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 II

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.

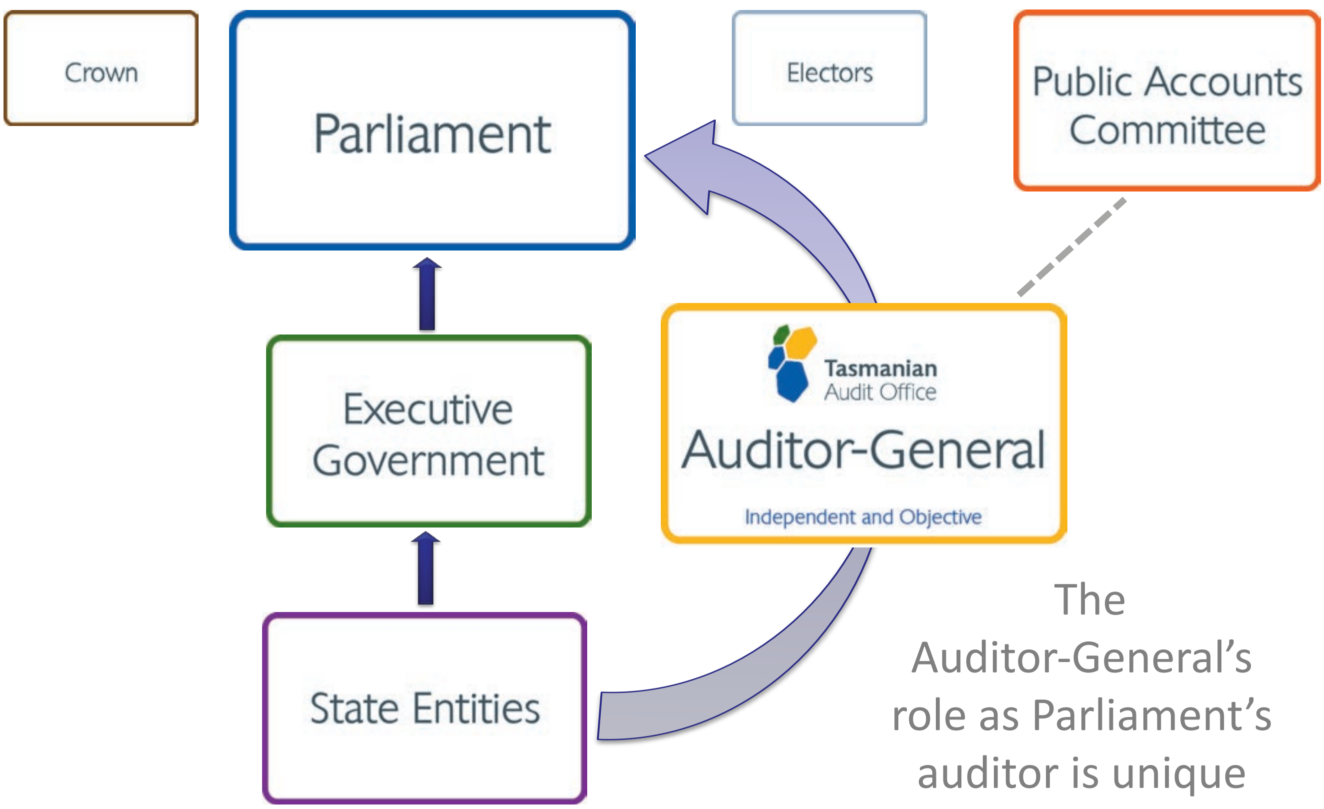
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

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



TASMANIA

2013
PARLIAMENT OF TASMANIA

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

Volume 3 Part II

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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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

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MAJOR COUNCILS

CLARENCE CITY COUNCIL

SNAPSHOT

- Council's underlying result improved to a surplus of $1.008m this year.
- Council's net result for the year, a deficit of $17.235m, was significantly influenced by the write-off of third party assets, which are now disclosed as contingent assets.
- At 30 June 2013, Council's Total Assets totalled $634.516m and its Net Assets amounted to $625.007m.

Key developments for the year included:

- completion and endorsement of an updated long-term financial plan, asset management strategy and long term asset management plans for roads, stormwater, buildings and public open space assets
- an adjustment for a prior period error was identified during the year, which necessitated the disclosure of the financial effect of the amendment and the restatement of past balance sheets. The impact of the error on roads assets at 1 July 2011 amounted to $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 de-recognition of Bellerive Oval, $24.062m, and assets leased to the Copping Refuse Disposal Site Joint Authority (the Authority), $2.691m,
- it also derecognised road assets previously recognised but identified during a revaluation investigation as no longer being owned by Council, which amounted to $8.583m
- land and road assets previously not recognised and identified during a revaluation amounted to $11.206m.

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

We identified shortcomings in asset reconciliation processes relating to Property, plant and equipment asset classes. These were reported to management who are addressing matters raised.

The audit was completed with no other items outstanding.

Major variations between the 2012-13 and 2011-12 financial years included:

- Employee costs increased this year by $0.824m due to new positions being filled, trainees who have now become employees and a 3% general wage increase
- due to the effect of the derecognition of assets and the prior period error, Depreciation during year fell by $1.534m. Also, the estimated Depreciation expense was $4.552m greater than budget, as the budget was set before quantification of the derecognition of assets and the prior period adjustment
- Investments in associates increased by $1.024m as a result of change in the net assets of the Authority.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
During the 2012-13 financial year Council revalued its road asset network. Council also adopted the revised land and buildings values provided by the Valuer-General as part of his municipal revaluation.	We audited in detail the components of the roads revaluation, and ensured that valuations were appropriate, accurately recorded and that asset data reconciled between the asset register and the general ledger. We also assessed the land and buildings values supplied by the Valuer-General and ensured that they were accurately recorded within Council's records.
During the course of completing the long term financial plan and undertaking the completion of long-term asset management plans, a number of issues were identified by Council including: • asset lives and unit costs • assets effectively controlled by third parties • amortisation of past depreciation adjustments.	The impact of these matters led to a number of significant changes to the financial statements. Audit work in response included testing: • the reconciliation between asset register and general ledger • adjustment journals from final asset register listings to financial statements • prior period adjustments • revaluation schedules • disposals against asset register and retirement listings. These matters are discussed further within the Key Developments section later in this Chapter.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013, with amended financial statements received on 10 September 2013. An unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Completion of Long-Term Financial and Asset Management Plans

During the financial year, Council endorsed an updated long-term financial plan, asset management strategy and long-term asset management plans for all major Property, plant and equipment assets. These asset categories include road, stormwater, buildings and public open space assets. From this review, asset lives and unit costs were adjusted to reflect values identified in the long-term asset management plans. However, there were also some unexpected outcomes from this exercise, which included:

- assets effectively controlled by third parties, such as Bellerive Oval and the Copping landfill site, were derecognised and disclosed within the financial statements as contingent assets only. We supported Council's argument that despite legal ownership of these assets, it had no control over them as defined in accounting standards. The impact was to reduce the carrying value of Council's assets by $26.753m

- an adjustment as a result of a change in policy for calculating Depreciation which took place in 2000-01. Prior to July 2000, Council used the inverse sum of the years digits method for determining its annual Depreciation charges. From 1 July 2000, changes in accounting standards required council to apply the straight line method of Depreciation. The effect of this change was that accumulated depreciation was over stated and an adjustment, to be amortised over future years, was made within the asset register. In subsequent revaluations this adjustment was not removed. Consequently, road assets were over stated by the adjustment since 2003-04. Depreciation expense had also been overstated during this period. The adjustment was accounted for as a prior period error of $26.223m, which included detailed disclosures of the financial effect of the amendment and the restatement of past Statements of Financial Position
- land and road assets previously not recognised and identified during the revaluation amounted to $11.206m and were classified as part of Contributions of non-current assets
- road assets previously recognised but identified during the revaluation as no longer owned by Council amounted to $8.583m. Most of these assets are now owned by the Department of Infrastructure, Energy and Resources.

Each of these developments was tested and we verified that all adjustments were accounted for correctly.

KEY FINDINGS

No high risk findings were identified during the audit. However, there was one moderate risk finding relating to asset reconciliation weaknesses. Council's assets system is not fully integrated with its general ledger. We noted that:

- Net Asset balances were accurately recorded in the general ledger and reconciled to the Oracle asset system, however
- when considered on a gross assets and accumulated depreciation basis, reconciliation differences were identified. Manual adjustments were found to be incomplete or posted incorrectly.

These matters were raised with management and are being addressed.

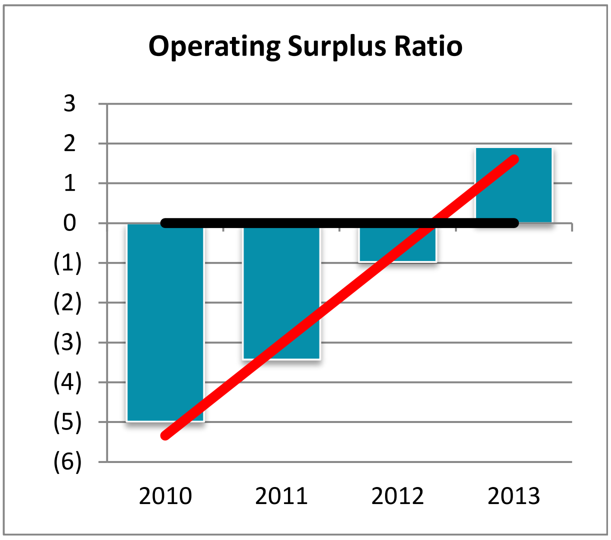
A low risk finding noted that the Councillors' Code of Conduct had not been reviewed within the timeframe required by the *Local Government Act 1993*. Although this was partly due to the potential for a Local Government Association of Tasmania proposal to introduce a State-wide code, the timeframe should still have been adhered to. Once alerted to the oversight, Council undertook a review and updated the code before the end of the financial year.

The audit was completed satisfactorily with no other issues outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

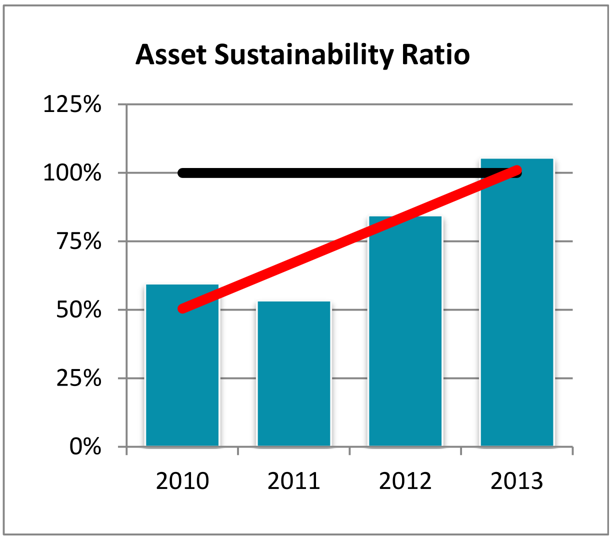
The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded a significant improvement in its Operating surplus ratio in 2012-13 principally due to a decrease in Depreciation expense which arose because of:

- removal of third party assets from Council's asset register. This reduced the Depreciation by approximately $0.920m
- a reassessment of the useful lives of some types of road assets, including bridges, gravel seals, concrete footpaths and traffic management assets
- a revaluation decrement in the value of road assets during the year of $6.131m.

However, the four year average for the Operating surplus ratio for Council was, negative 1.87, indicating a moderate financial sustainability risk.



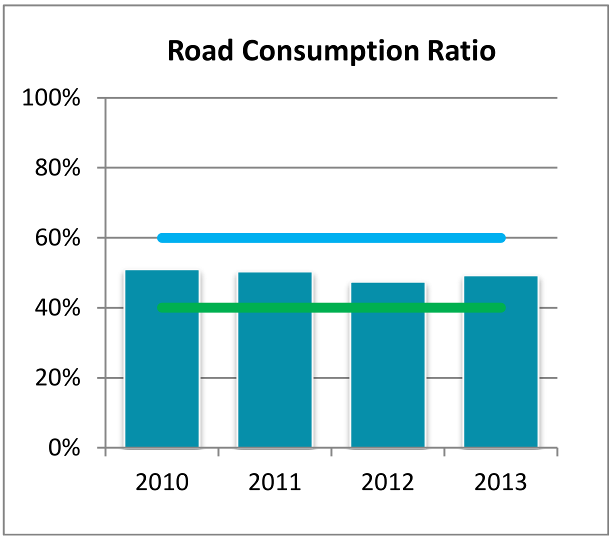
The Asset sustainability ratio was above 100% benchmark this year. Over the four year period, Council's average ratio was 76%, indicating that Council had been under-investing in existing assets, however the trend line is heading in the right direction.

The positive result this year was due partly to the lower Depreciation expense. The ratio was also influenced by completion and implementation of long-term asset management plans during the year, which highlighted the need for increased capital expenditure and for asset renewals.

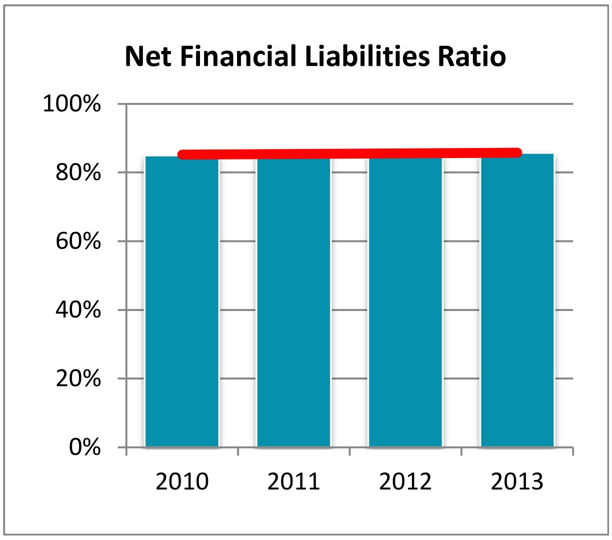
Asset Renewal Funding Ratio

Council's long-term financial plan includes a target for 100% Asset renewal funding ratio in ten years. The long-term asset management plans for road assets and stormwater assets are forecasting that over the next ten years, Council will generate 89% and 100% respectively of the funds required for the optimal renewal and replacement of these assets. On a weighted average basis, this equates to a 92% Asset renewal funding ratio at 30 June 2013, which is within our benchmark.

As indicated by the increase in renewal funding this year, we understand it is Council's intention to undertake renewal works in line with the long-term asset management plans.



The ratio at 30 June 2013 indicated Council had used (consumed) approximately 51% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period of 50%. This indicated Council's road assets had reached the half-way point of their life-cycle, indicating moderate financial sustainability risk.



Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities, in each year under review. This indicates a strong liquidity position, with Council able to meet existing obligations and having a capacity to borrow. Council's total liabilities consisted of Payables, Borrowings and employee provisions.

It is noted that Council has contractual commitments totalling $4.754m (2011-12, $6.214m), which are not recognised on the Statement of Financial Position, nor are they factored into the Net financial liabilities ratio above.

In addition, Council's Cash and cash equivalents are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $33.268m or 64.7% of the total Cash and cash equivalents balance of $51.395m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it has an active audit committee with membership consisting of two aldermen and three external members. The audit committee:

- influences and manages an internal audit program and follows up internal audit work done
- scrutinises and recommends to Council, adoption of the long-term asset management and financial management plans
- reviews Council's annual financial statements, focusing on accounting policies, areas of significant accounting estimates, compliance with accounting standards and other reporting requirements, recommending signing by the General Manager prior to submission to the Auditor-General
- liaises with the external auditors

Council's long-term asset management plans have recently been updated and endorsed by Council, in addition to an asset management strategy. A 10-year financial management plan has also been finalised and endorsed by Council.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded a positive operating result in the current year, however the average for the past four years is still below the benchmark. While audit acknowledges that Council had improved its result, and further improvements are expected in accordance with their long-term financial management plan, our current assessment is that Council is at a moderate financial sustainability risk from an operating perspective.

Council's Net financial liabilities ratio was positive indicating low financial sustainability risk, a strong ability to service debt and a capacity to borrow should the need arise.

Council's Asset sustainability ratio was above our 100% benchmark for the first time in 2012-13, and its Asset renewal funding ratio, at 92%, was also within our benchmarks range. However, the Road consumption ratio is in the moderate risk range due to the age of Council's road network.

Council's governance achieved a low risk rating because it has an effective audit committee and its asset management, asset strategy and financial management plans were endorsed this year.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at moderate financial sustainability risk from an operating and asset management perspective but low financial sustainability risk from net financial liabilities and governance perspectives.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

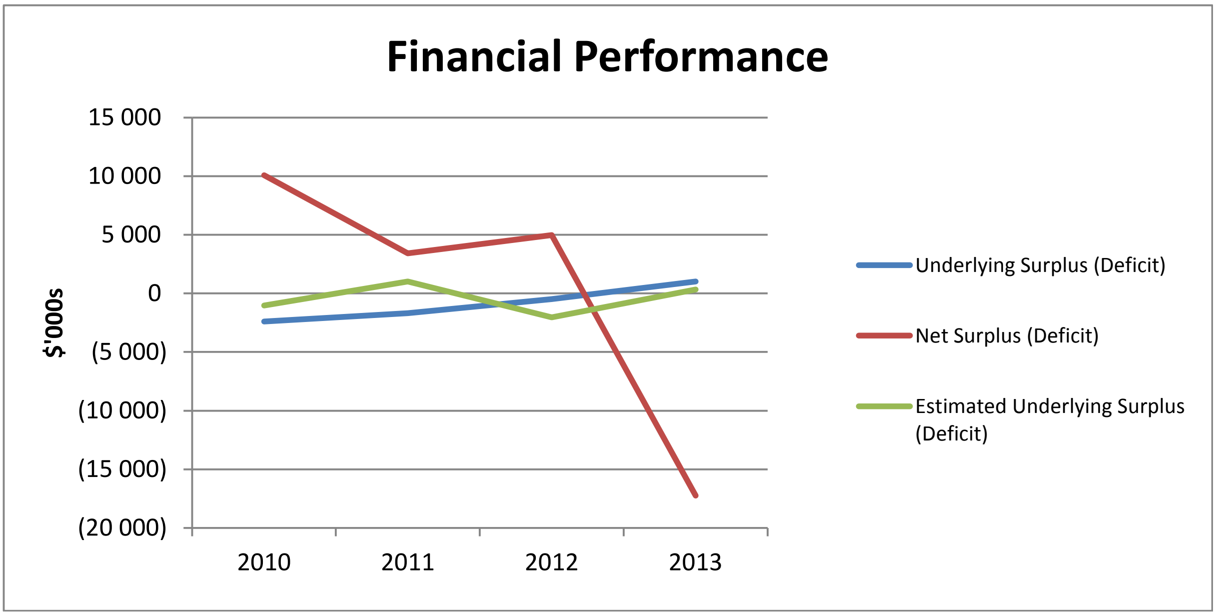
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

While the ratings applied to Council remain unchanged, it is noted that these are derived from historical data which has been negatively affected by water reform and which does not take account of improved accounting treatments implemented in 2012-13.

Council's long-term asset management and financial management planning indicate sustainable operations into the future, with low risk to Council's asset base and low risk of the need for significant changes in financial strategies.

Although Council has delivered a strong underlying result, its revenue continues to be artificially reduced due to legislation which has prevented the receipt of dividends from Southern Water (now TasWater). Dividend flows are expected to commence during the 2013-14 financial year which will further strengthen Council's financial performance.

FINANCIAL ANALYSIS



Council's underlying result was close to its budgeted underlying result for each of the years of the above analysis. This year's Underlying Surplus of $1.008m was influenced significantly by the decrease in Depreciation expense of $1.534m. The improved result was also influenced by higher rate revenue of $1.814m, offset by:

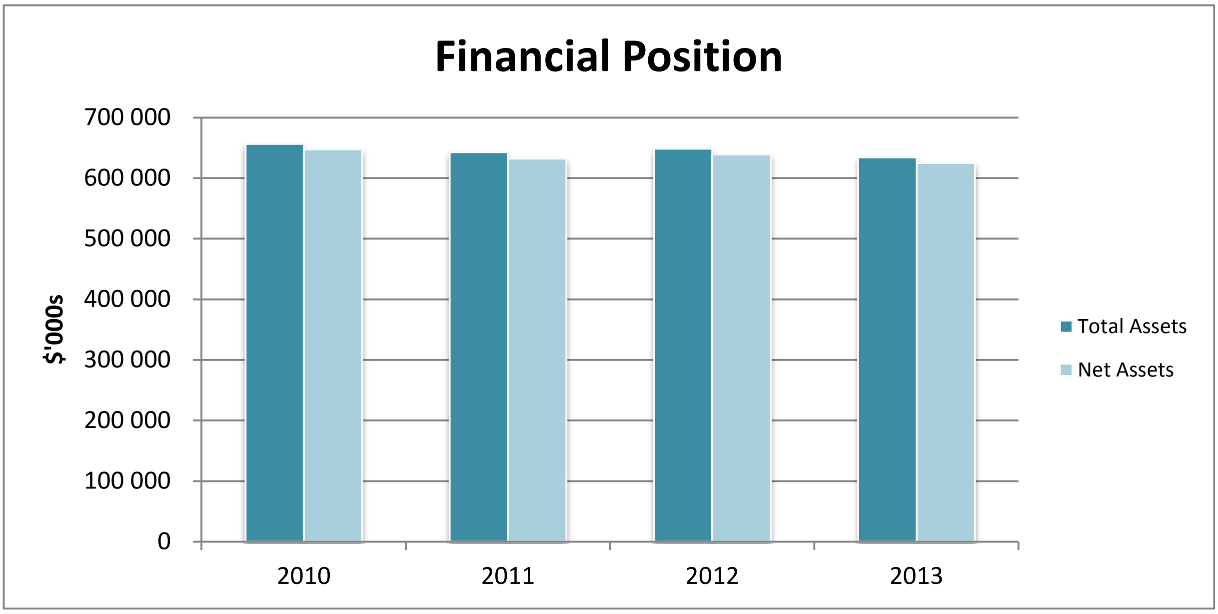
- increased Employee costs of $0.824m, as a result of higher staff numbers and pay increases in line with Council's enterprise agreement
- reduced Interest revenue of $0.597m, due principally to lower interest rates.

At the time the 2012-13 budget was set, the impact of subsequent asset adjustments on the budget for Depreciation was unknown which is why the budget amount was in line with the previous year's expense. This is the principal reason why the estimated underlying result is below the actual results achieved.

Generally, the Estimated underlying result is expected to be below the net result, as Council does not budget for a number of capital items or non-monetary contributions received. Over the first three years of review, the net result was positive mainly due to these sources of income. In 2012-13, there was a significant decrease in the net result to a deficit of $17.235m, due to:

- asset write-offs relating to third party assets of $26.753m
- the carrying amount of assets derecognised following investigations on asset ownership during the revaluation exercise $8.583m.

These two asset write-offs were partially offset by the recognition of assets arising from the revaluation, worth $11.206m, which were brought to account for the first time in 2012-13.



Council's Total Assets, Liabilities and Net Assets remained fairly static over the period under review, with the most significant movements recorded in the 2011 and 2013 financial years.

Total Assets decreased by $14.176m at 30 June 2013 due principally to the write-off of third party assets mentioned previously within this Chapter, worth $26.753m. This was offset by asset additions and a net revaluation increment recorded for the year. Net Assets decreased by a similar percentage, as there was no material change in liabilities in the 2012-13 financial year.

The decrease in Total Assets in 2010-11 was principally due to the impact of the Depreciation adjustment, discussed previously in the Chapter, which was accounted for as a prior period that impacted the 2011 and subsequent year's balances. The prior year adjustment, which amounted to $26.223m as at 1 July 2011, was to some extent offset by a stormwater revaluation of $6.276m and increased in cash holdings in that year of $2.438m.

Council has a number of functional activities that provide a broad level of services to its ratepayers. However, the majority of its funding and assets relate to works and infrastructure management. At 30 June 2013, Council managed $373.394m in assets, consisting of mainly roads, stormwater, land and buildings. Consequently, Council's financial position is dominated by its significant infrastructure and other assets. In comparison, Council's liabilities, totalling only $9.509m, related to Payables, employee entitlements and Borrowings.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Restated** $'000s	2010-11 Actual $'000s
Rates	40 600	40 471	38 657	36 949
Fees and charges	4 533	4 373	4 202	4 251
Grants**	5 415	4 713	4 609	4 272
Interest revenue	2 745	2 741	3 338	3 293
Other revenue	642	450	496	324
Total Revenue	**53 935**	**52 748**	**51 302**	**49 089**
Employee costs	14 199	14 449	13 625	13 367
Depreciation	14 821	10 269	11 803	12 513
Finance costs	56	56	63	88
Other expenses	24 526	26 966	26 309	24 803
Total Expenses	**53 602**	**51 740**	**51 800**	**50 771**
Underlying Surplus (Deficit)	**333**	**1 008**	**(498)**	**(1 682)**
Capital grants	0	2 265	87	664
Financial assistance grant received in advance***	0	1 328	1 368	656
Offset Financial assistance grant in advance***	0	(1 368)	(656)	(625)
Share of interest in associate	0	304	159	(64)
Derecognition of assets	0	(35 336)	0	0
Contribution of non-current assets	305	14 564	4 503	4 457
Net Surplus (Deficit)	**638**	**(17 235)**	**4 963**	**3 406**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	3 189	1 078	6 343
Share of revaluation of assets of associate	0	96	0	0
Current year fair value adjustment in Southern Water	0	(69)	442	1 158
Total Other Comprehensive Income (Expense)	**0**	**3 216**	**1 520**	**7 501**
Comprehensive Surplus (Deficit)	**638**	**(14 019)**	**6 483**	**10 907**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Figures for the 2011-2012 financial year were restated due to a prior year error detected during the course of the 2012-2013 audit.*

**** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012*	2011*	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	51 395	50 548	49 331	46 893
Receivables	3 351	2 826	3 031	2 723
Inventories	138	139	134	144
Other	742	683	586	654
Total Current Assets	**55 626**	**54 196**	**53 082**	**50 414**
Payables	4 614	4 958	5 771	4 262
Borrowings	153	145	137	674
Provisions – employee benefits	3 382	3 058	2 777	2 392
Total Current Liabilities	**8 149**	**8 161**	**8 685**	**7 328**
Net Working Capital	**47 477**	**46 035**	**44 397**	**43 086**
Property, plant and equipment	373 394	389 140	386 947	405 507
Investments in associates	1 419	395	236	301
Investment in water corporation	202 098	202 167	201 725	200 567
Receivables	1 979	2 794	865	123
Total Non-Current Assets	**578 890**	**594 496**	**589 773**	**606 498**
Borrowings	703	856	1 001	1 138
Provisions – employee benefits	657	551	532	490
Total Non-Current Liabilities	**1 360**	**1 407**	**1 533**	**1 628**
Net Assets	**625 007**	**639 124**	**632 637**	**647 956**
Reserves	221 188	259 218	259 679	265 744
Accumulated surpluses	403 819	379 906	372 958	382 212
Total Equity	**625 007**	**639 124**	**632 637**	**647 956**

* *Figures for the 2011 and 2012 financial years were restated due to a prior year error detected during the course of the 2012-2013 audit.*

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	48 102	47 376	44 774	46 822
Cash flows from Government	5 010	5 408	4 967	5 003
Payments to suppliers and employees	(42 933)	(43 263)	(39 077)	(42 875)
Interest received	2 896	3 321	3 192	2 590
Finance costs	(57)	(63)	(90)	(279)
Cash from (used in) Operations	**13 018**	**12 779**	**13 766**	**11 261**
Capital grants and contributions	1 928	0	0	1 524
Payments for property, plant and equipment	(15 425)	(11 672)	(10 319)	(13 878)
Proceeds from sale of property, plant and equipment	671	247	465	403
Cash from (used in) Investing Activities	**(12 826)**	**(11 425)**	**(9 854)**	**(11 951)**
Repayment of borrowings	(145)	(137)	(674)	(647)
Loans advanced	800	0	(800)	0
Cash from (used in) Financing Activities	**655**	**(137)**	**(1 474)**	**(647)**
Net Increase (Decrease) in Cash	**847**	**1 217**	**2 438**	**(1 337)**
Cash at the beginning of the year	50 548	49 331	46 893	59 709
Less cash transferred to Southern Water	0	0	0	(11 479)
Cash at End of the Year	**51 395**	**50 548**	**49 331**	**46 893**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		1 008	(498)	(1 682)	(2 388)
Operating surplus ratio*, **	>1.0	1.91	(0.97)	(3.43)	(4.99)
Asset Management					
Asset sustainability ratio*	100%	106%	84%	53%	60%
Asset renewal funding ratio*, ***	90%-100%	92%	N/A	N/A	N/A
Road asset consumption ratio*	>60%	49.4%	47.6%	50.4%	51.1%
Asset investment ratio	>100%	150%	99%	82%	113%
Liquidity					
Net financial assets (liabilities) ($'000s)		45 237	43 806	42 144	40 660
Net financial liabilities ratio*, ****	0%-(50%)	85.8%	85.4%	85.9%	85.0%
Operational Efficiency					
Liquidity ratio	2:1	11.48	10.46	8.86	10.05
Current ratio	1:1	6.83	6.64	6.11	6.88
Interest coverage	3:1	227.39	201.84	151.96	39.36
Self financing ratio		24.2%	24.9%	28.0%	23.5%
Own source revenue		91.1%	91.0%	91.3%	89.7%
Debt collection	30 days	27	24	27	25
Creditor turnover	30 days	18	22	21	10
Rates per capita ($)		762	732	705	677
Rates to operating revenue		76.7%	75.4%	75.3%	73.4%
Rates per rateable property ($)		1 688	1 637	1 568	1 447
Operating cost to rateable property ($)		2 155	2 191	2 151	2 066
Employee costs expensed ($'000s)		14 449	13 625	13 367	12 664
Employee costs capitalised ($'000s)		1 540	1 374	1 479	1 198
Total employee costs ($'000s)		15 989	14 999	14 846	13 862
Employee costs as a % of operating expenses		26%	26%	26%	25%
Average staff numbers (FTEs)		220	212	220	217
Average staff costs ($'000s)		73	71	67	64
Average leave balance per FTE ($'000s)		18	17	15	13

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** The ratio is also called the Underlying result ratio.*

**** New ratio included in 2012-13. Information not obtained or unavailable to calculate prior year ratios.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Clarence City Council, liquid assets exceed total liabilities.

GLENORCHY CITY COUNCIL

SNAPSHOT

- 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.
- Total Equity at 30 June 2013 was $715.329m.
- Over the four year period under review, Council consistently reported an Underlying Deficit and a negative operating margin. This indicated that Council did not generate sufficient revenue to fulfil its operating requirements.

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

We noted deficiencies in keeping some policies updated and procedural errors in tender processes. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Key developments during the year included:

- 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 to reflect this
- Stage 1 of the Glenorchy Art and Sculpture Park project was completed
- a new strategic asset management system was scheduled to go live on 1 July 2013.

Major variations between the 2012-13 and 2011-12 financial years included:

- Rates revenue increased $2.005m as a result of higher charges
- Employee costs were $0.767m higher predominately due to a 3% general wage increase
- cash decreased $11.546m principally due to capital spending and repayments of borrowing. During the year Council invested $26.680m in Property, plant and equipment and repaid $5.645m of loans.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council engaged consulting engineers to establish the final close-out geometry and an associated timetable to progress this close-out at the Jackson Street Waste Management Centre. The assessment was completed in 2012-13 and the provision at 30 June 2013 reflected this.	We: • tested the costing report, calculations and underlying assumptions that supported Council's provision for restoration costs • obtained an understanding of the work performed and assessed the competence, capabilities and objectivity of the consulting engineers.

Description of Area	Impact on Our Audit Approach
Council's asset management unit performed a revaluation of road assets during 2012-13.	We: • tested the valuation calculations and underlying assumptions used to support the fair value of road assets • assessed the qualifications of those persons involved in conducting the valuation to ensure they had appropriate expertise in the area.
Council has a wide range of revenue streams with cash handling being managed at various locations. These include the Derwent Entertainment Centre, and the Jackson Street Waste Management Centre.	We have established a rotational review over these different cash handling sites. During 2012-13 we performed a site visit to the Derwent Entertainment Centre where we documented and assessed the key controls around the cash handling process. The same work was performed over the Jackson Street Waste Management Centre in 2011-12.
Council has a significant number of credit cards in use.	We documented and assessed the key controls around credit card use at Council, and tested the issuing and termination controls, as well as those controls around reconciliations of accounts.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 2 September 2013.

KEY DEVELOPMENTS

Provision for Landfill Restoration at Jackson Street

Council engaged consulting engineers to establish the final close-out geometry and an associated timetable to progress this close-out at the Jackson Street Waste Management Centre. The consultant's report provided a broad strategy to allow a budget to be developed for the cost of the close-out currently projected to be in 2023. The present value of the cost was assessed as $3.475m, which required the provision to increase by $2.404m, and was offset by an increase to the asset which will be depreciated over the remaining life of the landfill.

This was an issue raised by Audit in the past which has now been resolved.

Asset Management System

Council implemented a new strategic asset management system. The system went live on 1 July 2013 so had no impact on the 2012-13 audit.

We will perform a detailed review over the change management procedures in 2013-14.

Capital Works

During 2012-13 Council:

- completed Stage 1 of the Glenorchy Art and Sculpture Park, $5.229m
- spent $8.859m on the Derwent Park Reuse Project, which brought total costs to date to $13.037m.

KEY FINDINGS

Audit identified two issues during the audit process:

- several policies were identified as out of date
- procedural errors were identified in Council's tender process.

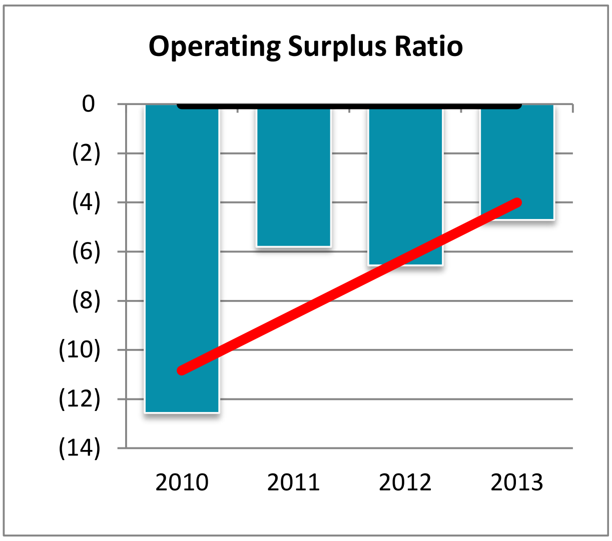
These matters were reported to, and are being addressed, by management.

The audit was completed satisfactorily with no other items outstanding.

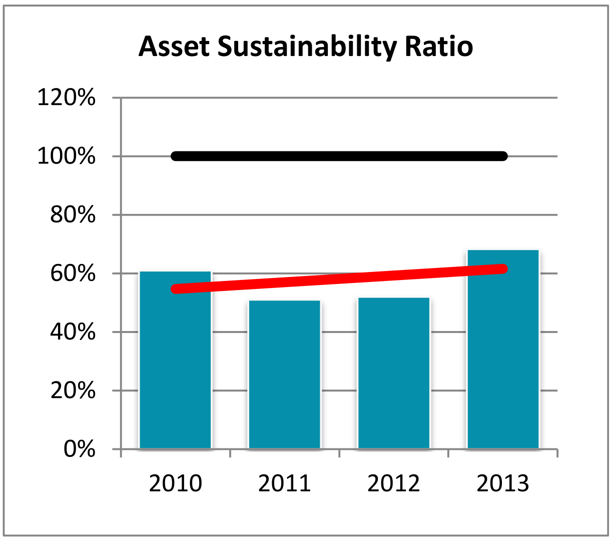
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



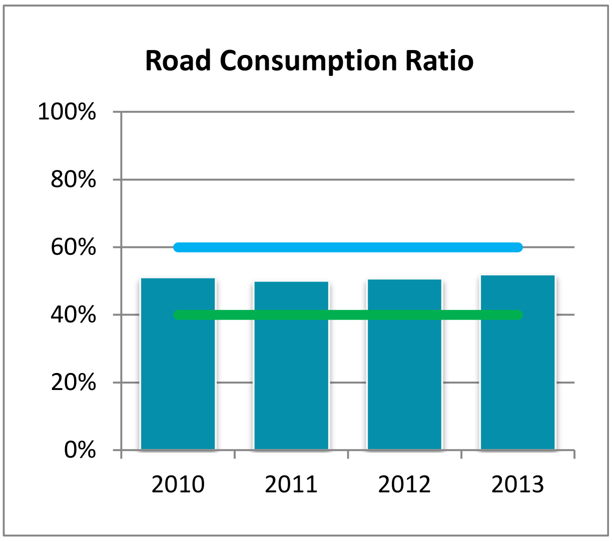
Council's Operating surplus ratios results reflect operating deficits in all four years. The negative ratios indicate that Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. The average ratio for the four years was negative 7.42. The improving trend is pleasing although we note that Council budgeted for Underlying deficits in each of the past four years.



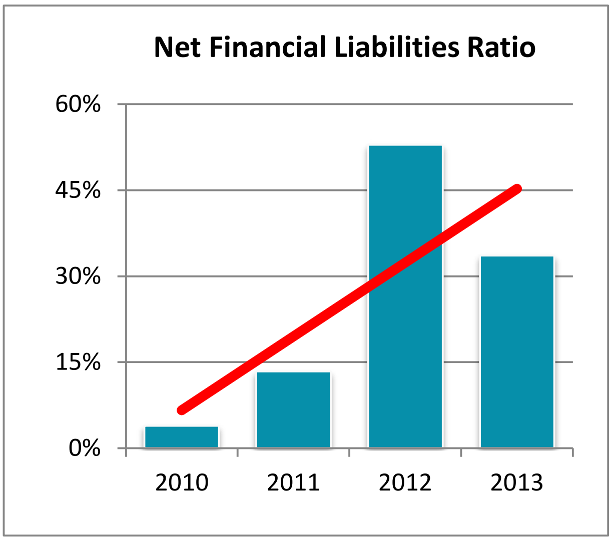
Asset sustainability ratio, despite the improvement in 2013, was below benchmark in all four years under review. Council's average ratio was 58% which is well below the 100% benchmark, indicating, subject to levels of maintenance expenditure and its long-term asset and financial management plans, Council was under-investing in existing assets.

Asset Renewal Funding Ratio

Council's long-term asset management plan indicated the Asset renewal funding ratio was at 100% at 30 June 2013, based on planned asset replacement expenditure. This ratio satisfied the benchmark of 90% to 100%. Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2023-24. Its financial plan covers a 10-year period.



The graph above indicates that at 30 June 2013 Council used (consumed) approximately 48% service potential of its road infrastructure assets. This indicates a moderate financial sustainability risk.



Council recorded positive Net financial liabilities ratios with liquid assets in excess of current and non-current liabilities over the four year period under review. These positive ratios indicate a strong liquidity position, with Council able to meet its existing commitments.

It is noted that Council has contractual commitments totalling $22.179m (2011-12, $20.770m) which are not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which had yet to be applied to the purpose for which they were provided, totalling $13.414m.

In addition, Council's Cash and cash equivalents are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $40.493m or 98.8% of the total Cash and cash equivalents balance of $40.493m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of governance arrangements indicated Council had an audit committee, with the committee:

- comprised of two independent members and three alderman
- taking an oversight role of Council's financial statements
- overseeing the internal audit program which is undertaken by an external accounting firm.

In addition, Council had long-term asset management and financial management plans. The asset management plan covers a period from 2013-14 to 2023-24, is detailed, regularly reviewed and covers all the elements required in relation to Council's key infrastructure assets. The long-term financial plan covers a ten year period. Both plans were formally adopted by Council.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's on-going deficits indicated it may not be generating sufficient revenue to meet operating requirements.

Council's liquidity was strong indicating it was in a sound position to meet its short-term commitments and may have capacity to borrow further funds should the need arise.

Asset sustainability ratio of 68% indicated Council was not sufficiently investing in its existing assets although its Road consumption ratio was in the moderate risk range at around 52%. These ratios were mitigated to an extent by Council's 100% Asset renewal funding ratio, which while below our benchmark, indicated the existence of long-term plans aimed at addressing infrastructure investment.

Council's governance arrangements are sound.

Based on these ratios we concluded that at 30 June 2013, Council was at moderate risk from operating and asset management perspectives but low financial sustainability risk from financial liabilities and governance perspectives.

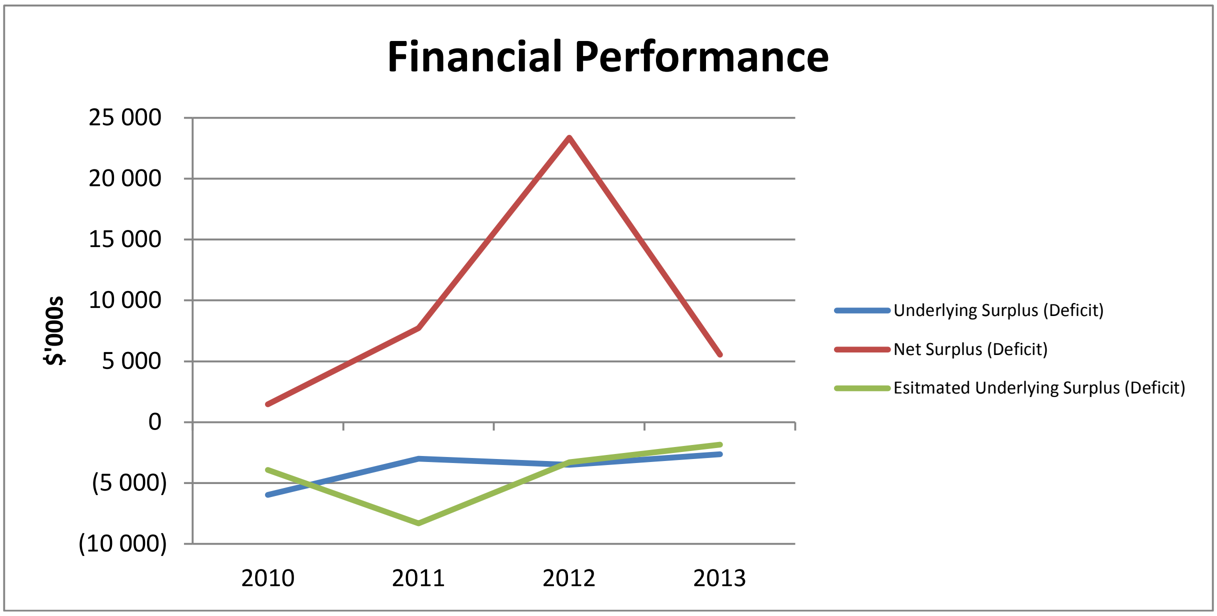
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

We note that as a result of restructuring processes and long term financial planning that has recently commenced and will continue in the years ahead, we consider current financial sustainability a reasonable risk with risk reductions and outcomes projected into the future.

