Tasmanian
Audit Office

Report of the Auditor-General No. 4 of 2013-14

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

Volume 3 Part I

Local Government Authorities 2012-13

December 2013

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The Role of the Auditor-General

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

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

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

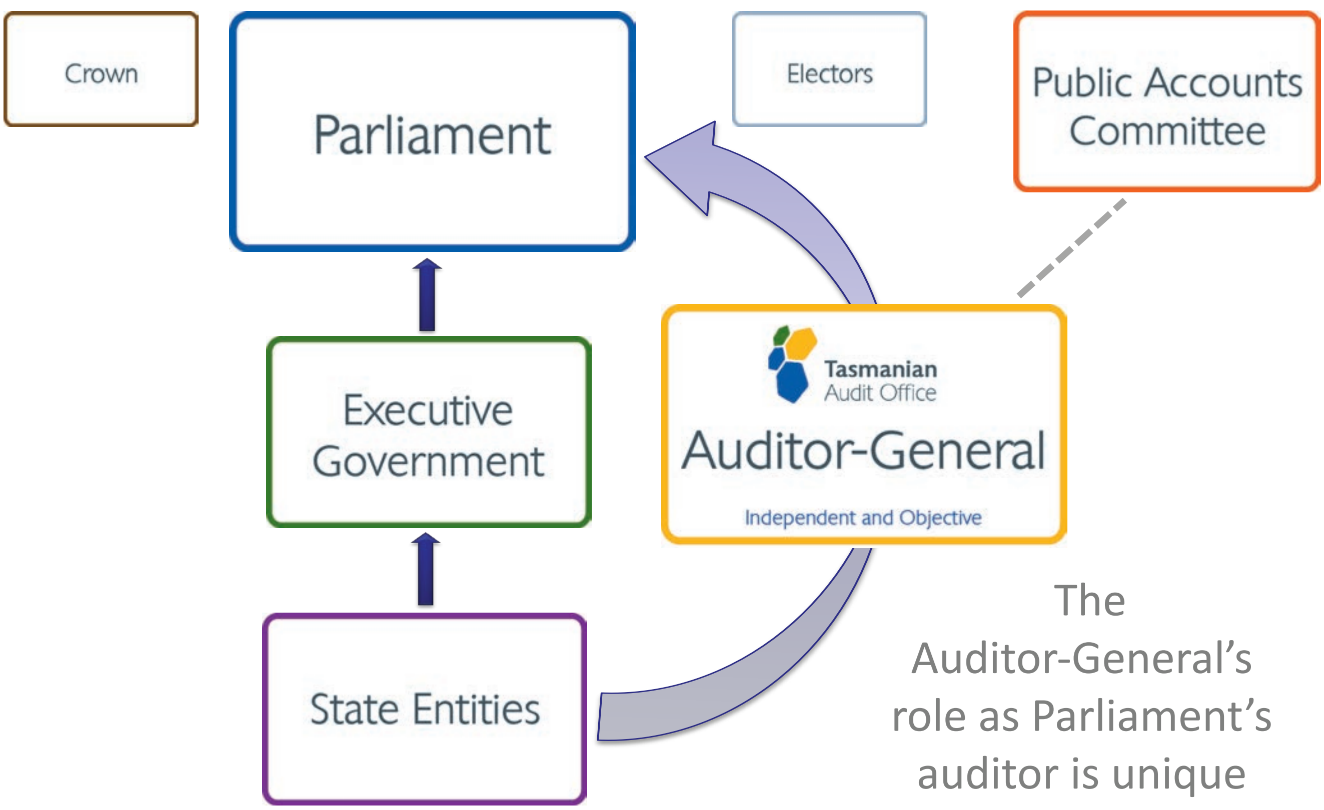
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

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

The Auditor-General's Relationship with the Parliament and State Entities



2013 (No. 33)

TASMANIA

2013
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 4 of 2013-14

Volume 3 Part I

Local Government Authorities 2012-13

DECEMBER 2013

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

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

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ISSN 1327 2608

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9 December 2013

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Mr Speaker

Report of the Auditor-General No. 4 of 2013-14, Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Local Government Authorities 2012-13.

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of Local Government Authorities for the year ended 30 June 2013.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Volume details findings from financial audits of 29 local government councils for the year ended 30 June 2013 and our assessments of their financial sustainability. Also included are outcomes from our audits of the financial statements of five local government joint authorities.

In the Tasmanian context, local government councils manage significant revenues, expenditures and investments in infrastructure. In the year ended 30 June 2013, operating revenues totalled $680.175m, operating expenses $687.722m, investment in new assets was $222.084m and physical non-current assets at 30 June 2013 were $6.578bn. Cash holdings totalled $427.180m.

In addition, the five local government joint authorities in the year ended 30 June 2013 had Total Revenue $20.742m, Total Expenses $19.825m, Total Assets $24.961m and Total Liabilities $13.155m. Cash holdings totalled $6.899m.

My assessments as to financial sustainability were based on financial performance, asset management and liquidity related ratios and governance aspects as these relate to audit committees and long-term asset and financial management plans. My conclusion, as in the previous year, was that financial sustainability is improving, however there are still too many councils incurring operating deficits. Governance arrangements were also improving, this year four new audit committees were formed and four councils, which previously had no long-term management plans, implemented such plans. Overall, asset management continues to improve and at 30 June 2013 liquidity of all councils was strong.

H M Blake
Auditor-General
9 December 2013

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KEY POINTS

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Too many councils continue to report operating deficits as evidenced by: • the consolidated (all councils) average (over the past seven years) Operating surplus ratio was below our benchmark of zero with 15 councils averaging less than zero over this period • in 2012-13 the 29 councils generated combined net operating deficits of $7.547m with 16 councils reporting deficits totalling $15.871m. • We recommend all Councils develop plans with the objective of achieving positive Operating surplus ratios.	
From an asset management perspective the situation is stronger with: • councils expending on average 90% of their depreciation expense on existing non-current assets, less than our 100% benchmark but improving • all but seven councils having prepared long-term asset management and long-term financial management plans • for those councils with such plans, five recorded Asset renewal funding ratios lower than our 90% benchmark • Road asset consumption ratios were better than our 60% ratio benchmark.	
Collectively councils reported low financial sustainability risk from a liquidity perspective as evidenced by combined Net financial liabilities ratios significantly better than our benchmark of negative 50%.	
Governance arrangements also improved with 12 (eight in 2011-12) having established audit committees.	
Local Government Comparative Analysis	**40**
Demographics - as noted in previous years, rural councils can face difficulties in providing and maintaining services because they do not have access to the higher ratepayer base of larger councils and in some cases they manage large road networks.	
Employee costs: • the 29 councils employed 3 417 (2011-12, 3 365) FTEs at 30 June 2013 and incurred employee costs of $259.074m ($252.224m) for the financial year • at 30 June 2013, the amount of annual, long service and some sick leave accrued by the 29 councils totalled $60.317m ($57.215m).	
Statements of Comprehensive Income: • on an 'underlying' basis, for the year ended 30 June 2013 councils recorded a combined Underlying Deficit of $7.547m (2011-12, $13.419m Underlying Deficit). Sixteen councils recorded a net Underlying Deficit for the 2012-13 financial year of $15.871m • revenue raising capacities - the 29 councils raised $405.950m ($384.179m) in rates for the 2012-13 year, an increase of 5.6%, • depreciation coverage - the ratio of depreciation to operating revenues for the 29 councils was 25.2% (26.4%).	

Management of working capital - all councils managed their working capital (Total Current Assets less Total Current Liabilities) effectively in 2012-13 and were capable of meeting short-term commitments.

Management of infrastructure and other non-current assets – councils manage Total Non-Current Assets amounting to $8.621bn (2011-12, $8.488bn), and in 2012-13 payments made by councils for Property, plant and equipment totalled $222.084m.

Management of debt - all councils with debt were comfortably able to meet their loan interest charges. Seven councils had no debt at 30 June 2013.

Collection of rates - rate debts owing to councils at 30 June 2013 totalled $15.289m (2011-12, $13.341m) with an average per council of $.527m ($0.460m).

LOCAL GOVERNMENT JOINT AUTHORITIES 50

Copping Refuse Disposal Site Joint Authority 50

The Authority recorded an Underlying Profit of $0.907m, an improvement on the previous year.

Key developments in 2012-13 included:

- revenue recorded a very large increase to $6.945m, due to additional tonnage received resulting from the January bushfires in Southern Tasmania
- expenditure also increased markedly, to $6.039m, in large part due to a new provision for landfill cell capping
- participating councils provided an equity injection of $1.300m.

Dulverton Regional Waste Management Authority 54

The Authority achieved a strong Underlying Profit of $1.555m in 2012-13.

Burnie City Council became a customer in October 2012, which led to a sizeable increase in waste management and fees revenue.

It failed to comply with the requirement of Section 17(1) of the *Audit Act 2008* by submitting its financial statements seven days late.

The Authority expects that by 2014 it will have established infrastructure to capture 50% of its landfill emissions. It anticipates being able to minimise overall landfill emissions below the 25 000 tonne annual threshold within the *Clean Energy Act 2011* and avoid the payment of a carbon price. Emissions are not expected to exceed the threshold prior to installation of a gas capture system.

Cradle Coast Authority 57

The Authority recorded a Net Deficit of $0.351m.

Cash decreased by $0.542m to $2.174m primarily due to completion of the Caring for Our Country and the Healthy Communities grant programs.

It borrowed $0.550m to fund Leasehold improvements at its new offices.

The Authority failed to comply with the requirement of Section 17(1) of the *Audit Act 2008* by submitting its financial statements sixty days late.

The Authority reported a Net Deficit of $0.033m in 2012-13 and its Net Assets totalled $0.354m.

A number of projects were completed, or were nearing completion, during the year resulting in a decrease in the Authority's grant revenue and a reduction in consulting and professional fees.

The Authority achieved improved financial results mainly because of the completion of two internally funded projects in respect of which most costs were incurred in the prior year.

PART II

Council's underlying result improved to a surplus of $1.008m this year.

Its net result, a deficit of $17.235m, was significantly influenced by the write-off of third party assets.

At 30 June 2013 Total Assets were $634.516m and Net Assets amounted to $625.007m.

Council was at moderate sustainability risk from asset management and financial operating perspectives but low sustainability risk from net financial liability and governance perspectives.

Road assets were adjusted for a prior period error by an amount of $26.223m.

Council re-assessed its accounting policy in relation to recognition of assets leased to other parties on a long-term basis resulting in derecognition of Bellerive Oval, $24.062m, and assets leased to the Copping Refuse Disposal Site Joint Authority, $2.691m.

Council reported an Underlying Deficit in 2012-13, consistent with budget.

A Net Surplus was achieved after accounting for Capital funding and Contributions of non-current assets.

Over the four year period under review Council consistently reported an Underlying Deficit and a negative operating margin.

At 30 June 2013, Total Assets were $740.416m and Net Assets amounted to $715.329m.

Council was at moderate risk from a financial operating and asset management perspective but low financial sustainability risk from net financial liabilities and governance perspectives.

Council engaged consulting engineers to establish a close-out timetable and costs for the Jackson Street Waste Management Centre. The provision for restoration was updated accordingly.

Hobart City Council	30
Council’s underlying result improved from deficits in the past three years to a surplus of $0.651m in the current year.	
Its net result for the year, a deficit of $2.247m, was significantly influenced by the net loss on sale of Property, plant and equipment of $1.396m (mainly Argyle Street Car Park land), the impairment from closure of the asphalt plant, $0.930m, and the transfer of $1.644m in grant funds to another council for upgrading and replacing street lighting with energy efficient lighting.	
At 30 June 2013, Council had Total Assets of $1.004bn and its Net Assets amounted to $949.096m.	
Council was at low financial sustainability risk from asset management, net financial liabilities and governance perspectives and moderate risk from a financial operating perspective.	
Key developments for the year included completion of the $15.000m Argyle Street Car Park redevelopment and entering into a 20 year lease for Trafalgar Car park.	
Launceston City Council	**41**
Despite reporting an Underlying Deficit of $1.037m, Council improved its financial performance this year and performed better than budget.	
Over the period under review, Council budgeted for Underlying Deficits.	
At 30 June 2013, Total Assets were $1.492bn and Net Assets amounted to $1.445bn.	
Council was at moderate financial sustainability risk from a financial operating perspective and low financial sustainability risk from governance, asset management and net financial liabilities perspectives.	
Key developments included continuation of the Invermay Flood Protection Enhancement Project, the possibility of a future charge from TasWater relating to the combined sewerage and stormwater system and a possible future liability under the carbon pricing legislation.	
MEDIUM COUNCILS	**52**
Brighton Council	**53**
Council recorded an Underlying Surplus of $0.597m.	
At 30 June 2013, Net Assets were $191.405m.	
It was at low financial sustainability risk from net financial liabilities, asset management and financial operating perspectives but moderate financial sustainability risk from a governance perspective.	
Brighton Industrial and Housing Corporation, a wholly owned subsidiary, commenced operating in July 2012 and recorded a profit of $0.185m. Commissions paid in relation to land sales amounted to $0.045m.	
Council establishing an audit committee and received $0.850m from the Australian Government to assist with financing the construction of a new medical centre. The project was partly funded by Council.	

Burnie City Council	**66**
Council recorded Underlying Deficits in the past two years and it budgeted for a deficit result in 2012-13.	
At 30 June 2013, Total Assets were $364.793m and Net Assets amounted to $353.783m.	
Its subsidiaries Burnie Airport Corporation Unit Trust and Tas Communications Unit Trust recorded profits of $0.164m and $0.151m respectively.	
Council was at a moderate sustainability risk from financial operating, governance and asset management perspectives but low sustainability risk from a net financial liabilities perspective.	
Key developments included the construction of the Burnie Waste Transfer Station and Resource Recovery Centre, and a major stormwater improvement project.	
Central Coast Council	**80**
Council's Underlying Surplus improved over the four-year period, with Council achieving a close to break-even result in 2012-13.	
At 30 June 2013, Net Assets were $431.714m.	
It was at moderate sustainability risk from governance and financial operating perspectives, but low sustainability risk from net financial liabilities and asset management perspectives.	
Derwent Valley Council	**90**
Council generated an Underlying Surplus of $0.259m in 2012-13. This was slightly better than 2011-12 and continued a trend of improved results over the past four years.	
It reported Net Surpluses in all four years under review.	
At 30 June 2013, Net Assets were $97.101m.	
Council was at a high sustainability risk from a governance perspective, moderate risk from a financial operating perspective but at low risk from net financial liabilities and asset management perspectives.	
Devonport City Council	**100**
While still in deficit, Council recorded a much improved, and almost break-even, Underlying Deficit this year which was in line with budget.	
At 30 June 2013, Total Assets were $473.483m and Net Assets amounted to $447.902m.	
Council was at moderate financial sustainability risk from a financial operating, asset management and governance perspective but low financial sustainability risk from a net financial liabilities perspective.	
Huon Valley Council	**111**
Council's Underlying Surplus decreased to $0.552m in 2012-13.	
Its Net Surplus for the year, $2.172m, was influenced by Capital grants and Infrastructure take-ups. The result was consistent with budget.	

At 30 June 2013, Net Assets were $223.430m.

Council was at moderate sustainability risk from a governance and asset management perspective but low financial sustainability risk from financial operating and net financial liabilities perspectives.

Kingborough Council 120

Council's underlying result improved this year to a deficit of $2.725m.

It has incurred Underlying Deficits in each of the four years under review with the average deficit being $3.193m.

Council recorded a Net Surplus of $0.519m this year, better than the underlying result due to Capital grants received, Contributed assets received and revision to the amount of the Barretta Tip Rehabilitation provision.

At 30 June 2013, Net Assets were $594.574m.

Council was at a high sustainability risk from a financial operating perspective, moderate risk from asset management and governance perspectives but low financial sustainability risk from a net financial liabilities perspective.

Meander Valley Council 132

Council recorded Underlying Surpluses in each of the four years under review with the 2012–13 Underlying Surplus being $0.684m.

At 30 June 2013, Net Assets were $279.011m.

It was at moderate sustainability risk from governance perspective but low financial sustainability risk from financial operating, asset management and net financial liabilities perspectives.

We noted the use of a 100% residual value on unsealed roads the impact of which in 2012–13 was to lower Depreciation expense by approximately $0.188m.

Northern Midlands Council 141

Despite reporting an Underlying Deficit of $0.083m, Council improved its financial performance this year but performed below budget.

At 30 June 2013, Net Assets were $263.659m.

Council was at moderate sustainability risk from governance and financial operating perspectives but low risk from asset management and net financial liabilities perspectives.

Sorell Council 150

Council recorded an Underlying Surplus of $1.027m which was an improvement on the previous year and better than budget.

At 30 June 2013, Net Assets were $216.501m.

It was at low financial sustainability risk from financial operating, net financial liabilities and asset management perspectives and high financial sustainability risk from a governance perspective.

Major developments for the year included:

- Council commenced construction of its new council chambers
- receipt of Commonwealth funding, $0.650m, for the construction of a new doctors surgery
- Council incurred expenditure on the Tasmanian bushfires during the year and receivables at 30 June 2013 increased due to this.

Waratah-Wynyard Council 160

Council recorded Underlying Deficits in three of the four years under review and budgeted for deficit in each of these years.

