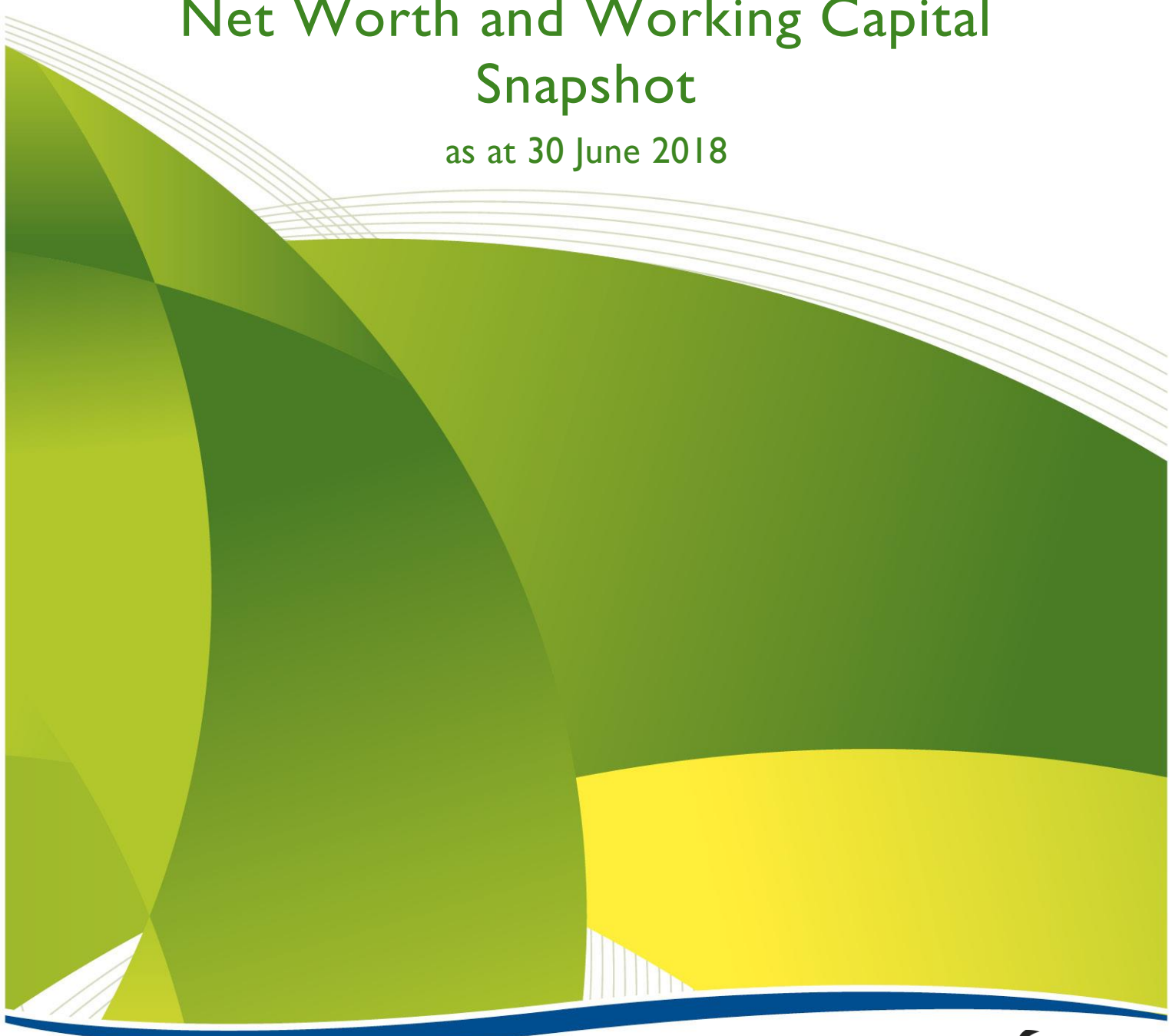


LG DATA

Local Government | Data | Analysis | Transparency | Accountability

Net Worth and Working Capital Snapshot

as at 30 June 2018



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Department of Premier and Cabinet
Government of Tasmania

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Net worth and working capital snapshot as at 30 June 2018

Introduction

The Tasmanian councils' net worth and working capital snapshot uses the latest available audited data to provide financial information about Tasmania's 29 councils as at 30 June 2018. This snapshot is the third in the council snapshot series and forms part of the Local Government Data, Analysis, Transparency and Accountability (LG DATA) project.

This snapshot focuses on the level of Tasmanian councils' net worth and working capital and how these figures have changed over time. It is designed to complement the work of the Auditor-General whose most recent report on local government financial statements examined the cash expense cover ratio of councils to assess whether the level of unrestricted cash held by each council was appropriate. Unrestricted cash makes up a component of a council's working capital.

A council's **net worth** is the value of all of a council's assets, minus all of its liabilities. Net worth is an important determinant in the value of a council, as it reflects the final value held by that council on behalf of its ratepayers and community. Growth in net worth over time is caused by changes in current assets and liabilities, or changes in the value of existing assets or liabilities. The assets that contribute to a council's net worth need to be used equitably to deliver services to the community efficiently over time.

Working capital is the net value of a council's current assets minus its current liabilities, measuring the funds available to a council for new expenditure after short-term obligations have been met. It should be a positive number, indicating an amount in excess of current liabilities. If the working capital figure is substantially positive, it indicates that the short-term funds available from current assets are more than adequate to pay for current liabilities as they come due.

The **working capital ratio** shows how many times current assets cover current liabilities. A ratio of less than 1.0 may indicate liquidity problems, while a high working capital ratio may indicate that a council is not using or investing its excess assets effectively.

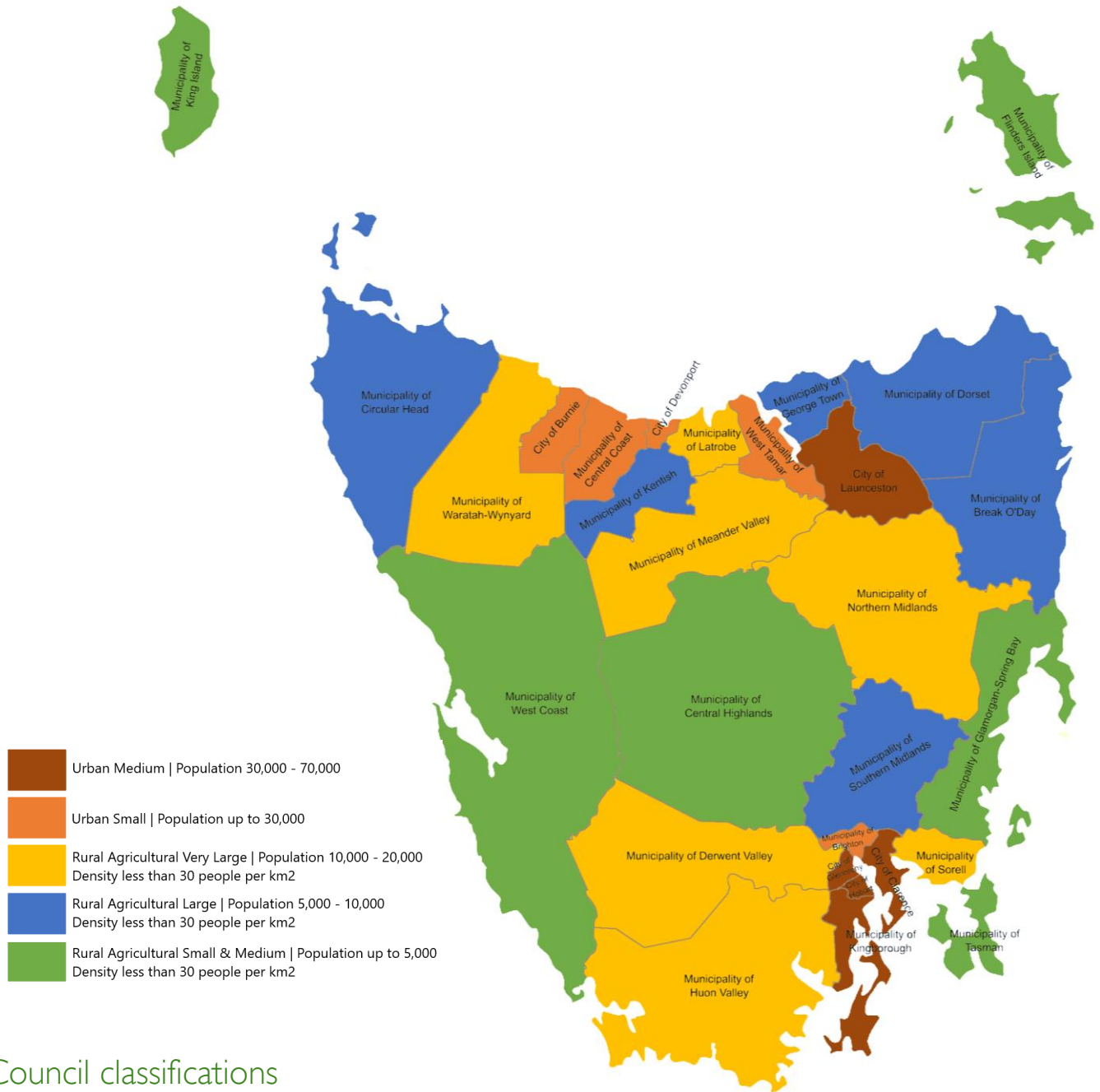
Data

All data used in this snapshot is derived from publicly available information, including the Tasmanian Auditor-General's summary tables and reports on the financial statements of local government authorities. These can be found at www.audit.tas.gov.au. As figures in the data tables are subject to rounding, some may appear as discrepancies between totals or sums of components within the tables.

A comparative table on page 3 presents selected relevant data for all councils as at 30 June 2018, including current and non-current assets and liabilities, loan debt and net worth. The table also includes working capital information.

The three performance indicators, **working capital** and **working capital ratio**, and **net worth**, are presented to show change over time within each council classification, using data from the following years:

- 2009-10 – chosen as the baseline year for data as it was the first reporting period after council-owned water and sewage assets, and corresponding revenues, were transferred to the water corporations
- 2014-15 – showing change over a five-year interval
- 2017-18 – being the latest available audited data



Council classifications

Similar councils are grouped together for comparative purposes, based on the Australian classification of local governments. The classifications take into account population size and density.

