revenue received by BSC has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of the NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of rates and annual charges, interest, other operating revenue and net profit/(loss) on disposal of assets
- Tied income consists of user charges and fees.

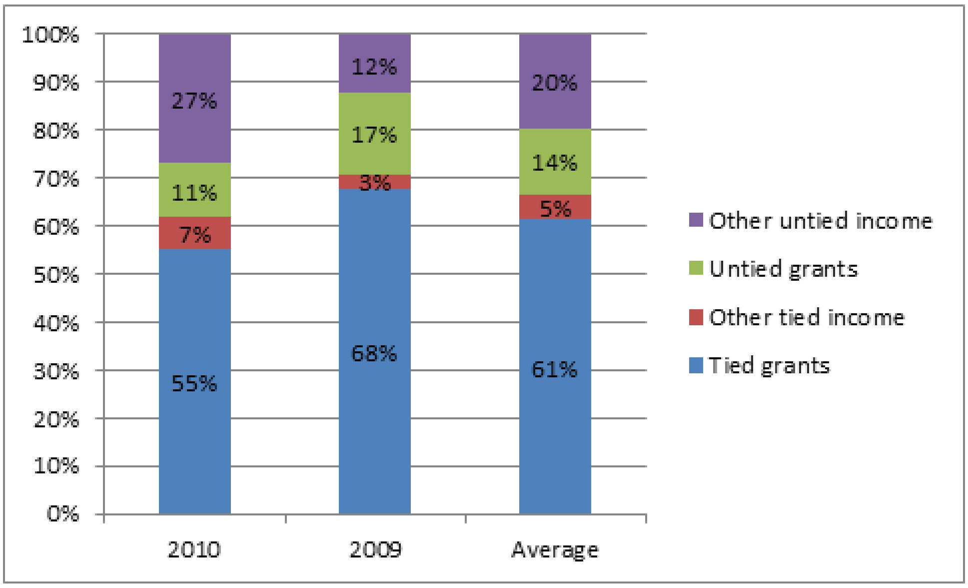
Note the annual financial statements for 2011 have not been finalised and therefore the analysis of tied versus untied and core versus non-core services has not been completed.

Table 5.8n: Tied versus untied revenue

	2010		2009	
Tied grants	17,697,772	55%	18,206,355	68%
Other tied income	2,198,678	7%	784,925	3%
Total tied income	19,896,450	62%	18,991,280	71%
Untied grants	3,572,639	11%	4,501,464	17%
Other untied income	8,658,288	27%	3,315,486	12%
Total untied income	12,230,927	38%	7,816,950	29%
Total income	32,127,377	100%	26,808,230	100%

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

Chart 5.8F: Revenue tied versus untied



Of the total revenue received in each of the three years, the majority of it is tied revenue that must be used for a specific purpose and cannot be used at the discretion of BSC. Untied revenue that can be used by BSC for the delivery of core services was limited to 29% of total revenue in 2009 and 38% of total revenue in 2010.

Grants and contributions (operational)

Grants and contributions made up 85% of the revenue in 2009, 66% in 2010 and 70% in 2011. BSC is reliant on grants and contributions from Northern Territory and Commonwealth Governments to deliver its core services as the level of income it can generate in own source revenue is limited (own source revenue is discussed later in this report). Total grants and contributions revenue received over the three years has decreased by $1.5million (7%). Of the grants and contributions revenue, untied grant revenue, has decreased by almost $1million (20%) between 2009 and 2010.

The balance of grant income has remained relatively stable over the three years registering only a $1.5million (7%) decrease. In 2009 BSC received one off grant funding for establishment costs which would have contributed to the decrease in grants and contributions reported during 2010.

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements as shown in table 5.8o and 5.8p below.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	
Match funding	
Roads to recovery	
Library	
Shire Establishment Fund	

CDEP wages funding has been classified as a core services as it supports the training and employment of local people. This does not reflect the classification of the Council.

Table 5.8o: Composition of grant income (operational) by category

	2010	2009
Core services	7,491,704	10,659,647
Non-core services	13,009,663	11,033,435
Total grants and contributions (operational)	20,501,367	21,693,082
Core services as a % of total grants	37%	49%
Non-core services as a % of total grants	63%	51%

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

Below is a table that shows the composition of grant revenue received by source:

Table 5.8p: Primary sources of grant income (operational)

Source	2010	2009
Northern Territory Government	11,165,192	10,598,824
Commonwealth Government	9,336,175	11,094,258
	20,501,367	21,693,082
% of operational grants - NTG	54.5%	48.9%
% of operational grants - Com	46.5%	51.1%

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

As can be seen from the table above, the even spread of grant income was received from the Northern Territory Government and the Commonwealth Government over the two years. The Commonwealth Government contribution reduced from 51% in 2009 to 46% in 2010.

Grant funding (operational) for core services

As can be seen from the table above the level of grant income received for core services decreased in 2010 by $3.2million (33%) from 2009. Income received for non-core services, however increased by $2million (18%).

Core services revenue is provided by the Northern Territory and Commonwealth Governments and is generally in the form of financial assistance grants, road funding and operational subsidies.

Table 5.8q: Tied versus untied core services grant and contributions income (operational)

	2010	2009
Untied	3,572,639	4,501,464
Tied	3,919,065	6,158,183
Total grants and contributions – core services	7,491,704	10,659,647
Untied as a %	48%	42%
Tied as a %	52%	58%

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also received from the Northern Territory and Commonwealth Governments with a small proportion coming from non-government sources.

Table 5.8r: Tied versus untied non-core services grant and contributions income

	2010	2009
Untied	-	-
Tied	13,009,663	11,033,435
Total grants and contributions – non-core services	13,009,663	11,033,435
Untied as a %	-	-
Tied as a %	100%	100%

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

Grants and contributions (capital)

BSC received grants for capital purchases during the year from the following sources:

Table 5.8s: Primary sources of capital grants

	2010	2009
Northern Territory Government	373,328	376,563
Commonwealth Government	395,716	638,174
Total grants and contributions (capital)	769,044	1,014,737

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

The capital grants received were all tied funding provided for the purchase of specific capital assets with the majority of the funding being provided by the Commonwealth Government.

User charges and fees

User charges and fees consists primarily of other charges including fee for service fees, hire fees for Council equipment, cemetery fees, rate searches, rental searches and regulatory fees.

Total income from user charges and fees represents 7% of total revenue on average. The balance has increased over the three years since 2009 due to an increase in fee for services revenue received. Total user charges and fees received was $0.8million (2009), $2.2million (2010) and $3.2million (2011).

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges.

Rates and annual charges increased by $286,000 (12%) over the three years from $2.3million in 2009 to $2.6million in 2011. Rates and annual charges comprise less than 9% of total revenue over the three years. BSC's population is 7,531 and they have a limited number of properties that are rateable and rates are restricted by section 142 of the Local Government Act 2008 which applies conditional rating over land held under pastoral leases and land occupied under mining tenements.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of BSC. Rates and annual charges are funded through charges to constituents including private and commercial residents, mining companies for extractive activities and pastoralists.

Other income

Other operating revenue has fluctuated over the three years with $0.8million received in 2009, $5.9million in 2010 and $0.8million in 2011. The primary reason for the significant increase in 2010 is:

- An increase in insurance claims received in 2010 of $1.6million
- Unexpended grants to the value of $1.2million recorded in 2010 that had no equivalent recorded in 2009
- An increase to $2.9million in other revenue received in 2010 compared to 2009

5.8.5 Capital expenditure

Analysis of capital investment over the three years

BSC purchased property, plant and equipment totalling $1.8million in 2009 and $1million in 2010. The breakup of the additions can be seen in table 5.8t and chart 5.8G. As the annual financial statements have not been finalised the capital expenditure data for 2011 is unavailable. Therefore analysis on capital expenditure has been performed for 2009 and 2010 years only.

Table 5.8t: Additions of property, plant and equipment by asset category

	2010	2009	Total
Lands	-	-	-
Buildings	325,250	3,110	328,360
Furniture and Office Equipment	93,407	36,656	130,063
Plant and Equipment	279,296	898,857	1,178,153
Infrastructure (inc. Roads)	361,570	863,159	1,224,729
Art Collection and Heritage	-	-	-
Total	1,059,523	1,801,782	2,861,305

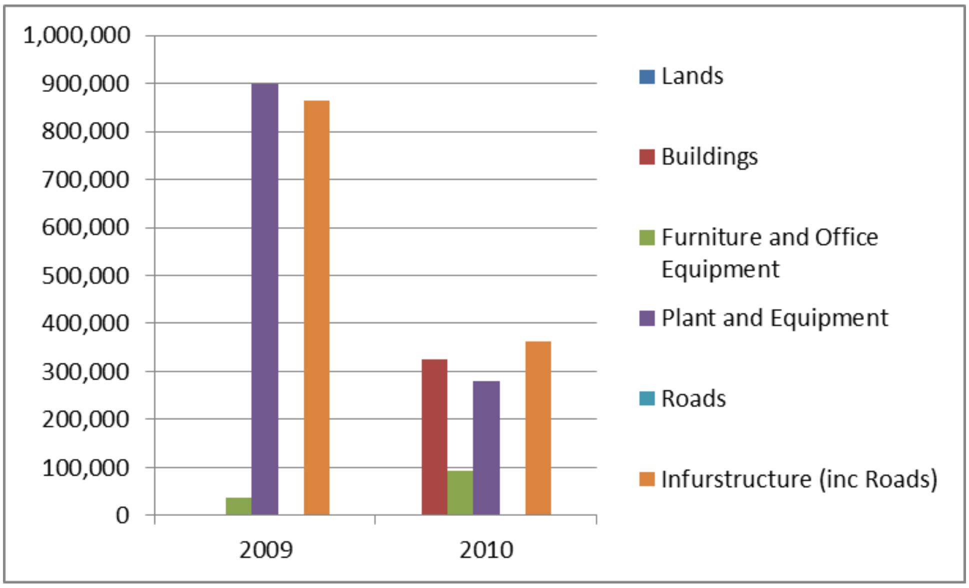
**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

***Note: figures obtained from the annual financial statements and do not include work in progress*

As can be seen from the table above, the capital expenditure mainly related to plant and equipment ($1.2million) and infrastructure ($1.2million). There were no additions to land. Capital expenditure represents 3.1% (2010) and 7.9% (2009) of total expenditure.

The additions can be further demonstrated in the chart below.

Chart 5.8G: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly sourced through capital grants and over the past three years has not been sufficient to meet the current asset spend.

Table 5.8u: Capital funding versus capital expenditure for 2009 and 2010

	2010	2009	Total for 2
Capital funding	769,044	1,014,737	1,783,781
Capital expenditure	1,059,523	1,801,782	2,861,305
Difference	(290,479)	(787,045)	(1,077,524)

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

***Note: Figures have been obtained from the annual financial statements and include work in progress*

BSC does not have a reserve established to meet future capital expenditure requirements. All capital expenditure incurred by BSC is funded from either capital grants from the Northern Territory and/or Commonwealth Governments or funded from the cash reserves. As we can see from the table above, capital grants received by BSC were not sufficient to cover the actual expenditure incurred.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure

of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of one for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.8v: Sustainability ratio for 2009, 2010 and 2011

	2010	2009	Average
Capital expenditure	1,059,523	1,801,782	2,861,305
Depreciation expense	2,759,484	3,400,178	6,159,662
Sustainability ratio	0.4	0.5	0.5

**Note the table only includes 2009 and 2010 as the annual financial statements for 2011 were not finalised and required data was not available.*

***Capital expenditure does not include repairs and maintenance expenditure*

The benchmark for the sustainability ratio is 1. As we can see from the table above, the ratio for BSC was 0.5 in 2009 and 0.4 in 2010 with an average across both years of 0.5 which is below the benchmark of 1 indicating that assets may be deteriorating at a greater rate than investment on their renewal or replacement. The declining ratios indicate that further investment in capital expenditure should be undertaken to reduce a backlog which threaten the future financial sustainability of BSC.

However, when analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There are a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils
- Does not take into consideration whether communities within the Councils are growth towns and therefore whether the level of asset replacement will be sufficient for future population growth in the communities.

Property, plant and equipment, includes a large number of assets located across the shire which were transferred from the previous community Councils and other entities being amalgamated on 1 July 2008. Many of the assets transferred were either non-existent or could not be located, in poor condition or not fit for use or BSC did not believe they had ownership or control over the assets. Efforts have been made by BSC over the last three years to locate, assess and determine whether they have ownership of the assets or if they are deemed to have control of the assets. Despite the work that has been done to address the issues associated with the transfer of property, plant and equipment, there may still be a number of assets that are recorded in the books of BSC which are either past their useful life, have not had an appropriate useful life applied, cannot be located or do not exist.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory and throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government.

There were limited sources of information available to us in respect of the backlogs facing BSC other than the fixed asset register and the annual financials with the only other source provided being a submission by the Northern Territory Government to the Commonwealth Government for improving the Northern Territory's remote roads network. (Working Future, A Territory Government initiative, 'Bridging the Gap' November 2010). The submission, based on an extensive survey of the existing local and arterial roads network in and around remote Territory Growth Towns, proposes a significant program of works to bring these roads up to a standard which would be expected elsewhere in regional Australia. Of the twenty Territory Growth Towns, two are located within BSC, being Elliot and Ali Curung.

There are approximately 36,000kms of roads in the Northern Territory of which only 23 percent are sealed. Only a small proportion of these roads are in the Territory's urban areas and within 50kms of the Territory Growth Towns less than fourteen percent of the 5,000kms of roads is sealed.

A detailed roads survey was conducted within a 50km radius of each Territory Growth Town. The survey included all listed secondary roads linking the minor communities, outstation roads, internal community roads and access to aerodromes and barge landings. BSC is currently responsible for the maintenance of the road within the Community boundaries; the Northern Territory Government is responsible for all roads outside this area (e.g. connecting roads). The chart below shows the proportion of roads in each condition within the 50km radius of each Territory Growth Town in BSC.

Chart 5.8H: Territory Growth Towns (BSC) – Road conditions within a 50km radius

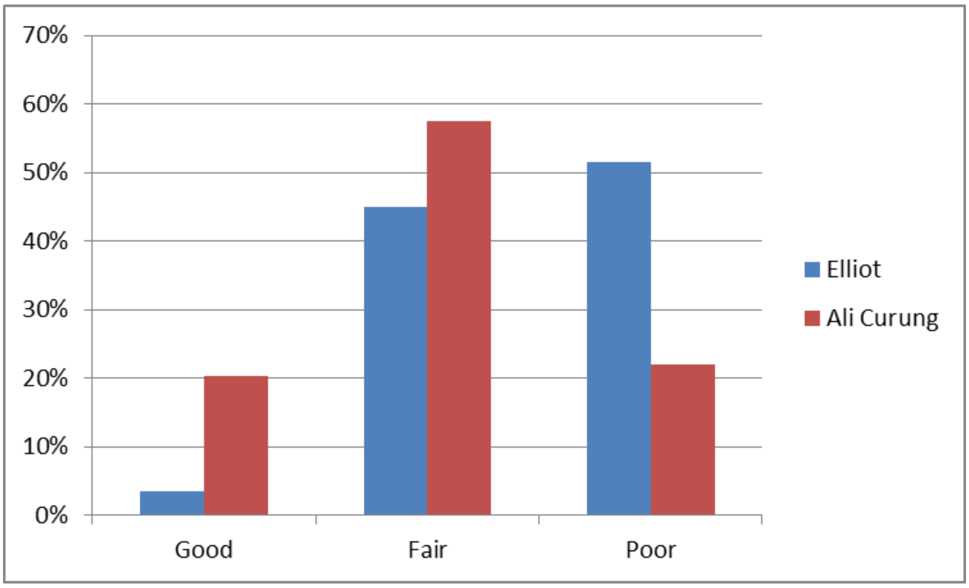


Table 5.8w below shows the proposed cost of the upgrades and the average annual ongoing repairs and maintenance as reported in the submission to the Commonwealth Government.

Table 5.8w: Estimated cost of upgrades and ongoing annual maintenance of roads within a 50km radius of Territory Growth Towns in BSC

Territory Growth Town	Total kms of roads surveyed*	Proposed upgrades/major repairs $(M)	Av. Annual Ongoing R&M ($M)
Elliot	31.50	2.87	0.12
Ali Curung	197.70	22.89	0.67
Total	229.20	25.76	0.79

**Includes total roads surveyed with the 50km radius of Territory Growth Towns and the total access roads up to the National Highway Network.*

From the table above, it is estimated that $25.76million is required to undertaken upgrades and major repairs to the roads within a 50km radius of Territory Growth Towns and a further $0.79million is required on an annual basis for the ongoing repairs and maintenance. It is important to highlight that the estimated costs associated with road infrastructure backlogs do not include all communities within BSC, only those classified as Territory Growth Towns. Therefore the true infrastructure backlog likely exceeds the $25.76million identified for upgrades and major repairs and associated ongoing annual maintenance costs.

Renewals backlog for assets other than roads within a 50km radius of Territory Growth Towns cannot be assessed due to the limited information available. However as previously mentioned many of the assets were inherited by BSC with many of them past their useful life and in need of upgrade or replacement.

5.8.6 Core services, fee for service arrangements and non-core services

As a shire council established under the Local Government Act 2008, there are minimum core services which BSC must provide to the communities within its shire boundaries. For a list of these activities refer to Appendix 1 of this report.

The tables and charts following show the net result by core services, agency services and non-core services for 2011 only. Information for 2009 and 2010 is not available due to changes in the system affecting the integrity of the data. The financial information provided for 2011 reports a net surplus of $3.4million. The net surplus for 2011 in the unaudited financial statements was $995,000 and differs to the table below by $2.3million.

Table 5.8x: Summary of surplus/(deficit) by core services, agency services and commercial services

	2011
Core services	(2,079,374)
Agency services	5,683,454
Commercial services and other non-core activities	(231,851)
Net surplus/(deficit)	3,372,229

As can be seen from the table above, core services programs for the 2011 year overall are incurring deficits indicating that there is insufficient revenue coming in to cover the costs of delivering core services whilst agency services are showing a net surplus of $5.7million. A detailed breakdown of surpluses/(deficits) by program by core services, agency services and commercial services and other non-core activities follow.

Core services

As we can from the chart below, twenty three of the twenty seven core services programs incurred operating deficits totalling $10million, four programs reported operating surpluses totalling $8million and no programs had a breakeven result.

Of the four programs returning a surplus the three most significant are:

- Administration with a net surplus of $5.3million
- Rates with a net surplus of $2.6million
- Tourism and events with a net surplus of $39,000.

The programs with the largest deficits incurred are:

- Executive management with a net deficit of $2.9million
- Depot operations with a net deficit of $2.3million
- Buildings with a net deficit of $0.8million.

Chart 5.8l: Number of core services programs with operating surplus and deficits for 2011

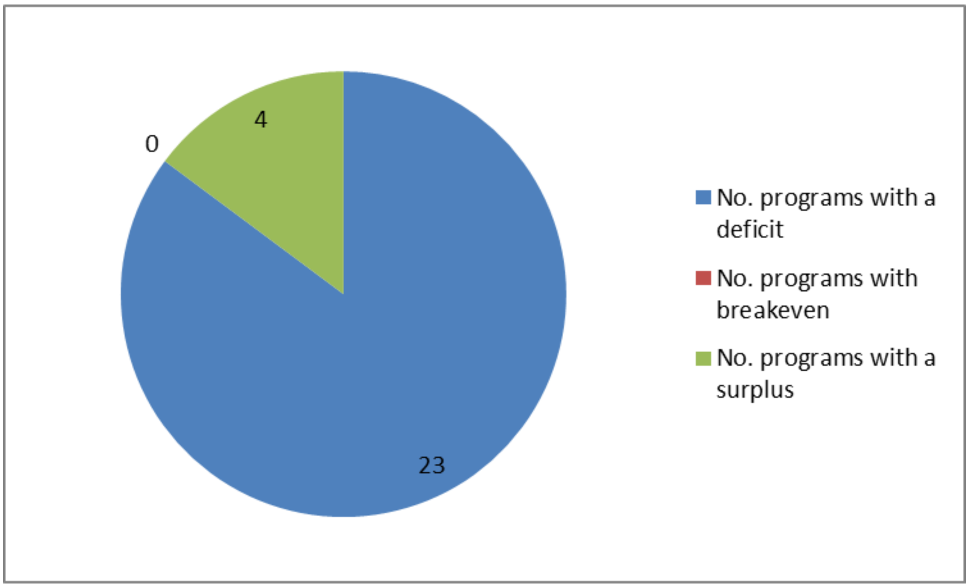


Table 5.8y: Surplus/(deficit) by program for core services activities

Core services programs	2011
Governance	(360,080)
Executive Management	(2,948,462)
Administration	5,347,835
Human Resources	(275,572)
Planning	(4,007)
Records Management	(52,075)
Information Technology	(357,947)
Corporate and Community Services	(169,620)
Customer Service	(1,458)
Rates	2,578,574
Plant Operations	(775,989)
Library	20,594
Tourism & Events	39,320
Depot Operations	(2,329,472)
Buildings	(807,658)
Parks & Gardens	(580,070)
Ranger Services	(297,403)
Works & Services Management	(80,503)
Street Lighting & Signage	(53,381)

Fire & Emergency Services	(2,286)
Stormwater Drainage	(5,697)
Waste Management	(290,008)
Sanitation	(58,770)
Sewerage	(10,269)
Water	(77,040)
Roads Bridges & Footpaths	(526,650)
Asset Management	(1,280)
Total for Core services programs	(2,079,374)

From an analysis of the information provided in relation to core service programs, funding was allocated to eighteen of the twenty seven core service activities required under the Local Government Act 2008. The services excluded were:

- Management of Cemeteries
- Local Road Upgrade and Construction
- Traffic Management on Local Roads
- Weed Control and Fire Hazard
- Companion Animal Control
- Training and Employment Local People Council Operations
- Administration of Local Laws
- Revenue Growth
- Risk Management.

As noted above, the net deficit of all programs undertaken by BSC based on information by program provided for the purpose of this report does not agree to the total overall net deficit as reported in the financial statement data for 2011. The financial statement data show a net surplus of $995,000 as compared to the total net surplus of $3.3million per the financial information provided and noted in table 5.8x above.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which BSC sits within the Central Australian Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Central Australian Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which BSC is to assess performance in the delivery of core services and meeting objectives of the Central Australian Region RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including BSC. BSC is required to deliver core services to six communities as listed in section 5.8.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as expected when measuring whether an output and ultimately outcome is being achieved.

From review of the Regional Management Plan Report, the following has been noted:

- All services have been delivered to one community
- 'Management of cemeteries' has not been delivered to four of the six communities
- 'Traffic management and Fleet, plant and equipment maintenance' is planned to be delivered however an expected date for service will commence has not been disclosed
- 'Companion animal welfare, control' has been delivered to one community with services planned to be delivered in the remaining five communities. Dates for when service will commence have not been disclosed
- 'Library and cultural heritage services' has been delivered to two communities, service is planned to be delivered to two communities and no service will be delivered to the remaining two communities. Explanations for why the service has not been provided or will not be provided to the two communities and the expected commencement dates for the other two have not been disclosed.

No actual reporting against KPIs have been included in the Regional Management Plan Report and therefore the extent to which service delivery has occurred and desired outcomes have been achieved cannot be determined or assessed.

We were not provided shire plans for BSC and therefore cannot comment on whether KPIs have been established for each core service activity and whether they have established so actual performance can be measured.

Agency services

In addition to providing core services to the communities within its shire boundaries, BSC also provides other services on behalf of the Northern Territory and Commonwealth Governments referred to as 'fee for service arrangements' or 'agency services'. In 2011, BSC entered into agreements with both the Northern Territory and Commonwealth Governments to deliver ninety-nine programs. As seen in table 5.8x above agency services returned an overall operating surplus of $5.7million for 2011. Refer to table 5.8z below for a complete list of these.

As we can see from the chart below, of the fifteen agency services programs undertaken by BSC during 2011, four programs incurred operating deficits totalling $116,000. Whilst we are unable to determine how the deficits were funded due to the limitations of the information provided, it is reasonable to assume that the deficits were funded by either programs with an operating surplus for the same period or from cash reserves.