At 30 June 2013, Net Assets were $176.087m.

Council was at moderate risk from governance, financial operating and asset management perspectives and low sustainability risk from a net financial liabilities perspective.

Council completed a $1.650m redevelopment of Wynyard Wharf which was officially opened on 13 October 2013.

West Coast Council 171

Council recorded an Underlying Surplus of $0.168m. Council had reported an Underlying Surplus in all four years under review.

Council was at a high sustainability risk from a governance perspective but low risk from asset management, financial operating and net financial liabilities perspectives.

West Tamar Council 180

Council consistently recorded Underlying Surpluses over the four-year period of review.

At 30 June 2013, Net Assets were $262.865m.

It was at a moderate sustainability risk from a governance and asset management perspective, but low sustainability risk from financial operating and net financial liabilities perspective.

SMALL COUNCILS 190

Break O' Day Council 191

Council reported an Underlying Deficit of $1.524m, an improvement on the Underlying Deficit in 2011-12 of $3.224m.

At 30 June 2013, Net Assets were $149.713m.

It was at high sustainability risk from a financial operating and governance perspective, moderate risk for asset management and low risk from a net financial liabilities perspective.

Major variations between the 2012-13 and 2011-12 included a reduction in grants of $3.427m, as a result of the 2011-12 including significant one-off amounts relating to flood compensation claims. Similarly, there was a substantial decrease in materials and services expenses of $3.916m in comparison to 2011-12, due to major flood remediation works required in that year.

The organisational restructure implemented in 2012 took effect throughout 2012-13, with significant savings in Employee costs and outsourcing of the operation of waste transfer stations.

Borrowings of $1.300m were taken out during the year to finance major infrastructure works.

Central Highlands Council 202

Council recorded an Underlying Deficit of $1.386m in 2012-13, an improvement on the prior period but worse than budget.

At 30 June 2013, Net Assets were $141.832m.

It was at high financial sustainability risk from a financial operating perspective, moderate risk from governance and asset management perspectives and low risk from a net financial liabilities perspective.

Key developments in the year included a rates remodelling exercise, aimed at ensuring compliance with the amended *Local Government Act 1993*, and approval of long-term asset and financial plans.

Circular Head Council 212

Council recorded an Underlying Deficit of $0.537m in 2012-13.

It reported a Net Surplus of $4.185m and its Comprehensive Surplus was $9.012m.

At 30 June 2013, Net Assets were $156.803m.

Council was at moderate sustainability risk from asset management, financial operating and governance perspectives and at low risk from a net financial liabilities perspective.

Council was in discussion with Waratah-Wynyard Council to renew the resource sharing arrangement which is due to expire in 2013-14.

Major financial impacts included the recognition of $2.760m of stormwater assets and an impairment reversal of $0.697m on its collateralised debt obligations.

Dorset Council 222

Council recorded its first Underlying Deficit since 2007-08 in the current financial year.

At 30 June 2013, Net Assets were $177.713m.

It was at moderate risk from a governance perspective but low financial sustainability risk from a financial operating, asset management and net financial liabilities perspective.

Flinders Council 232

Council recorded an Underlying Deficit of $0.459m which was an improvement on the previous year and better than budget.

At 30 June 2013, Net Assets were $88.847m.

It was at high sustainability risk from a financial operating perspective, low risk from net financial liabilities perspective but moderate risk from asset management and governance perspectives.

George Town Council	**243**
Council's underlying results improved over the period under review, with Underlying Surpluses in both 2011-12 and 2012-13.	
At 30 June 2013, Net Assets were $117.490m.	
It was at moderate sustainability risk from governance and financial operating perspectives and low risk from an asset management and net financial liabilities perspective.	
Key developments this year included Council moving to the capital value methodology for assessing rates and completing the construction of the $1.480m Egg Island Creek Bridge.	
Glamorgan Spring Bay Council	**253**
Council recorded an Underlying deficit for the year of $0.717m.	
At 30 June 2013, Net Assets were $110.272m.	
Although Council submitted financial statements by the due date, they were not complete in all material respects and were returned to Council.	
It was at high risk from a governance perspective, moderate financial sustainability risk from an asset management perspective and low risk from financial operating and net financial liabilities perspectives.	
Council provided administration services for the health and medical Centres in Bicheno and Triabunna from July 2012 costing $0.245m and acquired the Spring Bay child care centre from Spring Bay Childcare Inc.	
New loans of $1.200m were needed to fund the Triabunna Marina development.	
Kentish Council	**265**
Council reported an Underlying Surplus this year and performed slightly better than forecast.	
At 30 June 2013, Net Assets were $98.399m.	
It was at high sustainability risk from a governance perspective, moderate risk from an asset management perspective and low risk from financial operating and net financial liabilities perspectives.	
We were not able to compute an Asset renewal funding ratio as Council's long-term asset management plan did not provide sufficient information on future infrastructure costs.	
King Island Council	**276**
Council reported an Underlying Deficit of $0.524m, which was an improvement on the previous year.	
At 30 June 2013, Net Assets were $69.624m.	
It wrote-off waste disposal assets totalling $0.456m this year.	
Council was at high sustainability risk from a governance perspective, moderate risk from financial operating and asset management perspectives, but low risk from a net financial liabilities perspective.	

During the year, Council approved two new golf course developments which resulted in higher revenue from planning application fees.	
Latrobe Council	**286**
In 2012-13, Council recorded an Underlying Surplus of $0.851m.	
At 30 June 2013, Net Assets were $164.576m.	
Council was at moderate risk from governance and asset management perspectives but low financial sustainability risk from financial operating and net financial liabilities perspectives.	
It failed to comply with the requirement of Section 17(1) of the *Audit Act 2008* by submitting its financial statements six days late.	
Southern Midlands Council	**296**
Council recorded an Underlying Deficit of $0.553m, the fourth consecutive year of underlying deficits.	
At 30 June 2013, Net Assets were $101.193m.	
It was at a high sustainability risk from a financial operating perspective, moderate risk from asset management and governance perspectives, but low sustainability risk from a net financial liabilities perspective.	
Tasman Council	**306**
Council generated an Underlying Surplus of $0.513m.	
At 30 June 2013, Net Assets were $47.132m.	
While performing a stocktake, Council discovered assets to the value of $0.539m that were no longer held by it resulting in these assets being written-off.	
It was at moderate financial sustainability risk from governance and asset management perspectives and low risk from operating and net financial liabilities perspectives.	
A major development in 2013 was the Tasmanian bushfire natural disaster which occurred in January 2013. Council incurred additional costs in relation to this but was reimbursed by the Red Cross and through the Tasmanian Disaster Relief and Recovery Arrangements. This impacted on Total Revenue and Total Expenses but the net financial impact was minimal.	

INTRODUCTION

This Report deals with the outcomes from completed financial statement audits of Local Government Authorities reporting for the financial year ended 30 June 2013.

The Report also contains the outcomes from completed financial statement audits of five Local Government Joint Authorities for the financial year ended 30 June 2013.

In addition, Chapters on areas of audit attention, financial sustainability and comparative analysis covering all councils are included.

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

All councils were given the opportunity to provide us with comments, for inclusion in their respective Chapters, on our 'Conclusions as to financial sustainability'. Their comments have been included where received. Comments provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rest solely with those who provided the response or comment.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 26 November 2013.

In addition to this Introduction, this Report includes:

- Part I:
    - Key Points
    - Areas of Audit Attention
    - Local Government Financial Sustainability
    - Local Government Comparative Analysis
    - Local Government Joint Authorities
- Part II:
    - Local Government Councils categorised as:
        - major councils
        - medium councils
        - small councils.

We changed the format and contents of chapters this year to shorten the commentary and provide a high level summary of key information.

The revised Report differs in the following main respects:

- snapshot summary of key points at the beginning of each Chapter
- concise outline of key developments and audit findings
- key areas of audit attention and how we addressed those areas during the audit
- greater use of charts to display information previously presented in textual format
- financial statements and analysis tables moved into Chapter Appendices.

Individual chapters were structured as follows:

- a snapshot of the entity
- introduction* or subsidiary entities (where applicable)
- key areas of audit attention
- audit of the 2012-13 statements
- key findings
- key developments
- assessment of financial sustainability
- analysis of financial performance, concentrating on underlying result and underlying budget
- analysis of financial position reviewing total assets and net assets
- appendices covering the statements of comprehensive income, financial position, cash flows and key financial ratios*.

*An introduction was used only for Local Government Joint Authorities.

PRESENTATION OF FINANCIAL INFORMATION - COUNCILS

The review and analysis of the financial statements of councils covers the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and Financial Analysis. Our review of the financial statements usually covers four financial periods, which represents council operations after the transfer of responsibilities for water and sewerage activities.

The financial analysis section of each Chapter also includes an examination of four years of data.

We also note our decision to re-format the Comprehensive Income Statements by including:

- interest revenue and finance costs as part of Total Revenue and Total Expenses respectively.

This year we also reported an Underlying Surplus (Deficit) rather than Net Operating Surplus (Deficit).

In our analysis of financial performance we have, if necessary, reallocated certain revenue or expenditure items to better assist readers to interpret financial performance. We use the term 'Underlying Surplus (Deficit)' throughout the Report. We define 'underlying' as from continuing operations, excluding:

- non-operational capital funding
- revenue and expenses which are outside the normal course of operations, for example the cost of restructuring or significant gains or losses on sale or transfer of assets
- non-recurring items which are part of recurrent activities but unusual due to their size and nature.

As in previous years, we have disclosed Financial Assistance Grants based on the actual allocation for each financial year, not on a cash receipt basis. The offsets of grants in advance have been included below the Underlying Surplus (Deficit) in the Statement of Comprehensive Income.

FINANCIAL SUSTAINABILITY RATIOS

The ratios applied in assessing the financial sustainability of councils have remained unchanged from our 2012 Report. While not a ratio, we have continued assessing applicable governance arrangements and criteria to assess financial sustainability. Details of the ratios, governance arrangements considered and criteria are outlined in the Chapter headed 'Local Government Financial Sustainability'.

NORTHERN TASMANIAN REGIONAL DEVELOPMENT BOARD LTD

The previous report contained an individual Chapter on the Northern Tasmanian Regional Development Board Ltd. This year, this Chapter has been omitted as further inquiry concluded the company was not a State entity. However, an audit was still conducted, but on an arrangements basis.

AREAS OF AUDIT ATTENTION

INTRODUCTION

When planning council audits we consider a number of matters including:

- items reported by us in prior years
- matters that affect council operations from an industry and business perspective, or from operational developments within each council.

These and other factors influence audit plans and identification of areas for particular audit attention. In almost all cases, there are common areas requiring audit attention and these are noted in this Chapter.

Areas of particular audit attention relating to specific councils are addressed in individual Chapters and are not repeated here.

The following table summarises those common areas of audit attention and the associated impact on our audit approach.

COMMON AREAS OF AUDIT ATTENTION

Description of Area	Impact on Our Audit Approach
Property, plant and equipment include material long-life infrastructure assets recorded at fair value. Revaluations require estimations, judgments and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested: • valuation reports, calculations and underlying assumptions supporting fair values of assets • the qualifications of those persons conducting valuations to ensure appropriate independent expertise and assessed the extent to which management reviewed and challenged their work • reconciliation of asset registers to general ledgers. This included audit of additions and disposals to ensure completeness and accuracy.
Useful lives of assets and consequent depreciation policies can have a significant impact upon annual financial results.	Depreciation rates and useful lives of assets were reviewed to ensure that depreciation calculations were accurately recorded within both the asset register and general ledger and that depreciation policies were standards compliant.

Description of Area	Impact on Our Audit Approach
Councils have significant capital works and maintenance expenditure programs.	We: • undertook audit procedures aimed at ensuring capital and maintenance expenditure was appropriately accounted for and disclosed • reviewed tender and contract policies and tested procedures in place at councils for compliance with the *Local Government Act 1993*.
Councils hold significant balances in term deposits. Cash and cash equivalents by nature are liquid assets and are highly susceptible to fraud.	We: • tested placement of investments and obtained confirmations at year end • performed audit procedures over completeness of cash to ensure that all deposits were brought to account.
Councils' major revenue is derived from rates and related charges which are calculated on individual properties.	We: • substantiated rates by reconciling councils' rateable and non-rateable Assessed Annual Value (AAV) to the Valuer-General's AAV total and recalculated these and other charges • assessed forecast rate increases as part of analytical review procedures over rates and charges for the period, incorporating all changes from the prior period into our expectations.
Councils have a wide range of revenue streams that make up their user charges revenue. This can include several locations where cash receipts are handled.	We documented and assessed controls over various cash receipting locations on a rotating basis (where applicable). Key revenue and receipting controls over revenue transactions throughout the period where tested for compliance in accordance with our controls testing plan.
Councils receive significant funds from the Australian Government, through the State Grants Commission, in the form of Financial Assistance Grants. Such grants are provided for general purpose use and for the provision of local roads.	Audit confirmed such balances via external confirmations, obtained from the Department of Treasury and Finance, and agreed these balances to the financial statements.

Description of Area	Impact on Our Audit Approach
Various staff within councils are able to place orders for goods and services under various delegation limits and centralised payment processing systems. These arrangements require effective internal controls including separation between ordering and approval processes.	Audit testing included: • detailed analytical procedures performed over expenditure accounts against prior year and budget • understanding key controls over payment and expenditure transactions and subjecting these to audit tests throughout the period.
Councils employ a large number of employees, on differing rates of pay, and employee expenses is a significant expenditure item. A number of employees complete timesheets which increases the complexity of the payroll process.	Audit testing included: • detailed analytical procedures performed over wages and salary accounts, based upon average full time equivalent employees numbers • verifying that key controls over payroll transactions operated with throughout the period.
Annual leave and long service leave (LSL) balances are material in most councils. Calculations of LSL liabilities are based on a number of assumptions and, where applicable, discounting is applied.	Employee provisions calculations were tested for accuracy and reasonableness. We also tested the allocation between current and non-current liabilities.
Councils process a number of journal entries within their finance systems to manage transactions, adjust account balances or correct misallocations.	Audit tested a sample of general journals posted throughout the year, and at year end to ensure that these journals represented valid transactions and were supported by adequate documentation.

LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY

SNAPSHOT

- Fifteen of the 29 councils, over the seven year period of review, had an average Operating surplus ratio below benchmark, which is too high.
- While there was an improvement in the average Asset sustainability ratio over the period under review, at a total councils level, in general, councils under-invested capital expenditure on existing assets.
- Twenty two councils had developed long-term asset management and financial management plans, an improvement on the previous year.
- There was improvement in the level of service potential available in Council's road infrastructure assets. At 30 June 2013, no council was at high risk with road assets having sufficient capacity to provide services to rate payers.
- All councils were in a position where they were able to service their current commitments, had manageable debt levels and capacity to borrow should the need arise.
- Councils in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from financial operating and asset management perspectives but low risk from a net financial liabilities perspective.

INTRODUCTION

In Report of the Auditor-General No 1 issued in June 2010, we included, for the first time, an analysis of the financial sustainability of councils by applying five selected financial ratios assessed over a four year period. Similar analysis has been completed since then with this Report, where relevant, covering a seven year period.

The ratios analyse councils' operating results, asset management practices and net financial liabilities (liquidity) over the seven year period to 30 June 2013. However, the Asset renewal funding ratio was only calculated based on long-term financial and asset management plans, where available, since
30 June 2012.

Our assessment of financial sustainability included reviewing aspects of governance arrangements in councils. We examined whether each council had an audit (or similar) committee, and if so, the committee's charter, internal audit arrangements if any, and long-term financial and asset management plans. However, these governance arrangements have not been subjected to audit.

Our assessments in this Volume are necessarily high level, with further detail provided in individual Chapters for each council.

INDICATORS OF FINANCIAL SUSTAINABILITY

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

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

These ratios also facilitate comparative assessment between councils and can be used to assess both short-term and long-term financial sustainability. The various ratios and observations reported below are only indicators of performance or of financial position. They should not be considered in isolation. We note also that other financial sustainability ratios exist which may have relevance but which are not included.

Despite these cautions, taken together these ratios can indicate low, moderate or high financial sustainability risk. The indicators used in this Report are:

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

In assessing financial sustainability we have considered these ratios in three groups:

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

Governance arrangements were assessed separately although long-term asset and financial management plans were also assessed as part of asset management.

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

Indicator	Formula	Bench Mark	Description
Operating surplus ratio (Underlying result ratio)	Net operating surplus / Total operating revenue	Greater than 0 – break even operating result	A positive result indicates a surplus, the larger the surplus the stronger the result and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long term. Net result and underlying revenue are obtained from the Comprehensive Income Statement and are adjusted for one-off material items, asset disposal and fair value adjustments, amounts received specifically for new or upgraded assets, physical resources received free of change (such as developer contributions, operating results from discontinued operations and operating grants received in advance (such as Financial Assistance Grants), financial assistance grants received in the wrong financial period, developer contributions and any other material one-off (non-recurring) items of revenue or expenditure.
Asset sustainability ratio	Renewal and upgrade expenditure on existing assets / Depreciation on existing assets	At least 100%	Comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with Depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. Expenditure included on the numerator must be expenditure that was 'capitalised', not expensed, on assets that will require future maintenance and depreciation . This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.