FINANCIAL ANALYSIS

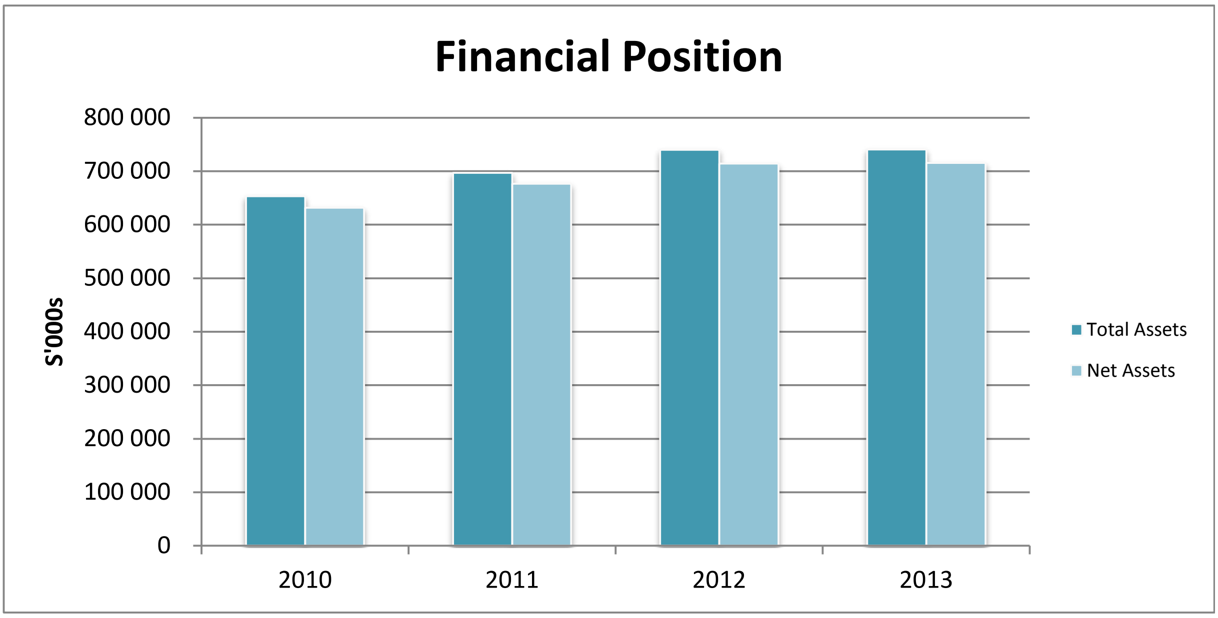


Council made Underlying Deficits in all four years under review. This was generally consistent with budgets and indicated it may not be generating sufficient revenue to meet operating requirements.

Within the Underlying Deficit, Total Revenue increased $2.379m from the prior year, principally due to higher rates of $2.005m. The increased rates charge was required to cover additional costs of $1.503m in 2012-13 and prevent a higher Underlying Deficit.

Despite these deficits, Council generated positive Cash flows from operations, $15.814m, in 2012-13, mainly due to significant non-cash expenditure such as Depreciation. This cash was used to significantly invest in new capital projects and maintain existing assets.

Net Surpluses were reported over the period, with the difference from the Underlying Deficit being driven by Capital grants received and Contributions of non-current assets. The significant decrease in the Net Surplus in 2012-13 to $5.528m was predominantly due to a large amount of Capital grants received in 2011-12, 20.966m, compared to $4.498m this period.



Council's Total Assets and Net Assets at 30 June 2013 were consistent with the prior year.

Major variations within Net Assets during 2012-13 included:

- decreased Cash, $11.546m, due to capital spending and repayments of borrowing. During the year Council invested $26.680m in Property, plant and equipment and repaid $5.645m of loans. Borrowings totalled $9.061m at 30 June 2013.

From 2010 to 2012, there was an increase in Total Assets, predominantly due to higher Property, plant and equipment as a result of revaluation increments and capital expenditure. Council has a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management. Infrastructure assets comprised of roads, bridges and stormwater and drainage assets represented the majority of Council's Property, plant and equipment.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	26 841	26 848	24 843	23 112
Fees and charges	10 072	8 707	9 876	10 670
Grants**	5 247	6 396	5 462	5 375
Interest revenue	1 372	2 261	1 717	1 401
Other revenue	12 510	11 587	11 522	10 943
Total Revenue	**56 042**	**55 799**	**53 420**	**51 501**
Employee costs	19 215	19 718	18 951	17 908
Depreciation	15 810	15 462	14 747	14 506
Finance costs	931	556	646	686
Other expenses	21 944	22 697	22 586	21 392
Total Expenses	**57 900**	**58 433**	**56 930**	**54 492**
Underlying Surplus (Deficit)	**(1 858)**	**(2 634)**	**(3 510)**	**(2 991)**
Capital grants	3 873	4 498	20 966	4 714
Financial assistance grant received in advance**	0	1 143	1 224	597
Offset Financial assistance grant in advance**	0	(1 224)	(597)	(571)
Contributions of non-current assets	0	3 745	5 275	2 564
Gain on revalution of investment properties	0	0	0	3 411
Net Surplus (Deficit)	**2 015**	**5 528**	**23 358**	**7 724**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(3 839)	13 729	36 013
Current year fair value adjustment Southern Water	0	(38)	434	1 136
Total Comprehensive Income (Expense)	**0**	**(3 877)**	**14 163**	**37 149**
Comprehensive Surplus (Deficit)	**2 015**	**1 651**	**37 521**	**44 873**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figure enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	40 966	52 512	24 045	20 119
Receivables	2 361	1 363	2 835	1 331
Inventories	158	133	147	122
Other	4 778	4 108	1 989	3 573
Total Current Assets	**48 263**	**58 116**	**29 016**	**25 145**
Payables	5 124	3 553	2 228	2 618
Borrowings	133	1 482	1 200	1 374
Provisions – employee benefits	4 037	3 851	4 151	4 397
Other	1 642	1 152	1 109	928
Total Current Liabilities	**10 936**	**10 038**	**8 688**	**9 317**
Net Working Capital	**37 327**	**48 078**	**20 328**	**15 828**
Property, plant and equipment	486 389	478 136	463 147	427 776
Investment in water corporation	198 436	198 474	198 040	196 904
Investment properties	7 327	4 970	6 487	3 059
Other	1	1	3	7
Total Non-Current Assets	**692 153**	**681 581**	**667 677**	**627 746**
Borrowings	8 928	13 224	9 266	9 787
Provisions – employee benefits	1 747	1 686	1 510	1 431
Other	3 476	1 071	1 072	1 072
Total Non-Current Liabilities	**14 151**	**15 981**	**11 848**	**12 290**
Net Assets	**715 329**	**713 678**	**676 157**	**631 284**
Reserves	334 675	377 265	304 345	265 460
Accumulated surpluses	380 654	336 413	371 812	365 824
Total Equity	**715 329**	**713 678**	**676 157**	**631 284**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	38 197	39 895	37 922	35 833
Distributions received - Southern Water	8 888	8 749	8 922	7 375
Cash flows from Government	6 404	6 593	5 670	5 984
Payments to suppliers and employees	(39 373)	(39 176)	(41 297)	(41 112)
Interest received	2 261	1 717	1 558	687
Finance costs	(563)	(652)	(686)	(655)
Cash from (used in) Operations	**15 814**	**17 126**	**12 089**	**8 112**
Dividends received - Hobart Water		0	0	0
Payments for property, plant and equipment	(26 429)	(14 156)	(12 572)	(10 839)
Proceeds from sale of property, plant and equipment	215	290	385	277
Insurance recovery	0	0	0	2 186
Cash from (used in) Investing Activities	**(26 214)**	**(13 866)**	**(12 187)**	**(8 376)**
Capital grants and contributions	4 498	20 966	4 714	2 674
Proceeds from borrowings	0	5 440	680	680
Repayment of borrowings	(5 644)	(1 199)	(1 370)	(1 461)
Cash from (used in) Financing Activities	**(1 146)**	**25 207**	**4 024**	**1 893**
Net Increase (Decrease) in Cash	**(11 546)**	**28 467**	**3 926**	**1 629**
Cash at the beginning of the year	52 512	24 045	20 119	18 875
Less cash transferred to Southern Water	0	0	0	(385)
Cash at End of the Year	**40 966**	**52 512**	**24 045**	**20 119**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(2 634)	(3 510)	(2 991)	(5 981)
Operating surplus ratio*, **	>0	(4.72)	(6.57)	(5.81)	(12.57)
Asset Management					
Asset sustainability ratio*	100%	68%	52%	51%	61%
Asset renewal funding ratio*, ***	90% - 100%	100%	78%	91%	N/A
Road asset consumption ratio*	>60%	51.9%	50.6%	50.0%	51.0%
Asset investment ratio	>100%	171%	96%	87%	78%
Liquidity					
Net financial assets (liabilities) ($'000s)		18 743	28 265	6 882	1 853
Net financial liabilities ratio*, ****	0 - (50%)	33.6%	52.9%	13.4%	3.9%
Operational Efficiency					
Liquidity ratio	2:1	5.57	7.84	5.28	4.93
Current ratio	1:1	4.41	5.79	3.34	2.70
Interest coverage	3:1	27.09	25.27	16.62	11.38
Self financing ratio		28.3%	32.1%	23.5%	17.0%
Own source revenue		88.5%	89.8%	89.6%	88.8%
Debt collection	30 days	24	14	31	17
Creditor turnover	30 days	25	31	5	14
Rates per capita ($)		592	554	518	446
Rates to operating revenue		48.1%	46.5%	44.9%	41.6%
Rates per rateable property ($)		1 281	1 189	1 096	947
Operating cost to rateable property ($)		2 787	2 724	2 584	2 562
Employee costs expensed ($'000s)		17 908	18 951	17 908	18 186
Employee costs capitalised ($'000s)		3 600	3 728	3 185	2 175
Total employee costs ($'000s)		21 508	21 348	21 093	20 361
Employee costs as a % of operating expenses		34%	33%	33%	34%
Average staff numbers (FTEs)		272	269	299	254
Average staff costs ($'000s)		79	79	71	80
Average leave balance per FTE ($'000s)		21	21	19	23

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *The ratio is also called the Underlying result ratio.*

*** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

**** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Glenorchy City Council, liquid assets exceed total liabilities.

HOBART CITY COUNCIL

SNAPSHOT

- Council's underlying result improved from deficits in the past three years to an Underlying 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 $0.984m (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.

We identified moderate risk findings in multi-bay parking revenue reconciliations, general journal postings and processing of payments received. These were reported to management who addressed the recommendations.

The audit was completed with no other items outstanding.

Key developments for the year included:

- revaluation of assets, $34.877m
- completion of the $15.000m Argyle Street Car Park redevelopment
- entering into a 20 year lease for the Trafalgar Car Park
- more economic sourcing of asphalt by closure of the asphalt plant
- actuarial gain on Council's defined benefits scheme of $5.840m.

Major variations between the 2012-13 and 2011-12 financial years included:

- grant income fell mainly due to a lower Financial Assistance Grant which reduced from $3.740m in 2012 to $2.430m in 2013, a total reduction of $1.310m
- Fees and charges increased by $2.689m, or 10.2%, due to higher statutory fines and car parking fees and greater usage of Argyle Street Car Park.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Capital expenditure of $22.083m was proposed for 2012-13, consisting asset renewal of $17.688m and new assets of $4.395m.	We audited processes to ensure that capital expenditure was appropriately accounted for and disclosed in the financial report.
Council revalued its other structures assets in the current year. Revaluations require estimations, judgements and complex calculations. There is a potential for material misstatement of assets and depreciation as a result of this process.	We audited the valuation reports, calculations and underlying assumptions supporting fair values of these assets.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013. An unqualified audit opinion was issued on 20 September 2013.

KEY DEVELOPMENTS

Myer Redevelopment

In September 2007, the Liverpool Street site of the Myer building in Hobart was destroyed by fire.

In October 2011, a closed meeting of Council considered and approved numerous agreements with the developer and Myer to assist in the redevelopment of the Myer retail site in Liverpool Street.

Trafalgar Car Park Agreement

Council entered into a 20 year agreement for the lease of the Trafalgar Car Park.

Asphalt Plant

Council reviewed the economic benefits of the operation of the asphalt plant at Lenah Valley and concluded that asphalt could be sourced more cheaply from other sources. The plant was closed and arrangements were made to co-operate with other southern councils to enter into a tender arrangement to obtain asphalt.

Defined Benefit Scheme

Council's defined benefit scheme with Quadrant was in a restoration phase after losses in recent years. Council contributed $0.750m to the fund this year as part of this restoration.

KEY FINDINGS

There were no high risk findings identified during the course of the audit. However, there were three moderate risk findings which involved:

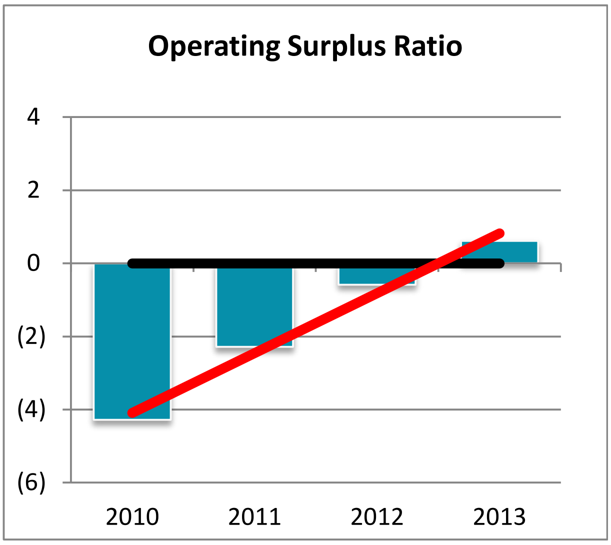
- the absence of a reconciliation between multi-bay parking meter receipts and the amount banked
- the need for independent review of general journal postings
- the need to improve controls around processing payments received.

Council responded by putting in place processes to address the deficiencies raised.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

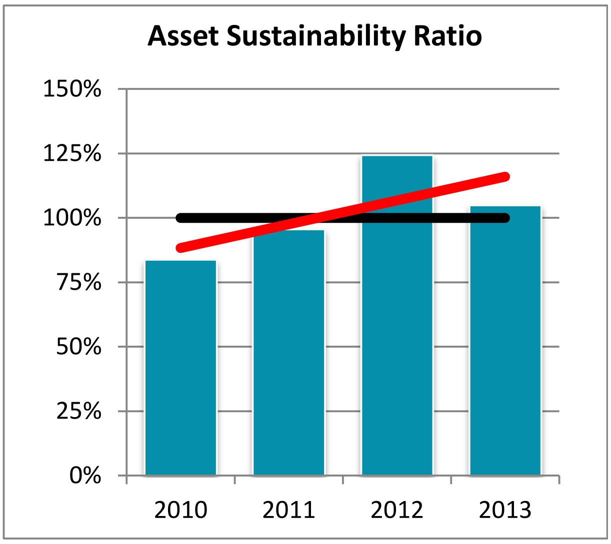
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded operating deficits in each of the three years prior to 2012-13 when it reported a surplus. This remains consistent with Council's 20 year long-term financial management plan. On average over the past four years, the ratio was negative 1.64, below our benchmark of zero resulting in our assessment that Council was at moderate risk. However, the trend line was heading in the right direction.

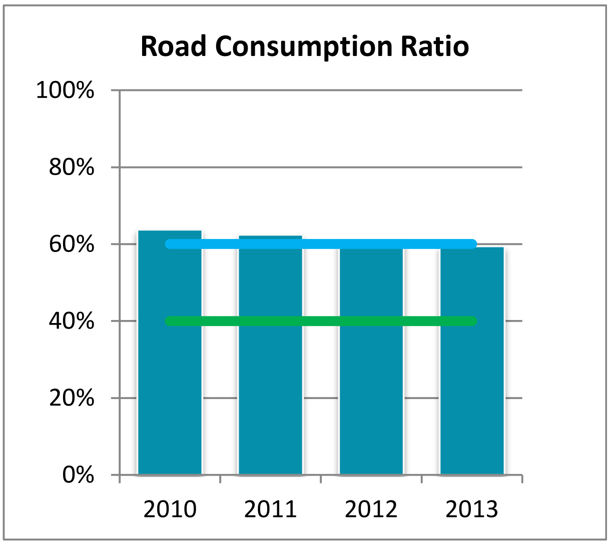
As noted in prior years, Council generates a high percentage of its revenue internally and is not heavily reliant on grant funding.



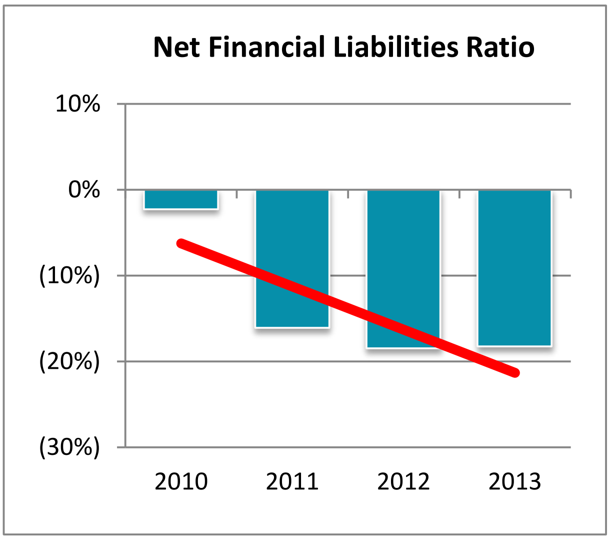
The Asset sustainability ratio was below the 100% benchmark in the first two years reviewed and above benchmark in the past two years. Expenditure on existing assets was consistent with Council's asset management plan and meet the requirements of the plan.

Asset Renewal Funding Ratio

Council's long-term asset management plan indicated the Asset renewal funding ratio was 100% at June 2013, which satisfies our 90% to 100% benchmark. This is based on planned asset replacement expenditure and asset replacement expenditure actually required, sourced from Council's long-term financial management plan 2012-2032. Renewal forecasts were completed by Council's Asset Services Unit and included in an overarching Asset management plan in 2011, which was endorsed by the Asset Management Steering Committee in April 2012.



The graph above indicates that at June 2013, Council had used (consumed) approximately 40% of its road assets. This indicated Council was at low financial sustainability risk in relation to its road infrastructure.



Council recorded a negative Net financial liabilities ratio in each of the past four years. Council's negative ratios are within the benchmark of 0% to negative 50% and indicated a satisfactory liquidity position, with Council able to meet existing commitments and having a capacity to borrow. The trend was downwards due to higher Borrowings.

It was noted, that Council had operating lease commitments of $24.982m at 30 June 2013 (2011-12, $0.644m), principally relating to the Trafalgar Car Park lease, and capital contractual commitments of $5.941m ($9.642m) together with a contingent liability for the Myer redevelopment which were not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio.

In addition, Council's Cash and cash equivalents are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it has an active audit committee with membership consisting of three aldermen and two external members. The audit committee:

- provides oversight of the risk framework, strategic risk register and workplace health and safety matters
- influences and manages an internal audit program and follows up internal audit work done
- scrutinises and recommends adopting long-term asset management and financial management plans
- reviews Council's annual financial statements, focusing on accounting policies, areas of significant accounting estimates, compliance with accounting standards and other reporting requirements, recommending signing by the General Manager prior to submission to the Auditor-General
- liaises with the external auditors.

Conclusion as to Financial Sustainability

Council recorded steadily reducing operating deficits in each of the past three years and achieved a surplus position in 2013. The average Operating surplus ratio for the four years was negative 1.64, below our benchmark of zero. The improving trend was consistent with Council's 20 year long-term financial management plan.

Council's Asset sustainability ratio met our 100% benchmark and its Road consumption ratio was in the low risk range. Its Asset renewal funding ratio was within our 90% to 100% benchmark.

Its Net financial liabilities ratio was negative but within the benchmark of 0% to negative 50% indicating low financial sustainability risk, an ability to service debt and a capacity to borrow should the need arise.

Council's audit committee achieved a low risk rating because it was effective in having an audit committee and internal audit function and overseeing long-term asset management and financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at low financial sustainability risk from asset management, net financial liabilities and governance perspectives but moderate risk from a financial operating perspective.

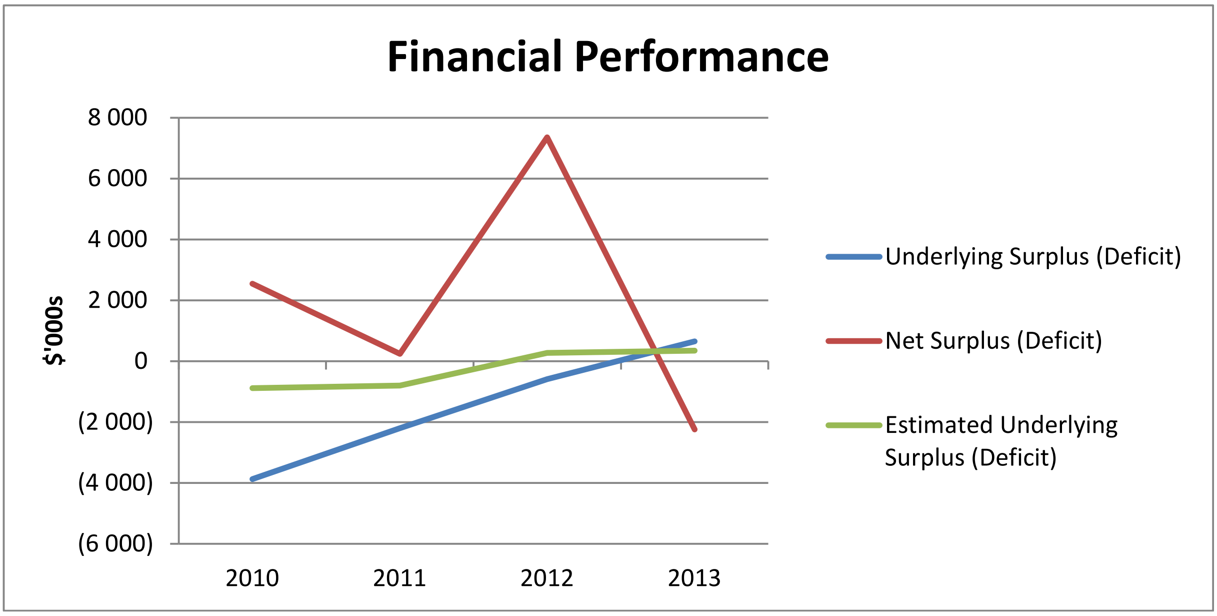
Council's Comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Hobart City Council strongly believes it is financially sustainable and agrees with the low risk assessment for asset management, net financial liabilities and governance. The moderate risk assessment for the operating result stems from a retrospective view of the last four years. Council also believes a low risk assessment for the operating result to be appropriate given it has successfully moved to an operating surplus which is a stated aim of its long term financial plan.

FINANCIAL ANALYSIS

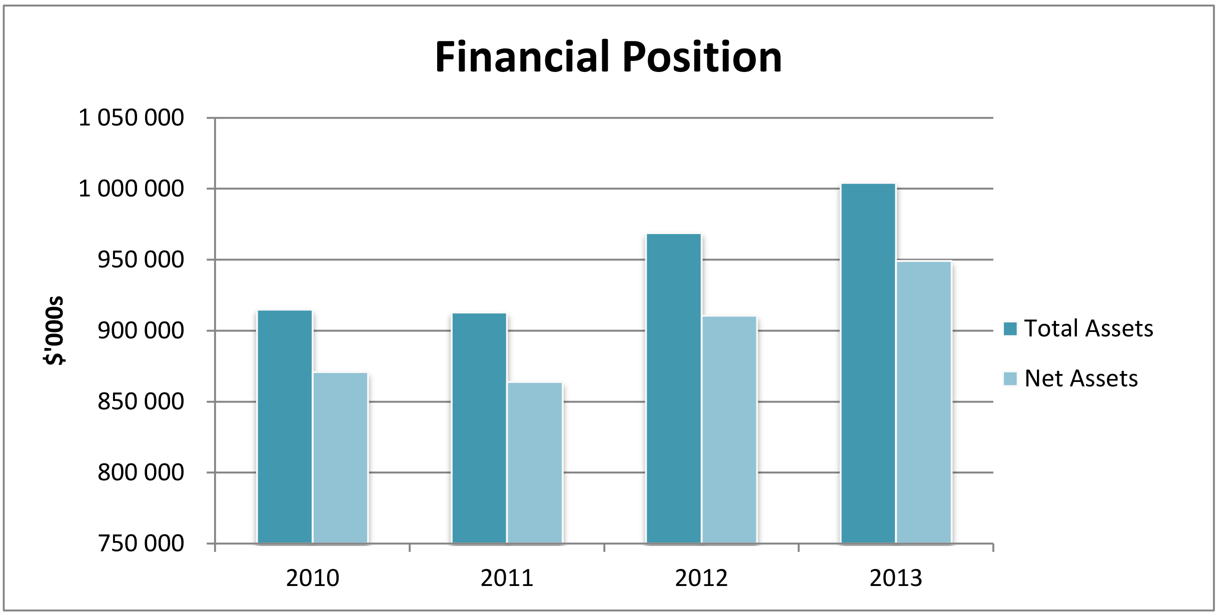


Council's Underlying Surplus this year was close to its Estimated Underlying Surplus and shows an improving trend over the four years under review. The worse than budget difference in 2010 was mainly due to higher material costs, $0.985m, and higher Employee costs, $1.351m, that year. This year's Underlying Surplus of $0.651m was an improvement on the prior year result and reflects Council's strategy of aiming for an Underlying Surplus.

Council's Net Deficit for 2012-13 of $2.247m was influenced by the:

- net loss on sale of Property plant and equipment of $0.984m, mainly Argyle Street Car Park land
- impairment from closure of the asphalt plant, $0.930m
- transfer of $1.644m of grant funds for upgrading and replacing lighting with energy efficient lights to another council.

On the other hand, items contributing positively to the Net Deficit were Financial assistance grants received in advance of $1.362m and Contributions of non-current assets, $0.656m. The 2012 Net Surplus of $7.350m was mainly attributed to one-off Government grants for the energy efficient street light roll out, $3.375m, New Town Bay sport and recreation facilities, $2.500m, Taste Festival cooking kiosks, $1.300m, Wellesley Park Sport and Recreation Facilities, $1.200m, and other projects in that year.



Council's Total Assets, Total Liabilities and Net Assets increased fairly steadily over the period under review. An exception was a fall in Net Assets in 2011 of $7.052m, mainly due to increased employee liabilities associated with a shortfall in the defined benefit scheme of $4.207m and increased in Borrowings of $1.569m.

Total Assets increased by $35.216m at 30 June 2013 due principally to a net asset revaluation of other assets of $34.877m and increased in current assets of $2.386m mainly due to $1.700m in land sales receivable offset by reduced in cash of $6.653m relating to asset expenditure.

Council has a number of functional activities that provide a broad level of services to its ratepayers. However, the majority of its funding and assets relate to works and infrastructure management. At 30 June 2013, Council managed $1.004bn in assets, consisting of mainly recreation and culture assets, roads, stormwater, land and buildings and community amenities. Consequently, Council's financial position is dominated by its significant infrastructure and other assets. In comparison, Council's liabilities, totalling $55.050m, related to Payables, employee entitlements, other provisions and Borrowings.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	66 600	67 178	62 985	58 455
Fees and charges	29 351	29 164	26 475	26 314
Grants**	3 215	3 537	3 450	4 552
Interest revenue	1 144	1 788	1 762	2 218
Other revenue	4 979	4 936	5 017	4 635
Total Revenue	**105 289**	**106 603**	**99 689**	**96 174**
Employee costs	48 345	48 542	45 565	44 605
Depreciation	16 131	16 871	15 974	15 764
Finance costs	2 296	2 011	2 642	773
Other expenses	38 167	38 528	36 097	37 234
Total Expenses	**104 939**	**105 952**	**100 278**	**98 376**
Underlying Surplus (Deficit)	**350**	**651**	**(589)**	**(2 202)**
Capital grants	676	160	9 081	1 977
Financial assistance grant received in advance	0	1 362	1 518	719
Offset Financial assistance grant in advance**	0	(1 518)	(719)	(672)
Lenah Valley Water Supply Augmentation Project	0	0	(1 959)	0
Net loss on disposal of property	0	(984)	0	0
Transfer of grant funds	0	(1 644)	0	0
Asphalt plant closure	0	(930)	0	0
Contributions of non-current assets	0	656	18	421
Net Surplus (Deficit)	**1 026**	**(2 247)**	**7 350**	**243**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	34 877	43 867	(4 223)
Current year fair value adjustment Southern Water	0	(38)	434	1 135
Actuarial gain (loss) defined benefit superannuation plan	0	5 840	(4 938)	(4 207)
Total Other Comprehensive Income (Expense)	**0**	**40 679**	**39 363**	**(7 295)**
Comprehensive Surplus (Deficit)	**1 026**	**38 432**	**46 713**	**(7 052)**

** The Estimate represents Council's original estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset enables the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	30 539	37 192	30 295	38 661
Receivables	5 041	2 655	3 109	3 222
Inventories	314	287	331	334
Assets held for sale	2 150	0	0	0
Other	70	95	22	200
Total Current Assets	**38 114**	**40 229**	**33 757**	**42 417**
Payables	7 829	6 222	5 204	6 477
Borrowings	1 013	774	352	201
Provisions – employee benefits	10 569	9 727	9 457	8 460
Other	3 184	3 086	3 336	2 927
Total Current Liabilities	**22 595**	**19 809**	**18 349**	**18 065**
Net Working Capital	**15 519**	**20 420**	**15 408**	**24 352**
Property, plant and equipment	742 514	705 653	656 586	651 160
Investment in water corporation	198 252	198 290	197 856	196 721
Investment property	25 038	24 538	24 414	24 407
Other	228	220	226	244
Total Non-Current Assets	**966 032**	**928 701**	**879 082**	**872 532**
Borrowings	13 316	11 829	7 603	6 105
Provisions – employee benefits	3 171	3 159	1 321	1 401
Superannuation liability	8 083	15 954	13 915	10 655
Other	7 885	7 515	7 700	7 720
Total Non-Current Liabilities	**32 455**	**38 457**	**30 539**	**25 881**
Net Assets	**949 096**	**910 664**	**863 951**	**871 003**
Reserves	558 911	527 949	479 184	485 254
Accumulated surpluses	390 185	382 715	384 767	385 749
Total Equity	**949 096**	**910 664**	**863 951**	**871 003**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	103 034	96 687	92 402	85 470
Cash flows from Government and others	3 425	4 826	4 717	3 594
Payments to suppliers and employees	(93 614)	(89 311)	(85 136)	(79 785)
Interest received	1 825	1 985	2 123	1 999
Finance costs	(719)	(502)	(402)	(458)
Cash from (used in) Operations	**13 951**	**13 685**	**13 704**	**10 820**
Capital grants and contributions	160	9 081	1 977	1 588
Dividends received - Hobart Water	0	0	0	1 860
Distributions received - Southern Water	2 096	2 119	2 096	1 936
Payments for property, plant and equipment	(25 365)	(23 278)	(28 213)	(20 274)
Proceeds from sale of property, plant and equipment	779	642	421	652
Cash from (used in) Investing Activities	**(22 330)**	**(11 436)**	**(23 719)**	**(14 238)**
Proceeds from borrowings	2 500	5 000	1 850	1 750
Contribution from Southern Water to repay loan debt	0	0	0	5 067
Repayment of borrowings	(774)	(352)	(201)	(5 020)
Cash from (used in) Financing Activities	**1 726**	**4 648**	**1 649**	**1 797**
Net Increase (Decrease) in Cash	**(6 653)**	**6 897**	**(8 366)**	**(1 621)**
Cash at the beginning of the year	37 192	30 295	38 661	40 282
Cash at End of the Year	**30 539**	**37 192**	**30 295**	**38 661**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Operating surplus deficit ($'000s)		651	(589)	(2 202)	(3 873)
Operating surplus ratio*, **	>0	0.61	(0.59)	(2.29)	(4.28)
Asset Management					
Asset sustainability ratio*	100%	105%	124%	96%	84%
Asset renewal funding ratio*, *** 2015 to 2017	90%-100%	100%	100%	100%	N/A
Road asset consumption ratio*	>60%	59.5%	60.8%	62.5%	63.8%
Building consumption ratio		67.5%	65.6%	66.3%	65.4%
Drainage consumption ratio		58.4%	58.9%	33.9%	34.2%
Parks and recreation consumption ratio		53.1%	46.6%	47.7%	52.6%
Total asset comsumption ratio*		67.0%	64.7%	59.3%	60.1%
Asset investment ratio	>100%	150%	146%	179%	127%
Liquidity					
Net financial liabilities ($'000s)		(19 470)	(18 419)	(15 484)	(2 063)
Net financial liabilities ratio*, ****	0%-(50%)	(18.3%)	(18.5%)	(16.1%)	(2.3%)
Operational Efficiency					
Liquidity ratio	2:1	3.11	4.12	3.96	4.55
Current ratio	1:1	1.69	2.03	1.84	2.35
Interest coverage	3:1	18.40	26.26	33.09	22.62
Self financing ratio		13.1%	13.7%	14.2%	12.0%
Own source revenue		96.7%	96.5%	95.3%	96.1%
Debt collection	30 days	12	10	12	13
Creditor turnover	30 days	32	26	19	31
Rates per capita ($)		1 334	1 251	1 158	1 095
Rates to operating revenue		63.0%	63.2%	60.8%	60.8%
Rates per rateable property ($)		2 855	2 676	2 484	2 339
Operating cost to rateable property ($)		4 502	4 261	4 180	4 010
Employee costs expensed ($'000s)		48 542	45 565	44 605	41 543
Employee costs capitalised ($'000s)		2 846	2 600	2 110	1 787
Total employee costs ($'000s)		51 388	48 165	46 715	43 330
Employee costs as a % of operating expenses		46%	45%	45%	44%
Average staff numbers (FTEs)		616	615	596	591
Average staff costs ($'000s)		83	77	78	73
Average leave balance per FTE ($'000s)		22	21	18	17

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *This ratio is also called the Underlying result ratio.*

*** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

**** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where the ratio is positive liquid assets exceed total liabilities.*

LAUNCESTON CITY COUNCIL

SNAPSHOT

- 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. Although Council achieved better results than budget in all four years, continued budgeted deficits are not sustainable.
- Its Comprehensive Deficit was $4.626m resulting in Net Assets at 30 June 2013 of $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.

As a result of our audit, we recommended that Council consider adopting a policy for future revaluations of its museum collection assets. Council has agreed to investigate this matter.

The audit was completed satisfactorily with no other items outstanding.

Key developments included:

- the continuation of the Invermay Flood Protection Enhancement Project
- self-initiated external reviews of operations and depreciation
- the possibility of a future charge from TasWater relating to the combined sewerage and stormwater system
- a possible future liability under the carbon pricing legislation.

Other than a $7.010m decrease in the net defined benefit superannuation liability, there were no major variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to remaining infrastructure assets (such as flood protection and parks and recreation) to maintain the currency of valuation between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.
Council recorded a provision for rehabilitation of its refuse disposal area, which is a discounted estimate of future expenditure to rehabilitate the landfill site.	We tested the calculation of the provision and verified the base data to information provided by Council engineers.
Council recorded a material allowance for impairment for fines receivable. The calculation of the impairment amount is an estimate and based upon judgement.	We tested the impairment allowance calculations for accuracy and consistency with Council's policy.

Description of Area	Impact on Our Audit Approach
Council has employees who are members of the City of Launceston Employees Superannuation Fund, which is a sub-fund of the Quadrant Superannuation Scheme. The value of the unfunded superannuation liability and movements recognised in the financial statements are based on an annual valuation. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.	We assessed the competence and qualifications of the actuary performing the valuation. We tested the financial statement disclosure to ensure it accurately reflected the actuarial report and tested the reasonableness of the assumptions used by the actuary. In undertaking this work, we applied the provisions of ASA 620 *Using the Work of an Auditor's Expert*.

AUDIT OF THE 2012-13 STATEMENTS

Initial signed financial statements were received on 14 August 2013, with amended statements received on 23 September 2013. An unqualified audit report was issued on 24 September 2013.

KEY DEVELOPMENTS

Invermay Flood Protection Enhancement Project

The Invermay Flood Protection Enhancement Project was once again a significant capital project during the year. The initial project budget was $39.000m funded equally by the State and Commonwealth Governments and Council. In 2010-11, the budgeted project cost was revised to $58.300m, with the State and Commonwealth Governments committing an additional $6.750m each to the project.

At 30 June 2013, Council committed, both in existing and future costs, and including funds provided by the State and Commonwealth, approximately $50.000m to the project, which included an amount estimated to finalise the compulsory acquisition of properties in the flood levee area. Currently, only one property settlement remains uncompleted.

Council is confident the total project cost will meet the revised budget of $58.300m when completed.

Review of Council Operations

Council engaged an external consultant to conduct a review of its operations, including its form and function. The review was based on survey results of approximately 500 staff across all departments. Staff were asked for input on how to better provide services and reduce costs. The resulting report was presented to Council management in May 2013, who are in the process of implementing the cost-saving strategies recommended.

Depreciation Analysis Review

Council engaged an external consultant to undertake a review of depreciation with reference to the following specific areas of analysis:

- depreciation drivers including useful life, unit rates, valuations and capitalisation policy
- appropriateness of depreciation methods used
- asset information to determine underlying causes of increases in Depreciation expense.

The report was presented to Council's audit committee in August 2012. The recommendations made in the report were addressed by management with the following outcomes:

- formalisation of Council's capitalisation policy
- adoption of longer lives for drainage and road assets.

Carbon Tax Liability

The carbon pricing mechanism, introduced by the *Clean Energy Act 2011* and the *National Greenhouse and Energy Reporting Act 2007*, became effective 1 July 2012. Council operates a waste centre that includes a landfill site which is subject to the legislation. An independent assessment was commissioned that determined Council did not have a carbon tax liability at 30 June 2013 but a future liability may arise.

Ben Lomond Water Stormwater Charge

Launceston City has a combined sewerage and stormwater system, which was transferred to Ben Lomond Water on 1 July 2009. Council was advised by Ben Lomond Water (now TasWater) that it will be charged $5.800m from 1 July 2013, for the costs of maintaining the combined system. The charge has been disputed by Council.

KEY FINDINGS

Museum Collection

Collections belonging to the Queen Victoria Museum and Art Gallery were valued and recognised in 2009-10 at $231.913m. At that time the value was based on an independent valuation.

In our Report No 4 of 2012-13, we noted the valuation had not been updated since 2009-10 and items acquired and added to the collection had not been recognised.

In 2012-13, Council recognised museum collection additions of $0.325m. However, no revaluation of the collection was undertaken, resulting in a balance at 30 June 2013 of $232.238m.

We acknowledge that as the collection is not subject to depreciation, the currency of the valuation is not as important as other infrastructure asset classes held by Council. Nonetheless, we recommend that Council adopts a revaluation model for these assets.

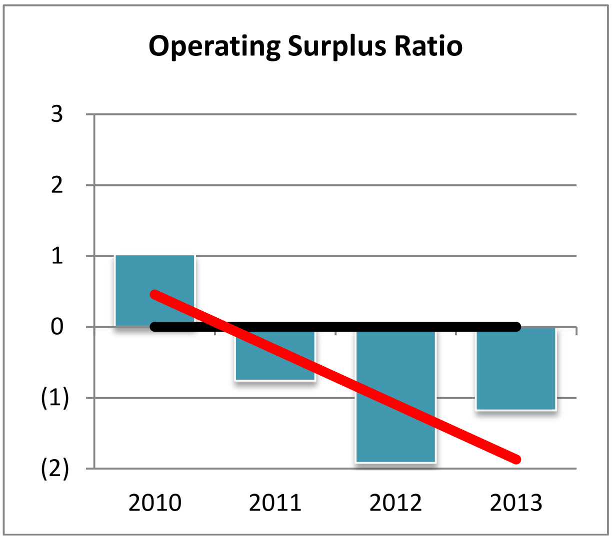
Council agreed to obtain further information and review options in relation to the revaluation of the museum collection.

The audit was completed satisfactorily with no other matters outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

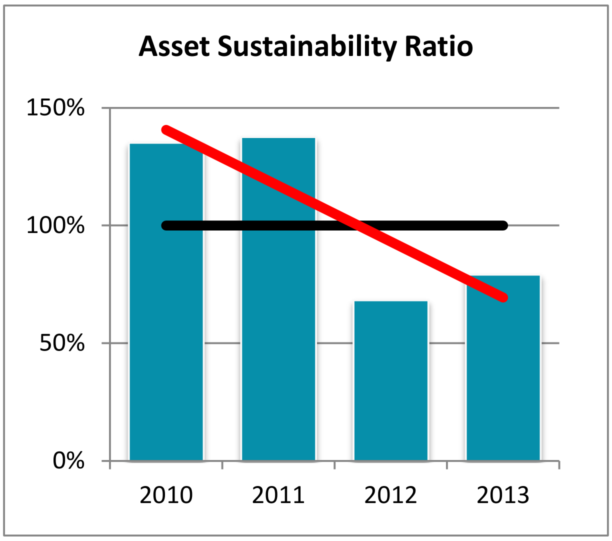
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded Underlying Deficits in the last three years compared with a surplus in 2009-10. Over the four year period, Council averaged an Operating surplus ratio of negative 0.71, which indicated that Council generated insufficient revenue to fulfil its operating requirements, including Depreciation charges.

Council is addressing the deficit situation and has undertaken reviews of its operations and Depreciation (as noted previously).

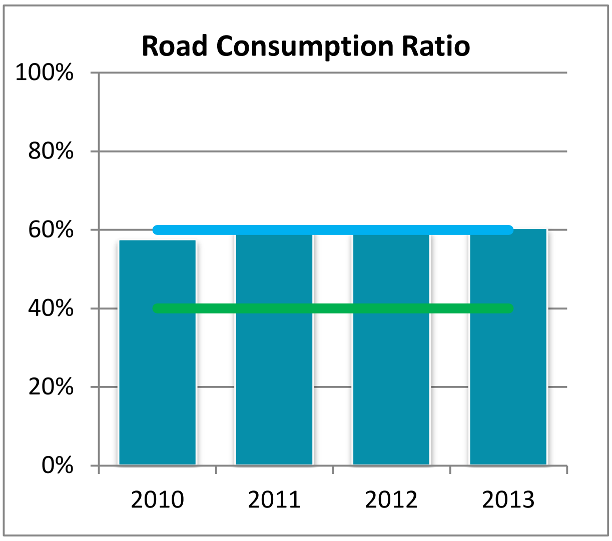


The graph shows Council's ratio was above benchmark in 2009-10 and 2010-11, but well below it the other two years. The average over the period was 105%, slightly above our 100% benchmark.

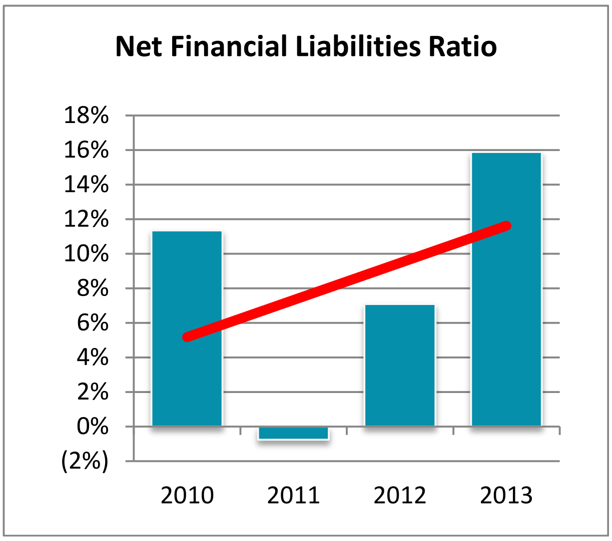
The lower ratios in 2011-12 and 2012-13 were partly due to the large proportion of capital expenditure on new assets, which included the Invermay Flood Protection Enhancement Project.

Asset Renewal Funding Ratio

Council's long-term asset management plan indicated the Asset renewal funding ratio was 100% at 30 June 2013, better than or not less than 90% benchmark. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's strategic financial plan and long-term asset management plan for 2014 to 2023. We understand it is Council's intention to undertake renewal works in line with long-term asset management plan. Neither the long-term asset management plan nor the strategic financial plan are audited.



The above graph indicates that at 30 June 2013 Council had used (consumed) approximately 40% of the service potential of its road infrastructure assets. This indicated a low financial sustainability risk, with Council at 30 June 2013, having sufficient capacity to continue to provide services to its ratepayers.



Council recorded a positive ratio at 30 June 2013, with liquid assets exceeding total liabilities by $14.014m. The positive ratio is above our benchmark of nil to negative 50%. Council was in a sound liquidity position able to meet existing commitments.

It is noted that Council had contractual commitments of $5.306m at 30 June 2013 (2011-12, $7.312m) which were not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio.

In addition, Council's Cash and financial assets were subject to a number of internal and external restrictions that limit the amount available for discretionary use. At 30 June 2013, restricted funds represented $25.022m or 43.7% of the total Cash and financial assets balance of $57.299m. Commitments and restricted funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it had an audit committee with membership consisting of three aldermen and two independent members. The Committee:

- oversees the internal audit program, undertaken by an external accounting firm
- liaises with the external auditors
- reviews the annual financial statements prior to their submission to the General Manager for signature.