Chart 5.8J: Number of agency services programs with operating surplus and deficits for 2011

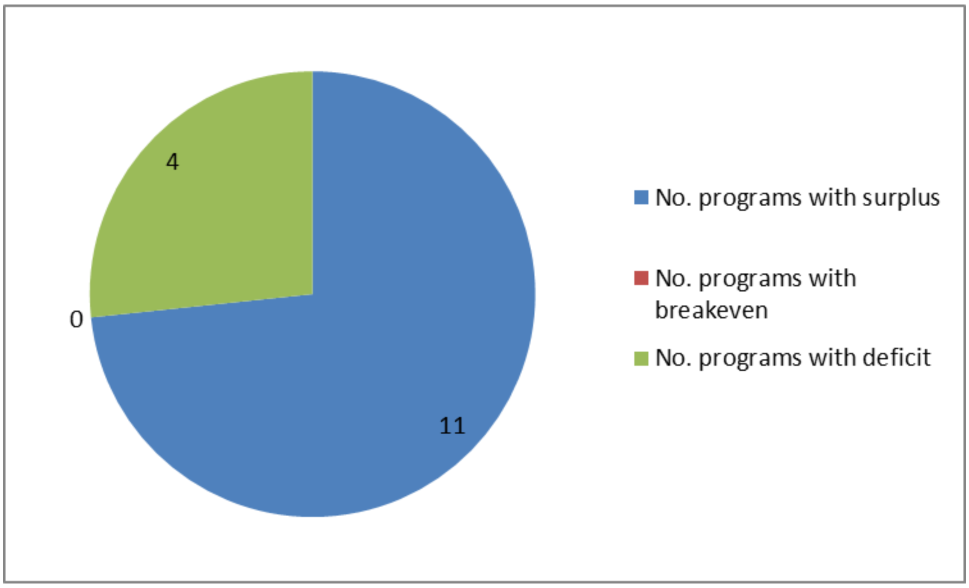


Table 5.8z: Surplus/(deficit) by program for agency services activities

Agency services programs	2011
After School Care	50,266
CDEP	2,204,300
Aged and Disability Care Services	27,971
Children and Youth Services	746,838
Emergency Relief Fund	(5,955)
Family Services	252,501
Night Patrol	873,058
Community & Social Development	(91,463)
Arts & Culture	45,264
Cultural Heritage	3,938
Heritage & Environment	(542)
Sport & Recreation	170,642
Outstations	1,036,159
Environmental Health	(18,643)
Economic Development	389,120
Total for Agency services programs	5,683,454

Commercial and other non-core services

BSC operated three commercial services programs which incurred a combined operating deficit of $232,000. Of these three programs two incurred operating deficits ($709,000) while the remaining program made a surplus ($477,441).

As we have not been provided with the financial data for the 2009 and 2010 years, we were unable to perform a trend analysis, however commercial and other non-core services activities should only be undertaken where BSC is likely to return a profit from the services. Commercial and non-core services should not be undertaken where it is known that the Council will incur recurring losses as this will, over time, have a significant impact on the financial sustainability of the Council.

Chart 5.8K: Number of commercial services programs with operating surplus and deficits for 2011

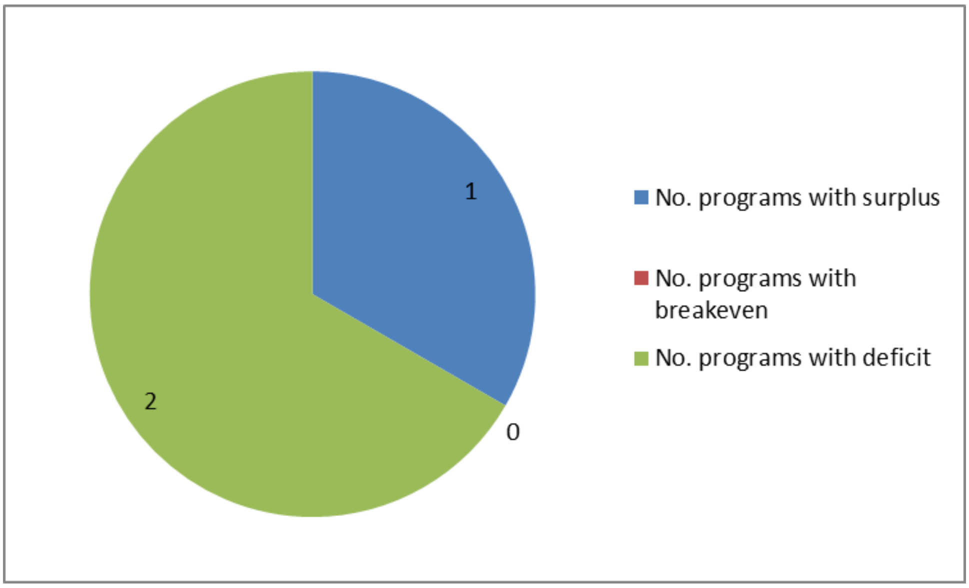


Table 5.8aa: Surplus/(deficit) by program for commercial services and other non-core services activities

Commercial services programs	2011
Housing	(632,393)
Private Works	477,441
Agency Services	(76,899)
Total for Commercial services programs	(231,851)

Identification and analysis of cross subsidisation

As noted above, core services and commercial services achieved net operating deficits whilst agency services had net operating surpluses of $5.7million. It is therefore reasonable to assume that there is an element of cross subsidisation with agency services cross subsidising core and commercial services.

Also of significance is the level of funding provided to cover indirect overhead costs. Some agencies do not allow or allow a small percentage for the recovery of indirect and overhead costs. In some cases the percentage that is allowed to be charged to the program by BSC is not sufficient to cover the actual indirect and overhead costs incurred. As a result programs that are showing a surplus or deficit may not be showing the full costs of delivering the programs and therefore it is reasonable to assume that there is a level of cross subsidisation with both core services and fee for service arrangements which cannot be quantified until an appropriate overhead allocation rate is established and applied recording the true indirect and overhead costs.

Recovery of direct and indirect costs

Upon formation in 2008, there was no guidance or policies established to support the establishment and allocation of direct and indirect costs to programs to ensure each program bore an appropriate allocation of overheads.

All direct costs are recorded against the actual program to which the expenditure relates. BSC did not establish policies and procedures for calculating and allocating indirect and overhead costs to its programs from 1 July 2009. Over the last three years BSC has begun the process for determining, calculating and allocating indirect and overhead costs against all its programs, however it is still a work in progress.

As mentioned all direct costs are recorded against the program they relate to. For core services programs, BSC is provided untied grants from both the Northern Territory and Commonwealth Governments to deliver its core services. The funding provided is to cover all costs incurred in the delivery of core services. The budget for core services funding is determined by BSC based on the level of funding they receive which should include an appropriate amount to cover indirect and overhead costs. Currently an appropriate amount is not being charged to core services program, although work is being done on this, and should BSC start to charge to the programs, then the operating deficits will become larger which in time will not be financially sustainable.

BSC enters into agreements with Governments for the delivery of agency services their behalf. BSC submits tenders and budgets to win the opportunity to deliver the various agency services. The budgets prepared by BSC and submitted to the Governments are generally not reflected in the actual level of funding received. In many instances but not all, there is an administration expense or an administration fee included in the budgets, but sometimes the agreement does not allow for any indirect or overhead costs to be charged to the program. In these cases, BSC only includes the amount that the agreement allows them to charge, regardless of whether the costs would be higher. If BSC were to reject these agreements, it may result in communities not being provided with essential services.

In these instances, there is an amount of indirect and overhead costs not being charged to the program and therefore not recovered, however we were unable to quantify the amount due to the limitations of the information provided and because BSC had not established an appropriate allocation methodology for charging indirect and overhead costs to programs.

Establishment of fee for service arrangements

In addition to the delivery of core services as required under the Local Government Act 2008, BSC have entered into arrangements with various government departments, agencies and associated entities of both the Northern Territory and Commonwealth Governments. Over the three year period BSC has entered into arrangements with both governments for the delivery of a number of services.

All agency services are funded under an agreement between BSC and the relevant government entity. The key issues noted with the establishment of fee for service arrangements include, but are not limited to (also discussed in the preceding section):

- Generally BSC submit budgets for the delivery of the services, however in some instances the level of funding received does not always reflect the budget submitted by BSC
- Some agency services do not allow for an administration fee, or allow for a small fee, to cover all overhead and indirect costs incurred by BSC in delivering the services
- A detailed allocation methodology for the allocation of all overheads and indirect costs across all programs. Administration costs are not always charged to the program or the amount charged in accordance with the funding agreement budgets is in some instances not sufficient.
- There is no 'profit margin' built into the budgets for commercial services as would normally be seen in a commercial organisation.

5.8.7 Budget processes

Operating budgets

The initial budget for BSC was prepared by the DHLGRS for the financial year ending 30 June 2009. This initial budget was used as the basis for preparation of budgets in the years following. In 2010 the budget was prepared by senior management and presented to Council. All the budgets have been approved by the Council as part of the annual management plan. The budget process has developed over the three years; in 2011 each program manager is responsible for determining the budget for the program. The executive team review the budgets and request changes as necessary. In accordance with the Local Government Act 2008, BSC prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

Capital budgets and capital management plans.

BSC does not have an asset management plan or an asset management system in place. They have identified the need for one but have not been able to identify a system that works well.

Despite improvements to their budgeting processes over the three years, the process relating to capital expenditure spending has not changed much. BSC have a 'wish list' of capital/assets which are identified through their operational planning and budgeting processes. Items identified are given a priority rating. Grant opportunities are looked for to match the needs identified. Sometimes there is specific capital funding included in agency funding. The allocation of these funds does not often match the priority of capital expenditure requirements documented in the list.

As part of the budgeting process, funding allocated to capital expenditure requirements is dependent on available funds after operational budgeting has been finalised. There is very little funding available for capital expenditure in relation to core service delivery.

Roads are funded by Federal Government funded programs being the 'Roads to Recovery' program and the Financial Assistance Grants (FAGs). As these are fixed/pre-determined grants, the Council has no influence on the amounts that have been allocated at a national level. BSC apply for Northern Territory tenders to access additional road funding for state controlled roads within its boundaries.

The impact of not having sufficient cash backed capital expenditure reserves or not having a capital management plan in place increases the risk that:

- Core services may be ceased temporarily or long term should the capital expenditure be for assets that are used in the delivery of core services and there are no other assets that can be substituted until replacement assets are acquired
- Funds that are tied or restricted for core services, non-core services or fee for service arrangements may be diverted to fund the capital purchase potentially impacting BSC's ability

to deliver its core services programs and/or other non-core services or fee for service arrangements.

Cash flow budgets

For the last three years BSC have not prepared cash flow budgets or cash flow forecasts due to difficulty in predicting the timing of cash flows.

5.8.8 Summary – financial sustainability of BSC

To determine the financial sustainability of BSC we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis five KPIs were used to assess financial sustainability of BSC. The results of the KPIs are listed in the table below.

Table 5.8ab: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	N/A	(10.1%)	11.7%	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	-	0.4	0.53	0.46
Current ratio	Current assets divided by current liabilities	1.0	3.30	2.15	2.39	-
Rates coverage	Rates revenue divided by total cost	40%	9%	7%	10%	-

KPI	Description	Benchmark	2011	2010	2009	Average*
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	-	32.3%	21.7%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for BSC is in a healthy position overall with net assets of $65.8million with the net asset position increasing over the last three years due to an asset revaluation increment in 2010. The current ratio is healthy at 3.3 in 2011 which has increased from 2.15 in 2010 and 2.39 in 2009.

BSC does not have any borrowings.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly, operating deficits indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years BSC has been incurring operating deficits. Where operating deficits persist indications are that operating revenue is insufficient to meet current operations. BSC is heavily reliant on grant funding due to limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for BSC on average over the last three years was 0.46 indicating that the Council is not upgrading or replacing its asset base in line with consumption. This ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. We also note that BSC inherited a significant number of assets from previous Councils and organisations that were amalgamated with it during the restructuring of local government on 1 July 2008. Since 2008, BSC has undertaken a review of the assets transferred in to determine whether they existed, were fit for purpose, and/or under the control of BSC. There are indicators that there is a renewals backlog in asset upgrades and replacements (excluding the road networks as discussed below) however the cost of the backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

There also appears to be an infrastructure backlog in relation to its road network surrounding its Territory Growth Towns which was estimated to be $25.7million by a study conducted by the Northern Territory Government. This backlog does not cover other communities within the BSC shire boundaries and therefore is likely to be considerably higher.

Sustainability

Based on the current conditions BSC is not financially sustainable in the long term. Being classified as financially unsustainable does not mean BSC is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of BSC are to put onto a financially sustainable basis going forward.

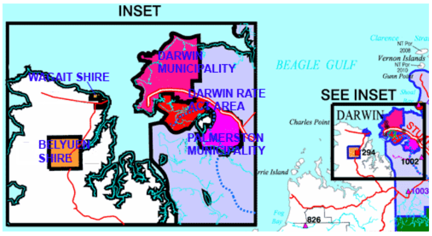
5.9 Wagait Shire

5.9.1 Introduction

On 1 July 2008, the Northern Territory local government reform program resulted in 59 organisations being reduced to 16 Councils. As part of these reforms Cox Peninsular Community Government Council was renamed as Wagait Shire Council (Wagait). The local government reforms have not been finalised. There remain areas of the Northern Territory that are not incorporated under local government legislation and changes to boundaries and possible amalgamation with other Councils may occur in the future.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	335
Land size	6 km^2
Wards	1
Communities	1
Pastoral Leases	0



Elected representatives to Council by ward (2008-2012)

Council Members	7

At 30 June 2011, Wagait had 6 staff in its employ and was responsible for managing 13 km of roads all of which are kerbed and sealed (LGANT local directory 2011-2012).

As per the Northern Regional Management Plan, Wagait is required to deliver services to one designated community and has established one service delivery centre as the base for delivering services across the shire. It is located within Wagait.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are no Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There are no Remote Service Delivery Sites located within the shire.

Challenges of population and geography in Wagait

Wagait faces significant infrastructure challenges due to its specific geography and demographic profile. Wagait's population is 335 people. Wagait occupies a land mass of 6 km^2. Wagait faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the North Australia Region. Some of the key challenges include:

- Achieving a level of funding that is stable and long term that ensures the financial sustainability of the Council
- A low level of untied grant revenue received is able to be used at the Council's discretion

- Alternative revenue generation with a significant portion of current revenue coming from grant revenue
- The Council has a very low rates base
- Poor condition of local roads to support access to communities. The Councils inherited aged and ill-maintained road infrastructure which is prone to damage and disruption during adverse weather conditions
- Handover of road assets to local government without sufficient funding
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- Financial sustainability
- Recruitment and retention of staff particularly suitably qualified staff
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff
- Significant resources required for the reporting and acquittal processes associated with grants.

Entities in which Wagait has an interest:

None identfied.

5.9.2 Financial position

Below is an extract from the annual financial statements for the years ended 30 June 2009 and 2010.

Table 5.9a: Financial position reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	683,077	962,560	524,464	158,613	30%
Non-current assets	2,014,115	1,687,318	1,690,914	323,201	19%
Total Assets	2,697,192	2,649,878	2,215,378	481,814	22%
Current liabilities	55,412	175,839	178,450	(123,038)	(69%)
Non-current Liabilities	0	3,276	3,276	(3,276)	(100%)
Total Liabilities	55,412	179,115	181,726	(126,314)	(70%)
Net Assets	2,641,780	2,470,763	2,033,652	608,128	30%
Equity	2,641,780	2,470,763	2,033,652	608,128	30%

The financial position for Wagait has improved by 30% from $2.03million in 2009 to $2.64million in 2011. The increase in net assets is due to current assets increasing by $159,000 (30%) and current liabilities decreasing by $123,000 (69%) from 2009.

Cash balances analysis

Cash balances comprise cash and cash equivalents as reported in the annual financial statements. Table 5.9b below shows the composition of current assets for the last three years.

Table 5.9b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	632,517	918,297	485,184
Other	50,560	44,263	39,280
Current assets	683,077	962,560	524,464
Cash as % of current assets	92.6%	95.4%	92.5%

As can be seen from table 5.9b, cash balances make up a significant portion of the current assets (92% and above) and have remained relatively consistent over the three year period with 2010 showing an increase of $433,000 which decreased again in 2011 to $632,517.

Table 5.9c below shows the composition of the cash balances.

Table 5.9c: Composition of cash balances for 2009, 2010 and 2011

	2011**	2010	2009
Cash and cash equivalents	632,517	918,297	485,184
Restricted cash balances*	15,679	15,211	153,263
Unrestricted cash and cash equivalents	616,838	903,086	331,921

**Represents unexpended grants at year end.*

The table shows there was sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Chart 5.9A: Composition of cash balances for 2009, 2010 and 2011

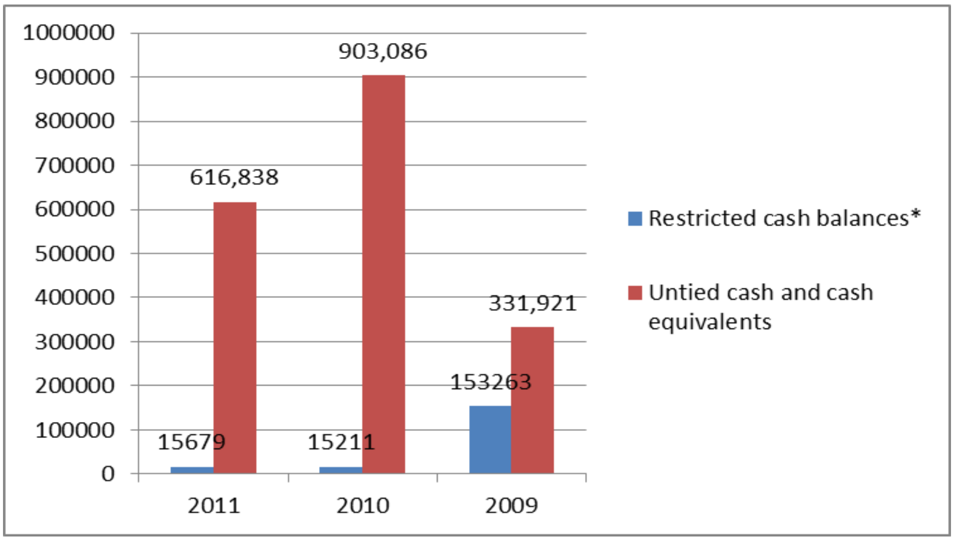


Table 5.9d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is one. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems meeting its short term obligations

Table 5.9d: Current Ratio

	2011		2009
Total current assets	683,077	962,560	524,464
Total current liabilities	55,412	175,839	178,450
Net current assets (Working Capital)	627,665	786,721	346,014
Current Ratio	12.33	5.49	2.94

Table 5.9e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether, after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.9e: Cash Ratio

	2011**	2010	2009
Total cash balances	632,517	918,297	485,184
Less: unexpended grants (restricted assets)*	15,679	15,211	153,263
Total unrestricted cash balances	616,838	903,086	331,921
Total current liabilities (unrestricted)	55,412	160,208	25,187
Cash Ratio (unrestricted)	11.13	5.64	13.18

**Represents unexpended grants at year end.*

The cash ratio is 12.33 in 2011 which is above the benchmark ratio of 1 used in this analysis. The current ratio has also improved over this time and is 11.13 in 2011. A current ratio above 3 is considered high and ratios above 3 or 4 should be reviewed. The current ratio for Wagait ranged from 2.94 to 12.33 during the three years.

Non-current assets

Non-current assets are property, plant and equipment. The balance of property, plant and equipment has increased over the last three years by $324,000 from $1.69million in 2009 to $2.01million in 2011.

Table 5.9f below shows the composition of property, plant and equipment for Wagait for the 2011 year.

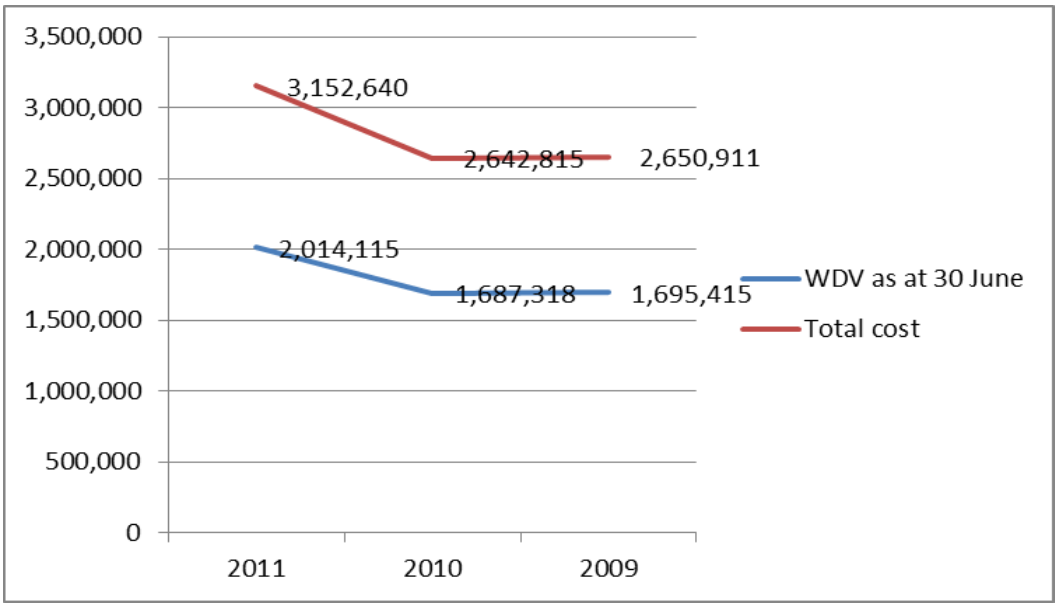
Table 5.9f: Composition of property, plant and equipment for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Land	400,000	-	400,000	19.9%
Buildings	1,413,815	(556,130)	857,685	42.6%
Roads, bridges footpaths	813,910	(332,922)	480,988	23.9%
Plant and equipment	229,519	(91,380)	138,139	6.9%
Office equipment	164,250	(125,465)	38,785	1.9%
Motor vehicles	131,146	(32,628)	98,518	4.9%
Total	2,752,640	(1,138,525)	2,014,115	100.0%

Note: the figures have been obtained from the annual financial statements

Property, plant and equipment is predominantly made up of buildings at 42.6% followed by roads, bridges, footpaths at 23.9% and then land at 19.9%. All other balances are less than 10% of the total written down value for 2011. The graph below shows the consistency in property, plant and equipment balances.

Chart 5.9B: Cost and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



The written down value of property, plant and equipment as a percentage of the total cost each year was 64% (2009), 64% (2010) and 64% (2011) indicating that the assets have not reached the end of their useful lives.

Liabilities analysis

Current liabilities comprise creditors, provisions and unexpended grants. The current liability balance decreased over the three years from $178,000 to $55,412 with the primary reason being sundry creditors decreasing by $137,000. Non-current liabilities represent employee provisions and the balance has moved from $3,300 in 2009 and 2010 to a nil balance in 2011.

5.9.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of Councils in section 3 of this report.

This section provides our analysis of the financial performance of Wagait over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

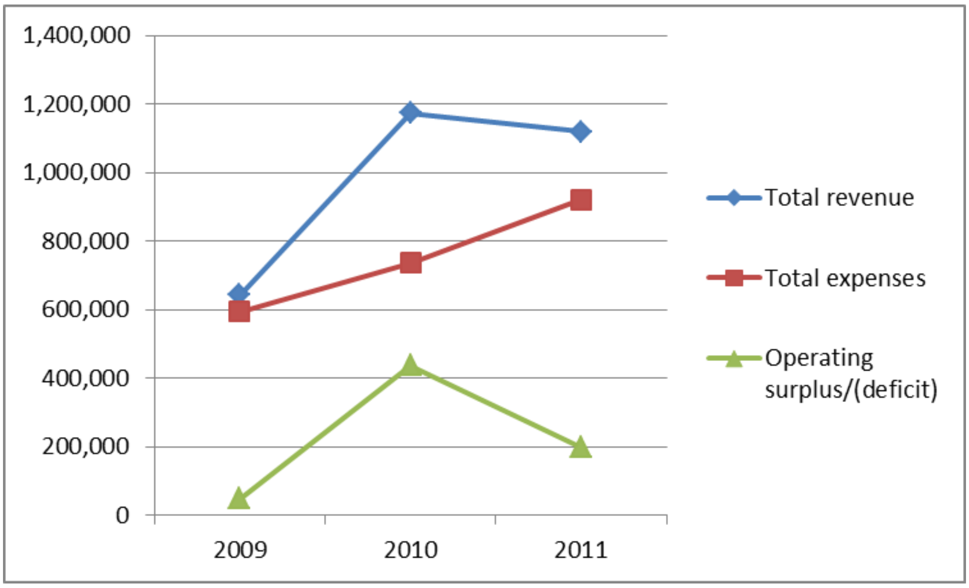
Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.9.5.

Below is an extract of the Statement of Comprehensive Income.

Table 5.9g: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
Rates and annual charges	166,445	149,347	86,685	79,760	92%
User charges and fees	106,709	130,561	147,821	(41,112)	(28%)
Interest	13,641	15,439	19,764	(6,123)	(31%)
Grants and contributions	833,270	867,466	380,590	452,480	119%
Other Operating revenue	-	2,991	7,668	(7,668)	(100%)
Net profit from disposal of assets	-	7,516	455	(455)	(100%)
Total operating revenue	1,120,065	1,173,320	642,983	477,082	74%
Employee costs	271,631	272,291	254,971	16,660	7%
Materials and contracts	429,507	300,768	142,448	287,059	202%
Depreciation and amortisation	183,029	137,387	131,264	51,765	39%
Other costs	36,798	25,763	65,748	(28,949)	(44%)
Total operating expenses	920,965	736,209	594,431	326,534	55%
Operating results	199,100	437,111	48,552	150,548	310%
Total Comprehensive Income	199,100	437,111	48,552	150,548	310%

Chart 5.9C: Revenue, expenses and net surplus/(deficit) for 2009, 2010 and 2011



As can be seen from table 5.9g and Chart 5.9C, Wagait made surpluses in all three years of $49,000 in 2009, $437,000 in 2010 and $254,000 in 2011. Operating expenses have continued to increase year on year whilst revenue decreased slightly in 2011 compared to 2010. The increase in expenses is primarily due to materials and contracts increasing by $287,000 or 202% since 2009. Within materials and contracts, the primary movements were contractors which increased by $206,000 from $27,000 in

2009 to $233,000 in 2011. All other movements within materials and contracts expenses were minor movements.