Indicator	Formula	Bench Mark	Description
Asset renewal funding ratio	Future (planned) asset replacement expenditure ——— Future asset replacement expenditure (actual) required	At least 90%	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial (or separate asset) management plans. Where these may exist, unless they have been independently assured, they will not be used (however, we subsequently decided to accept plans as provided).
Asset consumption ratio – roads	Depreciated replacement cost ——— Current replacement cost	>60%	Shows the depreciated replacement cost of an entity's depreciable assets relative to their 'as new' (replacement) value. It therefore shows the average proportion of new condition left in assets. Depending on the nature of the entity's assets, this ratio could be calculated in total and by asset class, for example roads, bridges and stormwater assets.
Net financial liabilities ratio	Liquid assets less Total liabilities ——— Total operating revenue	Net financial liabilities between zero to negative 50% of operating income. Positive ratio indicates liquid assets in excess of total liabilities.	The significance of net amount owed compared with the period's income. Indicates the extent to which net financial liabilities could be met by operating income. Where the value is falling over time, it indicates that the entity's capacity to meet its financial obligations from operating income is strengthening. Reasons for an increase in the net financial liabilities ratio will sometimes also result in an entity incurring higher net operating costs (e.g. from additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the entity's overall operating result. A Council with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through the acquisition of additional assets without detracting from its financial sustainability.

On the following pages we apply these ratios to the consolidated financial position of the 29 councils included in this Report, over a seven-year period and then comparatively averaging the performance of all councils. With the exception of the Asset renewal funding ratio, all data used in calculating the ratios and preparing the various graphs were sourced from audited council financial statements. Also, within the graphs, where relevant, a red line represents the actual ratio each year and a black line the benchmark for the period under review. Where we were able to assess the Asset renewal funding ratio, this was based on long-term asset and financial management plans provided but not audited.

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

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

	Low	**Moderate**	**High**
Financial sustainability operating perspective	Average operating surplus over the past four year > 0	Average operating deficits between 0% and negative 10% of operating revenue over the past four years	Average operating deficits >10% of operating revenue over the past four years
Financial sustainability asset management perspective	Asset sustainability ratio >100% and average road consumption ratio > 60%	Either Asset sustainability ratio between 50% and 100% or average road consumption ratio > 40%	Asset sustainability ratio < 50% and average road consumption ratio < 40%
Financial sustainability net financial liabilities perspective	Net financial liabilities ratio > than negative 50%	Net financial liabilities ratio between (50%) and (100%)	Net financial liabilities ratio > (100%)
Financial sustainability governance perspective*	Audit Committee with an active internal audit function and both long term asset and financial management plans.	Audit committee or finance committee with no internal audit function and both long term asset and financial management plans.	No audit committee or either a long term asset management plan or financial management plan, or no plans at all.

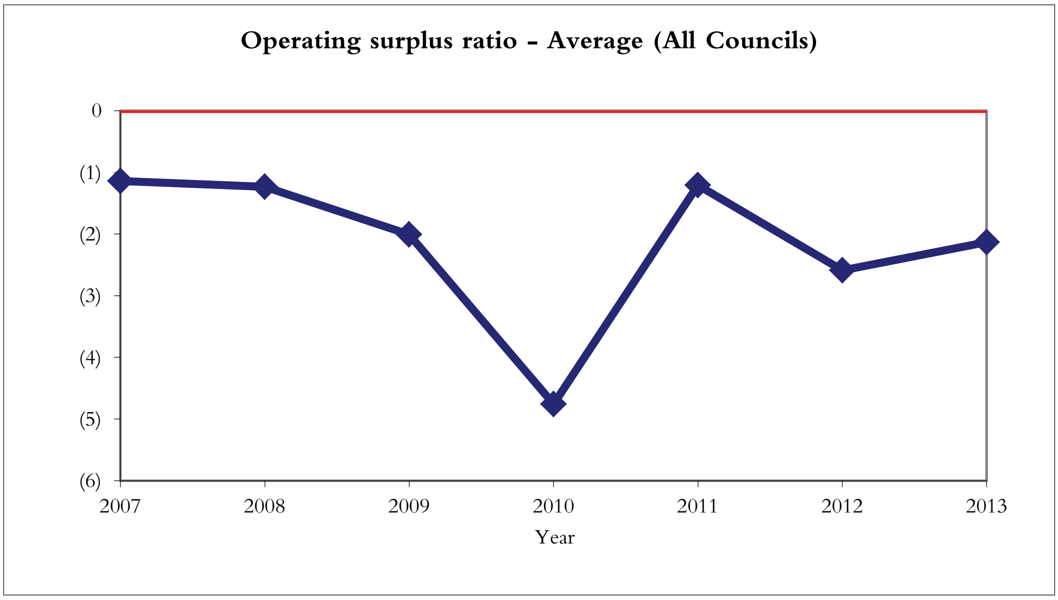
* Weighting is placed on Audit Committees and that have an active internal audit functions as the long-term plans are not subject to audit and relate to future periods, these plans have been given less weighting in our assessment of governance.

FINANCIAL SUSTAINABILITY TRENDS

Operating Surplus Ratio

This ratio serves as an overall measure of financial operating effectiveness. To assure long-term financial sustainability, councils should, at a minimum, budget and operate to break-even thereby avoiding operating (also referred to as 'Underlying') Deficits. Doing so would enable councils to generate sufficient revenue to fulfil their operating requirements including coverage of their depreciation charges. Breaking even is represented by an operating surplus ratio of zero or greater.

Figure 1 Seven-year Operating Surplus Ratio



The average Operating surplus ratio was below the benchmark of zero in all seven years under review. The ratio declined to minus 5.0 in 2009-10 with this fall likely, in the main, to have been due to the water and sewerage reforms which were effective from 1 July 2009. A number of councils required priority dividends to overcome lost operating income.

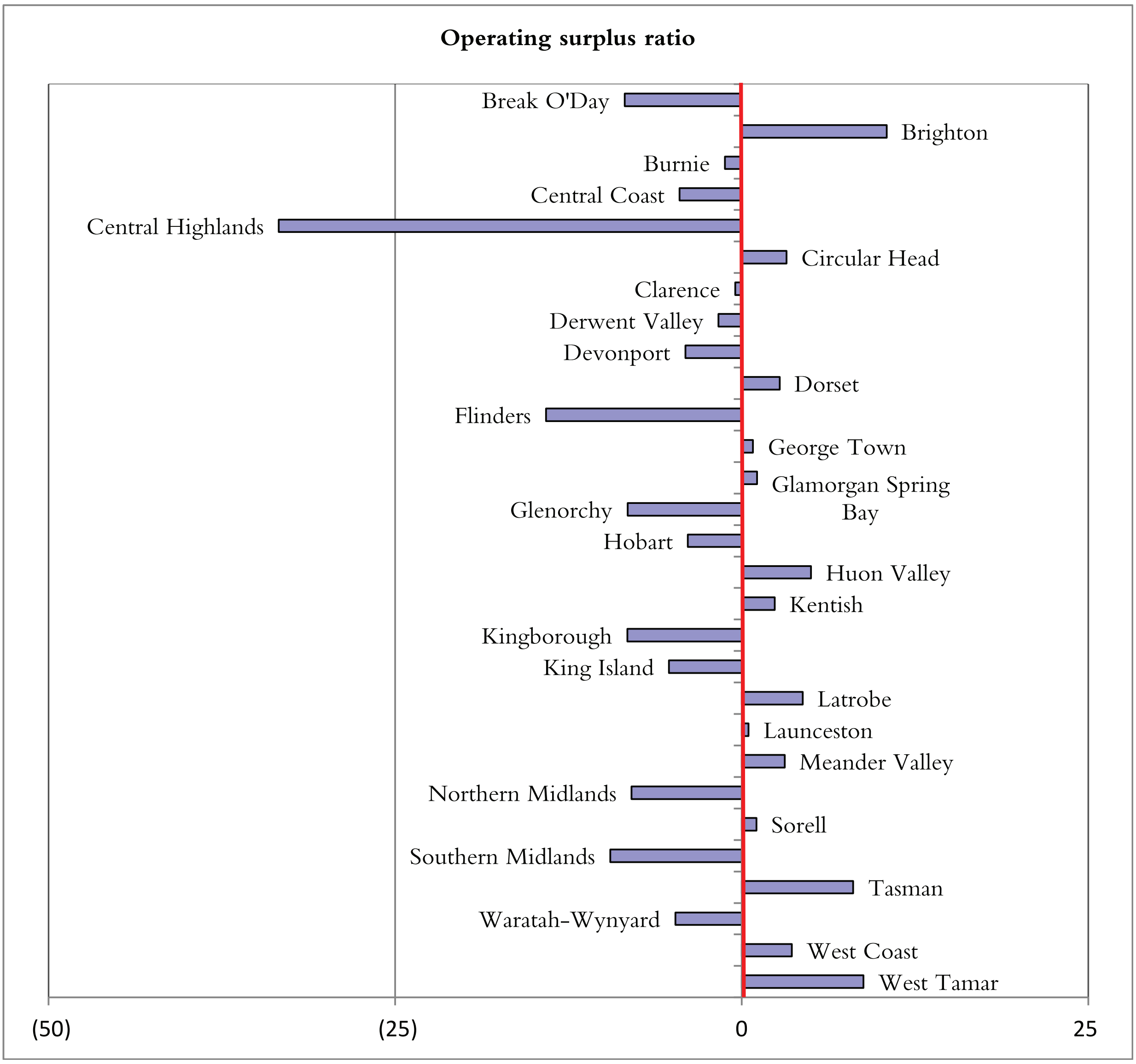
There was a significant improvement in 2010-11, with a ratio of minus 1.2. However, the average declined to minus 2.2 in 2011-12, improved slightly this year but was still negative.

The 29 councils generated a combined net underlying deficit of $7.547m, with 16 councils generating net operating deficits totalling $15.871m.

The following table shows all councils that generated net underlying deficits in 2012-13 along with respective operating surplus ratios.

	Underlying Deficit 2012-13	Operating Surplus Ratio 2012-13
	$'000s	%
Glenorchy	(2 634)	(4.7)
Launceston	(1 037)	(1.2)
Burnie	(1 160)	(3.1)
Central Coast	(231)	(1.0)
Devonport	(47)	(0.1)
Kingborough	(2 725)	(8.5)
Northern Midlands	(83)	(0.6)
Waratah-Wynyard	(1 990)	(13.3)
Break O'Day	(1 524)	(14.0)
Central Highlands	(1 386)	(22.8)
Circular Head	(537)	(4.1)
Dorset	(264)	(2.2)
Flinders	(459)	(10.3)
Glamorgan Spring Bay	(717)	(6.8)
King Island	(524)	(7.6)
Southern Midlands	(553)	(6.4)
TOTAL	**(15 871)**	

Figure 2 Seven-year Average Operating Surplus Ratio by Council



The figure shows that 15 of the 29 councils, on average over the seven-year period, operated below benchmark. Of the 29 councils, 16 (2011-12, 15) recorded operating deficits, and therefore a negative Operating surplus ratio, in 2012-13.

Conclusion based on assessment of the Operating surplus ratio

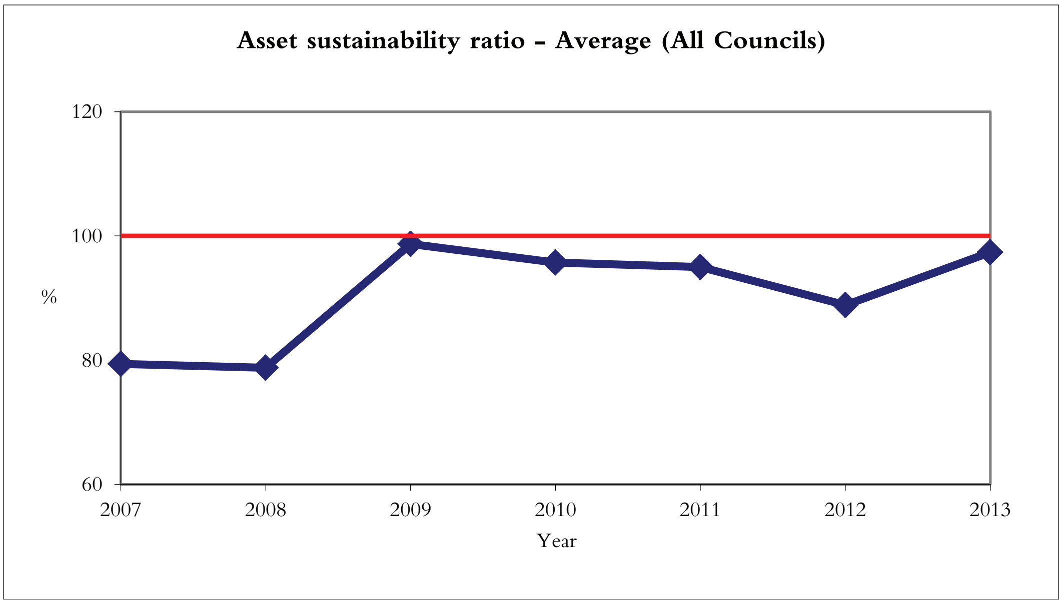
Fifteen councils with an average operating surplus below benchmark is too high. We recommend all councils develop plans with the objective of achieving positive Operating surplus ratios.

This conclusion is not new. In 2011-12, we noted that 15 of the 29 councils, on average over a six-year period, operated below benchmark indicating that there was no improvement in 2013.

Asset Sustainability Ratio

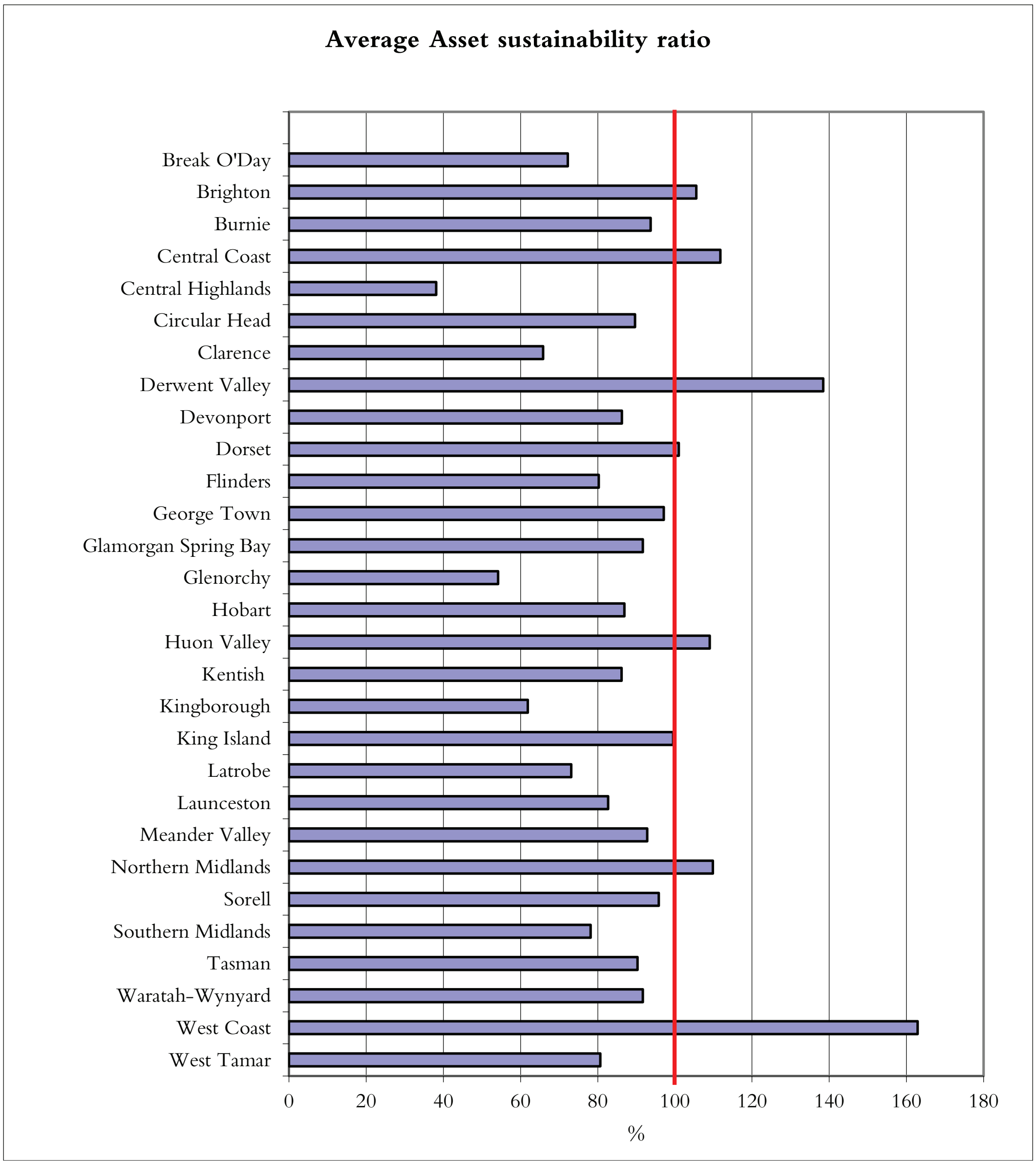
This ratio calculates the extent to which councils are maintaining operating capacity through renewal of their existing asset base. The generally accepted benchmark for this ratio, subject to levels of maintenance expenditure and the existence of long-term asset management plans, is 100%. The benchmark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

Figure 3 Average Asset Sustainability Ratio



Councils expended, on average, the equivalent of 90% of their depreciation expense on maintaining their existing non-current assets. The average annual ratio improved from 79% in 2007 to 97% in 2013 and indicates that, taken as a whole, councils improved their investment in existing assets at a level near to Depreciation charges.