Council's long-term asset and financial management plans were both given low risk ratings as they were detailed, evidence existed that they were regularly reviewed, covered key elements required and were formally adopted by Council.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded a small operating surplus in 2009-10 but operating deficits in the past three years.

The Asset sustainability ratio indicated Council, based on our 100% benchmark, invested adequately in existing assets over the past four years. Council's Road asset consumption ratio remained steady at around 60% over the four year period meaning this infrastructure had sufficient service potential to meet the requirements of the community. In addition, Council's Asset renewal funding ratio met our minimum 90% target.

Council's Net financial liabilities ratio was positive indicating its liquidity was strong and it had capacity to borrow should the need arise.

From a governance perspective, Council had an active audit committee which includes independent members. Council has both long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at moderate financial sustainability risk from an financial operating perspective and low financial sustainability risk from governance, asset management and net financial liabilities perspectives.

Council's Comments on this Assessment of its Financial Sustainability

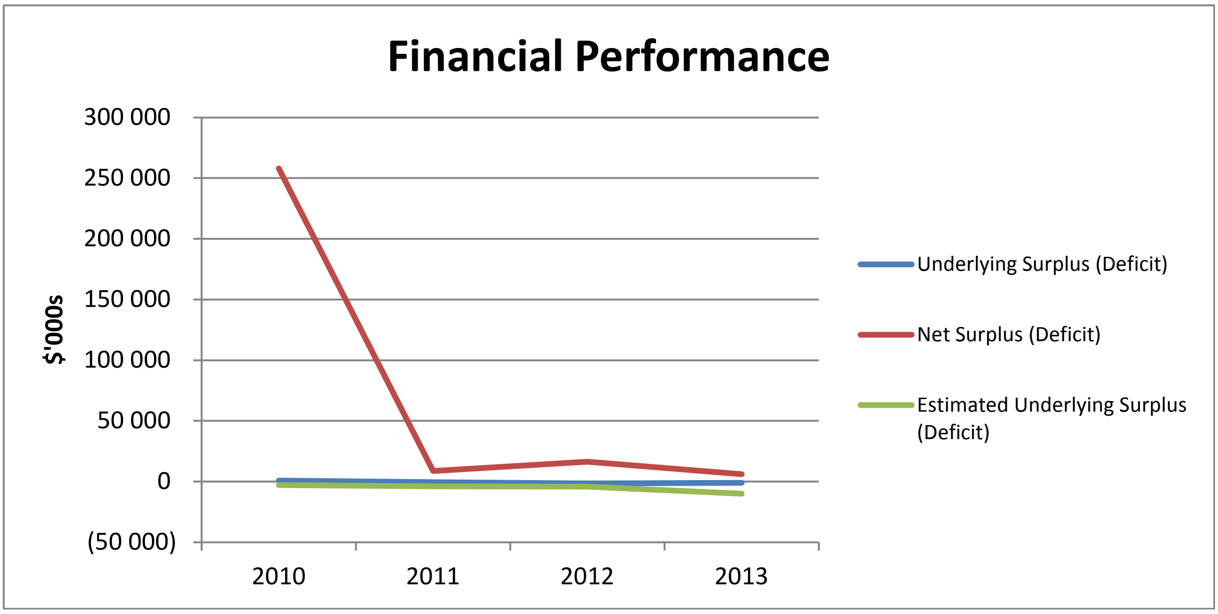
The Council's full response is reproduced below.

The comments and submissions provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

The Council is rigorously pursuing cost savings throughout the organisation. The objective is to progressively reduce and then eliminate the Underlying Deficit in the short to medium term.

The Council continues to be in a very sound financial position supported by strong cash flows.

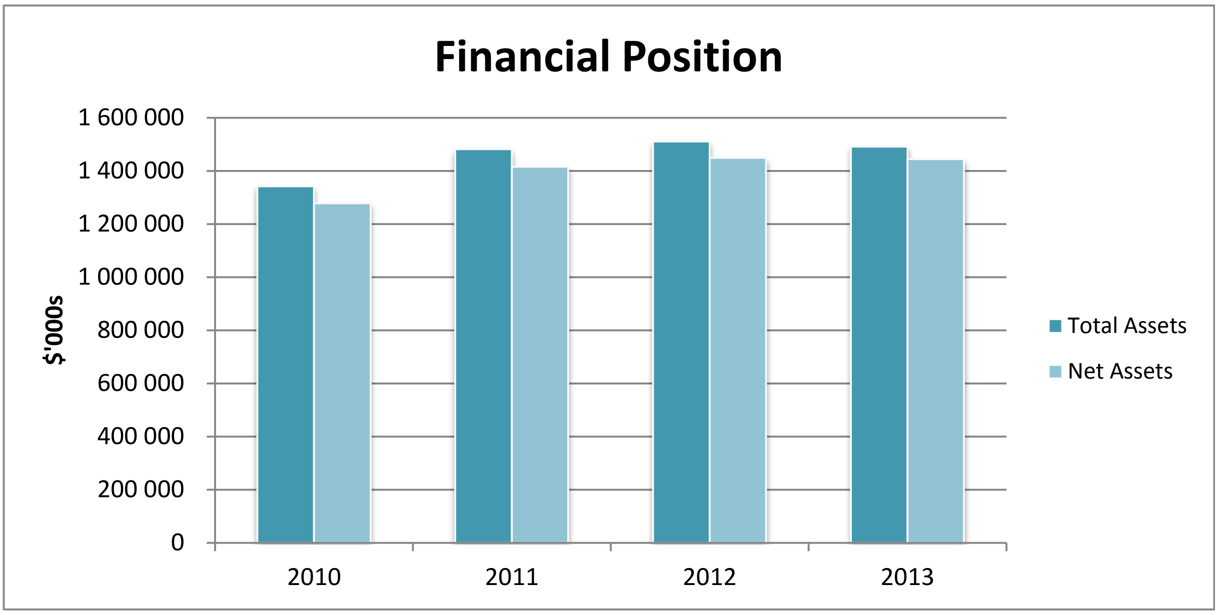
FINANCIAL ANALYSIS



Council's Underlying Surplus (Deficit) has consistently been close to break-even over the period under review. A small surplus was recorded in 2009-10 with small deficits recorded in the past three years.

Over the period under review, Council budgeted for Underlying Deficits, which have increased from $2.765m in 2009-10 to $10.073m in 2012-13. Although Council achieved better results than budget in all four years, continued budgeted deficits are not sustainable. As noted in the Key Developments section of this Chapter, Council has taken action to address this issue, which includes an external review of operations and a commitment to no new borrowings so it can bring the budget back to surplus in four years.

Council's Net Surplus in 2009-10 was $258.120m, which included $231.913m for the recognition of museum assets.



Total Assets and Net Assets have remained fairly consistent since 30 June 2010.

In 2012-13 Council reported a decrease in Net Assets of $4.626m to $1.445bn at 30 June 2013. The decrease was largely due to a revaluation decrement of $21.741m offset by an actuarial gain on superannuation of $6.260m and an increase in the fair value of Council's investment in Ben Lomond Water of $4.915m.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	54 563	55 802	51 986	50 228
Fees and charges	18 139	17 407	17 774	16 959
Grants**	5 048	6 597	7 072	6 443
Ben Lomond Water investment revenue	2 378	2 465	2 534	2 107
Interest revenue	2 589	3 157	3 706	3 954
Other revenue	2 413	2 757	2 765	2 326
Total Revenue	**85 130**	**88 185**	**85 837**	**82 017**
Employee costs	34 724	32 317	30 391	29 607
Depreciation	20 881	18 528	19 778	16 254
Finance costs	1 214	1 083	1 970	1 078
Other expenses	38 384	37 294	35 345	35 701
Total Expenses	**95 203**	**89 222**	**87 484**	**82 640**
Underlying Surplus (Deficit)	**(10 073)**	**(1 037)**	**(1 647)**	**(623)**
Capital grants	3 431	3 620	13 684	8 333
Financial assistance grant received in advance**	0	2 036	2 282	1 031
Offset Financial assistance grant in advance**	0	(2 282)	(1 031)	(990)
Infrastructure take-up adjustments	0	3 603	3 049	1 023
Net Surplus (Deficit)	**(6 642)**	**5 940**	**16 337**	**8 774**
Other Comprehensive Income				
Actuarial gains (losses)	0	6 260	(6 414)	(715)
Fair value adjustment arising from change in allocation order	0	0	0	(16 580)
Current year fair value adjustment Ben Lomond Water	0	4 915	1 588	2 730
Asset revaluations	0	(21 741)	21 806	142 808
Total Comprehensive Income (Expense)	**0**	**(10 566)**	**16 980**	**128 243**
Comprehensive Surplus (Deficit)	**(6 642)**	**(4 626)**	**33 317**	**137 017**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after the Underlying Surplus (Deficit).*

The Offset figures enables the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	57 299	62 544	60 395	67 746
Receivables	3 827	4 648	4 711	4 103
Inventories	652	660	611	615
Other	425	279	409	1 003
Total Current Assets	**62 203**	**68 131**	**66 126**	**73 467**
Payables	13 854	16 754	22 206	26 225
Borrowings	2 707	2 573	2 336	1 754
Provisions - employee benefits	5 799	6 079	5 636	5 408
Other	1 456	2 026	7 529	2 574
Total Current Liabilities	**23 816**	**27 432**	**37 707**	**35 961**
Net Working Capital	**38 387**	**40 699**	**28 419**	**37 506**
Property, plant and equipment	934 736	952 664	927 567	766 671
Investment in water corporation	262 303	257 388	255 800	269 650
Museum collection	232 238	231 913	231 913	231 913
Other	258	258	258	258
Total Non-Current Assets	**1 429 535**	**1 442 223**	**1 415 538**	**1 268 492**
Borrowings	10 091	12 797	13 042	13 327
Provisions - employee benefits	837	772	782	735
Superannuation liability	2 550	9 560	3 623	2 667
Other	9 818	10 541	10 575	10 351
Total Non-Current Liabilities	**23 296**	**33 670**	**28 022**	**27 080**
Net Assets	**1 444 626**	**1 449 252**	**1 415 935**	**1 278 918**
Reserves	580 900	594 049	554 221	402 987
Accumulated surpluses	863 726	855 203	861 714	875 931
Total Equity	**1 444 626**	**1 449 252**	**1 415 935**	**1 278 918**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	78 528	76 779	73 044	70 086
Cash flows from Government	6 352	8 323	6 484	7 080
Payments to suppliers and employees	(74 370)	(69 709)	(66 445)	(65 679)
Interest received	2 795	3 364	3 638	3 639
Finance costs	(764)	(907)	(871)	(628)
Cash from (used in) Operations	**12 541**	**17 850**	**15 850**	**14 498**
Capital grants and contributions	3 620	7 933	7 753	5 282
Grants received in advance	0	0	5 750	580
Distributions from investments	2 787	2 533	2 107	709
Payments for property, plant and equipment	(21 882)	(26 670)	(39 787)	(28 033)
Proceeds from sale of property, plant and equipment	262	510	679	538
Cash from (used in) Investing Activities	**(15 213)**	**(15 694)**	**(23 498)**	**(20 924)**
Proceeds from borrowings	0	2 340	2 076	6 000
Repayment of borrowings	(2 573)	(2 347)	(1 779)	(1 532)
Cash from (used in) Financing Activities	**(2 573)**	**(7)**	**297**	**4 468**
Net Increase (Decrease) in Cash	**(5 245)**	**2 149**	**(7 351)**	**(1 958)**
Cash at the beginning of the year	62 544	60 395	67 746	70 873
Less cash transferred to Ben Lomond Water	0	0	0	(1 169)
Cash at End of the Year	**57 299**	**62 544**	**60 395**	**67 746**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(1 037)	(1 647)	(623)	793
Operating surplus ratio*, **	>0	(1.18)	(1.92)	(0.76)	1.02
Asset Management					
Asset sustainability ratio*	100%	79%	68%	138%	135%
Asset renewal funding ratio*, ***	90% - 100%	100%	100%	100%	N/A
Road asset consumption ratio*	>60%	60.4%	59.6%	60.5%	57.6%
Asset investment ratio	>100%	118%	135%	245%	177%
Liquidity					
Net financial assets (liabilities) ($'000s)		14 014	6 090	(623)	8 808
Net financial liabilities ratio*, ****	0 - (50%)	15.9%	7.1%	(0.8%)	11.4%
Operational Efficiency					
Liquidity ratio	2:1	3.54	3.26	2.08	2.39
Current ratio	1:1	2.61	2.48	1.75	2.04
Interest coverage	3:1	15.41	18.68	17.20	22.09
Self financing ratio		14.2%	20.8%	19.3%	18.7%
Own source revenue		92.5%	91.8%	92.1%	91.0%
Debt collection	30 days	23	24	26	23
Creditor turnover	30 days	28	32	28	26
Rates per capita ($)		831	774	763	717
Rates to operating revenue		63.3%	60.6%	61.2%	60.6%
Rates per rateable property ($)		1 824	1 716	1 678	1 605
Operating cost to rateable property ($)		2 916	2 887	2 761	2 620
Employee costs expensed ($'000s)		32 317	30 391	29 607	26 128
Employee costs capitalised ($'000s)		1 647	2 009	2 021	1 563
Total employee costs ($'000s)		33 964	32 400	31 628	27 691
Employee costs as a % of operating expenses		36%	35%	36%	34%
Average staff numbers (FTEs)		431	432	426	397
Average staff costs ($'000s)		79	75	74	70
Average leave balance per FTE ($'000s)		15	16	15	15

* *For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

** *This ratio is also called the Underlying result ratio.*

*** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

**** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, liquid assets exceed total liabilities.

MEDIUM COUNCILS

BRIGHTON COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $0.597m. This was $0.194m lower than last year and below budget.
- It reported a Comprehensive Deficit of $1.089m, resulting in Total Equity at 30 June 2013 of $191.405m.
- Brighton Industrial and Housing Corporation (BIHC) and Microwise Australia Pty Ltd (Microwise) recorded profits of $0.185m and $0.065m respectively. These results were included in Council's Underlying Surplus.

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

We noted one instance where a payment was authorised outside of approved delegations. The matter was discussed with management and resolved.

The audit was completed satisfactorily with no other items outstanding.

Key developments for the year included:

- BIHC, a wholly-owned subsidiary of Brighton Council, commenced operating in July 2012
- Council established an audit committee
- a revaluation of Council's land and buildings resulted in a decrement of $4.181m
- Council received $0.850m from the Australian Government to assist with financing the construction of a new medical centre. The project is partly funded by Council.

Major variations between the 2012-13 and 2011-12 financial years included:

- increased grants of $0.186m this year related mainly to a new grant for the upgrade of sporting facilities at Old Beach
- Other revenue and expenses were higher mainly due to operations relating to BIHC and Microwise
- lower Contributions of non-current assets received of $1.857m. This largely related to fewer subdivision contributions
- higher Depreciation of $0.400m mainly attributable to road and drainage assets as a result of higher valuations.

SUBSIDIARY ENTITIES

Our commentary in this Chapter is on the consolidated financial results of Brighton Council therefore inclusive of its 100% interest in controlled subsidiaries Microwise Australia Pty Ltd (Microwise) and Brighton Industrial & Housing Corporation (BIHC). Commentary of the financial results of these two entities is included at the end of this Chapter.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a cost index to roads, bridges and drainage assets to maintain the currency of their value in years between formal valuations.	We confirmed the appropriateness and validity of the indices and ensured they were applied correctly.
Council consolidates the financial transactions of its two wholly owned subsidiaries.	We tested the consolidation entries and the transactions within the Consolidated group to ensure that there were no balances misstated.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 12 August 2013. Amended financial statements were received on 18 September 2013 and an unqualified audit report was issued the following day.

KEY DEVELOPMENTS

Brighton Industrial and Housing Corporation (BIHC)

BIHC is a wholly owned subsidiary of Council. It was established in July 2012 to utilise land within the municipality for affordable residential housing. Under an agreement between Council, BIHC and Housing Tasmania (Housing), parcels of land are transferred from Housing to BIHC at the time of sale. The land is part of house and land packages offered by BIHC to eligible buyers. There are various financing arrangements, one of which includes a loan from Council to purchase the land. These loans attract interest at the rate of the consumer price index with no repayments due until the end of the loan term.

Housing land is transferred to BIHC for no consideration. The transfer is recorded as revenue at fair value of the land transferred. When the land is sold, BIHC records the sale as revenue at the sale price and the disposal as cost of sales at the original fair value. Proceeds from land sales will be utilised by BIHC to further develop land owned by both Housing and Council in the municipality.

Total land sales by BIHC for the year amounted to \$0.387m with the cost of sales consisting of that transferred from Housing \$0.400m. Council provided loans to BIHC customers totalling \$0.250m and recorded them as non-current assets. BIHC incurred expenses to external parties amounting to \$0.238m including commissions of \$0.045m. Further information on the activities of BIHC is provided at the end of this Chapter.

Establishment of an Audit Committee

Council established an audit committee on 21 August 2013. Independent members were appointed and the functions assigned will include reviewing the effectiveness of Council's financial governance arrangements, planning and monitoring processes in ensuring sustainability of Council's long-term finances.

Flat Rating

As a result of changes to the *Local Government Act 1993* (LG Act) and after obtaining approval from the Director of Local Government, Council charged an Average Area Rate (AAR). Council obtained legal advice on the rates resolution to ensure it met the requirements of LG Act, which it did.

Revaluation of Land and Buildings

Council's land and buildings were re-valued as at 30 June 2013. As a result of the revaluation, a net decrement was recorded, $4.181m. The valuation was provided by the Valuer-General.

New Medical Centre

Construction of the Brighton Medical Centre is a jointly funded project by the Australian Government and Council. Council spent over $1.000m in addition to a primary health care infrastructure grant of $0.850m to assist in building the facility.

KEY FINDINGS

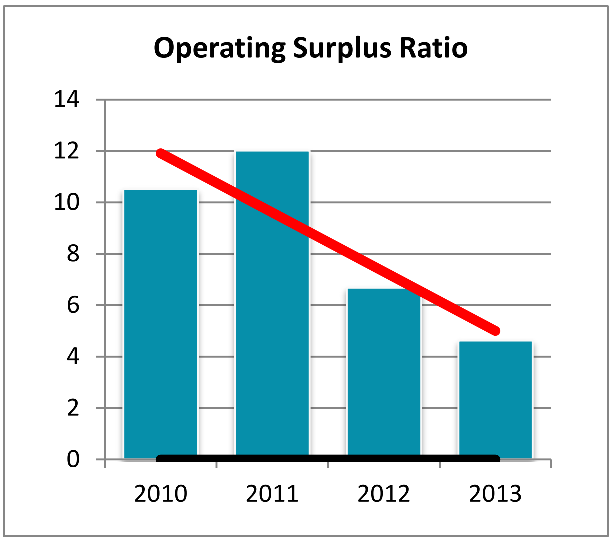
No high risk findings were identified during the audit. There was one low and one moderate risk matter reported to Council. The moderate risk finding related to one instance of an incorrect authorisation of a payment. The matter was discussed with management and resolved.

The audit was completed satisfactorily with no other items outstanding.

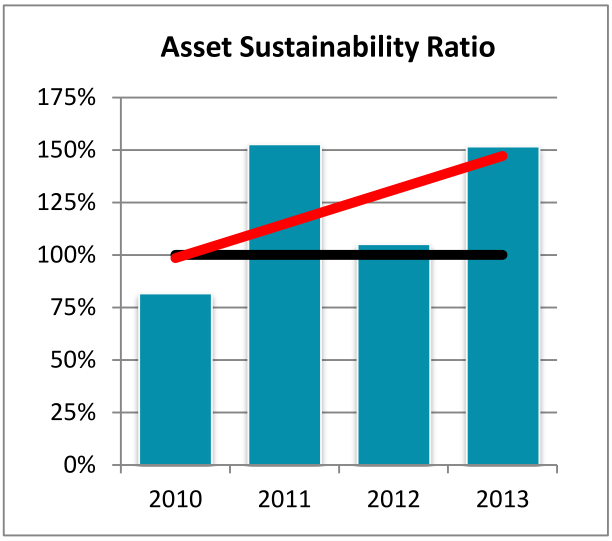
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



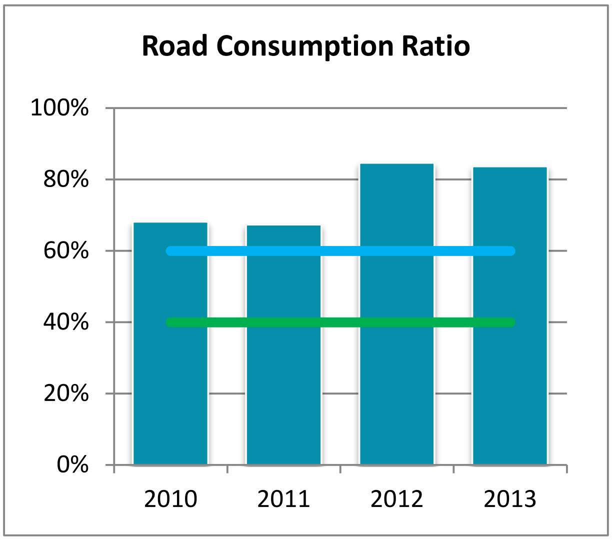
The positive Operating surplus ratios reflected Council's surpluses in each of the last four years. Positive ratios indicated Council generated sufficient revenue to fulfil its operating requirements, including Depreciation charges. However, the ratio is trending downwards, a situation which needs to be monitored by Council. The Underlying Surplus for 2012-13 of $0.597m included profits earned by BIHC, $0.185m, and Microwise, $0.065m.



Asset sustainability ratios were above the 100% benchmark in three of the four years under review indicating Council largely maintained its investment in existing assets at levels in excess of its annual Depreciation charges. Also, the trend line was heading in the right direction. Over the four year period, Council's average ratio was 144%, indicating that it had invested sufficient capital in sustaining existing assets.

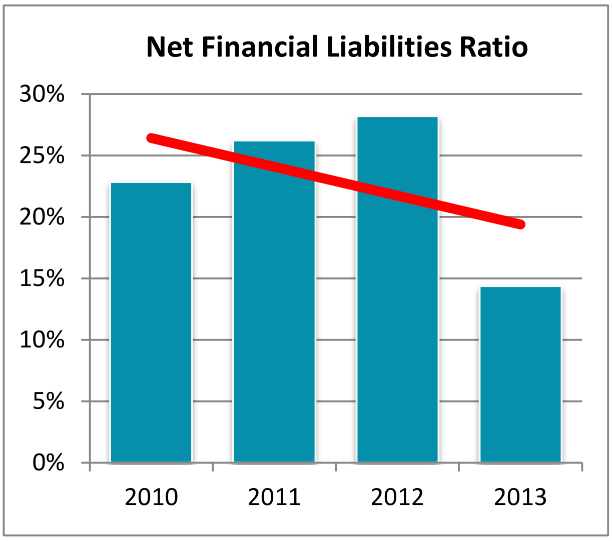
Asset Renewal Funding Ratio

Based on Council's long-term asset management and long-term financial plans the Asset renewal funding ratio was 95% at 30 June 2013, which was within our 90%-100% benchmark. The ratio is based on planned asset replacement expenditure and asset replacement expenditure actually required for the next 10 years. Council's long-term asset management plan is based upon current projections and, being a long-term plan, will be subject to volatility and change.



The above graph indicates that at 30 June 2013 Council had maintained the service potential of its road infrastructure to the point where only approximately 16% had been consumed. This indicated

Council's road assets had sufficient capacity to continue to provide services to ratepayers. The increase in capacity recorded in 2012 and 2013 was mainly due to a revaluation of roads undertaken in 2012.



Council recorded positive Net financial liabilities ratios with liquid assets well in excess of current and non-current liabilities in the four years under review. This indicates a strong liquidity position, with Council able to meet existing obligations. Council's Total Liabilities consisted of Payables, employee provisions and deposits held in trust.

It was noted that Council's Cash and cash equivalents are subject to a number of internal restrictions, mainly leave provisions, that limit the amount available for discretionary use. Restricted funds represented 45.8% of the total Cash and cash equivalents balance of $3.724m. Also, Council received grants during the year which had yet to be applied to the purpose for which they were provided, totalling $0.387m (2012, $0.695m).

Governance

A review of Council's governance arrangements indicated:

- there is now an audit committee
- Council had long-term asset and a long-term financial management plans.

However, Council currently does not have an active internal audit function.

Council had long-term asset management plan which commenced in 2006 and financial management plan commencing in 2002 and are updated every year. These plans were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's surpluses in each of the four years indicated it generated sufficient revenue to meet its operating requirements.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 144% over the period, which was above our 100% benchmark. Council's Road consumption ratios varied between 67% and 85% which indicated that this asset was in a sound position to continue to provide services to ratepayers. In addition, its Asset renewal funding ratio was inside our 90 to 100% range, showing Council plans to fund its capital expenditure.

Council's Net financial liabilities ratio was positive over the four years under review indicating low financial sustainability risk. Therefore, Council was in a sound position to meet short-term commitments and had a capacity to borrow should the need arise.

Council had long-term asset and financial management plans in place, recently establishing an audit committee but with no internal audit function.

Based on these ratios, we concluded that at 30 June 2013, Council was at a low financial sustainability risk from a financial operating, asset management and net financial liabilities perspective. From a governance perspective, we concluded that Council was at a moderate risk.

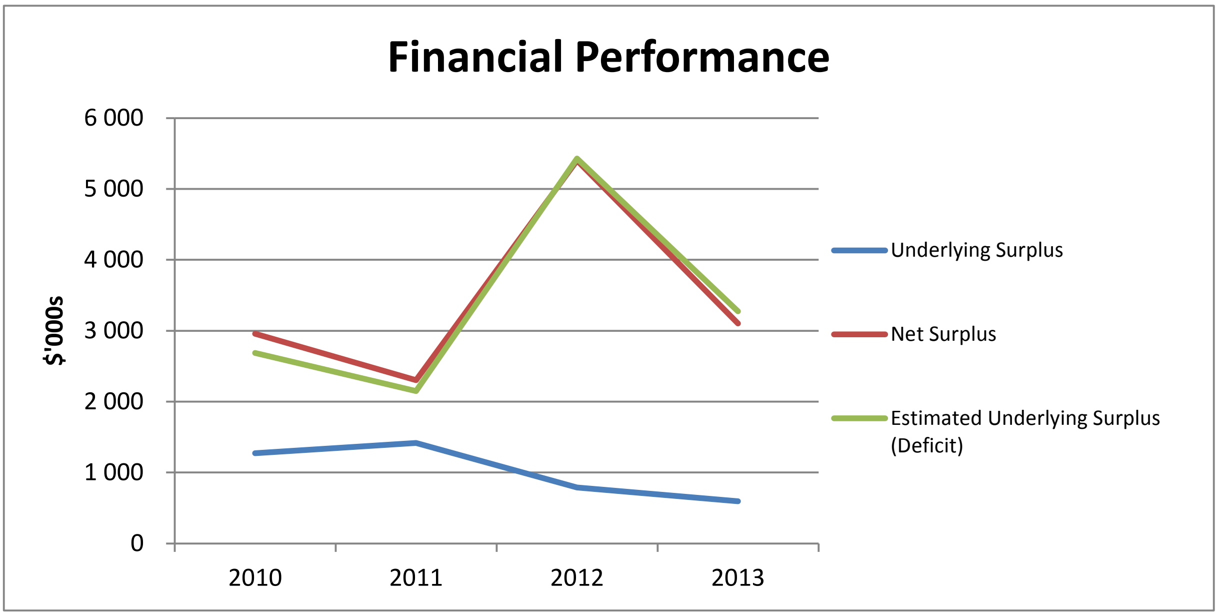
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

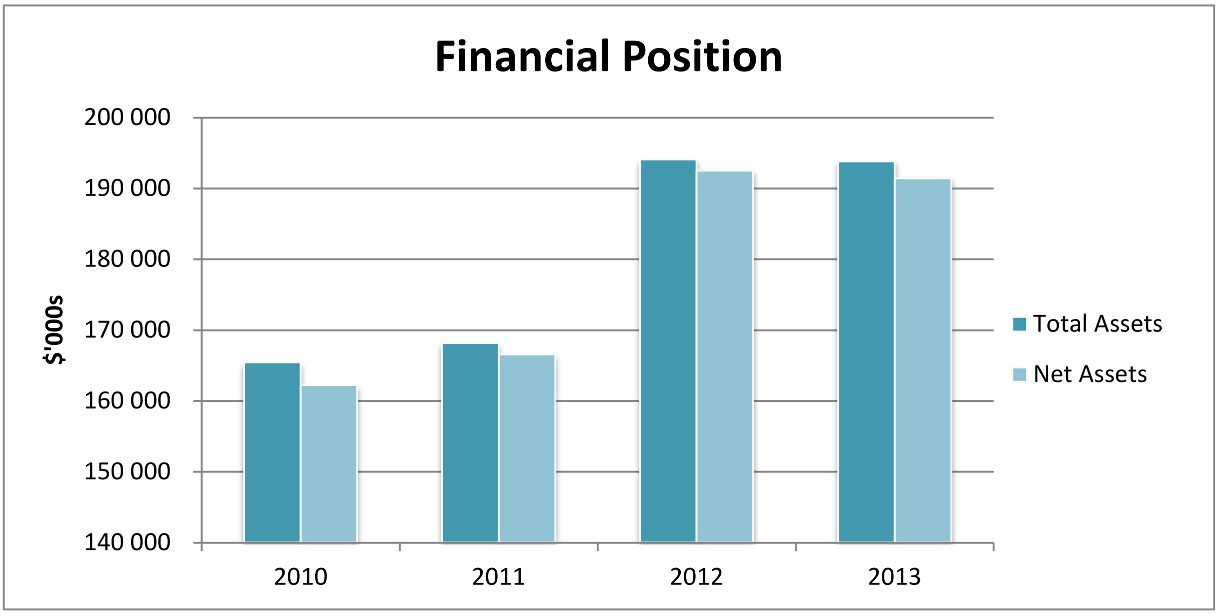
Brighton Council is pleased that Tasmanian Audit Office has recognised that Council has exceeded the Tasmanian Audit benchmark in every relevant financial sustainability ratio and accepts the low risk conclusion from a financial sustainable perspective.

FINANCIAL ANALYSIS



Council reported an Underlying Surplus of $0.597m in 2012-13 (2011-12, $0.791m). There was an increase in both Total Revenue and Total Expenses this year, which reflected the commencement of BIHC. Transfers of land for no consideration from Housing and subsequent sales were the main contributing factors.

Overall, Council reported a Comprehensive Deficit, $1.089m, which was mainly the result of a revaluation decrement and a decrease in the value of Council's Investment in Southern Water. In 2012 the high Net Surplus was mainly the result of a revaluation increment of $20.396m relating to roads, bridges and drainage assets.



Council's Total Assets and Net Assets totalled, $193.821m and $191.405m respectively and were fairly consistent with the prior year.

This year there was an additional liability. There are various methods of purchasing land from BIHC and one of the methods includes borrowing money from Council. In return, Council holds a mortgage over the land. In 2012-13, Council provided five loans under this arrangement, totalling $0.250m.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	7 074	7 088	6 872	6 470
Fees and charges	1 123	987	1 173	936
Grants**	2 190	2 116	1 876	2 173
Interest revenue	270	182	263	312
Other revenue	2 467	2 533	1 662	1 930
Total Revenue	**13 124**	**12 906**	**11 846**	**11 821**
Employee costs	2 847	2 774	2 697	2 491
Depreciation	2 822	2 800	2 400	2 459
Finance costs	0	0	0	28
Net loss on disposal	(10)	9	6	0
Other expenses	6 544	6 726	5 952	5 424
Total Expenses	**12 203**	**12 309**	**11 055**	**10 402**
Underlying Surplus (Deficit)	**921**	**597**	**791**	**1 419**
Capital grants	155	630	292	155
Financial assistance grant received in advance**	0	387	695	419
Offset Financial assistance grant in advance**	0	(695)	(419)	(402)
Land and buildings identified	0	0	0	195
Contributions of non-current assets	2 200	2 184	4 041	518
Net Surplus (Deficit)	**3 274**	**3 103**	**5 400**	**2 304**
Other Comprehensive Income				
Fair value revaluation of non-current assets	(4 181)	(4 181)	20 396	1 709
Fair value initial adjustment Southern Water	(11)	(11)	123	0
Current year fair value adjustment Southern Water	0	0	0	322
Total Comprehensive Income (Expenses)	**(4 192)**	**(4 192)**	**20 519**	**2 031**
Comprehensive Surplus (Deficit)	**(918)**	**(1 089)**	**25 916**	**4 335**

** The Estimate represents Council's original estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset enables the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	3 724	4 492	4 202	5 139
Receivables	355	275	269	579
Other	275	196	260	283
Total Current Assets	**4 355**	**4 964**	**4 731**	**6 001**
Payables	1 529	680	669	1 196
Borrowings	0	0	0	296
Provisions – employee benefits	762	762	678	663
Other	53	63	117	162
Total Current Liabilities	**2 343**	**1 505**	**1 464**	**2 317**
Net Working Capital	**2 012**	**3 459**	**3 267**	**3 684**
Property, plant and equipment	133 166	132 790	107 220	103 538
Investment in Southern Water	56 300	56 311	56 188	55 866
Other	0	0	0	12
Total Non-Current Assets	**189 466**	**189 101**	**163 408**	**159 416**
Borrowings	0	0	0	765
Provisions – employee benefits	73	68	99	93
Total Non-Current Liabilities	**73**	**68**	**99**	**858**
Net Assets	**191 405**	**192 494**	**166 577**	**162 242**
Reserves	109 100	86 497	65 978	63 947
Accumulated surpluses	82 305	105 997	100 599	98 295
Total Equity	**191 405**	**192 494**	**166 577**	**162 242**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 591	9 436	9 556	9 920
Cash flows from Government	1 728	2 151	2 190	2 316
Payments to suppliers and employees	(9 039)	(9 376)	(9 423)	(9 376)
Interest received	182	263	312	294
Finance costs	0	0	(28)	(77)
Cash from (used in) Operations	**2 462**	**2 474**	**2 607**	**3 077**
Capital grants and contributions	630	292	155	155
Distributions received - Southern Water	1 070	1 066	1 026	953
Payments for property, plant and equipment	(5 091)	(3 535)	(4 469)	(3 591)
Proceeds from sale of property, plant and equipment	161	(6)	794	520
Other	0	0	12	4
Cash from (used in) Investing Activities	**(3 230)**	**(2 183)**	**(2 482)**	**(1 959)**
Repayment of borrowings	0	0	(1 061)	(443)
Cash from (used in) Financing Activities	**0**	**0**	**(1 061)**	**(443)**
Net Increase (Decrease) in Cash	**(768)**	**290**	**(936)**	**675**
Cash at the beginning of the year	4 492	4 202	5 139	4 464
Cash at End of the Year	**3 724**	**4 492**	**4 202**	**5 139**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus deficit ($'000s)		597	791	1 419	1 275
Operating surplus ratio*, **	>0	4.63	6.68	12.00	10.52
Asset Management					
Asset sustainability ratio*	100%	152%	105%	153%	82%
Asset renewal funding ratio*	90%-100%	95%	73%	65%	N/A
Road asset consumption ratio*	>60%	83.7%	84.7%	67.4%	68.2%
Asset investment ratio	>100%	182%	147%	182%	148%
Liquidity					
Net financial assets (liabilities) ($'000s)		1 856	3 341	3 099	2 770
Net financial liabilities ratio*, ***	0 - (50%)	14.4%	28.2%	26.2%	22.9%
Operational efficiency					
Liquidity ratio	2:1	2.58	6.42	5.69	3.46
Current ratio	1:1	1.86	3.30	3.23	2.59
Interest coverage****	3.1	-	-	92.11	38.96
Self financing ratio		19.1%	20.9%	22.1%	25.4%
Own source revenue		83.6%	84.2%	81.6%	80.9%
Debt collection	30 days	16	12	13	30
Creditor turnover	30 days	100	4	7	9
Rates per capita ($)		426	438	396	386
Rates to operating revenue		54.9%	58.0%	54.7%	50.3%
Rates per rateable property ($)		1 023	1 003	933	882
Operating cost to rateable property ($)		1 777	1 613	1 499	1 569
Employee costs expensed ($'000s)		2 491	2 697	2 491	2 748
Employee costs capitalised ($'000s)		417	393	339	416
Total employee costs ($'000s)		2 908	3 090	2 830	3 164
Employee costs as a % of operating expenses		23%	24%	24%	25%
Average staff numbers (FTEs)		50	51	54	51
Average staff costs ($'000s)		58	61	52	61
Average leave balance per FTE ($'000s)		17	16	14	15

* *For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

** *This ratio is also called the Underlying result ratio.*

*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Brighton Council, liquid assets exceed total liabilities.

**** *Brighton Council did not have any borrowings and finance costs for 2011-12 and 2012-13.*

MICROWISE AUSTRALIA PTY LTD (Microwise)

INTRODUCTION

Microwise is a wholly owned incorporated entity that was formed by Council to:

- own and manage the intellectual property contained in the Propertywise software product
- create and develop new software products to meet the identified needs of existing and potential customers within Local Government as well as the public and private sectors
- provide software maintenance and technical support to existing customers
- provide upgrades and enhancements for a portfolio of products
- manage the relationship with marketing organisations to achieve market coverage and representation.

AUDIT OF THE 2012-13 FINANCIAL STATEMENTS

Signed financial statements were received on 30 July 2013 and re-signed statements received on 15 August 2013. An unqualified audit report was issued on 11 September 2013.

The audit was completed satisfactorily with no matters outstanding.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13	**2011-12**
	$'000s	$'000s
Revenue	311	276
Expenditure	246	188
Net Profit	**65**	**88**

STATEMENT OF FINANCIAL POSITION

	2013	**2012**
	$'000s	$'000s
Asset	847	774
Liabilities	9	0
Total Equity	**838**	**774**

Financial transactions with Council excluded upon consolidation.

Microwise received additional funding this year from the Local Government Association of Tasmania (LGAT) and the Department of Premier and Cabinet for providing assistance to other Tasmanian councils totalling $0.055m. This had a direct effect on increasing expenditure due to the costs associated with providing this assistance.

Microwise had Assets of $0.847m consisting of cash, $0.830m and debtors, $0.017m. Microwise incurred a liability for the first time this year, relating to deferred revenue, while cash increased mainly due to the profit, $0.065m.

BRIGHTON INDUSTRIAL AND HOUSING CORPORATION (BIHC)

INTRODUCTION

BIHC is a 100% owned incorporated entity of Council that was formed to develop affordable residential dwellings for home-buyers through strategic allocation and use of vacant Housing Tasmania land and to add to the social and cultural amenities of the municipality.

AUDIT OF THE 2012-13 FINANCIAL STATEMENTS

Signed financial statements were received on 15 August 2013 with an amended version received on 18 September 2013. An unqualified audit report was issued on 19 September 2013.

The audit was completed satisfactorily with no matters outstanding.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13
	$'000s
Land - granted at no cost	400
Sales	387
Works	69
Total Revenue	**856**
Cost of sales land	400
Stage 1 land packages	179
Other external expenses	61
Brighton Council consultancy and costs	31
Total Expenses	**671**
Profit for the Year	**185**

STATEMENT OF FINANCIAL POSITION

	2013
	$'000s
Asset	185
Liabilities	0
Total Equity	**185**

Financial transactions with Council excluded upon consolidation.

The Assets of BIHC consist entirely of cash. The BIHC is a public-private shared equity scheme based on the Government's HomeShare model. Housing Tasmania transferred eight vacant lots to BIHC during 2012-13 worth $0.400m.

The newly formed Corporation will be run on not-for-profit lines.

BURNIE CITY COUNCIL

SNAPSHOT

- Council recorded Underlying Deficits in the past two years, with it budgeting for a deficit result 2012-13.
- Its comprehensive result was a surplus of $6.650m.
- At 30 June 2013 Net Assets totalled $353.783m.
- Council's subsidiaries Burnie Airport Corporation Unit Trust (BAC) and Tas Communications Unit Trust (TCU) recorded profits of $0.164m and $0.151m respectively. Burnie Sports and Events Unit Trust (BSE) recorded a loss of $0.026m. These results were included in Council's Underlying Surplus.

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.

We noted deficiencies in Council's Information Security (IS) systems and identified currency of valuation issues. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Key developments included the construction of the Burnie Waste Transfer Station and Resource Recovery Centre, a major stormwater improvement project and continuation of a legal dispute over the sale of land at Camdale. In addition, Council has entered into an agreement to transfer land to the University of Tasmania (UTAS) for the construction of student accommodation.

The main variations between 2012-13 and 2011-12 were a large decrease in Capital grants receipts and an increase in funds expensed on capital projects, both attributed to the stormwater improvement program.

SUBSIDIARY ENTITIES

Council has a controlling interest in three entities. The financial statements of these entities are consolidated into Council's financial statements and the financial information reported in this Chapter is the consolidated position. The estimate information included in our financial analysis relates only to Council and excludes the subsidiaries.

Information on the subsidiary entities is included in the Results of Subsidiary Entities section of this Chapter.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council recorded a material allowance for impairment of fines receivable. The calculation of the impairment amount was an estimate based upon judgment.	We examined Council's policy for determining the impairment allowance and tested the calculation of the impairment.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Burnie Waste Transfer Station and Resource Recovery Centre

In 2012-13, Council completed construction of the Burnie Waste Transfer Station and Resource Recovery Centre. Construction costing $1.460m and provided for an external contractor to operate at the site, under a 10 year contract, from November 2012.

The main objective of the Burnie Waste Transfer Station and Resource Recovery Centre was to increase the recovery of re-usable and recyclable materials that would otherwise be taken to an external landfill site.

Stormwater Improvement Program

Council received a $4.250m grant from the Australian Government in 2011-12 to deliver improved stormwater to the city. The program allowed Council to address issues concerning stormwater infrastructure connected to the sewerage system. Council is working in consultation with TasWater which has responsibility for sewerage services.

Council commenced stormwater improvement works during February 2013. To date, stormwater system testing has been completed for 1 900 properties in the municipal area, with approximately 290 properties identified as having stormwater connections to the sewerage system.

Contingent Liabilities

In our November 2012 report, No. 4 of 2012-13 Local Government Authorities 2011-12, we noted a contingent liability included in Council's financial statements detailing an on-going legal dispute related to the proposed sale for land at Camdale.

On 25 July 2013, the Supreme Court of Tasmania handed down its judgment in relation to the amount of damages associated with Council not completing the sale. The total amount awarded to the plaintiff was $0.463m, including a full repayment of the deposit.

In August 2013, Council were advised that an order for costs in favour of the plaintiff was to be made. Council made an offer of, and paid, $0.147m, being full and final settlement of costs.

Total damages and costs of $0.611m were included in Council's financial report for 2012-13.

Council is currently reviewing its position and intends to appeal the award of damages.

Transfer of Land

Council negotiated a Heads of Agreement with UTAS to transfer land it owns to UTAS to allow for the construction of student accommodation. The land surrounds the West Park Oval and Sports Facility (West Park Precinct) and incorporates the Makers' Workshop.

The transfer will occur subject to terms and conditions under the Heads of Agreement being satisfied. It is unclear when the transfer will occur. Under the Heads of Agreement, ownership of the Makers' Workshop will be retained by Council, with a long-term lease to UTAS.

KEY FINDINGS

Information Security

Effective IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in application monitoring and user access management, including access rights. Council has agreed to review these matters.

Currency of Valuations

Council maintains the currency of its infrastructure asset values by applying relevant indices to various asset classes between full revaluations. The use of indices is an acceptable method of maintaining the currency of asset values, but it is not a substitute for a full revaluation.

Council revalued its major asset classes, roads, footpaths and drainage in December 2012. However, a considerable time period has elapsed since the last full revaluation of other smaller asset classes, with dates ranging from 30 June 2006 to 30 June 2007.

In addition, building assets were not indexed and have not been revalued since 30 June 2008.

Delays in undertaking full revaluations increases the risk that the carrying amount of assets does not reflect fair value, which in Council's case is based on written down replacement cost.

Accordingly it was recommended Council update its valuations based on a full revaluation during 2013-14. Council has agreed with this recommendation and will undertake revaluations in 2013-14.