In 2017-18, Tasmanian councils fit into the five classifications:

Urban medium councils (UM)	Urban small councils (US)	Rural agricultural very large councils (RAVL)	Rural agricultural large councils (RAL)	Rural agricultural small & medium councils (RASM)
Clarence City Glenorchy City Hobart City Kingborough Launceston City	Brighton Burnie Central Coast Devonport West Tamar	*Derwent Valley Huon Valley *Latrobe Meander Valley Northern Midlands Sorell Waratah-Wynyard	Break O'Day Circular Head Dorset George Town Kentish Southern Midlands	Central Highlands Flinders Island Glamorgan-Spring Bay King Island Tasman *West Coast

* Changes to population figures have resulted in movements between classifications for: Derwent Valley Council (RAL to RAVL in 2014), Latrobe Council (RAL to RAVL in 2010), and West Coast Council (RAL to RASM in 2011)

Comparative table – council assets and liabilities as at 30 June 2018

Council	Current Assets	Current Liabilities	Working Capital	Working Capital Ratio	Non-Current Assets	Non-Current Liabilities	Loan Debt	Net Worth
	\$m	\$m	\$m	no.	\$m	\$m	\$m	\$m
Urban medium councils (UM)								
Clarence	67.9	9.9	58.0	6.9	717.4	0.7	0.0	774.8
Glenorchy	16.7	12.7	4.0	1.3	856.8	8.2	4.3	852.6
Hobart	39.8	29.8	9.9	1.3	1,774.6	25.0	20.2	1,759.5
Kingborough	12.2	9.4	2.8	1.3	624.7	3.3	2.7	624.3
Launceston	79.4	17.9	61.6	4.4	1,823.0	17.7	9.8	1,866.9
UM Average	43.2	15.9	27.3	3.1	1,159.3	11.0	7.4	1,175.6
Urban small councils (US)								
Brighton	8.0	1.8	6.2	4.4	184.8	0.1	0.0	190.9
Bumie	9.5	5.7	3.8	1.7	401.1	1.5	1.6	403.5
Central Coast	13.7	5.3	8.4	2.6	537.6	13.2	10.4	532.8
West Tamar	20.2	3.8	16.4	5.3	321.8	2.4	2.2	335.7
Devonport*	20.1	66.1	-	-	588.8	1.0	45.2	541.8
US Average	14.3	4.1	8.7	3.5	406.8	3.6	11.9	400.9
Rural agricultural, very large (RAVL)								
Derwent Valley	7.4	3.7	3.7	2.0	127.5	3.6	4.0	127.6
Huon Valley	11.3	3.4	8.0	3.4	250.5	0.1	0.0	258.5
Latrobe	11.1	3.0	8.2	3.8	206.9	4.0	0.3	211.0
Meander Valley	24.8	2.6	22.2	9.6	280.1	7.6	3.6	294.7
Northern Midlands	14.9	2.5	12.4	5.9	303.4	8.6	8.5	307.2
Sorell	8.5	2.5	6.1	3.5	264.4	2.3	2.3	268.2
Waratah-Wynyard	11.9	3.2	8.6	3.7	202.0	1.4	1.1	209.2
RAVL Average	12.9	3.0	9.9	4.5	233.5	3.9	2.8	239.5
Rural agricultural, large (RAL)								
Break O'Day	10.4	2.0	8.4	5.3	174.8	9.4	9.2	173.9
Circular Head	16.7	2.9	13.8	5.8	193.2	4.1	3.9	202.9
Dorset	19.5	2.3	17.2	8.5	147.6	3.4	3.2	161.4
George Town	7.4	1.4	6.0	5.3	121.3	2.8	2.7	124.5
Kentish	11.6	1.9	9.7	6.0	128.4	1.2	1.4	136.9
Southern Midlands	14.0	2.0	12.0	7.0	102.2	0.7	0.7	113.5
RAL Average	13.3	2.1	11.2	6.3	144.6	3.6	3.5	152.2
Rural agricultural, small and medium (RASM)								
Central Highlands	10.4	1.5	8.9	7.1	91.2	0.1	0.0	100.1
Flinders	9.6	4.0	5.7	2.4	55.3	2.1	2.1	58.8
Glamorgan Spring Bay	2.1	2.9	-0.7	0.7	140.2	2.7	3.8	136.8
King Island	8.3	1.4	6.9	5.8	67.9	1.2	1.4	73.6
Tasman	7.3	0.6	6.7	12.1	58.1	0.3	0.2	64.4
West Coast	10.7	2.2	8.5	4.8	105.4	1.6	1.6	112.2
RASM Average	8.1	2.1	6.0	5.5	86.3	1.3	1.5	91.0
Total all councils	505.6	208.3	297.3		10,851.1	130.1	146.1	11,018.4
Average all councils	17.4	5.1	12.3	4.7	374.2	4.5	5.0	379.9

* Refer to the note from Devonport City Council on page 7

Source Tasmanian Auditor-General Local Government Authorities Summary Tables 2017-18

Net worth

At 30 June 2018, Tasmanian councils had a collective net worth of more than \$11 billion. A council's net worth is the value of *all* of a council's assets, minus *all* of its liabilities, showing the overall value of a council.

$$(\text{current} + \text{non-current assets}) - (\text{current} + \text{non-current liabilities})$$

Council assets are the measurable resources controlled by councils from which future economic benefits are expected to flow to the council. There are two main asset categories:

- **current assets** – these include a council's cash reserves and liquid assets, and assets that will be used within the next 12 months. A council's liquid assets include money in the bank, short-term investments and accounts receivable, as well as the council's inventory and pre-paid expenses that can easily be converted into cash.
- **non-current assets** – also known as fixed assets, are the things a council owns that have a useful life of more than 12 months. They include items such as council-owned land, buildings, vehicles, plant and equipment, roads (including the value of land under roads), bridges and other infrastructure.

Council liabilities represent a future obligation for the council, that is, the things that a council owes and will need to pay out at a later date. These may be interest-free or interest-bearing obligations and include:

- **current liabilities** – these are amounts owed by a council payable within the next 12 months. They include items such as accounts payable to those who provide goods or services to the council, and accrued expenses such as wages earned by employees that have not yet been paid out.
- **non-current liabilities** – these are the amounts owed by a council that need to be settled over longer periods of time, beyond the current year. These may include long-term loans or debts and obligations such as long-service leave that will need to be paid out in future years.

Changes in net worth occur through changes in the value of assets or liabilities, or changes in the stock of assets or liabilities held. In recent years, considerable change in council net worth has resulted from the revaluation of significant assets, such as land under roads, due to changes in the Australian Accounting Standards. For some councils, such revaluations have contributed to large overall increases in net worth since 30 June 2010, although the timing of asset revaluations differs between councils. As such, key trends presented below are descriptive only, and all year-on-year comparisons within and between councils should be made with caution.

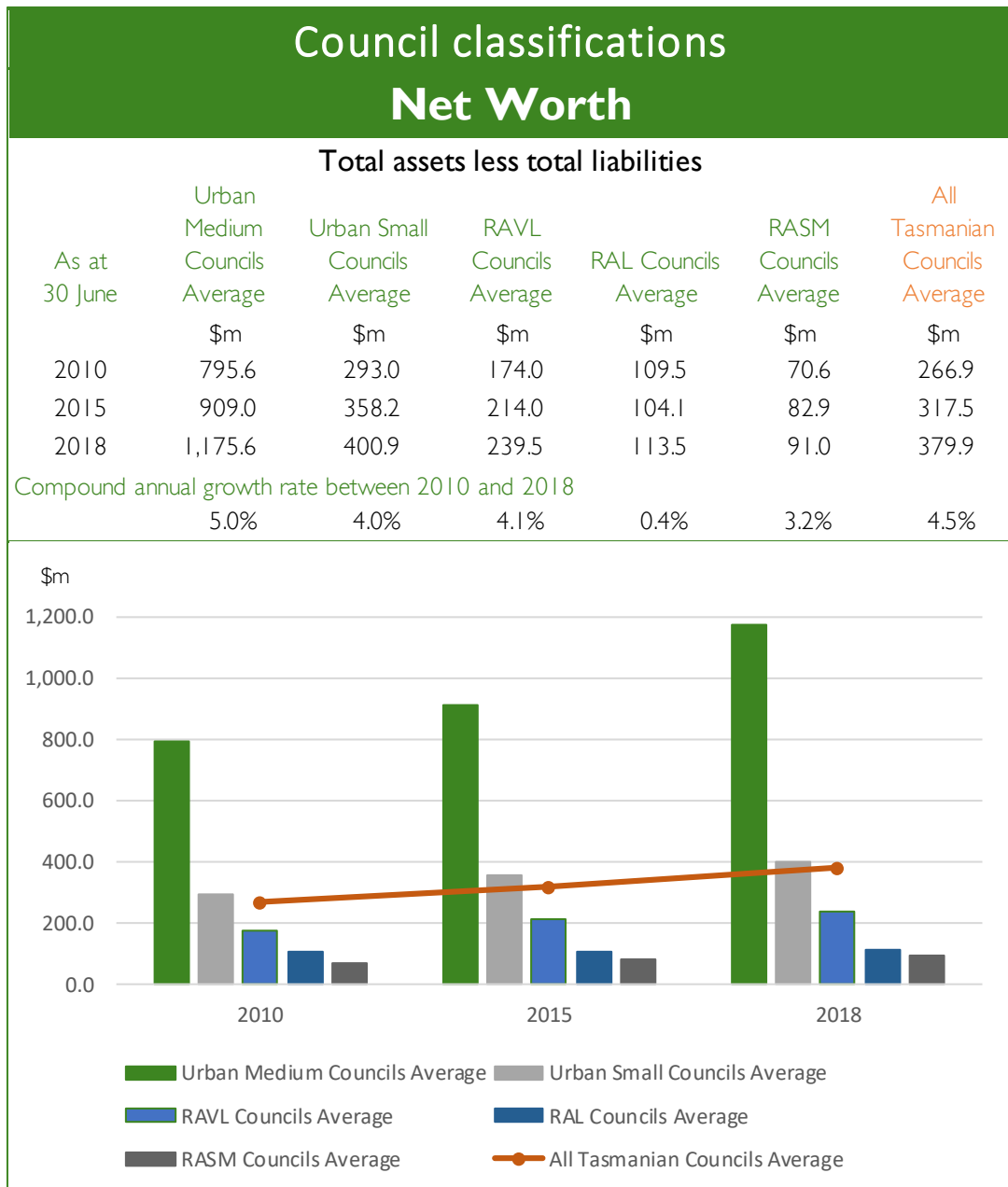
Key Trends:

- **Average and range by classification**
 - The average net worth for Tasmanian councils is \$379.9 million as at 30 June 2018. Net worth ranges from \$58.8 million in Flinders (Figure 6), to \$1,866.9 million in Launceston (Figure 2).
 - Council net worth clearly decreases as council classifications become smaller and more rural. The average net worth of councils in the Urban Medium classification is nearly three times that of councils in the next classification, Urban Small, and nearly 13 times more than that of councils in the smallest classification, Rural Agricultural Small & Medium (Figure 1).
- **Variation between councils**
 - Variation in the average net worth between councils within the same classification is greatest in the Urban Medium classification, where the net worth of Launceston is more than double that of all other councils in the classification, except Hobart. Net worth ranges within the classification from \$1,866.9 million in Launceston to \$624.3 million in Kingborough (Figure 2).

- Rates are most consistent between councils in the Rural Agricultural Small & Medium classification, ranging from \$58.8 million in Flinders to \$136.8 million in Glamorgan/Spring Bay (Figure 6).
- Compound annual increase
 - On average, Urban Medium councils have experienced the greatest compound annual increase, while councils in the Rural Agricultural Large classification have experienced the smallest compound annual increase in net worth (Figure 1).
 - Tasman council experienced the greatest individual compound annual increase over the time period, with net worth increasing by 19.2 percent on average annually, from \$15.8 million to \$64.4 million (Figure 6). Central Highlands experienced the greatest compound annual decrease, with net worth declining by 2.5 percent on average annually, from \$122.5 to \$100.1 million between 2009-10 and 2017-18 (Figure 6). With exception of Central Highlands Council, all councils have experienced a steady increase in net worth over the period from 2009-10.