Figure 4 Seven-year Average Asset Sustainability Ratio by Council



In most cases councils failed to meet the benchmark, with only eight (2011-12, six) having an Asset sustainability ratio equal to or above 100% over the seven-year period. However, a further eight (seven) councils averaged above 90% and only two were below 60%.

Conclusion based on assessment of the asset sustainability ratio

While there was an improvement in the average ratio over the period under review at a total councils level, in general, councils under-invested capital expenditure on existing assets.

Asset Renewal Funding Ratio

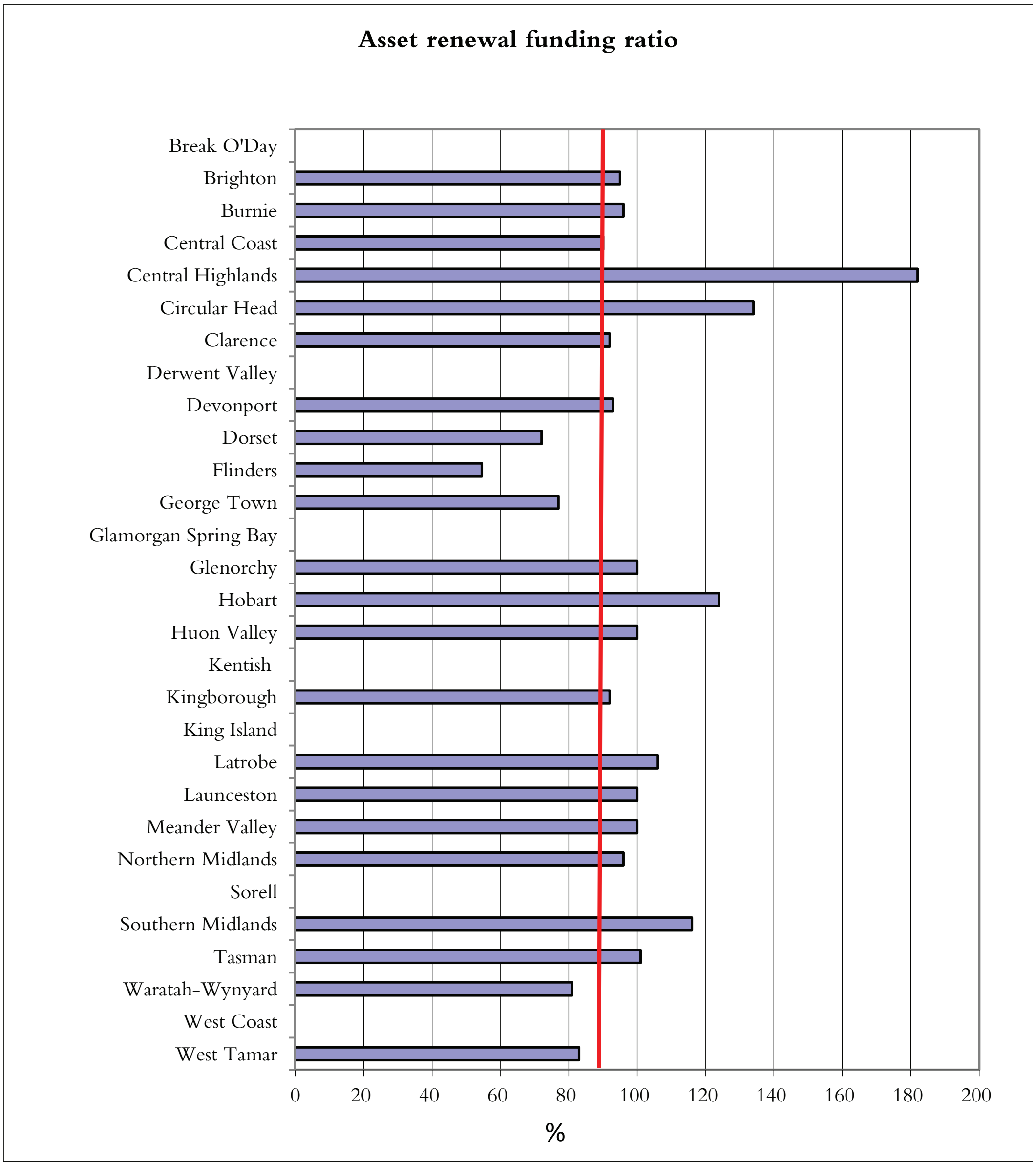
This ratio measures councils' capacity to fund future asset replacement requirements. An inability to fund future requirements will result in revenue, expenditure or debt consequences, or a reduction in service levels.

The measure relies on the existence of long-term financial and long-term asset management plans. The ratio measures planned asset replacement requirements against planned asset replacement expenditure. To maintain operating capacity, we would expect a council to fund not less than 90%

of its planned asset requirements. Identification of shortfalls enables councils to develop strategies to address future asset replacement requirements in full.

Figure 5 below shows the Asset renewal funding ratio for those councils that had long-term financial and asset management plans. The ratio is calculated at 30 June 2013 on estimated required and planned capital expenditure. The periods covered by financial and asset management plans varied with some extending to up to 20 years. Where there is no blue line, this represents no asset management or financial plans making it difficult to calculate the Asset renewal funding ratio.

Figure 5 Asset Renewal Funding Ratio by Council



The majority of councils that produced long-term financial and asset management plans had detailed projections of required future capital expenditure. In most cases councils indicated their intention to fully fund the required work. The ratio, at a minimum, was calculated on road infrastructure assets by each council, but in a number of cases included other infrastructure assets.

Seventeen (12 in 2012) of the 29 Councils demonstrated ratios equal to or better than our 90% benchmark with one (two in 2012) less than 60% and seven (11 in 2012) having no final approved plans.

Conclusion based on assessment of the asset renewal funding ratio

Twenty two councils had developed approved asset management and financial management plans, an improvement on the 18 in 2012, and 17 equalled or bettered this benchmark. Overall, the situation regarding long-term financial and asset planning had improved.

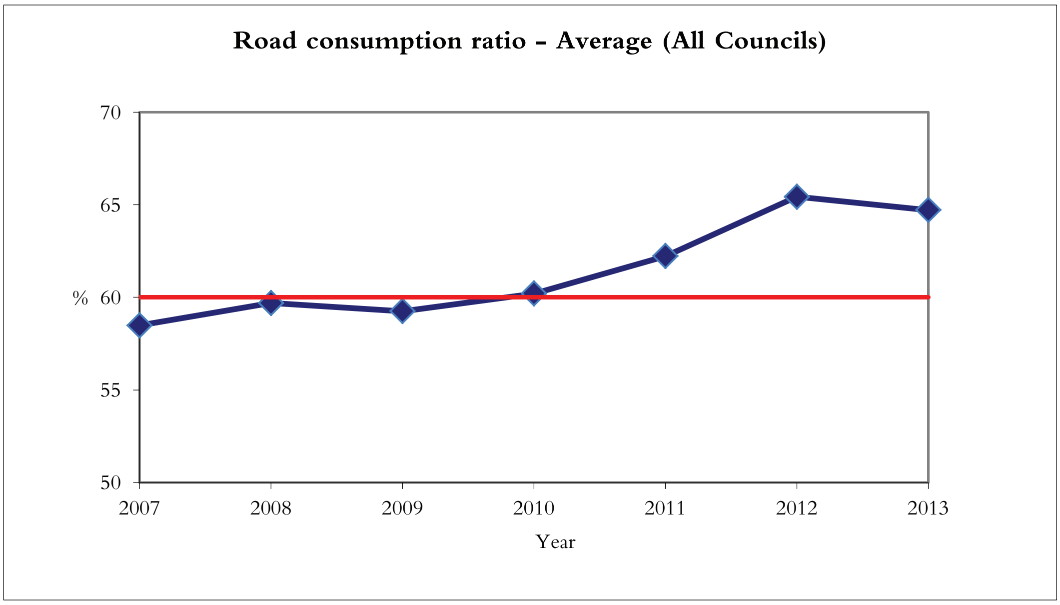
Road Consumption Ratio

Our review of asset consumption was based only on road infrastructure primarily due to road infrastructure assets representing 47.6%, or $3.135bn, of total infrastructure assets held by the 29 councils of $6.578bn.

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

Figure 6 below shows the road asset consumption ratio on a consolidated basis for the 29 councils in each of the past seven years. Ratios above 60% represent low financial sustainability risk and less than 40% high financial sustainability risk.

Figure 6 Average Road Consumption Ratio



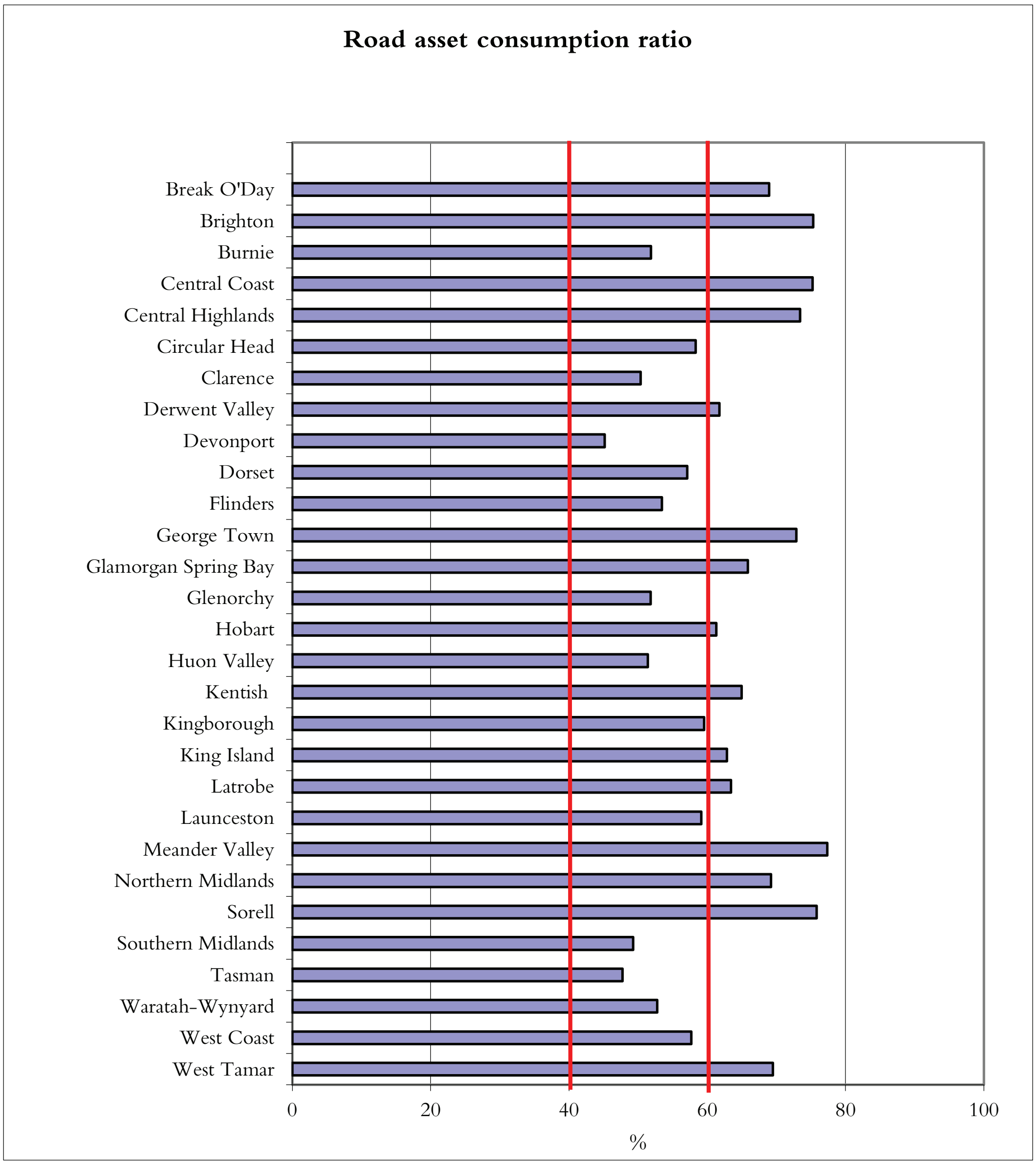
The figure indicates relatively low levels of consumption of council road assets with improvement over the period. The road consumption ratio improved from 58% in 2007 to 65% in 2013, with all councils within a low or moderate asset sustainability risk. A number of reasons contributed to the improvement including:

- higher capital expenditure on road assets
- councils, as part of regular revaluations, reviewing and extending the useful lives of road asset components and, in some cases, introducing residual values
- greater use of financial and asset management plans.

Also relevant is increasing involvement of council engineers in asset valuations processes.

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

Figure 7 Seven-year Average Road Consumption Ratio by Council



Fifteen (12 in 2012) of the 29 councils, on average over the seven-year period to 30 June 2013, had low asset management risk with the remaining 14 (17) at moderate risk.

Conclusion based on assessment of the Asset consumption ratio

There has been improvement in the level of consumption of road infrastructure assets. At 30 June 2013, no council was below our high risk benchmark of 40%.

Net Financial Liabilities Ratio

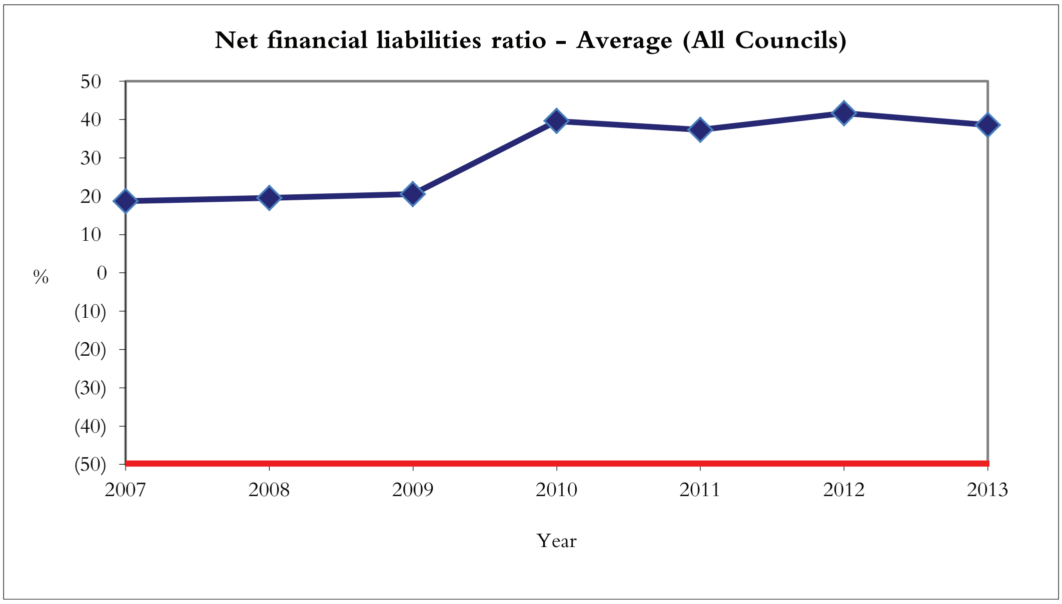
This ratio indicates the net financial obligations of councils compared to their operating income in any one year; specifically, the extent to which net financial liabilities (total liabilities less liquid assets) could be met by operating income.

Where the ratio is positive, it indicates a council's liquid assets exceeded its Total Liabilities and that, therefore, at least in the short-term, additional operating income is not needed to service current obligations.

Conversely, a negative ratio indicates an excess of Total Liabilities over liquid assets meaning that, if all liabilities fell due at once, additional operating revenue would be needed to fund the shortfall in liquid assets.

Our benchmark is a ratio of between 0% and minus 50%, with a council having net liabilities at minus 50%, or less of one year's operating revenue, being considered low risk.