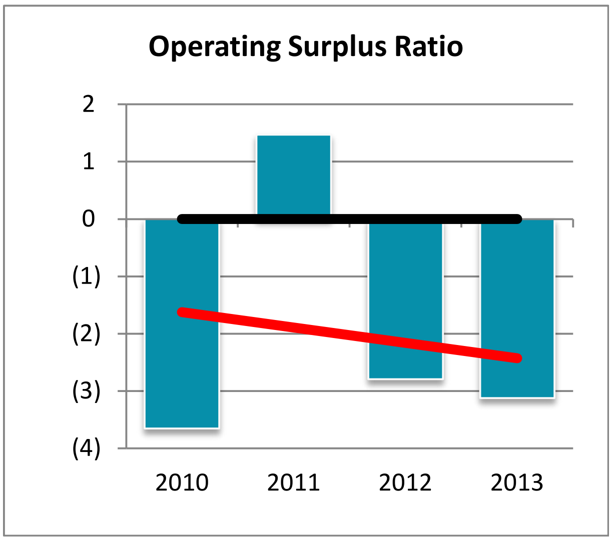
The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

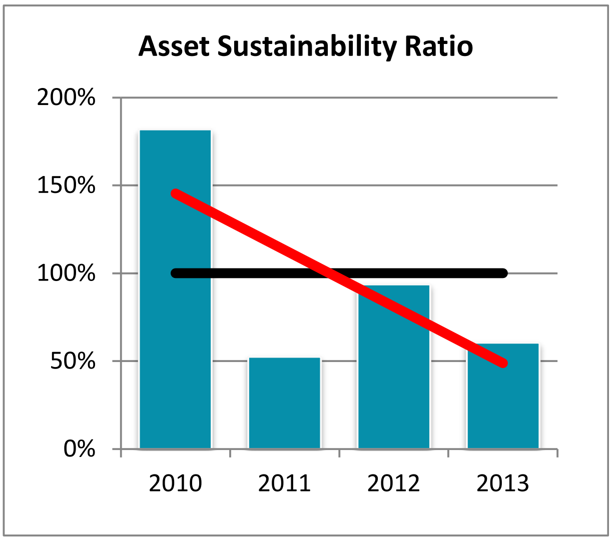
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.

In general, the ratios indicate:



Council recorded Underlying Deficits in three of the four year period under review. Overall, Council averaged a ratio of negative 2.03, which is below our benchmark. The deficit results indicate it did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

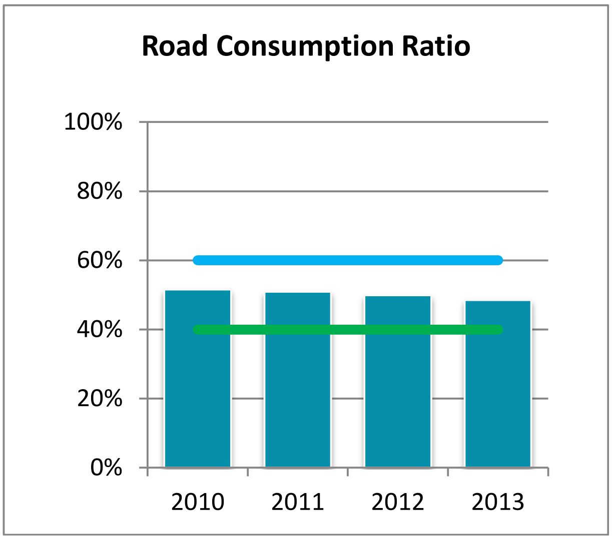


Asset sustainability ratios were below benchmark in three of the four years under review and over the four year period averaged 97%, slightly below benchmark. This indicated, subject to levels of maintenance expenditure and the long-term asset management plan, Council maintained its investment in existing assets.

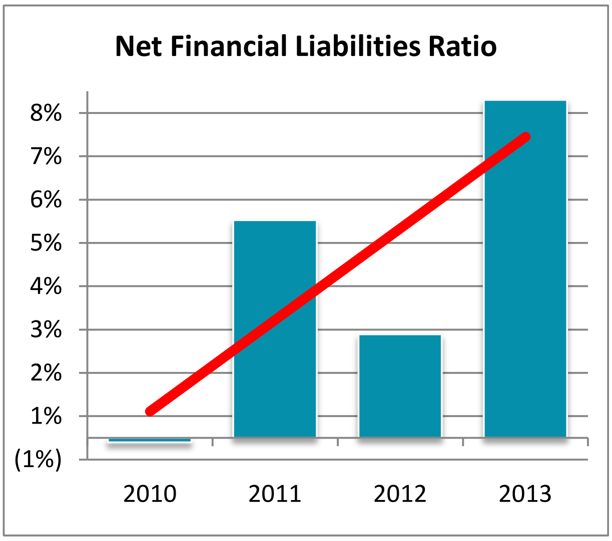
Asset Renewal Funding Ratio

Council's long-term asset management plan identified an Asset renewal funding ratio of 100% based on planned asset replacement expenditure over the next ten years as indicated in the long-term financial management plan. This compares favourably with our benchmark of not less than 90%. Council's asset management plan forecasts expected and required renewal expenditure to 2028-29 and covers transport, bridges and culverts, parks, reserves and cemetery assets. The plan is not subject to audit.

We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.



The previous graph indicated that at 30 June 2013 Council had consumed approximately 52% of the service potential of its road assets. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers but was at moderate risk.



Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of current and non-current liabilities in each of the past three years. Positive ratios indicated a strong liquidity position, with Council able to meet future commitments.

It is noted Council had contractual commitments totalling $21.301m (2011-12, $1.798m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. The increase in commitments was mainly due to a ten year contract for the operation of the Burnie Waste Transfer Station and Resource Recovery Centre.

Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $4.585m ($5.553m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $1.556m (long service leave) or 15.1% of the total Cash and financial assets balance of $10.282m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found that it has an active audit committee, consisting of two elected representatives and three independent members. There is no internal audit function.

Council's governance could be strengthened if it established an internal audit function.

Council has long-term asset management and financial management plans, reviewed annually by Council. Its asset management plan covers all major infrastructure asset classes and extends to 2029. Its financial management plan covers the ten year period from 2013-2023. These plans are not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's Underlying Deficit was below benchmark in three of the four years under review. Its average Operating surplus ratio for the period was a negative 2.03 and indicated it did not generate sufficient revenue to meet operating requirements. At a minimum, Council should be achieving a break-even result.

Council's Asset sustainability ratio averaged 97%, slightly below our 100% benchmark. This indicated Council adequately maintained its investment in existing assets over the past four years. Council's Road consumption ratios deteriorated slightly over the four year period, but its roads had sufficient capacity to continue to provide services to its ratepayers. The Asset renewal funding ratio of 100% indicated Council expects to fund its required future asset replacement plan.

Council's Net financial liabilities ratio was positive, indicating liquidity was strong.

Council has an audit committee, but no internal audit function. It has long-term financial management and asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at a moderate sustainability risk from an operating, governance and asset management perspective but low sustainability risk from a net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

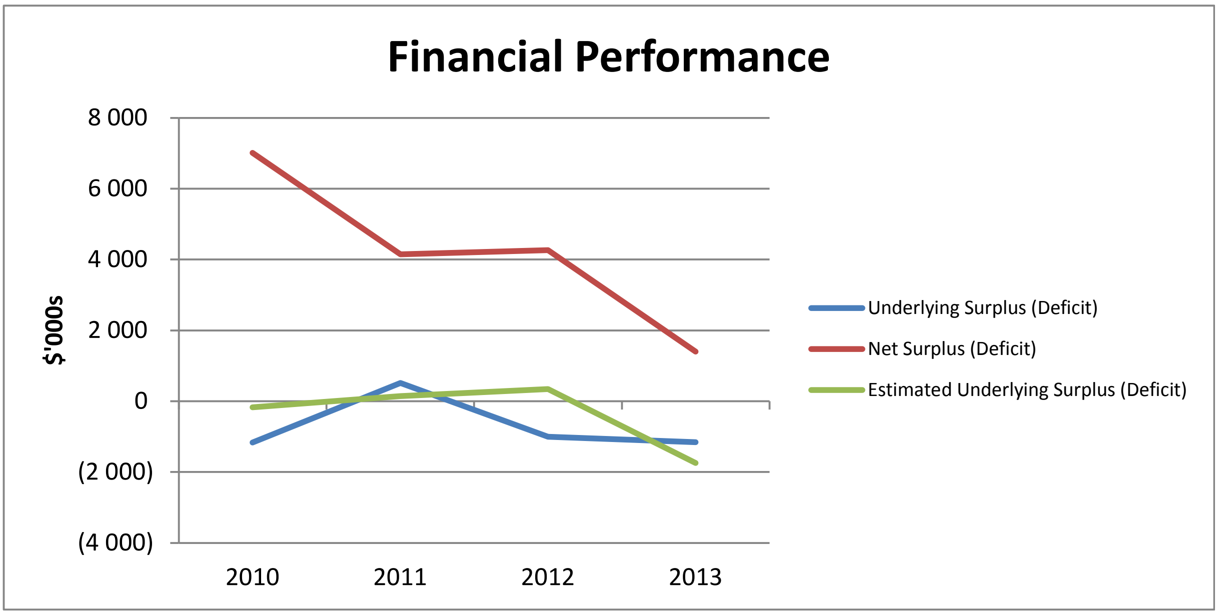
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council's Financial Management Strategy (FMS) has been developed to provide Council with a strategic framework when developing budgets with a key objective of maintaining financial sustainability. If Council's performance and financial position are consistent with the strategy then the organisation will be well placed into the future. The FMS includes the following overarching targets:

- to achieve an operating margin ratio of 1.00
- to maintain a current ratio above 1.10
- to maintain a cash balance above $4.000m.

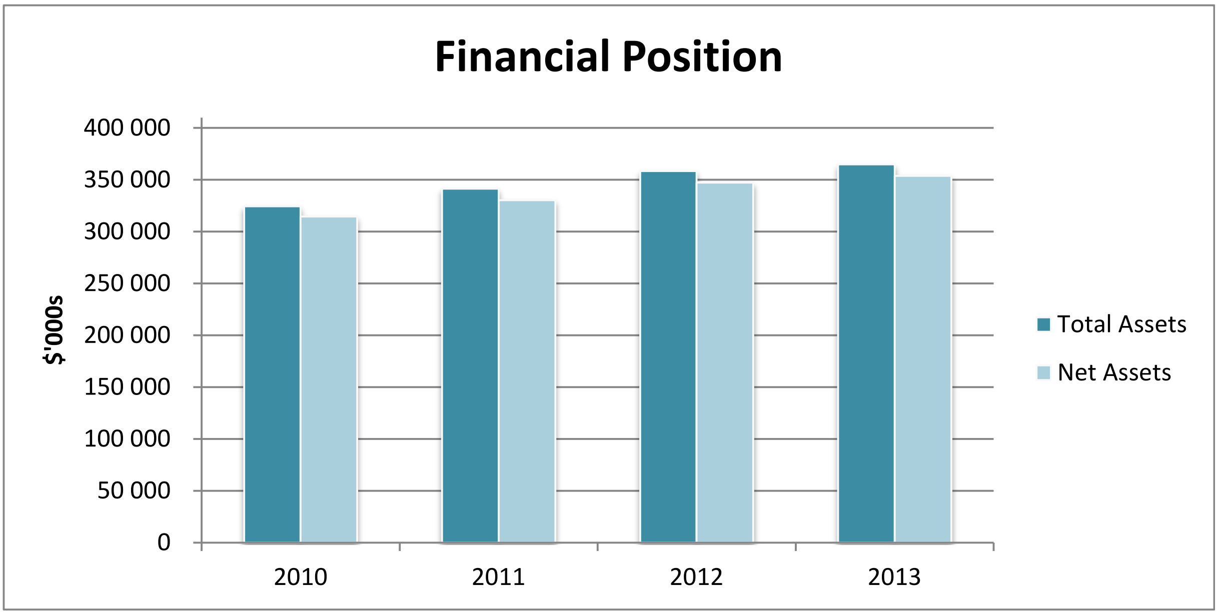
The Strategy ensures that Council's finances and operations are being managed to support the community's aspirations into the future while ensuring ongoing financial sustainability. Through careful planning in its Financial Management Strategy (FMS), Council decided that it would smooth out the impact of significant price increases in the delivery of Waste Services to its ratepayers by enduring short term operating deficits. Council is expected to return to surplus in 2017. Council's financial performance and position for 2012-13 continues to be consistent with the objectives and targets set in its Financial Management Strategy.

FINANCIAL ANALYSIS



Council recorded Underlying Deficits in the past two years. However, of concern is that Council budgeted for a deficit result in 2012-13. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break even basis.

The Underlying Deficit of $1.160m in 2012-13 included additional expenses for legal fees associated with the Camdale settlement and contractor costs associated with the operation of the Burnie Waste Transfer Station and Resource Recovery Centre.



Council's Total Assets and Net Assets increased over the period. Net Assets increased by $39.111m, or 12.4%, primarily due to an increases in the value of infrastructure assets and Council's investment in Cradle Mountain Water as well as higher Cash and financial assets, partly offset by higher borrowings.

In 2012-13, Net Assets increased by $6.575m primarily due to:

- Net Surplus of $1.397m
- increased value of investment in Cradle Mountain Water, $0.785m
- net revaluation increments of $2.082m for land and infrastructure assets by Council and BAC
- an impairment reversal of $2.386m recognised by BAC (refer Result of Subsidiary Entities in this Chapter).

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	19 626	19 723	18 792	17 910
Fees and charges	8 664	11 508	12 065	11 872
Grants**	3 407	4 051	3 968	3 778
Interest revenue	0	610	450	444
Other revenue	1 352	1 218	728	915
Total Revenue	**33 049**	**37 110**	**36 003**	**34 919**
Employee costs	12 230	14 456	14 245	13 352
Depreciation	7 558	7 996	7 920	7 270
Finance costs	0	300	368	183
Other expenses	15 003	15 518	14 477	13 600
Total Expenses	**34 791**	**38 270**	**37 010**	**34 405**
Underlying Surplus (Deficit)	**(1 742)**	**(1 160)**	**(1 007)**	**514**
Capital grants	1 914	1 619	5 683	3 245
Financial assistance grant received in advance**	0	1 307	1 303	572
Offset Financial assistance grant in advance**	0	(1 303)	(572)	(521)
Revaluation increment (decrement)	0	27	(110)	0
Capital works expensed	0	(47)	(2 061)	0
Contributions of non-current assets	0	335	1 026	340
Net Surplus (Deficit)	**172**	**1 397**	**4 262**	**4 150**
Other Comprehensive Income				
Fair value revaluation of non-current assets	6 478	2 082	9 588	18 913
Impairment of non-current assets	0	2 386	0	(4 638)
Current year fair value adjustment Cradle Mountain Water	0	785	62	206
Total Comprehensive Income (Expense)	**6 478**	**5 253**	**9 650**	**14 481**
Comprehensive Surplus (Deficit)	**6 650**	**6 650**	**13 912**	**18 631**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

The balances exclude Council's subsidiary entities.

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit)*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$’000s
Cash and financial assets	10 282	9 009	6 408	6 064
Receivables	3 626	3 098	3 499	3 684
Non-current assets held for resale	593	593	663	752
Inventories	273	314	316	276
Other	40	219	198	13
Total Current Assets	**14 814**	**13 233**	**11 084**	**10 789**
Payables	2 855	2 936	2 054	4 228
Provisions - employee benefits	1 552	1 675	1 776	1 571
Other	134	157	153	413
Provision for rehabilitation	391	391	80	0
Interest bearing liabilities	167	158	0	0
Total Current Liabilities	**5 099**	**5 317**	**4 063**	**6 212**
Net Working Capital	**9 715**	**7 916**	**7 021**	**4 577**
Property, plant and equipment	291 044	287 070	272 331	255 766
Investment in water corporation	58 935	58 150	58 088	57 882
Receivables	0	0	16	18
Total Non-Current Assets	**349 979**	**345 220**	**330 435**	**313 666**
Interest bearing liabilities	3 418	3 735	2 110	2 193
Provisions - employee benefits	725	475	274	246
Provision for rehabilitation	1 768	1 718	1 705	1 132
Total Non-Current Liabilities	**5 911**	**5 928**	**4 089**	**3 571**
Net Assets	**353 783**	**347 208**	**333 367**	**314 672**
Reserves	97 214	91 778	82 116	65 360
Accumulated surpluses	253 302	251 981	247 865	243 653
Outside equity interest	3 267	3 449	3 386	5 659
Total Equity	**353 783**	**347 208**	**333 367**	**314 672**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	33 570	33 742	31 958	30 196
Cash flows from Government	4 210	5 424	4 212	3 476
Payments to suppliers and employees	(31 538)	(30 069)	(30 449)	(29 058)
Interest received	605	451	536	673
Finance costs	(250)	(178)	(183)	(181)
Cash from (used in) Operations	**6 597**	**9 370**	**6 074**	**5 106**
Capital grants and contributions	1 239	5 683	3 570	8 779
Insurance recovery	0	0	0	1 574
Payments for investment in controlled entities	(92)	(193)	(157)	(24)
Distributions received - Cradle Mountain Water	342	308	208	129
Payments for property, plant and equipment	(6 756)	(14 681)	(9 470)	(22 688)
Proceeds from sale of property, plant and equipment	274	327	434	132
Cash (used in) Investing Activities	**(4 993)**	**(8 556)**	**(5 415)**	**(12 098)**
Repayment of interest bearing liabilities	(308)	(217)	(83)	0
Proceeds from interest bearing liabilities	0	2 000	0	0
Trust funds	(23)	4	(228)	0
Cash from (used in) Financing Activities	**(331)**	**1 787**	**(311)**	**0**
Net Increase (Decrease) in Cash	**1 273**	**2 601**	**348**	**(6 992)**
Cash at the beginning of the year	9 009	6 408	6 060	13 056
Cash at End of the Year	**10 282**	**9 009**	**6 408**	**6 064**

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(1 160)	(1 007)	514	(1 167)
Operating surplus ratio*, **	>0	(3.13)	(2.80)	1.47	(3.66)
Asset Management					
Asset sustainability ratio*	100%	61%	94%	53%	182%
Asset renewal funding ratio*, ***	90% - 100%	96%	100%	100%	NA
Roads consumption ratio*	>60%	48.4%	49.8%	50.9%	51.5%
Asset investment ratio	>100%	84%	185%	130%	310%
Liquidity					
Net financial assets (liabilities) ($'000s)		2 898	862	1 755	(35)
Net financial liabilities ratio*, ****	0% - (50%)	7.8%	2.4%	5.0%	(0.1%)
Operational Efficiency					
Liquidity ratio	2:1	5.24	2.68	4.33	2.10
Current ratio	1:1	2.91	2.49	2.73	1.74
Interest Coverage	3:1	25.39	51.64	32.19	27.21
Self financing ratio		17.8%	26.0%	17.4%	16.0%
Own source revenue		89.1%	89.0%	89.2%	90.8%
Debt collection	30 days	40	36	39	48
Creditor turnover	30 days	32	31	28	41
Rates per capita ($)		979	930	900	866
Rates to operating revenue		53.1%	52.2%	51.3%	54.0%
Rates per rateable property ($)		2 039	1 970	1 891	1 828
Operating cost to rateable property ($)		3 925	3 840	3 613	3 494
Employee costs expensed ($'000s)		14 456	14 245	13 352	11 742
Employee costs capitalised ($'000s)		596	740	1 082	1 636
Total employee costs ($'000s)		15 052	14 985	14 434	13 378
Employee costs as a % of operating expenses		38%	39%	39%	36%
Average staff numbers (FTEs)		187	189	192	188
Average staff costs ($'000s)		80	79	75	71
Average leave balance per FTE ($'000s)		12	11	11	10

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** Information not available to calculate ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

Burnie Airport Corporation Unit Trust (BAC)

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Total Revenue	1 201	1 304	1 277	1 160
Total Expenses	1 037	1 118	1 089	1 035
Net Surplus (Deficit)	**164**	**186**	**188**	**125**
Total Assets	8 500	8 993	9 246	14 059
Total Liabilities	1 929	2 021	2 267	2 385
Net Assets	**6 571**	**6 972**	**6 979**	**11 674**
Total Equity	**6 571**	**6 972**	**6 979**	**11 674**

Council owns a 51% interest in BAC, with the balance held by Australian Regional Airports. BAC's purpose is to provide sustainable infrastructure for a regular, reliable carrier to service the greater Burnie region.

BAC generated a Net Surplus in all four years under review and returned these profits to its shareholders as dividends. Revenue fell by 2% on the prior year due mainly to an inability to sell land parcels in a subdivision held for resale. BAC recorded a profit from land sales of $0.060m in 2011-12.

In 2012-13, BAC revalued it land, buildings and aeronautical roads and runways. The valuation, based on replacement cost, resulted in a decrement of $2.762m. Following the revaluation, BAC board members reviewed the assets for impairment against the estimated recoverable amount. As the value of assets was below the estimated recoverable amount (value in use calculation) the Board reversed the previous impairment and increased the carrying value of the assets by $2.386m. The overall impact of these two adjustments was a net decrease in the value of these assets of $0.376m.

Tasmanian Communications Unit Trust (TCU)

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Total Revenue	1 740	1 960	2 165	1 498
Total Expenses	1 589	1 741	1 899	1 589
Net Surplus (Deficit)	**151**	**219**	**266**	**(91)**
Total Assets	1 852	1 819	1 593	1 525
Total Liabilities	120	238	231	429
Net Assets	**1 732**	**1 581**	**1 362**	**1 096**
Total Equity	**1 732**	**1 581**	**1 362**	**1 096**

The TCU is an IT integrator for commercial and Local Government entities based in Burnie. In addition, it provides internet services, application service hosting and service desk services to its clients. With a fibre and wireless network between Smithton and Hobart, TCU is capable of servicing most of the major population centres in Tasmania.

TCU recorded a Net Surplus of $0.151m in 2012-13 compared to a surplus of $0.219m in 2011-12, a decrease of $0.068m. This was primarily due to reduced sales to Burnie City Council in 2012-13 which resulted in decreased sales revenue and related expenses.

The majority of TCU's sales consisted of service level agreements with Burnie City Council, other regional councils, Cradle Mountain Water and local private companies. Approximately 50% of its revenue was derived from external sources with the balance from Burnie City Council. TCU is dependent on income from Burnie City Council.

Total Assets remained relatively constant while Total Liabilities decreased due to payment timing differences for key software licensing fees. Total Equity increased in line with the Net Surplus of $0.219m.

Burnie Sports and Events Unit Trust (BSE)

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Total Revenue	2 264	2 741	2 648	2 453
Total Expenses	2 290	2 733	2 643	2 444
Net Surplus (Deficit)	**(26)**	**8**	**5**	**9**
Total Assets	470	534	571	627
Total Liabilities	312	350	395	456
Net Assets	**158**	**184**	**176**	**171**
Total Equity	**158**	**184**	**176**	**171**

The purpose of BSE is to enhance the viability and sustainability of sporting activities and organisations by providing professional support services, promotion and sponsorship and to manage sporting facilities on behalf of Council.

BSE is dependent on income from Council.

BSE generated revenue, from a service agreement with Burnie City Council, of $0.658m (2011-12, $0.685m) and bar and catering sales, room hire and sponsorship. Expenditure included maintenance of the facilities, inventory purchases, payments to sporting clubs and sponsorship.

BSE recorded a Net Deficit of $0.026m in 2012-13. This was primarily due to a payment of $0.035m to the Burnie Tennis Club on conclusion of a service agreement with the Club. The payment resulted in reduced cash balances.

CENTRAL COAST COUNCIL

SNAPSHOT

- Council's Underlying Surplus (Deficit) improved over the four year period, with it achieving a near break-even result in 2012-13.
- Its comprehensive result was a surplus of $9.019m, with Net Assets at 30 June 2013 of $431.714m.

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

We noted deficiencies in the areas of IS and credit card policy compliance. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments during the year.

Major variations between the 2012-13 and 2011-12 financial years included a substantial increase in Property, plant and equipment, due mainly to asset revaluations and a decrease in Cash, because of lower cash flows from Government, including Capital grants and Contribution of non-current assets.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
A full revaluation of assets was undertaken during 2012-13. Revaluations require estimation, judgment 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. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate independent expertise and the extent to which management reviewed and challenged their work.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

There were no key developments during the year.

KEY FINDINGS

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the adequacy of Council's IS system we noted weaknesses in application monitoring and user access management, including access rights, inadequate segregation of duties and the use of super-user accounts. We also noted that password sharing may occur at times within the finance team.

Other findings related to inadequate supporting documentation for credit card transactions and the non-authorisation of credit card statements by cardholders.

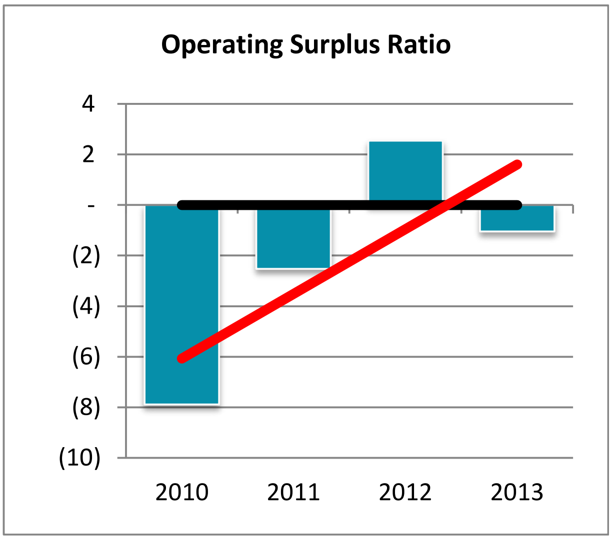
These matters were reported to, and are being addressed by management.

The audit was completed satisfactorily with no other items outstanding.

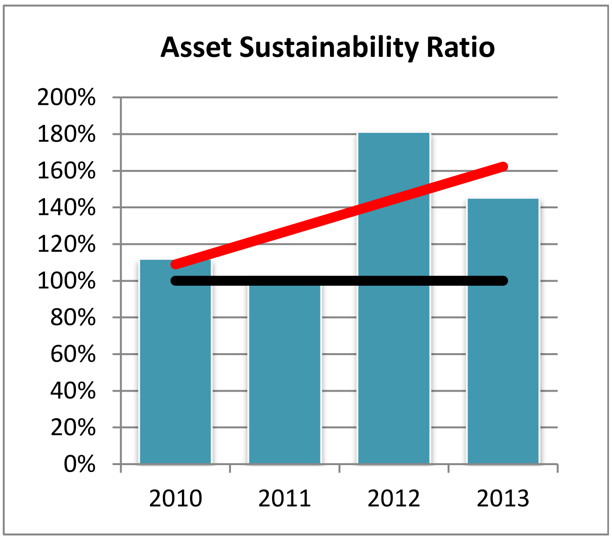
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded negative Operating surplus ratios in three of the four years under review. Council's average ratio of negative 2.23 was below our benchmark indicating it did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. However, the four year trend indicated that Council's Operating surplus ratio is improving.

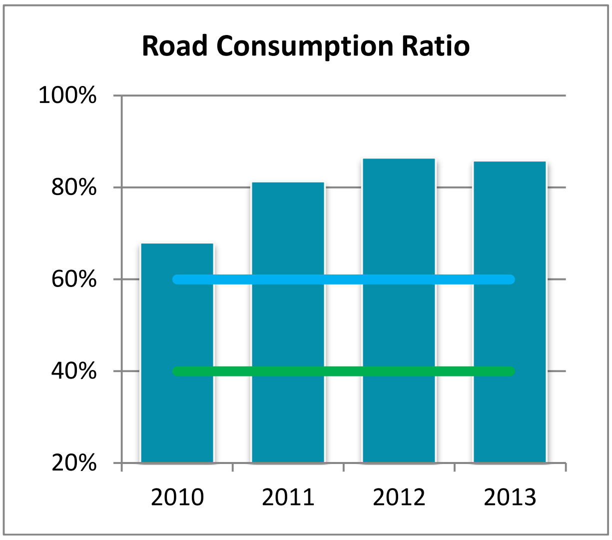


Council's ratio was above the benchmark in all years under review, indicating, subject to levels of maintenance expenditure, Council maintained its investment in existing assets. The lower ratio in 2009-10 and 2010-11 were due to the higher proportion of capital expenditure on new assets in those years, which included the Ulverstone Showground redevelopment.

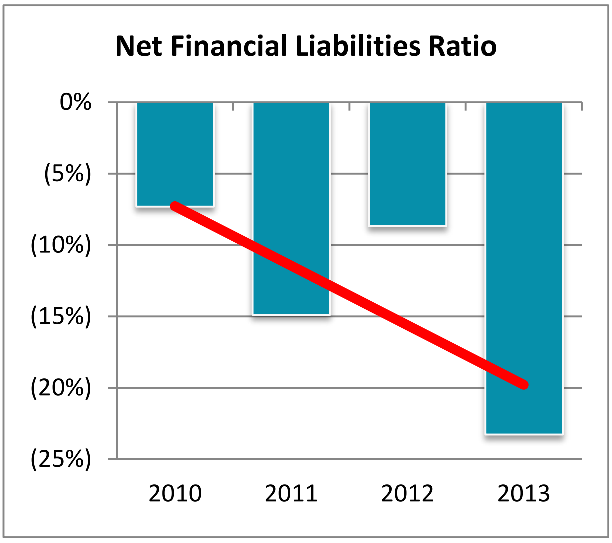
Asset Renewal Funding Ratio

Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2032-33 and covers roads infrastructure, car parks, footpaths, buildings and drainage assets.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, as outlined in the long-term financial management plan, Council's Asset renewal funding ratio was 90% at 30 June 2013 (2012, 100%). The ratio was in line with our benchmark of between 90% and 100%.



The above graph indicated that at 30 June 2013, Council had consumed approximately 14% of the service potential of its road assets. This was above our benchmark which indicated Council had sufficient capacity to continue to provide services to its ratepayers. The increase in the ratio in 2011 was principally due to a revaluation on 1 July 2010. The revaluation, undertaken by Council engineers, reviewed useful lives and introduced residual values. This resulted in a lower Depreciation expense and reduction in the accumulated depreciation balance.



Council recorded a negative Net financial liabilities ratio in each year under review. The negative ratio is well within our benchmark of nil to negative 50%, with Total Liabilities exceeding liquid assets.

Council completed a number of significant capital projects over the period under review, including the Ulverstone Showground redevelopment and the Leven River Precinct redevelopment, which incorporated the Ulverstone Wharf development and Leven River Bridge. This had resulted in Cash and Financial assets decreasing and higher net loan debt. The increased ratio in 2012-13 was mainly due to the expenditure of Capital grant funding received in prior years, which had resulted in lower Cash and Financial assets at 30 June 2013.

It is noted Council had contractual commitments totalling $1.847m at 30 June 2013 (2011-12, $1.053m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which yet to be applied to the purpose for which they were provided, totalling $2.124m ($2.058m).

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limited the amount available for discretionary use. Restricted funds represented $2.706m or 68.5% of the Cash and cash equivalents balance of $3.948m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found Council did not have an audit committee or internal audit function. Existence of an audit committee would enhance Council's governance arrangements.

It had long-term asset and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council. The plans are not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's Operating surplus ratio was below benchmark in three of the four years under review.

Council's Asset sustainability ratio averaged 136%, which was above our benchmark and indicated Council maintained its investment in existing assets. The Road asset consumption ratio shows road assets had sufficient capacity to continue to provide services to ratepayers. In addition, Council's Asset renewal funding ratio met our minimum benchmark of 90%. Council's Net financial liabilities ratio was negative, but well within our benchmark.

Asset planning by Council indicated that asset renewal requirements will increase beyond the year 2028 and that it will factor in updates to its financial plan together with a transition to a higher ratio over the same period.

From a governance perspective, Council did not have an audit committee although it had long-term asset and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at a moderate sustainability risk from governance and financial operating perspectives, but low sustainability risk from net financial liabilities and asset management perspectives.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

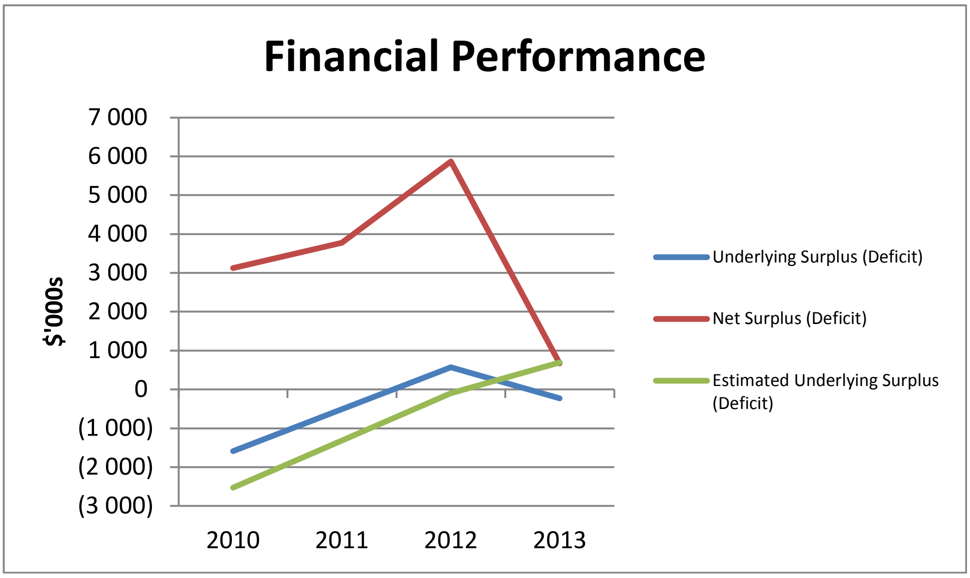
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

The Council regards the achievement of an Underlying Surplus as one of its main performance targets. The main factor in not achieving the Underlying Surplus was weaker than estimated revenue streams due to the current economic climate. In 2013-2014 the Council will start receiving a dividend from TasWater (as Priority Dividends have now been phased out) which will assist the Council to return to Underlying Surplus.

The Asset sustainability ratio, the road asset consumption ratio and the renewal funding ratio are expected to remain above the benchmark figures. With no significant borrowing planned in the next few years combined with increased cash flows from dividend receipts, the Net financial liabilities ratio is expected to strengthen.

The Council is proceeding to establish an Audit Committee during the 2013-2014 financial year to enhance its governance arrangements. IS matters reported on are being addressed.

FINANCIAL ANALYSIS

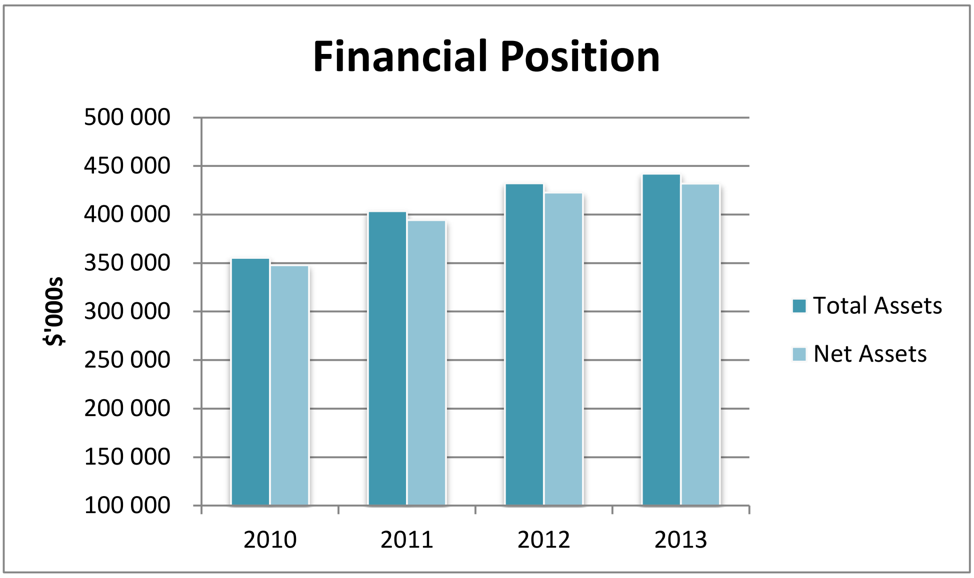


Council's Underlying Surplus (Deficit) improved over the four year period, with Council achieving a near break-even result in 2012-13. Council's Estimated Underlying Surplus (Deficit) also improved from a $2.529m deficit in 2009-10 to a $0.694m surplus in 2012-13.

Council recorded an Underlying Deficit of $0.231m in 2012-13, compared with a surplus of $0.574m in 2011-12. The decline of $0.805m was mainly due to a lower gain on sale of assets, $0.036m in 2012-13 compared with $0.993m in 2011-12. The 2011-12 gain included $1.000m related to East Ulverstone Industrial Estate land sales.

Council achieved better than its estimated underlying result in three of the four years under review. In 2012-13, Council estimated a gain on disposal of assets of $1.484m, yet only achieved a gain on disposal of $0.036m.

Council's Net Surplus varied over the period under review and is subject to Capital grants, Financial assistance grant received in advance and Contributions of non-current assets. The Net Surplus in 2011-12 of $5.865m was due to higher levels of Capital grants and Financial assistance grant in advance. In 2012-13, Council's revenue from Capital grants decreased to $0.825m, compared with an average of $3.207m for the first three years under review. The Net Surplus in 2010-11 of $3.779m was also impacted by higher Contributions of non-current assets of $2.246m, offset by slightly lower Capital grants in that year.



Council's Total Assets and Net Assets steadily grew over the period under review. Total Assets increased by $86.555m, or 24.4%, from 2009-10 to 2012-13. The movement related primarily to asset revaluation increments.

Council's financial position improved as at 30 June 2013, with Net Assets increasing by 2.1% or $9.019m to $431.714m. The increase was attributable to a Net Surplus of $0.670m, asset revaluation increments of $7.584m for all asset classes at fair value, Council's higher investment in Cradle Mountain Water, $0.903m and Council's share of Dulverton Regional Waste Management Authority's asset revaluation increment, $0.138m.

In 2012-13, Cash decreased by $2.494m and Interest bearing liabilities increased by $0.590m. As a result, Council's Liquidity and Current ratios decreased from 3.33 to 2.23 and 1.67 to 1.18 respectively. As previously noted, the reduction in Cash was due partly to lower Capital grants and Financial assistance grant compared with 2011-12.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	12 661	12 877	12 310	11 566
Fees and charges	3 504	3 118	3 015	3 126
Grants**	3 032	4 055	4 412	3 814
Interest revenue	475	325	384	365
Other revenue	3 103	1 646	2 449	1 459
Total Revenue	**22 775**	**22 021**	**22 570**	**20 330**
Employee costs	9 168	9 167	9 145	8 490
Depreciation	5 202	5 260	5 229	5 045
Finance costs	150	174	411	125
Other expenses	7 561	7 651	7 211	7 183
Total Expenses	**22 081**	**22 252**	**21 996**	**20 843**
Underlying Surplus (Deficit)	**694**	**(231)**	**574**	**(513)**
Capital grants	1 612	825	3 556	2 020
Financial assistance grant received in advance**	0	2 108	2 032	971
Offset Financial assistance grant in advance**	0	(2 032)	(971)	(945)
Contributions of non-current assets	0	0	674	2 246
Net Surplus (Deficit)	**2 306**	**670**	**5 865**	**3 779**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	7 584	22 463	42 203
Current year fair value adjustment Cradle Mountain Water	0	903	170	311
Share of associate revaluation increment	0	(138)	31	182
Total Comprehensive Income (Expense)	**0**	**8 349**	**22 664**	**42 696**
Comprehensive Surplus (Deficit)	**2 306**	**9 019**	**28 529**	**46 475**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	3 948	6 442	5 416	3 456
Receivables	1 051	957	952	1 336
Financial assets	0	0	0	1 325
Other	347	216	378	218
Total Current Assets	**5 346**	**7 615**	**6 746**	**6 335**
Payables	1 846	1 868	2 084	1 463
Interest bearing liabilities	138	109	126	129
Provisions - employee benefits	2 142	2 191	2 062	1 997
Provisions - aged persons units	145	137	136	127
Other	258	248	364	249
Total Current Liabilities	**4 529**	**4 553**	**4 772**	**3 965**
Net Working Capital	**817**	**3 062**	**1 974**	**2 370**
Property, plant and equipment	366 179	355 374	328 150	280 851
Investments in associates	2 235	2 009	1 743	1 431
Investment in water corporation	67 875	66 971	66 801	66 490
Other	199	83	118	172
Total Non-Current Assets	**436 488**	**424 437**	**396 812**	**348 944**
Interest bearing liabilities	2 692	2 131	2 214	1 341
Provisions - employee benefits	290	177	111	132
Provisions - aged persons units	1 938	1 845	1 900	1 776
Provisions - rehabilitation	671	651	395	374
Total Non-Current Liabilities	**5 591**	**4 804**	**4 620**	**3 623**
Net Assets	**431 714**	**422 695**	**394 166**	**347 691**
Reserves	229 835	221 832	199 224	156 781
Accumulated surpluses	201 879	200 863	194 942	190 910
Total Equity	**431 714**	**422 695**	**394 166**	**347 691**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	18 670	18 101	18 197	17 783
Cash flows from Government	4 131	5 473	3 840	3 823
Payments to suppliers and employees	(18 921)	(17 423)	(17 241)	(17 606)
Interest received	325	384	365	395
Finance costs	(154)	(154)	(104)	(63)
Cash from (used in) Operations	**4 051**	**6 381**	**5 057**	**4 332**
Capital grants and contributions	825	3 556	2 020	4 044
Payments for property, plant and equipment	(8 443)	(10 678)	(8 559)	(13 986)
Proceeds from sale of property, plant and equipment	482	1 868	1 246	831
Proceeds from financial assets	0	0	1 325	6 539
Cash from (used in) Investing Activities	**(7 136)**	**(5 254)**	**(3 968)**	**(2 572)**
Proceeds from interest bearing liabilities	700	25	1 000	700
Repayment of interest bearing liabilities	(109)	(126)	(129)	(104)
Cash from (used in) Financing Activities	**591**	**(101)**	**871**	**596**
Net Increase (Decrease) in Cash	**(2 494)**	**1 026**	**1 960**	**2 356**
Cash at the beginning of the year	6 442	5 416	3 456	1 807
Less cash transferred to Cradle Mountain Water	0	0	0	(707)
Cash at End of the Year	**3 948**	**6 442**	**5 416**	**3 456**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(231)	574	(513)	(1 586)
Operating surplus ratio*, **	>0	(1.05)	2.54	(2.52)	(7.89)
Asset Management					
Asset sustainability ratio*	100%	145%	181%	103%	112%
Asset renewal funding ratio*, ***	90% - 100%	90%	100%	100%	N/A
Roads consumption ratio*	>60%	85.8%	86.4%	81.3%	68.0%
Asset investment ratio	>100%	161%	204%	170%	232%
Liquidity					
Net financial assets (liabilities) ($'000s)		(5 121)	(1 958)	(3 024)	(1 471)
Net financial liabilities ratio*, ****	0% - (50%)	(23.3%)	(8.7%)	(14.9%)	(7.3%)
Operational Efficiency					
Liquidity ratio	2:1	2.23	3.33	2.47	2.60
Current ratio	1:1	1.18	1.67	1.41	1.60
Interest coverage	3:1	25.31	40.44	47.63	67.76
Self financing ratio		18.4%	28.3%	24.9%	21.5%
Own source revenue		81.6%	80.5%	81.2%	80.7%
Debt collection	30 days	18	18	16	28
Creditor turnover	30 days	37	32	41	21
Rates per capita ($)		576	565	532	502
Rates to operating revenue		58.5%	54.5%	56.9%	54.3%
Rates per rateable property ($)		1 211	1 170	1 109	1 052
Operating cost to rateable property ($)		2 077	2 052	1 986	2 083
Employee costs expensed ($'000s)		9 167	9 145	8 490	8 327
Employee costs capitalised ($'000s)		865	916	884	771
Total employee costs ($'000s)		10 032	10 061	9 374	9 098
Employee costs as a % of operating expenses		42%	42%	41%	39%
Average staff numbers (FTEs)		141	141	141	142
Average staff costs ($'000s)		71	71	66	64
Average leave balance per FTE ($'000s)		17	17	15	15

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** Information not available to calculate ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

DERWENT VALLEY COUNCIL

SNAPSHOT

- 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, Council had Net Assets of $97.101m, which included Property, plant and equipment, $69.131m, and Council's share in Southern Water, $24.925m.
- Council's road and infrastructure assets were revalued resulting in an increment in value of these assets of $4.560m.