Net worth: all classifications

Figure 1:



Net worth: councils by classification

Figure 2:

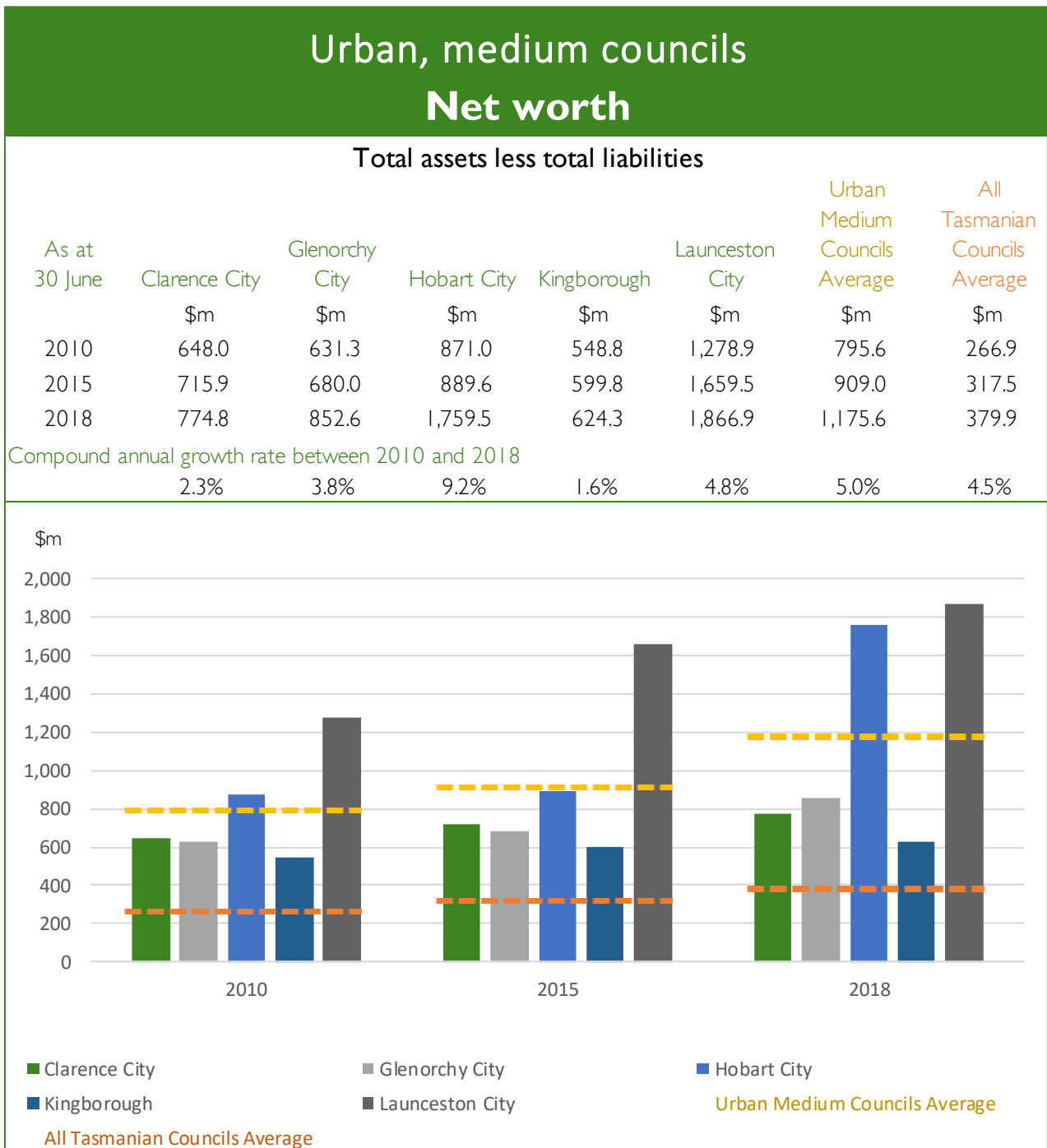


Figure 3:

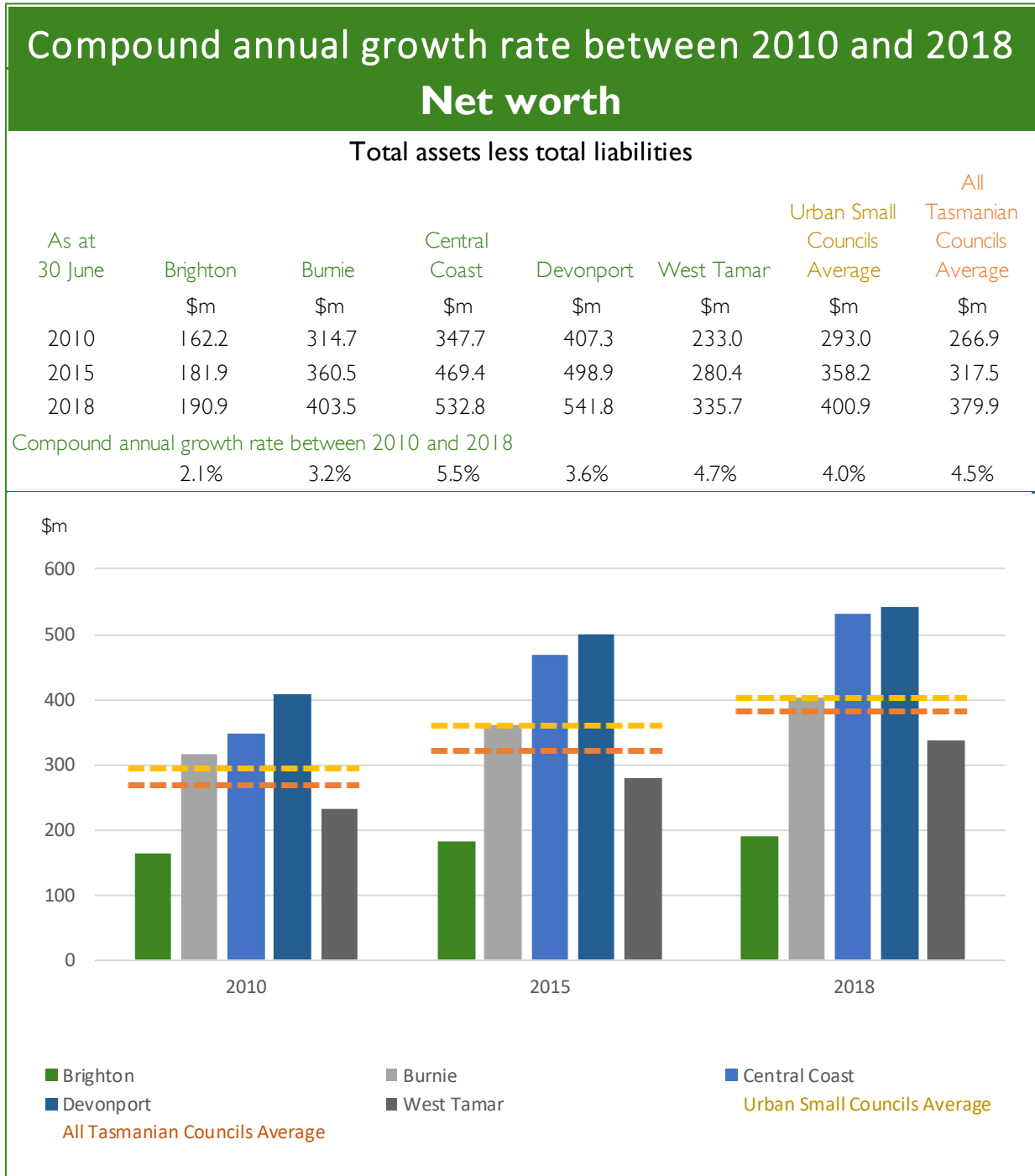


Figure 4:

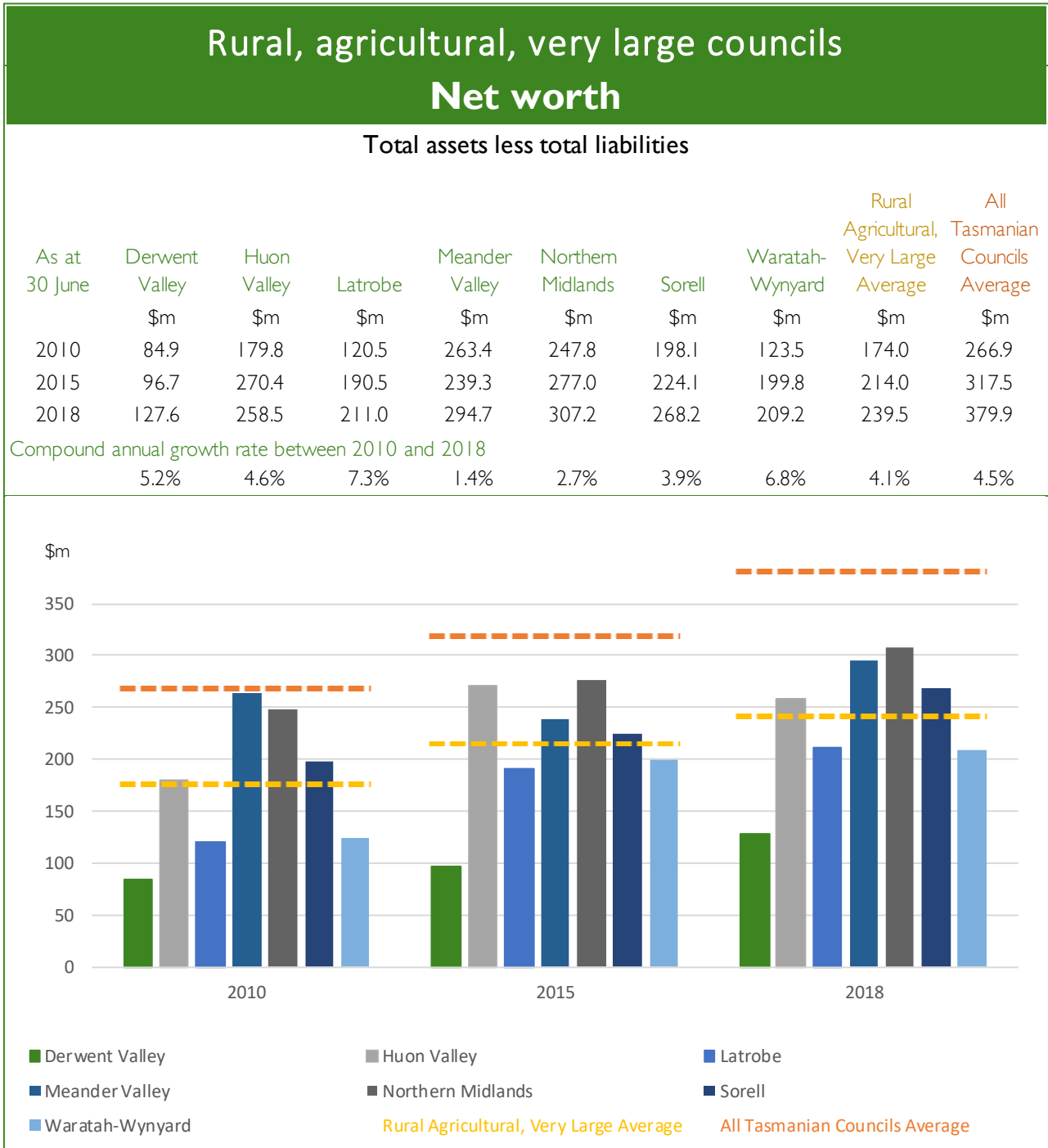


Figure 5:

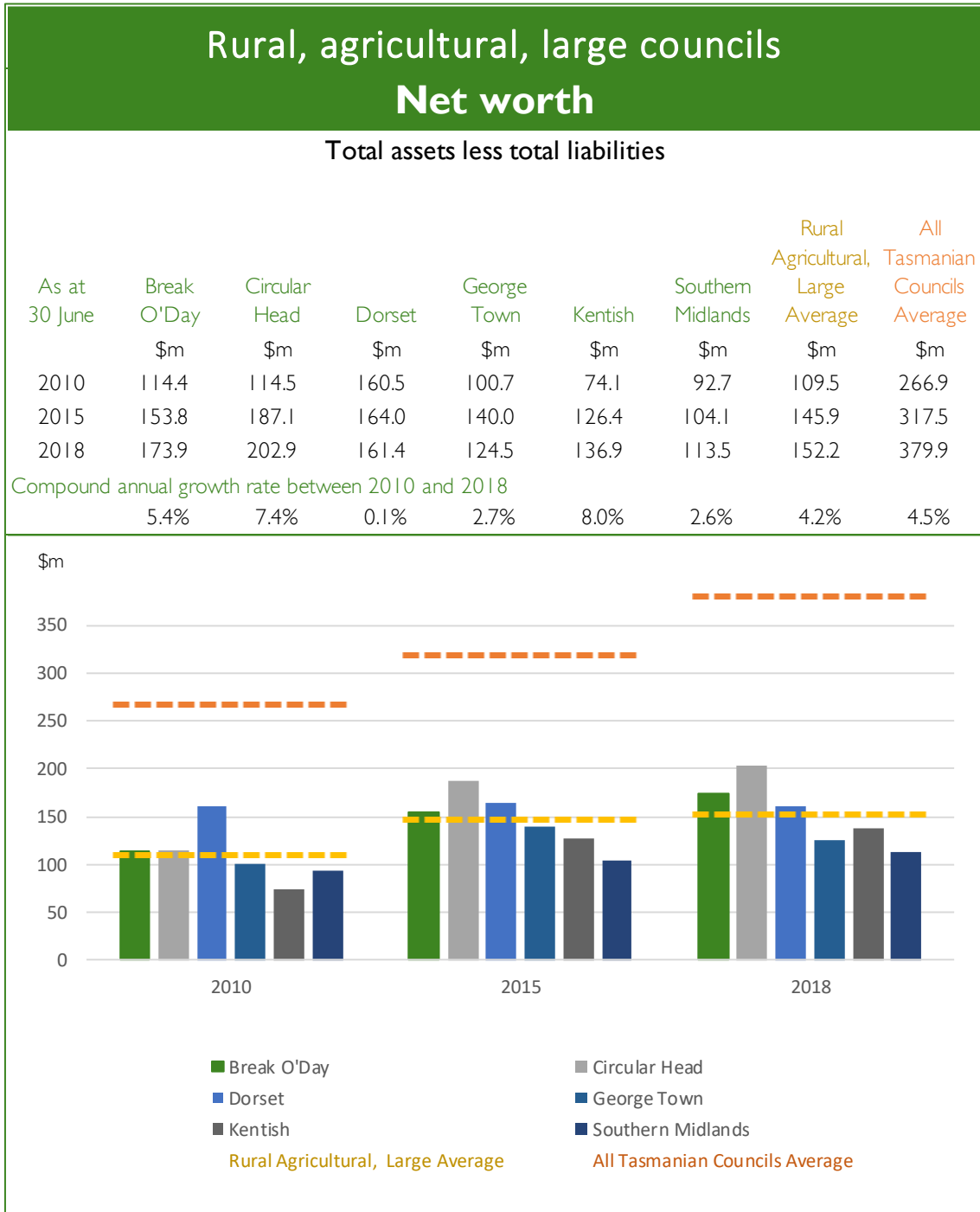
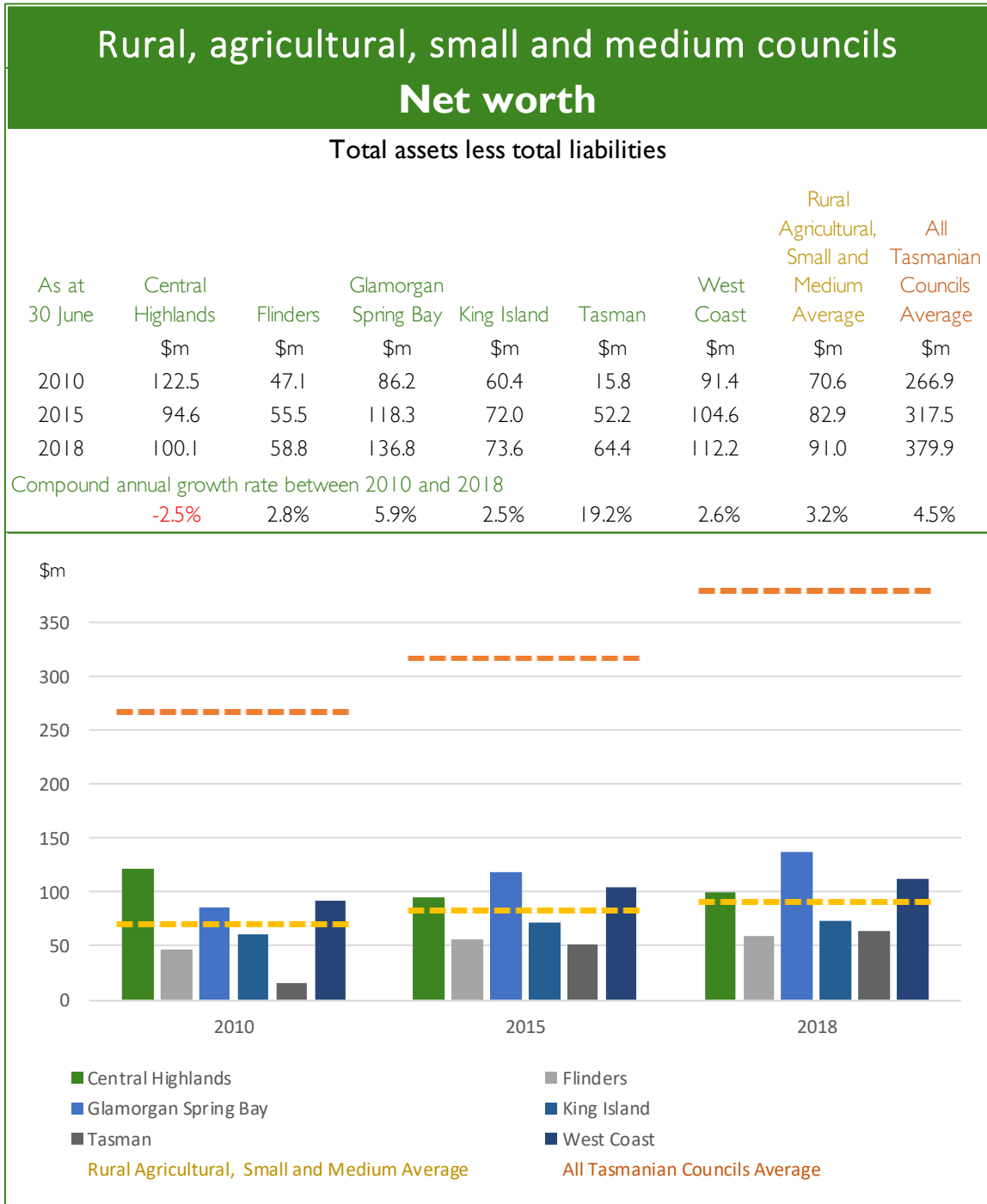


Figure 6:



Working capital

At 30 June 2018, Tasmanian councils had a collective working capital of \$297.3 million. A council's working capital is the net value of a council's **current assets** minus its **current liabilities**.

Working capital measures the funds available to a council for new expenditure after short-term obligations have been met. Working capital should be a positive number, indicating an amount in excess of current liabilities. A council's working capital is an indicator of its short-term financial health.

Working capital is calculated by deducting the current liabilities from current assets.

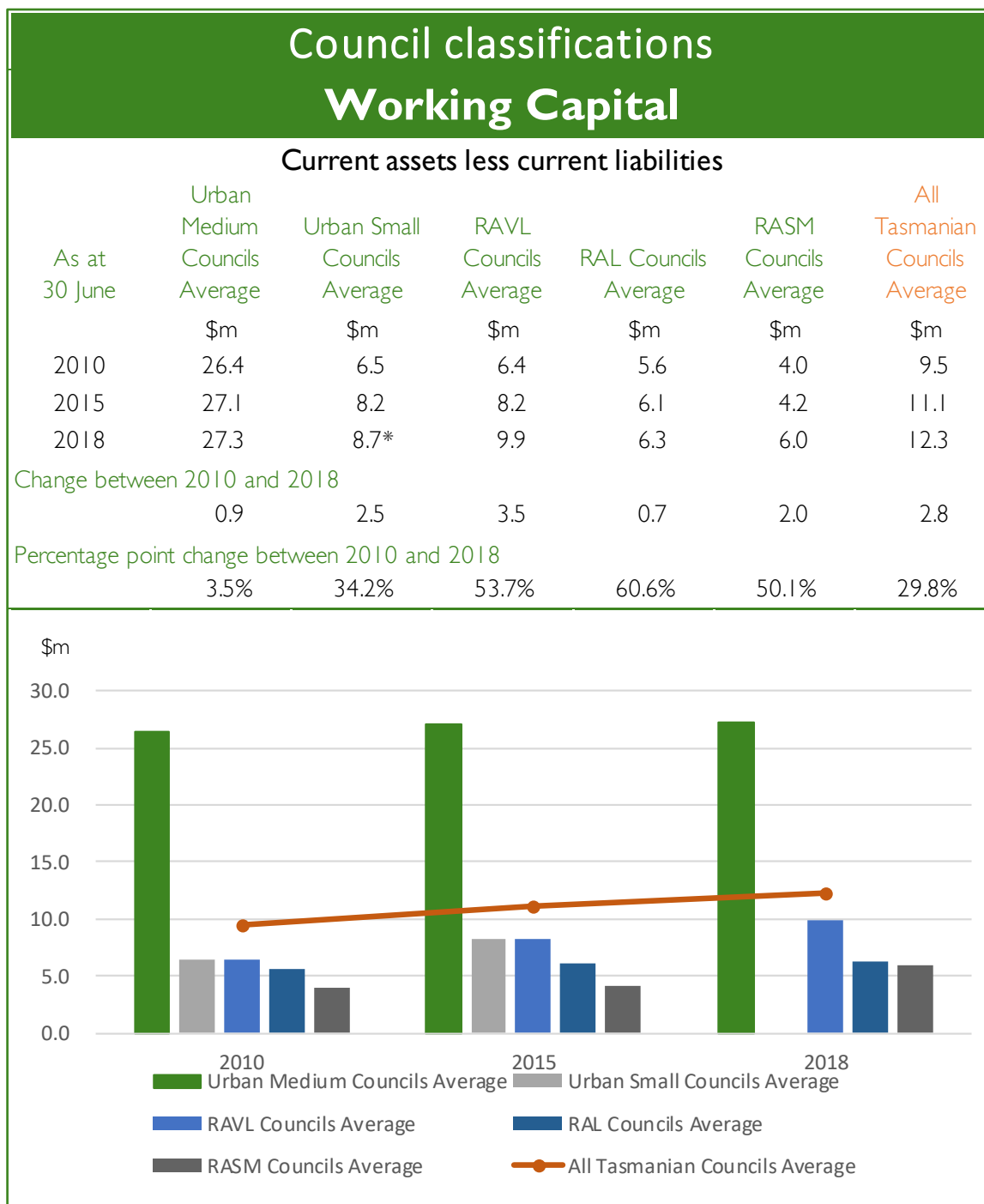
$$\text{current assets} - \text{current liabilities}$$