Figure 8 Average Net Financial Liabilities Ratio



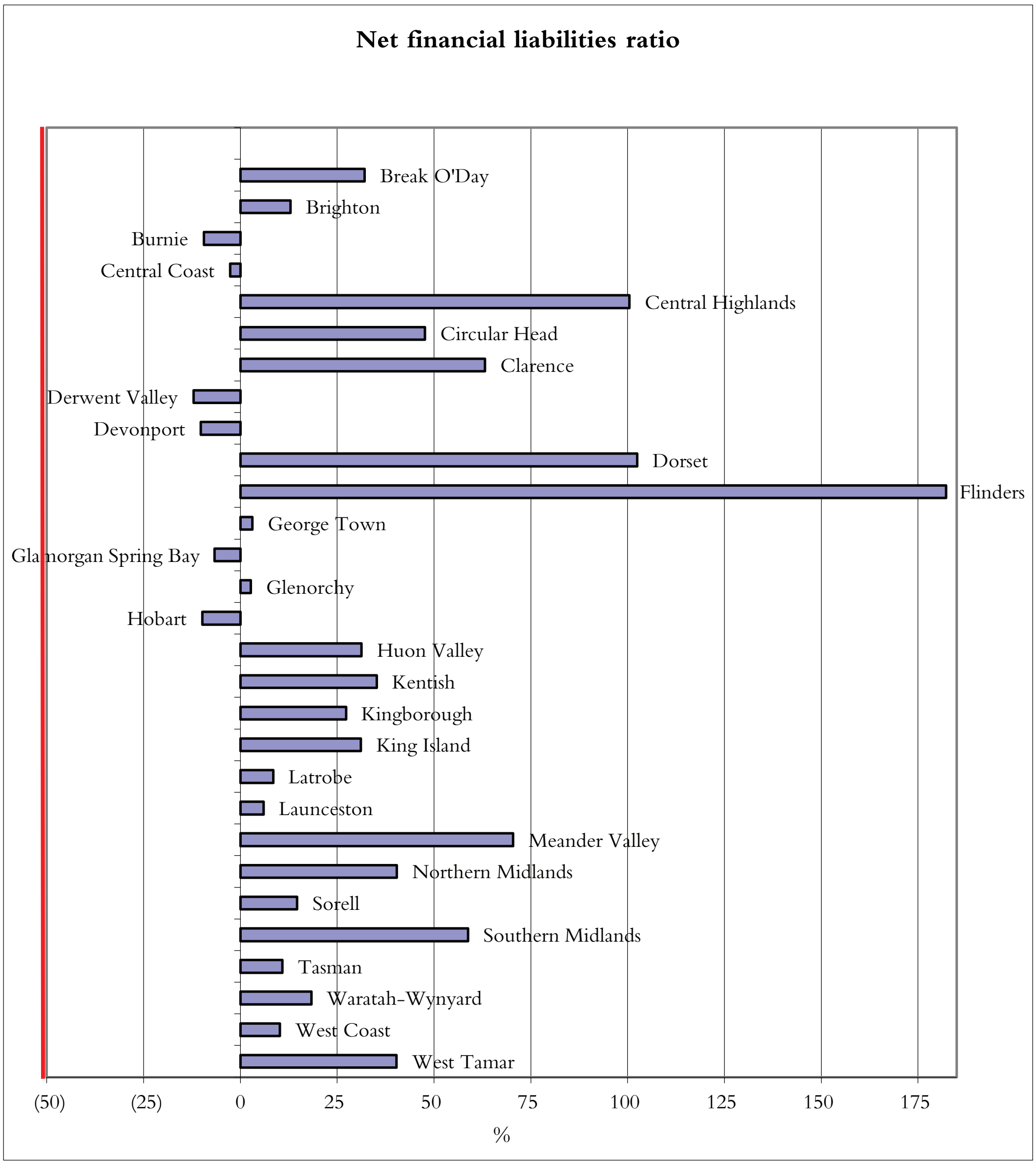
The average Net financial liabilities ratio was positive each year. This was because, on a consolidated basis, total liquid assets exceeded Total Liabilities. At 30 June 2013, the 29 councils had current liabilities of $134.811m and non-current liabilities of $131.344m, which included Borrowings of $85.598m. However, Cash and other current liquid assets totalled $427.180m, which was $161.025m greater than Total Liabilities. Operating revenue generated during 2012-13 totalled $680.175m.

The ratio improved in 2009-10 when many councils transferred borrowings to the water and sewerage corporations.

The ratio is calculated without reference to commitments councils may have entered into or the need to fund programs from funds already received, such as unexpended Capital grants. Bearing this in mind, this ratio indicates that:

- Collectively, councils are holding liquid assets, primarily cash balances, well beyond their day-to-day requirements. This results in strong investment incomes.
- Generally, asset renewal, replacement, or investments in new assets, are being funded from current rates, existing cash holdings or capital grants with limited use of borrowings.

Figure 9 Seven-year Average Net Financial Liabilities by Council



Based on our benchmark of between 0% and minus 50%, all councils were in a strong liquidity position. The figure indicates that a number of councils were holding high liquid assets relative to their liabilities.

Conclusion based on assessment of Net financial liabilities ratio

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

Governance

Our review specifically concentrated on whether each council had:

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

Where there was an audit or equivalent committee, we also established whether or not internal audit arrangements existed.

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

The table following summarises the results of our review.

	Audit Committee	Long-term Asset Management Plan	Long-term Financial Management Plan
Break O'Day	N	N	Y
Brighton	Y	Y	Y
Burnie	Y	Y	Y
Central Coast	N	Y	Y
Central Highlands	Y	Y	Y
Circular Head	Y	Y	Y
Clarence	Y	Y	Y
Derwent Valley	N	N	N
Devonport	Y	Y	Y
Dorset	N	Y	Y
Flinders	Y	Y	Y
George Town	N	Y	Y
Glamorgan Spring Bay	N	N	N
Glenorchy	Y	Y	Y
Hobart	Y	Y	Y
Huon Valley	N*	Y	Y
Kentish Council	N	N	Y
Kingborough	Y	Y	Y
King Island Council	N	N	N
Latrobe	N	Y	Y
Launceston	Y	Y	Y
Meander Valley	N	Y	Y
Northern Midlands	N	Y	Y
Sorell	N**	N	Y
Southern Midlands	Y	Y	Y
Tasman	N	Y	Y
Waratah-Wynyard	N	Y	Y
West Coast	N	N	N
West Tamar	N***	Y	Y

* *Financial and Risk Management Committee*

** *Risk and Ethics Committee*

*** *Finance and Economic Development Unit*

Based on our review 12 (8 in 2012) councils had audit committees, with four (two) new committees established during 2012-13. Of those that did not, we noted a number had finance committees that undertook some roles of an audit committee. Twenty two councils (18) had long-term asset management plans and 25 (20) had long-term financial management plans.

Overall, governance performance is improving.

Conclusions as to governance arrangements

Overall, while not enough councils had audit committees or long-term asset and financial management plans in place, changes were encouraging.

OVERALL FINANCIAL SUSTAINABILITY ASSESSMENT

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, assessed on average performance over the past seven years, councils in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from financial operating and asset management perspectives but low risk from a net financial liabilities perspective.

While there has been some improvement since 2011-12, a number of councils need to address continued operating deficits, introduction of audit committees and further development of long-term asset and financial management plans.

As mentioned in previous Reports, councils are generally under-investing in existing assets with only eight out of 29 councils investing in existing assets, on average over a seven-year period, in excess of their annual depreciation charge.

Road asset consumption ratios improved over the seven year period. Overall, on a total road asset basis, the 29 councils' road assets had sufficient capacity to continue to provide services to ratepayers.

Individual assessments are included in each council's Chapter.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS

Comparative analysis covering financial and other information for Tasmania's 29 councils has been compiled with results provided in four attachments to this Chapter. The information provided is for the financial year ended 30 June 2013. The attachments are presented with councils grouped as either major city; other urban and large rural; or other smaller rural.

This is the eighth year that this analysis has been included in this Report. While only one year's data is provided, where relevant, comparative totals for 2011-12 are included.

The attachments are:

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

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

When considering the various ratios and observations reported in this Chapter, it needs to be borne in mind that they are only indicators of performance or of financial position. The various ratios should not be considered in isolation. However, taken together, various ratios can indicate good or poor financial condition or performance. It is also important to review these ratios over time with the analysis in this Chapter only considering performance for the single 2012-13 financial year.

Demographics (note most recent data available is for 2011-12)

Comments here are made by reference to Attachment 1.

The Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth, increased by 2 763, 0.54%, from 2010-11 to 2011-12. Across the State, populations of each municipal area vary considerably, ranging from 802 (2010-11, 804) in Flinders to 67 146 (67 190) in Launceston. The major cities' populations represented 42.00% or 215 951 (42.90%, 215 878) of the total population, but only covered 2.92% or 1 986 sq. kms of the State's area in square kilometres. Conversely, the 13 smaller rural councils' combined populations represented 13.30%, 68 386 (13.34%, 68 171) of the total population, but covered 59.7% or 40 480 sq. kms of the State's area in square kilometres.

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

Employee Costs

Comments here are made by reference to Attachment 2, which summarises Employee costs, Employee entitlements and Full Time Equivalents (FTEs) for the 29 councils.

The 29 councils in the table employed 3 417 (2011-12, 3 365) FTEs at 30 June 2013 and incurred Employee costs of $259.074m ($252.224m) for the financial year. Average employee costs per FTE varied from a high of $81 000 per FTE at Circular Head and George Town Councils to a low of $57 000 per FTE at Tasman Council with the average being $72 000.

Councils' FTEs per 1 000 head of population also varied with smaller rural councils having lower population bases and higher ratios. Flinders Council had a ratio of 28.7 FTEs per 1 000 head of population due to its small population. The average for the 29 councils was 8.3 FTE per 1 000 head of population.

At 30 June 2013, the amount of annual, long service and some sick leave accrued by the 29 councils for their employees totalled $60.317m (2011-12, $57.215m). On a per FTE basis this equated to $16 680 with variations between councils ranging from $7 526 per FTE at Tasman to $34 569 at Derwent Valley.

Statement of Comprehensive Income

Comments here are made by reference to Attachment 3.

The combined net Surplus for the 29 councils was $25.002m, a decrease of 76.4 % from 2011-12, $106.028m and included:

- $32.939m (2011-12, $72.616m) in Capital grant funding
- $34.780m ($34.772m) in contributed assets, mainly through subdivisions
- negative $0.116m (positive $18.456m) net Financial Assistance Grants which related to 50% funding received in June 2013 for 2013-14, adjusted for 50% funding received in June 2012 for the 2012-13 financial period
- $6.354m ($0.339m) in other non-operating revenue, offset by
- $42.105m ($5.491m) in non-operating expenditure which included a derecognition of assets of $35.336m by Clarence City Council.

However, on an 'underlying' basis, for the year ended 30 June 2013 councils recorded combined Underlying Deficits of $7.547m ($13.419m Underlying Deficit). Sixteen councils recorded a net Underlying Deficit for the 2012-13 financial year with results varying from an Underlying Surplus of $1.732m at West Tamar Council to an Underlying Deficit of $2.725m at Kingborough Council.

On a Comprehensive income basis, combined Comprehensive Surpluses totalled $146.554m (2011-12, $395.967m), a decrease of $249.413m. The Comprehensive income items for this year mainly consisted of the following:

- fair value net asset revaluation increments of $93.325m (2011-12, $445.051m)
- write-up of councils' net investments in the water and sewerage corporations of $13.937m ($11.626m) based on movements in each corporation's net assets during 2012-13
- actuarial gains of $12.100m ($4.922m) on defined benefit superannuation schemes. These gains only applied to those councils not operating under multi-employer defined benefit schemes.

Revenue Raising Capacities

The 29 councils raised $405.950m (2011-12, $384.179m) in rates for 2012-13, an increase of 5.6%. City councils, in general, earn a greater percentage of their operating revenue from rates. This was reflected in the rate revenue to operating revenue ratio. In contrast, councils that had a lower rate to operating revenue ratio received a higher percentage of recurrent grant revenue. It was noted that there were seven councils (eight) with rate revenue to operating revenue ratios of less than 50%, meaning that they were heavily reliant on recurrent grant funding. One of these councils also had the lowest average rates per rateable valuation although it generated relatively high rate revenues per head of population.

On average councils are rating $1 326 per rateable property, but are expending $2 491 in operating costs. Councils' operating expenses are being supported by other revenue sources including fees and charges, interest revenue and grants. A reduction in grant funding would have a significant impact on local government, with any possible loss in revenue having to be offset by an increase in rates or a reduction in costs and services, in particular those funded by grants.

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

Also shown in Attachment 3 are the ratios of operating (or recurrent) grants per head of population and operating grants compared to operating revenues. These ratios confirm previous observations that smaller councils were more reliant on recurrent operating grants. To illustrate this point, smaller rural councils' grants per head of population were considerably greater than other councils, for example Flinders Council, $2 433, King Island Council, $1 326, and Central Highlands Council, $929, compared to Hobart City Council, $70, or Clarence City Council, $89.

Depreciation to Operating Revenues

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

The ratio of Depreciation to operating revenues for the 29 councils was 25.2% (2011-12, 26.4%), with major cities averaging 21.0% (23.0%), other urban and larger rural 23.7% (23.7%) and other smaller rural councils 28.0% (29.9%). The ratios remained fairly constant from 2011-12 to 2012-13.

There were considerable fluctuations in the smaller rural council percentages, varying between 17.2% at Glamorgan Spring Bay Council, which had a comparatively low infrastructure assets base with non-current infrastructure assets per head of population of $16 397, to 48.2% at Central Highlands where the non-current infrastructure assets per head of population was $52 959. This highlighted the importance of having long-term asset management plans (further information about this is included in the Local Government Financial Sustainability Chapter) and budgeting to ensure that operating revenues are sufficient to cover all operating costs, including Depreciation. It is acknowledged that the latter will be more difficult in regional communities with significant infrastructure.

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

Statement of Financial Position

Comments here are made with reference to Attachment 4.

Management of working capital

On the basis that a working capital ratio of one or better is effective, all councils manage working capital (Total Current Assets less Total Current Liabilities expressed as a ratio greater or less than one) effectively with most achieving a ratio of well above one at 30 June 2013. This ratio provides an indication as to whether or not an entity can meet its short-term commitments from existing current assets.

It is noted, however, that all councils had large or reasonably large bank and investment balances, some of which were committed to future capital projects. The significant cash balances are further illustrated by the Net financial liabilities ratio (Total Liabilities less liquid assets divided by operating revenue expressed as a percentage). Most councils had positive percentages meaning liquid assets exceeded Total Liabilities. This is further examined in the Local Government Sustainability Chapter.

Management of infrastructure and other non-current assets

Included in Total Non-Current Assets, amounting to $8.621bn (2011-12, $8.488bn), were infrastructure assets controlled by the 29 councils at 30 June 2013 totalling $6.578bn ($6.125bn).

In 2012-13, payments made by councils for Property, plant and equipment totalled $222.084m (2011-12, $192.917m) and Depreciation charged on these assets totalled $153.695m ($153.814m). A useful measure to assess the extent to which a council was adequately investing in its non-current asset base is expenditure on all assets expressed as a percentage of depreciation with an ideal target of not less than 100%. However, a better measure for this ratio is to express expenditure on existing assets as a percentage of depreciation. This particular measure is further assessed in the Chapter dealing with Financial Sustainability.

For the 29 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 139.7% (2011-12, 121.8%) indicating most councils were re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100%. In each case, further details are provided in individual Council Chapters of this Report.

Another indicator which can be used to assess whether or not a council is adequately re-investing in its non-current asset base is to compare rate revenue to non-current infrastructure assets. This ratio indicates the level of rating undertaken in relation to the infrastructure bases being managed by each council. The higher the ratio the better.

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

The ratio of non-current infrastructure assets per rateable valuation indicated that each rateable valuation supported a fairly consistent level of infrastructure. We have not analysed why it is that some councils vary significantly from the average of $25 067 (2011-12, $24 633).

Management of Debt

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

A review of the interest coverage ratio for each council (cash interest payments divided by net operating cash flows expressed as a percentage) indicated that all councils with debt were comfortably able to meet their loan interest charges.

Brighton Council, Huon Valley Council, Kingborough Council, Meander Valley Council, Northern Midlands Council, Central Highlands Council and Flinders Council did not have any loan debt at 30 June 2013.

The indebtedness ratio complements the current ratio and illustrates a council's ability to meet longer-term commitments. The ratio compares non-current liabilities to a council's own source revenue, the lower the percentage the stronger a council's position to meet longer term liabilities. Those councils with ratios well above the average of 18.3% (2011-12, 18.3%) were, in general, holding higher levels of non-current borrowings at 30 June 2013 than the councils with lower ratios. However, the ratios indicate all councils could meet future longer term debt commitments.

Collection of Rates

For the 29 councils, rate debts owing to councils at 30 June 2013 totalled $15.289m (2011-12, $13.341m) with an average per council of $527 000 ($460 000). Expressing rate debtors as a percentage of rates raised indicated that, in general, councils were recovering outstanding rate debts in a reasonable timeframe. Southern Midlands Council at 11.2% had the highest ratio. It is noted, however, that all councils had significant power under the *Local Government Act 1993* to recover rate debts against a property.