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

We noted during our audit that not all credit card expenditure was supported with adequate documentation, general journals did not require dual authorisation and the IT manager position has been vacant since August 2012. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Council's operations remained generally consistent between 2012-13 and 2011-12, and there were no key developments or major variations in its financial results.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to road and stormwater infrastructure assets to maintain the currency of valuation between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.
A revaluation of bridges was undertaken by an independent valuer.	We tested the revaluation information in Council's asset register to the independent valuation and reviewed the report, qualifications and independence of the valuer as part of our assessment of the valuation.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Willow Court

Council continued to work towards the appropriate adaptive reuse of the Willow Court site utilising the expertise of the new Willow Court Working Group and the assistance of State and Federal Governments.

Sale of Willow Court Oval

We inquired into the process followed for the sale of this asset and are awaiting further information from Council. At the time of finalising this Chapter, we were not in a position to conclude as to the veracity of this process.

KEY FINDINGS

During the audit there were a number of findings, mainly procedural, including:

- not all credit card expenditure was supported with adequate documentation. A reconciliation of purchases from transaction statements to supporting documentation and certification of expenditure by the cardholder, together with a review of the reconciliation by an independent person are important controls in preventing misuse of corporate credit cards. Non-compliance may increase risk of misuse
- there is no requirement for dual authorisation of general journals. Processing journal entries without independent authorisation increases the risk of incorrect or unauthorised general journal postings, possibly leading to incorrect information in the accounting system and financial statements, whether due to error or fraud
- the IT Manager position has been vacant since August 2012. Delay in filling the position could increase the risk that the IT environment may not be managed effectively and security compromised.

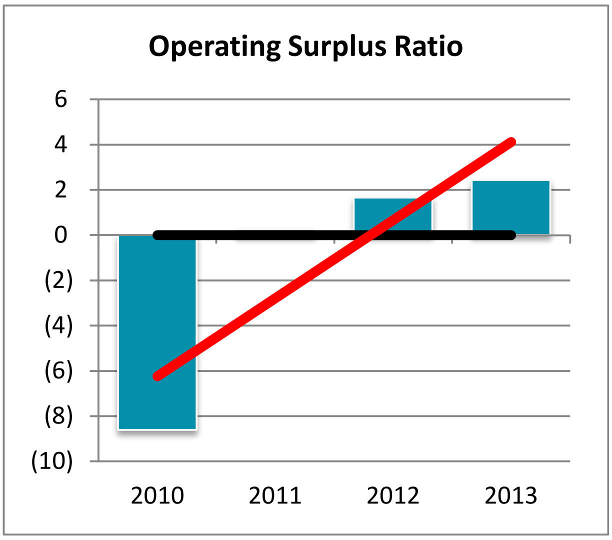
These matters were all reported to, and were being addressed by, management.

The audit was completed satisfactorily with no other matters outstanding.

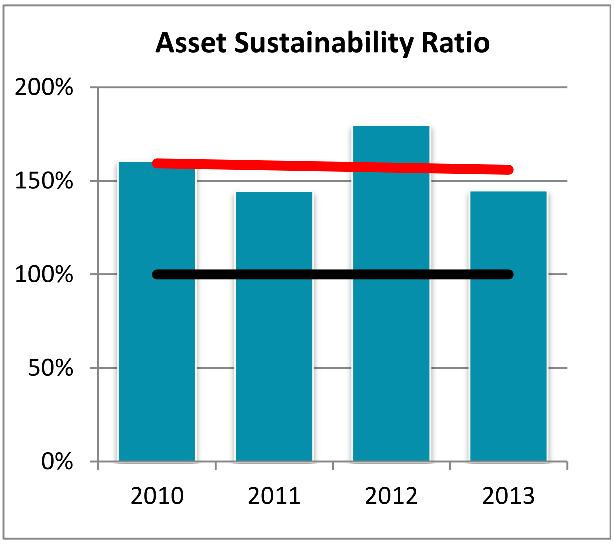
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

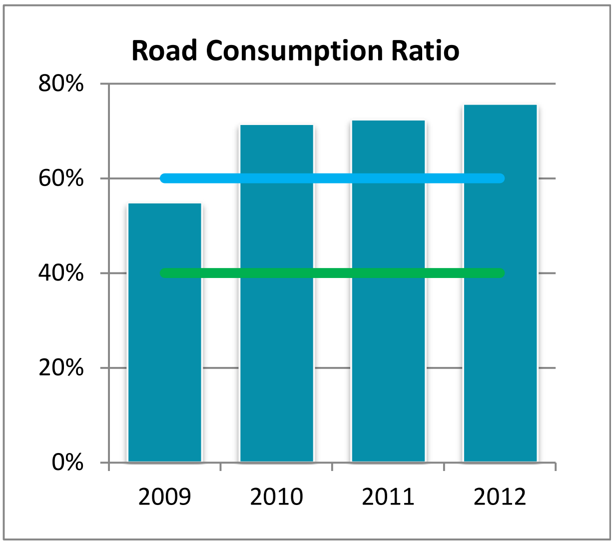
The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend. We were not able to compute an Asset renewal funding ratio because Council had no long-term asset management or financial management plans at the time of writing this Chapter.



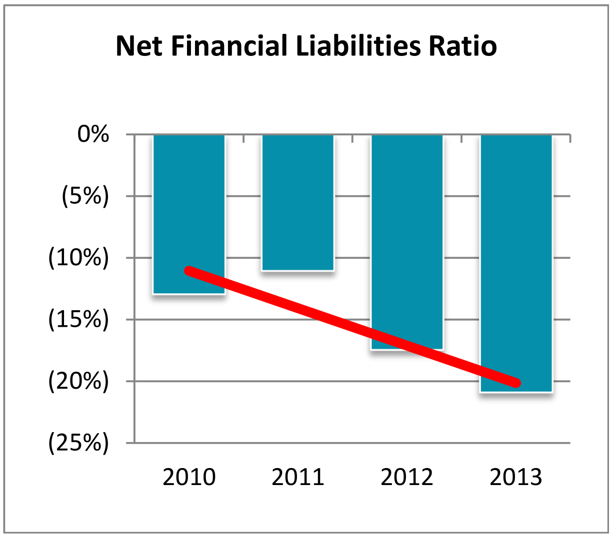
Council recorded an Underlying Surplus in 2012-13 and 2011-12, with deficits in the previous two years. On average over the four year period, Council recorded a negative ratio of 1.47, which indicates sufficient revenue was not generated to fulfil its operating requirements, including Depreciation charges. However, the average result was negatively influenced by the high Underlying Deficit of $0.750m in 2009-10, due to lower Grant revenues received and high Depreciation charges.



Asset sustainability ratio was slightly down in the current year but remained above benchmark. Subject to levels of maintenance expenditure and in the absence of long-term asset management plans, Council was adequately invested in existing assets.



The ratio at 30 June 2013 indicated Council had used (consumed) approximately 24% of the service potential of its road assets which is a low risk rating. The improvement in the ratio in 2012-13 was due to ongoing investment in road assets and the revaluation of these assets at 30 June 2013.



Council recorded a negative Net financial liabilities ratio in each of the four years under review. The negative ratios were better than our negative 50% benchmark, indicating Council was in an acceptable liquidity position and was able to meet existing commitments with a capacity to borrow. However, the trend is declining, which means that Council's liabilities grew at a greater rate than its Operating revenue.

Council's Total Liabilities consist of Payables, Borrowings, provisions and other liabilities, which consist of; security deposits, bonds and accruals, and employee provisions.

It is noted that Council's Cash and cash equivalents and Financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $2.082m or 78% of the total Cash and cash equivalents and Investments balance of $2.670m. Restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it did not have:

- an audit committee
- a long-term asset management plan
- a long-term financial management plan.

We understand that these aspects of governance are being addressed by Council.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded an operating surplus in the current year but a negative average Operating surplus ratio over the four years of this analysis. The trend over the four years was positive.

Asset sustainability ratio indicated Council, based on our 100% benchmark, invested adequately in existing assets over the past four years. At 30 June 2013 Council's Road consumption ratio was in the low risk range indicating its road assets were well placed to continue providing services to ratepayers.

Council's Net financial liabilities ratio was negative but within our 0% to negative 50% range indicating at 30 June 2013 it was in a position to meet short-term commitments and had capacity to increase borrowings should the need arise.

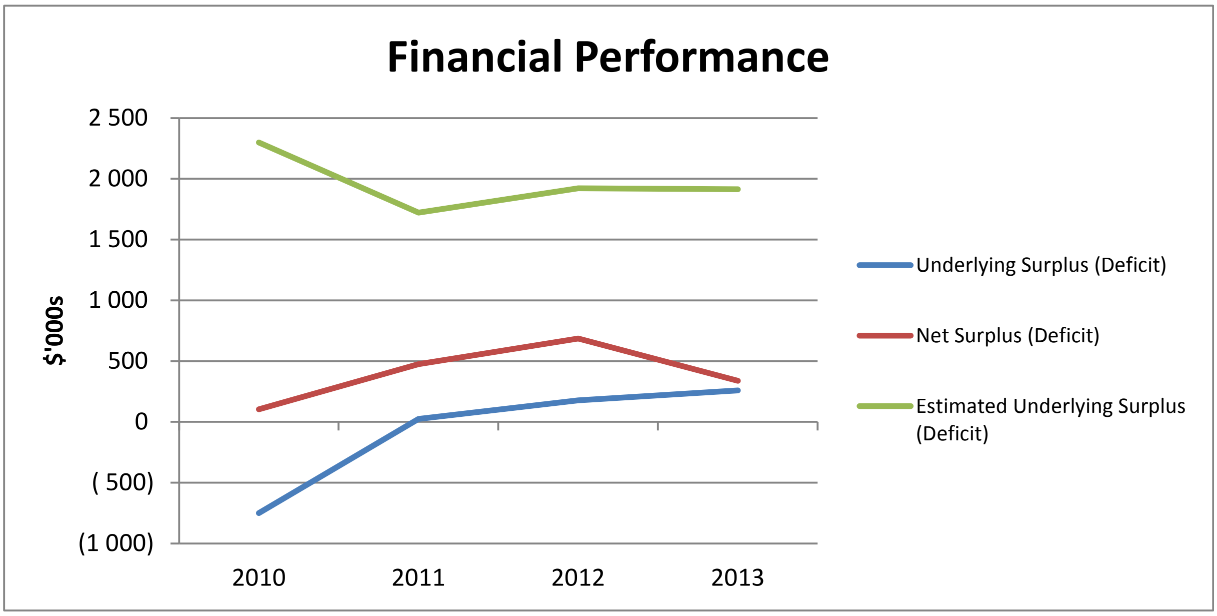
From a governance perspective, Council did not have an audit committee, long-term asset or financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at a high risk from a governance perspective, moderate financial sustainability risk from a financial operating perspective but low risk from net financial liabilities and asset management perspectives.

Council's Comments on this Assessment of its Financial Sustainability

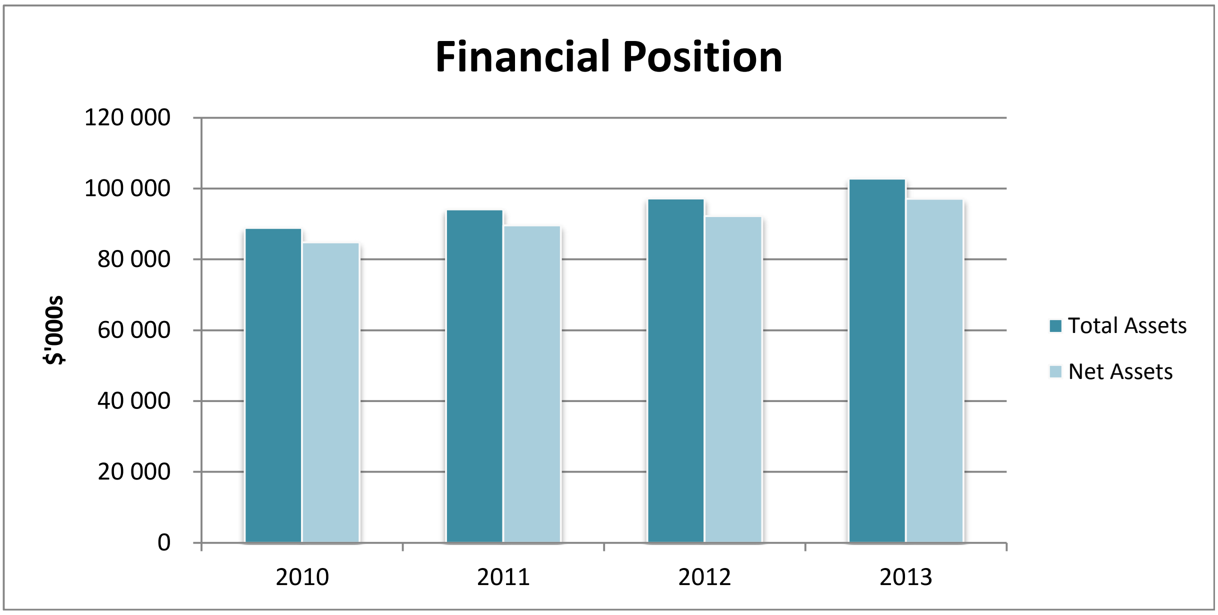
Council was offered the opportunity to comment and it advised that it did not have any comment to make.

FINANCIAL ANALYSIS



Council's underlying results steadily improved over the past four years. In 2012-13 it reported an Underlying Surplus of $0.259m which was $0.083m better than the Underlying Surplus reported last year. The improved result was due to a combination of an increase in Total Revenue, $0.054m, and lower Total Expenses, $0.029m. The actual result was below budget in all years under review, because Council does not budget for Depreciation.

Total Comprehensive Income was $4.465m and reflected a revaluation increment of $4.560m relating to road and infrastructure assets.



Council's Total Assets and Net Assets steadily increased over the period under review. Total Assets increased by $13.939m, 15.7%, from 2009-10 to 2012-13, which primarily reflected asset revaluation increments and net surpluses achieved.

Council increased its borrowings by $0.500m for further Road Capital works projects.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	5 609	5 605	5 284	5 057
Fees and charges	1 265	1 245	1 305	1 180
Grants**	3 047	3 426	3 314	2 999
Interest revenue	110	127	160	167
Other revenue	155	242	528	364
Total Revenue	**10 186**	**10 645**	**10 591**	**9 767**
Employee costs	3 563	3 392	3 290	3 009
Depreciation	0	2 156	2 038	1 978
Other expenses	4 545	4 684	4 952	4 648
Finance costs	164	154	135	107
Total Expenses	**8 272**	**10 386**	**10 415**	**9 742**
Underlying Surplus (Deficit)	**1 914**	**259**	**176**	**25**
Capital grants	0	0	0	410
Financial assistance grant received in advance**	0	1 033	955	444
Offset Financial assistance grant in advance**	0	(955)	(444)	(403)
Net Surplus (Deficit)	**1 914**	**337**	**687**	**476**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	4 470	1 937	4 110
Current year fair value adjustment Southern Water	0	(5)	55	143
Total Comprehensive Income (Expense)	**0**	**4 465**	**1 992**	**4 253**
Comprehensive Surplus (Deficit)	**1 914**	**4 802**	**2 679**	**4 729**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	370	2	415	184
Financial assets	2 300	2 150	2 305	2 004
Receivables	818	899	702	669
Other	60	71	63	148
Total Current Assets	**3 548**	**3 122**	**3 485**	**3 005**
Payables	852	382	650	826
Borrowings	176	144	115	89
Provisions – employee benefits	1 648	1 742	1 564	1 399
Other	384	282	228	131
Total Current Liabilities	**3 060**	**2 550**	**2 557**	**2 445**
Net Working Capital	**488**	**572**	**928**	**560**
Property, plant and equipment	74 326	69 131	65 747	61 126
Investment in water corporation	24 920	24 925	24 870	24 727
Other	21	22	20	18
Total Non-Current Assets	**99 267**	**94 078**	**90 637**	**85 871**
Borrowings	2 539	2 215	1 858	1 473
Provisions – employee benefits	115	136	87	67
Total Non-Current Liabilities	**2 654**	**2 351**	**1 945**	**1 540**
Net Assets	**97 101**	**92 299**	**89 620**	**84 891**
Reserves	56 441	52 016	49 848	45 649
Accumulated surpluses	40 660	40 283	39 772	39 242
Total Equity	**97 101**	**92 299**	**89 620**	**84 891**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 260	6 834	7 082	6 126
Cash flows from Government	3 561	4 057	3 370	2 357
Payments to suppliers and employees	(7 775)	(8 400)	(8 259)	(6 559)
Interest received	125	160	167	60
Finance costs	(152)	(128)	(101)	(83)
Cash from (used in) Operations	**3 019**	**2 523**	**2 259**	**1 901**
Capital grants and contributions	0	10	427	859
Distributions received - Southern Water	0	8	0	0
Payments for property, plant and equipment	(3 126)	(3 669)	(3 018)	(4 294)
Proceeds from sale of property, plant and equipment	268	175	453	150
Proceeds/(Payments) for financial assets	(150)	155	(301)	520
Cash from (used in) Investing Activities	**(3 008)**	**(3 321)**	**(2 439)**	**(2 765)**
Proceeds from borrowings	500	500	500	500
Repayment of borrowings	(143)	(115)	(89)	(65)
Cash from (used in) Financing Activities	**357**	**385**	**411**	**435**
Net Increase (Decrease) in Cash	**368**	**(413)**	**231**	**(429)**
Cash at the beginning of the year	2	415	184	613
Cash at End of the Year	**370**	**2**	**415**	**184**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		259	176	25	(750)
Operating surplus ratio*, **	>0	2.43	1.66	0.26	(8.61)
Asset Management					
Asset sustainability ratio*	100%	145%	180%	145%	161%
Asset renewal funding ratio*	90% - 100%	N/A	N/A	N/A	N/A
Road consumption ratio*	>60%	75.7%	72.4%	71.4%	54.8%
Asset investment ratio	>100%	145%	180%	153%	209%
Liquidity					
Net financial assets (liabilities) ($'000s)		(2 226)	(1 850)	(1 080)	(1 128)
Net financial liabilities ratio*, ***	0 - (50%)	(20.9%)	(17.5%)	(11.1%)	(13.0%)
Operating Efficiency					
Liquidity ratio*	2:1	0.84	1.12	1.12	0.82
Current ratio	1:1	1.16	1.22	1.36	1.23
Interest coverage	3:1	18.86	18.71	21.37	21.90
Self financing ratio*		28.4%	23.8%	23.1%	21.8%
Own source revenue*		69.0%	70.2%	71.0%	74.8%
Debt collection	30 days	44	50	41	35
Creditor turnover	30 days	41	17	32	35
Rates per capita ($)		563	531	511	487
Rates to operating revenue		52.7%	49.9%	51.8%	55.1%
Rates per rateable property ($)		1 111	1 058	1 021	967
Operating cost to rateable property ($)		2 058	2 086	1 966	1 905
Employee costs expensed ($'000s)		3 392	3 290	3 009	2 920
Employee costs capitalised ($'000s)		54	198	43	43
Total employee costs ($'000s)		3 446	3 488	3 052	2 963
Employee costs as a % of operating expenses		33%	32%	31%	31%
Average staff numbers (FTEs)		51	48	46	47
Average staff costs ($'000s)		68	73	66	63
Average leave balance per FTE ($'000s)		35	39	36	31

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this Chapter.*

*** This ratio is also called the Underlying result ratio.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue. Where this ratio is positive, liquid assets exceed total liabilities.*

DEVONPORT CITY COUNCIL

SNAPSHOT

- While still in deficit, Council recorded a much improved, and almost break-even, Underlying Deficit this year which was in line with budget.
- Its comprehensive result was a surplus of $36.240m resulting in Total Equity at 30 June 2013 of $447.902m.

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

We noted concerns around the operations and reporting of the Devonport Maritime and Heritage Authority (MHA), deficiencies in Council's IS systems, and issues with its road asset database. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Key developments in the year included the commencement of construction at the indoor aquatic centre and the announcement of the Living City project.

Major variations between the 2012-13 and 2011-12 financial years included a substantial increase in Property, plant and equipment due to a road infrastructure revaluation and an increase in Borrowings as Council initiated new loans totalling $11.600m.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
A revaluation of road infrastructure assets was undertaken and recognised at 30 June 2013. The valuation was undertaken by Council's City Infrastructure Department.	We tested the valuation reports, calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 25 September 2013.

KEY DEVELOPMENTS

Indoor Aquatic Centre

During 2011-12, Council undertook extensive consultation and planning for a new indoor aquatic centre. In addition to Council's financial contribution, the $13.960m project was supported by both State and Federal Government grants.

Construction of the new facility commenced in June 2012 and is scheduled for completion in December 2013. Payments of $6.487m were made for construction during 2012-13.

Living City Project

In March 2013, Council announced its Living City project as a strategic approach to building a sustainable regional city and maximising opportunities for the city and greater region. Strategic property purchases consistent with the aims of the project were made during the year totalling $7.660m. Council funded the purchases by taking out loans of $7.600m, $5.000m of which is an interest-only loan for a period of five years.

Devonport Maritime and Heritage Authority

In October 2010, Council established the MHA as a single Authority under section 29 of the *Local Government Act 1993* to perform all tasks necessary for the management and operation of the Devonport Maritime Museum and associated heritage initiatives. The financial transactions of the MHA are consolidated into Council's financial report, but were not material.

Since inception, the MHA has sought and been granted dispensation from annual financial audit based on its financial information being included within Council's financial statements and audited with those statements.

During 2012-13, its operations increased following completion of the redevelopment of the Maritime Museum. In 2012-13, MHA recorded a net deficit of $0.420m, which was funded by Council.

KEY FINDINGS

Maritime Heritage Authority

It was recommended that Council formalise its responsibility and/or guarantee of support for the ongoing financial operations of MHA, including deficit funding, future separation and reporting plans and the nature of future reporting and audit requirements.

Information Security

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. A review of the existence and adequacy of Council's IS system noted that there are no reviews performed over changes to master data files.

Road Asset Data

The consistency and verifiability of a portion of Council's underlying road data was found to be problematic during verification of the current revaluation. Further minor asset issues were also identified.

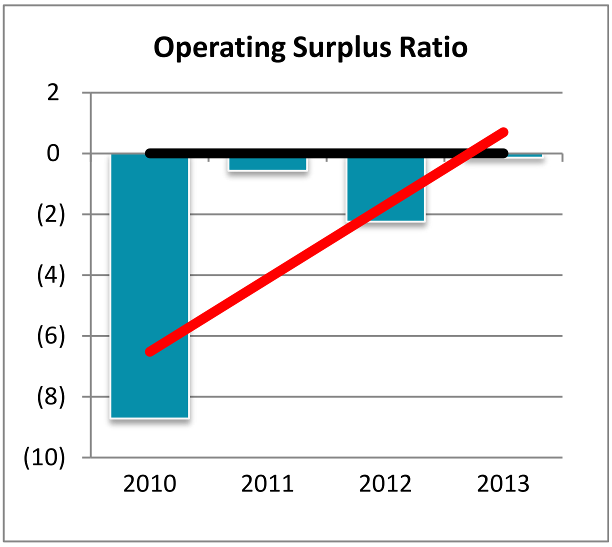
These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

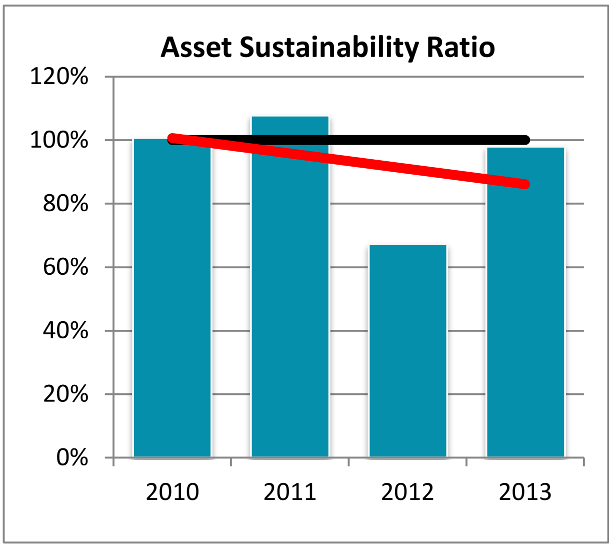
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Operating surplus ratios reflects Underlying Deficits recorded in each of the four years although the result in 2012-13 was almost break-even. On average over the four year period, Council recorded a negative ratio of 2.35, which indicated insufficient revenue was generated to fulfil operating requirements, including Depreciation charges. However, in trend terms Council's ratio improved primarily due to a review of operations and restructure in July 2010.

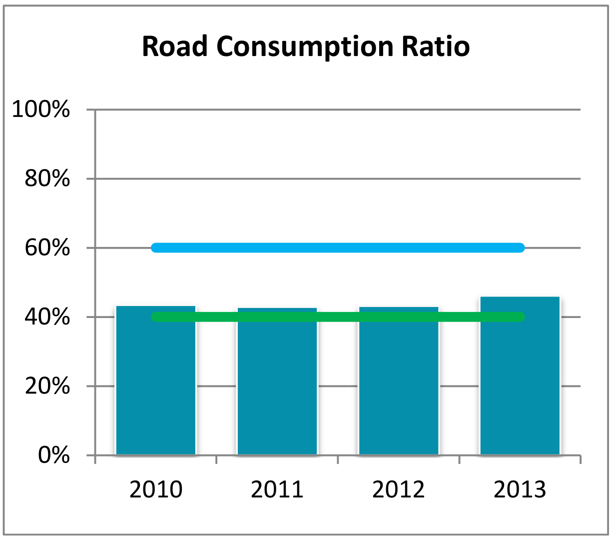


Asset sustainability ratios were consistent with our 100% benchmark, except for 2011-12, where Council concentrated on new assets including the Spreyton cycleway, indoor aquatic centre, offsite storage facility for the Devonport Regional Gallery and the purchase of land and buildings. Over the four year period, Council's average ratio was 93%, slightly below the benchmark, indicating, subject to levels of maintenance expenditure and the existence of an effective long-term asset management plan, Council, in general, maintained its investment in existing assets.

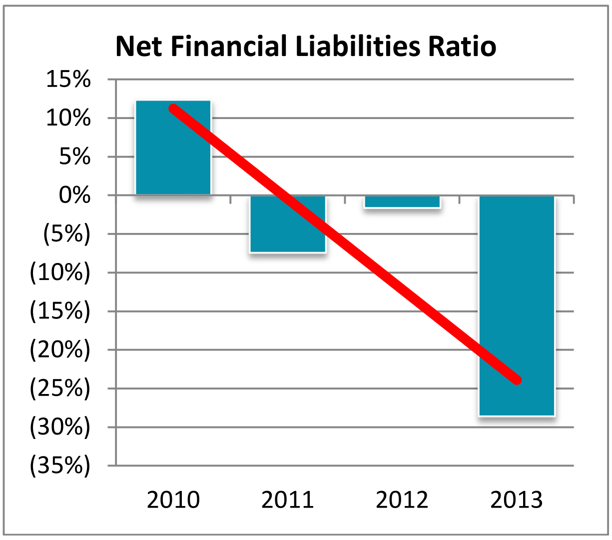
Asset Renewal Funding Ratio

Council's long-term asset management plan indicated an Asset renewal funding ratio of 93% at 30 June 2013, based on planned asset replacement expenditure noted in the long-term financial management plan. This is within the benchmark range of 90% - 100%, indicating Council's proposed investment in asset renewal is adequate.

Its current long-term asset management plan forecasts planned and required renewal expenditure to 2028-29 and covers transport, drainage, facilities and open space and recreation assets. Council's long-term asset management plan is not audited.



The graph above indicated that at 30 June 2013 Council had used (consumed) approximately 54% of the service potential of its road assets. At this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers. However, the ratio was at the low end of our 'moderate' risk range.



Council's negative ratio at 30 June 2013 was due to Total Liabilities exceeding liquid assets by $10.176m, which represented 28.63% of Council's operating revenue. The negative ratio of 28.63% is within our benchmark of negative 50% and indicated Council was in a reasonable liquidity position and able to meet existing commitments.

The significant decrease in the 2013 ratio was due to Council borrowing $4.000m for the construction of the aquatic centre and $7.600m for property purchases as part of the Living City project.

It is noted that Council had contractual commitments totalling $5.498m, a significant portion relating to the indoor aquatic centre, (2011-12, $0.710m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $0.999m ($3.569m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds, including commitments represent $9.487m or 67.2% of the total Cash and financial assets balance of $14.126m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of governance arrangements indicated Council had an audit committee, with the committee:

- consisting of three independent members and two aldermen
- taking an oversight role of Council's financial statements.

The functions of the committee do not include an internal audit role. An internal audit function would further strengthen Council's governance arrangements.

In addition, Council had long-term asset management and financial management plans. The asset management plan covers a period from 2010-11 to 2028-29, is detailed, regularly reviewed and covers all of the elements required in relation to Council's key infrastructure assets. The plan was formally adopted by Council, but is not subject to audit.

Council's financial management plan is reviewed annually and the latest revision, formally adopted in June 2013, covers the period to 30 June 2023. The plan has a focus on operating activities.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded Underlying Deficit in all four years under review. However its result for 2012-13, deficit of $0.047m, was close to break-even.

Council's Asset sustainability ratios indicated, based on our 100% benchmark, that it marginally under-invested in existing assets over the period of the analysis, with an average ratio of 93%. The Road consumption ratio is in the moderate risk range, with road assets being 54% consumed at 30 June 2013. The Asset renewal funding ratio indicated Council is planning to fund future asset renewal requirements.

Council's liquidity, although decreasing, is adequate to meet its short-term commitments, it had a manageable debt level and a capacity to borrow further should the need arise.

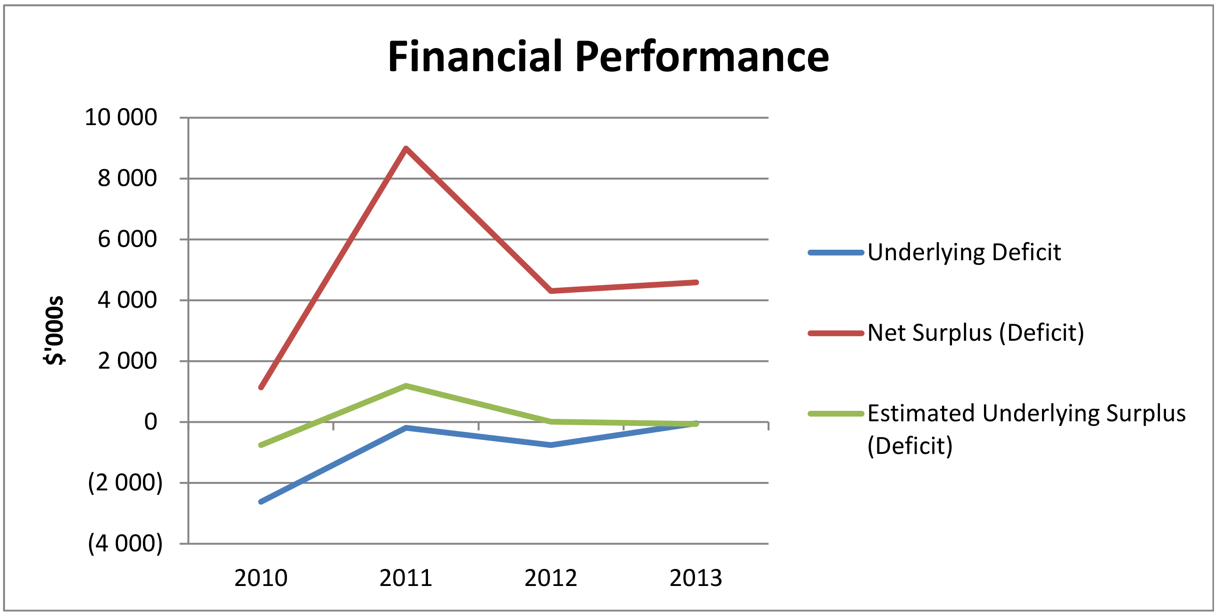
From a governance perspective, Council has an active audit committee, although it does not have an internal audit function. Council has long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at moderate financial sustainability risk from an operating, asset management and governance perspective but was at low financial sustainability risk from a net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

FINANCIAL ANALYSIS

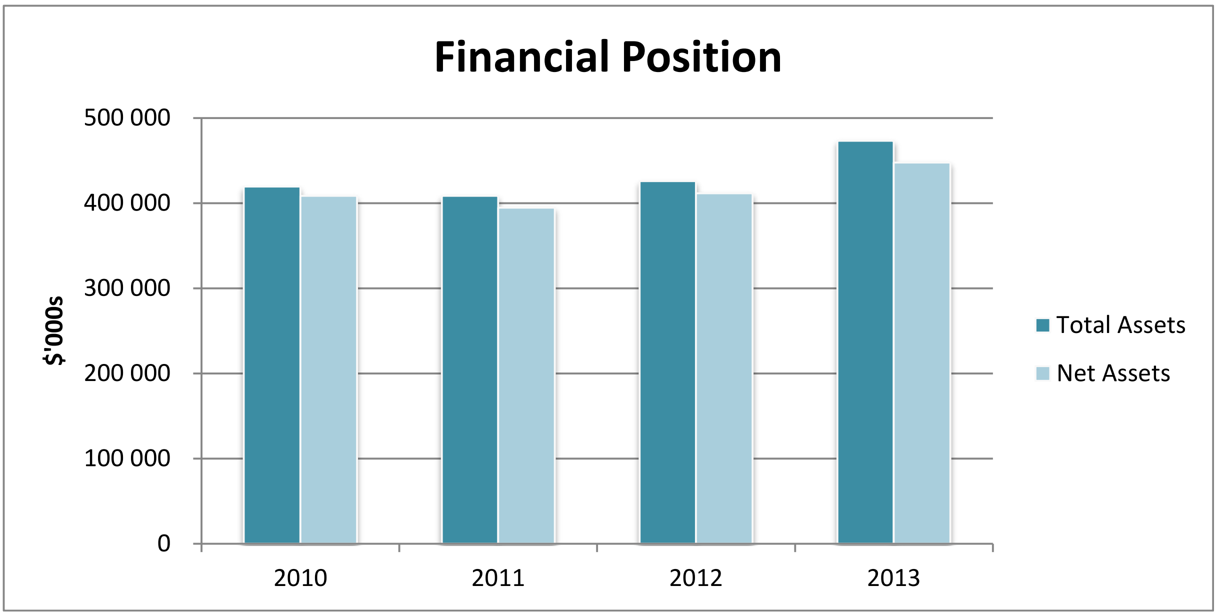


Council reduced its Underlying Deficit during 2012-13 to near break-even and performed in line with its Estimated Underlying Deficit. The Underlying Deficit has improved over the last three years following a review of operations and restructure in July 2010.

For 2012-13 Council generated an Underlying Deficit of $0.047m, an improvement on the previous year of $0.710m. The improved result predominantly related to a 5% increase in revenue from Rates, $1.184m, higher distributions from Cradle Mountain Water, $0.760m, offset by increased Depreciation of $0.709m. The higher Depreciation was mainly due to revaluation of road and stormwater assets in 2011-12.

Over the period under review, Council's Underlying Deficit was worse than its Estimated Underlying Deficit except for 2012-13. A significant portion of the variance was attributable to Council not budgeting for losses on the disposal of assets until 2012-13, which over the period averaged $1.060m.

Council reported Net Surpluses in all years following receipt of Capital grants, averaging $4.490m annually, and Contributions of non-current assets, averaging $1.007m.



In 2012-13, Council's Total Assets and Net Assets both recorded their largest increases over the last four years, with Total Assets increasing by $47.668m, or 11.19%. These increases related primarily to higher Property, plant and equipment of $44.570m. The major movements within these assets were a road revaluation increment, $31.208m, and capital additions, $23.442m, offset by Depreciation expense of $8.736m. Major capital works consisted of the indoor aquatic centre and Living City project mentioned previously in the Key Developments section.

The $36.240m increase in Net Assets to $447.902m was due to higher Property, plant and equipment noted above, offset by higher total net Borrowings of $10.652m used to fund the aquatic centre and Living City projects.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	24 768	25 020	23 836	22 233
Fees and charges	4 873	4 602	4 750	4 869
Grants**	2 331	2 240	2 482	2 970
Interest revenue	593	787	755	956
Other revenue	1 462	2 889	1 958	2 046
Total Revenue	**34 027**	**35 538**	**33 781**	**33 074**
Employee costs	11 825	12 190	12 055	11 702
Depreciation	8 618	8 736	8 027	7 174
Finance costs	651	710	544	374
Other expenses	12 994	13 949	13 912	14 012
Total Expenses	**34 088**	**35 585**	**34 538**	**33 262**
Underlying Surplus (Deficit)	**(61)**	**(47)**	**(757)**	**(188)**
Capital grants	6 814	3 956	4 139	7 350
Financial assistance grant received in advance**	0	999	1 069	477
Offset Financial assistance grant in advance**	(1 069)	(1 069)	(477)	(435)
Contributions of non-current assets	0	745	327	1 783
Net Surplus (Deficit)	**5 684**	**4 584**	**4 301**	**8 987**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	30 784	12 384	7 689
Share of associate revaluation increment	0	(164)	37	280
Fair value adjustment arising from change in allocation order	0	0	0	(31 767)
Current year fair value adjustment Cradle Mountain Water	0	1 036	83	358
Total Other Comprehensive Income (Expense)	**0**	**31 656**	**12 504**	**(23 440)**
Comprehensive Surplus (Deficit)	**5 684**	**36 240**	**16 805**	**(14 453)**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit. An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.*

** *Grants received in advance have been shown separately after the Underlying Surplus (Deficit).*

The offset figures allows the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	14 126	11 720	9 608	12 869
Receivables	1 279	1 875	1 755	1 723
Other	91	105	65	101
Total Current Assets	**15 496**	**13 700**	**11 428**	**14 693**
Payables	3 406	2 639	2 500	2 791
Borrowings	1 165	948	845	672
Provisions – employee benefits	2 252	2 080	2 107	1 887
Other	304	376	435	201
Total Current Liabilities	**7 127**	**6 043**	**5 887**	**5 551**
Net Working Capital	**8 369**	**7 657**	**5 541**	**9 142**
Property, plant and equipment	377 476	332 906	318 226	294 571
Investments in associates	2 637	2 371	2 056	1 722
Investment in water corporation	77 874	76 838	76 755	108 164
Receivables	0	0	223	289
Total Non-Current Assets	**457 987**	**412 115**	**397 260**	**404 746**
Borrowings	18 020	7 585	7 533	4 878
Provisions – employee benefits	434	525	411	448
Total Non-Current Liabilities	**18 454**	**8 110**	**7 944**	**5 326**
Net Assets	**447 902**	**411 662**	**394 857**	**408 562**
Reserves	264 994	233 338	220 834	214 475
Accumulated surpluses	182 908	178 324	174 023	194 087
Total Equity	**447 902**	**411 662**	**394 857**	**408 562**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	32 826	31 171	30 300	28 989
Cash flows from Government	2 170	3 074	3 012	2 261
Payments to suppliers and employees	(25 812)	(25 652)	(26 097)	(26 003)
Interest received	798	742	930	597
Finance costs	(626)	(548)	(374)	(353)
Cash from (used in) Operations	**9 356**	**8 787**	**7 771**	**5 491**
Capital grants and contributions	3 956	3 673	7 350	2 516
Distributions received - Dulverton	151	76	110	33
Distributions received - Cradle Mountain Water	1 405	884	891	522
Payments for property, plant and equipment	(23 441)	(13 229)	(22 733)	(8 406)
Proceeds from sale of property, plant and equipment	327	1 766	522	200
Cash from (used in) Investing Activities	**(17 602)**	**(6 830)**	**(13 860)**	**(5 135)**
Proceeds from borrowings	11 600	1 000	3 500	3 140
Repayment of borrowings	(948)	(845)	(672)	(380)
Cash from (used in) Financing Activities	**10 652**	**155**	**2 828**	**2 760**
Net Increase (Decrease) in Cash	**2 406**	**2 112**	**(3 261)**	**3 116**
Cash at the beginning of the year	11 720	9 608	12 869	9 753
Cash at End of the Year	**14 126**	**11 720**	**9 608**	**12 869**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(47)	(757)	(188)	(2 620)
Operating surplus ratio*, **	>0	(0.13)	(2.24)	(0.57)	(8.71)
Asset Management					
Asset sustainability ratio*	100%	98%	67%	108%	101%
Asset renewal funding ratio*, ***	90% - 100%	93%	96%	97%	N/A
Road asset consumption ratio*	>60%	46.1%	43.2%	42.9%	43.5%
Asset investment ratio	>100%	240%	156%	311%	122%
Liquidity					
Net financial assets (liabilities) ($'000s)		(10 176)	(558)	(2 468)	3 715
Net financial liabilities ratio*, ****	0 - (50%)	(28.6%)	(1.7%)	(7.5%)	12.4%
Operational Efficiency					
Liquidity ratio	2:1	3.16	3.43	3.01	3.98
Current ratio	1:1	2.17	2.27	1.94	2.65
Interest Coverage	3:1	13.95	15.03	19.78	14.56
Self financing ratio		26.3%	26.0%	23.5%	18.3%
Own source revenue		93.7%	92.7%	91.0%	92.7%
Debt collection	30 days	16	24	24	25
Creditor turnover	30 days	29	32	19	37
Rates per capita ($)		973	929	870	810
Rates to operating revenue		70.4%	70.6%	67.2%	68.7%
Rates per rateable property ($)		2 091	2 004	1 880	1 766
Operating cost to rateable property ($)		2 975	2 903	2 812	2 794
Employee costs expensed ($'000s)		12 190	12 055	11 702	12 935
Employee costs capitalised ($'000s)		575	566	577	701
Total employee costs ($'000s)		12 765	12 621	12 279	13 636
Employee costs as a % of operating expenses		34%	35%	35%	40%
Average staff numbers (FTEs)		167	167	166	153
Average staff costs ($'000s)		76	76	74	89
Average leave balance per FTE ($'000s)		16	16	15	15

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

***** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where this ratio is positive, liquid assets exceed total liabilities.*

HUON VALLEY COUNCIL

SNAPSHOT

- Council's Underlying Surplus decreased to $0.552m in 2012-13.
- Council's 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, Council's Total Assets were $229.647m and its Net Assets amounted to $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 liability perspectives.

We identified shortcomings in the financial statements preparation process with several amendments being required to the initial financial statements. This matter was reported to, and is being addressed by, management.

The audit was completed satisfactorily with no other matters outstanding.

There were no key developments during 2012-13.

There were no major variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

There were no areas of particular audit attention other than those referred in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013, with re-signed financial statements received on 20 September 2013. An unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

There were no key developments during 2012-13.

KEY FINDINGS

The audit process identified and required numerous amendments to be made to the initial financial statements as a result of errors and/or incorrect application of accounting standards. The areas impacted the most were non-current physical assets, statement of cash flows, long service leave provision and disclosure of financial instruments.

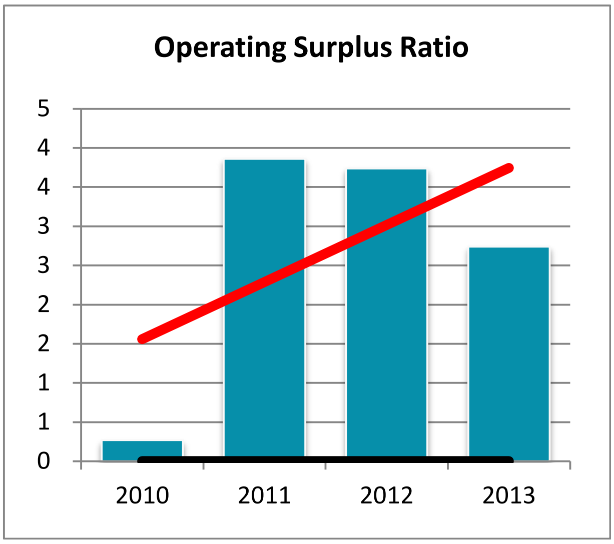
This matter was reported to, and is being addressed by, management.

The audit was completed satisfactorily with no other matters outstanding.