Depreciation expenses increased by $52,000 or 39% since 2009 as a result of non-financial assets increasing by $320,000 since 2009 and therefore associated depreciation has increased.

Refer to section 5.9.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

The net surplus/(deficit) shown in table 5.9g and chart 5.9C above includes capital grants within the grants and contributions of $159,000 in 2009, $549,000 in 2010 and $550,000 in 2011. Table 5.9h shows the operating surplus/ (deficit) for Wagait and the associated surplus/ (deficit) ratio excluding capital grants for the three years.

Table 5.9h: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

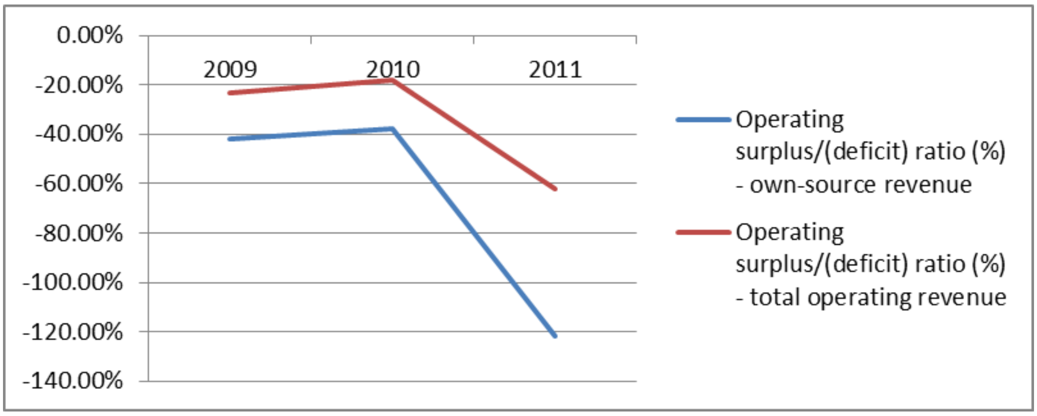
	2011	2010	2009
Operating revenue**	570,087	624,043	483,667
Less: operating expenses (including depreciation expense)	920,965	736,209	594,431
Operating surplus/(deficit)	(350,878)	(112,166)	(110,764)
Operating surplus/ (deficit) ratio (%)	(62%)	(18%)	(23%)
Own source revenue*	286,795	298,338	261,938
Operating surplus/ (deficit) ratio (%)	(122%)	(38%)	(42%)

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*

***Operating revenue does not include capital grants*

The operating surplus/ (deficit) ratio calculated for Wagait on total revenue (excluding capital grants) above shows a deteriorating operating deficit position over the three years with a worsening of the operating deficit ratio from (23%) in 2009 to (62%) in 2011. The operating surplus/ (deficit) ratios based on own source revenue have also worsened from (42%) in 2009 to (122%) in 2011. For both ratios there was an improvement noted in 2010 before worsening in 2011. If this trend continues, Wagait will become financially unsustainable.

Chart 5.9D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents 15% or less of total revenue. While rates revenue has increased over the three year period Wagait is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable and slow or negative growth rates. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.4i: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	166,445	149,347	86,685
Operating expenses	920,965	736,209	594,431
Rates coverage ratio	18%	20.2%	14.6%

The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that Wagait is dependent on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare financial performance to budgets and plans for each of the three years.

Analysis of budget versus actual results by category

Table 5.9j shows the budget to actual comparison by function for 2009, 2010 and 2011.

For 2009, the budget was a breakeven budget and actual results were $48,500. Both actual revenue and expenditure exceeded the amounts budgeted. The functions primarily contributing to the variance were General Public Services where the actual surplus was $58,000 compared to a $100,000 budgeted surplus; Recreation, culture and religion had a budgeted deficit of $80,000 and the actual deficit was $106,000; and Transport and communication which generated a $137,000 surplus compared to the budgeted surplus of $27,000.

For 2010, a surplus of $11,000 was budgeted with an actual surplus made of $437,000, a difference of $426,000. The variance is due primarily to Transport and communication making a surplus of $317,000 compared to the budgeted surplus of $49,000. Recreation, culture and religion was budgeted to make a loss of $147,000 however achieved a surplus of $30,000.

For 2011, a surplus of $10,000 was budgeted with an actual surplus made of $199,000, a difference of $189,000. The variance is due primarily to Recreation, culture and religion making a surplus of $12,000 compared to the budgeted deficit of $67,000.

Table 5.9j: Components of functions of the Community Government Council – Actual v. Budget

2010/11 financial year*	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public services	431,166	323,985	421,450	264,800	9,716	59,185
Public order & safety	0	-	10,382	2,330	(10,382)	(2,330)
Economic affairs	454,681	92,604	313,547	53,400	141,134	39,204
Environmental protection	0	-	26,187	14,100	(26,187)	(14,100)
Housing and community amenities	109,520	52,800	37,141	56,739	72,379	(3,939)
Recreation, culture and religion	124,697	25,200	112,265	92,970	12,432	(67,770)
TOTAL	1,120,064	494,589	920,972	484,339	199,092	10,250

2009/10 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public services	425,037	340,620	282,953	212,410	142,084	128,210
Public order & safety	-	-	3,340	5,700	(3,340)	(5,700)
Economic affairs	2,612	-	2,681	-	(69)	-
Environmental protection	-	-	-	-	-	-
Housing and community amenities	86,991	62,400	135,626	76,500	(48,635)	(14,100)
Health	-	-	-	-	-	-
Recreation, culture and religion	156,973	22,050	127,395	168,750	29,578	(146,700)
Transport & communication	501,707	97,000	184,212	47,710	317,495	49,290
Social protection	-	-	-	-	-	-
Elimination	-	-	-	-	-	-
TOTAL	1,173,320	522,070	736,207	511,070	437,113	11,000

2008/09 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public services	308,861	313,940	250,682	213,840	58,179	100,100
Public order & safety	-	-	5,215	5,500	(5,215)	(5,500)
Economic affairs	-	-	-	-	-	-
Environmental protection	4,425	-	7,951	5,750	(3,526)	(5,750)
Housing and community amenities	110,191	62,400	142,360	98,450	(32,169)	(36,050)
Health	-	-	-	-	-	-
Recreation, culture and religion	30,911	33,200	136,960	113,300	(106,049)	(80,100)
Transport & communication	188,575	88,500	51,262	61,200	137,313	27,300
Social protection	-	-	-	-	-	-
Elimination	-	-	-	-	-	-
TOTAL	642,963	498,040	594,430	498,040	48,533	-

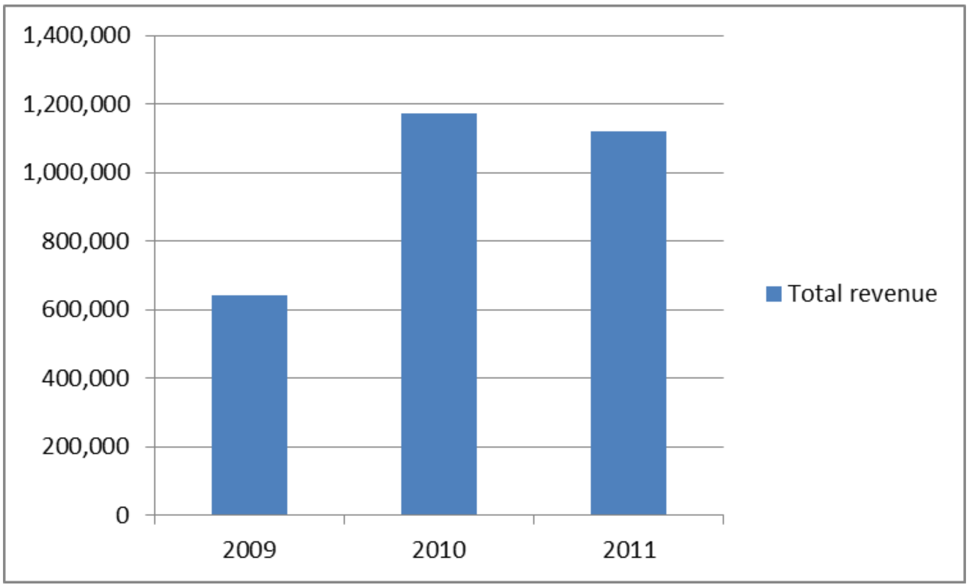
5.9.4 Revenue and revenue sources

Table 5.9k: Revenue for 2009, 2010 and 2011

	2011	2010	2009	Total increase/(decrease)	
Rates and annual charges	166,445	149,347	86,685	79,760	92%
User charges and fees	106,709	130,561	147,821	(41,112)	(28%)
Interest	13,641	15,439	19,764	(6,123)	(31%)
Grants and contributions	283,293	318,189	221,274	62,018	28%
Other Operating revenue	-	2,991	7,668	(7,668)	(100%)
Net profit from disposal of assets	-	7,516	455	(455)	(100%)
Total Operating revenue	570,087	624,043	483,667	86,420	18%
Capital grants and contributions	549,977	549,277	159,316	390,661	245.21%
Total revenue	1,120,065	1,173,320	642,983	492,759	76.64%

The total revenue (including capital grants) received in 2011 was $1.1million compared to $1.2million in 2010 and $643,000 in 2009. Over the three year period the total revenue has increased by $477,000. Refer to Chart 5.9E below.

Chart 5.9E: Total revenue by year

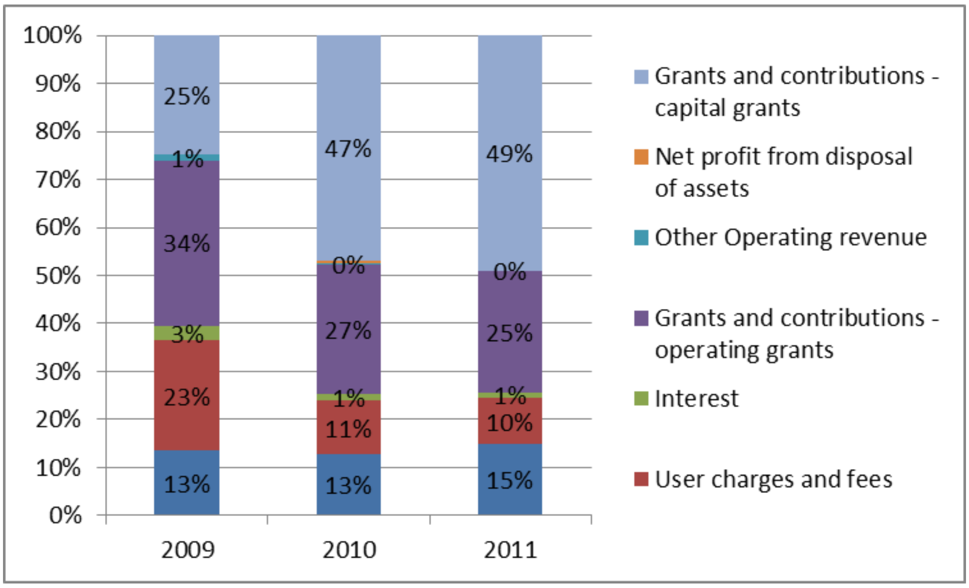


Wagait generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue
- Net profit from disposal of assets.

The increase in revenue was largely due to the increase in capital grants Wagait received in 2010 and 2011 compared to 2009. Capital grants for the three years were $159,000 in 2009, $549,000 in 2010 and $550,000 in 2011. Excluding capital grants, the total operational income fluctuated by $86,420 over the three year period.

Chart 5.9F: Revenue by source



Grants and contributions (operating) make up 25%, 27% and 34% of the total revenue received for Wagait for 2009, 2010 and 2011 respectively. Capital grants comprised 25% (2009), 47% (2010) and 49% (2011) of total revenue. This is in contrast to the eight larger Councils where the majority of revenue comes from grants and contributions. Rates and annual charges and user charges comprise almost 50% of the total revenue for each year.

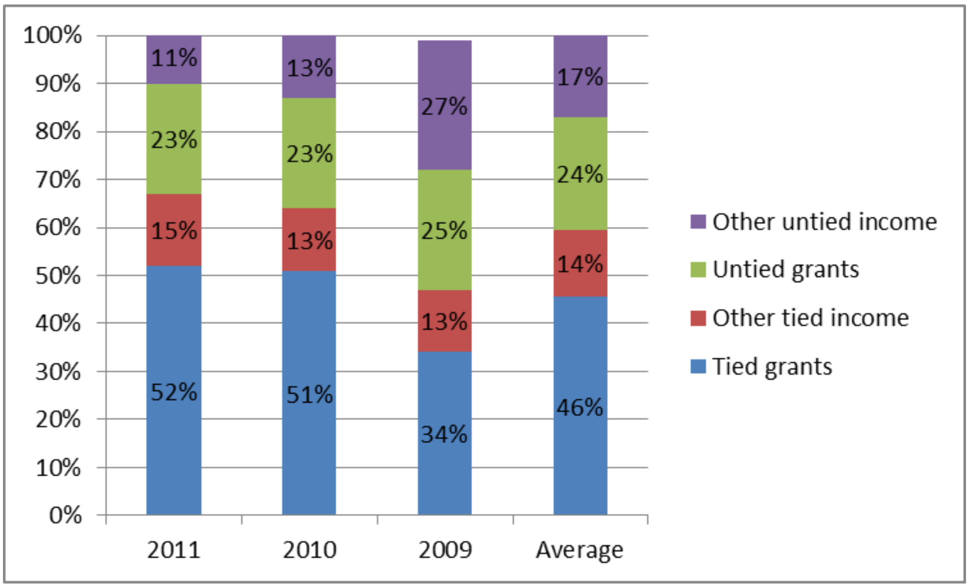
Although Wagait does not appear to be as dependent on grants and contributions from the Northern Territory and Commonwealth Governments as other Councils subject to this analysis, its own source revenue is still insufficient to cover its operating costs as was demonstrated earlier in table 5.9h.

Table 5.9I: Tied versus untied revenue (operational)

	2011		2010		2009	
Tied grants	580,035	52%	600,324	51%	220,372	34%
Other tied income	166,445	15%	149,347	13%	86,685	13%
Total tied income	746,480	67%	749,671	64%	307,057	48%
Untied grants	253,235	23%	267,142	23%	160,218	25%
Other untied income	120,350	11%	156,507	13%	175,708	27%
Total untied income	373,585	33%	423,649	36%	335,926	52%
Total operational grant income	1,120,065	100%	1,173,320	100%	642,983	100%

** General purpose grants from the Northern Territory Government has been classified as 'tied' funding which is different to other Councils in this review.*

Chart 5.9G: Revenue tied versus untied (operational)



The majority of revenue received was tied grants with 34% in 2009, 51% in 2010 and 52% in 2011. In 2009 there was a relatively even split across tied and untied income. Over the years the level of tied funding has increased from 48% in 2009 to 67% in 2011.

Grants and contributions (operational)

Grant revenue (operational) received increased by $62,000 (28%) over the period under analysis, from $221,000 in 2009 to $283,000 in 2011. Grants and contributions (operational) were 25% of the total revenue received in 2009, 27% for 2010 and 34% for 2011. Wagait is reliant on grants and contributions from both the Northern Territory and Commonwealth Governments to deliver its core services as the level of income it can generate from its own source revenue is limited.

Grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services and fee for service arrangements.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
NT Grants Commission - Roads	
CDEP - wages	

Table 5.9m: Composition of grant income by category (operational)

	2011	2010	2009
Core services	283,293	316,299	220,384
Non-core services	-	1,890	890
Total grants and contributions	283,293	318,189	221,274
Core services as a % of total grants	100%	99%	100%
Non-core services as a % of total grants	0%	1%	0%

Table 5.9o shows the composition of grant revenue received by source:

Table 5.9n: Primary sources of core grant income (operational)

Source	2011	2010	2009
Northern Territory Government	265,626	259,358	145,907
Commonwealth Government	17,667	58,831	75,367
Other	-	-	-
	283,293	318,189	221,274

As can be seen from table 5.9n, the majority of grant income (operational) received was from the Northern Territory Government. The proportion of funding from the Northern Territory Government over the three years was 66% (2009), 82% (2010) and 94% (2011) with the remainder coming from the Commonwealth Government.

Grant funding (operational) for core services

The level of grant income received for core services has increased by $63,000 (28%) from 2009. There was very little operational grant funding received during the three year period for non-core services.

Core services revenue is provided by the Northern Territory and Commonwealth Governments and is classified as both tied and untied to be used by Wagait to deliver core services to the community. Refer to table 5.9o.

Wagait received a limited amount of funding for operational purposes of which the majority of the funding was tied. Funding for operational purposes comes from the Northern Territory and Commonwealth governments and is generally in the form of financial assistance grants, road funding and operational subsidies. Of the operational grant funding received, between 73% received in 2009 and 89% received in 2011, was classified as untied funding.

Table 5.9o: Tied versus untied core services grant revenue (operational)

	2011	2010	2009
Untied grants	253,235	267,142	160,218
Tied grants	30,058	49,157	60,166
Other	283,293	316,299	220,384
Untied as a %	89%	84%	73%
Tied as a %	11%	16%	27%

Grant funding (operational) for non-core services

Table 5.9p: Tied versus untied non-core services grant revenue (operational)

	2011	2010	2009
Untied	-	-	-
Tied	-	1,890	890
Total grants core services	-	1,890	890
Untied as a %	-	-	-
Tied as a %	100%	100%	100%

Grants and contributions (capital)

Wagait received grants for capital purchases from the following sources:

Table 5.9q: Primary sources of grant income (operational)

	2011	2010	2009
Northern Territory Government	148,752	227,053	40,000
Commonwealth Government	401,225	322,224	119,316
Total grants and contributions (capital)	549,977	549,277	159,316

The capital grants received during the three years were all tied funding provided for the purchase of specific capital assets. The majority of the funding was provided by the Commonwealth Government.

User charges and fees

User charges and fees consist of the following:

- Jetty & Boat Ramp Maintenance Contract income
- Power and Water Contract income
- Workshop Fees and Charges income

- Rental fees
- Community centre income
- Employment subsidies
- Other fees and charges.

Total income for user fees and charges was $148,000 in 2009, $131,000 in 2010 and $106,000 in 2011, a decrease of $42,000 over the three years under analysis.

User charges and fees were 23% of the total revenue in 2009; this has remained stable and sits on 10% in 2011. User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates and domestic waste charges.

Rates and annual charges increased by approximately $80,000 (92%) over the three years from $87,000 in 2009 to $166,000 in 2011. Rates and annual charges as a percentage of total revenue have increased from 13% of total revenue in 2009 and 2010 to 15% of total revenue in 2011. Wagait's ability to increase its own source revenue through rates is limited due to the small population.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to Wagait. Rates and annual charges are funded through charges to constituents, both private and commercial residents.

5.9.5 Capital expenditure

Analysis of capital investment over the three years

Over the three years Wagait has purchased property, plant and equipment valued at $132,000 in 2009, $154,000 in 2010 and $509,827 in 2011. The composition of the additions can be seen in table 5.9r and chart 5.9H.

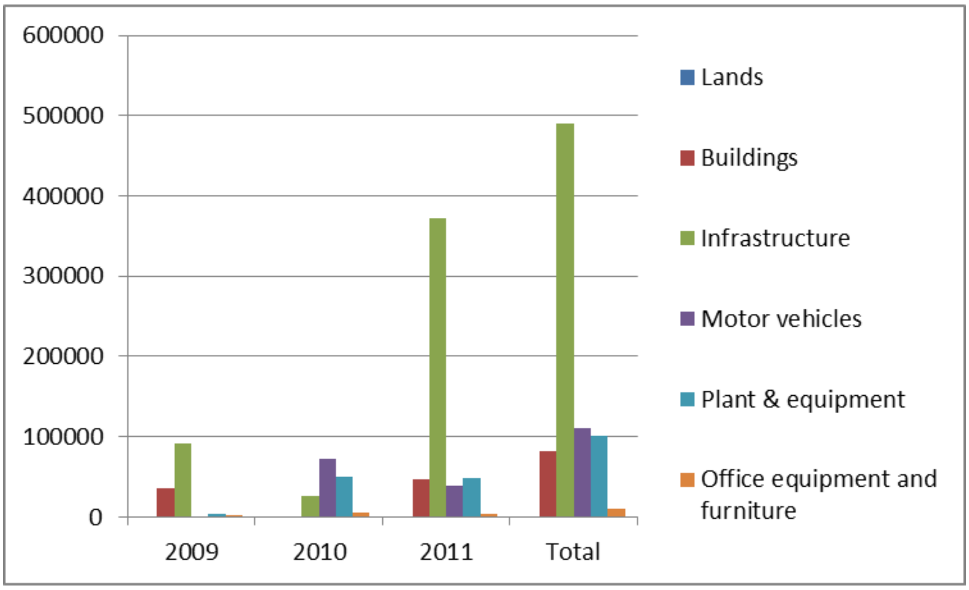
Table 5.9r: Additions of property, plant and equipment by asset category

	2011*	2010	2009	Total
Lands	-	-	-	-
Buildings	47,000	-	35,520	82,520
Infrastructure	372,635	26,390	90,900	489,925
Motor vehicles	38,182	72,943	-	111,125
Plant & equipment	47,650	49,437	3,863	100,950
Office equipment and furniture	4,360	4,775	1,587	10,722
Total	509,827	153,545	131,870	795,242

Note: figures were obtained from the annual financial statements and do not include work in progress (if any)

Wagait purchased capital assets over the three years totalling $795,000 with the majority purchased in 2011 and similar amounts purchased in 2009 and 2010. The majority of capital expenditure was for infrastructure related assets representing 62% of total assets followed by motor vehicles and then plant and equipment. Capital expenditure represents 55.4% (2011), 20.9% (2010) and 22.2% (2009) of total expenditure.

Chart 5.9H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants. Over the past three years the amount received for capital expenditure has exceeded capital asset purchases.

Table 5.9s: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for the three years
Capital funding	549,977	549,277	159,316	1,258,570
Capital expenditure	509,827	153,546	131,870	795,243
Difference	40,150	395,731	27,266	463,327

**Figures have been obtained from the annual financial statements and include work in progress (if any)*

All capital expenditure incurred by Wagait during the last three years has been sufficiently met by capital grants and contributions. Given that the capital expenditure was sufficiently covered by the capital funding provided, it is reasonable to assume that there has been no adverse impact on the liquidity of the Council.

Wagait has established reserves for roads and motor vehicles where amounts are transferred from accumulated surpluses and set aside for the purchase of assets within these categories. The reserves may not necessarily be backed by cash with little information provided regarding the reserves. Refer to table 5.9t below. The additions noted in table 5.9r above show that there was capital expenditure for motor vehicles however there is no change in the motor vehicles reserve. We are unable to obtain any further information in relation to the reserves due to current staff being relatively new.

Table 5.9t: Reported reserves

	2011	2010	2009
Roads reserve	180,000	180,000	170,000
Motor vehicles reserve	10,000	10,000	1,700
Total reserves	190,000	190,000	171,700

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.9u: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital expenditure	509,827	153,546	131,870	795,243
Depreciation expense	183,029	137,387	131,264	451,680
Sustainability ratio	2.8	1.1	1.0	1.8

Note: Figures have been obtained from the annual financial statements and include work in progress (if any)

The benchmark for the sustainability ratio is 1. As we can see from the table above, the ratio for Wagait was 1.0 in 2009, 1.1 in 2010 and 2.8 in 2011 with an average over the three year period of 1.8, which is above the benchmark of 1. Above 1 indicates that assets are being consumed at a rate equal or exceeding consumption. When analysing the sustainability ratio, a number of factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There may be a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by Wagait buildings accounts for 43% and roads, bridges and footpaths accounts for 24%.

There were limited sources of information available to us in respect of the backlogs facing Wagait other than the fixed asset register and the annual financials. Therefore the renewals backlog for assets in Wagait cannot be assessed.

5.9.6 Core services, fee for service arrangements and non-core services

The consultancy contract required the following analysis to be performed:

- Identification and analysis of expenses pertaining to core service delivery, fee for service arrangements and non-core activities of the Councils
- Analysis of the extent to which revenue that is available for core service delivery is being used to subsidise non-core services and/or fee for service arrangements or vice versa
- Analyse whether current fee for service arrangements have been established on a commercial basis and provide recommendations as to where arrangements should be reviewed or renegotiated
- Review the extent to which core services have been undertaken by Councils and identify circumstances where non-core or fee for service activities have taken precedence over core services.