ATTACHMENT 1 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS DEMOGRAPHICS

Council	Population 2011-12	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Clarence	53 081	377	140.8	23 981	63.6	0.5
Glenorchy	45 382	120	378.2	20 965	174.7	0.5
Hobart	50 342	78	647.1	23 534	302.5	0.5
Launceston	67 146	1 411	47.6	30 598	21.7	0.5
Brighton	16 629	171	97.2	6 926	40.5	0.4
Burnie	20 148	610	33.0	9 675	15.9	0.5
Central Coast	22 365	931	24.0	10 631	11.4	0.5
Derwent Valley	9 956	4 104	2.4	5 046	1.2	0.5
Devonport	25 727	111	231.8	11 963	107.8	0.5
Huon Valley	16 020	5 498	2.9	10 190	1.9	0.6
Kingborough	35 090	717	48.9	16 674	23.3	0.5
Meander Valley	19 633	3 320	5.9	9 641	2.9	0.5
Northern Midlands	12 741	5 126	2.5	6 713	1.3	0.5
Sorell	14 147	583	24.3	8 623	14.8	0.6
Waratah-Wynyard	14 298	3 526	4.1	7 503	2.1	0.5
West Tamar	22 867	690	33.1	11 117	16.1	0.5
Break O'Day	6 514	3 521	1.9	6 347	1.8	1.0
Central Highlands	2 369	7 976	0.3	3 682	0.5	1.6
Circular Head	8 300	4 891	1.7	4 878	1.0	0.6
Dorset	7 152	3 223	2.2	5 170	1.6	0.7
Flinders	802	1 994	0.4	1 161	0.6	1.4
George Town	6 789	653	10.4	4 405	6.7	0.6
Glamorgan Spring Bay	4 432	2 522	1.8	5 608	2.2	1.3
Kentish	6 367	1 155	5.5	3 561	3.1	0.6
King Island	1 599	1 100	1.5	1 636	1.5	1.0
Latrobe	10 524	600	17.5	5 729	9.5	0.5
Southern Midlands	6 306	2 611	2.4	3 594	1.4	0.6
Tasman	2 440	659	3.7	3 386	5.1	1.4
West Coast	4 792	9 575	0.5	4 574	0.5	1.0
Total	**513 958**	**67 853**	**7.6**	**267 511**		
Average per Council	**17 723**	**2 340**	**61.2**	**9 225**	**28.9**	**0.7**
Total 2010-10	**511 195**	**67 853**	**7.5**	**265 175**		
Average per Council 2010-11	**17 627**	**2 340**	**60.3**	**9 144**	**28.4**	**0.7**
Average Population per square kilometre for Tasmania				7.57		
Average Rateable properties per square kilometre				3.94		
Average Rateable properties per Head of Population				0.52		

Source

Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2011-12.

Local Government areas taken from the ABS website '2001 Census Community Profile Series', Statistics estimated at 30 June 2005.

Rateable properties obtained from Councils.

ATTACHMENT 2 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS EMPLOYEE COSTS - 2012-13

Council	Total Employee Costs	FTEs	Average Cost per FTE *	FTE per 1 000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Clarence	15 989	220	73	4.1	30.3	30.9	4 039	18 359
Glenorchy	21 508	272	79	6.0	38.5	36.8	5 784	21 265
Hobart	51 388	616	83	12.2	48.2	48.5	13 740	22 305
Launceston	33 964	431	79	6.4	38.5	38.1	6 636	15 397
Brighton	2 908	50	58	3.0	22.5	23.6	835	16 700
Burnie	15 052	187	80	9.3	40.6	39.3	2 277	12 176
Central Coast	10 032	141	71	6.3	45.6	45.1	2 432	17 248
Derwent Valley	3 446	51	68	5.1	32.4	33.2	1 763	34 569
Devonport	12 765	167	76	6.5	35.9	35.9	2 686	16 084
Huon Valley	9 223	133	69	8.3	42.4	41.7	1 560	11 729
Kingborough	12 423	180	69	5.1	38.8	35.7	2 298	12 767
Meander Valley	5 915	76	78	3.9	33.6	35.0	1 325	17 434
Northern Midlands	4 631	64	72	5.0	30.7	30.6	1 423	22 234
Sorell	6 117	82	75	5.8	36.6	39.0	1 209	14 744
Waratah-Wynyard	5 625	83	68	5.8	37.6	33.2	1 505	18 133
West Tamar	7 318	92	80	4.0	33.1	36.0	2 108	22 913
Break O'Day	3 784	52	73	8.0	34.8	30.5	555	10 673
Central Highlands	1 918	34	56	14.4	31.5	25.7	629	18 500
Circular Head	4 435	55	81	6.6	33.8	32.4	886	16 109
Dorset	4 536	60	76	8.4	37.7	36.9	1 119	18 650
Flinders	1 613	23	70	28.7	36.0	32.7	228	9 913
George Town	3 949	49	81	7.2	41.7	42.1	792	16 163
Glamorgan Spring Bay	3 755	54	70	12.2	35.8	33.5	742	13 741
Kentish	2 268	33	69	5.2	27.4	28.1	401	12 152
King Island	2 673	34	79	21.3	38.8	33.9	445	13 088
Latrobe	3 235	45	72	4.3	30.3	32.9	882	19 600
Southern Midlands	3 509	54	65	8.6	40.6	38.1	1 233	22 833
Tasman	1 078	19	57	7.8	17.6	17.5	143	7 526
West Coast	4 017	60	67	12.5	36.7	37.2	642	10 700
Total	**259 074**	**3 417**					**60 317**	
Average per Council	**8 934**	**118**	**72**	**8.3**	**35.4**	**34.7**	**2 080**	**16 680**
Total 2011-12	**252 224**	**3 365**					**57 215**	
Average per Council 2011-12	**8 697**	**116**	**73**	**7.9**	**35.4**	**34.7**	**1 973**	**16 565**

* *Staff costs include capitalised salaries and wages.*

ATTACHMENT 3 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS STATEMENT OF COMPREHENSIVE INCOME - 2012-13

Council	Operating Revenue*	Non-Operating Revenue*	Total Revenue	Operating Expenditure	Non-Operating Expenditure**	Total Expenditure	Underlying Surplus (Deficit)	Net Surplus (Deficit)	Net Surplus (Deficit) to Total Revenue	Comprehensive Surplus (Deficit)	Operating Surplus Ratio	Self Financing Ratio
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%	$'000s	%	%
Clarence	52 748	17 093	69 841	51 740	35 336	87 076	1 008	(17 235)	(24.7)	(14 019)	1.9	24.7
Glenorchy	55 799	8 162	63 961	58 433	0	58 433	(2 634)	5 528	8.6	1 651	(4.7)	28.3
Hobart	106 603	660	107 263	105 952	3 558	109 510	651	(2 247)	(2.1)	38 432	0.6	13.1
Launceston	88 185	6 977	95 162	89 222	0	89 222	(1 037)	5 940	6.2	(4 626)	(1.2)	14.2
Brighton	12 906	2 506	15 412	12 309	0	12 309	597	3 103	20.1	(1 089)	4.6	19.1
Burnie	37 110	2 604	39 714	38 270	47	38 317	(1 160)	1 397	3.5	6 650	(3.1)	17.8
Central Coast	22 021	901	22 922	22 252	0	22 252	(231)	670	2.9	9 019	(1.0)	18.4
Derwent Valley	10 645	78	10 723	10 386	0	10 386	259	337	3.1	4 802	2.4	28.4
Devonport	35 538	4 631	40 169	35 585	0	35 585	(47)	4 584	11.4	36 240	(0.1)	26.3
Huon Valley	21 950	2 554	24 504	21 398	0	22 332	552	2 172	8.9	2 886	2.5	12.4
Kingborough	32 059	4 050	36 109	34 784	806	35 590	(2 725)	519	1.4	(256)	(8.5)	9.4
Meander Valley	17 604	860	18 464	16 920	429	17 349	684	1 115	6.0	3 035	3.9	26.5
Northern Midlands	15 061	2 269	17 330	15 144	0	15 144	(83)	2 186	12.6	(5 523)	(0.6)	41.9
Sorell	16 728	1 075	17 803	15 701	0	15 701	1 027	2 102	11.8	5 844	6.1	28.2
Waratah-Wynyard	14 968	2 273	17 241	16 958	0	16 958	(1 990)	283	1.6	816	(13.3)	12.8
West Tamar	22 078	1 802	23 880	20 346	0	20 346	1 732	3 534	14.8	4 457	7.8	21.6
Break O'Day	10 882	1 141	12 023	12 406	0	12 406	(1 524)	(383)	(3.2)	6 294	(14.0)	25.4
Central Highlands	6 090	686	6 776	7 476	0	7 476	(1 386)	(700)	(10.3)	1 876	(22.8)	27.4
Circular Head	13 131	4 722	17 853	13 668	0	13 668	(537)	4 185	23.4	9 012	(4.1)	15.6
Dorset	12 032	839	12 871	12 296	0	12 296	(264)	575	4.5	4 656	(2.2)	28.5
Flinders	4 475	572	5 047	4 934	0	4 934	(459)	113	2.2	2 428	(10.3)	29.0
George Town	9 477	2 311	11 788	9 383	0	9 383	94	2 405	20.4	4 858	1.0	22.4
Glamorgan Spring Bay	10 498	910	11 408	11 215	0	11 215	(717)	193	1.7	19 518	(6.8)	15.3
Kentish	8 263	1 282	9 545	8 075	0	8 075	188	1 470	15.4	4 391	2.3	29.5
King Island	6 896	883	7 779	7 420	456	7 876	(524)	(97)	(1.2)	(32)	(14.2)	21.5
Latrobe	10 692	1 485	12 177	9 841	0	9 841	851	2 336	19.2	2 707	8.0	26.0
Southern Midlands	8 650	729	9 379	9 203	0	9 203	(553)	176	1.9	2 834	(6.4)	27.0
Tasman	6 132	128	6 260	5 659	539	6 158	513	102	1.6	(1 263)	8.4	24.1
West Coast	10 954	471	11 425	10 786	0	10 786	168	639	5.6	956	1.5	25.7
Total	**680 175**	**74 654**	**754 829**	**687 722**	**42 105**	**729 827**	**(7 547)**	**25 002**		**146 554**		
Average per Council	**23 454**	**2 574**	**26 029**	**23 715**	**1 452**	**25 166**	**(260)**	**862**	**5.8**	**5 054**	**(2.14)**	**22.8**
Total 2011-12	**658 488**	**124 938**	**783 426**	**671 907**	**5 491**	**677 398**	**(13 419)**	**106 028**		**395 967**		
Average per Council 2011-12	**22 706**	**4 308**	**27 015**	**23 169**	**189**	**23 359**	**(463)**	**3 656**	**11.8**	**13 654**	**(2.42)**	**26.3**

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

** *Non-operating revenue and expenditure include capital grants, contributed assets and revaluation and impairment adjustments. Also, Non-operating revenue includes the net result of Financial Assistance Grant received in advance.*

ATTACHMENT 3 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS STATEMENT OF COMPREHENSIVE INCOME - 2012-13 (continued)

Council	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Operating Costs Per Rateable Valuation	Council's Own Source Revenue	Council's Own Source Revenue to Operating Revenue	Operating Government Grants*	Operating Grants Per Head of Population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	$'000s	%	$	$	$	$'000s	%	$'000s	$	%	%
Clarence	40 471	76.7	1 688	762	2 158	48 035	91.1	4 713	89	8.9	19.5
Glenorchy	26 848	48.1	1 281	592	2 787	49 403	88.5	6 396	141	11.5	27.7
Hobart	67 178	63.0	2 855	1 334	4 502	103 066	96.7	3 537	70	3.3	15.8
Launceston	55 802	63.3	1 824	831	2 916	81 588	92.5	6 597	98	7.5	21.0
Brighton	7 088	54.9	1 023	426	1 777	10 790	83.6	2 116	127	16.4	21.7
Burnie**	19 723	53.1	2 039	979	3 956	33 059	89.1	4 051	201	10.9	21.5
Central Coast	12 877	58.5	1 211	576	2 093	17 966	81.6	4 055	181	18.4	23.9
Derwent Valley	5 605	52.7	1 111	563	2 058	7 219	67.8	3 426	344	32.2	20.3
Devonport	25 020	70.4	2 091	973	2 975	33 298	93.7	2 240	87	6.3	24.6
Huon Valley	9 862	44.9	968	616	2 100	17 637	80.4	4 313	269	19.6	19.8
Kingborough	20 732	64.7	1 243	591	2 086	28 096	87.6	3 963	113	12.4	21.7
Meander Valley	9 517	54.1	987	485	1 755	12 953	73.6	4 651	237	26.4	26.7
Northern Midlands	8 400	55.8	1 251	659	2 256	11 024	73.2	4 037	317	26.8	29.6
Sorell	10 399	62.2	1 206	735	1 821	13 094	78.3	3 634	257	21.7	23.3
Waratah-Wynyard	9 122	60.9	1 216	638	2 260	11 819	79.0	3 149	220	21.0	26.5
West Tamar	14 223	64.4	1 279	622	1 830	19 644	89.0	2 434	106	11.0	24.8
Break O'Day	6 882	63.2	1 084	1 056	1 955	8 263	75.9	2 619	402	24.1	30.9
Central Highlands	2 975	48.9	808	1 256	2 030	3 889	63.9	2 201	929	36.1	48.2
Circular Head	6 781	51.6	1 390	817	2 802	10 176	77.5	2 955	356	22.5	24.3
Dorset	6 004	49.9	1 161	839	2 378	8 236	68.5	3 796	531	31.5	30.0
Flinders	1 247	27.9	1 074	1 555	4 250	2 524	56.4	1 951	2 433	43.6	40.2
George Town	6 672	70.4	1 515	983	2 130	7 794	82.2	1 683	248	17.8	22.0
Glamorgan Spring Bay	6 079	57.9	1 084	1 372	2 000	8 412	80.1	2 086	471	19.9	17.2
Kentish	4 470	54.1	1 255	702	2 268	5 654	68.4	2 609	410	31.6	26.6
King Island	1 876	27.2	1 147	1 173	4 814	4 775	69.2	2 121	1 326	30.8	27.7
Latrobe	5 979	55.9	1 044	568	1 718	9 094	85.1	1 598	152	14.9	22.8
Southern Midlands	4 029	46.6	1 121	639	2 561	5 555	64.2	3 095	491	35.8	30.7
Tasman	3 788	61.8	1 119	1 552	1 659	5 140	83.8	992	407	16.2	18.0
West Coast	6 301	57.5	1 378	1 315	2 358	8 770	80.1	2 184	456	19.9	24.9
Total	**405 950**			**25 209**	**72 252**	**586 973**		**93 202**	**11 469**		
Average per Council	**13 998**	**55.9**	**1 326**	**869**	**2 491**	**20 240**	**79.3**	**3 214**	**395**	**20.7**	**25.2**
Total 2011-12	**384 179**							**95 601**			
Average per Council 2011-12	**13 248**	**54.6**	**1 273**	**831**	**2 419**	**19 410**	**78.2**	**3 297**	**423**	**21.8**	**26.4**

* *Operating grant revenue excludes 2012-13 Financial Assistance Grant received in June 2012, but includes 2011-12 Financial Assistance Grant received in June 2012.*

** *Operating costs per Rateable Valuation calculated on Council's financial information excluding subsidiaries where material.*

ATTACHMENT 4 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS STATEMENT OF FINANCIAL POSITION - 2012-13

Council	Current Assets	Current Liabilities	Working Capital	Current Ratio	Net Financial Liabilities Ratio*	Non-Current Assets	Non Current Liabilities	Loan Debt	Interest Coverage	Indebtedness Ratio	Rate Debtors	Rate Debtors to Rates Raised
	$'000s	$'000s	$'000s	No.	%	$'000s	$'000s	$'000s	%	%	$'000s	%
Clarence	55 626	8 149	47 477	6.8	86	578 890	1 360	856	227.39	2.8	1 926	4.8
Glenorchy	48 263	10 936	37 327	4.4	34	692 153	14 151	9 061	27.09	28.6	577	2.1
Hobart	38 114	22 595	15 519	1.7	(18)	966 032	32 455	14 329	18.40	31.5	1 313	2.0
Launceston	62 203	23 816	38 387	2.6	16	1 429 535	23 296	12 798	15.41	28.6	1 280	2.3
Brighton	4 355	2 343	2 012	1.9	14	189 466	73	0	N/A	0.7	91	1.3
Burnie	14 814	5 099	9 715	2.9	8	349 979	5 911	3 585	25.39	17.9	1 156	5.9
Central Coast	5 346	4 529	817	1.2	(23)	436 488	5 591	2 830	25.31	31.1	448	3.5
Derwent Valley	3 548	3 060	488	1.2	(21)	99 267	2 654	2 715	18.86	36.8	549	9.8
Devonport	15 496	7 127	8 369	2.2	(29)	457 987	18 454	19 185	13.95	55.4	357	1.4
Huon Valley	12 044	5 971	6 073	2.0	29	217 603	246	0	N/A	1.4	499	5.1
Kingborough	13 825	7 959	5 866	1.7	14	590 171	1 463	0	N/A	5.2	392	1.9
Meander Valley	21 793	2 123	19 670	10.3	76	265 345	6 004	3 600	N/A	46.4	637	6.7
Northern Midlands	11 027	2 234	8 793	4.9	55	255 276	380	0	N/A	3.4	357	4.3
Sorell	9 807	3 818	5 989	2.6	12	213 835	3 323	3 693	16.42	25.4	209	2.0
Waratah-Wynyard	9 045	2 329	6 716	3.9	37	169 789	418	22	1 913.00	3.5	488	5.3
West Tamar	14 119	3 403	10 716	4.1	44	252 636	487	421	135.26	2.48	798	5.6
Break O'Day	6 214	1 807	4 407	3.4	26	146 698	1 392	1 300	100.16	16.8	594	8.6
Central Highlands	8 299	1 081	7 218	7.7	85	134 690	76	0	N/A	2.0	179	6.0
Circular Head	12 882	2 356	10 526	5.5	69	147 436	1 159	1 446	18.56	11.4	640	9.4
Dorset	17 315	1 517	15 798	11.4	117	163 394	1 479	230	200.53	18.0	519	8.6
Flinders	8 964	499	8 465	18.0	182	80 614	232	0	N/A	9.2	51	4.1
George Town	5 851	1 624	4 227	3.6	11	115 674	2 411	2 364	15.36	30.9	330	4.9
Glamorgan Spring Bay	2 803	1 453	1 350	1.9	(4)	110 558	1 636	1 605	42.46	19.4	343	5.6
Kentish	7 042	1 131	5 911	6.2	49	94 174	1 686	1 644	20.79	29.8	429	9.6
King Island	5 937	1 363	4 574	4.4	50	65 691	641	754	26.41	13.4	126	6.7
Latrobe	9 818	2 143	7 675	4.6	46	158 550	1 649	349	119.87	18.1	93	1.6
Southern Midlands	9 711	1 833	7 878	5.3	76	94 321	1 006	988	40.0	18	451	11.2
Tasman	4 380	607	3 773	7.2	53	43 852	493	671	29.75	9.6	203	5.4
West Coast	6 065	1 906	4 159	3.2	26	101 220	1 218	1 152	31.36	13.9	254	4.0
Total	**444 706**	**134 811**	**309 895**			**8 621 324**	**131 344**	**85 598**			**15 289**	
Average per Council	**15 335**	**4 649**	**10 686**	**4.7**	**38.6**	**297 287**	**4 529**	**2 952**	**140.1**	**18.3**	**527**	**5.2**
Total 2011-12	**460 843**	**130 042**	**330 801**			**8 488 015**	**140 434**	**80 240**			**13 341**	
Average per Council 2011-12	**15 891**	**4 484**	**11 407**	**4.7**	**41.1**	**292 690**	**4 843**	**2 767**	**67.4**	**18.3**	**460**	**4.6**