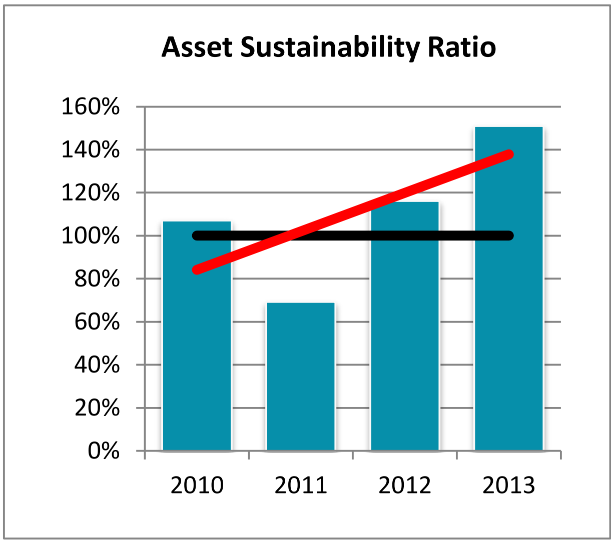
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs and the discussion on the Asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



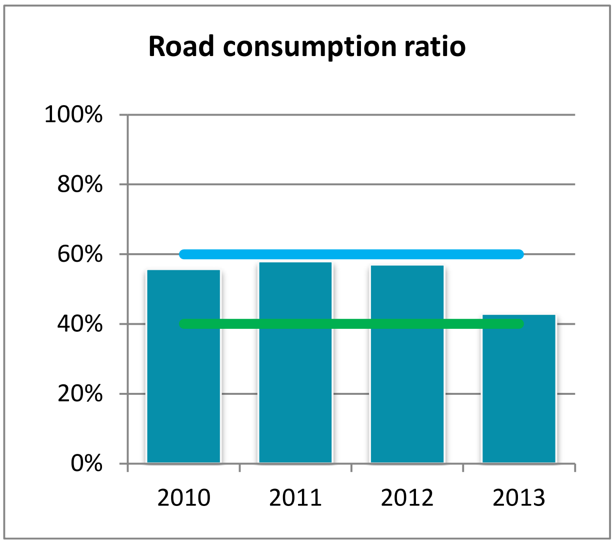
Council recorded an average Operating surplus ratio of 2.65 over the past four years, which indicated that it generated sufficient revenue to fulfil its operating requirements, including its Deprecation.



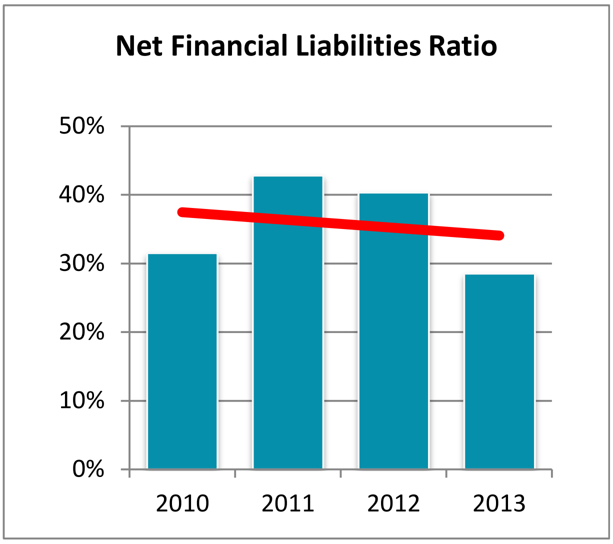
Over the four year period, Council's average ratio was 111%, which was above the benchmark indicating that it maintained its investment in existing assets. The increase in the past two years had been a direct result of Council's long-term asset management strategy to match capital expenditure on Property, plant and equipment to total Depreciation costs in each year.

Asset Renewal Funding Ratio

Council's long-term financial management plan indicated that the Asset renewal funding ratio was 100% at 30 June 2013, based on planned asset replacement expenditure. This ratio satisfied our benchmark of 90 to 100%. Council's current long-term financial management plan forecasts required renewal expenditure to 2023-24 and covers transport, drainage, facilities and open place recreation assets.



The graph above indicates that at 30 June 2013 Council used (consumed) approximately 43% of the service potential of its road assets. This indicated a moderate financial sustainability risk.



Council recorded positive Net financial liabilities ratios with liquid assets in excess of current and non-current liabilities over the four year period under review. These positive ratios indicate a strong liquidity position, with Council able to meet its existing commitments. There is a downward trend since 2011, which was predominantly being driven by lower overall Cash and Financial assets as funds were being spent on Property, plant and equipment to ensure capital spending matched the Depreciation expense as mentioned previously.

It is noted that Council's Cash and Financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $6.218m or 66% of the total Cash and Financial assets balance of $9.396m. Restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it had a long-term financial management plan. The plan covers the period from 2013-14 to 2023-24, is detailed, reviewed annually and covers all of the elements required in relation to Council's key infrastructure assets, as well as focusing on operating activities. We also noted that Council does not have an audit committee or internal audit function. However, it has a Financial and Risk Management Committee which performs some functions that would normally be performed by an audit committee.

Conclusion as to Financial Sustainability

From a financial operating perspective, an average positive Operating surplus ratio over the four year period indicated low financial sustainability risk.

Council's Net financial liabilities ratio was above benchmark and it had no debt. These factors indicate it was in a strong position to meet its short-term commitments and may have capacity to borrow should the need arise.

Asset management ratios indicate Council maintained its investment in existing assets over the four year period under review, and its Road consumption ratio was in the moderate financial sustainability risk range. Council's Asset renewal funding ratio achieved our benchmark.

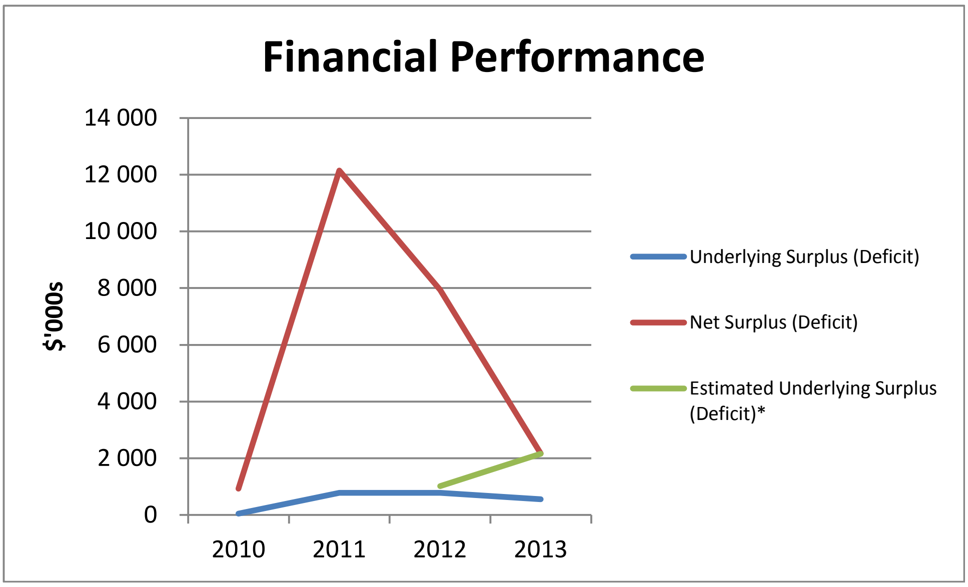
Council does not have an audit committee but does have a Financial and Risk Management Committee performing some functions of an audit committee. It also has a long-term financial management plan which was formally adopted.

Based on these ratios and governance arrangements, we concluded at 30 June 2013 that Council was at moderate financial sustainability risk from asset management and governance perspectives, but low risk from financial operating and net financial liabilities perspectives.

Council's Comments on this Assessment of its Financial Sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

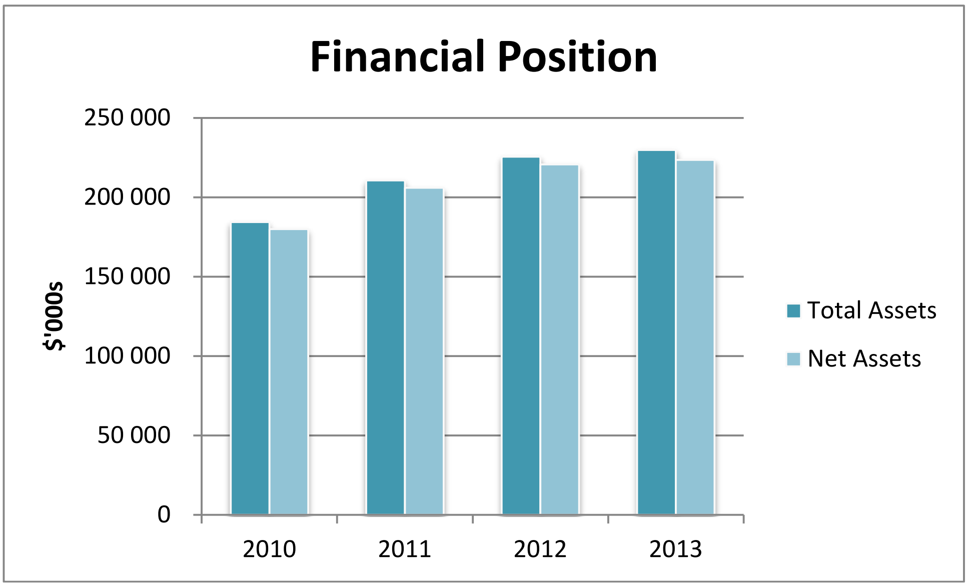
FINANCIAL ANALYSIS



** Budget data not available for all four years.*

Council recorded an Underlying Surplus in 2012-13 of $0.552m. It recorded Underlying Surpluses in all four years under review, which indicates it continued to operate on a break-even basis, with rates increases being sufficient to cover the growth in Employee costs and Other expenses.

Net Surpluses were greater than underlying results in all four years. This was predominantly due to Capital grants received and infrastructure assets contributed by developers. The significant spikes in 2010-11 and 2011-12 were directly attributed to significant Infrastructure asset take-ups. These were the result of Council doing an asset stocktake to ensure all fixed assets were accounted for in order to implement Council's long-term asset management plan.



At 30 June 2013, Net Assets had increased by $43.628m, or 24%, compared to 30 June 2010. Total Assets and Net Assets increased over the period mainly due to take-ups of infrastructure assets and upward revaluation increments.

Infrastructure assets, mainly consisting of roads, bridges, footpath, kerb, stormwater, open place recreation facility, represented 70.23% of Property, plant and equipment and 55.95% of Net Assets.

Cash and Financial assets totalled $9.396m and represented 78.0% of Total Current Assets.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	9 598	9 862	9 049	8 337
Fees and charges	2 572	2 534	2 299	2 387
Grants**	4 419	4 313	4 409	4 576
Interest revenue	570	545	591	581
Other revenue	5 660	4 696	4 470	4 276
Total Revenue	**22 819**	**21 950**	**20 818**	**20 157**
Employee costs	10 747	10 124	9 371	8 735
Depreciation	4 016	4 352	3 931	4 078
Other expenses	7 092	6 922	6 738	6 566
Total Expenses	**21 855**	**21 398**	**20 040**	**19 379**
Underlying Surplus (Deficit)	**964**	**552**	**778**	**778**
Capital grants	1 194	1 279	1 730	965
Financial assistance grant received in advance**	0	1 436	1 415	734
Offset Financial assistance grant in advance**	0	(1 415)	(734)	(729)
Infrastructure asset take-up	0	1 254	4 750	10 392
Asset write offs	0	(934)	0	0
Net Surplus (Deficit)	**2 158**	**2 172**	**7 939**	**12 140**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	721	6 718	13 639
Current year fair value adjustment Southern Water	0	(7)	85	222
Total Other Comprehensive Income (Expense)	**0**	**714**	**6 803**	**13 861**
Comprehensive Surplus (Deficit)	**2 158**	**2 886**	**14 742**	**26 001**

* *The Estimate Represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	6 696	6 828	6 392	7 187
Financial assets	2 700	3 950	5 000	1 707
Receivables	2 568	2 583	1 940	1 559
Inventories	48	108	28	207
Other assets	32	274	33	0
Total Current Assets	**12 044**	**13 743**	**13 393**	**10 660**
Payables	4 258	3 011	3 027	3 113
Provisions – employee benefits	1 364	1 241	891	710
Provisions – other	349	479	409	338
Total Current Liabilities	**5 971**	**4 731**	**4 327**	**4 161**
Net Working Capital	**6 073**	**9 012**	**9 066**	**6 499**
Property, plant and equipment	178 011	171 265	158 428	134 065
Investments	0	0	0	1 094
Capital Works in Progress	828	1 732	0	0
Investment in water corporation	38 764	38 772	38 687	38 465
Total Non-Current Assets	**217 603**	**211 769**	**197 115**	**173 624**
Payables	0	0	0	16
Provisions – employee benefits	196	187	329	255
Provisions – other	50	50	50	50
Total Non-Current Liabilities	**246**	**237**	**379**	**321**
Net Assets	**223 430**	**220 544**	**205 802**	**179 802**
Reserves	115 053	110 509	103 536	89 640
Accumulated surpluses	108 377	110 035	102 266	90 162
Total Equity	**223 430**	**220 544**	**205 802**	**179 802**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	16 934	14 181	14 512	13 774
Cash flows from Government	1 565	5 090	4 581	4 537
Payments to suppliers and employees	(16 345)	(16 061)	(15 822)	(14 448)
Interest received	545	591	581	485
Cash from (used in) Operations	**2 699**	**3 801**	**3 852**	**4 348**
Capital grants and contributions	4 047	1 730	965	1 006
Distributions received - Southern Water	844	924	871	724
Payments for property, plant and equipment	(9 328)	(7 225)	(4 617)	(5 835)
Payments for investments	1 250	1 050	(2 251)	(1 261)
Proceeds from sale of investments	0	0	240	0
Proceeds from sale of property, plant and equipment	356	156	144	310
Cash from (used in) Investing Activities	**(2 831)**	**(3 365)**	**(4 648)**	**(5 056)**
Net Increase (Decrease) in Cash	**(132)**	**436**	**(796)**	**(708)**
Cash at the beginning of the year	6 828	6 392	7 188	7 896
Cash at End of the Year	**6 696**	**6 828**	**6 392**	**7 188**

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Financial ratios					
Profitability					
Underlying surplus (deficit) ($'000s)		552	778	778	51
Operating surplus ratio*, **	>0	2.74	3.74	3.86	0.27
Asset Management					
Asset sustainability ratio*	100%	151%	116%	69%	107%
Asset renewal funding ratio*, ***	90% - 100%	100%	100%	100%	N/A
Road asset consumption ratio*	>60%	57.1%	57.0%	57.9%	55.8%
Asset investment ratio	>100%	214%	184%	113%	144%
Liquidity					
Net financial assets (liabilities) ($'000s)		5 747	8 393	8 626	5 971
Net financial liabilities ratio*, ****	0% - (50%)	28.5%	40.3%	42.8%	31.5%
Operational Efficiency					
Liquidity ratio	2:1	2.42	2.70	2.42	2.53
Current ratio	1:1	2.78	2.90	3.10	2.56
Interest coverage	3:1	-	-	-	-
Self financing ratio		13.4%	18.3%	19.1%	22.9%
Own source revenue		78.6%	78.8%	77.3%	76.0%
Debt collection	30 days	24	30	16	12
Creditor turnover	30 days	46	23	13	24
Rates per capita ($)		616	571	542	518
Rates to operating revenue		48.9%	43.5%	41.4%	40.6%
Rates per rateable property ($)		968	879	830	779
Operating cost to rateable property ($)		1 902	1 946	1 929	1 915
Employee costs expensed ($'000s)		10 124	9 371	8 735	7 544
Employee costs capitalised ($'000s)		663	703	488	654
Total employee costs ($'000s)		9 223	10 074	9 223	8 198
Employee costs as a % of operating expenses		52%	47%	45%	40%
Average staff numbers (FTEs)		133	134	126	131
Average staff costs ($'000s)		81	75	73	63
Average leave balance per FTE ($'000s)		12	11	10	7

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** This is also called the Underlying surplus ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Huon Valley Council, liquid assets exceed total liabilities.

KINGBOROUGH COUNCIL

SNAPSHOT

- Council's underlying result improved this year to a deficit of $2.725m. This was only slightly worse than the budgeted deficit of $2.489m.
- Council incurred Underlying Deficits in each of the four years under review with the average deficit being $3.193m per annum, is still producing deficit results and is performing below its estimated forecast.
- Despite this, cash generated from operations remained positive with $3.021m generated this year and $3.510m per annum over the past four years.
- Council recorded a Net Surplus of $0.519m this year, better than the underlying result due to Capital grants received, contributed asset received and revision to the amount of the Barretta Tip Rehabilitation provision.
- As at 30 June 2013, Council's Total Assets were $603.996m and its Net Assets amounted to $594.574m.

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

The audit identified shortcomings in asset reconciliation processes relating to infrastructure and other property, plant and equipment asset classes. We recommended management examine options to resolve reconciliation weaknesses including the need to separately identify movements in works in progress. This matter is being addressed by management.

The audit was completed with no other items outstanding.

Key developments in the year included the establishment of an audit committee.

There were no variations in the financial result from 2011-12 to 2012-13.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Audit Approach
Council had approximately $10.322m available to spend on its capital expenditure program, due to a significant amount of carried forward funds from the prior year. Consistent with the prior year, capital works focussed on renewal or replacement, with reduced spending on new works. Approximately half of the capital expenditure was due to be spent on roads and footpaths.	We tested capital expenditure to ensure it was capital in nature and was appropriately capitalised. Asset additions and work-in-progress were also audited and reconciliations tested. Furthermore, material contracts were reviewed to ensure Council complied with tender requirements, where applicable.

Description of Area	Audit Approach
Council recognises a provision for tip remediation to provide for the rehabilitation of the landfill site.	We: • tested the valuation of the provision and discussed identified issues with Council's staff and consultants • ensured compliance with applicable accounting standards, in particular AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.
This was the second year of operation of Kingborough Waste Services (KWS), which was created to operate the Barretta Waste Transfer Station. KWS is a private company, wholly owned by Council, which manages the entire site.	Including KWS's results in Council's financial statements provides for the option of for dispensation, at the Auditor-General's discretion, of a separate audit of KWS. The option for dispensation will continue to apply as long as: • the transactions of KWS can be audited as part of the audit of Council's financial statements • adequate disclosure of the transactions of KWS appear in Council's financial statements • KWS remains immaterial to Council. Audit procedures were undertaken to confirm transactions and disclosures of KWS.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 9 August 2013 and an unqualified audit report was issued on 12 August 2013.

KEY DEVELOPMENTS

Establishment of an Audit Committee

Council's Governance and Finance Committee resolved at its meeting on 21 January 2013 to establish an audit committee, and the new committee's operating procedures were approved by the Committee at its meeting of 18 March 2013. The creation of the audit committee and details of its operating procedures were subsequently approved by Council at its meeting on 22 April 2013. The audit committee had its first meeting shortly after the end of the financial year on 31 July 2013.

KEY FINDINGS

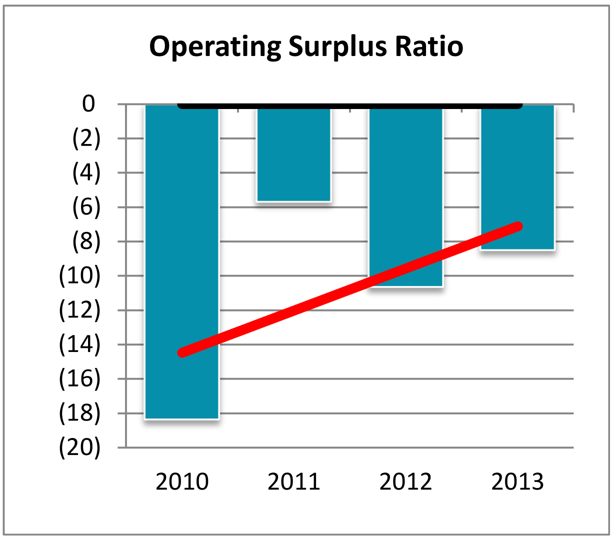
During the course of the audit, the following was noted relating to asset schedules and reconciliations. We identified shortcomings in asset reconciliation processes relating to infrastructure and other Property, plant and equipment asset classes. We recommended management examine options to resolve reconciliation weaknesses including the need to separately identify movements in works in progress. The matter is currently being addressed by management.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal government arrangements.

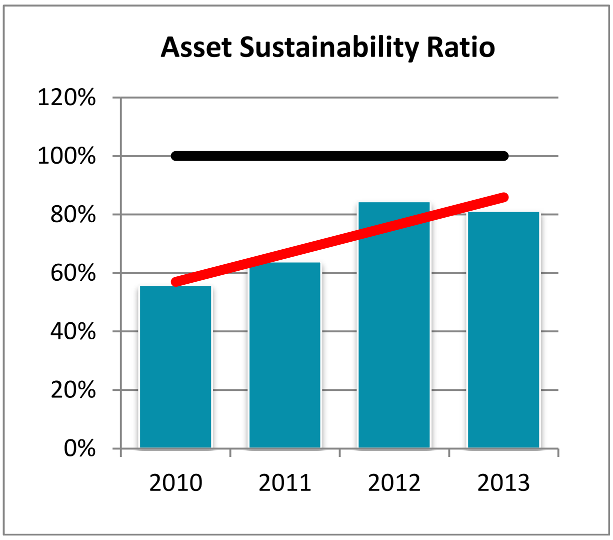
The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Operating surplus ratio reflects Underlying Deficits recorded in each of the past four years. The results for the past three years have seen an improvement in the trend line and a significant improvement on the negative ratio noted in 2010. The negative ratio noted in that year was impacted by higher Depreciation charges, before the useful lives of the assets were reassessed. It is disappointing that Council continues to budget for operating deficits.

The average Operating ratio was negative over the four year period, being negative 10.8, while the ratio at the end of the 2012-13 year was negative 8.5.

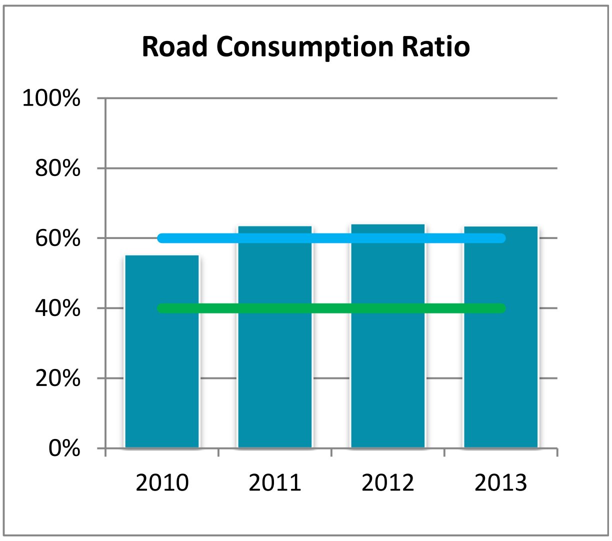
The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.



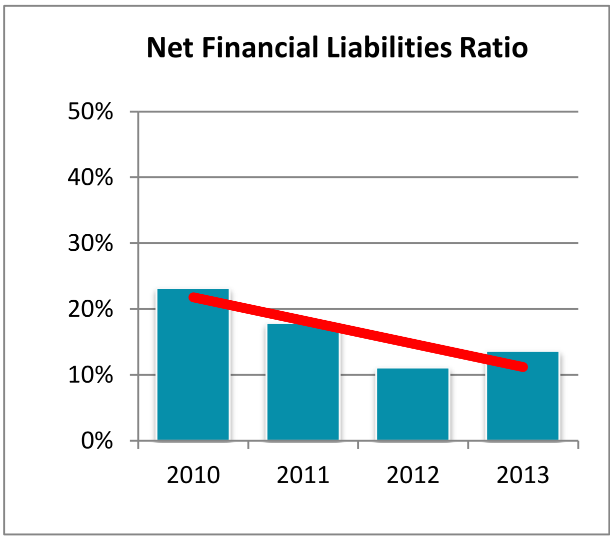
The Asset sustainability ratio was below the 100% benchmark in all four years under review although the trend line has risen each year, with the current year ratio being 81%. However, the average ratio of 71% over the four year period indicated to us that Council was under-investing in existing assets.

Asset Renewal Funding Ratio

Based upon Council's long-term asset management plan, the Asset renewal funding ratio was 92% at 30 June 2013, which was within our benchmark of 90% to 100%. This ratio was determined by comparing planned asset replacement expenditure with future asset replacement expenditure actually required. The long-term asset management plan was obtained from Council but was not audited.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 36% of the service potential of its road infrastructure assets, which is the same result as the prior year. While the ratio represents low risk, Council should continue to monitor the condition of its assets and maintain up to date valuations that will provide an accurate reflection of the service potential of its roads. The improvement noted from 2010 was due to an asset revaluation, which resulted in the extension of the useful life of road assets.



Council recorded a positive Net financial liabilities ratio with liquid assets in excess of its current and non-current liabilities in each year under review. The ratio decreased over the four year period mainly due to holding less liquid assets, with funds being used to fund capital works. The falling ratio indicated that Council's capacity to meet its financial obligations weakened but, at 30 June 2013, the ratio was still better than our benchmark of not greater than negative 50%.

Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $10.417m or 86.6% of the total cash and financial assets balance of $12.031m. The restriction on funds needs to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated Council has an audit committee in place and had developed long-term asset and financial management plans. However, at the time of completing this Report, the audit committee had not had the opportunity to put in place an internal audit function or review the long-term asset and financial management plans.

Council's asset management and financial management plans, which cover periods of twenty and ten years, respectively, were both given low risk ratings as they were detailed and covered all key elements required.

Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability.

From a financial operating perspective, Council's Operating surplus ratio was below our benchmark in each of the four years of the analysis averaging negative 10.8 which is in our high risk range being greater than negative 10. We acknowledge that since 2009-10 this ratio has improved, the trend line is in the right direction, that over the period from 2006-07 Council's ratio averaged negative 8.2 and that, based on Council's long-term financial plan, the improving trend is expected to continue. However, based on our benchmark at this stage Council is just in the high risk range from a financial operating perspective. We acknowledge that in our 2012 report we stated Council was at moderate risk with an average ratio of negative 10.65. Based on our benchmark for this ratio, we now believe that rating should have been high.

Council's Net financial liabilities ratio was strong, due to its large balance of cash and investments on hand. Council had capacity to service debt as well as borrow should the need arise.

Although trending upwards, Council's Asset sustainability ratio indicated, based on our 100% benchmark, that it under-invested in existing assets over the period of the analysis. However, its Road consumption ratio was at a low risk level and its asset renewal funding ratio was within our expectation.

Council has recently established an audit committee and has in place a long-term asset management plan and financial management plans. However, the audit committee had not the opportunity to put in place an internal audit function or review the long-term asset and financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at a high financial sustainability risk from an operating perspective, moderate risk from asset management and governance perspectives but low financial sustainability risk from a net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Kingborough Council strongly believes that it is financially sustainable.

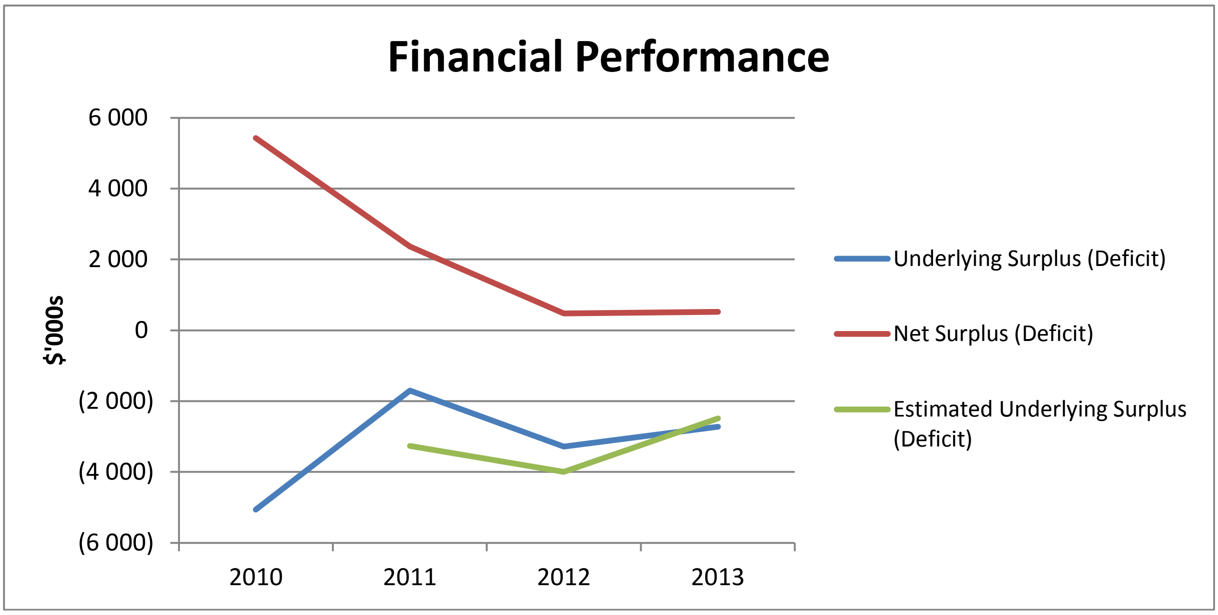
The operating surplus ratio for 2012-13 indicates Council's operating revenue needed to be 8.5% higher to achieve the Operating surplus ratio benchmark and receive a 'low' financial sustainability risk assessment from an operating perspective.

This result does not present any short-term financial or operating implications, as the shortfall represented unfunded depreciation expense on long lived infrastructure assets.

Council's financial sustainability from an operating and asset management perspective over the long-term is being addressed through Council's long-term financial planning processes.

Council's Long-Term Financial Plan and Long Term Asset Management Plan were adopted by Council on 28 May 2012 and indicate that Council is likely to fully fund infrastructure renewal requirements by 2021, while maintaining services and rate increases at historic levels.

FINANCIAL ANALYSIS



The trend in the underlying result confirms observations noted in the discussion about Council's underlying result earlier in this Chapter. This year's Underlying Deficit of $2.725m (2012, $3.286m deficit) was impacted upon by higher Employee costs of $1.108m, due to newly created positions funded through grants, and increases in salaries provided under Council's enterprise agreement. These increases were offset by:

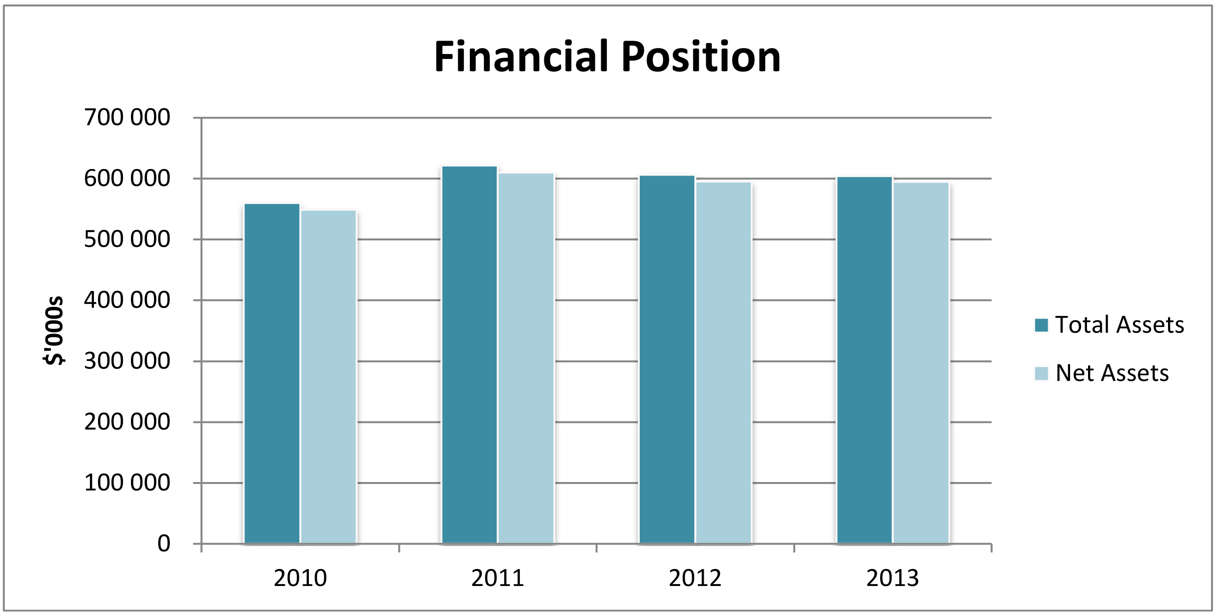
- increased Rates revenue of $0.961m
- lower Other expenses of $0.715m, mainly relating to reduced rate remissions and legal costs.

Council performed better than its estimated underlying result in 2011 and 2012, but not in 2013 due principally to higher than expected materials and services expenses and higher Depreciation charges, offset by under-budgeted Grants revenue. Budget figures were unavailable for the 2010 year.

There was a significant variance between the underlying result and the net result in 2010 because:

- Contributions of non-monetary assets amounted to $7.278m, significantly higher than other years of the analysis.
- Capital grants of $3.196m also added to the higher Net Surplus figure.

Generally, the estimated underlying result is expected to be below the net result, as Council does not budget for a number of capital items or non-monetary contributions received. Over the four year period of review, the net result was positive mainly due to these sources of income and, in 2012-13 due to a downward revision to the amount of the Barretta Tip rehabilitation provision by $1.362m. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.



Council's Total Assets, Liabilities and Net Assets remained fairly static over the period under review, except for 2010, which included asset values prior to an asset revaluation in 2011.

Total Assets decreased by $1.819m at 30 June 2013 due principally to a reduction in cash of $1.133m. Net Assets only decreased by $0.225m, as the decrease in assets noted above was offset by a reduction in liabilities of $1.595m. This reduction was principally due to a decrease in the Barretta Tip rehabilitation provision of $2.707m, offset by:

- an increase in Payables of $0.929m
- an increase in employee provisions of $0.321m.

Council has a number of functional activities that provide a broad level of services to its ratepayers. However, the majority of its funding and assets relate to works and infrastructure management. At 30 June 2013, Council managed $476.950m in assets, consisting of mainly roads, stormwater, land, buildings and bridges. Consequently, Council's financial position is dominated by its significant infrastructure and other assets. In comparison, Council's liabilities, totalled only $9.422m, which related to Payables, employee entitlements and the Barretta Tip rehabilitation provision.

KINGBOROUGH WASTE SERVICES PTY LTD (KWS)

KWS is a wholly owned incorporated entity that was formed by Council to operate the Barretta Waste Transfer Station. KWS commenced operation on 1 July 2011.

KWS had four directors two of whom are independent and the other two are Council employees, one being the General Manager. Council has provided a financial guarantee to discharge any debt that KWS may owe, if it is unable to pay its accounts. Council provided corporate support for KWS and continued to own the infrastructure and equipment at the Barretta site.

KWS charged Council a fee based on tonnage for garbage collection waste, recycling collection waste and green waste disposed at the Barretta site. This is an arm's length arrangement.

KWS Financial Results

	2012-13	**2011-12**
	$'000s	$'000s
Revenue	1 478	1 420
Expenditure	1 534	1 333
Profit (Loss)	**(56)**	**87**
	2013	**2012**
Assets	591	558
Liabilities	560	470
Net Assets	**31**	**88**

* *Includes financial transactions with Council*

Revenue for the year consisted mainly of the tonnage charge on Council waste disposed at the Barretta transfer station, charges paid by tip users and sales from the on-site recycle shop.

Expenditure consisted mainly of charges for the disposal of waste at the Copping refuse site, wages of KWS employees, freight, plant hire, Council fees for corporate support and use of its equipment and other expenses such as the independent directors' remuneration of $0.013 per year.

The higher expenditure this year related to increases in annual leave expenses, workers compensation expenses and the inclusion of a corporate services overhead charge.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000	2012-13 Actual $'000s	2010-11 Actual $'000s
Rates	20 500	20 732	19 771	18 312
Fees and charges	3 148	2 990	3 018	2 982
Grants**	3 528	3 963	3 663	3 386
Interest revenue	540	621	827	1 092
Other revenue	3 248	3 753	3 583	4 164
Total Revenue	**30 964**	**32 059**	**30 862**	**29 936**
Employment costs	11 940	12 185	11 077	9 850
Depreciation	6 655	6 967	6 724	7 013
Other expenses	14 858	15 632	16 347	14 775
Interest Expenses	0	0	0	(19)
Total Expenses	**33 453**	**34 784**	**34 148**	**31 638**
Underlying Surplus (Deficit)	**(2 489)**	**(2 725)**	**(3 286)**	**(1 702)**
Capital grants	400	1 398	923	2 995
Financial assistance grant received in advance**	0	1 017	988	476
Offset Financial assistance grant in advance**	0	(988)	(476)	(452)
Contributions non-current assets	0	1 185	2 323	1 065
Contributions to community assets	0	(806)	0	0
Share of investment in associate	0	76	0	(19)
Write down of provision for Baretta Tip rehabilitation	0	1 362	0	0
Net Surplus (Deficit)	**(2 089)**	**519**	**472**	**2 363**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(1 022)	(19 250)	57 977
Current year fair value adjustment Southern Water	0	247	0	646
Total Other Comprehensive Income (Expense)	**0**	**(775)**	**(19 250)**	**58 623**
Comprehensive Surplus (Deficit)	**(2 089)**	**(256)**	**(18 778)**	**60 986**

** The Estimate represents Council's final estimate for the year. This is provided for comparision only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	12 031	13 164	15 440	15 210
Receivables	1 779	1 294	1 418	1 771
Other	15	17	18	17
Total Current Assets	**13 825**	**14 475**	**16 876**	**16 998**
Payables	2 043	1 766	2 435	2 065
Borrowings	0	0	0	150
Provisions - employee benefits	1 682	1 481	1 361	1 321
Provision rehabilitation tip	1 446	885	885	885
Other	2 788	2 274	2 266	1 597
Total Current Liabilities	**7 959**	**6 406**	**6 947**	**6 018**
Net Working Capital	**5 866**	**8 069**	**9 929**	**10 980**
Property, plant and equipment	476 950	478 690	491 761	430 355
Investment in associates	591	255	255	274
Intangible and other assets	7	20	37	60
Investment in Southern Water	112 623	112 376	112 376	111 731
Total Non-Current Assets	**590 171**	**591 341**	**604 429**	**542 420**
Provisions - employee benefits	616	495	442	451
Provision rehabilitation tip	847	4 116	4 116	4 116
Total Non-Current Liabilities	**1 463**	**4 611**	**4 558**	**4 567**
Net Assets	**594 574**	**594 799**	**609 800**	**548 833**
Reserves	349 696	353 764	369 167	315 348
Accummulated surpluses	244 878	241 035	240 633	233 485
Total Equity	**594 574**	**594 799**	**609 800**	**548 833**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	25 964	25 081	24 407	23 821
Cash flows from Government	3 992	4 175	3 410	5 711
Payments to suppliers and employees	(27 556)	(27 883)	(23 475)	(27 371)
Interest received	621	827	1 092	1 264
Finance costs	0	0	(19)	(19)
Cash from (used in) Operations	**3 021**	**2 200**	**5 415**	**3 406**
Capital grants and contributions	1 398	1 435	2 995	3 196
Distributions from Southern Water	1 008	1 213	1 157	1 071
Payments for property, plant and equipment	(6 910)	(7 003)	(11 571)	(16 211)
Proceeds from sale of property, plant and equipment	610	214	2 371	581
Investment in Copping Waste Joint Authority	(260)	0	0	(274)
Cash (used in) Investing Activities	**(4 154)**	**(4 141)**	**(5 048)**	**(11 637)**
Loans provided to outside bodies	0	(335)	13	(170)
Repayment of borrowings	0	0	(150)	0
Cash from (used in) Financing Activities	**0**	**(335)**	**(137)**	**(170)**
Net Increase (Decrease) in Cash	**(1 133)**	**(2 276)**	**230**	**(8 401)**
Cash at the beginning of the year	13 164	15 440	15 210	26 077
Less cash transferred to Southern Water	0	0	0	(2 466)
Cash at End of the Year	**12 031**	**13 164**	**15 440**	**15 210**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitibility					
Underlying surplus (deficit) ($'000s)		(2 725)	(3 286)	(1 702)	(5 060)
Operating surplus ratio*, **	>0	(8.50)	(10.65)	(5.69)	(18.35)
Asset Management					
Asset sustainability ratio**	>100%	81%	84%	64%	56%
Asset renewal funding ratio**, ***	90%-100%	92%	97%	100%	N/A
Road asset consumption ratio**	>60%	63.6%	64.3%	63.7%	55.4%
Liquidity					
Net financial assets (liabilities) ($'000s)		4 388	3 441	5 353	6 396
Net financial liabilities ratio**, ****	0%-(50%)	13.7%	11.1%	17.9%	23.2%
Operational Efficiency					
Liquidity ratio	2:1	2.86	3.58	3.59	4.45
Current ratio	1:1	1.74	2.26	2.43	2.82
Interest Coverage		-	-	284.00	178.26
Asset investment ratio		96%	102%	159%	166%
Self financing ratio	100%	9.4%	7.1%	18.1%	12.4%
Own source revenue	30 days	89.0%	88.1%	88.7%	89.4%
Debt collection	30 days	27	20	24	33
Creditor turnover		29	28	34	25
Rates per capital ($)		591	570	536	492
Rates to operating revenue		64.7%	64.1%	61.2%	59.7%
Rates per rateable property		1 243	1 228	1 138	1 022
Opeating cost to rateable property ($)		2 086	2 122	1 966	2 028
Employee costs expensed ($'000s)		12 185	11 077	9 850	9 849
Employee costs capitalised ($'000s)		238	270	200	223
Total employee costs ($'000s)		12 423	11 347	10 050	10 072
Employee costs as a % of operating expenses		35%	32%	31%	30%
Average staff numbers (FTEs)		180	175	165	176
Average staff costs ($'000s)		69	65	61	57
Average leave balances per FTE ($'000s)		13	11	11	10

** This ratio is also called the Underlying result ratio.*

*** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue. Where this ratio is positive, liquit assets exceed total liabilities.*

MEANDER VALLEY COUNCIL

SNAPSHOT

- Council recorded Underlying Surpluses in each of the four years under review.
- Underlying Surpluses have consistently exceeded budgeted forecasts.
- The 2012-13 Underlying Surplus was $0.684m.
- A Comprehensive Surplus of $3.035m resulted in Net Equity at 30 June 2013 of $279.011m.

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

We noted the use of a 100% residual value on unsealed road bases. The impact of the residual in 2012-13 was to lower Depreciation expense by approximately $0.188m. The continued use of the residual is being discussed with Council's management.

The audit was completed satisfactorily with no other items outstanding.

there were no key developments during the year.

There were no major variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Revaluations require considerable estimations and judgments. There is a risk of material misstatement of assets and depreciation as a result of this process. In 2012-13, Council undertook revaluations of land and bridges assets.	We tested the calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of the valuers to ensure appropriate expertise and to enable reliance on the valuations.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 28 September 2013.

KEY DEVELOPMENTS

There were no key developments.

KEY FINDINGS

Residual Values

Council revalued its road infrastructure assets at 1 June 2012 which included a 100% residual value on unsealed road bases. The impact of the residual in 2012-13 was to lower Depreciation expense by approximately $0.188m.

Although the impact of the residual is not material, the current treatment means that Council may not be complying with AASB 116 *Property Plant and Equipment*, because parts of the unsealed road network which have a limited life and service potential of more than 12 months are not being depreciated.

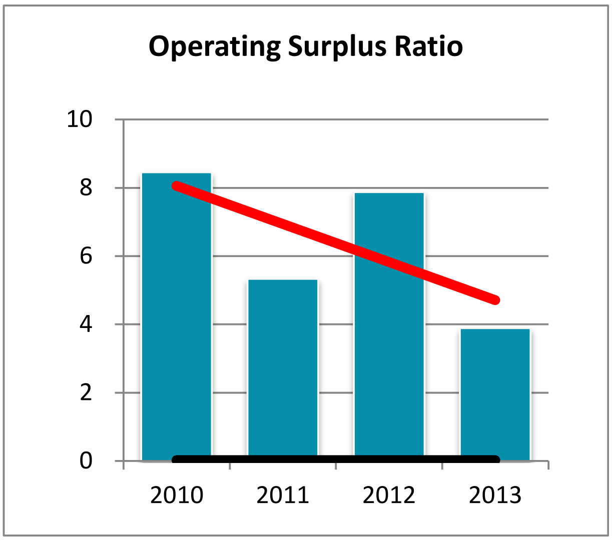
The matter was previously raised with Council and it will be followed up further during the 2013-14 audit.