In order to undertake an analysis to address the requirements listed above, financial data by program for core services, fee for service arrangements (or agency services) and commercial services is required for each of the three years. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we are unable to complete the requirements as listed above.

Below is a list of commercial services (excluding core services) provided by Wagait during the three years which have been obtained from the shire plans. Wagait did not provide any fee for services (or agency services) during the last three years.

In the absence of financial data by program for core services, fee for service arrangements and commercial services, we have referred to Wagait's shire plans for a list of the fee for service arrangements (agency services), commercial services and other Council services which the Council intended to provide during the three year period. The shire plans indicate that Wagait do not provide any agency services or other Council services.

In addition to undertaking core services activities Wagait also provides the following services:

<u>Commercial services</u>

- Jetty & Boat Ramp Maintenance Contract income
- Power and Water Contract income
- Workshop Fees and Charges income

- Rental fees
- Community centre income.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which Wagait sits within the Northern Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Northern Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators for which Wagait is to assess their performance in the delivery of core services and meeting objectives of the Northern Region RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including Wagait. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as one would expect in the measurement of whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, all services have been delivered to the community however there are two, being ‘Management of cemeteries’ and ‘Public safety lighting, street lighting’ where service delivery has not been assessed. These services are not required as Wagait does not have a cemetery to maintain or street lighting.

No actual reporting against KPIs was included in the Regional Management Plan Report and therefore the extent to which service delivery has occurred and desired outcomes have been achieved cannot be determined or assessed.

The shire plan for Wagait includes a service plan for each core service to be delivered however the service plans do not include KPIs by which performance can be measured.

<u>Fee for service arrangements (agency services)</u>

- Sport and recreation.

<u>Other community services</u>

- Local welfare and social services
- Medical clinic
- Senior program
- Visitor accommodation and tourism.

Identification and analysis of cross subsidisation

As mentioned earlier in section 5.9.1 and above, reports showing program surplus/deficits for each year were not provided by Wagait. Therefore we are unable to determine which programs made surpluses or losses and whether they were core services, fee for service arrangements or commercial services. We are also unable to determine whether there is any cross subsidisation between core services, fee for service arrangements or commercial services.

The results for 2009, 2010 and 2011 as reported in table 5.9g show that Wagait made overall surpluses for each year. However if we exclude capital grants from total revenue then Wagait made losses for operational activities each year of $111,000 in 2009, $112,000 in 2010 and $350,000 in 2011. This indicates that there was insufficient income to cover expenses and therefore it is reasonable to assume that the losses were being funded from either cash reserves and/or capital grants. Capital grants provided during 2009 to 2011 totalled $1.2million however capital expenditure totalled $795,000 indicating that there is $463,000 in unspent funds in 2011. Cash balances in 2011 were $632,000.

Recovery of direct and indirect costs

We have been provided with very limited information in relation to the recovery of direct and indirect costs. Wagait have advised that they do not take on any fee for service arrangements or commercial activities that do not break-even or provide a positive net result. We are unable to determine whether any of the fee for service arrangements undertaken by Wagait are profitable or loss making.

Establishment of fee for service arrangements

Fee for service arrangements (or agency services fees) include services that the shire Council has agreed to deliver on behalf of other government agencies on a fee for service basis. Wagait only provides agency services for ‘Sport and recreation’.

Wagait enters into fee for service arrangements with the intention that these services are fully funded by the relevant agency and that such funding would include a contribution to administrative costs associated with delivering the service.

5.9.7 Budget processes

Operating budgets

The budgeting process applied Wagait appears to be robust, reasonably accurate and reliable. The budget process begins with the Chief Executive Officer creating a draft budget with input from the administration staff and works supervisor where required. The draft budget is then tabled to Councillors at a closed Council meeting, where the Councillors and Shire President will review the budget and make amendments as necessary. The budgets have been approved by the Council as part of the annual management plan. In accordance with the Local Government Act 2008, Wagait prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

Wagait could only provide the budget for the 2010/11 financial year which was broken down into income and expenditure per program. Prior to this, Wagait’s reporting system did not provide reports of budget information. Wagait were unable to locate any budgets for the prior years due to the loss of knowledge in the administration and accounting systems which occurred during the transition of new staff.

A comparison of actual to budget results was performed for Commonwealth reporting purposes in the presentation of Note 2(b) of the financial statements: ‘Components of Functions of the Community Government Council’. The annual reports for 2008/09 and 2010/11 were unable to be located. The 2009/10 annual report did not report commentary on the variance between actuals to budget.

Capital budgets

Wagait does not have a capital management plan for the management of their assets.

The assumptions used to determine revenue and expenditure associated with capital items are included in the Shire Plan for 2010/11. The assumptions are:

General	Capital works projects mainly will be funded by way of grants. Revenue expenditure will be matched to the level of the NT operational grants funding.
Road upgrade and construction	Any major road works will be funded from reserve funds and grants.

The audited financial statements show a 'roads reserve' and 'motor vehicle reserve'. There is no formal policy in relation to the replacement of vehicles. Should new purchases be made they will be funded from excess revenue or grants.

Cash flow budgets

For the last three years Wagait have not prepared cash flow budgets or cash flow forecasts due to the inability to predict the timing of cash flows.

5.9.8 Summary – financial sustainability of Wagait

To determine the financial sustainability of Wagait we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis six KPIs were used to assess the financial sustainability of Wagait. The results of the KPIs are listed in the table below.

Table 5.9v: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(62%)	(18%)	(23%)	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-

KPI	Description	Benchmark	2011	2010	2009	Average*
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	2.8	1.1	1.0	1.8
Current ratio	Current assets divided by current liabilities	1.0	12.33	5.49	2.94	-
Rates coverage	Rates revenue divided by total cost	40%	18%	20.2%	14.6%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	58.8%	47.2%	39.3%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for Wagait is in a healthy position overall with net assets of $2.6million with the net asset position increasing over the last three years from $2million. The current ratio is very healthy at 12.33 in 2011 which has shown considerable improvement over the three year period from 2.94 in 2009.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly operating deficits indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years Wagait has been incurring operating deficits (excluding capital grants and revaluation increments). Where operating deficits persist, this indicates that operating revenue is insufficient to meet current operations. Although the rates coverage indicator above shows that the rates coverage for Wagait is higher than that of the eight larger NT Councils, Wagait is heavily reliant on grant funding due to the limited own-source revenue it can generate and the population and geographical challenges it faces.

The sustainability ratio for Wagait on average over the last three years was 1.8 indicating that the Council is upgrading or replacing its asset base in line with the consumption of its assets. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. There are indicators that there is a renewals backlog in asset upgrade and replacement (including roads infrastructure) however the cost of any renewals backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

Sustainability

Based on the current conditions Wagait is not financially sustainable in the medium term. Being classified as financially unsustainable does not mean Wagait is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of Wagait are to put onto a financially sustainable basis going forward.

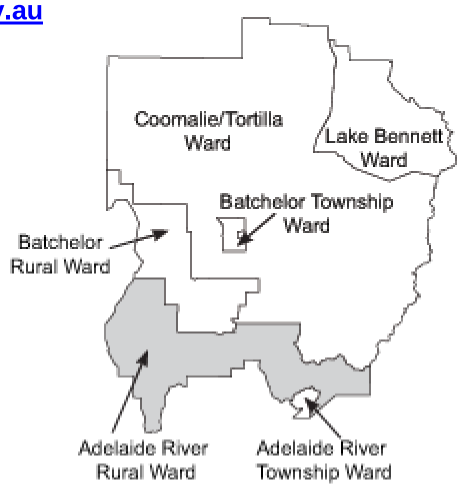
5.10 Coomalie Community Government Council

5.10.1 Introduction

On 1 July 2008, the Northern Territory local government reform program resulted in 59 organisations being reduced to 16 Councils. Coomalie Community Government Council (Coomalie) was not included in the reforms at that time and remains the same legal entity prior to the *Local Government Act 2008 NT* though it is referred to as a 'shire' for the purposes of the act. The local government reforms have not been finalised. There remain areas of the Northern Territory that are not incorporated under local government legislation and changes to boundaries and possible amalgamation with other Councils may occur in the future.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	1,306
Land size	1,512 km^2
Wards	6
Communities	3
Pastoral Leases	0



Elected representatives to Council by ward (2008-2012)

Adelaide River Township	2
Adelaide River Rural	1
Batchelor Township	3
Batchelor Rural	1
Coomalie/Tortilla	1
Lake Bennett	1

At 30 June 2011, Coomalie had 15 staff in its employ and was responsible for managing 164 km of roads of which approximately 60% are classed as gravel (LGANT local directory 2011-2012).

As per the Northern Regional Management Plan, Coomalie is required to deliver services to three designated communities and has established two service delivery centres as the base for delivering services across the shire, located in:

- Adelaide River
- Batchelor Township.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are no Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government

services and facilities and better support for indigenous community governance and leadership. There are no Remote Service Delivery Sites located within the shire.

Challenges of population and geography in Coomalie

Coomalie faces significant infrastructure challenges due to its specific geography and demographic profile. Coomalie's population is 1,306 people with the majority of the population being indigenous people. Coomalie occupies a land mass of 1,512 km^2. Coomalie faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the North Australia Region. Some of the key challenges include:

- Achieving a level of funding that is stable and long term that ensures the financial sustainability of the shire Council
- A low level of untied grant revenue received is able to be used at the Council's discretion
- Alternative revenue generation with a significant portion of current revenue coming from grant revenue
- The Council has a very low rates base
- Poor standard of many Council owned assets and the associated costs of maintenance including ability to maintain plant and equipment in good working condition
- Poor condition of local roads to support access to communities. The Councils inherited aged and ill-maintained road infrastructure which is prone to damage and disruption during adverse weather conditions
- Handover of road assets to local government without sufficient funding
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- Financial sustainability
- Recruitment and retention of staff particularly suitably qualified staff
- The employment and training of Indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Funding agreements for grant funds are generally annual which impacts on future planning and recruitment and retention of staff
- Significant resources required for the reporting and acquittal processes associated with grants
- A lack of all-weather roads and poor condition of roads.

Entities in which Coomalie has an interest

None identified.

5.10.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.10a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	1,310,693	1,294,528	1,513,325	(202,632)	(13%)
Non-current assets	9,271,663	9,510,412	9,515,284	(243,621)	(3%)
Total Assets	10,582,356	10,804,940	11,028,609	(446,253)	(4%)
Current liabilities	245,671	435,378	180,032	65,639	36%
Non-current Liabilities	-	-	-	-	-
Total Liabilities	245,671	435,378	180,032	65,639	36%
Net Assets	10,336,685	10,369,562	10,848,577	(511,892)	(5%)
Equity	10,336,685	10,369,562	10,848,577	(511,892)	(5%)

The financial position of Coomalie has reduced by $512,000 from $10.8million in 2009 to $10.3million in 2011. The majority of the decrease occurred in 2010.

Cash balances analysis

Cash balances comprise cash and cash equivalents as reported in the annual financial statements. Table 5.10b below shows the composition of current assets for the last three years.

Table 5.10b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	1,109,534	1,119,761	1,308,559
Other	201,159	174,767	204,766
Current assets	1,310,693	1,294,528	1,513,325
Cash as % of current assets	84.6%	86.5%	86.5%

**Note: the balances referred to in the table above came from the annual financial statements*

Table 5.10b demonstrates cash balances comprise a significant portion of the current assets (approximately 85%) and have remained relatively consistent over the three year period.

Table 5.10c below shows the composition of the cash balances

Table 5.10c: Composition of cash balances

	2011	2010	2009
Cash and cash equivalents	1,109,534	1,119,761	1,308,559
Restricted cash balances*	104,984	99,677	-
Unrestricted cash and cash equivalents	1,004,550	1,020,084	1,308,559

**Represents grants received in advance*

As can be seen from the table above there was sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Chart 5.10A: Composition of cash balances

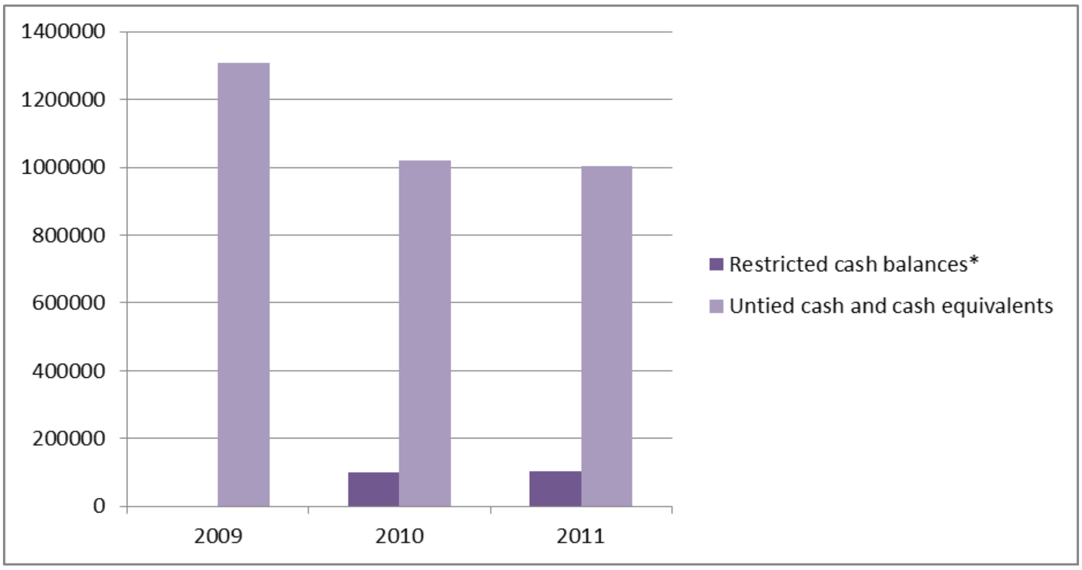


Table 5.10d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems meeting its short term obligations

Table 5.10d: Current Ratio

	2011	2010	2009
Total current assets	1,310,693	1,294,528	1,513,325
Total current liabilities	245,671	435,378	180,032
Net current assets (Working Capital)	1,065,022	859,150	1,333,293
Current Ratio	5.34	2.97	8.41

Table 5.10e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.10e: Cash Ratio

	2011	2010	2009
Total cash balances	1,109,534	1,119,761	1,308,559
Less: unexpended grants (restricted assets)*	104,984	99,677	-
Total unrestricted cash balances	1,004,550	1,020,084	1,308,559
Total current liabilities (unrestricted)	140,687	335,701	180,032
Cash Ratio (unrestricted)	7.14	3.04	7.26

**Represents grants received in advance*

Table 5.10d indicates that Coomalie had sufficient current assets to settle current liabilities. The cash ratio in table 5.10e shows that Coomalie had sufficient cash assets to settle all liabilities at 30 June should creditors demand immediate settlement including the repayment of all unexpended grant funds. The benchmark for the current ratio is 1 and Coomalie has, for all three years, exceeded this benchmark.

A current ratio above 3 is considered high and suggests the assets may not be providing an optimal return to the Council. The current ratio for Coomalie ranges from 2.97 to 8.41 over the three years.

Non-current assets

Non-current assets consist of property, plant and equipment and work in progress (roads). The balance of property, plant and equipment remained stable over the three years with only a 3% increase on 2009 balances.

Recorded land, buildings, other structures and road infrastructure are measured at fair value, in accordance with AASB 116 Property, Plant and Equipment which requires revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Real estate holdings in Batchelor were last revalued during 2003 and in Adelaide River during 2004. Roads are revalued as often as it is economically reasonable and were last revalued on 30 June 2005. As a result, recorded assets values may not correctly reflect current valuations.

Table 5.10f below shows the composition of property, plant and equipment for Coomalie for the 2011 year.

Table 5.10f: Composition of property, plant and equipment for 2011

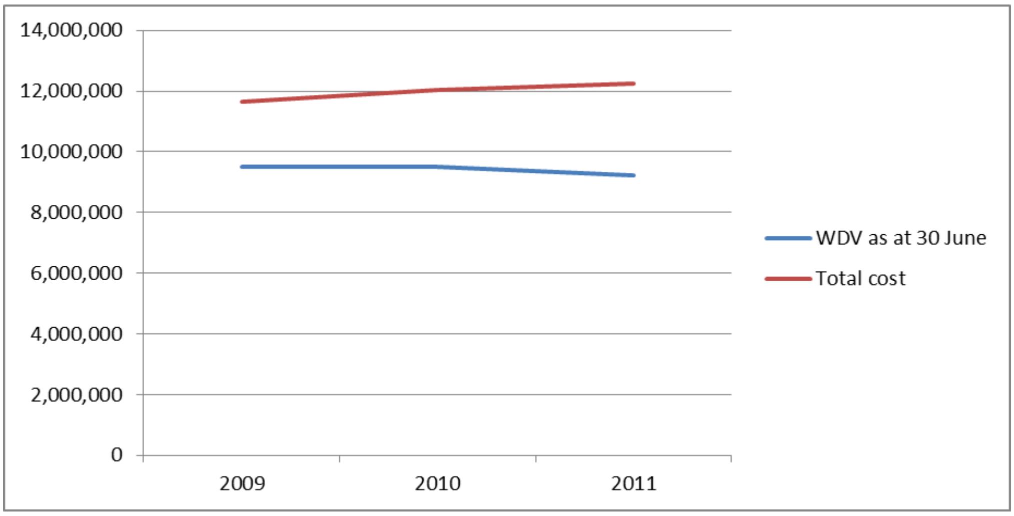
	Cost	Accum Depr.	WDV	% of total WDV
Land - valuation	277,912	-	277,912	3.0%
Buildings - valuation	1,476,485	(630,922)	845,563	9.2%
Other structures - valuation	541,530	(285,562)	255,968	2.8%
Motor vehicles and Plant and equipment - cost	660,566	(254,207)	406,359	4.4%
Road infrastructure - cost	2,002,682	(158,302)	1,844,380	20.0%
Road infrastructure - valuation	7,197,042	(1,663,812)	5,533,230	60.0%

Office furniture and equipment	92,176	(38,724)	53,452	0.6%
Total	11,970,481	(3,031,529)	9,216,864	100.00%

Note: the figures have been obtained from the annual financial statements

Table 5.10f shows that road infrastructure makes up 80% of the total written down value of property, plant and equipment with all balances representing less than 10% individually. The chart below shows the relationship between the cost and written down value of property, plant and equipment with the gap slightly widening between cost and written down value.

Chart 5.10B: Cost and written down value (WDV) of property, plant and equipment at 2009, 2010 and 2011



Liabilities analysis

Current liabilities comprise creditors, provisions and grants received in advance. The current liability balance has increased by $65,000 or 36% over the three years from $180,000 in 2009 to $246,000 in 2011 with current liabilities being at their highest at $435,000 in 2010. The primary reason for the increase in 2010 was due to grants received in advance of $99,000 and trade creditors increasing by approximately $100,000.

Included in current liabilities is a provision for employee long service leave which has remained under $30,000 for the three years.

5.10.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of Councils in section 3 of this report.

This section provides our analysis of the financial performance of Coomalie over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

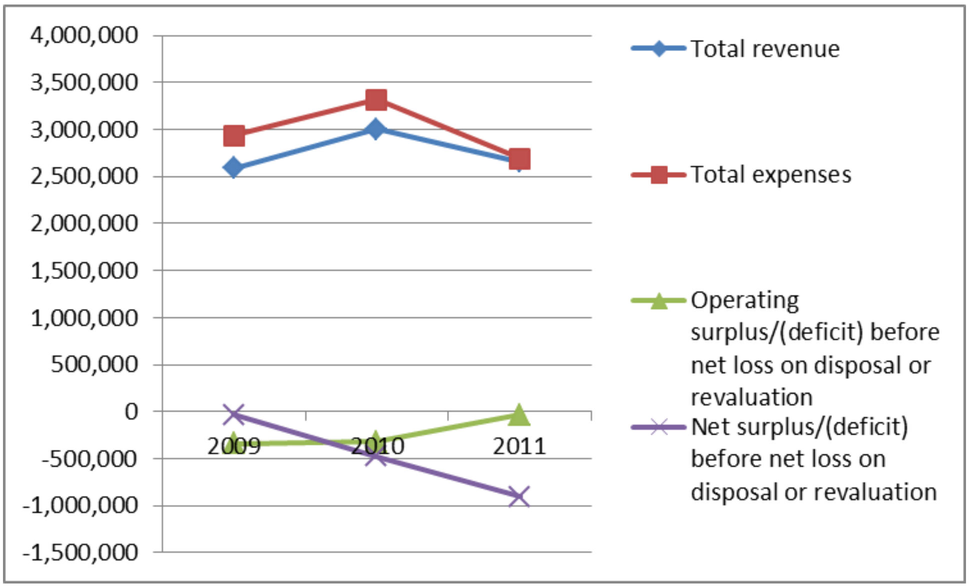
Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.10.5.

Below is an extract of the Statement of Comprehensive Income from the annual financial statements for the last three years.

Table 5.10g: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	248,907	94,403	83,334	165,573	199%
Rates and annual charges	568,473	485,061	461,055	107,418	23%
Interest	65,234	53,954	91,121	(25,887)	(28%)
Grants and contributions	1,354,574	1,433,137	1,550,528	(195,954)	(13%)
Other Operating revenue	19,377	700,126	220,303	(200,926)	(91%)
Total revenue	2,256,565	2,766,681	2,406,341	(149,776)	(6%)
Employee costs	610,855	703,803	550,512	60,343	11%
Materials and contracts	1,004,112	902,168	1,077,257	(73,145)	(7%)
Depreciation and amortisation	492,544	478,109	490,436	2,108	0.4%
Other costs	581,365	1,234,356	815,352	(233,987)	(29%)
Total expenses	2,688,876	3,318,436	2,933,557	(244,681)	(8%)
Operating surplus/(deficit)	(432,311)	(551,755)	(527,216)	94,905	(18%)
Grants provided for capital purpose	399,434	235,005	183,811	215,623	117%
Net loss on disposal or revaluation	-	(162,265)	(562,593)	(562,593)	(100%)
	399,434	72,740	(378,782)	778,216	205%
Net surplus/(deficit)	(32,877)	(479,015)	(905,998)	873,121	96%

Chart 5.10C: Revenue, expenses and net surplus/(deficit) for 2009, 2010 and 2011



**Operating surplus/(deficit) before net loss on disposal or revaluation includes grants provided for capital purchases so Council is comparable with other Councils included in this report. Net surplus/(deficit) includes the net loss on disposal or revaluation.*

The net financial performance position remained constant over the three years with operating deficits of $527,000 (2009), $552,000 (2010) and $432,000 (2011). The decrease in revenue of 6% between 2009 and 2011 was offset by a comparative decrease in expenditure of 8%. The graph demonstrates the closing of the gap between revenue and expenses and a slight improvement in the net deficit results in 2011. We can also see an increase in both revenue and expenses in 2010 whilst the operating deficit remained largely unchanged. The net deficit after loss on disposal of assets went from a deficit of $905,000 in 2009 to a deficit of $33,000 in 2011.

Employee costs increased by $60,000 (11%) since 2009 due predominantly to wages and salaries increasing from $489,000 in 2009 to $512,000 in 2011 representing $23,000 of the movement. Other expenses increased from $24,000 to $52,000 in 2011, an increase of $28,000.

Materials and contracts decreased by $73,000 (7%) since 2009 due to materials, contracts and other expenses relation to roads decreasing from $604,000 in 2009 to $240,000 in 2011, a decrease of $364,000 with materials, contracts and other expenses - general offsetting the $364,000 decrease relating to roads with an increase from $473,000 in 2009 to $764,000 in 2011, an increase of $291,000.

Other costs decreased by $234,000 (29%) since 2009 due to grants for other costs decreasing from $105,000 in 2009 to $22,000 in 2011, a decrease of $83,000 and rates recovery costs decreasing from $166,000 in 2009 to $11,000 in 2011, a decrease of $155,000. All other movements are considered minor.

Refer to section 5.10.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.10h below shows the operating surplus/ (deficit) for Coomalie and the associated surplus/ (deficit) ratio for the three years since 2009.