ATTACHMENT 4 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS STATEMENT OF FINANCIAL POSITION - 2012-13 (continued)

Council	Payments for Property, Plan and Equipment	Depreciation	Total Capital Expenditure to Depreciation Ratio	Rate Revenue to Non-Current Infrastructure Assets	Non-Current Infrastructure Assets per Square Kilometre	Non-Current Infrastructure Assets per Head of Population	Non-Current Infrastructure Assets per Rateable Valuation
	$'000s	$'000s	%	%	$	$	$
Clarence	15 425	10 269	150.2	10.8	990 435	7 034	15 570
Glenorchy	26 429	15 462	170.9	5.5	4053 242	10 718	23 200
Hobart	25 365	16 871	150.3	9.0	9543 882	14 749	31 551
Launceston	21 882	18 528	118.1	6.0	662 464	13 921	30 549
Brighton	5 091	2 800	181.8	5.3	778 749	8 008	19 227
Burnie	6 756	7 996	84.5	6.8	477 121	14 445	30 082
Central Coast	8 443	5 260	160.5	3.5	393 318	16 373	34 444
Derwent Valley	3 126	2 156	145.0	7.5	18 111	7 465	14 730
Devonport	23 441	8 736	268.3	6.6	3400 685	14 672	31 554
Huon Valley	9 328	4 352	214.3	5.5	32 528	11 163	17 550
Kingborough	6 910	6 967	99.2	4.3	665 212	13 592	28 605
Meander Valley	5 105	4 708	108.4	4.6	62 108	10 503	21 388
Northern Midlands	6 123	4 456	137.4	4.0	41 025	16 505	31 327
Sorell	9 016	3 891	231.7	5.7	312 873	12 894	21 153
Waratah-Wynyard	3 782	3 964	95.4	7.0	36 788	9 072	17 288
West Tamar	4 731	5 467	86.5	7.5	274 374	8 279	17 030
Break O'Day	4 474	3 361	133.1	6.3	31 042	16 779	17 220
Central Highlands	2 786	2 933	95.0	2.4	15 729	52 959	34 074
Circular Head	4 560	3 188	143.0	5.4	25 541	15 051	25 609
Dorset	5 391	3 608	149.4	4.1	44 893	20 231	27 987
Flinders	1 362	1 798	75.8	1.6	38 616	96 010	66 322
George Town	4 013	2 087	192.3	7.1	143 862	13 837	21 326
Glamorgan Spring Bay	3 005	1 810	166.0	8.4	28 816	16 397	12 959
Kentish	3 886	2 194	177.1	5.1	75 690	13 730	24 550
King Island	1 407	1 910	73.7	3.1	55 505	38 184	37 320
Latrobe	3 187	2 436	130.8	4.6	217 922	12 424	22 823
Southern Midlands	2 505	2 655	94.4	5.0	30 815	12 759	22 386
Tasman	969	1 105	87.7	8.9	64 783	17 497	12 608
West Coast	3 586	2 727	131.5	8.3	7 884	15 754	16 505
Total	**222 084**	**153 695**					
Average per Council	**7 658**	**5 300**	**139.7**	**5.9**	**776 690**	**18 311**	**25 067**
Total 2011-12	**192 917**	**153 814**					
Average per Council 2011-12	**6 652**	**5 304**	**121.8**	**5.8**	**738 274**	**17 829**	**24 633**

COPPING REFUSE DISPOSAL SITE JOINT AUTHORITY (The Authority)

SNAPSHOT

- The Authority recorded an Underlying Profit of $0.907m, an improvement on the previous year.
- A Comprehensive Profit of $0.635m was reported for the year.
- Net Assets increased to $2.957m.

The Authority's operations are undertaken by a small number of staff, which increases risk due to a lack of segregation of duties. This risk was mitigated to an acceptable level by the nature and extent of audit testing we performed.

The audit was completed satisfactorily and there were no major issues identified.

Key Developments in 2012-13 included:

- revenue recorded a very large increase this year, to $6.945m, due to additional tonnage received resulting from the January bushfires in Southern Tasmania
- expenditure also increased markedly, to $6.039m, in large part due to a new provision for landfill cell capping
- participating Councils provided an equity injection of $1.300m.

INTRODUCTION

The Authority was established as a joint authority under Section 30 of the *Local Government Act 1993* and gazetted on 1 March 2001. It trades under the name of Southern Waste Solutions.

Its principal objective is to manage a putrescibles landfill disposal site which conforms to the Development Proposal and Environmental Management Plan and associated permit conditions issued by the then Environmental Management and Pollution Control Board. It must successfully manages the landfill disposal site business by:

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

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

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 13 August 2013. An unqualified audit report was issued on 27 September 2013.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

January Bushfires

The increase in profit this year was mainly attributable to a significant amount of fire debris and other level two waste delivered to the landfill. The Authority also provided assistance to the clean-up effort by offering space for storage of bulk debris, expanded opening hours and discounted gate fees for affected areas. Costs were also incurred, including a temporary cell to store debris, which were absorbed by the Authority.

Capping of Cells

The Authority is required to meet specific environmental conditions, set by the Environmental Protection Authority in order to operate a waste management site, which includes a requirement to rehabilitate the site. As part of the regulatory requirements, the Authority undertakes significant works on sealing waste cells, to an environmentally appropriate level, a process known as capping. This year a provision for capping of $1.447m was established to offset future expenditure.

Debt Reduction and Operational Needs Payment

In July 2012, participating Councils agreed to make a proportionate payment of $1.300m for debt reduction and for the Authority's operational needs. This was paid by the Clarence, Sorell, Tasman and Kingborough Councils based on their respective shares in the Authority.

Class C Controlled Waste Facility Development

While approval was obtained in June 2012 for the C cell project, community debate continued during the year under review. The Authority's application to the Federal Government for a grant to assist with the cost of constructing the C cell was unsuccessful. The Authority is continuing its plans to progress construction of the cell this financial year.

Carbon Pricing

The *Clean Energy Act 2011* (the Act) introduced a carbon pricing mechanism, effective 1 July 2012. It is understood that the Commonwealth's carbon pricing mechanism will not have an impact on the Authority.

A consultant was engaged to assess the impact of a carbon price on its operations. The report indicated that while the projection of methane gas emissions for the Authority over the next 30 years is over the 25 000 tonne limit, it is offset by the flaring of methane gas which places the Authority under the limit.

Segregation of Duties

The Authority's operations are undertaken by a small number of staff, which increases risk due to a lack of segregation of duties. This risk was mitigated to an acceptable level by the nature and extent of audit testing we performed.

The audit was completed satisfactorily, with no major issues identified. At the time of writing this Chapter, a final management letter was being drafted.

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12
	$'000s	$'000s
Waste management revenue	6 946	4 093
Total Revenue	**6 946**	**4 093**
Employee costs	548	466
Depreciation	977	704
Borrowings costs	324	353
Waste management costs	4 190	2 240
Total Expenses	**6 039**	**3 763**
Underlying Profit (Loss)	**907**	**330**
Income tax expense	(272)	(99)
Comprehensive Profit	**635**	**231**

The Authority recorded an Underlying Profit of $0.907m, a large increase of $0.577m from 2011-12.

Revenue increased by $2.853m to $6.946m resulting from additional tonnage processed, approximately 40 000 tonnes, mainly due to the bushfires. This was offset by increased expenditure of $2.276m to $6.039m, largely due to the establishment of a provision for capping costs of $1.447m, with maintenance and operating expenses increasing by $0.341m. Depreciation rose by $0.273m to $0.977m reflecting that cells are depreciated according to total capacity as determined by regular volumetric surveys and the number of tonnes of waste delivered.

STATEMENT OF FINANCIAL POSITION

	2013	2012
	$'000s	$'000s
Cash and financial assets	2 599	577
Receivables	597	525
Other	34	5
Total Current Assets	**3 230**	**1 107**
Payables	807	594
Borrowings	444	416
Provisions – income tax	521	0
Provision – cell capping	1 447	0
Provision – employee benefits	37	23
Total Current Liabilities	**3 256**	**1 033**
Working Capital	**(26)**	**74**
Property, plant and equipment	6 575	6 027
Deferred income tax asset	450	201
Other	100	100
Total Non-Current Assets	**7 125**	**6 328**
Borrowings	4 125	5 368
Deferred income tax liability	1	2
Provision – employee benefits	16	10
Total Non-Current Liabilities	**4 142**	**5 380**
Net Assets	**2 957**	**1 022**
Contributed Capital	1 324	24
Reserves	627	627
Accumulated (deficits) surpluses	1 006	371
Total Equity	**2 957**	**1 022**

Total Equity increased by $1.935m to $2.957m due to the Comprehensive Profit and the equity injection of $1.300m. Cash was $2.599m, an increase of $2.022m, resulting from the additional revenue received and equity injection after repayment of Borrowings of $1.216m which decreased total debt to $4.569m. Property, plant and equipment increased by $0.548m due to new cell developments.

Provision for capping of $1.447m was established this year for the reason discussed previously. This is shown as a current liability as the majority of this provision is expected to be expended in 2013-14 due to the completion of one cell.

DULVERTON REGIONAL WASTE MANAGEMENT (The Authority)

SNAPSHOT

- The Authority achieved a strong Underlying Profit of $1.555m in 2012-13. This was an increase of $0.448m on last year's result.
- Burnie City Council became a customer in October 2012, which led to a sizeable increase in waste management and fees revenue.
- It had Net Assets worth $6.070m at 30 June 2013.

Draft financial statements were received on 14 August 2013, with signed statements submitted on 22 August 2013. The Authority failed to comply with the requirement of Section 17(1) of the *Audit Act 2008* by submitting its financial statements seven days late.

The audit was completed satisfactorily and there were no other matters outstanding.

Key development in 2012-13 included:

- a revaluation of the landfill site and composting facility resulted in the carrying amount of those assets being reduced by $0.547m
- expenditure of $0.585m on sealing waste cells.

The Authority expects that by 2014 it will establish infrastructure to capture 50% of its landfill emissions. It anticipates being able to minimise overall landfill emissions below the 25 000 tonne annual threshold within the *Clean Energy Act 2011* and avoid the payment of a carbon price. Emissions are not expected to exceed the threshold prior to installation of the gas capture system.

INTRODUCTION

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

Devonport City, Central Coast, Latrobe and Kentish Councils are the four participants in the Authority.

AUDIT OF THE 2012-13 STATEMENTS

Draft financial statements were received on 14 August 2013, with signed statements submitted on 22 August 2013, which was seven days after the statutory deadline. An unqualified audit report was issued on 7 October 2013.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

Revaluation of Landfill Site and Composting Facility

In 2012-13, the Authority appointed an independent valuer to revalue its landfill site and composting facility on a market value basis. The revaluation resulted in a decrement of $0.547m.

Burnie City Council Contribution of Waste

The Authority commenced taking waste from Burnie City Council in October 2012. This led to a considerable increase in waste management and fees revenue.

Capping of Cells

The Authority is required to meet specific environmental conditions, set by the Environmental Protection Authority, in order to operate a waste management site, which includes a requirement to rehabilitate the site. As part of the regulatory requirements, the Authority undertook significant work on sealing waste cells during 2012–13, a process known as capping. Capping expenses totalled $0.585m which was taken against the rehabilitation provision balance.

Carbon Pricing

The *Clean Energy Act 2011* (the Act) introduced a carbon pricing mechanism from 1 July 2012.

In anticipation of the Act, the Authority undertook an investigation into the impact of a carbon price on its operations. A consultant was appointed to estimate the carbon tax implications resulting from the disposal of waste in the landfill facility.

The report indicated that the Authority's ability to pay the proposed carbon price, or purchase emissions permits under the subsequent emissions trading scheme, could be mitigated if a landfill gas capture system was implemented.

The Authority expects that by 2014 it will have established infrastructure to capture 50% of its landfill emissions. It anticipates being able to minimise overall landfill emissions below the 25 000 tonne annual threshold within the Act and avoid the payment of a carbon price. Emissions are not expected to exceed the threshold prior to installation of the gas capture system.

Submission of Financial Statements Within 45 days of 30 June

The Authority submitted its financial statements on 22 August 2013 which was seven days late.

Other than this omission, the audit was completed satisfactorily with no matters outstanding.

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

	2012–13	**2011–12**
	$'000s	$'000s
Waste management revenue	7 831	6 486
Total Revenue	**7 831**	**6 486**
Employee costs	382	279
Borrowing costs	180	141
Depreciation	556	365
Waste management costs	5 158	4 594
Total Expenses	**6 276**	**5 379**
Underlying Profit	**1 555**	**1 107**
Income tax expense	(467)	(333)
Profit after Taxation	**1 088**	**774**
Rehabilitation and aftercare provision reassessment (net of tax)	(100)	(135)
Net Profit	**988**	**639**
Other Comprehensive Income		
Revaluation increment net of tax	(375)	85
Comprehensive Profit	**613**	**724**

In 2012-13, the Authority recorded an Underlying Profit of $1.555m (2011-12, $1.107m) an increase of $0.448m. The improved result was primarily due to Burnie City Council using the services of the Authority from October 2012. Higher revenue of $1.345m was partially offset by increased in Waste management costs. The construction of new waste cells in 2011-12 increased Depreciation to $0.556m this year.

STATEMENT OF FINANCIAL POSITION

	2013	2012
	$'000s	$'000s
Cash	1 534	1 769
Receivables	897	944
Other assets	77	71
Total Current Assets	**2 508**	**2 784**
Payables	601	994
Borrowings	419	578
Provisions - employee benefits	27	18
Provisions - income tax	144	112
Provisions - rehabilitation	0	720
Total Current Liabilities	**1 191**	**2 422**
Working Capital	**1 317**	**362**
Property, plant and equipment	7 977	8 841
Deferred tax assets	205	335
Other assets	89	0
Total Non-Current Assets	**8 271**	**9 176**
Borrowings	2 115	2 709
Provisions - employee benefits	1	1
Provisions - rehabilitation	110	25
Provisions - aftercare	547	354
Deferred tax liabilities	745	992
Total Non-Current Liabilities	**3 518**	**4 081**
Net Assets	**6 070**	**5 457**
Contributed Capital	1 747	1 747
Reserves	2 319	2 694
Retained earnings	2 004	1 016
Total Equity	**6 070**	**5 457**

Total Equity increased by the Comprehensive Profit of $0.613m. The profit generated positive cash inflows from operations of $0.754m which included payment for cell capping of $0.585m. However, Cash decreased to $1.534m (2011-12, $1.769m) as cash inflows were used to repay Borrowings of $0.753m and fund plant and equipment purchases of $0.228m.

A condition of its operation is that the Authority carries provisions for rehabilitation and after care. In 2012-13, the total provision for rehabilitation decreased by $0.635m primarily due to capping expenses of $0.585m. The provision for aftercare increased due to a reassessment of the provision by $0.194m.

Property, plant and equipment decreased by $0.864m primarily due to Depreciation of $0.556m and a revaluation decrement of $0.537m.

CRADLE COAST AUTHORITY (The Authority)

SNAPSHOT

- The Authority recorded a Net Deficit of $0.351m for 2012-13.
- Net Assets decreased to $2.221m at 30 June.
- Cash decreased by $0.542m to $2.174m primarily due to the completion of the Caring for Our Country and the Healthy Communities grant programs.
- The Authority borrowed $0.550m in 2012-13 to fund Leasehold improvements of its new offices.

The Authority failed to meet its legislative requirements by submitting its financial statements 60 days late.

The Authority's operations are undertaken by a small number of staff, which increases risk due to a lack of segregation of duties. This risk was mitigated to an acceptable level by the nature and extent of audit testing performed.

The audit was completed satisfactorily with no other items outstanding.