Key trends:

- **Average and range by classification**
 - On average, Tasmanian councils have \$12.3 million in working capital, ranging from - \$0.7 million in Glamorgan/Spring Bay (Figure 12) to \$58 million in Clarence (Figure 8).
 - The average working capital for each classification consistently decreases as council classifications get smaller, with the exception of Rural Agricultural Very Large councils, which have more working capital on average than Urban Small councils. Overall, Councils in the Urban Medium classification have significantly more working capital than those in all other classifications, holding three times as much working capital as the next largest classification (RAVL) (Figure 7).
- **Variation between councils**
 - Variation in working capital between councils within the same classification is greatest in the Urban Medium classification. Launceston holds \$61.6 million and Clarence holds \$58 million in working capital, both over 20 times more than Kingborough, which holds \$2.8 million (Figure 8).
 - Working capital is most consistent between councils in the Rural Agricultural Small & Medium classification, ranging from - \$0.7 million in Glamorgan/Spring Bay to \$8.9 million in Central Highlands (Figure 12).
- **Percentage point change**
 - The average amount of working capital held by Tasmanian councils has risen by 29.8 per cent from 2009-10 to 2017-18. Working capital in Derwent Valley increased the most during the time period, growing by 555 per cent from \$0.6 million to \$3.7 million (Figure 10). Glamorgan/Spring Bay experienced the greatest percentage decrease, with working capital decreasing by 145 per cent, from \$1.6 million to - \$0.7 million (Figure 12).
 - By classification, working capital increased the most by percentage in the Rural Agricultural Large classification, increasing by 60.6 per cent. Councils in the Urban Medium classification experienced the smallest overall percentage increase, at 3.5 per cent (Figure 7).

Working capital: all classifications:

Figure 7:



* Please note: key trends and data graphs for working capital and working capital ratio exclude 2017-18 data from Devonport City Council, due to its classification of all liabilities as current liabilities. The average figures for Urban Small councils and Tasmanian councils overall for 2017-18 have been calculated excluding Devonport City Council. Please note the following from the Council:

“Devonport City Council’s working capital has been impacted by the treatment of all debt as a current liability at 30 June 2018. Council has recently completed construction of Stage 1 of the LIVING CITY project and subsequently refinanced the loan debt. From 30 June 2019, only the principal repayments due in the next 12 months will be reflected as a current liability with the remainder classified as a non-current liability. It is anticipated that the amount classified as a current liability will be \$1,804,000 and this will result in Council returning to a positive working capital balance.

It should be noted that Council was one of the nine councils identified by the Auditor-General as having adequate cash balances at 30 June 2018.”

Working capital: councils by classification

Figure 8:

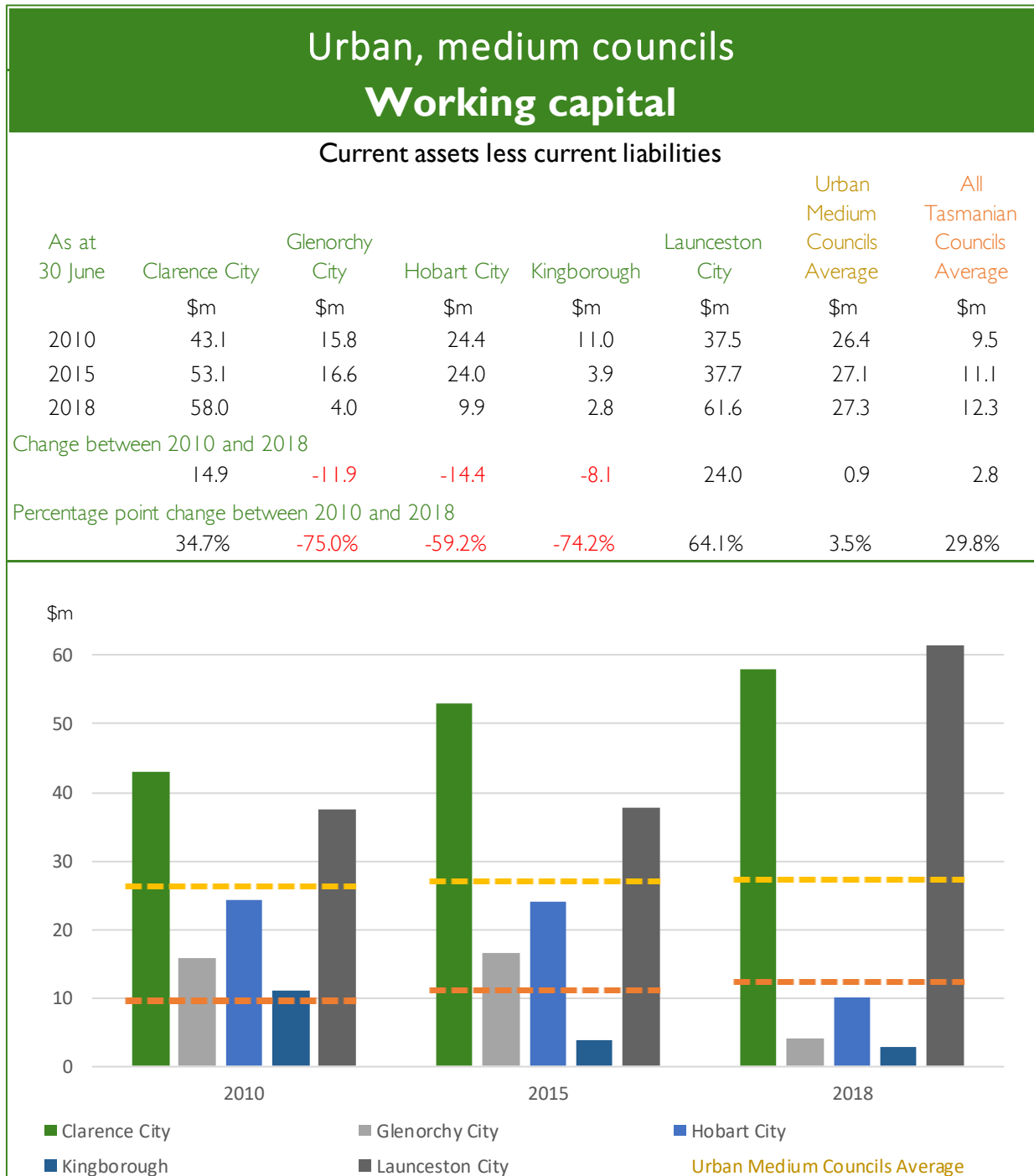
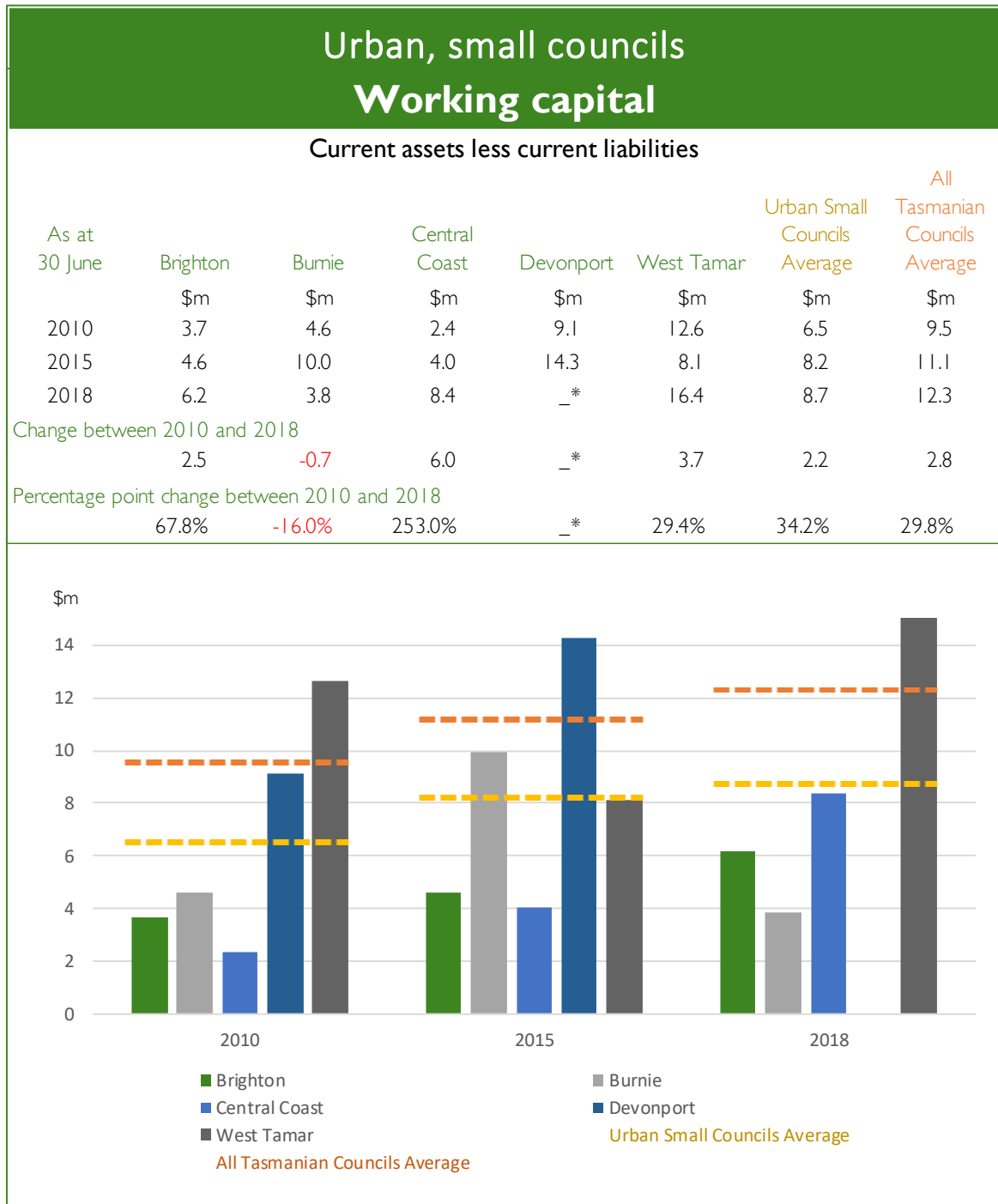


Figure 9:



*Please see note from Devonport City Council on page 15.