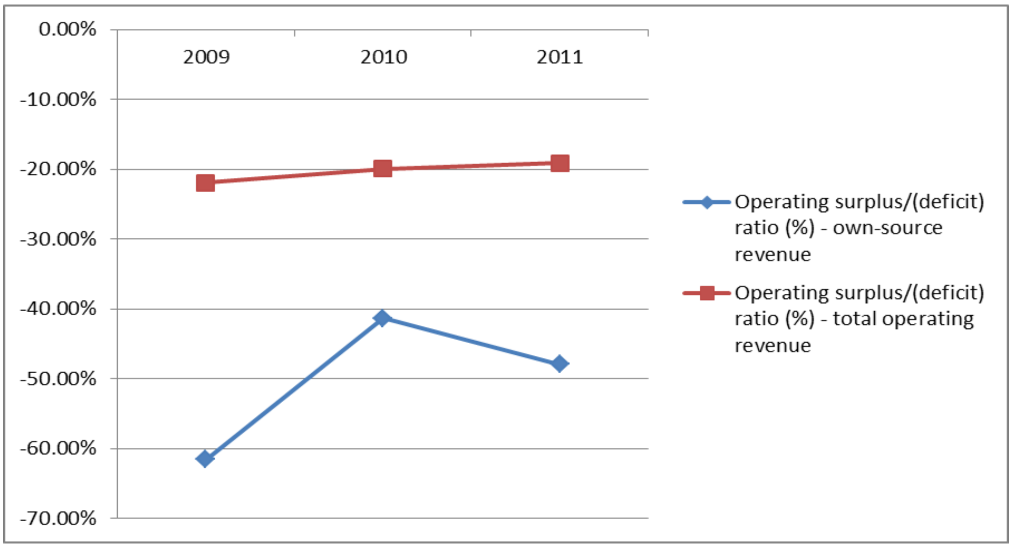
Table 5.10h: Operating surplus/ (deficit) ratio for 2009, 2010 and 2011

	2011	2010	2009
Operating revenue**	2,256,565	2,766,681	2,406,341
Less: operating expenses (including depreciation expense)	2,688,876	3,318,436	2,933,557
Operating surplus/(deficit)	(432,311)	(551,755)	(527,216)
Operating surplus/ (deficit) ratio (%)	(19.16%)	(19.94%)	(21.91%)
Own source revenue*	901,991	1,333,544	855,813
Operating surplus/ (deficit) ratio (%)	(47.93%)	(41.38%)	(61.60%)

**Own source revenue excludes all government grants, gains/ (losses) on disposal of assets, revaluations of assets and discontinued operations*
***Operating revenue does not include capital grants*

The operating surplus/ (deficit) ratio calculated for Coomalie on total revenue (excluding capital grants) above shows an operating deficit ratio for each of the three years with it improving from a 21.91% deficit to a 19.16% deficit. The operating surplus/ (deficit) ratios based on own source revenue only, overall reflect the movement in total revenue (excluding capital grants). If Coomalie continues to incur operating deficits in the coming years then the Council could become financially unsustainable.

Chart 5.10D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents 21% or less of total revenue. While rates revenue has increased over the three year period Coomalie is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable and slow or negative growth. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.10i: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	568,473	485,061	461,055
Operating expenses	2,688,876	3,318,436	2,933,557
Rates coverage ratio	21.14%	14.6%	15.7%

The benchmark used in this analysis is 40% for rates coverage ratio. A result less than this may indicate that rates collected by Coomalie cover an inadequate proportion of expenses. The calculations above show that the rates coverage ratio for each of the three years is between 14.6% and 21.14% and is less than the 40% benchmark. This indicates that Coomalie is dependent on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we look at the financial performance against budgets and plans for the 2010 and 2011 years, table 5.10j and 5.10k respectively. The actual data reported in tables 5.10j and 5.10k do not agree to the actual results reported in the audited financial statements. Actual results per the audited financial statements for 2010 was $479,000 deficit with the actual deficit reported in table 5.10j being $305,700. The actual deficit reported in the 2011 audited financial statements was $32,900 compared to the actual deficit of $44,610 reported in table 5.10j.

Analysis of budget versus actual results by function

In 2011, the budgeted deficit was $26,000 compared to the actual deficit reported of $44,600. Two programs were budgeted to return a surplus:

- Administration with a surplus budgeted of $838,000
- Sanitation and garbage with a surplus budgeted of $5,000.

All other programs were budgeted to incur deficits ranging from $1,000 to $183,000. The programs with large variances between actual and budgeted results were:

- Administration – actual surplus was $534,000 which was $304,000 less than the budgeted surplus of $838,000
- Roads – actual surplus was $12,000 compared to the budgeted deficit of $126,000 (an improved result by $114,000).

In 2010, a net deficit of $305,701 was incurred compared to a budgeted net deficit of $839,000, a $533,000 better outcome than that budgeted. Actual income was $264,000 more than planned and expenses were $269,000 less than budgeted. The programs with larger variances were:

- Administration – surplus exceeded the budgeted surplus by $220,000
- Roads – deficit incurred was $228,000 less than budgeted
- Weeds management – achieved surplus of $49,500 compared to a planned deficit of $43,000.

A comparison of the budget versus actual results for 2009 was not performed as information allocating the budget by function was not provided.

Table 5.10j: Budget versus actual by function for 2011

	BUDGET			ACTUAL			DIFFERENCE		
	Income	Expenditure	Surplus/ Deficit	Income	Expenditure	Surplus/ Deficit	Income	Expenditure	Surplus/ Deficit
Administration	1,629,000	791,000	838,000	1,205,052	670,954	534,098	(423,948)	(120,046)	(303,902)
Public Conveniences	-	58,000	(58,000)	-	83,395	(83,395)	-	25,395	(25,395)
Sanitation and garbage	178,000	173,000	5,000	248,608	216,789	31,819	70,608	43,789	26,819
Cemeteries	2,000	3,000	(1,000)	316	2,724	(2,408)	(1,684)	(276)	(1,408)
Street lighting	-	11,000	(11,000)	-	9,233	(9,233)	-	(1,767)	1,767
Parks and gardens	28,000	211,000	(183,000)	34,185	282,120	(247,935)	6,185	71,120	(64,935)
Libraries	45,000	51,000	(6,000)	45,595	42,713	2,883	595	(8,287)	8,883
Sport and recreation	1,000	166,000	(165,000)	30,159	121,749	(91,590)	29,159	(44,251)	73,410
Swimming pool	10,000	89,000	(79,000)	16,524	109,032	(92,507)	6,524	20,032	(13,507)
Community recreation	33,000	75,000	(42,000)	94,280	76,877	17,403	61,280	1,877	59,403
Roads	582,000	708,000	(126,000)	750,454	762,135	(11,681)	168,454	54,135	114,319
Tourism, parking and other	28,000	51,000	(23,000)	10,593	78,010	(67,417)	(17,407)	27,010	(44,417)
Dog management	2,000	17,000	(15,000)	833	4,533	(3,700)	(1,167)	(12,467)	11,300
Weeds Management	217,000	377,000	(160,000)	219,400	240,345	(20,945)	2,400	(136,655)	139,055
Total of all Functions	2,755,000	2,781,000	(26,000)	2,655,999	2,700,609	(44,610)	(99,001)	(80,391)	(18,610)

Table 5.10k: Budget versus actual by function for 2010

	BUDGET			ACTUAL			DIFFERENCE		
	Income	Expenditure	Surplus/ Deficit	Income	Expenditure	Surplus/ Deficit	Income	Expenditure	Surplus/ Deficit
Administration	1,191,000	829,000	362,000	1,352,019	769,871	582,148	161,019	(59,129)	220,148
Public Conveniences	-	58,000	(58,000)	-	63,225	(63,225)	-	5,225	(5,225)
Sanitation and garbage	88,000	189,000	(101,000)	84,687	180,429	(95,742)	(3,313)	(8,571)	5,258
Cemeteries	2,000	3,000	(1,000)	683	1,055	(372)	(1,317)	(1,945)	628
Street lighting	-	11,000	(11,000)	-	6,872	(6,872)	-	(4,128)	4,128
Parks and gardens	4,000	252,000	(248,000)	3,261	286,373	(283,112)	(739)	34,373	(35,112)
Libraries	45,000	49,000	(4,000)	45,000	44,913	87	-	(4,087)	4,087
Sport and recreation	-	94,000	(94,000)	467	85,064	(84,597)	467	(8,936)	9,403
Swimming pool	11,000	85,000	(74,000)	8,558	84,181	(75,623)	(2,442)	(819)	(1,623)
Community recreation	62,000	103,000	(41,000)	66,340	95,832	(29,492)	4,340	(7,168)	11,508
Roads	505,000	1,007,000	(502,000)	570,336	844,768	(274,432)	65,336	(162,232)	227,568
Tourism, parking and other	56,000	56,000	-	54,755	55,216	(460)	(1,245)	(784)	(460)
Dog management	2,000	26,000	(24,000)	2,263	25,811	(23,548)	263	(189)	452
Weeds Management	250,000	293,000	(43,000)	292,204	242,665	49,539	42,204	(50,335)	92,539
Total of all Functions	2,216,000	3,055,000	(839,000)	2,480,575	2,786,276	(305,701)	264,575	(268,724)	533,299

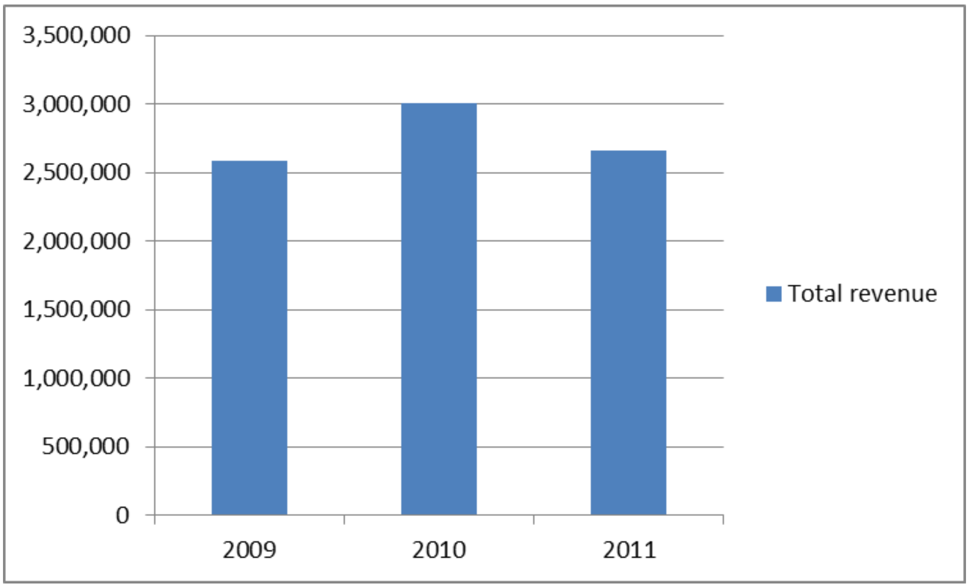
5.10.4 Revenue and revenue sources

Table 5.10I: Revenue for 2009, 2010 and 2011

	2011	2010	2009	Total increase/(decrease)	
User charges and fees	248,907	94,403	83,334	165,573	199%
Rates and annual charges	568,473	485,061	461,055	107,418	23%
Interest	65,234	53,954	91,121	(25,887)	(28%)
Grants and contributions	1,354,574	1,433,137	1,550,528	(195,954)	(13%)
Other Operating revenue	19,377	700,126	220,303	(200,926)	(91%)
Net profit from disposal of assets	-	-	-	-	-
Operational revenue	2,256,565	2,766,681	2,406,341	(149,776)	(6%)
Grants provided for capital purposes	399,434	235,005	183,811	215,623	117.3%
Total revenue	2,655,999	3,001,686	2,590,152	65,847	(2.5%)

The total revenue received in 2011 was $2.7million compared to $3million in 2010 and $2.6million in 2009. Over the three year period the total revenue has decreased by almost $65,000 or 2.5%.

Table 5.10E: Total revenue by year



Coomalie generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue

- Net profit from disposal of assets.

Chart 5.10F: Revenue analysis by source

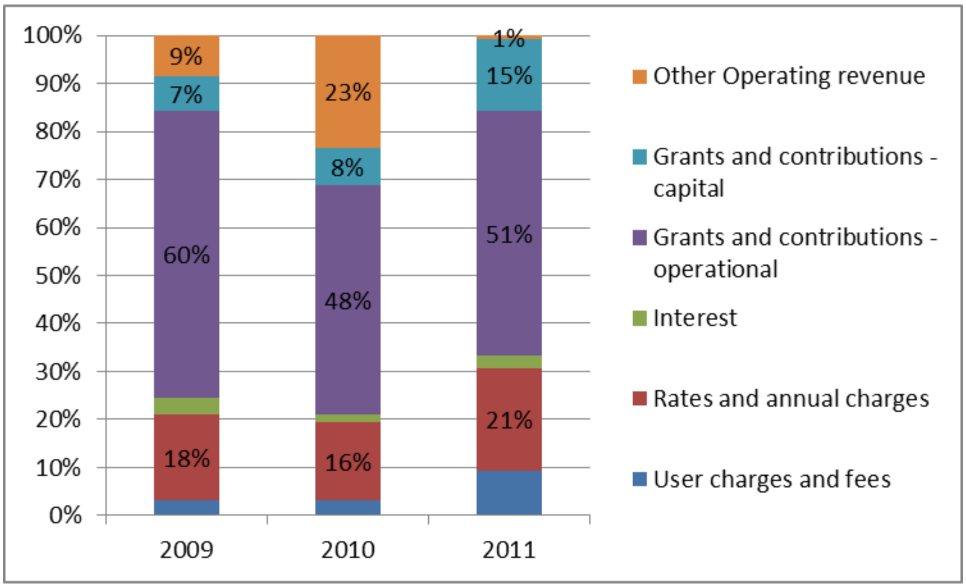


Chart 5.10F demonstrates the heavy reliance on grants and contributions income and the limited own source revenue, particularly rates and annual charges and user charges and fees. Without the grants and contributions revenue, Coomalie's own source revenue is insufficient to cover the costs of delivering core services to community.

Between 56% and 67% of Coomalie's total revenue is derived from grants and contributions predominantly from the Northern Territory and Commonwealth Governments. Rates and charges provide between 16% and 21% of the total revenue followed by other income.

Revenue – untied versus tied

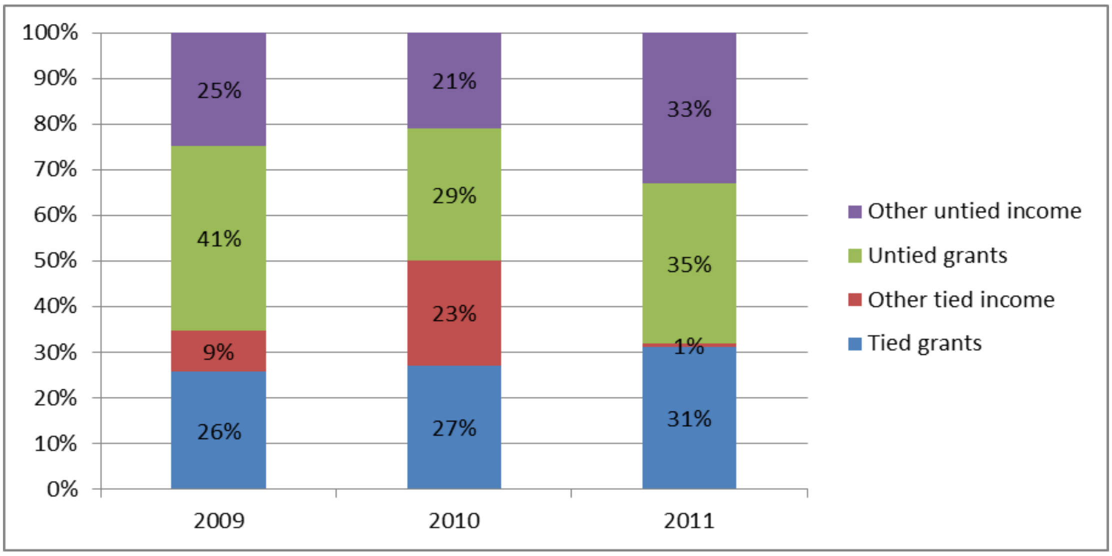
For the purposes of this analysis, all revenue received by Coomalie has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue.

Table 5.10m: Tied versus untied revenue

	2011		2010		2009	
Tied grants	817,766	31%	797,342	27%	680,478	26%
Other tied income	19,377	1%	700,126	23%	220,303	9%
Total tied income	837,143	32%	1,497,468	50%	900,781	35%
Untied grants	936,242	35%	870,800	29%	1,053,861	41%
Other untied income	882,614	33%	633,418	21%	635,510	25%
Total untied income	1,818,856	68%	1,504,218	50%	1,689,371	65%
Total income	2,655,999	100%	3,001,686	100%	2,590,152	100%

Chart 5.10G: Revenue tied versus untied



For 2009 and 2011, the majority of the revenue received by Coomalie was untied with 66% and 68% respectively, however untied revenue received in 2010 was only 50%, lower than in the other two years.

Untied revenue is mainly received from NT Operational Funds, Northern Territory Grants Commission - General Purpose Funding and the Northern Territory Grants Commission - Local Road Funding. Based on a review of these programs, there is no guidance or direction provided as to how this funding is to cover the core services except for the Northern Territory Grants Commission funding.

Untied grants have reduced by 11% from $1.05million received in the 2009 year to $936,000 in 2011. Coomalie relies heavily on the untied grants to deliver services due to the limited own source revenue raised. Coomalie has limited opportunity to increase its revenue from rates and annual charges and user fees and charges due to a limited population base, limited properties to which rates can be applied and restrictions on the level that can be charged to property owners.

Grants and contributions (operational)

Grants and contributions comprise 67% of the revenue for 2009, 56% for 2010 and 66% for 2011. As can be seen from table 5.10l above, the total grant revenue (operational) received over the three years has decreased by $196,000 (13%). Of this, untied grant revenue, which is used for delivery of core services, has decreased by almost $118,000 (11.2%) over the three years since 2009.

To mitigate the risk of overreliance on one source of funding, Coomalie takes on many small grants to ensure sufficient funding is available year on year. Each grant received has reporting requirements that must be met in order to continue receiving funding. Opportunities to apply for grants are sometimes missed as the resources are not available to complete the grant application requirements.

In 2011 Coomalie received fourteen grants for a range of services.

All grant revenue received during this period is for the delivery of core services (as Coomalie do not provide any non-core services).

Grant revenue (operational) consists of grants provided by the Northern Territory and Commonwealth Governments as shown in table 5.10o below.

Table 5.10n: Grant income (operational) tied versus untied

	2011	2010	2009
Operational grants - untied	936,242	870,800	1,053,861
Operational grants - tied	418,332	562,337	496,667
Total operational grants	1,354,574	1,433,137	1,550,528
Total operational grants - % untied	69%	61%	68%
Total operational grants – % tied	31%	39%	32%

Table 5.10o: Primary sources of grant income

Source	2011	2010	2009
Northern Territory Government	741,227	875,257	1,034,183
Commonwealth Government	613,347	557,880	516,345
Other	-	-	-
	1,354,574	1,433,137	1,550,528

As can be seen from the table above, the majority of the operational grant income was received from the Northern Territory Government.

Grants and contributions (capital)

Coomalie received grants for capital purchases from the following sources:

Table 5.10p: Primary sources of capital grants

	2011	2010	2009
Northern Territory Government	30,000	97,439	-
Commonwealth Government	369,434	137,566	183,811
Total grants and contributions (capital)	399,434	235,005	183,811

Capital grants comprised 7% (2009), 8% (2010) and 15% (2011) of the total revenue received with all classified as tied funding. Capital grants provided have increased by $216,000 or 117% since 2009.

User charges and fees

User charges and fees have increased by 199% over the three years, primarily due to a substantial increase in garbage charges in 2011. This increase raised the total annual garbage charge revenue position of user charge fees by 249% from $70,000 to $244,000.

Total income from user charges and fees for the 2009 and 2010 years represented a small portion of the total revenue received by Coomalie. User charges and fees represent less than 3.5% of the total revenue received for those years; however in 2011 the amount of revenue received for user charges and fees was 91% of total revenue for that year.

User charges and fees are considered untied income for the delivery of non-core services.

Rates and annual charges

Rates and annual charges consist primarily of general rates.

Rates and annual charges also increased over the three years by 23%, bringing rate revenue for the 2011 year to $568,000. Coomalie's population in 2011 was 1,306 people with 28% of their population being Indigenous. There are only a small number of properties that are rateable in Coomalie limiting the Council's ability to generate income through rates.

For each year rates and annual charges comprised 18% (2009), 16% (2010) and 21% (2011) of total revenue.

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of Coomalie. Rates and annual charges are funded through charges to constituents including private and commercial residents, mining companies for extractive activities and pastoralists.

Other income

Other operating revenue has decreased by $201,000 (91%) since 2009 to be $19,000 in 2011, however other income in 2010 was $700,000. Other income generally consists of donations, hire of equipment, sale of goods (2009 only) and other income however in 2010 and 2009 Coomalie also received $663,000 and $106,000 respectively for sale of land for rates in arrears.

Other income makes up 7% or less of total revenue received for the three years and is all classified as untied income.

5.10.5 Capital expenditure

Analysis of capital investment over the three years

Over the three years, Coomalie purchased property, plant and equipment totalling $293,000 in 2009, $670,000 in 2010 and $199,000 in 2011. The composition of the additions can be seen in table 5.10q and chart 5.10H.

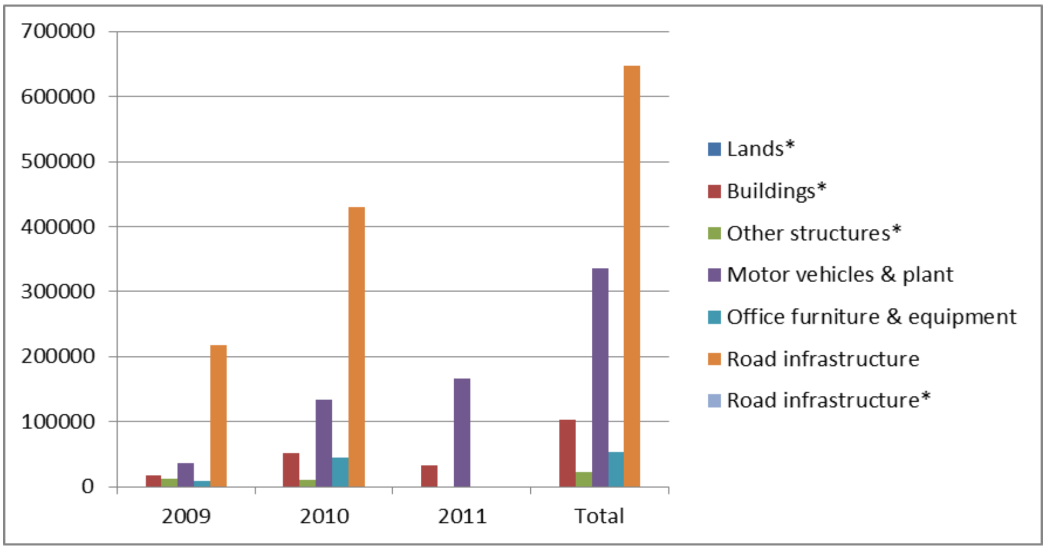
Table 5.10q: Additions of property, plant and equipment by asset category

	2011	2010	2009	Total
Lands*	-	-	-	-
Buildings*	33,505	51,088	18,250	102,843
Other structures*	-	9,820	12,660	22,480
Motor vehicles & plant	165,491	134,123	36,000	335,614
Office furniture & equipment	-	44,792	8,243	53,035
Road infrastructure	-	429,770	218,116	647,886
Road infrastructure*	-	-	-	-
Total	198,996	669,593	293,269	1,161,858

Note: figures have been obtained from the annual financial statements and do not include work in progress (if any)
**Basis of measurement is valuation*

Capital expenditure costs for Coomalie over the three years totalled $1.16million. The majority of the capital expenditure was primarily for roads which represented 56% of the total expenditure incurred. Capital expenditure represents 7.4% (2011), 20.2% (2010) and 10% (2009) of total expenditure.

Chart 5.10H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Funding received for capital expenditure is mainly received through capital grants. Over the past three years Coomalie has received less capital grant revenue than it has spent acquiring capital assets. Refer to the table below.

Table 5.10r: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital funding	399,434	235,005	183,811	818,250
Capital expenditure	253,795	669,593	293,269	1,216,657
Difference	145,639	(434,588)	(109,458)	(398,407)

**Figures have been obtained from the annual financial statements and include work in progress (if any)*

Coomalie has made capital purchases totalling $1.22million over the three years with the majority purchased in 2010. The total capital grants received over the three year period was $818,000 which is $400,000 less than the actual purchases made over this period. Funding for the difference has come from either cash reserves or own-source revenue, however given that Coomalie over the last three years has registered operating deficits it is reasonable to assume that it has come from cash reserves. If the trend continues and Coomalie continue to make operating deficits then this situation may lead to Coomalie becoming financially unsustainable in the future.

Coomalie does not have a cash reserve established for capital expenditure and does not have a capital management plan in place.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.10s: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for the three
Capital expenditure	253,795	669,593	293,269	1,216,657
Depreciation expense	492,544	478,109	490,436	1,461,089
Sustainability ratio	0.5	1.4	0.6	0.8

**Figures have been obtained from the annual financial statements and include work in progress (if any)*

The benchmark for the sustainability ratio is 1. As we can see from the table above, the ratio for Coomalie was 0.6 in 2009, showed improvement in 2010 to 1.4 and then dropped to 0.5 in 2011 with an average over the three years of 0.8. Two of the three years show a ratio that is below the benchmark indicating that assets may be deteriorating at a greater rate than spending on their renewal or replacement. The low ratios for 2009 and 2011 indicate that further investment in capital expenditure should be undertaken to reduce/prevent any backlog and future financial unsustainability.

When analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There may be a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils.

Over the last three years, Coomalie has incurred $600,000 in repairs and maintenance expenditure which represents 6.68% of the total expenditure incurred over the period under analysis. Based on the age of Coomalie's property, plant and equipment, ageing assets will require replacement in the short to medium term and increased repairs and maintenance costs will be incurred in the short term. Coomalie faces an ever growing asset renewal gap which is the disparity between the costs of renewing existing infrastructure at its 'current level of service' and the funds available to do so, whether they are funded through rates or other tiers of government such as grants.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory as well as throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by Coomalie, buildings accounts for 9% and road infrastructure accounts for 80%.

There were limited sources of information available to us in respect of the backlog facing Coomalie other than the fixed asset register and the annual financials. Therefore the renewals backlog for assets in Coomalie cannot be assessed.

5.10.6 Core services, fee for service arrangements and non-core services

As a shire council established under the Local Government Act 2008, there are minimum core services which Coomalie must provide. For a list of these activities refer to Appendix 1 of this report.

Coomalie only provides core services. Due to the proximity of Coomalie to the amenities of Darwin, there is no reliance on Coomalie to provide additional services outside those provided for in the Regional Management Plan.

The tables and charts following show all the programs by core services, agency services and non-core services for the three years.

Table 5.10t: Summary of surplus/ (deficit) by core services

	2011*	2010**	2009***
Core services	(44,610)	(305,701)	(960,253)
Net surplus/(deficit)	(44,610)	(305,701)	(960,253)

** A gross deficit of $32,800 is recorded per annual financial statements compared to $44,600 in the management report.*

*** A gross deficit of $479,000is recorded per annual financial statements compared to $305,700 in the management report.*

**** A gross deficit of $905,900 is recorded per annual financial statements compared to $960,200 in the management report.*

As can be seen from the table above, core services programs for each of the three years are incurring deficits indicating that there is insufficient revenue coming in to cover the costs of delivering core services. A detailed breakdown of surpluses/ (deficits) by program by core services can be seen in table 5.10u below. As noted in the footer of the table above, the total deficits registered in the financial data provided by program does not agree to the deficits reported in the annual financial statements, although differences are minimal. The analysis below is based on the data provided in the surplus/deficits by program report provided by Coomalie however the accuracy of the data cannot be ascertained.

Table 5.10u demonstrates:

- In 2011, ten of the sixteen core services programs incurred a combined deficit of $634,000 and the remaining six programs returned a combined surplus of $590,000 resulting in a net deficit of $44,000
- In 2010, twelve of the sixteen core services programs incurred a combined deficit of $942,000 and the remaining four programs returned a combined surplus of $636,000 resulting in a net deficit of $306,000
- In 2009, thirteen of the sixteen core services programs incurred a combined deficit of $1.6million offset by the remaining four programs which returned a combined surplus of $612,000 resulting in a net deficit of $960,000.

The program ‘Administration’ shows a large amount recorded against it for revenue for all three years with expenditure being approximately 50% of this resulting in a large surplus being made whilst the majority of the other programs listed incurred small to large deficits with some programs having no revenue allocated to them. These programs include:

- Public conveniences which had deficits of $83,000 in 2011, $63,000 in 2010 and $79,000 in 2009
- Street lighting which had deficits of $9,000 in 2011, $7,000 in 2010 and $11,000 in 2009
- Major fire hazards which had a deficit of $23,000 in 2009.

The large deficit incurred in the 2009 financial year was primarily a result of the $677,000 downward revaluation on roads. The downward revaluations in the following years were $247,000 in 2010 and $11,000 in 2011.

Chart 5.10I: Number of core services programs with operating surplus and deficits

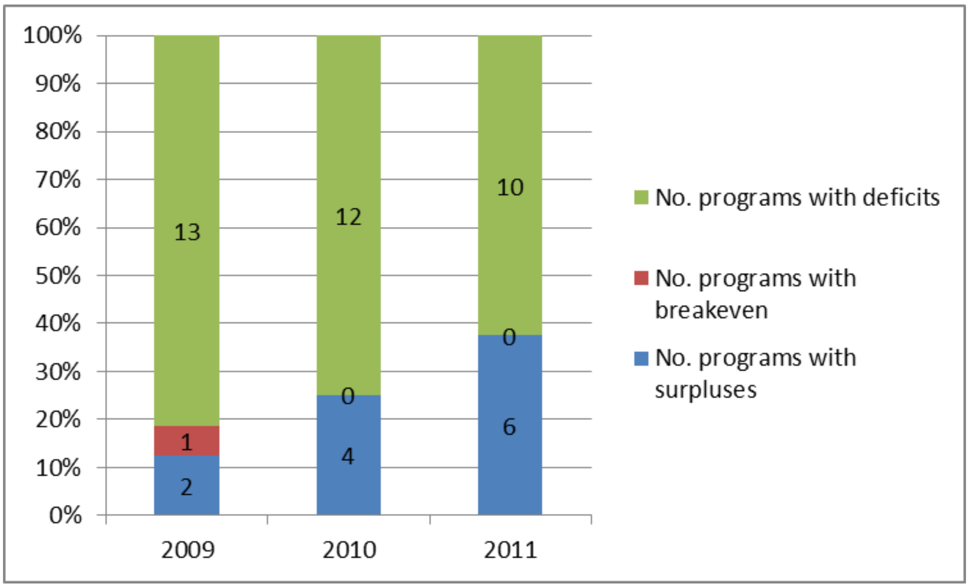


Table 5.10u: Surplus/ (deficit) by program for agency services activities

	2011*			2010**			2009***		
	Revenue	Expense	Surplus/ Deficit	Revenue	Expense	Surplus/ Deficit	Revenue	Expense	Surplus/ Deficit
Administration	1,205,052	670,954	534,098	1,352,019	769,871	582,148	1,263,131	657,224	605,907
Public Conveniences	-	83,395	(83,395)	-	63,225	(63,225)	-	78,691	(78,691)
Sanitation and garbage	248,608	216,789	31,819	84,687	180,429	(95,742)	83,271	218,274	(135,003)
Cemeteries	316	2,724	(2,408)	683	1,055	(372)	(954)	3,429	(4,382)
Parks and gardens	34,185	282,120	(247,935)	3,261	286,373	(283,112)	(19,880)	231,906	(251,785)
Libraries	45,595	42,713	2,883	45,000	44,913	87	43,929	48,299	(4,370)
Sport and recreation	30,159	121,749	(91,590)	467	85,064	(84,597)	68,734	130,433	(61,699)
Swimming pool	16,524	109,032	(92,507)	8,558	84,181	(75,623)	9,071	87,769	(78,699)
Community recreation	94,280	76,877	17,403	66,340	95,832	(29,492)	36,969	76,892	(39,923)
Roads	750,454	762,135	(11,681)	570,336	844,768	(274,432)	404,707	1,081,740	(677,033)
Street lighting	-	9,233	(9,233)	-	6,872	(6,872)	-	11,419	(11,419)
Tourism, parking and other	10,593	78,010	(67,417)	54,755	55,216	(460)	95,070	281,076	(186,006)
Dog management	833	4,533	(3,700)	2,263	25,811	(23,548)	859	20,589	(19,730)
Glyphosate	9,858	9,291	567	19,071	23,392	(4,321)	31,150	25,142	6,008
Major fire hazards	35,000	32,000	3,000	36,041	27,519	8,522	-	23,428	(23,428)
Gamba weed management	174,542	199,054	(24,512)	237,092	191,754	45,338	-	-	-
Total all activities	2,655,999	2,700,609	(44,610)	2,480,575	2,786,276	(305,701)	2,016,058	2,976,311	(960,253)

** A gross deficit of $32,800 is recorded per audited financial statements compared to $44,600 pin the management report.*

*** A gross deficit of $479,000 is recorded per audited financial statements compared to $305,700 pin the management report.*

**** A gross deficit of $905,900 is recorded per audited financial statements compared to $960,200 pin the management report.*

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which Coomalie sits within the Northern Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Northern Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which Coomalie is to assess performance in the delivery of core services and meeting objectives of the Northern Region RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including Coomalie. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs in order to measure whether an output and ultimately the outcome is being achieved.

From review of the Regional Management Plan Report, all services have been delivered to the communities however there are four, being ‘Revenue growth’, ‘Human resources’, ‘Asset management’ and ‘Risk management’ where service delivery is planned to be delivered. Dates for commencement of the services have not been disclosed.

No actual reporting against KPIs was included in the Regional Management Plan Report and therefore the extent to which service delivery has occurred and desired outcomes have been achieved cannot be determined or assessed.

The shire plan for Coomalie includes a service plan for each core service to be delivered however the service plans do not include specific KPIs by which performance can be measured. The shire plan does however include performance assessment criteria but does not include specific KPIs against which performance can be measured.

It is the view of management of Coomalie that the Council’s provision of core service is sufficient despite the downward pressure on service levels as a result of:

- Increasing cost (inflation)
- Reducing revenue
- Increasing expectations from the community.

Identification and analysis of cross subsidisation

As noted above, Coomalie only delivered core services during the last three years which incurred net operating deficits for each year with programs making a mix of surpluses and deficits. It is therefore reasonable to assume that any programs with deficits are being crossed subsidised by programs that are achieving surpluses.

Recovery of direct and indirect costs

Councils incur direct and indirect costs in delivering services. All direct costs are recorded against the actual program to which the expenditure relates. Coomalie has not established policies and procedures for calculating and allocating indirect and overhead costs to its programs, instead they are captured within the activity 'Administration'. Administration costs represent between 22% and 28% of total costs in each of the three years. Developing, applying and monitoring overhead cost allocations is seen as requiring additional cost and time to Coomalie that will provide little benefit in return. Coomalie has accepted that some core services programs will run at a loss however have to still be provided as they have been identified as core services under the Regional Management Plan.

5.10.7 Budget processes

Operating budgets

The budgeting process applied by Coomalie appears to be robust, reasonably accurate and reliable. The budgets are prepared in the accounting system by senior staff. The Chief Executive Officer and accountant have detailed knowledge of Coomalie's operations. The budgets have been approved by the Council as part of the annual management plan. In accordance with the Local Government Act 2008, Coomalie prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

Monthly reports are produced including and present to the Council (including the CEO):

- Balance Sheets
- Financial Reports (Profit and Loss / cash flow reviews)
- Financial Results Detail (MTD and YTD reports for each activity by natural account)
- Financial Results Summary (MTD and YTD reports for each activity showing the net revenue, expenditure and surplus/deficit)
- Grants Report (Summary of all grants showing revenue, expenditure, surplus/deficit and Acquittal requirements)
- Payments Register (listing of payments for the month).

The Council has open discussions on the financial data and controls within the Council meetings, however there was no written documentation on the status of movements in financial data.

Capital budgets and capital management plans.

Coomalie does not have a current asset management plan or an asset management system in place. Capital spending is determined and budgeted annually based on current needs, however actual expenditure is limited to the funding obtained and received causing an inability to plan long term due to short term funding commitments. Coomalie is currently in the process of preparing a road management plan in response to the worsening road conditions and the limited funding with which to maintain the existing roads.

Coomalie does not have specific reserves set aside for capital expenditure. Any unexpected or urgent capital expenditure has to been funded from general revenue sources. Due to the size of Coomalie, the untied cash and cash equivalents balance remains around $1.1million. Any significant purchase or repairs and maintenance requirements would have an adverse effect on the Council's financial position and sustainability in the medium to long term.

The impact of not having sufficient capital expenditure reserves and capital management plan in place increases the risk that:

- Core services may be ceased temporarily or long term should the capital expenditure be for assets that are used in the delivery of core services and there are no alternate assets that can be substituted until replacement

- Funds that are tied or restricted for core services, non-core services or fee for service arrangements may be diverted to fund the capital purchase, potentially impacting Coomalie's ability to deliver its core services programs and/or other non-core services or fee for service arrangements.

5.10.8 Summary – financial sustainability of Coomalie

To determine the financial sustainability of Coomalie we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis six KPIs were used to assess financial sustainability of Coomalie. The results of the KPIs are listed in the table below.

Table 5.1v: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(19.16%)	(19.94%)	(21.91%)	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	0.5	1.4	0.6	0.8
Current ratio	Current assets divided by current liabilities	1.0	5.34	2.97	8.41	-
Rates coverage	Rates revenue divided by total cost	40%	21.14%	14.6%	15.7%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	100.0%	100.0%	100.0%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for Coomalie is in a healthy position overall with net assets of $10.3million with the net asset position remaining relatively consistent with only a $511,000 decrease noted. The current ratios for all three years are very healthy and there are no indications of financial unsustainability from a financial position point of view.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly, operating surpluses indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

Over the last three years Coomalie has been generating operating deficits (excludes capital grants and revaluation increments). Where operating deficits persist, this indicates that operating revenue is insufficient to meet current operations. Coomalie is heavily reliant on grant funding due to limited own-source revenue and population and geographical challenges. The rates coverage indicator above shows that the rates coverage for Coomalie is higher than that of the eight larger NT Councils.

The sustainability ratio for Coomalie on average over the last three years was 0.8 indicating that the consumption of the Council's assets exceeded the capital being replaced into the asset base. However as discussed this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. There are indicators that there is a renewals backlog in asset upgrades and replacements (including roads infrastructure) however the cost of any renewals backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

Sustainability

Based on the current conditions Coomalie is not financially sustainable in the medium term. Being classified as financially unsustainable does not mean Coomalie is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of Coomalie are to put onto a financially sustainable basis going forward.

5.11 Belyuen Shire Council

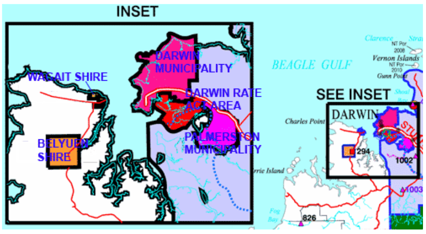
5.11.1 Introduction

On 1 July 2008, the Northern Territory local government reform program reduced 59 organisations to 16 Councils. Belyuen Community Government Council (Belyuen) was not included in the reforms at that time and remains the same legal entity prior to the *Local Government Act 2008 NT* though it is referred to as a 'shire' for the purposes of the Act. The local government reforms have not been finalised. There remain areas of the Northern Territory that are not incorporated under local government legislation and changes to boundaries and possible amalgamation with other Councils may occur in the future.

The Belyuen Community Government Council was suspended in May 2007 and has been operating with an appointed Manager since its suspension.

Shire Council statistics as reported at www.bushtel.nt.gov.au

Population	207
Land size	42 km^2
Wards	1
Communities	1
Pastoral Leases	0



Elected representatives to Council by ward (2008-2012)

Council Members	0

At 30 June 2011, Belyuen had 12 staff in its employ and was responsible for managing 84 km of roads of which approximately 80% are classed as flat bladed track (LGANT local directory 2011-2012).

As per the Northern Regional Management Plan, Belyuen is required to deliver services to one designated community and has established one service delivery centre as the base for delivering services across the shire, located in Belyuen.

The Northern Territory Government has designated 20 communities throughout the Territory as Growth Towns (*), which are the focus for development as economic and service delivery centres for their region including people living on outstations and homelands. There are no Growth Towns located within the shire.

The Commonwealth Government has also designated 15 communities throughout the Northern Territory as Remote Service Delivery Sites (#) to be the focus of improved access to government services and facilities and better support for indigenous community governance and leadership. There are no Remote Service Delivery Sites located within the shire.

Challenges of population and geography in Belyuen

Belyuen faces significant infrastructure challenges due to its specific geography and demographic profile. Belyuen's population is 207 people with the majority of the population being Indigenous. Belyuen occupies a land mass of 42 km^2. Belyuen faces a number of challenges impacting on the delivery of services as identified in the Regional Management Plan for the North Australia Region. Some of the key challenges include:

- Achieving a level of funding that is stable and long term that ensures the financial sustainability of the shire Council
- A low level of untied grant revenue received is able to be used at the Councils discretion
- Alternative revenue generation with a significant portion of current revenue coming from grant revenue
- The Council has a very low rates base
- Poor standard of many Council owned assets and the associated costs of maintenance including ability to maintain plant and equipment in good working condition
- Poor condition of local roads to support access to communities. The Council inherited aged and ill-maintained road infrastructure which is prone to damage and disruption during adverse weather conditions
- Handover of road assets to local government without sufficient funding
- Securing 'ownership' of fixed and non-fixed assets necessary to provide shire services
- Financial sustainability
- Recruitment and retention of staff particularly suitably qualified staff
- The employment and training of Indigenous people providing municipal services with barriers including numeracy/literacy levels, language, existing capacity and experience
- Funding agreements for grant funds are generally annual which impacts future planning and recruitment and retention of staff
- Significant resources required for the reporting and acquittal processes associated with grants
- A lack of all-weather roads and poor condition of roads.

Entities which Belyuen has an interest in

None identified.

5.11.2 Financial position

Below is an extract from the audited financial statements for the years ended 30 June 2009, 2010 and 2011.

Table 5.11a: Financial position as reported in the audited financial statements

	2011	2010	2009	Total increase/(decrease)	
Current assets	747,581	1,185,884	1,399,120	(651,539)	(47%)
Non-current assets	3,000,542	2,808,983	3,061,329	(60,787)	(2%)
Total Assets	3,748,123	3,994,867	4,460,449	(712,326)	(16%)
Current liabilities	277,480	177,996	161,002	116,478	72%
Non-current Liabilities	-	-	-	-	-
Total Liabilities	277,480	177,996	161,002	116,478	72%
Net Assets	3,470,643	3,816,871	4,299,447	(828,804)	(19%)
Equity	3,470,643	3,816,871	4,299,447	(828,804)	(19%)

Net assets of Belyuen have decreased from $4.3million in 2009 to $3.5million in 2011, a decrease of $829,000 (19%) over the three years. Net assets have primarily decreased due to current assets decreasing by $652,000 and current liabilities increasing by $116,000.

The audit reports for all three years included a qualification concerning property, plant and equipment stating that community houses should not be recorded as an asset of the Council as changes to government policy means that the Council no longer controls the housing assets or obtains economic benefits from them. Therefore in the opinion of the Council's auditor, property, plant and equipment including community housing with a net carrying value was overstated by $1.7million in 2009, $1.5million in 2010 and $1.4million in 2011.

If we take the above into consideration the net assets of Belyuen would be $2.6million in 2009, $2.3million in 2010 and $2.1million in 2011.

For the purpose of this review we will use the figures as reported in the audited financial statements.

Cash balances analysis

Cash balances comprise cash and cash equivalents as reported in the annual financial statements. Table 5.11b shows the composition of current assets for the last three years.

Table 5.11b: Level and composition of current assets

	2011	2010	2009
Cash and cash equivalents	630,167	1,141,253	1,343,167
Other	117,414	44,631	55,953
Current assets	747,581	1,185,884	1,399,120
Cash as % of current assets	84%	96%	96%

Table 5.11b shows cash balances make up 96% for 2009 and 2010, and 84% for 2011, of total current assets, however have decreased over the period by $713,000 or 53%.

Table 5.11c below shows the composition of the cash balances.

Table 5.11c: Composition of cash balances for 2009, 2010 and 2011

	2011	2010	2009
Cash and cash equivalents	630,167	1,141,253	1,343,167
Restricted cash balances*	278,347	346,990	426,932
Untied cash and cash equivalents	351,820	794,263	916,235

**Represents unexpended grants at year end. Unexpended grants have not been recognised as a liability in the financial statements*

Table 5.11c shows there was sufficient cash available at 30 June each year to cover unexpended grant liabilities.

Chart 5.11A: Composition of cash balances for 2009, 2010 and 2011

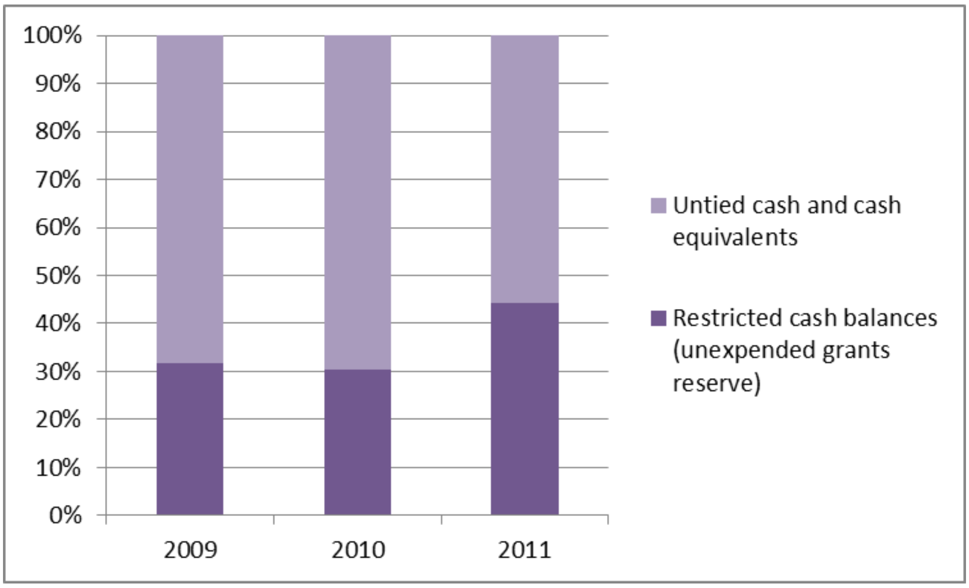


Table 5.11d shows the current ratio for the three years. The current ratio is an indicator of a Council's ability to meet short term debt and is arrived at by dividing current assets by current liabilities. The benchmark used in this analysis for the current ratio is 1. The higher the ratio, the stronger the Council is in meeting its current liabilities. Where current liabilities exceed current assets, the Council may have problems in meeting its short term obligations

Table 5.11d: Current Ratio

	2011	2010	2009
Total current assets	747,581	1,185,884	1,399,120
Total current liabilities	277,480	177,996	161,002
Net current assets (Working Capital)	470,101	1,007,888	1,238,118
Current Ratio	2.69	6.66	8.69

** Unexpended grants have not been recognised as a liability in the financial statements*

Table 5.11e shows the cash ratio for the three years. The cash ratio is an indicator of a Council's ability to meet short term debt should creditors require immediate payment. The cash ratio has been broken into two parts. The first part of the calculation is to determine whether there are sufficient cash assets at year end to meet all liabilities associated with restricted cash balances. The second part of the calculation is to determine whether after all restricted assets have been deducted, there are sufficient cash assets to settle all other liabilities should creditors demand immediate payment. The benchmark used for this analysis is 1.

Table 5.11e: Cash Ratio

	2011	2010	2009
Total cash balances	630,167	1,141,253	1,343,167
Less: unexpended grants (restricted assets)	278,347	346,990	426,932
Untied cash and cash equivalents	351,820	794,263	916,235
Total current liabilities (unrestricted)	277,480	177,996	161,002
Cash Ratio (unrestricted)	1.27	4.48	5.69

**Unexpended grants have not been recognised as a liability in the financial statements*

The current ratio decreased over the three years to 2.69 in 2011 from 8.69 in 2009 however it is still above the benchmark ratio used in this analysis of 1. The cash ratio also decreased over the same period and was 1.27 in 2011 compared to 5.69 in 2009. Belyuen had sufficient cash assets to settle all liabilities at 30 June each year.

Non-current assets

Non-current assets are property, plant and equipment. The balance of property, plant and equipment has increased over the last three years by $61,000 or 2% from $3.06million in 2009 to $3million in 2011.

Table 5.11f below shows the composition of property, plant and equipment for Belyuen for the 2011 year.

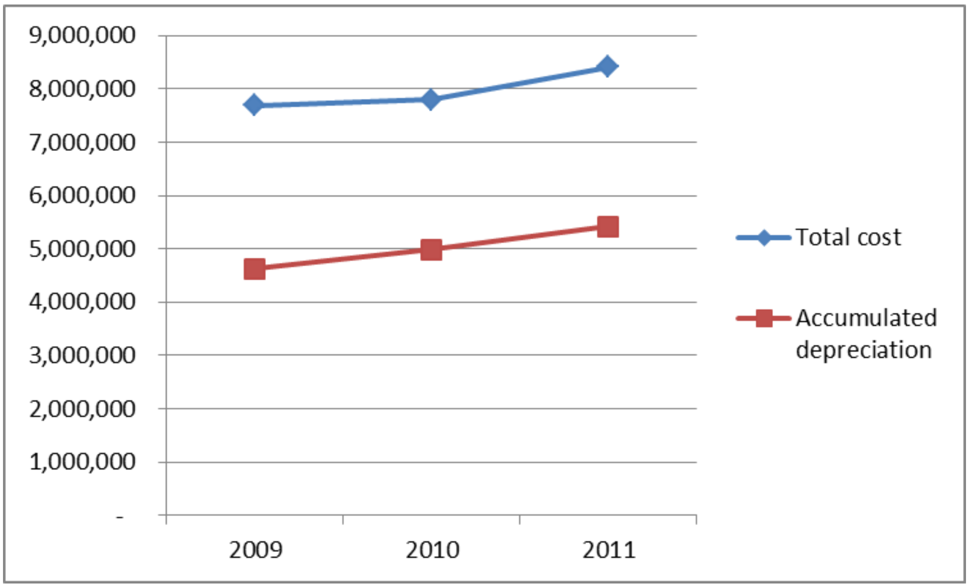
Table 5.11f: Composition of property, plant and equipment for 2011

	Cost	Accum Depr.	WDV	% of total WDV
Buildings	6,224,237	(4,416,009)	1,808,228	60.3%
Infrastructure	1,300,708	(473,701)	827,007	27.6%
Plant and equipment	776,267	(464,193)	312,074	10.4%
Improvements	3,065	(1,422)	1,643	0.1%
Furniture and fittings	83,027	(34,354)	48,673	1.6%
Motor vehicles	25,227	(22,310)	2,917	0.1%
Office equipment	682	(682)	-	-
Total	8,413,213	(5,412,671)	3,000,542	100.00%

Note: the figures have been obtained from the annual financial statements

Table 5.11f shows that buildings at 60% and infrastructure at 27.6% make up the majority of the total written down value of property, plant and equipment with all balances representing 10% or less individually. The chart below shows the relationship between the cost and written down value of property, plant and equipment with the gap slightly widening between cost and written down value.