The audit was completed satisfactorily with no other items outstanding.

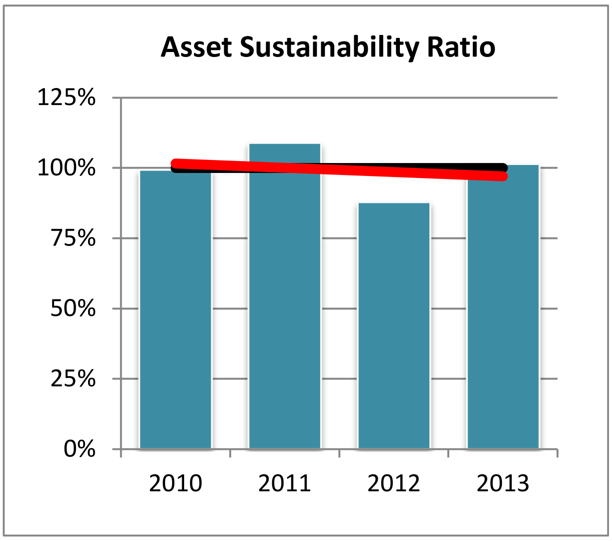
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



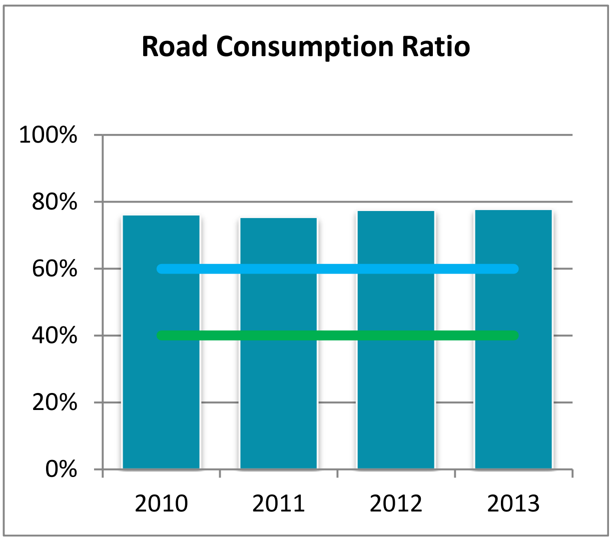
Positive Operating surplus ratios reflected Underlying Surpluses over the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges.



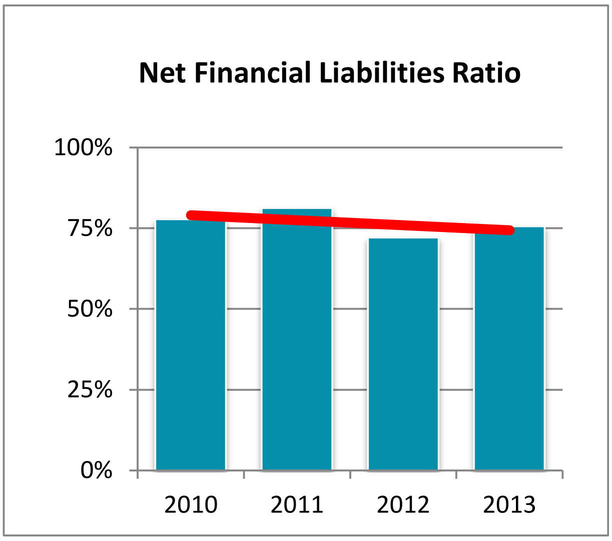
Over the four year period, Council's average ratio of 99% was slightly below our 100% benchmark. The ratio indicated, subject to levels of maintenance expenditure and the existence of long-term asset management plans, Council is substantially maintaining its investment in existing assets.

Asset Renewal Funding Ratio

Council's long-term asset management plan indicated that, based on planned asset replacement expenditure, sourced from the long-term financial management plan, its Asset renewal funding ratio was 100% at 30 June 2013 (2012, 100%) which is above our benchmark of between 90% and 100%.



The graph above indicates at 30 June 2013 Council had consumed approximately 22% of the service potential of its road assets. Overall, at 30 June 2013, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicates a strong liquidity position, with Council able to meet existing obligations. Council's total liabilities consisted of Payables, employee provisions, rehabilitation provisions and Borrowings.

It is noted, that Council has contractual commitments totalling $0.387m (2011-12, nil) which are not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $2.066m ($2.010m).

Governance

A review of governance arrangements indicated that Council does not have an audit committee nor an internal audit function. Council's governance arrangements could be improved by the establishment of an audit committee.

Council did have a long-term asset management plan for bridges, roads, stormwater, buildings and recreation and a long-term financial management plan covering a ten year period. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council. The plans are not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's average surplus position over the four year period indicated it generated more than sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, it substantially maintained its investment in existing assets, with an average ratio of 99%. The Road consumption ratio showed road infrastructure assets consumption of 22%, indicating the assets had sufficient capacity to continue to provide services to ratepayers. Its Asset renewal funding ratio indicated Council is planning to fund necessary replacement of existing assets over the life of its asset management plans.

Council's Net financial liabilities ratio was positive indicating its liquidity was strong.

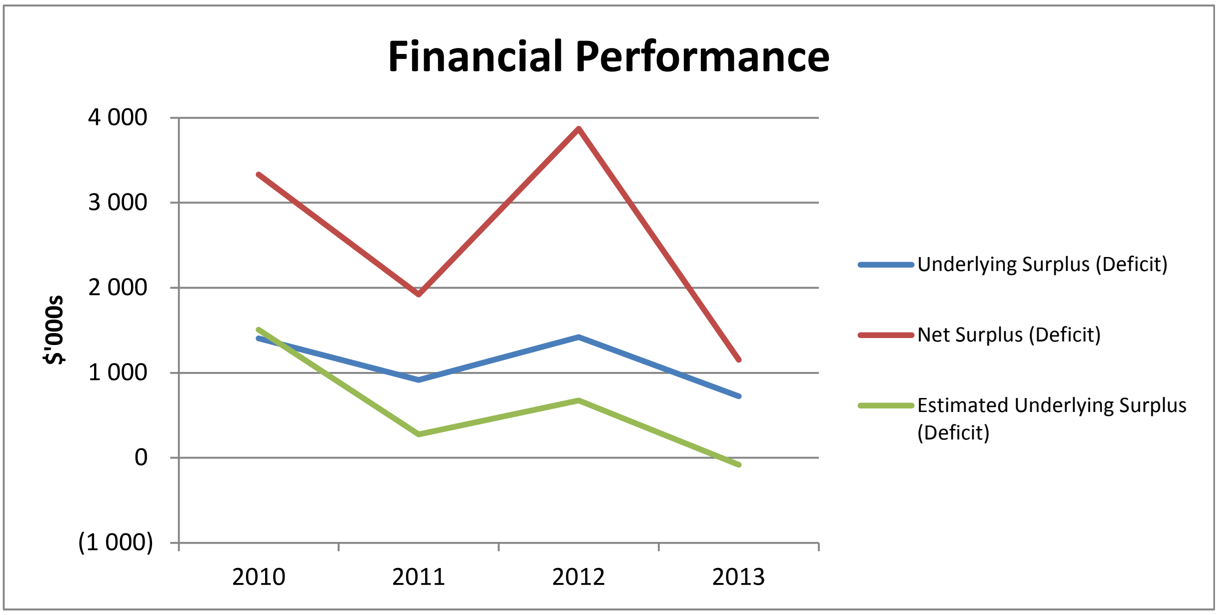
Council does not have an audit committee or internal audit function. These aspects of governance need to be addressed. However, Council does have long-term financial management and asset management plans.

Based on these ratios and governance arrangements we have concluded that at 30 June 2013, Council was at moderate risk from a governance perspective but a low financial sustainability risk from an operating, asset management and net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

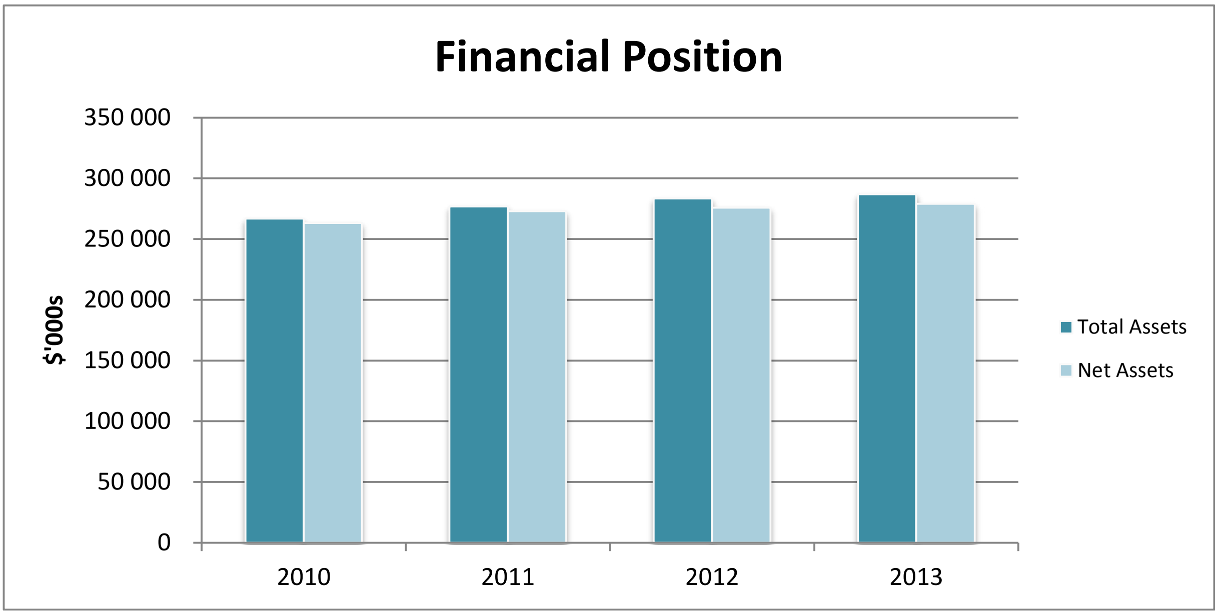
FINANCIAL ANALYSIS



Council recorded Underlying Surpluses in each of the four years under review. Council also produced results above estimated budget forecasts.

The Underlying Surplus in 2012-13, $0.684m was $0.734m lower than the 2011-12 result of $1.418m. The decrease was mainly due to reduced grant income related to reimbursements for flood damages in 2011, lower user charges of $0.139m and an increase of $0.124m in the Unwinding of tip provision expense.

Net surpluses have fluctuated over the period under review with the 2011-12 result being affected by additional financial assistance grants and contributed subdivision assets.



Council's Total Assets and Net Assets increased slightly over the period. Net Assets increased by $15.661m, or 5.9%, primarily due to an increase in the value of infrastructure assets, Council's Investment in Ben Lomond Water and surpluses generated as a result of Capital grants and contributed assets.

In 2012-13 Council reported an increase in Net Assets of $3.035m to $279.011m. The increase was mainly due to the Net Surplus of $1.115m and increased Investment in Ben Lomond Water, $1.004m. Council also recognised a revaluation increment for bridges, $1.387m, partly offset by a decrement in land, $0.470m.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Restated** $'000s	2010-11 Actual $'000s
Rates	9 481	9 517	9 443	9 191
Fees and charges	1 084	1 103	1 216	1 215
Grants**	4 686	4 651	4 826	4 577
Interest revenue	1 247	1 384	1 436	1 091
Other revenue	833	949	1 088	1 059
Total Revenue	**17 331**	**17 604**	**18 009**	**17 133**
Employee costs	5 480	5 437	5 376	5 002
Depreciation	5 152	4 708	4 852	4 662
Unwinding of tip provision	0	163	39	90
Finance costs	261	212	0	0
Other expenses	6 521	6 362	6 324	6 465
Total Expenses	**17 414**	**16 882**	**16 591**	**16 219**
Underlying Surplus (Deficit)	**(83)**	**722**	**1 418**	**914**
Capital grants	0	255	114	685
Financial assistance grant received in advance**	0	2 066	2 010	991
Offset Financial assistance grant in advance**	(2 010)	(2 010)	(991)	(945)
Reassessment of tip rehabilitation provision	0	(429)	132	0
Contributions non-current assets	250	177	1 188	1 006
Contributions non-monetary assets	0	372	0	0
Construction contract income	0	0	0	1 798
Construction contract expenditure	0	0	0	(2 528)
Net Surplus (Deficit)	**(1 843)**	**1 153**	**3 871**	**1 921**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	916	(1 195)	6 928
Current year fair value adjustment Ben Lomond Water	0	1 004	311	571
Total Other Comprehensive Income (Expense)	**0**	**1 920**	**(884)**	**7 499**
Comprehensive Surplus (Deficit)	**(1 843)**	**3 073**	**2 987**	**9 420**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012*	2011*	2010
	$'000s	$'000s	$'000s	$’000s
Cash	5 458	8 711	8 349	5 595
Receivables	876	806	626	529
Inventories	90	90	90	102
Financial assets	15 102	11 150	9 050	10 300
Other	267	148	222	202
Total Current Assets	**21 793**	**20 905**	**18 337**	**16 728**
Payables	685	765	853	474
Provisions – employee benefits	1 052	959	957	955
Other	386	449	416	332
Total Current Liabilities	**2 123**	**2 173**	**2 226**	**1 761**
Net Working Capital	**19 670**	**18 732**	**16 111**	**14 967**
Receivables	5 573	5 637	1 798	0
Property, plant and equipment	206 199	204 538	204 701	198 476
Financial assets	0	2	2	2
Investment in Ben Lomond Water	53 573	52 569	52 258	51 687
Total Non-Current Assets	**265 345**	**262 746**	**258 759**	**250 165**
Provisions – rehabilitation	2 131	1 538	1 631	1 540
Provisions – employee benefits	273	364	250	203
Borrowings	3 600	3 600	0	0
Total Non-Current Liabilities	**6 004**	**5 502**	**1 881**	**1 743**
Net Assets	**279 011**	**275 976**	**272 989**	**263 389**
Reserves	114 147	112 227	113 111	105 612
Accumulated surpluses	164 864	163 749	159 878	157 777
Total Equity	**279 011**	**275 976**	**272 989**	**263 389**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 854	11 872	11 685	12 042
Cash flows from Government	4 707	5 845	4 623	4 656
Payments to suppliers and employees	(13 235)	(12 244)	(11 419)	(12 368)
Interest received	1 333	1 211	1 071	783
Cash from (used in) Operations	**4 659**	**6 684**	**5 960**	**5 113**
Capital grants and contributions	255	114	685	842
(Payments)/proceeds for financial assets	(3 952)	(2 100)	1 250	(4 100)
Distributions received - Ben Lomond Water	567	616	615	509
Payments for property, plant and equipment	(5 105)	(5 292)	(5 878)	(7 157)
Proceeds from sale of property, plant and equipment	133	118	122	132
Cash from (used in) Investing Activities	**(8 102)**	**(6 544)**	**(3 206)**	**(9 774)**
Loan borrowings	0	3 600	0	0
Westbury estate loan repayments	190	222	0	0
Loan to aged care facility operator	0	(3 600)	0	0
Cash from (used in) Financing Activities	**190**	**222**	**0**	**0**
Net Increase (Decrease) in cash	**(3 253)**	**362**	**2 754**	**(4 661)**
Cash at the beginning of the year	8 711	8 349	5 595	10 640
Less cash transferred to Ben Lomond Water	0	0	0	(384)
Cash at End of the Year	**5 458**	**8 711**	**8 349**	**5 595**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		722	1 418	914	1 404
Operating surplus ratio*, **	>0	4.10	7.87	5.33	8.45
Asset Management					
Asset sustainability ratio*	100%	101%	88%	109%	99%
Asset renewal funding ratio*, ***	90% - 100%	100%	100%	100%	N/A
Road asset consumption ratio*	>60%	77.9%	77.6%	75.5%	76.3%
Asset investment ratio	>100%	108%	109%	126%	166%
Liquidity					
Net financial assets (liabilities) ($'000s)		13 309	12 992	13 918	12 920
Net financial liabilities ratio*, ****	0% - (50%)	75.6%	72.1%	81.2%	77.8%
Operational Efficiency					
Liquidity ratio	2:1	20.01	17.02	14.20	20.38
Current ratio	1:1	10.27	9.62	8.24	9.50
Interest coverage*****	3:1	-	-	-	-
Self financing ratio		26.5%	37.1%	34.8%	30.8%
Own source revenue		73.6%	73.2%	73.3%	72.4%
Debt collection	30 days	30	28	22	19
Creditor turnover	30 days	22	24	25	13
Rates per capita ($)		485	481	467	449
Rates to operating revenue		54.1%	52.4%	53.6%	52.9%
Rates per rateable property ($)		987	988	970	927
Operating cost to rateable property ($)		1 729	1 732	1 703	1 605
Employee costs expensed ($'000s)		5 437	5 376	5 002	4 808
Employee costs capitalised ($'000s)		442	378	332	354
Total employee costs ($'000s)		5 879	5 754	5 334	5 162
Employee costs as a % of operating expenses		33%	32%	31%	32%
Average staff numbers (FTEs)		76	75	74	75
Average staff costs ($'000s)		77	77	72	69
Average leave balance per FTE ($'000s)		17	18	16	15

* *For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

** *This ratio is also called the Underlying result ratio*

*** *New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

**** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where this ratio is positive, liquid assets exceed total liabilities.*

***** *Interest coverage has not been calculated due to Council onloaning of the liability, the interest is fully recovered from the third party, net liability is zero.*

NORTHERN MIDLANDS COUNCIL

SNAPSHOT

- Despite reporting an Underlying Deficit of $0.083m, Council improved its financial performance this year but performed below budget.
- Council reported a Comprehensive Deficit of $5.523m resulting in Total Equity at 30 June 2013 of $263.689m.
- Over the four year period under review, Council's underlying result was consistently below its underlying budget. The variance was mainly attributable to Council not budgeting for Losses on disposal of assets, which over the period averaged $1.173m per annum.

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

We noted deficiencies in Council's IS systems, non-compliance with procurement policy in relation to the use of purchase orders for purchases above $1 000 and deficiencies in Councils' IT business continuity processes. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Major developments in the year included the decision to establish an audit committee.

There were no major variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a cost index to road, bridges and stormwater infrastructure assets to maintain the currency of their values in years between formal revaluations.	We confirmed the appropriateness and validity of the indices and ensured the indices were applied correctly.
Buildings were revalued by an independent valuer, effective as of 1 July 2012.	We tested the revaluation information in Council's asset register to the independent valuation. Furthermore, in accordance with Auditing Standard ASA 500 *Audit Evidence*, we obtained an understanding of the work performed and assessed the competence, capabilities and objectivity of the independent valuer engaged by Council to perform the valuation.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Establishment of an Audit Committee

Council in its meeting on 18 February 2013 decided to establish an audit committee. Council has advertised for independent members and expects the committee to be operating from December 2013.

KEY FINDINGS

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in authentication practices, application monitoring and user access management, including access rights, inadequate segregation of duties and the use of super-user accounts. We also noted that password sharing within the finance team may occur at times.

Other findings related to non-compliance with procurement policy in relation to the use of purchase orders for purchases above $1 000 and deficiencies in Councils' IT Business Continuity Processes.

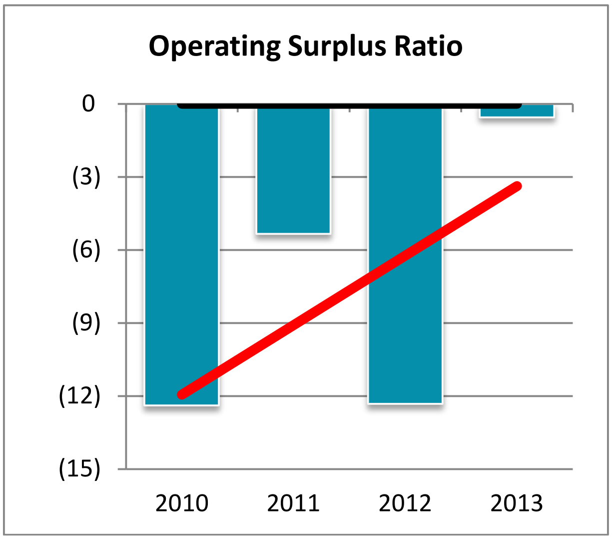
These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

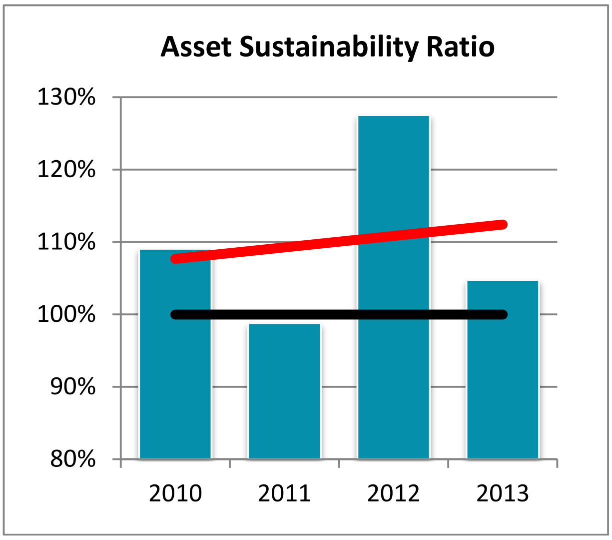
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Operating surplus ratio reflects Underlying Deficits recorded in each of the past four years. The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

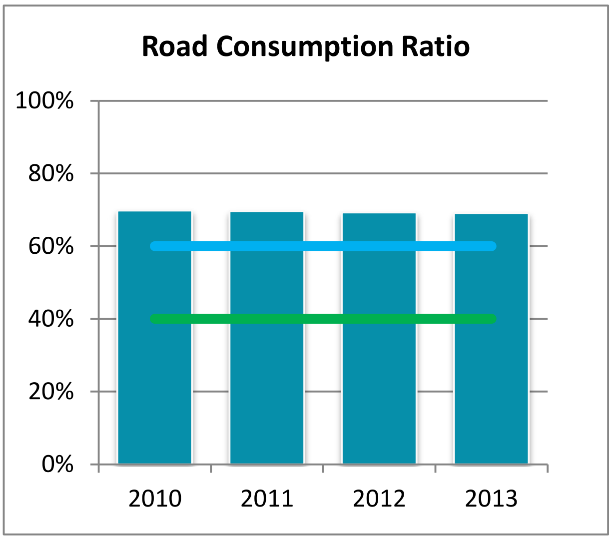
The deficits were impacted upon by significant Losses on disposal of assets in each year under review. These losses related predominantly to write-offs of roads, bridges and stormwater and drainage assets due to their complete replacement. Apart from situations where assets are written-off due to damage, the extent of these write-offs may indicate that depreciation rates being applied may not properly reflect the consumption of the economic benefits embodied in these assets.



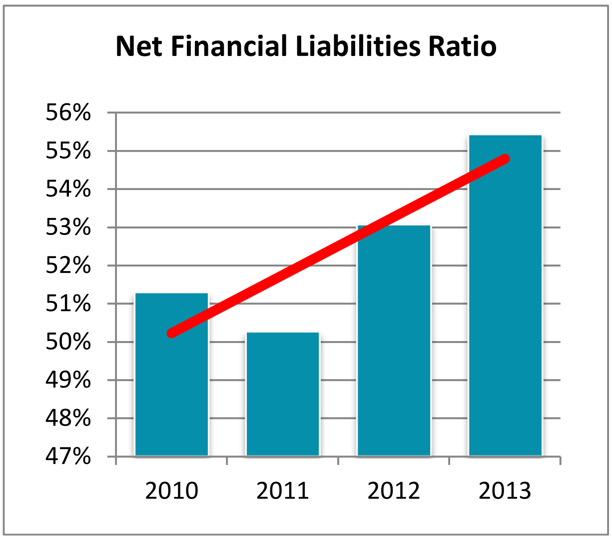
Asset sustainability ratios were above the 100% benchmark in three of the four years under review. Over the four year period, Council's average ratio was 110%, indicating it maintained its investment in existing assets at levels in excess of its annual Depreciation charges. However, as mentioned previously, the magnitude of infrastructure assets write-offs may indicated that assets are being depreciated at too low a rate.

Asset Renewal Funding Ratio

Council's long-term asset management and long-term financial management plans indicated the Asset renewal funding ratio was 96%, stronger than our 90% benchmark, at 30 June 2013 for road Infrastructure and stormwater assets. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's capital expenditure database for the period 2014 to 2030. The database, completed by Council's Infrastructure Directorate, details all renewals works required to maintain services to ratepayers. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.



The ratio at 30 June 2013 indicated Council had used (consumed) approximately 31% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period being 69%. This indicated Council's road assets had sufficient capacity to continue to provide services to ratepayers. However, as mentioned previously, the magnitude of infrastructure assets write-offs, which including roads assets, may indicate that these assets are depreciated at too low a rate. This could negatively impact the consumption ratio.



Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicated a strong liquidity position, with Council able to meet existing obligations. Council's total liabilities consisted of payables and employee provisions.

It is noted, that Council had contractual commitments totalling $3.763m (2011-12, $4.510m) which are not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which had yet to be applied to the purpose for which they were provided, totalling $2.162m ($1.882m).

In addition, Council's Cash and Financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $7.096m or 68.9% of the total Cash and Financial assets balance of $10.301m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated Council did not have an audit committee at 30 June 2013. However, as previously indicated, it resolved to establish such a committee. It is expected the committee will commence in December 2013.

Council has a long-term financial management plan covering the period 2011 to 2030. In addition, Council has developed an asset management strategy, which incorporates long-term asset management plans. It is noted these plans have not been subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded Underlying Deficits in each of the past four years.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 110% over the period, which was above our 100% benchmark. Council's Road consumption ratios remained relatively unchanged over the four year period, and exceeded our 60% benchmark indicating its road assets had sufficient capacity to continue to provide services to its ratepayers. In addition, its Asset renewal funding ratio indicates Council is able to fund its future capital works requirements.

Council's Net financial liabilities ratio was positive indicating its liquidity was strong and it had a capacity to borrow should the need arise.

Council does not have an audit committee but does have a long-term financial management plan and an asset management strategy.

Based on these ratios and governance arrangements we have concluded that at 30 June 2013, Council was at moderate sustainability risk from governance and financial operating perspectives but low risk from asset management and net financial liabilities perspectives.

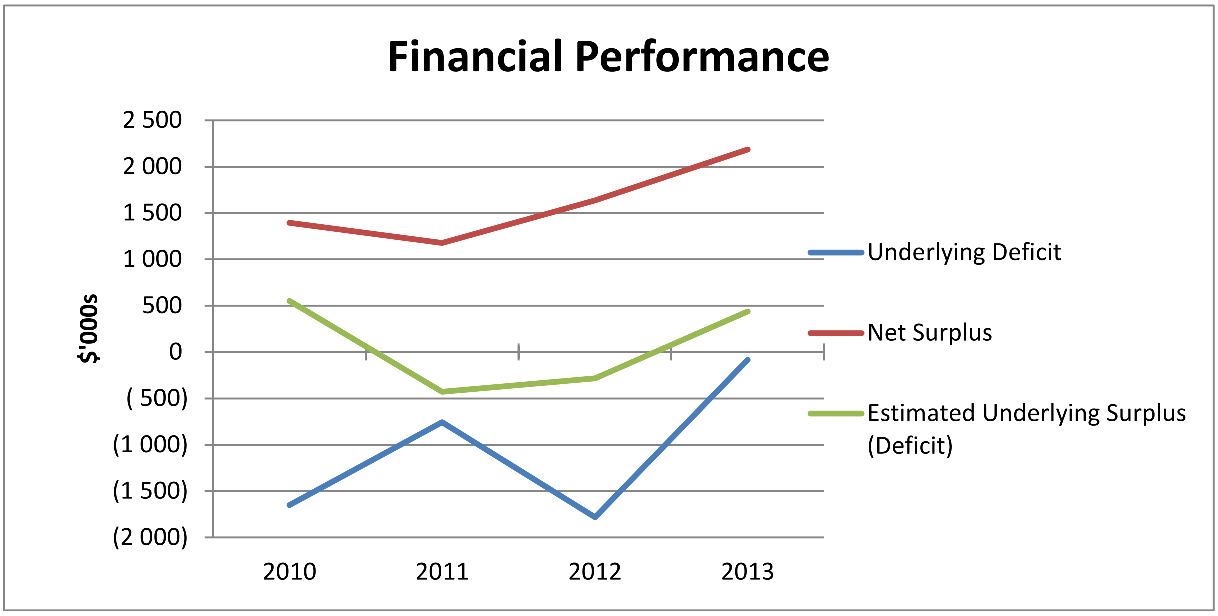
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council continues to work towards achieving an operating surplus and looks forward to receiving Tas Water dividends into the future.

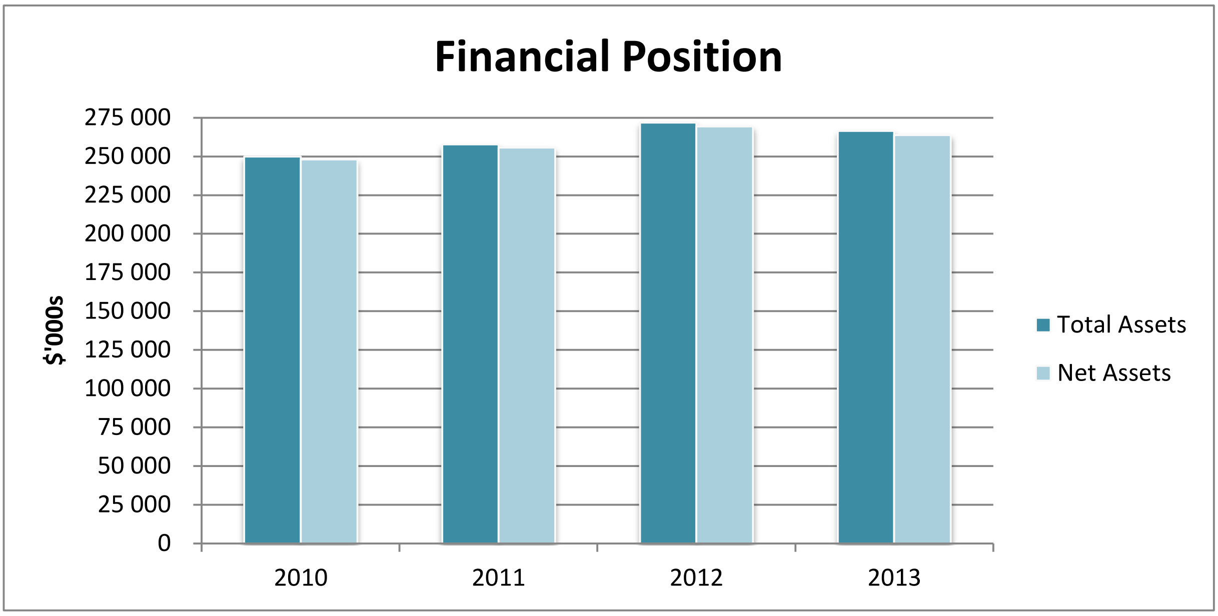
FINANCIAL ANALYSIS



Council significantly improved its underlying result in 2012-13. Nevertheless it still reported an Underlying Deficit of $0.083m and continued to perform below budget. The improved result this year was due to a combination of an increase in rating income of $0.844m and a lower loss on disposal of assets following significant write-offs of roads and bridges damaged by flood during the previous year.

Over the period under review, Council's underlying result was consistently below its underlying budget. The variance is mainly attributable to Council not budgeting for losses on the disposal of assets, which over the period averaged $1.173m per annum.

However, the underlying result had been improving.



Council's Total Assets and Net Assets increased slightly over the period. Net Assets increased by $15.843m, or 6.4%, primarily due to an increase in the value of infrastructure assets, Council's Investment in Ben Lomond Water and surpluses generated as a result of Capital grants and contributed assets. In 2012-13 Council reported a decrease in Net Assets of $5.523m to $263.689m at 30 June. The decrease was largely due to a downward movement in the replacement value of roads, $9.881m, partly offset by an increment in the replacement value of bridges and stormwater assets, $2.090m, grant funded capital expenditure, $1.184m, and contributed assets, $1.011m.

Infrastructure assets comprised of roads, bridges and stormwater and drainage assets which represented 76.5% of total Property, plant and equipment and 60.8% of total Net Assets.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	8 243	8 400	7 556	7 109
Fees and charges	1 393	1 389	1 383	1 653
Grants**	4 783	4 037	4 292	3 950
Interest revenue	536	539	583	606
Other revenue	459	696	643	803
Total Revenue	**15 414**	**15 061**	**14 457**	**14 121**
Employee costs	4 551	4 319	4 324	4 429
Depreciation	4 656	4 456	4 649	4 410
Loss on disposal of assets	0	930	1 808	557
Other expenses	5 768	5 439	5 459	5 480
Total Expenses	**14 975**	**15 144**	**16 240**	**14 876**
Underlying Surplus (Deficit)	**439**	**(83)**	**(1 783)**	**(755)**
Capital grants	251	1 184	1 568	975
Financial assistance grant received in advance**	0	1 937	1 863	919
Offset Financial assistance grant in advance**	0	(1 863)	(919)	(895)
Contributions non-current assets	0	1 011	906	932
Net Surplus (Deficit)	**690**	**2 186**	**1 635**	**1 176**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(8 552)	11 808	6 007
Current year fair value adjustment Ben Lomond Water	0	843	261	479
Total Other Comprehensive Income (Expense)	**0**	**(7 709)**	**12 069**	**6 486**
Comprehensive Surplus (Deficit)	**690**	**(5 523)**	**13 704**	**7 662**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	10 301	9 545	1 998	2 892
Financial assets*	0	0	6 756	5 360
Receivables	661	634	555	532
Inventories	65	15	25	21
Total Current Assets	**11 027**	**10 194**	**9 334**	**8 805**
Payables	1 191	1 108	829	863
Provisions – employee benefits	1 043	977	1 034	890
Total Current Liabilities	**2 234**	**2 085**	**1 863**	**1 753**
Net Working Capital	**8 793**	**8 109**	**7 471**	**7 052**
Property, plant and equipment	210 295	217 387	204 509	197 605
Investment in Ben Lomond Water	44 981	44 138	43 877	43 398
Total Non-Current Assets	**255 276**	**261 525**	**248 386**	**241 003**
Provisions – employee benefits	380	422	349	209
Total Non-Current Liabilities	**380**	**422**	**349**	**209**
Net Assets	**263 689**	**269 212**	**255 508**	**247 846**
Reserves	125 878	133 586	121 517	115 031
Accumulated surpluses	137 811	135 626	133 991	132 815
Total Equity	**263 689**	**269 212**	**255 508**	**247 846**

* *Recorded as non-current assets in Council's financial statements. Reallocated to ensure consistency with movement of investments to current in 2011-12.*

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 555	10 303	10 205	9 911
Cash flows from Government	4 923	5 276	4 010	4 179
Payments to suppliers and employees	(10 741)	(10 523)	(10 523)	(10 387)
Interest received	573	628	589	390
Cash from (used in) Operations	**6 310**	**5 684**	**4 281**	**4 093**
Capital grants and contributions	276	1 568	975	1 263
Payments for property, plant and equipment	(6 123)	(6 979)	(5 083)	(5 673)
Purchase of financial assets – investments	0	0	(1 396)	(5 360)
Distributions received – Ben Lomond Water	4	159	178	1
Proceeds from sale of property, plant and equipment	289	359	151	151
Cash from (used in) Investing Activities	**(5 554)**	**(4 893)**	**(5 175)**	**(9 618)**
Net Increase (Decrease) in cash	**756**	**791**	**(894)**	**(5 525)**
Cash at the beginning of the year	9 545	1 998	2 892	8 417
Add transfer from non-current investments	0	6 756	0	0
Cash at End of the Year	**10 301**	**9 545**	**1 998**	**2 892**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(83)	(1 783)	(755)	(1 649)
Operating surplus ratio*, **	>0	(0.55)	(12.33)	(5.35)	(12.40)
Asset Management					
Asset sustainability ratio*	100%	105%	128%	99%	109%
Asset renewal funding ratio*, ***	90% - 100%	96%	96%	N/A	N/A
Road asset consumption ratio*	>60%	69.2%	69.3%	69.7%	69.9%
Asset investment ratio	>100%	137%	150%	115%	129%
Liquidity					
Net financial assets (liabilities) ($'000s)		8 348	7 672	7 097	6 822
Net financial liabilities ratio*, ****	0% - (50%)	55.4%	53.1%	50.3%	51.3%
Operational Efficiency					
Liquidity ratio	2:1	9.20	9.19	3.08	3.97
Current ratio	1:1	4.94	4.89	5.01	5.02
Interest coverage	3:1	-	-	-	-
Self financing ratio		41.9%	39.3%	30.3%	30.8%
Own source revenue		73.2%	70.3%	72.0%	69.2%
Debt collection	30 days	25	22	17	19
Creditor turnover	30 days	24	19	14	15
Rates per capita ($)		659	596	562	521
Rates to operating revenue		55.8%	52.3%	50.3%	49.4%
Rates per rateable property ($)		1 251	1 136	1 098	1 030
Operating cost to rateable property ($)		2 256	2 441	2 297	2 345
Employee costs expensed ($'000s)		4 319	4 324	4 429	3 958
Employee costs capitalised ($'000s)		312	309	233	257
Total employee costs ($'000s)		4 631	4 633	4 662	4 215
Employee costs as a % of operating expenses		29%	27%	30%	26%
Average staff numbers (FTEs)		64	65	64	65
Average staff costs ($'000s)		72	71	73	65
Average leave balance per FTE ($'000s)		22	22	22	17

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue. Where this ratio is positive, liquid assets exceed total liabilities.*

SORELL COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $1.027m which was an improvement on the previous year and better than budget. This was the fourth year a positive underlying result was recorded.
- Its comprehensive result was $5.844m resulting in Net Assets at 30 June 2013 of $216.501m.
- Councils Total Assets were $223.642m at 30 June 2013, the largest being Property, plant and equipment, $182.304m.

Council 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.

We identified shortcomings relating to employee provision calculations, subsequently corrected by Council. In addition, there were issues noted with bank reconciliations and journals. These were reported to management who are addressing these matters.

The audit was completed satisfactorily with no other items outstanding.

Key developments for the year included:

- Council commenced construction of its new council chambers. The existing chambers were recorded as an asset held for sale due to the sale not being finalised at 30 June 2013
- receipt of Commonwealth funding, $0.650m, for the construction of a new doctors' surgery. Council is facilitating this project
- Council incurred expenditure on the Southern Tasmanian bushfires during the year and receivables at 30 June 2013 increased due to this.

There were no other major variations noted between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a cost index to land, roads, bridges, kerbs, channels, footpaths and storm water assets to maintain the currency of their value in years between formal valuations.	We confirmed the appropriateness and validity of the indices and ensured they were applied correctly.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and re-signed on 27 September 2013. An unqualified audit opinion was issued on 30 September 2013.

KEY DEVELOPMENTS

New Council Chambers

At 30 June 2013, Council had $2.881m in work in progress for the construction of its new council chambers. Council had financial assets, $3.109m at 30 June 2012 which were realised during the year to ensure it had sufficient funds for this construction. The existing chambers were recognised as an asset held for sale due to the sale not being finalised at 30 June 2013. Council moved into the new council chambers on 27 September 2013.

New Doctors Surgery

Council received a Commonwealth grant of $0.650m for the construction of a new doctors surgery in Sorell. It is facilitating the construction of the project which resulted in higher employee costs and materials and services during the year. The net effect on Council's financial result will be nil, as funding received should equal expenditure incurred.

Southern Tasmanian Bushfires

The municipality experienced bushfires during January 2013, affecting a large portion of the region. Council incurred expenditure providing evacuation centres and support for its ratepayers. At 30 June 2013, Council had receivables of $0.352m from the State Government for bushfire reimbursements and $0.292m from the Australian Red Cross for bushfire claims which were paid to ratepayers by Council.

KEY FINDINGS

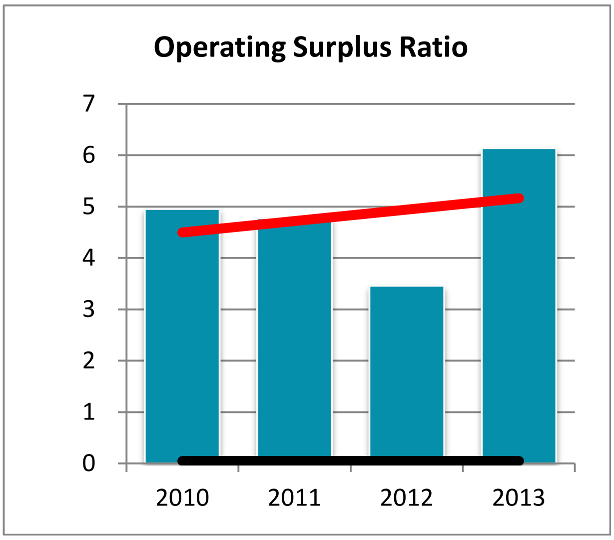
Five audit findings were raised during the audit, relating to the calculation of employee provisions (subsequently amended by management), timing differences noted on the bank reconciliation and lack of review of journals. These matters are being addressed by management.

The audit was completed satisfactorily with no other items outstanding.

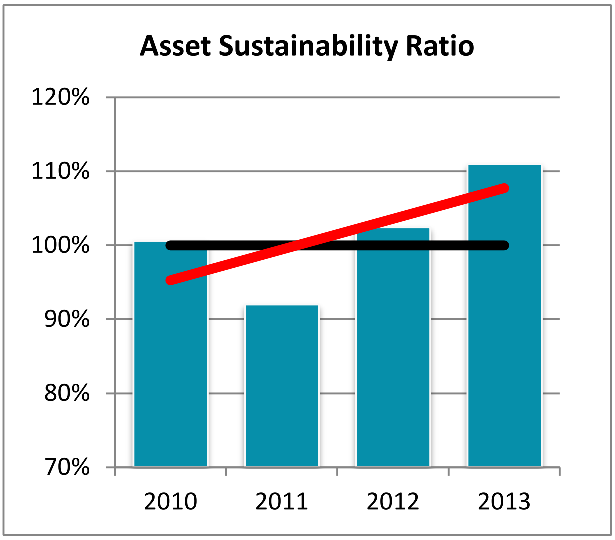
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each graph the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded operating surpluses in the four years under review, with an Operating surplus ratio of 6.1% in 2012-13. This indicated that Council was generating sufficient revenue to fulfil its operating requirements, including Depreciation.

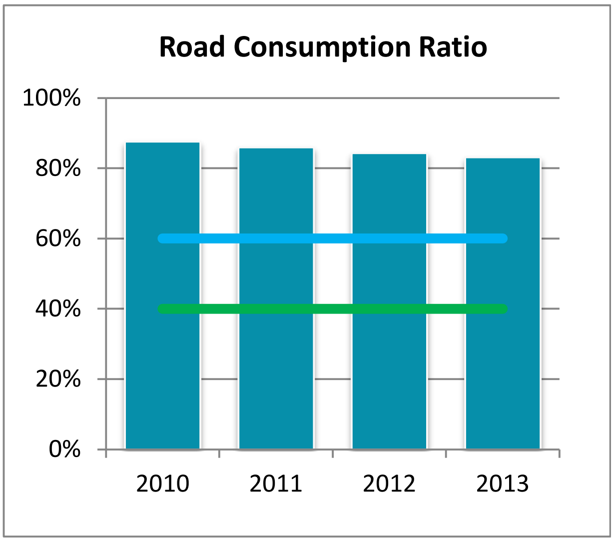


Asset sustainability ratio was below 100% for one of the four years under review. Council averaged 101% over that period. This indicated, subject to levels of maintenance expenditure and the existence of a long-term asset management plan, Council was maintaining its investment in existing assets at levels in excess of its annual Depreciation charges.