Figure 10:



Figure 11:

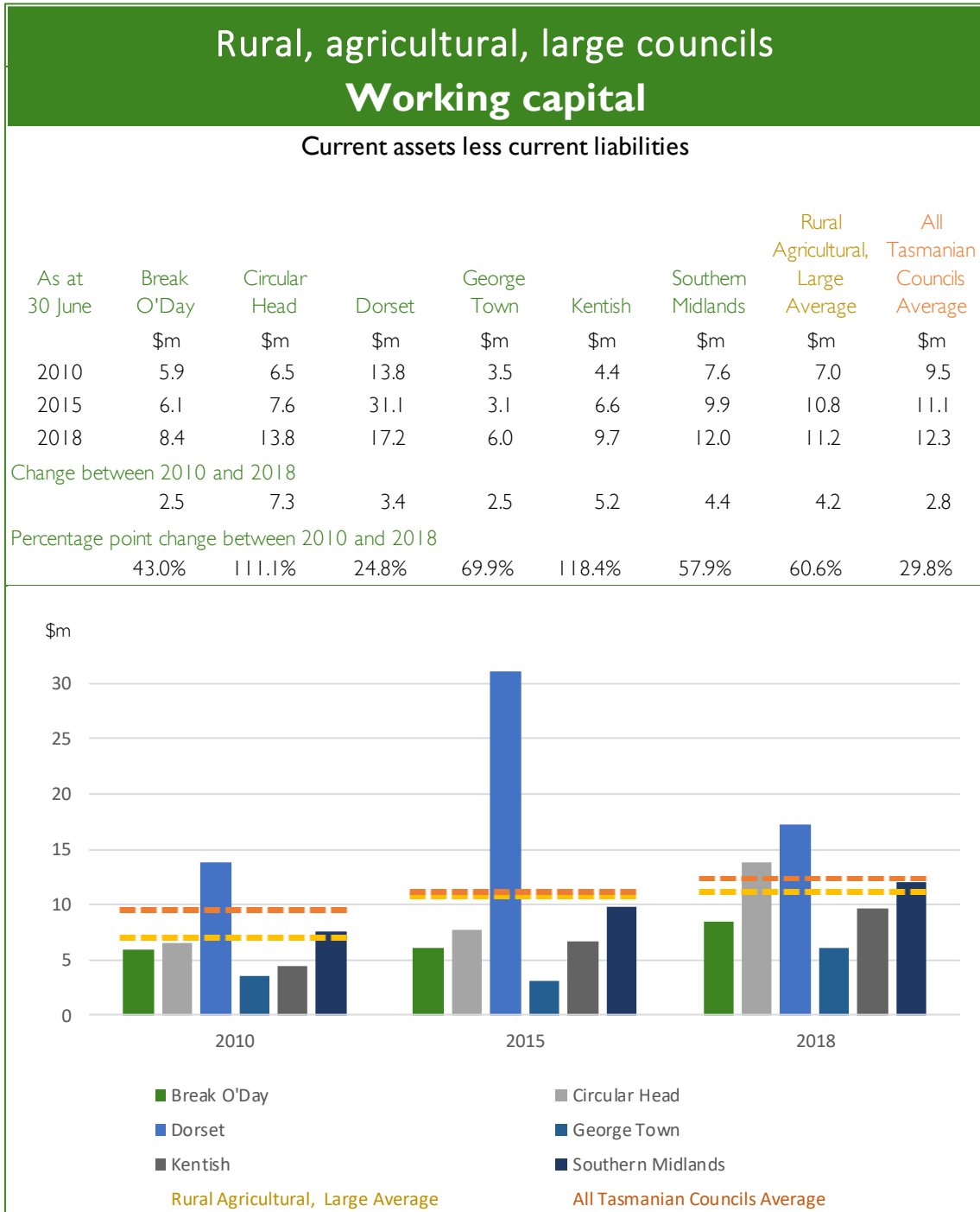
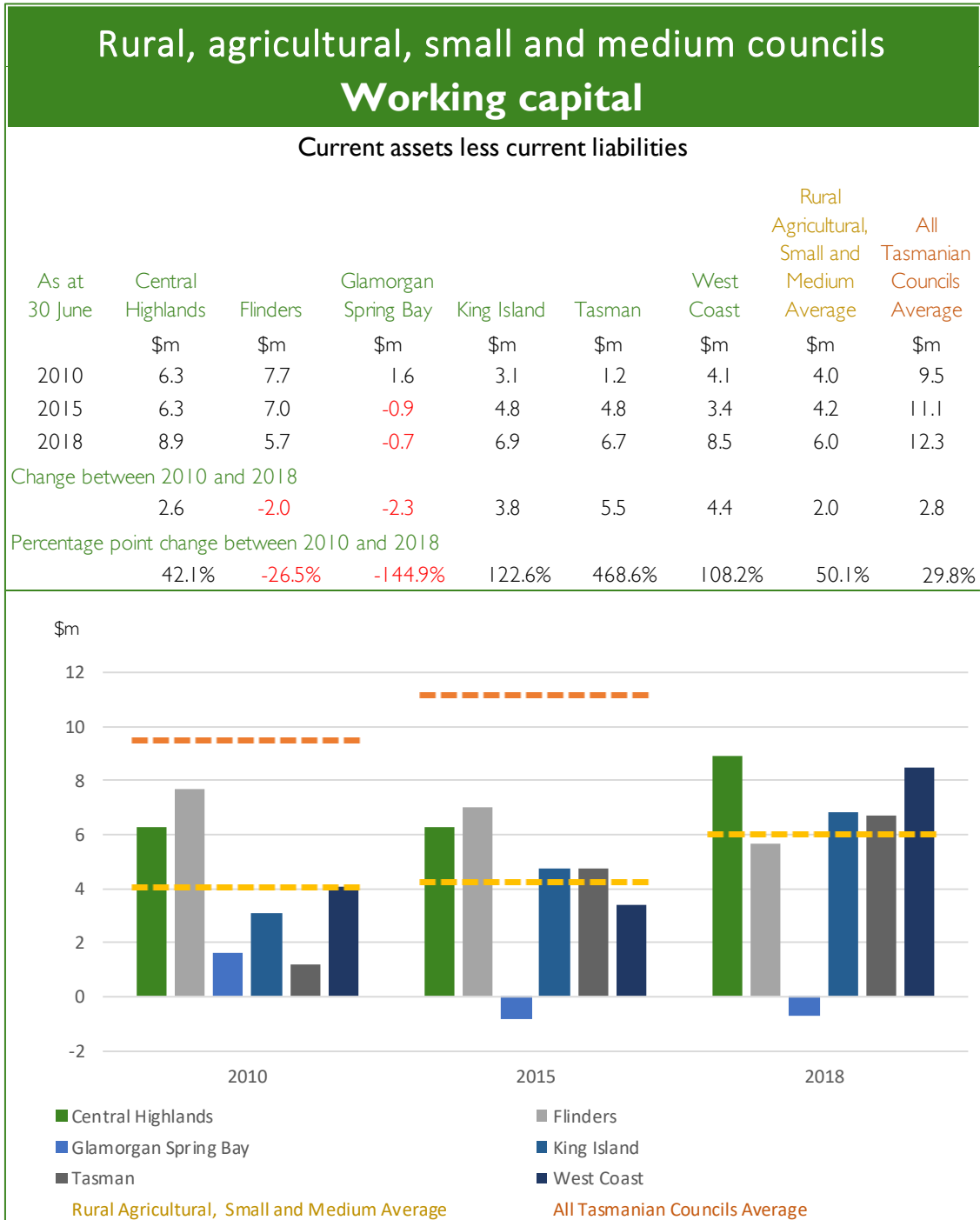


Figure 12:



Working capital ratio

The **working capital ratio** shows how many times current assets cover current liabilities. A ratio of less than 1.0 may indicate liquidity problems, while a high working capital ratio may indicate that a council is not using or investing its excess assets effectively.

Working capital is calculated by dividing current assets by current liabilities.

$$\text{current assets} \div \text{current liabilities}$$

It is important to note that a council's working capital may include cash that is subject to external restrictions, such as unexpended specific purpose grants or grant funds received in advance, which may affect the working capital ratio. The Auditor-General's *Report on Local Government Authorities 2017-18* considered the **cash expense cover ratio** which compares each council's unrestricted cash balance (that is, cash balances that exclude all cash subject to external restrictions, unexpended specific purpose grants and grant funds received in advance) against payments from the cash flow statement to determine whether the level of unrestricted cash held by each council is appropriate. Each council's cash expense cover ratio was assessed against the following:

- *less than three months* – level of cash considered to be less than adequate
- *three to six months* – level of cash considered adequate
- *six to 12 months* – level of cash considered more than adequate
- *greater than 12 months* – level of cash considered much more than adequate

Nine councils were shown to have adequate levels of cash. Of the remaining councils, four were shown to have less than adequate levels of cash and 16 were shown to have more, or much more, than adequate levels of cash. For more information, refer to the Auditor-General's report at www.audit.tas.gov.au.

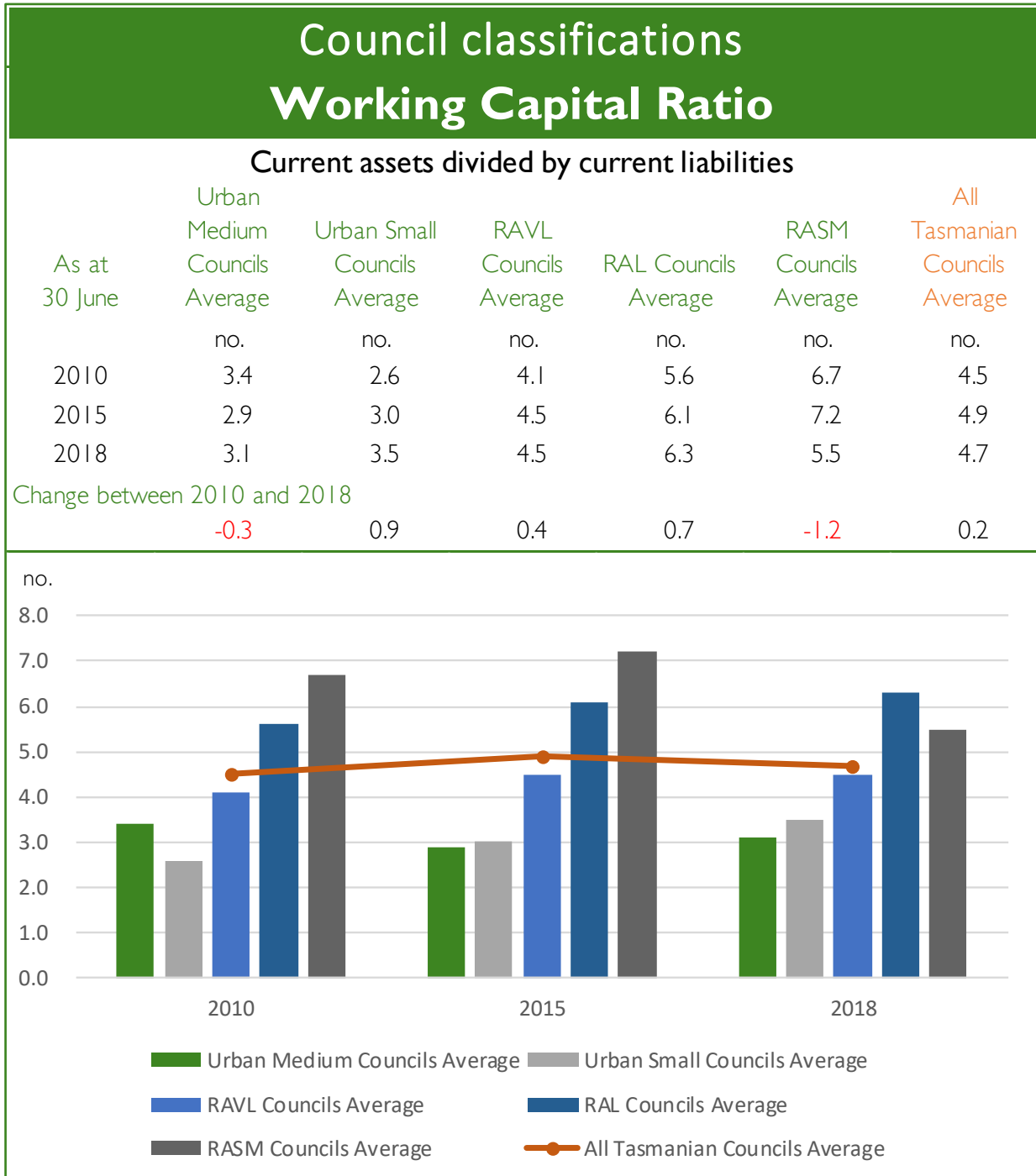
Key trends:

- **Average and range by classification**
 - On average, Tasmanian councils have a working capital ratio of 4.7, ranging from - 0.7 in Glamorgan/Spring Bay to 12.1 in Tasman (Figure 18).
 - Working capital ratio consistently increases as council classifications become smaller and more rural, with the exception of Rural Agricultural Small & Medium councils. Councils in this classification have a lower working capital ratio than councils in the next largest classification, Rural Agricultural Large (Figure 13).
- **Variation between councils**
 - Variation between councils in the same classification is greatest in the Rural Agricultural Small & Medium classification, where the working capital ratio ranges from - 0.7 in Glamorgan/Spring Bay to 12.1 in Tasman (Figure 18).
 - Working capital ratio is most consistent between councils in the Rural Agricultural Large classification, ranging from 5.3 in Break O'Day and George Town to 8.5 in Dorset (Figure 17).
- **Change over time**
 - The average working capital ratio for Tasmanian councils has remained stable from 2009-10 to 2017-18, only rising by 0.2 during the time period.
 - Councils in the Rural Agricultural Small & Medium classification experienced the greatest fluctuation in working capital ratio, with the ratio decreasing significantly in Flinders by 16.4, from 18.8 in 2009-10 to 2.4 in 2017-18. Conversely, working capital ratio in Tasman rose by 9.6 across the time period, from 2.5 to 12.1 (Figure 18).

- o Working capital ratio in all other classifications did not experience change to the same extent, with Launceston the only council to change by more than 2.0 points. Working capital ratio in Launceston changed by 2.4, from 2.0 in 2009-10 to 4.4 in 2017-18 (Figure 14).

Working capital ratio: all classifications

Figure 13:



Working capital ratio: councils by classification

Figure 14:

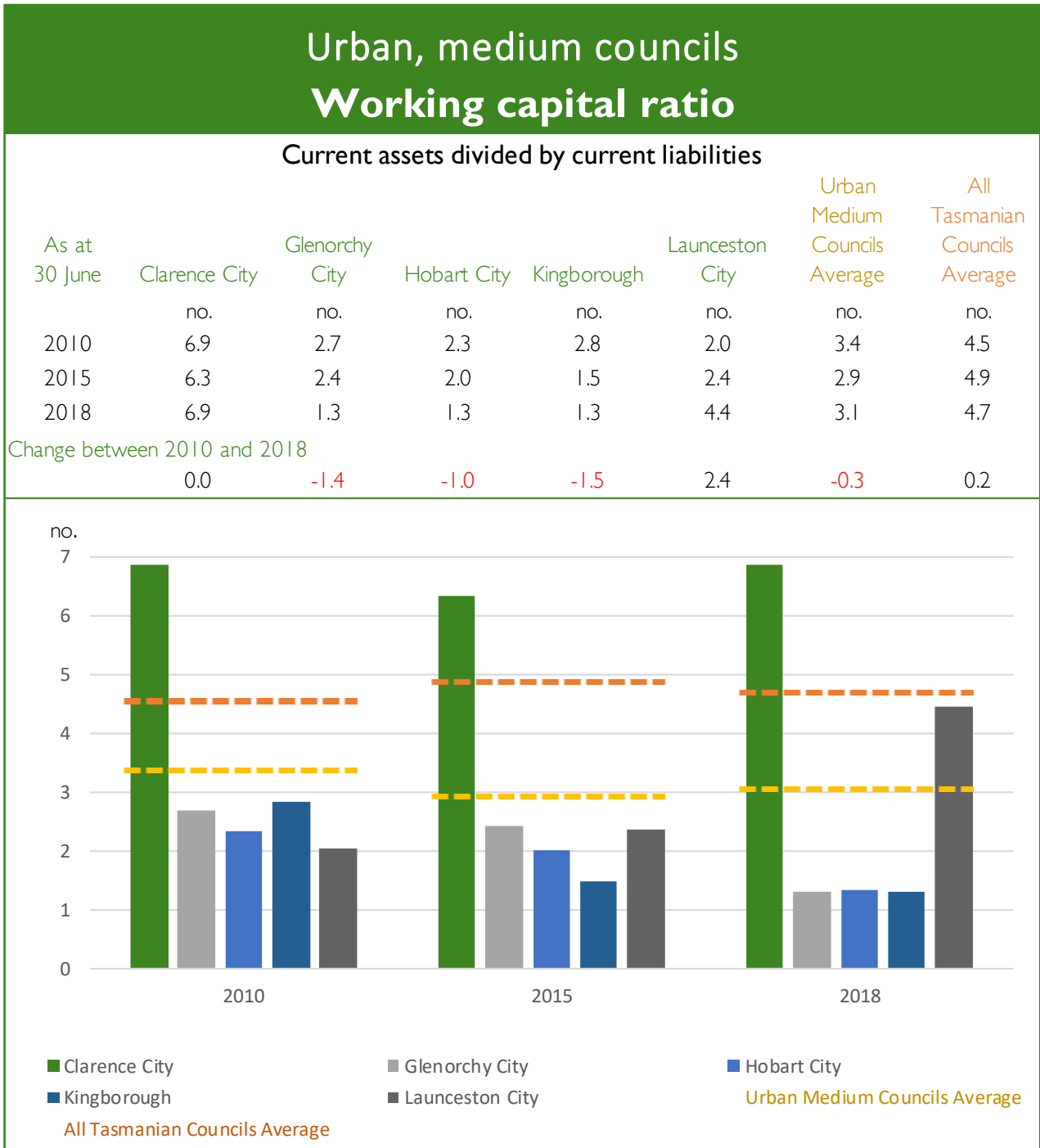
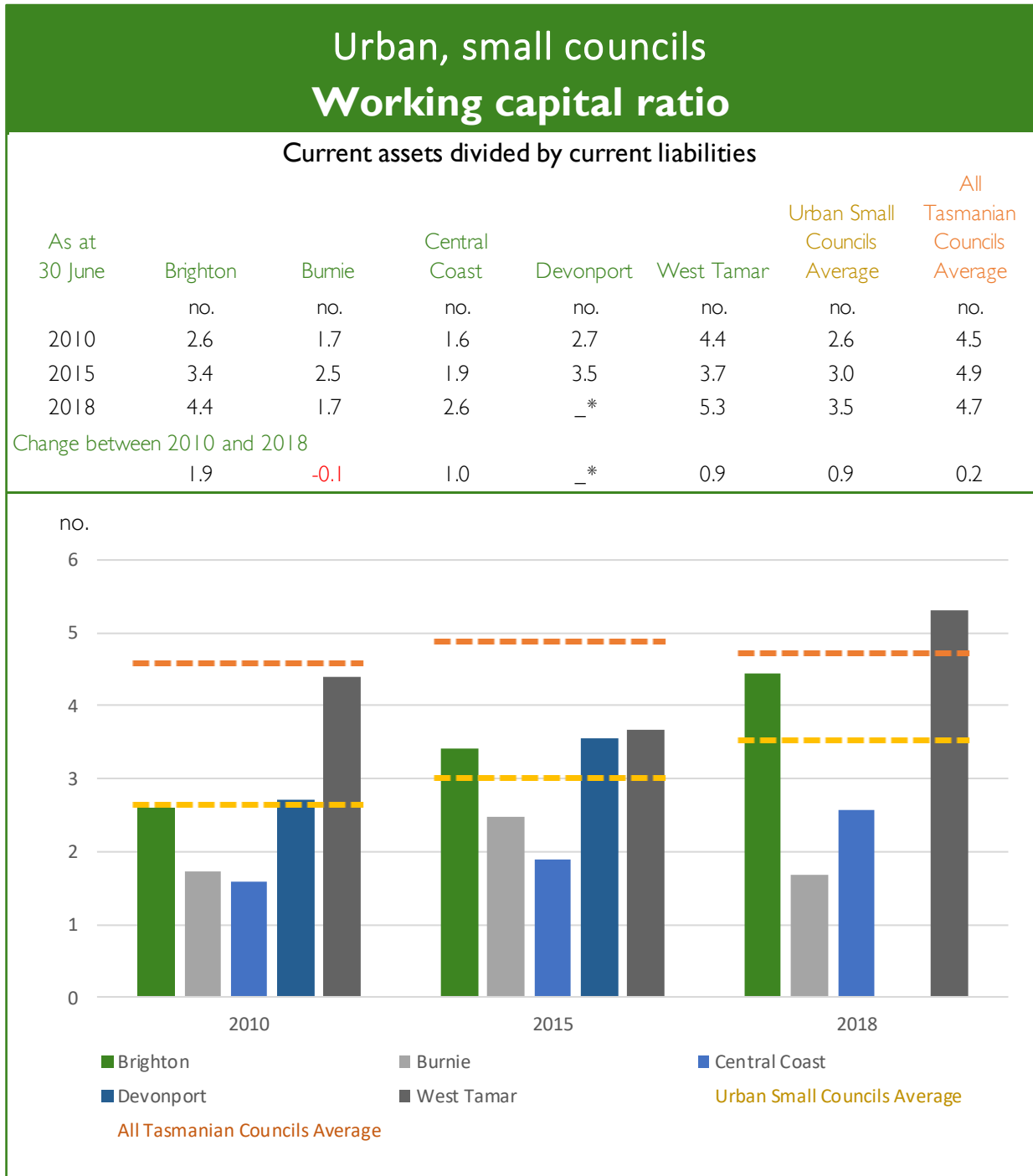


Figure 15:



*Please see note from Devonport City Council on page 15.