Chart 5.11B: Property, plant and equipment balances at 2009, 2010 and 2011



Liabilities analysis

Current liabilities comprise creditors, other payables, provisions and grants received in advance. The current liability balance increased over the three years by $116,000 or 72% from $161,000 to

$277,000. The increase is mainly due to an increase in accrued expenses and the recognition of grants received in advance.

Belyuen has not recorded any non-current liabilities however it must be noted that long service leave provision has been classified as a current balance and it accounted for 20% of the liabilities balance in 2011.

5.11.3 Financial performance

A Council's operating financial performance is satisfactory if it is generating a modest operating surplus before capital revenues, indicating that costs incurred in the year in question (including both routine maintenance and annual depreciation of non-financial assets) are at least being met by current ratepayers and not being transferred to future ratepayers, with revenues sufficient to finance current operations.

A Council's financial performance is satisfactory if both:

- Its actual renewals capital expenditure broadly matches the annual desired levels of such expenditure
- Its annual net borrowing does not put any long-term pressure on achievement of the Council's targeted net financial liabilities ratios.

An operating surplus generally indicates that the costs incurred in any given year are being met by current ratepayers and not being transferred to future ratepayers. A Council's financial performance should allow a margin of comfort so risks and shocks can be absorbed comfortably with little impact. This requires Councils to:

- Have an operating surplus rather than an operating deficit
- Have no significant infrastructure renewal backlogs
- Have annual capital expenditure for the renewal or replacement of existing assets that over time is at about the same level as the Council's depreciation expenses
- Have an annual net borrowing that is not putting pressure on the Council's targeted net financial liabilities ratio or current ratio. We have used the current ratio for the analysis of individual Councils and net financial liabilities ratio for the analysis of Councils in section 3 of this report.

This section provides our analysis of the financial performance of Belyuen over the last three years and will cover the following areas:

- Analysis of the operating surplus/(deficit) for the three years including calculating the operating surplus/(deficit) ratio and the rates coverage ratio
- Analysis of actual performance against budgets and plans (where available).

Infrastructure renewal backlogs and capital expenditure/depreciation expense ratio will be looked at in section 5.11.5.

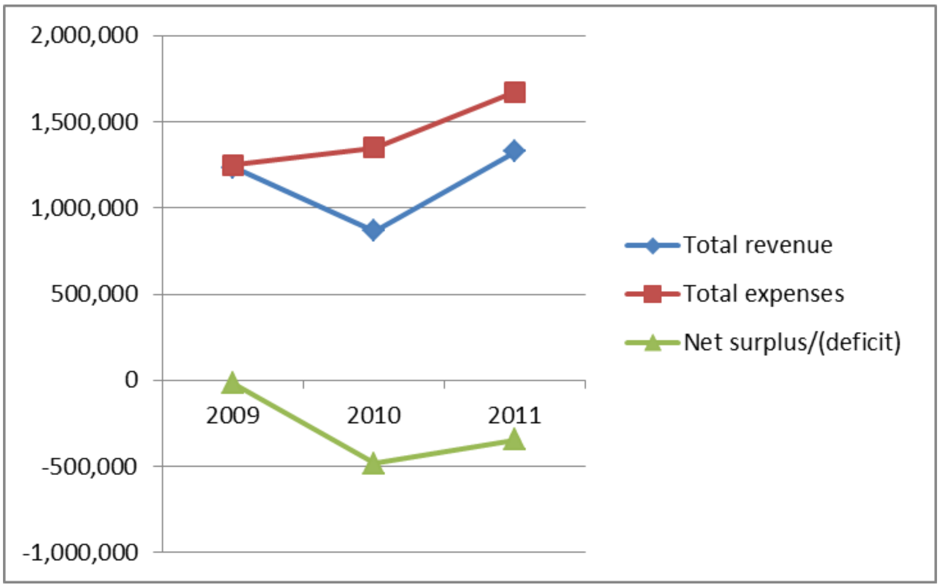
Below is an extract of the Statement of Comprehensive Income from the audited financial statements for the last three years.

Table 5.11g: Statement of Comprehensive Income (extracted from the audited financial statements)

	2011	2010	2009	Total increase/(decrease)	
Interest	290	1,430	25,382	(25,092)	(99%)
Grants and contributions	693,707	599,812	944,129	(250,422)	(27%)
Other Operating revenue	528,031	260,252	253,810	274,221	108%
Net gain on disposal/impairment loss	-	3,665	8,610	(8,610)	(100%)
Total operating revenues	1,222,028	865,159	1,231,931	(9,903)	(1%)
Employee costs	506,270	433,127	426,598	79,672	19%
Materials and contracts	-	-	11,276	(11,276)	(100%)
Depreciation and amortisation	420,163	408,035	373,730	46,433	12%
Other costs	720,313	506,573	438,467	281,846	64%
Net loss on disposal/impairment loss	26,130	-	-	26,130	100%
Total operating expenses	1,672,876	1,347,735	1,250,071	422,805	34%
Operating surplus/(deficit) before capital	(450,848)	(482,576)	(18,140)	(432,708)	(2,385%)
Grants and contributions provided for capital purposes	104,620	-	-	104,620	100%
Net surplus/(deficit) for the year	(346,228)	(482,576)	(18,140)	(328,088)	(1,809%)

**Net gain on disposal of assets and net loss on disposal of assets were recorded in the audited financial statements under comprehensive income. For the purpose of this analysis this has been reclassified to be consistent with other Councils included in this analysis.*

Chart 5.11C: Revenue, expenses and net surplus/(deficit) for 2009, 2010 and 2011



**Grants and contributions provided for capital purchases have been included in total revenue so comparable with other Councils included in this report.*

As can be seen from the chart and table above, operating deficits were incurred in each of the three years. The operating deficit in 2009 was $18,000 and worsened to $483,000 in 2010 with a slight improvement in 2011 to an operating deficit of $346,000 including capital grants. Chart 5.11C shows that in 2010 expenses increased and revenue decreased and in 2011 the increase in revenue was matched by an increase in expenses. The increase in expenses is primarily due to other costs increasing by $282,000 or 64% since 2009 with all movements noted considered minor movements between years except $94,000 recorded as 'return of unspent grant' in 2011 which did not occur in the two previous years.

Employee costs increased by $80,000 (19%) since 2009 due predominantly to salaries and wages increasing from $385,000 in 2009 to $454,000 in 2011, an increase of $69,000.

Refer to section 5.11.4 for explanations in movements in revenue balances.

Operating surplus analysis

The operating surplus/(deficit) measure is regarded as a key analytical balance in relation to a Council's annual operating financial performance. Only the operating surplus analytical balance distinguishes between current and capital spending, and between the financing of current spending through own-source revenue and the financing of capital spending through debt.

As a general principle, operating expenses plus a fair measure of annual depreciation represent the total spending in the current period. Capital spending results in benefits derived beyond the current period by future ratepayers. When there is an operating surplus, rates revenue is more than sufficient to finance current operations. When there is an operating deficit, rates and other own-source revenue is insufficient to finance current operations.

The operating surplus ratio has been performed in two parts. The first part measures the operating surplus/(deficit) against operating revenue excluding capital grants and revaluation increments. The benchmark for measuring the operating surplus/(deficit) is 10%. Councils with deficits larger than 10% are spending beyond their revenue base and are potentially at risk of sustainability problems. The second part measures the operating surplus/(deficit) against own-source revenue. Refer to section 3 of this report for more information regarding our methodology for calculating operating surplus ratio.

Table 5.11h below shows the operating surplus/(deficit) for Belyuen and the associated surplus/(deficit) ratio for the three years since 2009.

Table 5.11h: Operating surplus/(deficit) ratio for 2009, 2010 and 2011

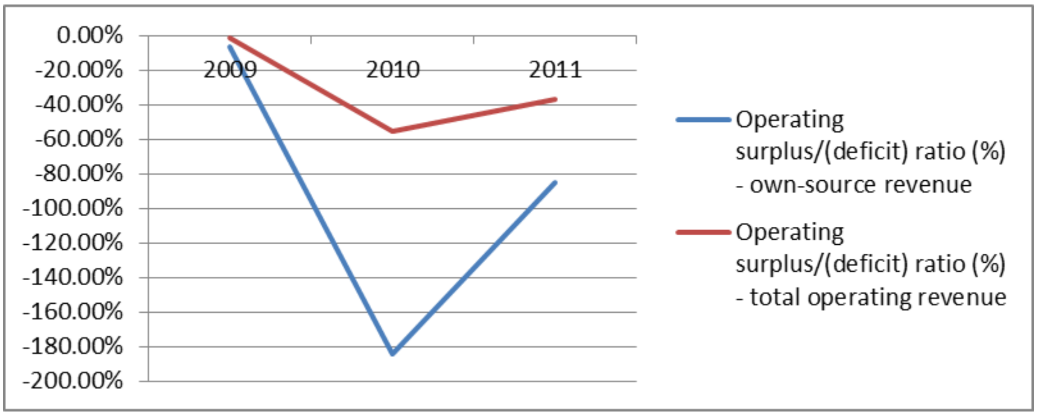
	2011	2010	2009
Operating revenue**	1,222,028	865,159	1,231,931
Less: operating expenses (including depreciation expense)	1,672,876	1,347,735	1,250,071
Operating surplus/(deficit)	(450,848)	(482,576)	(18,140)
Operating surplus/(deficit) ratio (%)	(36.9%)	(55.8%)	(1.5%)
Own source revenue*	528,321	261,682	279,172
Operating surplus/(deficit) ratio (%)	(85.3%)	(184.4%)	(6.5%)

**Own source revenue excludes all government grants, gains/(losses) on disposal of assets, revaluations of assets and discontinued operations*

***Operating revenue does not include capital grants*

The operating surplus/(deficit) ratio calculated on total revenue (excluding capital grants) above shows a deteriorating position over the three years with an increase in the operating deficit from $18,000 to $451,000. The operating surplus/(deficit) ratios based on own source revenue only, reflects the results for total revenue (excluding capital grants). The Council needs to monitor and manage this trend carefully as if it continues Belyuen may become financially unsustainable.

Chart 5.11D: Operating surplus ratio for 2009, 2010 and 2011



Rates coverage analysis

Rates revenue represents 1% or less of total revenue. While rates revenue has increased over the three year period Belyuen is limited in how much it can generate in rate revenue due to a limited number of properties that are rateable and slow or negative growth rates. The rates coverage ratio indicates a Council's ability to cover costs through its own revenue. The analysis uses a benchmark of 40% as a result of less than this may indicate rates cover an inadequate proportion of expenses.

Table 5.11i: Rates coverage ratio for 2009, 2010 and 2011

	2011	2010	2009
Total rates revenue	28,450	565	0
Operating expenses	1,672,876	1,347,735	1,250,071
Rates coverage ratio	1.7%	0.04%	0%

The calculations above show that the rates coverage ratio for each of the three years is less than the 40% benchmark. This indicates that Belyuen is dependent on government grants to be able to deliver core services.

Analysis of performance compared to budgets and plans

In this section we compare financial performance to budgets and plans for each of the three years.

Analysis of budget versus actual results by category

Based on a review of reports comparing budget to actual expenditure and discussions with staff, the budgets for the years subjected to this analysis do not accurately represent the actual revenue, expenditure or the net surplus/deficit position.

An analysis of performance compared to budgets and plans was completed using Note 2(b) of the Financial Statements: 'Components of Functions of the Community Government Council'. The Council could only provide budgets for the 2008/09 and 2010/11 financial years (budget for the 2009/10 financial year could not be located). Furthermore, these budgets could not be compared to actual expenditure because Council's reporting systems cannot provide an actual to budget variance analysis and presentation in the budgets is not consistent with the actual results obtained from the annual financial statements.

The tables below illustrate the Council spending more than was received in funding especially in instances where it received less funding than what was budgeted.

Table 5.11j: Actual versus budget for 2009, 2010 and 2011

2010/11 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public service	309,930	325,216	760,578	288,448	(450,648)	36,768
Environmental protection	-	-	-	-	-	-
Housing and community amenities	411,151	370,810	293,010	234,087	118,141	136,723
Recreation, culture and religion	96,846	131,543	125,475	39,663	(28,629)	91,880
Social protection	423,356	563,136	459,905	450,136	(36,549)	113,000
Economic benefit	145,165	-	93,708	-	51,457	-
TOTAL	1,386,448	1,390,705	1,732,676	1,012,334	(346,228)	378,371

2009/10 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public service	279,371	240,958	655,220	240,958	(375,849)	-
Environmental protection	-	-	1,608	-	(1,608)	-
Housing and community amenities	173,100	295,377	234,161	148,352	(61,061)	147,025
Recreation, culture and religion	24,889	210,584	118,486	35,500	(93,597)	175,084
Social protection	387,799	533,655	338,260	426,665	49,539	106,990
TOTAL	865,159	1,280,574	,347,735	851,475	(482,576)	429,099

2008/09 financial year	Revenue		Expenditure		Surplus/(Deficit)	
	Actual	Budget	Actual	Budget	Actual	Budget
General public service	282,325	231,958	607,912	225,958	(325,587)	6,000
Environmental protection	-	145,000	31,772	100,000	(31,772)	45,000
Housing and community amenities	440,209	283,249	255,930	283,249	184,279	-
Recreation, culture and religion	100,000	233,704	30,921	114,999	69,079	118,705
Social protection	409,398	483,596	323,537	370,823	85,861	112,773
TOTAL	1,231,932	1,377,507	1,250,072	1,095,029	(18,140)	282,478

5.11.4 Revenue and revenue sources

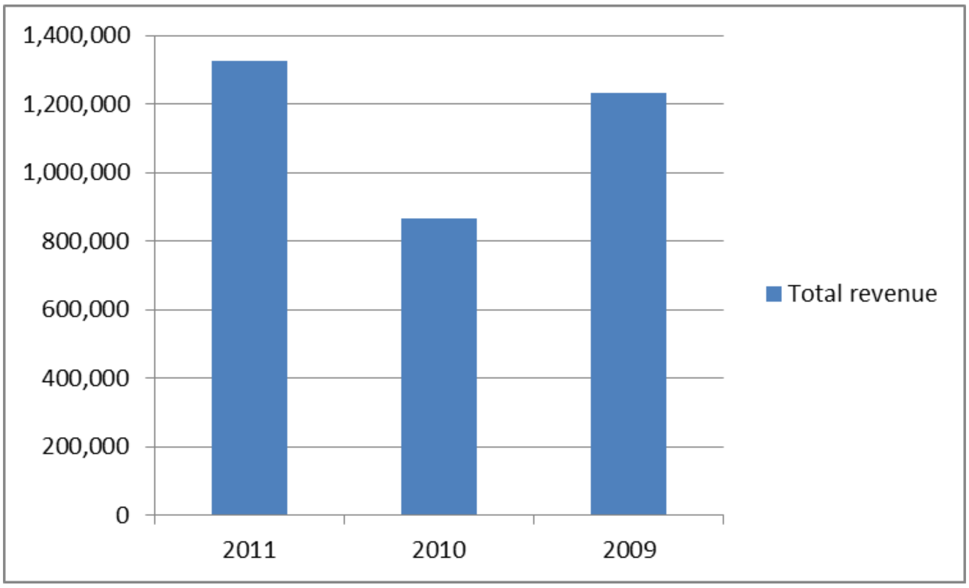
Table 5.11k: Revenue for 2009, 2010 and 2011

	2011	2010	2009	Total increase/(decrease)	
Interest	290	1,430	25,382	(25,092)	(99%)
Grants and contributions	693,707	599,812	944,129	(250,422)	(27%)
Other Operating revenue	528,031	260,252	253,810	274,221	108%
Net profit from disposal of assets	-	3,665	8,610	(8,610)	(100%)
Total Operating revenue	1,222,028	865,159	1,231,931	(9,903)	(1%)
Capital grants and contributions	104,620	-	-	104,620	100%
Total revenue	1,326,648	865,159	1,231,931	94,717	7.7%

**Revenue figures have been obtained from the audited financial statements*

The total revenue received in 2011 was $1.3million compared to $865,000 in 2010 and $1.2million in 2009. Over the three year period the total revenue has increased by $95,000.

Chart 5.11E: Total revenue by year

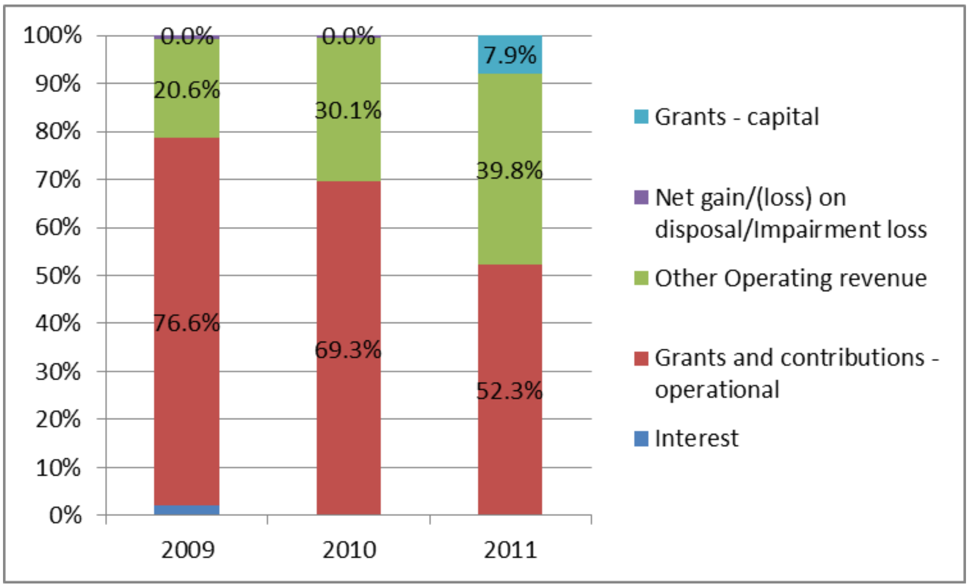


Belyuen generated revenue from the following sources:

- User charges and fees
- Rates and annual charges
- Interest
- Grants and contributions (operational and capital grants)
- Other operating revenue

- Net profit from disposal of assets.

Chart 5.11F: Revenue by source



Grants and contributions (operational and capital) make up 77%, 69% and 52% of the total revenue for 2009, 2010 and 2011 respectively. Other income makes up the majority of the remaining balance of total revenue for each year.

The chart above demonstrates Belyuen's reliance on grant funding from the Northern Territory and Commonwealth Governments as its own source revenue makes up less than 50% of the total revenue.

Revenue – untied versus tied

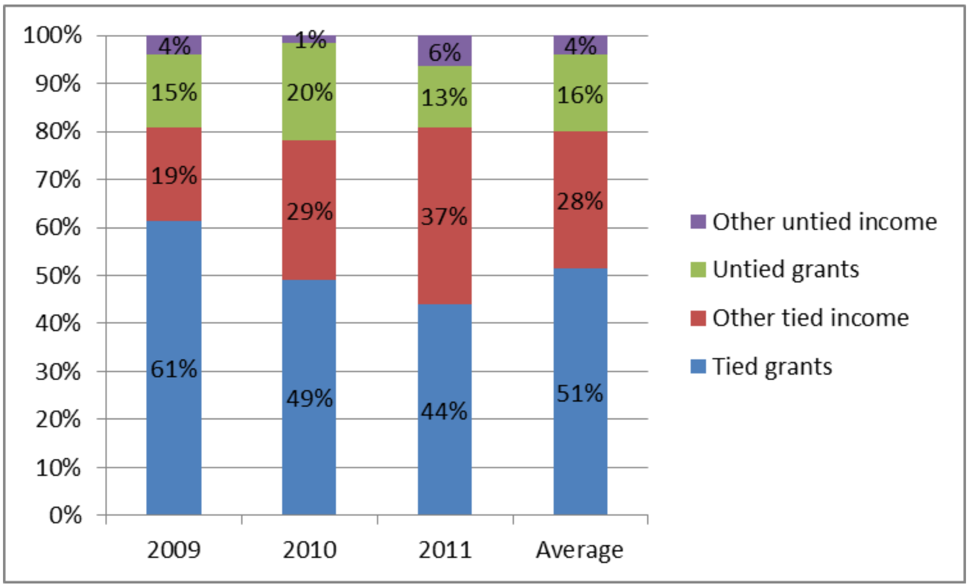
For the purposes of this analysis, all revenue received by Belyuen has been classified as either tied or untied revenue and has been determined on the following basis:

- Untied grant revenue consists of NT operational funding grant and Federal Assistance Grant provided through the Northern Territory's Grant Commission as listed in the annual financial statements
- Tied grant revenue consists of all other grants (including capital grants) as listed in the annual financial statements
- Untied income consists of user, charges and fees, rates and annual charges, interest and net profit/(loss) on disposal of assets
- Tied income consists of other operating revenue.

Table 5.11I: Tied versus untied operational revenue

	2011		2010		2009	
Tied grants	538,306	44%	423,319	49%	756,865	62%
Other tied income	449,489	37%	252,419	29%	238,363	19%
Total tied income	987,795	81%	675,738	78%	995,228	81%
Untied grants	155,401	13%	176,493	20%	187,264	15%
Other untied income	78,832	6%	12,928	1%	49,439	4%
Total untied income	234,233	19%	189,421	22%	236,703	19%
Total operational grant income	1,222,028	100%	865,159	100%	1,231,931	100%

Chart 5.11G: Operational revenue tied versus untied



The majority of revenue received is classified as tied funds with 80% tied in 2009, 78% tied in 2010 and 81% tied in 2011 with the remaining balance classified as untied.

Grants and contributions (operational)

Total grant revenue (operational) received has decreased by 27% from $944,000 in 2009 to $694,000 in 2011. Grants and contributions (operational) comprise 77% of the revenue for 2009, 69% for 2010 and 52% for 2011. Belyuen is reliant on grants and contributions from Northern Territory and Commonwealth Governments to deliver its core services as the level of income it can generate form its own source revenue is limited.

Operational grant revenue consists of grants provided by the Northern Territory and Commonwealth Governments for core services, non-core services such as fee for service arrangements. Grants revenue is also provided for capital expenditure.

For the puposes of determining core and non-core grant income (operational) we have made the following assumptions:

Core services	Non-core services
NT Operational funding	All other operational grants
NT Grants Commission - FAA	
Roads to recovery	
Match funding	

Table 5.11m: Composition of operational grant income by category

	2011	2010	2009
Core services	224,025	188,159	235,234
Non-core services	469,682	411,653	708,895
Total grants and contributions	693,707	599,812	944,129
Core services as a % of total grants (operational)	32%	31%	25%
Non-core services as a % of total grants (operational)	68%	69%	75%

Table 5.11n shows the composition of grant revenue received by source:

Table 5.11n: Primary sources of operational grant income

Source	2011	2010	2009
Northern Territory Government	424,753	515,862	732,734
Commonwealth Government	268,954	83,950	211,395
Total	693,707	599,812	944,129

As can be seen from the table above, the majority of grant income (operational) received was from the Northern Territory Government. The proportion of funding from the Northern Territory Government over the three years was 78% (2009), 86% (2010) and 61% (2011) with the remainder coming from the Commonwealth Government.

Grant funding (operational) for core services

As can be seen from the table 5.11m above, the level of grant income received for core services has decreased by $11,000 or less than 5% from 2009 and for non-core services there was a slight increase of $16,000 or less than 5% from 2009.

Core services revenue is provided by the Northern Territory and Commonwealth Governments and is classified as untied to be used by Belyuen to deliver core services to the community.

Table 5.11o: Tied versus untied core services grant and contributions (operational)

	2011	2010	2009
Untied	155,401	176,493	187,264
Tied	68,624	11,666	47,970
Total grants and contributions –core services	224,025	188,159	235,234
Untied as a %	69%	94%	80%
Tied as a %	31%	6%	20%

Grant funding (operational) for non-core services

Non-core services grants and contributions revenue is also funded by the Northern Territory and Commonwealth Governments with a small proportion coming from other non-government sources.