INTRODUCTION

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

It was established to facilitate the sustainable development of the region, resolve regional issues and coordinate regional scale activity in areas such as tourism, health and local government services. The Authority also hosts the region's Natural Resource Management Committee and its staff.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 October 2013. An unqualified audit report was issued on 7 November 2013.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

Submission of Financial Statements

Section 17(1) of the *Audit Act 2008*, requires financial statements to be submitted to the Auditor-General within 45 days of the end of each financial year. The Authority failed to comply with this requirement and submitted its financial statements 60 days late.

Office Relocation

The Authority relocated its offices to new premises which required significant leasehold improvements. These works were funded by borrowings of $0.550m.

Segregation of Duties

The Authority's operations are undertaken by a small number of staff. This increases risk due to a lack of segregation of duties. This risk was mitigated to an acceptable level by the nature and extent of audit testing we performed.

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12
	$'000s	$'000s
Government grants	3 446	3 343
Council contributions	947	896
Other income	656	679
Total Revenue	**5 049**	**4 918**
Employee expenses	2 089	2 143
Other expenses	3 311	2 720
Total Expenses	**5 400**	**4 863**
Net Surplus (Deficit)	**(351)**	**55**

In 2012-13, the Authority recorded a Net Deficit of $0.351m (2011-12, Net Surplus $0.055m), a decrease of $0.406m. The worse result was primarily due to completion of the:

- Caring for Our Country grant program with funding over two-years totalling $3.686m, aimed at improving the region's biodiversity and sustainable farm practices
- Healthy Communities grant program over two-years, with a total program cost of $0.571m, aimed at delivering effective community-based physical activity, healthy eating programs and developing a range of local policies that support healthy lifestyle behaviours.

The Authority's results are dependent on grants. It receives and expends funding for specific regional purposes. The receipt of funding and its expenditure can span a number of financial periods, causing fluctuating results.

STATEMENT OF FINANCIAL POSITION

	2013	2012
	$'000s	$'000s
Cash	2 174	2 716
Other assets	300	55
Plant and equipment	205	129
Leasehold improvements	515	0
Total Assets	**3 194**	**2 900**
Payables	227	146
Provisions – employee benefits	196	182
Borrowings	550	0
Total Liabilities	**973**	**328**
Net Assets	**2 221**	**2 572**
Total Equity	**2 221**	**2 572**

Total Equity decreased by the Net Deficit of $0.351m. Cash decreased to $2.174m (2011-12, $2.716m) due to completion of the previously mentioned grant programs, $0.399m, and the acquisition of office equipment, $0.149m.

During 2012-13, the Authority relocated its offices and expended $0.524m on Leasehold improvements, which were funded by Borrowings of $0.550m. Other assets increased to $0.300m (2011-12, $0.055m) primarily due to grant funding amounts receivable at year end. Higher Payables at 30 June 2013 related to increased expenditure at the end of the year relating to the completion of grant programs mentioned earlier.

SOUTHERN TASMANIAN COUNCILS AUTHORITY (The Authority)

SNAPSHOT

- The Authority reported a Net Deficit of $0.033m in 2012-13. Its Net Assets totalled $0.354m.
- It held $0.374m in cash, of which $0.199m was restricted, to be applied to the purpose for which it was provided.
- A number of projects were completed, or were nearing completion, during the year resulting in a decrease in the Authority's grant revenue and a reduction in consulting and professional fees incurred.

INTRODUCTION

The Authority is a joint authority established under the *Local Government Act 1993*. It is a body corporate, whose powers and functions are specified in its rules, as adopted by member Councils. The members of the Authority represent all twelve southern Tasmanian councils. Each member Council appoints a councillor to represent it and vote on its behalf at general meetings of the Authority.

The purpose of the Authority is to enable members to work together to facilitate and coordinate agreed regional development strategies and actions to achieve sustainable economic, environmental and social outcomes for the southern region of Tasmania.

The Authority procures accounting and administrative services from Hobart City Council.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 29 September 2013.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

There were no key findings, developments or areas of audit attention.

The audit was completed satisfactorily with no matters outstanding.

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	**2011-12**
	$'000s	$'000s
Council Contributions	315	359
Grants	237	622
Other income	20	37
Total Revenue	**572**	**1 018**
Employee costs	239	370
Consulting and professional fees	248	760
Other expenses	118	299
Total Expenses	**605**	**1 429**
Net Surplus (Deficit)	**(33)**	**(411)**

STATEMENT OF FINANCIAL POSITION

	2013	**2012**
	$'000s	$'000s
Cash and cash equivalents	374	367
Other assets	14	83
Total Assets	**388**	**450**
Total Liabilities	**34**	**63**
Net Assets	**354**	**387**
Total Equity	**354**	**387**

The Authority reported a Net Deficit of $0.033m in 2012-13. Total Revenue and Total Expenses were lower this year as a number of projects were completed or were nearing completion. This resulted in lower Grants revenue, $0.385m, and a corresponding decrease in expenses attributed to those projects, namely Consulting and professional fees, $0.512m, and Employee costs, $0.131m.

Net Assets decreased in line with the Net Deficit and totalled $0.354m at 30 June 2013. Cash and cash equivalents were $0.374m, of which $0.199m related to grants received but which had not yet been applied to the purpose for which they were provided.

SOUTHERN WASTE STRATEGY AUTHORITY (The Authority)

SNAPSHOT

- The Authority achieved improved financial results mainly because of the completion of two internally funded projects in respect of which most costs were incurred in the prior year.
- A Net Surplus of $0.053m was achieved this year (2011-12, Deficit $0.034m).
- Net Assets totalled $0.204m ($0.151m) at 30 June 2013.

INTRODUCTION

The Southern Waste Strategy Authority (the Authority) is a joint authority established under the *Local Government Act 1993*. The Authority is a body corporate, whose powers and functions are specified in its rules, as adopted by its member Councils. Members of the Authority represent all twelve southern Tasmanian councils. Each member Council appoints a councillor to represent it and vote on its behalf at general meetings of the Authority.

The purpose of the Authority is to facilitate integrated regional strategic waste planning in southern Tasmania and implementation thereof.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 July 2013 and an unqualified audit opinion was issued on 14 August 2013.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

There were no key findings or developments.

A key financial reporting risk was identified which was the lack of segregation of duties because of the Authority's small size. This risk was mitigated to an acceptable level by the nature and extent of audit testing we performed.

The audit was completed satisfactorily with no matters outstanding.

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	2011-12
	$'000s	$'000s
Member subscriptions	326	315
Other income	18	6
Total Revenue	**344**	**321**
Employee costs	162	172
Advertising	42	38
Consulting and professional fees	22	3
Program costs	15	71
Other expenses	50	71
Total Expenses	**291**	**355**
Net Surplus (Deficit)	**53**	**(34)**

STATEMENT OF FINANCIAL POSITION

	2013	2012
	$'000s	$'000s
Cash and cash equivalents	218	174
Other assets	27	27
Total Assets	**245**	**201**
Total Liabilities	**41**	**50**
Net Assets	**204**	**151**
Total Equity	**204**	**151**

The Authority's financial results for 2012-13 were positively impacted by:

- the completion of two internally funded programs, E-Waste Collection and Household Hazardous Waste, reducing Program costs significantly this year
- one-off revenue of $0.014m received from member councils to assist with advertising expenditure.

These factors were partly offset by higher consultancy fees, $0.019m, to conduct a follow up review on a survey conducted in 2010-11 for Kerbside Waste Collection and Processing for Southern Tasmania.

The consequence of these factors was an improvement from a $0.034m deficit in 2011-12 to a surplus of $0.053m in 2012-13.

The surplus contributed to higher Net Assets which was mainly made up of higher cash balance offset partially by a reduction in employee provisions included in Total Liabilities.

APPENDIX 1 - GUIDE TO USING THIS REPORT

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

- Volume 1 – Executive and Legislature, Government Departments, Tasmanian Health Organisations, Other General Government Sector State entities, Other State entities and Superannuation Funds
- Volume 2 – Government Businesses, Other Public Non-Financial Corporations and Water Corporations
- Volume 3 - Local Government Authorities (Part I and II)
- Volume 4 – Analysis of the Treasurer's Annual Financial Report
- Volume 5 - Other State entities 31 December, including University of Tasmania.

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

FORMAT OF THE FINANCIAL ANALYSIS

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

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

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

FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Operating surplus (deficit) ($'000s)		Own source revenue percentage
Operating surplus ratio	>0	Net operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Asset sustainability ratio, Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income
Returns to Government		
CSO funding ($'000)		Amount of community service obligation funding received from Government
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result from Ordinary Activities before Tax
Government guarantee fees ($'000)		Amount of guarantee fees paid to owners (usually Government)

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days [3]	Actual annual leave provision days due divided by average FTEs
Average staff costs (2) ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Employee costs (2) as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls
Staff numbers FTEs		Effective full time equivalents

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

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

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

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

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

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their 'as new' (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing existing non-

current assets (caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).

- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a 'considerable' margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – Funds from operations – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

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

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general, council staff accrue 20 days annual leave per annum.

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

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

AUDIT FINDINGS - RISK CATEGORIES

In reporting audit finding to clients, we have determined the following three risk categories. These categories are based on their significance and potential impact on the client.

Risk Category	Client Impact
High	Matters which pose a significant business or financial risk to the entity and/or matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year and/or matters that may escalate to high risk if not addressed promptly and/or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature and/or matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

APPENDIX 2 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse Opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's Report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Biological asset

A living animal or plant.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Corporations Act 2001

An Act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at Federal and State levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

The Council

The group of councillors, who are the elected representatives of people who are residents in the council's municipality or ratepayers of the council.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume it in its normal operating cycle;
- holds primarily for the purpose of trading;
- expects to realise within twelve months after the reporting period; or
- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle;
- it holds primarily for the purpose of trading;
- is due to be settled within twelve months after the reporting period; or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

(Current) Replacement cost

The cost an entity would incur to acquire the asset at the end of the reporting period.

Deficit

Total expenditure exceeds Total Revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Depreciated replacement cost

The current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Derivative

A financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- it is settled at a future date.

Disclaimer of Opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
    - to receive cash or another financial asset from another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial delegation

A schedule that specifies the level or approval required for each transaction category to facilitate the execution of functions necessary for the efficient operation of the entity.

Financial liability

Any liability that is:

- a contractual obligation:
    - to deliver cash or another financial asset to another entity; or

  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period
- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title 'Statement of Comprehensive Income' instead of 'Statement of Profit or Loss and Other Comprehensive Income'.

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Government Business Enterprises Act 1995

An Act that makes provision in respect of the establishment, commercial operation and accountability of Government Business Enterprises, the relationship between Government Business Enterprises and the Government and the payment of financial returns to the State by Government Business Enterprises and for related purposes.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Internal audit

A function of an entity's governance framework that examines and reports to management, or those charged with governance, on the effectiveness of risk management, control and governance processes.

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Internal control

Processes affected by an entity's structure, work and authority flows, people and management information systems, designed to assist the entity accomplish specific goals and objectives. Internal controls are a means by which an entity's resources are directed, monitored and measured. They play an important role in preventing and detecting error and fraud and protecting the entity's resources.

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Joint venture

A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.

Land under roads

Land under roadways, and road reserves, including land under footpaths, nature strips and median strips.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Local Government Act 1993

An Act of the State of Tasmania that provides for local government and establishes councils to plan for, develop and manage municipal areas in the interests of their communities.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Masterfile

A database of records pertaining to one of the main subjects of an information system, such as customers, employees and vendors. Masterfiles contain descriptive data that does not often change, such as name and address and bank account details.

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-Financial Asset

Physical assets such as land, buildings and infrastructure.

Non-reciprocal

Transfers in which an entity receives assets without directly giving equal value in exchange to the other party to the transfer.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Onerous contract

A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Operating cycle

The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

Performance report

A statement containing pre-determined performance indicators and targets and actual results against these for that financial year, with an explanation for any significant variance between the results and the targets.

Pervasive

A term used, in the context of misstatements, to describe the effects on the financial report of misstatements or the possible effects on the financial report of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial report are those that, in the auditor's judgement:

- are not confined to specific elements, accounts or items of the financial report;
- if so confined, represent or could represent a substantial proportion of the financial report; or
- in relation to disclosures, are fundamental to users' understanding of the financial report.

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment (including infrastructure)

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or

- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Recoverable amount

The higher of an asset's net selling price and its value in use.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Residual value (of an asset)

The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Stakeholder

A person, group, or organisation that has a direct or indirect stake in an organisation because it can affect or be affected by the organisation's actions, objectives and policies.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State-owned company
- a State authority that is not a Government Business Enterprise

- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State Owned Company

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Steering committee

Provides oversight and strategic direction for key organisational processes or risk.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Those charged with governance

The person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. In most cases this would be the Board of Directors (or equivalent). In the case of government departments, this would be the Secretary. If an entity has an audit committee or equivalent then that committee may have the governance function delegated to it.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a **clear audit opinion**.

Value in use

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

Working capital

Working capital is the amount of current assets minus the amount of current liabilities at a specific date. It reflects how much in liquid assets that an entity has on hand. Working capital is needed to pay for planned and unexpected expenses and meet the short-term obligations.

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AAR	Average Area Rate
AASB	Australian Accounting Standards Board
ABF	Activity Based Funding
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
APRA	Australian Prudential Regulation Authority
BBP	Bell Bay Power Pty Ltd
BLW	Ben Lomond Water
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CMW	Cradle Mountain Water
COPE	Commonwealth Own Purpose Expenditure
CPI	Consumer Price Index
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DORC	Depreciated Optimised Replacement Cost
DPIPWE	Department of Primary Industries, Parks, Water and Environment
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEP	Environmental Energy Products
FBT	Fringe Benefits Tax
FCAS	Frequency Control Ancillary Services
FMAA	*Financial Management and Audit Act 1990*
FTE	Full-time Equivalent
FSI	Forest Services International
GBE	Government Business Enterprise
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
IRRs	Inter Regional Revenues
IS	Information Security
IT	Information Technology
KIPC	King Island Ports Corporation
KV	Kilovolt
LGA	Local Government Area
LG	Local Government
LGAT	Local Government Association of Tasmania
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MIC	Member Investment Choice

MWh	Megawatt Hour
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
R40s	Roaring 40s Renewable Energy Pty Ltd
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee
SOC	State Owned Company
SW	Southern Water
TAS	Tasmanian Accumulation Scheme
Tascorp	Tasmanian Public Finance Corporation
Tasracing	Tasracing Pty Ltd
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCFA	Tasmanian Community Forest Agreement
TDRA	Temporary Debt Repayment Account
TFA	Tasmanian Forests Agreement
TFIA	Tasmanian Forest Intergovernmental Agreement
TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
TI	Treasurer's Instruction
TIPL	Tasmanian Irrigation Pty Ltd
TMD	(formerly known as Telecommunications Management Division), a division of the Department of Premier and Cabinet
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
UTAS	University of Tasmania
WACC	Weighted Average Cost of Capital
WIF	Water Infrastructure Fund
VaR	Value at Risk

APPENDIX 4 - RECENT REPORTS

TABLED	No.	TITLE
March	No. 8 of 2011-12	The assessment of land-use planning applications
June	No. 9 of 2011-12	Volume 6 - Other State Entities 30 June 2011 and 31 December 2011
June	No. 10 of 2011-12	Public Trustee: management of minor trusts
June	No. 11 of 2011-12	Updating the Motor Registry System
June	No. 12 of 2011-12	Follow up of Special Reports 75-81
July	No 1 of 2012-13	Sale of TOTE Tasmania
October	No 2 of 2012-13	TasPorts: benefits of amalgamation - October 2012
November	No 3 of 2012-13	Volume 3 - Government Business Enterprises, State Owned Companies and Water Corporations 2011-12
November	No 4 of 2012-13	Volume 4 - Local Government Authorities 2011-12
November	No 5 of 2012-13	Volume 1 - Analysis of the Treasurer's Annual Financial Report 2011-12
November	No 6 of 2012-13	Volume 2 - Executive Legislature, Government Departments, other General Government Sector State entities and Superannuation Funds 2011-12
December	No 7 of 2012-13	Compliance with the *Tasmanian Adult Literacy Plan 2010-15*
March	No 8 of 2012-13	National Partnership Agreement on Homelessness
March	No 9 of 2012-13	Royal Derwent Hospital: site sale
May	No 10 of 2012-13	Hospital bed management and primary preventative health
May	No. 11 of 2012-13	Financial Statements of State entities: Volume 5 - Other State entities
May	No. 11 of 2012-13	Department of Health and Human Services - Output based expenditure (included in Financial Statements of State entities: Volume 5 - Other State entities)
August	No. 1 of 2013-14	Fraud control in local government
November	No. 2 of 2013-14	Volume 1 - Executive and Legislature, Government Departments, Tasmanian Health Organisations, Other General Government Sector State entities, Other State entities and Superannuation Funds
November	No. 3 of 2013-14	Volume 2 - Government Businesses, Other Public Non-Financial Corporations and Water Corporations

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed via the Office's homepage www.audit.tas.gov.au

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Our Vision

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

Our Purpose

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

Availability of reports

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

Audit Mandate and Standards Applied

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

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

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

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

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

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

Standards Applied

Section 31 specifies that:

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

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

(b) the Australian Auditing and Assurance Standards.'

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

Tasmanian
Audit Office

Photo courtesy of Tourism Tasmania and Joe Shemesh

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