Figure 16:

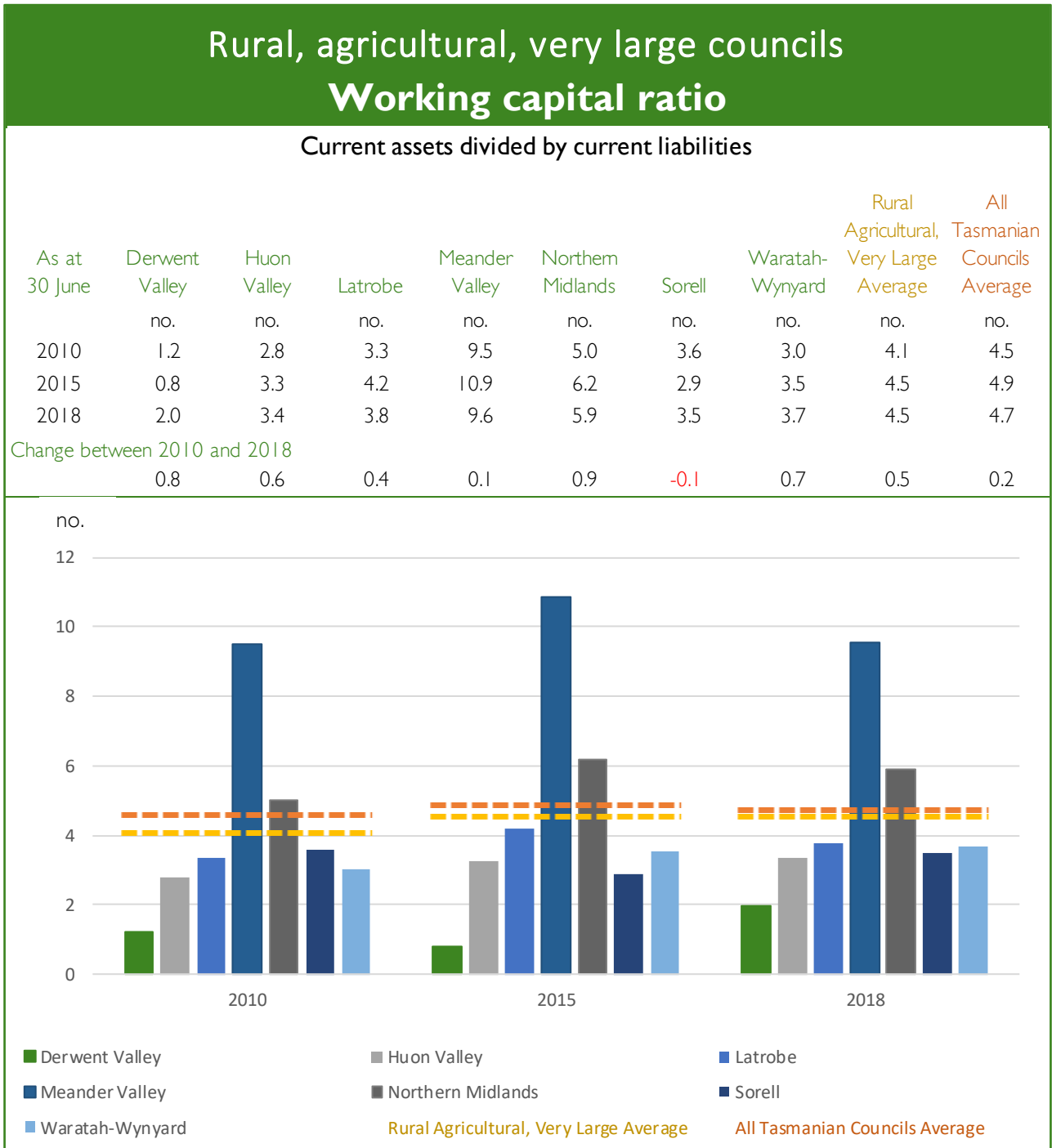


Figure 17:

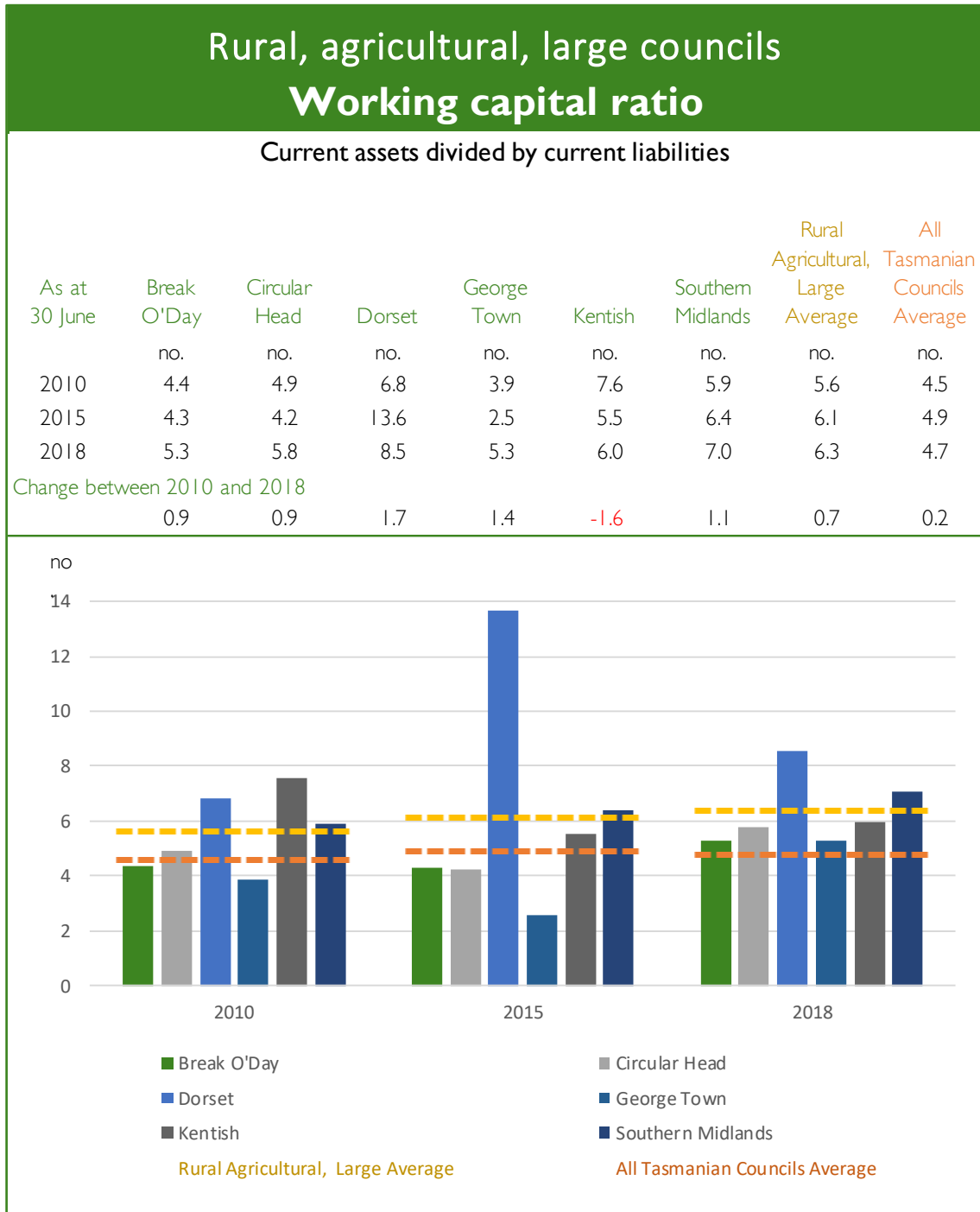
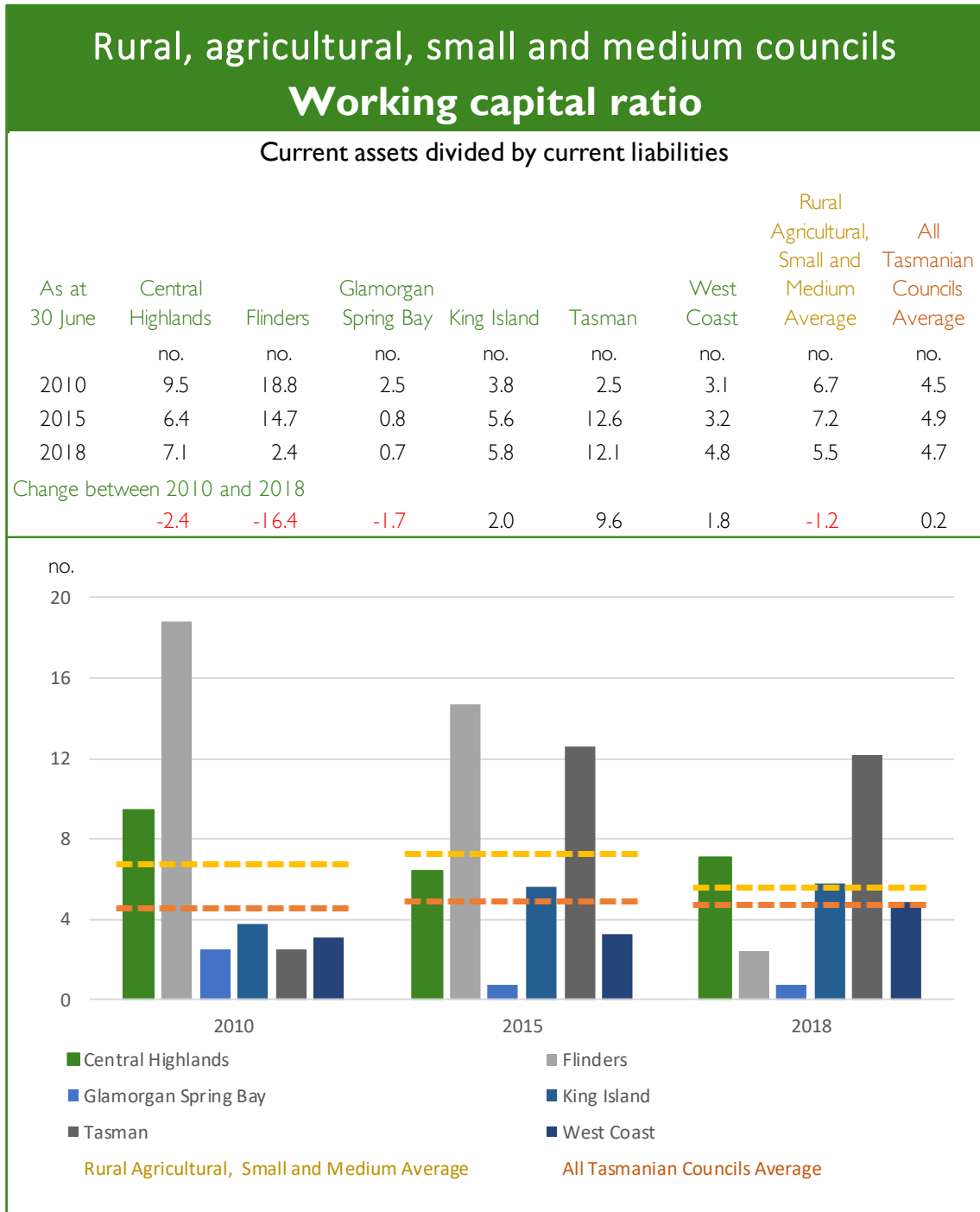


Figure 18:





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