Table 5.11p: Tied versus untied non-core services grant and contributions (operational)

	2011	2010	2009
Untied	-	-	-
Tied	469,682	411,653	708,895
Total grants and contributions – non-core services	469,682	411,653	708,895
Untied as a %	-	-	-
Tied as a %	100%	100%	100%

Capital grants

Belyuen received capital funding of $105,000 in 2011 from the Northern Territory Government and was provided for the purchase of specific capital assets for core services. No capital funding was received in the two prior years.

Rates and annual charges

Belyuen Shire Council commenced charging rates and waste management in 2010. In 2011, rates were $28,000 which represented less than 2% of the total revenue. Waste management charges were$30,000 and represented less than 2% of total revenue. Belyuen Shire Council has only a small number of properties that are rateable, limiting the Council's ability to generate income through rate payers.

Table 5.11q: Rates and waste management charges as per the audited financial statements

	2011	2010	2009
Rates	28,450	565	-
Waste management charges	30,226	250	-
Total	58,676	815	-

Rates and annual charges revenue are considered core services revenue to deliver core service activities to all communities of Belyuen. Rates and annual charges are funded through charges to constituents being private and commercial residents.

Other income

Other revenue has increased by $274,000 (108%) from $254,000 to $528,000 in 2011. Other income consists of a number of revenue items including charges for rates and annual charges, fees for service arrangements (agency services) and commercial services such as the Centrelink and Power and Water Contracts.

5.11.5 Capital expenditure

Analysis of capital investment over the three years

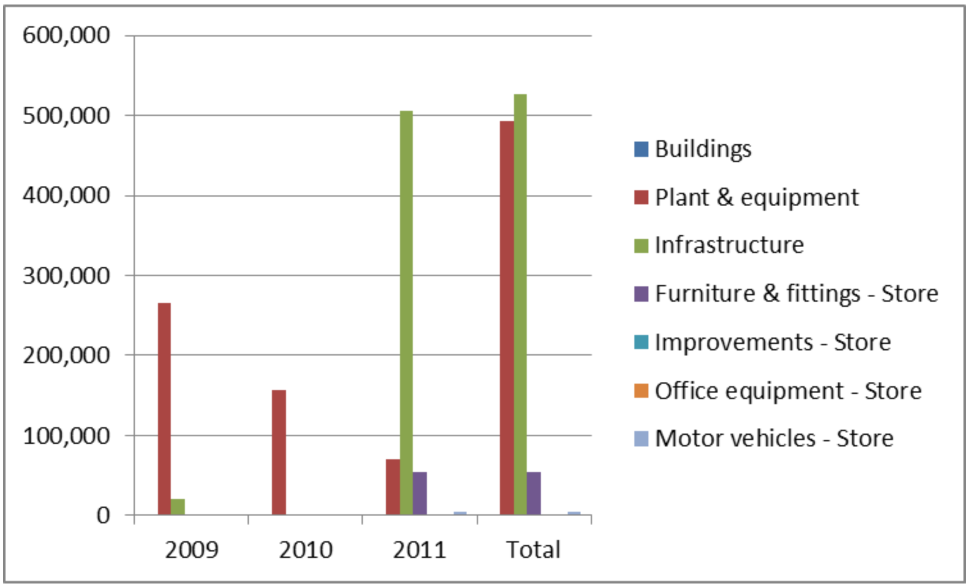
Over the three years Belyuen purchased property, plant and equipment totalling $1.1million. The composition of the additions can be seen in table 5.11r and chart 5.11H.

Table 5.11r: Additions of property, plant and equipment by asset category

	2011	2010	2009	Total
Buildings	-	-	-	-
Plant & equipment	70,672	156,570	265,630	492,872
Infrastructure	506,335	-	19,747	526,082
Furniture & fittings - Store	54,038	-	-	54,038
Improvements - Store	1,745	-	-	1,745
Office equipment - Store	24	-	-	24
Motor vehicles - Store	5,038	-	-	5,038
Total	637,852	156,570	285,377	1,079,799

The capital expenditure was primarily for infrastructure and plant and equipment. Capital expenditure represents 38.1% (2011), 11.6% (2010) and 22.8% (2009) of total expenditure.

Chart 5.11H: Additions of property, plant and equipment by asset category



Analysis of capital expenditure and impact on core service delivery and liquidity of Council

Belyuen only received $104,000 of grant funding for capital purchases in 2011.

Table 5.11s: Capital funding versus capital expenditure for 2009, 2010 and 2011

	2011	2010	2009	
Capital funding	104,620	-	-	104,620
Capital expenditure	637,852	156,570	285,375	1,079,797
Difference	(533,232)	(156,570)	(285,375)	(975,177)

Figures have been obtained from the annual financial statements and include work in progress (if any)

Belyuen does not have a cash reserve established to meet future capital expenditure requirements.

Belyuen received $104,000 in 2011 for purchasing capital assets however the total capital expenditure incurred exceeded this as can be seen from the table above. As Belyuen does not have any reserves set aside for capital expenditure and it only received $104,000 in 2011, it is reasonable to assume that the shortfall in funding will have been met by either operational grant funding for other programs (cross subsidisation), own source revenue and/or cash reserves. Given that Belyuen has registered operating deficits for the last three years it is reasonable to assume that it has come from cash reserves. If this trend continues and Belyuen continues to register operating deficits then it may become financially unsustainable in the future.

Renewals gap analysis

In order to maintain financial viability, local governments should invest in capital expenditure at a level at least equal to depreciation expenses. This ensures that the asset base of the Council does not diminish over time and reduce to a level where the Council cannot provide adequate infrastructure and services. One method for measuring this is the sustainability ratio. The sustainability ratio is a measure of the net increase or decrease in a Council's asset base. The analysis uses a benchmark of 1 for the sustainability ratio. Where a Council records a value higher than 1, this indicates the overall asset base is increasing or being replenished at a rate equal to, or higher than, the Council's consumption of assets. Where the sustainability ratio is less than 1, the Council may have a declining asset base.

Table 5.11t: Sustainability ratio for 2009, 2010 and 2011

	2011	2010	2009	Total for the three years
Capital expenditure	637,852	156,570	285,375	1,079,797
Depreciation expense	420,163	408,035	373,730	1,201,928
Sustainability ratio	1.5	0.4	0.8	0.9

**Figures have been obtained from the annual financial statements and include work in progress (if any)*

The benchmark for the sustainability ratio is 1. A positive capital expenditure/depreciation expense ratio relieves future ratepayers from renewing or replacing such assets consumed in the current period. As we can see from table 5.11t, the ratio for Belyuen was 0.8 in 2009, 0.4 in 2010 and 1.5 in 2011 with an average over the three years of 0.9. The ratio below the benchmark of 1 for 2010 and 2009, and, on average over the three year period, indicates that assets may be deteriorating at a greater rate than spending on their renewal or replacement. When analysing the sustainability ratio, the following factors should also be considered:

- Assets may be included on the fixed asset register that may not be in working condition or in existence
- There may be a large number of assets included in the asset register with a nil written down value
- The useful life of the assets may not accurately reflect the economic useful life of the assets
- Capital expenditure incurred each year may not reflect the actual needs of the Councils.

Renewals backlog

The existence of a renewals backlog is a serious problem faced by many of the Councils in the Northern Territory and throughout Australia. One way of determining whether a Council is affected by renewals backlog is by evaluating the asset renewal/replacement ratio (or sustainability ratio). It is measured by the difference between capital expenditure on the renewal or replacement of non-financial assets on the payments side and cash flows generated to cover annual depreciation expense on the funding side or depreciation expense.

A single year's negative net acquisition of property, plant and equipment assets for renewal/replacement purposes may reflect the timing of renewal/replacement activity. Of more significance is a series of years in which negative net acquisitions are observed. The accumulation of past negative net acquisition over a period of time will indicate what can be termed an infrastructure renewal/replacement backlog.

An infrastructure maintenance backlog is also possible where assets have prematurely degraded because they have not been routinely maintained. This is sometimes called 'backlog maintenance' and gives rise to the need for the eventual rehabilitation of assets.

Many of the NT Councils inherited large portions of their infrastructure assets and plant and equipment during the restructuring of local government. Of the property, plant and equipment owned and reported in the annual financial statements by Belyuen buildings accounts for 60%, infrastructure accounts for 28% and plant and equipment accounts for 10%.

There were limited sources of information available to us in respect of the backlogs facing Belyuen other than the fixed asset register and the annual financials. Therefore the renewals backlog for assets in Belyuen cannot be assessed.

5.11.6 Core services, fee for service arrangements and non-core services

As a shire council established under the Local Government Act 2008, there are minimum core services which Belyuen must provide to the communities within its shire boundaries. For a list of these activities refer to Appendix 1 of this report.

The consultancy contract required the following analysis to be performed:

- Identification and analysis of expenses pertaining to core service delivery, fee for service arrangements and non-core activities of the Councils
- Analysis of the extent to which revenue that is available for core service delivery is being used to subsidise non-core services and/or fee for service arrangements or vice versa
- Analyse whether current fee for service arrangements have been established on a commercial basis and provide recommendations as to where arrangements should be reviewed or renegotiated
- Review the extent to which core services have been undertaken by Councils and identify circumstances where non-core or fee for service activities have taken precedence over core services

In order to undertake an analysis to address the requirements listed above, financial data by program for core services, fee for service arrangements (or agency services) and commercial services is required for each of the three years. Numerous efforts have been made to obtain the financial data however it has not been received. Therefore we were unable to complete the requirements as listed above.

Below is a list of services (excluding core services) provided by Belyuen during the three years which have been obtained from the shire plans. Belyuen did not provide any commercial services during the last three years.

<u>Agency services</u>

- Aged Care
- Women's and Children's programs
- Australian Sports Commission
- Power and Water Services
- Airstrip
- Centrelink
- NTG Sport and Recreation
- Women's Centre
- Emergency Relief Program.

Analysis of any shortcomings in the delivery of core services

Under the Local Government Act 2008, the Territory was divided into three regions being Region 1 (Northern Region), Region 2 (Big Rivers Region) and Region 3 (Central Australia) of which Belyuen sits within the Northern Region. A Regional Management Plan (RMP) has been prepared for each of the regions. Councils must prepare annual plans which are linked to the RMPs. The DHLGRS must report annually to the Minister on the performance of Councils when measured against the relevant regional management plan.

One of the purposes of the RMPs was to ensure that Councils focused on delivering a set of core services. The RMPs list a common set of agreed core local government services, which each Council is to deliver to specified communities. Refer to Appendix 1 for a list of the core services.

From the review of the shire plans, RMP for the Northern Region and the Regional Management Plan Report for 2008/2009/2010 issued April 2011, there do not appear to be any performance indicators against which Belyuen is to assess their performance in the delivery of core services and meeting objectives of the Northern RMP and the Local Government Act 2008.

The Regional Management Plan Report includes an assessment of the performance of each Council including Belyuen. Belyuen is required to deliver core services to one community as listed in section 5.11.1. The assessment only provides a high level detail as to whether a service is being delivered, service delivery is being planned or no service is being provided. It does not provide any actual results against established KPIs as one would expect when measuring whether an output and ultimately the outcome is being achieved.

All Councils have provided the information to the DHLGRS with the exception of EASC and Belyuen. Explanations for why Belyuen has not provided the information were not disclosed in the Regional Management Plan Report.

The shire plan for Belyuen includes a service plan for each core service to be delivered however the service plans do not include specific KPIs against which performance can be measured. The shire plan does include performance assessment criteria but does not identify specific KPIs by which performance can be measured against.

Belyuen believe that they have achieved a satisfactory level of service delivery, considering their government funding for core services is limited and they are incurring deficits.

Establishment of fee for service arrangements

As mentioned above, information pertaining to fee for service arrangements was not provided however based on discussions with Belyuen management, fee for service arrangements (or agency services) include services that the Council has agreed to deliver on behalf of other government agencies on a fee for service basis.

Belyuen enters into fee for service arrangements with the intention that these services will be fully funded by the relevant agency and that funding would include a contribution to administrative costs associated with delivering the service.

5.11.7 Budget processes

Operating budgets

The budgeting process applied by Beluyen appears to be robust, reasonably accurate and reliable. The Chief Executive Officer and Council Manager had a detailed knowledge of Belyuen's operations. The budgets have been approved by the Council as part of the annual management plan. In accordance with the Local Government Act 2008, Beluyen prepared a three year shire plan in 2009 for the 2010 to 2012 financial years.

An analysis of performance compared to budgets and plans completed using Note 2(b) of the Financial Statements: 'Components of Functions of the Community Government Council' is reported below. Beluyen could only provide budgets for the financial year 2009 and 2011, a budget for the 2010 financial year could not be located. These budgets are not compared to actual expenditure because Belyuen's reporting systems cannot provide an actual to budget variance analysis.

Capital budgets

Belyuen Shire Council has not implemented an asset management plan. Rather, capital is acquired reactively. Capital expenditure is determined on an annual basis in the budget based on the current needs, however this is limited by the funding provided and the inability to plan long term due to the short term funding commitments.

Cash flow budgets

For the last three years Belyuen did not prepare cash flow budgets or cash flow forecasts due to the inability to reliably predict the timing of cash flows.

5.11.8 Summary – financial sustainability of Belyuen

To determine the financial sustainability of Belyuen we have analysed the financial data for the last three years, 2009 to 2011. However these results are based on the best information that was available to us at the time of the analysis. Financial sustainability relates to the long-term financial performance and position of a Council. To assist in the analysis six KPIs were used to assess financial sustainability of Belyuen. The results of the KPIs are listed in the table below.

Table 5.11u: Summary of KPI results

KPI	Description	Benchmark	2011	2010	2009	Average*
Operating deficit	Total operating revenue (excluding capital grants) less total operating expenses divided by total operating revenue	Operating deficit <10% of operating revenue	(36.9%)	(55.8%)	(1.5%)	-
Interest coverage	Earnings before interest and tax divided by interest expense	> than 3.0	-	-	-	-
Sustainability ratio	Capital expenditure divided by depreciation expense	1.0	1.5	0.4	0.8	0.9
Current ratio	Current assets divided by current liabilities	1.0	2.69	6.66	8.69	-

KPI	Description	Benchmark	2011	2010	2009	Average*
Rates coverage	Rates revenue divided by total cost	40%	1.7%	0.04%	6.9%	-
Rates coverage on core service revenue	Rates revenue divided by total core service revenue	40%	58.8%	47.2%	39.3%	-

**This column is only applicable to the sustainability ratio*

From the analysis we draw the conclusions:

Financial position

The balance sheet for Belyuen is in a healthy position overall with net assets of $3.5million with the net asset position decreasing over the three years from $4.3million in 2009. The current ratio for the three years remains above the benchmark of 1, although it has decreased over the period.

Financial performance

A Council's annual operating financial performance is financially sustainable if the Council avoids excessive borrowings and operating deficits over the medium to long term. Measured properly operating deficits indicate the funding of a proportion of services consumed by current ratepayers being shifted onto future ratepayers.

For the years 2009, 2010 and 2011, Belyuen has generated operating deficits (excluding capital grants and revaluation increments). Where operating deficits persist, this indicates that operating revenue is insufficient to meet current operations. Belyuen is heavily reliant on grant funding due to limited own-source revenue and the population and geographical challenges it faces although the rates coverage indicator above shows that the rates coverage for Belyuen is higher than that of the eight larger NT Councils.

The sustainability ratio for Belyuen on average over the last three years was 0.9 indicating that the consumption of the Councils assets exceeded the capital being replaced into the asset base. However as outlined this ratio cannot be looked at in isolation due to issues noted with the valuation, existence and validity of the assets recorded in the fixed asset register. There are indicators that there is a renewals backlog in asset upgrades and replacements (including roads infrastructure) however the cost of any renewals backlog cannot be quantified due to limited information available and a study should be undertaken to determine the level of the asset backlogs and the costs to upgrade or replace the assets to a level satisfactory for delivery of services.

Sustainability

Based on the current conditions Belyuen is not financially sustainable in the medium term. Being classified as financially unsustainable does not mean Belyuen is imminent danger of defaulting on its debt service obligations. The financial viability is not necessarily being called into question, rather what is being highlighted is that revenue or expenditure adjustments are required to be made if the long term finances of Belyuen are to put onto a financially sustainable basis going forward.

Appendix 1 - Core Services

The Local Government Regional Management Plans dated 31 August 2008 identifies the following Core Local Government services to be delivered by Councils:

Local Infrastructure

- Maintenance and Upgrade of Parks, Reserves and Open Spaces
- Maintenance and Upgrade of Buildings, Facilities and Fixed Assets
- Management of Cemeteries
- Lighting for Public Safety, including Street Lighting
- Local Road Upgrading and Construction
- Local Road Maintenance
- Traffic Management on Local Roads
- Fleet, Plant and Equipment Maintenance.

Local Environment Health

- Waste Management (including litter reduction)
- Weeds Control and Fire Hazard Reduction in and around community areas
- Companion Animal Welfare and Control.

Local Civic Services

- Library and Cultural Heritage Services
- Civic Events
- Local Emergency Services.

Community Engagement in Local Government

- Training and Employment of local people in Council operations
- Administration of Local Laws
- Public and Corporate Relations
- Customer Relationship Management, including complaints and responses
- Governance: including administration of Council meetings, elections and elected
- member support
- Administration of Local Boards, Advisory Bodies and Management Committees
- Advocacy and Representation on local and regional issues.

Local Government Administration

- Financial Management
- Revenue Growth
- Human Resources
- Asset Management
- Records Management
- Risk Management
- Council Planning and Reporting: Strategic, Financial and Service Delivery Planning
- and Reporting
- IT and Communications.

Appendix 2 - Glossary

Term	Description
Sealed Road	A road that is constructed with a bitumen surface.
Gravel Road	An unsealed road that has been formed and strengthened with a good quality gravel material. Generally of a higher standard than formed.
Formed Road	An unsealed road that has been constructed to above the natural surface using local materials. Generally of a higher standard than unformed.
Unformed Road	An unsealed road that is generally a flat track following the natural terrain. Often occurs as a rough track with two wheel paths, and close vegetation.
Local Board	A Local Board is a voluntary group of members of the community who provide advice to the Shire Council and a voice on local issues and priorities. An outline of the function, status, membership, establishment, communication and procedures of Local Boards is contained within the Local Government Act.
Financial Position	A Council's financial position involves the level and composition of assets and liabilities.
Financial Performance	A Council's annual financial performance is reported on the annual operating statement, and considers the surplus or deficit between its annual spending and revenue.
Operating Surplus / Deficit	The operating surplus/ (deficit) is a measure of the operating (or current) annual budgetary balance. The operating surplus measure of a Council's annual financial performance distinguishes between current and capital expenditure.
Capital Deficit / Surplus	The capital deficit/(surplus) is a measure of the annual budgetary balance of capital transactions, between the annual net increase/(decrease) in non-financial assets on the payments side and capital revenues and asset donations on the receipts side.
Net Borrowing	Net borrowing/ (lending) is a measure of the overall annual budgetary balance between both operating and capital transactions. It shows the change in net financial liabilities due to annual (capital as well as operating) transactions.
Economies of Scale	Conditions under which an increase in output (the quantity of goods and services produced) results in a reduction in per unit costs.
Economies of Scope	Achieved where the delivery of more than one type of good or service by a single organisation delivers a lower average cost of production than if those services were provided by separate organisations.
Economies of Specialisation	Increased capacity to employ specialised resources and utilise them in undertaking specialised activities.
Depreciation expense	The annual decline in the value of a Council's non-financial assets due to the usage of those assets.

Term	Description
Financial Governance	The process by which an elected Council meets its accountability obligations to its ratepayers for the sustainability of the Council's long-term finances.
Financial Sustainability	The extent to which a Council's financial capacity is sufficient for the foreseeable future to allow the Council to fund the spending that is necessary to meet both its existing statutory obligations and any associated spending pressures and financial shocks without having to introduce substantial or disruptive revenue (and expenditure) adjustments.
Backlog	The accumulated amount of past shortfalls in maintenance and renewals expenditure on existing assets relative to the expenditure that was necessary to keep these assets in optimum condition.
Own source Revenue	Revenue that is not received in the form of grants from the other tiers of government.
Tied funds	Cash or cash equivalent balances that must be spent on a specified project or program and in accordance with the terms and conditions of the funding agreement. Also known as restricted funds.
Untied funds	Cash or cash equivalent balances that the Council may direct to achievement of its objectives and for which there are no specified project or program deliverables within the funding agreement. Also known as unrestricted funds.
Net Interest Expense	A Council's total interest expense less any interest income on holdings of unrestricted cash and cash equivalents.
Capital expenditure	Amounts expended in a particular year on the purchase or construction of non-financial assets.
Financial assets	A Council's (i) holdings of cash, cash equivalents and investments/securities (ii) all receivables.
Infrastructure assets	All Council owned buildings, roads, water and sewerage assets, other commercial assets, stormwater drainage assets, recreational assets and natural assets.
Infrastructure backlog	The estimated total cost of undertaking the required asset maintenance and renewal that the Council's asset managers had programmed to occur prior to a year's end, but which had not been carried out by then (due to a lack of finance or other reasons) and is still to be done.
Maintenance	Regular repair and upkeep of assets so that they do not degrade at a rate faster than was originally intended; does not include rehabilitation or renewal.
Net financial liabilities	A Council's total assets less its financial assets.
Net financial liabilities ratio	A Council's net financial liabilities at the end of a particular year expressed as a percentage of its annual operating revenue in that year.
Non-financial assets	A Council's physical assets; besides infrastructure assets, also includes land, inventories, plant and equipment and furniture and fittings.

Term	Description
Operating surplus/(deficit) ratio	A Councils operating surplus/(deficit) expressed as a percentage of its annual operating revenue.
Own-source revenue	That part of revenue that is not received in the form of grants from the tiers of government.
Unrestricted cash and cash equivalents	The portion of cash and cash equivalents less the cash held to provide agency services. All figures are as per the Councils audited financial statements.
Programs	The activities provided by the Councils. Each individual program may receive different sources of funding and have a range of sub-programs within the one program.

Appendix 3 - Acronyms

DHLGRS	Department of Housing, Local Government and Regional Services
TISC	Tiwi Islands Shire Council
VDSC	Victoria Daly Shire Council
RGSC	Roper Gulf Shire Council
BSC	Barkly Shire Council
CDSC	Central Desert Shire Council
WASC	West Arnhem Shire Council
EASC	East Arnhem Shire Council
Wagait	Wagait Shire
Coomalie	Coomalie Community Government Council
LGANT	Local Government Association Northern Territory
SIHIP	Strategic Indigenous Housing and Infrastructure Program

Appendix 4 - Barkly Shire Council 2011 updated data

The annual financial statements for Barkly Shire Council for the year ended 30 June 2011 were not finalised during the review of the financial sustainability. Prior to the release of the final report, the 2011 Audited Financial Statements for Barkly Shire Council were completed. Table 3.3a "Summary of financial indicators for 2010 and 2011 financial years" has been updated using the amounts reported within the audited financial statements for the year ended 30 June 2011. The remainder of the tables and analysis throughout the report remains unchanged.

The following differences were noted between the unaudited information as at 30 June 2011 and for the year then ended and the amounts reported within the audited financial statements for the yer ended 30 June 2011:

Statement of Comprehensive Income: Barkly Shire Council

	2011	2011 Audited Figures	Difference
User charges and fees	3,161,172	353,102	(2,808,070)
Rates and annual charges	2,597,007	2,437,523	(159,484)
Interest	2,010,718	847,463	(1,163,255)
Grants and contributions	20,153,261	16,159,065	(3,994,196)
Other Operating revenue	847,576	4,899,796	4,052,220
Net profit from disposal of assets	45,199	(300,260)	(345,459)
	28,814,933	24,396,689	(4,418,244)
Employee costs	12,219,749	12,602,250	382,501
Materials and contracts	9,275,449	8,035,621	(1,239,828)
Depreciation and amortisation	2,150,000	4,361,519	2,211,519
Finance costs	9,553	498	(9,055)
Other costs	4,164,843	3,249,950	(914,893)
	27,819,594	28,249,838	430,244
Net surplus/(deficit) operations	995,339	(3,853,149)	(4,848,488)
Gain of Asset Revaluation Reserve	-	11,028,478	19,141,419
Total Comprehensive Income	995,339	7,175,329	6,179,990

Statement of Financial position: Barkly Shire Council

	2011	2011 Audited Figures	Difference
Current assets	19,508,549	16,273,245	(3,235,304)
Non-current assets	40,316,677	46,511,709	6,195,032
Total Assets	59,825,226	62,784,954	2,959,728
Current liabilities	5,911,362	6,030,924	119,562
Non-current Liabilities	79,322	0	(79,322)
Total Liabilities	5,990,684	6,030,924	40,240
Net Assets	53,834,542	56,754,030	2,919,488
Equity	53,834,542	56,754,030	2,919,488