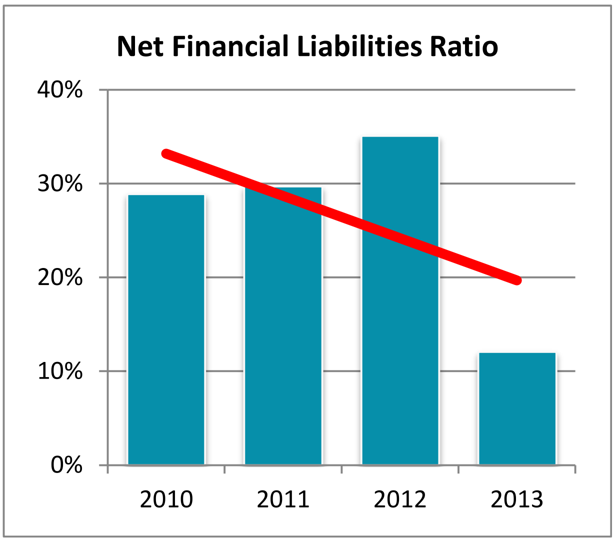
Asset Renewal Funding Ratio

Council does not have a long-term asset management plan. It does, however, have a long-term financial management plan 2011-2021 (LTFMP), which incorporates year-on-year asset management funding. The plan was endorsed by Council in 2011-2012.

Council's LTFMP is accrual based and covers an appropriate time frame. The plan was first developed in 2007 and is reviewed by Council and updated annually. However, despite the existence of a LTFMP, we were unable to calculate the Asset renewal funding ratio because sufficient information was not available.



The graph above indicates that, at 30 June 2013, Council had consumed 17% of its road assets and hence was considered a low risk. In recent years, the municipality has experienced considerable development and investment in infrastructure including roads.



Council recorded positive Net financial liabilities positions, with liquid assets in excess of total liabilities in each of the four years under review. Realisation and investment of its financial assets into the new council chambers resulted in a drop in the ratio by 23%, however Council still had the ability to meet its existing commitments and could borrow should the need arise.

Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $2.371m or 33.7% of the total cash and cash equivalents balance of $7.023m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

Council did not have an audit committee in place; however it did have a Risk and Ethics Committee, which undertook some of the tasks typically completed by an audit committee. However the Committee did not have any independent members, did not have a formal charter and did not review Council's annual financial statements prior to signature by the General Manager. There was no internal audit function.

Council had a long-term financial management plan in place, which is reviewed on an annual basis, however it did not have a long-term asset management plan.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's operating surplus was above the benchmark in all four years under review.

Its Asset sustainability ratio indicated, based upon our 100% benchmark, that on average Council invested in line with the benchmark with only one year falling below this mark.

Council's Road consumption ratio was strong; consistently well into the low risk range.

Its Net financial liabilities ratio dropped this year, but remained strong due to its large balance of cash and investments on hand. Council has the ability to service debt and could borrow should the need arise.

Council did not have an audit committee or a long term asset management plan, although it did have a long-term financial management plan in place, which is reviewed on an annual basis.

Based upon these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at low financial sustainability risk from financial operating, net financial liabilities and asset management perspectives and a high financial sustainability risk from a governance perspective.

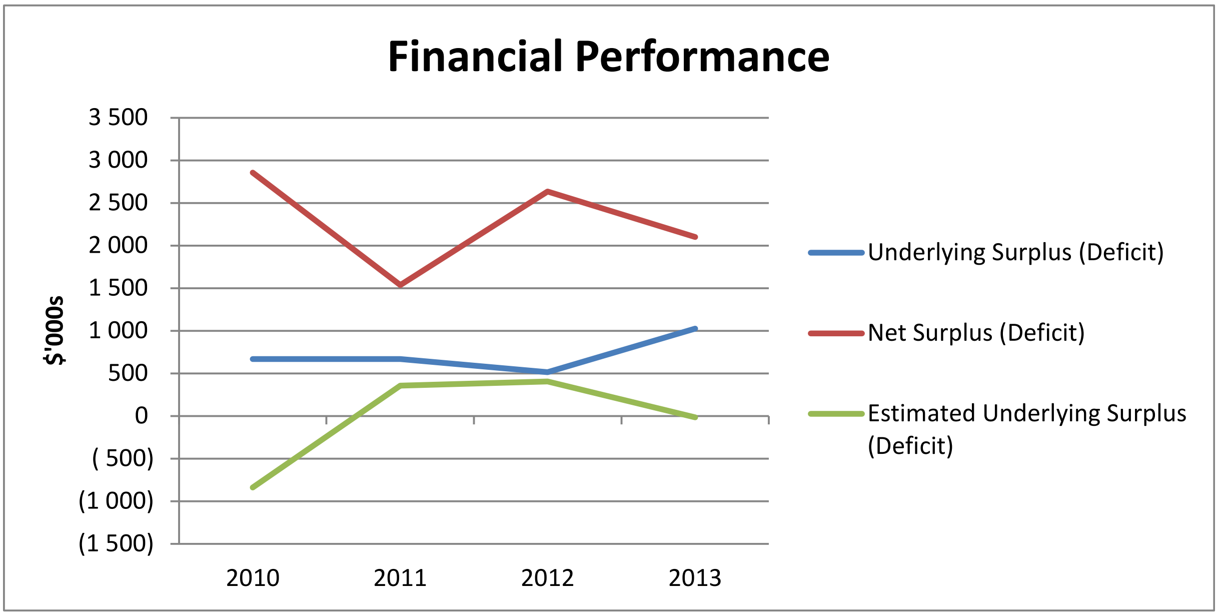
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

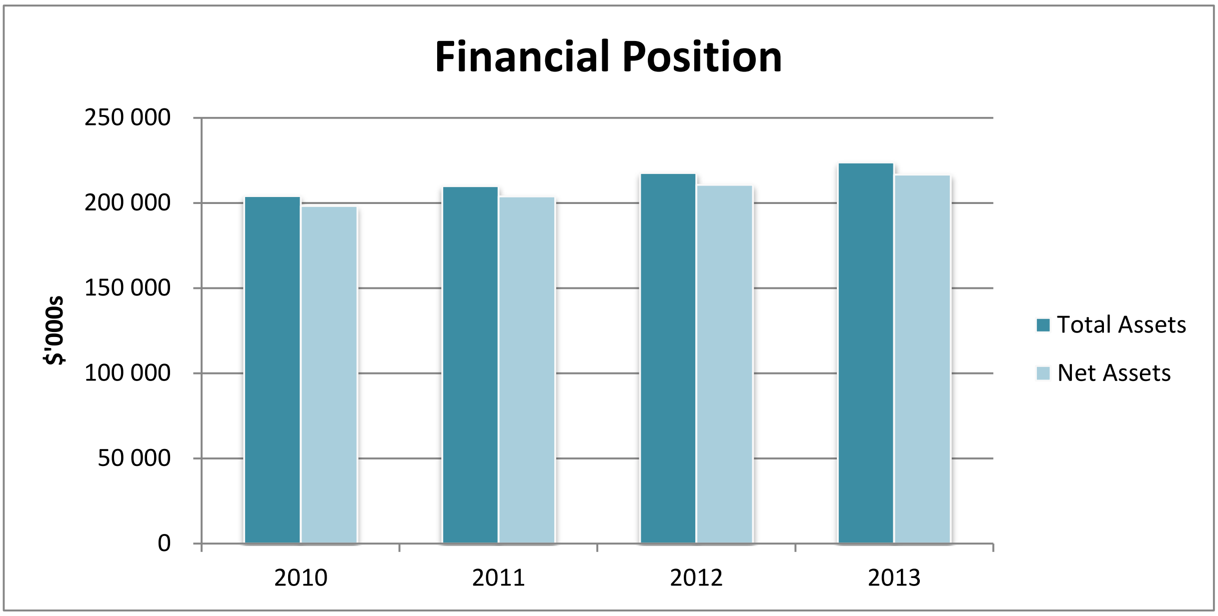
Sorell Council has in the period since June 30 seen a significant changeover of its Senior Management Team, including the General Manager. The new management team is conscious of comments made within this report and will be reviewing the recommendations made, particularly in respect of both the implementation of a long-term asset management plan and the establishment of an audit committee.

FINANCIAL ANALYSIS



Council achieved Underlying Surpluses in all four years under review. Its current year Underlying Surplus, $1.027m, was $1.057m lower than its Net Surplus due to capital funding and contributions of assets included in the latter amount.

Council consistently achieved above-budget results over the four years under review. In the current year, Council achieved an Underlying Surplus of $1.043m, above budget primarily due to operating grants received that were not budgeted for and not fully expended in 2012-13.



Council's Total Assets and Net Assets increased steadily over the four year period, primarily driven by surpluses, revaluation increments and capital additions to Property, plant and equipment.

Total Assets increased by $6.142m in 2013, primarily due to higher Property, plant and equipment and Receivables, offset by Council realising its financial assets to funds the construction of the new council chambers.

Council's financial position was dominated by its significant infrastructure and its investment in Southern Water totalling $211.839m. In comparison liabilities, totalled $7.141m at 30 June 2013, consisted of Borrowings, Payables and Employee provisions.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	10 350	10 399	9 835	9 178
Fees and charges	1 003	889	976	1 105
Grants**	1 712	3 634	2 538	2 304
Interest revenue	579	568	735	779
Other revenue	692	1 238	803	636
Total Revenue	**14 336**	**16 728**	**14 887**	**14 002**
Employee costs	5 434	5 673	5 302	4 871
Depreciation	4 064	3 891	4 054	3 786
Interest expense	251	223	232	223
Other expenses	4 603	5 914	4 784	4 453
Total Expenses	**14 352**	**15 701**	**14 372**	**13 333**
Underlying Surplus (Deficit)	**(16)**	**1 027**	**515**	**669**
Fair value adjustments for investment property	30	0	80	(219)
Impairment Expense	0	0	(88)	(183)
Capital grants	1 242	952	668	454
Financial assistance grant received in advance**	0	1 341	1 344	509
Offset Financial assistance grant in advance**	0	(1 344)	(509)	(459)
Contributions of non-current assets	0	126	623	766
Net Surplus (Deficit)	**1 256**	**2 102**	**2 633**	**1 537**
Other Comprehensive Income				
Impairment of investments	0	0	(43)	(56)
Fair value revaluation of non-current assets	0	3 748	4 246	4 112
Fair Value adjustments arising from changes in allocation order	0	0	0	(183)
Current year fair value adjustment in Southern Water	0	(6)	65	169
Total Comprehensive Income (Expense)	**0**	**3 742**	**4 268**	**4 042**
Comprehensive Surplus (Deficit)	**1 256**	**5 844**	**6 901**	**5 579**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Result.*

The Offset figure allows the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	7 023	8 207	6 266	3 321
Financial assets	0	3 109	3 153	5 271
Receivables	2 138	797	865	981
Asset held for Sale	432	0	0	0
Other	214	425	299	24
Total Current Assets	**9 807**	**12 538**	**10 583**	**9 597**
Payables	2 066	1 570	1 944	1 274
Borrowings	432	467	420	397
Provisions – employee benefits	1 147	993	770	850
Trust funds and deposits	173	145	207	161
Total Current Liabilities	**3 818**	**3 175**	**3 341**	**2 682**
Net Working Capital	**5 989**	**9 363**	**7 242**	**6 915**
Property, plant and equipment	182 304	173 473	168 365	163 399
Assets held for sale	0	432	0	0
Investments in associates	711	198	136	150
Investment in water corporation	29 535	29 541	29 476	29 490
Investment properties	1 127	1 127	1 047	1 190
Other	158	191	244	149
Total Non-Current Assets	**213 835**	**204 962**	**199 268**	**194 378**
Borrowings	3 261	3 695	2 661	3 082
Provisions – employee benefits	62	21	124	66
Total Non-Current Liabilities	**3 323**	**3 716**	**2 785**	**3 148**
Net Assets	**216 501**	**210 609**	**203 725**	**198 145**
Reserves	151 451	147 709	144 570	139 968
Accumulated surpluses	65 050	62 900	59 155	58 177
Total Equity	**216 501**	**210 609**	**203 725**	**198 145**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 264	11 908	11 308	10 803
Cash flows from Government	3 432	3 375	2 651	2 121
Payments to suppliers and employees	(11 816)	(10 966)	(10 406)	(8 925)
Interest received	605	704	770	716
Finance costs	(271)	(201)	(224)	(248)
Investment Revenue from water corporation	506	505	506	440
Cash from (used in) Operations	**4 720**	**5 325**	**4 605**	**4 907**
Headworks Southern Water	0	0	234	0
Payments for property, plant and equipment	(9 016)	(5 154)	(4 453)	(4 648)
Equity injection Southern Waste Solutions	(312)	0	0	0
Investment water rights	(23)	0	0	0
Proceeds from sale of investments	3 109	0	2 000	0
Proceeds from sale of property, plant and equipment	114	119	223	181
Cash from (used in) Investing Activities	**(6 128)**	**(5 035)**	**(1 996)**	**(4 467)**
Trust funds and deposits	28	(62)	0	0
Proceeds from borrowings	(18)	1 515	24	49
Capital grants and contributions	670	618	708	471
Repayment of borrowings	(456)	(420)	(396)	(373)
Cash from (used in) Financing Activities	**224**	**1 651**	**336**	**147**
Net Increase (Decrease) in Cash	**(1 184)**	**1 941**	**2 945**	**587**
Cash at the beginning of the year	8 207	6 266	3 321	3 213
Less cash transferred to Southern Water	0	0	0	(479)
Cash at End of the Year	**7 023**	**8 207**	**6 266**	**3 321**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($,000s)		1 027	515	669	669
Operating Surplus Ratio*, ****	>0	6.14	3.46	4.78	4.96
Asset Management					
Asset sustainability ratio*	100%	111%	102%	92%	101%
Asset renewal funding ratio*, **	90%-100%	N/A	N/A	N/A	N/A
Road asset consumption ratio*	>60%	83.2%	84.4%	86.0%	87.6%
Asset investment ratio	>100%	232%	127%	118%	128%
Liquidity					
Net financial assets (liabilities) ($,000s)		2 452	5 222	4 158	3 743
Net financial liabilities ratio*, ***	0%-(50%)	12.1%	35.1%	29.7%	28.9%
Operational Efficiency					
Liquidity ratio	2:1	3.99	6.16	4.48	5.32
Current ratio	1:1	2.57	3.95	3.17	3.58
Interest coverage	3:1	16.42	25.49	19.56	18.79
Self financing ratio		28.2%	35.8%	32.9%	36.4%
Own source revenue		81.7%	87.9%	89.1%	84.8%
Debt collection	30 days	69	27	31	37
Creditor turnover	30 days	34	41	50	45
Rates per capita ($)		735	708	673	647
Rates to operating revenue		62.2%	66.1%	65.5%	64.3%
Rates per rateable property ($)		1 206	1 152	1 088	1 040
Operating cost to rateable property ($)		1 821	1 684	1 580	1 538
Employee costs expensed ($'000s)		5 673	5 302	4 871	4 635
Employee costs capitalised ($'000s)		444	293	302	435
Total employee costs ($'000s)		6 117	5 595	5 173	5 070
Employee costs as a % of operating expenses		36%	37%	37%	36%
Average staff numbers (FTEs)		82	82	81	78
Average staff costs ($'000s)		75	68	64	65
Average leave balance per FTE ($'000s)		15	12	11	12

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** Information not available to calculate ratios.*

**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, as is the case with Sorell Council, liquid assets exceed total liabilities.*

***** This ratio is also called Underlying result ratio.*

WARATAH-WYNYARD COUNCIL

SNAPSHOT

- Council recorded Underlying Deficits in three of the four years under review and budgeted for deficits in each of these years. This is inconsistent with the need to assure long-term financial sustainability.
- The 2012-13 budgeted Underlying Deficit was $1.051m.
- At 30 June 2013 Council's Net Assets amounted to $176.087m.

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

We noted deficiencies in Council's IS systems relating to levels of user access, monitoring of, and controls over, amendments to master data and lack of formal procedures and processes for user access management. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

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

There were no major variations between the 2012-13 and 2011-12 financial years.

RESOURCE SHARING ARRANGEMENTS

Council entered into a resource sharing arrangement in December 2008 with Circular Head Council to jointly employee the services of a General Manager. The arrangement was expanded to include further employees as positions became available or opportunities were identified. At 30 June 2013 Council had 15 (2012, 14) resource shared positions with 7.9 full time equivalents employed by Council and 7.1 employed by Circular Head Council.

The resource sharing arrangement was entered into by Council with the aim of enabling continual improvement in areas such as asset management, risk and human resources which support Council's future strategic objectives, to ensure Council continues to attract and keep quality staff, provide succession planning and extend service provision that would not be viable on an individual council basis. The arrangement has allowed Council to aggressively progress asset management planning, address business risks and improve human resource practices.

A resource sharing committee comprising three councillors from each Council was established to identify opportunities to improve services and manage the resource sharing arrangements.

An outcome of these arrangements was that the two Councils formed a Strategic Projects Office (SPO) that was tasked with the primary objectives of progressing outcomes of each Council's five year strategic plans and facilitating special projects. The SPO also investigates opportunities that may present themselves, that further the strategic intent of each Council or allow each Council to think outside the square and initiate a 'new way of doing things' for the community.

KEY AREAS OF AUDIT ATTENTION

There are no key areas of audit attention specific to Council. However, those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 27 September 2013.

KEY DEVELOPMENTS

Capital Works

Council completed a $1.650m redevelopment of Wynyard Wharf. The project included the demolition of the old wharf, development of a 75m long concrete beam deck support, a 55m long private berth pontoon and a 15m long public recreation pontoon. The Wharf was officially opened on the 13 October 2013.

Resource Sharing Arrangements

Council's resource sharing agreement with Circular Head Council is due to expire in the 2013-14 financial year. Discussions regarding the renewal of the agreement are in progress.

KEY FINDINGS

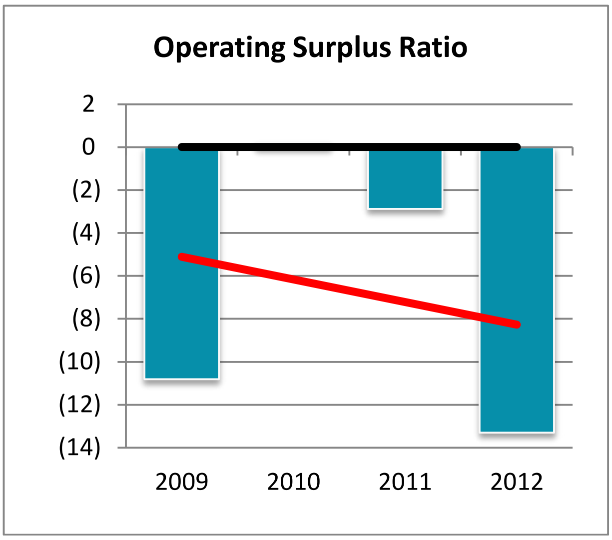
IS is critical to maintaining data integrity, the reliability of key financial and operational systems and ensuring no accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in user access management, user access rights, and a significant number of finance staff who could modify master data without management review. Management are currently reviewing these matters.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

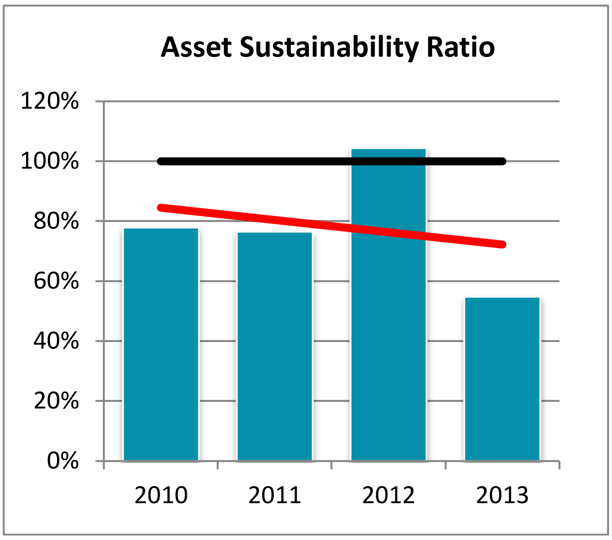
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's downward trending Operating surplus ratio reflected Underlying Deficits recorded in three of the past four years. Over the last four years, Council recorded an average negative ratio of 6.7. This indicates it did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

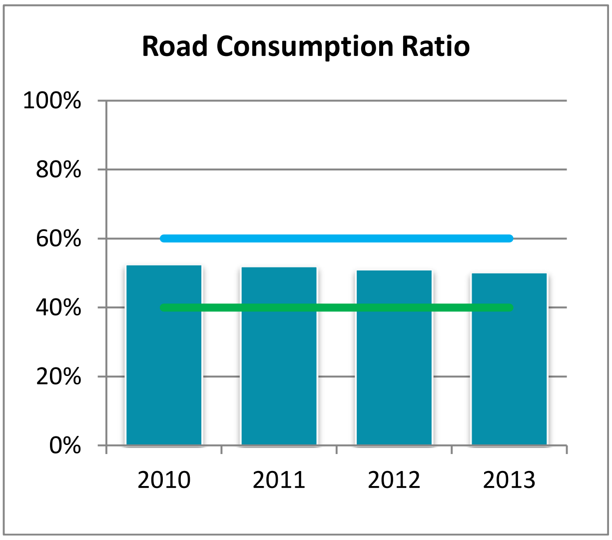
Over the four year period, Council budgeted for $1.945m in Underlying Deficits. We believe that, as a minimum, Council should budget for a break-even position.



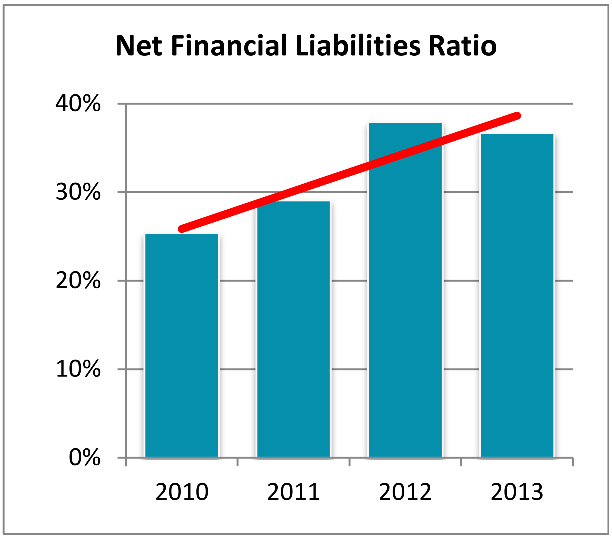
Asset sustainability ratios were below the 100% benchmark in the three of the four years under review. Over the four year period, Council's average ratio was 78% indicating, subject to levels of maintenance expenditure and the existence of long-term asset and financial management plans, Council under-invested in its existing assets.

Asset Renewal Funding Ratio

Council's long-term asset management plan and its long-term financial management plan indicated the Asset renewal funding ratio was 82% (2012, 82%) at 30 June 2013, based on planned asset replacement expenditure. The ratio is below our benchmark of 90% to 100% and if not improved may result in Council under-spending on renewal of its assets. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.



The ratio at 30 June 2013 indicated Council had consumed approximately 50% of the service potential of its road infrastructure assets. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded a positive Net financial liabilities ratio at 30 June 2013, with liquid assets well in excess of current and non-current liabilities. The positive ratio indicated a strong liquidity position, with Council able to meet its current commitments.

It is noted, that Council had contractual commitments totalling $1.072m (2011-12, $0.949m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $1.573m ($1.767m).

In addition, Council has an internal policy of holding the previous year's general rates as a cash reserve which restricts the amount available for discretionary use. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it did not have an audit committee or an internal audit function.

Council's governance could be strengthened if it established an audit committee with both internal and external members.

Council had a long-term asset management plan and a financial management plan. The long-term asset management plan was detailed, regularly reviewed, covered all key elements required and formally adopted by Council. The plans forecasts planned and required renewal expenditure to 2029-30 covering transport infrastructure, stormwater, buildings and recreation assets. The plans are not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective Council generated an Underlying Deficit in three of the four years under review. Over the last four years, the average Underlying surplus ratio was negative 6.7, with Council budgeting for Underlying Deficits.

Council's average Asset sustainability ratio of 78% is below our 100% benchmark, and indicated it under-invested in renewing its existing assets. Council's Road consumption ratios deteriorated slightly over the four year period, but its roads had sufficient capacity to continue to provide services to its ratepayers. Asset renewal funding ratio of 82% indicated Council had a funding gap between its planned and required future asset replacement expenditure.

Council's Net financial liabilities ratio showed it was in a strong liquidity position and was in a sound position to meet its short-term commitments and may have a capacity to borrow should the need arise.

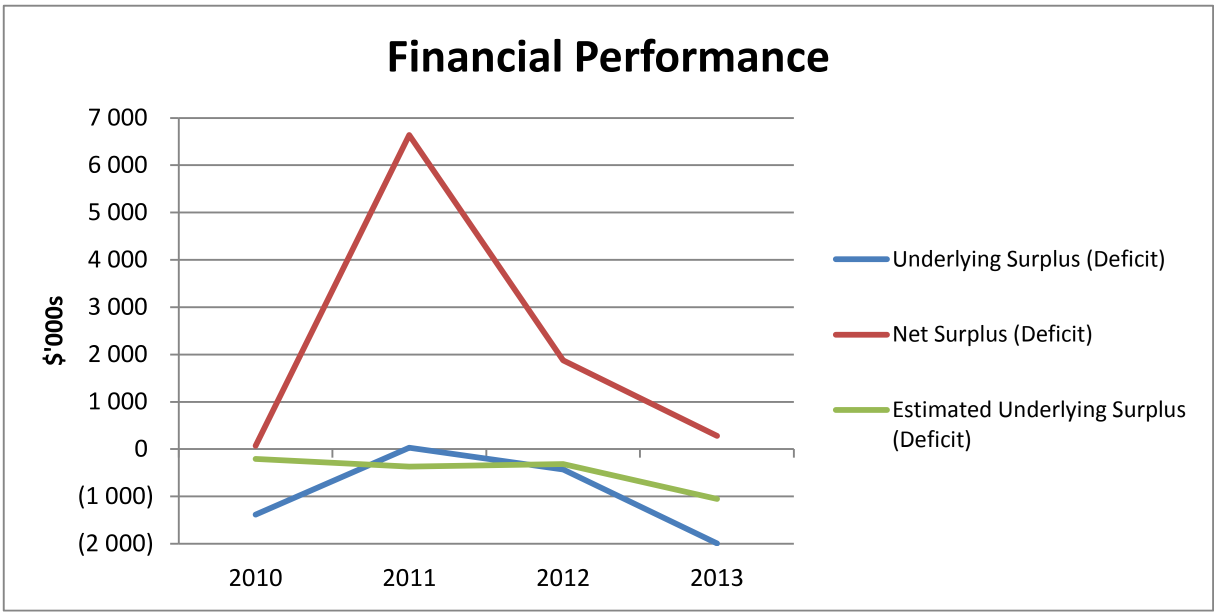
From a governance perspective, Council did not have an audit committee although it had long-term asset management and financial management plans.

Based on these ratios and governance arrangements we have concluded that at 30 June 2013, Council was at moderate risk from operating, governance and asset management perspectives and low sustainability risk from a net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

FINANCIAL ANALYSIS



Council recorded Underlying Deficits in three of the four years under review and, disappointingly, it budgeted for these deficit results.

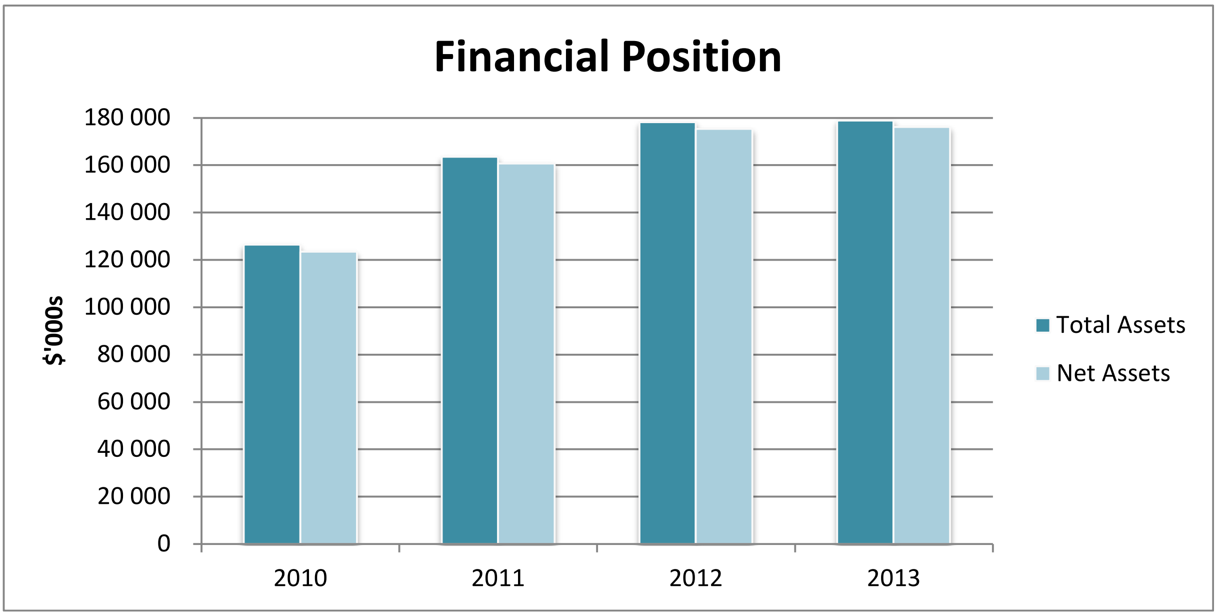
Estimated Underlying Deficits increased over the period under review and in 2012-13 Council budgeted for an Underlying Deficit of $1.051m. This is inconsistent with the need to assure long-term financial sustainability. We believe that at a minimum Council should budget for a break-even position.

In 2012-13, Council recorded a Underlying Deficit of $1.990m, $1.558m higher than the $0.432m deficit in the previous year. The higher deficit was primarily due to:

- higher Depreciation charges of $0.272m because of a stormwater assets revaluation in 2011-12
- additional Employee costs of $0.425m, which included $0.154m from an enterprise bargaining agreement pay increase (3.95% on 1 July 2012) and $0.174m due to prior year vacant positions being filled in 2012-13
- increased Other expenses of $0.829m driven by higher costs of $0.575m and loss on disposal of assets of $0.456m.

The Underlying Deficit was $0.939m greater than the Estimated Underlying Deficit of $1.051m mainly because Depreciation and materials and contracts expenses were higher than originally estimated.

Following the receipt of Capital grants, $0.931m, and Contributions - non-current assets, $1.341m, Council achieved a Net Surplus of $0.283m for 2012-13.



Council's Total Assets and Net Assets have grown steadily over the period under review. Total Assets increased by $52.406m, 41.45%, from 2009-10 to 2012-13. This growth related primarily to Property, plant and equipment increasing from $92.203m at 30 June 2010 to $129.715m at 30 June 2013, due to asset revaluation increments, and the increase in Council's Investment in Cradle Mountain Water, from $27.285m to $40.063m over the same period.

At 30 June 2013 Net Assets increased by $0.816m to $176.087m. This increase was mainly attributable to the recognition of land and stormwater contributed assets, $1.341m, and increases in the value of the water corporation investment, $0.534m, offsetting the $0.252m drop in Total Current Assets.

Council's Cash and financial assets position at 30 June 2013 was $7.389m, but Cash from operations decreased by $2.574m during the year. This resulted in the Self-financing ratio dropping from 29.9% to 12.8%. However, over the four year period, Council generated positive operating cash flows.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	9 046	9 122	8 771	7 754
Fees and charges	1 813	1 706	1 838	1 876
Grants**	3 275	3 149	3 249	3 100
Interest revenue	376	439	499	481
Other revenue	451	552	649	887
Total Revenue	**14 961**	**14 968**	**15 006**	**14 098**
Employee costs	5 365	5 293	4 868	4 784
Depreciation	3 573	3 964	3 692	2 892
Finance costs	1	1	7	17
Other expenses	7 073	7 700	6 871	6 373
Total Expenses	**16 012**	**16 958**	**15 438**	**14 066**
Underlying Surplus (Deficit)	**(1 051)**	**(1 990)**	**(432)**	**32**
Capital grants	395	931	1 211	525
Financial assistance grant received in advance**	0	1 573	1 572	763
Offset Financial assistance grant in advance**	0	(1 572)	(763)	(702)
Recognition of assets	0	0	0	6 024
Derecognition of assets	0	0	(40)	0
Contributions non-current assets	135	1 341	329	0
Net Surplus (Deficit)	**(521)**	**283**	**1 877**	**6 642**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	0	12 654	18 351
Fair value adjustment arising from change in allocation order	0	0	0	12 018
Current year fair value adjustment to Cradle Mountain Water	0	533	42	184
Total Other Comprehensive Income (Expense)	**0**	**533**	**12 696**	**30 553**
Comprehensive Surplus (Deficit)	**(521)**	**816**	**14 573**	**37 195**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012*	2011*	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	7 389	8 066	6 375	5 823
Receivables	845	464	539	353
Other	811	767	747	725
Total Current Assets	**9 045**	**9 297**	**7 661**	**6 901**
Payables	859	1 139	719	818
Borrowings	5	42	131	206
Provisions - employee benefits	1 277	1 107	1 090	1 019
Other	188	172	327	254
Total Current Liabilities	**2 329**	**2 460**	**2 267**	**2 297**
Net Working Capital	**6 716**	**6 837**	**5 394**	**4 604**
Property, plant and equipment	129 715	129 275	116 349	92 203
Investment in Cradle Mountain Water	40 063	39 529	39 487	27 285
Other	11	15	21	39
Total Non-Current Assets	**169 789**	**168 819**	**155 857**	**119 527**
Borrowings	17	22	64	195
Provisions - employee benefits	228	206	266	231
Provisions - gravel pit rehabilitation	173	157	223	202
Total Non-Current Liabilities	**418**	**385**	**553**	**628**
Net Assets	**176 087**	**175 271**	**160 698**	**123 503**
Accumulated surpluses	124 055	124 199	122 253	103 990
Reserves	52 032	51 072	38 445	19 513
Total Equity	**176 087**	**175 271**	**160 698**	**123 503**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 353	11 716	11 075	10 715
Cash flows from Government	3 150	4 058	3 150	2 847
Payments to suppliers and employees	(13 006)	(11 765)	(11 536)	(11 742)
Interest received	418	486	471	354
Finance costs	(1)	(7)	(17)	(28)
Cash from (used in) Operations	**1 914**	**4 488**	**3 143**	**2 146**
Capital grants and contributions	930	1 211	525	1 367
Dividends	42	27	26	15
Payments for property, plant and equipment	(3 782)	(4 082)	(3 287)	(3 568)
Proceeds from sale of property, plant and equipment	261	178	351	524
Cash from (used in) Investing Activities	**(2 549)**	**(2 666)**	**(2 385)**	**(1 662)**
Repayment of borrowings	(42)	(131)	(206)	(247)
Cash from (used in) Financing Activities	**(42)**	**(131)**	**(206)**	**(247)**
Net Increase (Decrease) in Cash	**(677)**	**1 691**	**552**	**237**
Cash at the beginning of the year	8 066	6 375	5 823	5 586
Cash at End of the Year	**7 389**	**8 066**	**6 375**	**5 823**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(1 990)	(432)	32	(1 386)
Operating surplus ratio*, **	>0	(13)	(3)	0	(11)
Asset Management					
Asset sustainability ratio*	100%	55%	104%	76%	78%
Asset renewal funding ratio*, ***	90% - 100%	81%	82%	N/A	N/A
Road asset consumption ratio*	> 60%	50.2%	51.1%	52.0%	52.5%
Asset investment ratio	>100%	95%	111%	114%	122%
Liquidity					
Net financial assets (liabilities) ($'000s)		5 487	5 685	4 094	3 251
Net financial liabilities ratio*, ****	0 - (50%)	36.7%	37.9%	29.0%	25.4%
Operational Efficiency					
Liquidity ratio	2:1	7.83	6.30	5.98	4.84
Current ratio	1:1	3.88	3.78	3.38	3.00
Interest Coverage		1 913.00	640.14	183.88	75.64
Self financing ratio		12.8%	29.9%	22.3%	16.7%
Own source revenue		79.0%	78.3%	78.0%	78.0%
Debt collection	30 days	28	16	20	14
Creditor turnover	30 days	29	37	26	29
Rates per capita ($)		638	612	550	518
Rates to operating revenue		60.9%	58.4%	55.0%	57.1%
Rates per rateable property ($)		1 216	1 170	1 047	980
Operating cost to rateable property ($)		2 260	2 060	1 899	1 902
Employee costs expensed ($'000s)		5 293	4 868	4 784	4 642
Employee costs capitalised ($'000s)		332	293	362	451
Total employee costs ($'000s)		5 625	5 161	5 146	5 093
Employee costs as a % of operating expenses		31%	32%	34%	33%
Staff numbers (FTEs)		83	81	82	88
Average staff costs ($'000s)		68	64	62	58
Average leave balance per FTE ($'000s)		18	16	16	14

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio*

**** New ratio included in 2011-12. Information not obtained or unavailable to calculate prior years ratios.*

***** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, liquid assets exceed total liabilities.*

WEST COAST COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $0.168m. This was $0.382m lower than the underlying result reported in 2011-12.
- Operating costs, mainly salaries and wages, grew at a faster rate than property rates, which are Council's main sources of income.
- Overall, Council reported a Net Surplus of $0.639m after accounting for Capital grants.
- As at 30 June 2013, Council's Total Assets were $107.285m and its Net Assets amounted to $104.161m.

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

During the audit we identified and reported one low and three procedural moderate risk matters. Management is taking appropriate steps to address these matters.

The audit was completed satisfactorily with no other items outstanding.

There were no major developments or variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

There were no key areas of audit attention specific to Council. The areas which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit opinion was issued on 29 September 2013.

KEY DEVELOPMENTS

There were no key developments during 2012-13.

KEY FINDINGS

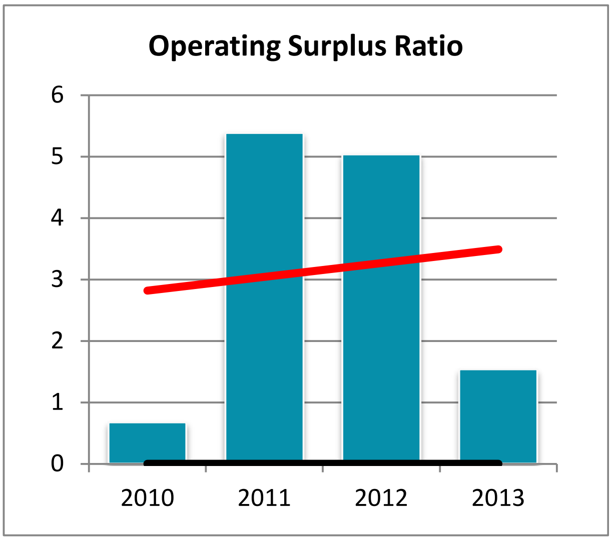
During the audit we identified and reported one low and three moderate risk matters. The moderate risk matters related to an absence of investment policy, which, considering the amount of cash held by Council, may increase the risk that these funds are invested inappropriately. There was also a deficiency in the delegations policy and missing authorisation for expenditure. Management is taking appropriate steps to address these matters.

The audit was completed with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

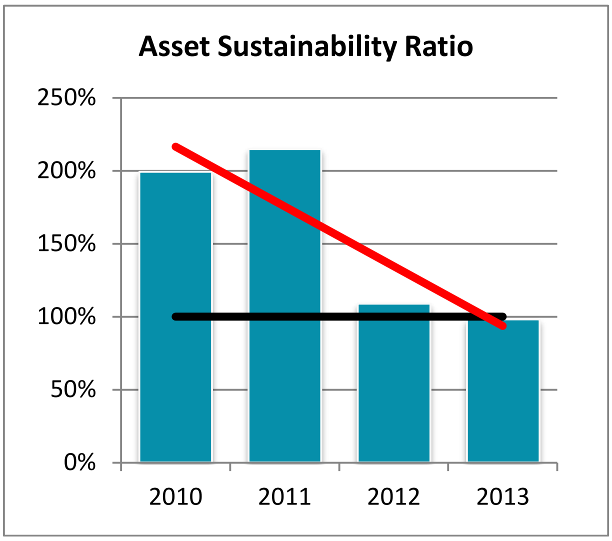
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



The positive Operating surplus ratios reflected Council's Underlying Surpluses for the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its Depreciation charges.

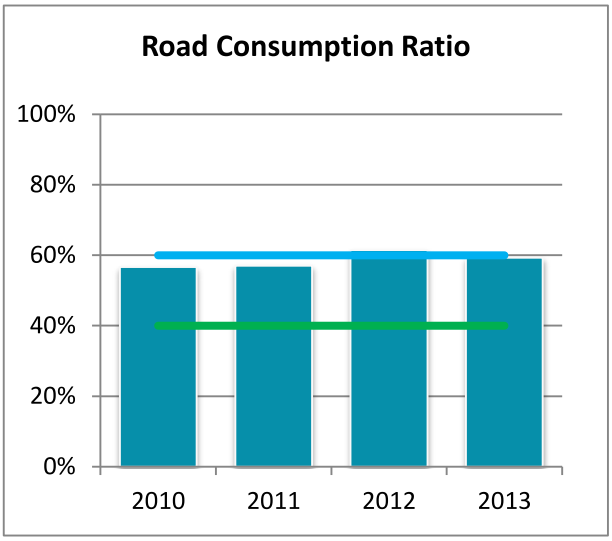
The trend line remains stable despite a lower surplus in 2012-13. Nevertheless, the 2012-13 result was still above a breakeven position and Council continued to perform above budget. The decrease this year was predominantly due to operating costs, mainly salaries and wages, growing at a faster rate than property rates, which are Council's main sources of income.



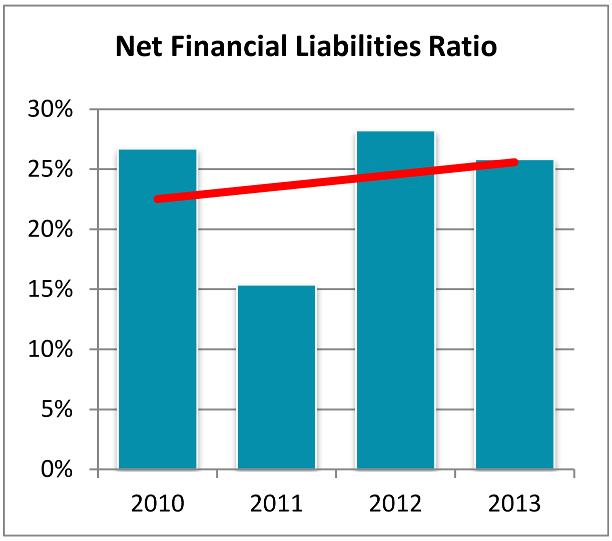
Asset sustainability ratio was above or just below the benchmark of 100% for all years under review. Council averaged 155% over that period, indicating it maintained its investment in existing assets at levels in excess of its annual Depreciation charges.

Asset Renewal Funding Ratio

Council did not have long-term asset or financial management plans, and therefore we were unable to compute an Asset renewal funding ratio.



The graph above indicates that at 30 June 2013, Council had used (consumed) approximately 41% of the service potential of its road infrastructure assets, and therefore slightly below the blue line indicating a moderate risk rating. Three of the four years under review were assessed as moderate.



Council recorded a positive Net financial liabilities position with liquid assets in excess of current and non-current liabilities in each year under review. Positive ratios indicated a strong liquidity position, with Council able to meet existing commitments.

As at 30 June 2013, Council held $5.299m in Cash and financial assets.

It was noted that Council's Cash and financial assets were subject to a number of internal restrictions, mainly leave provisions, that limit the amount available for discretionary use. Unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it did not have:

- an audit committee
- current long-term asset or financial management plans.

This indicates high risk from a governance perspective.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded surpluses in each of the past four years with the trend line remaining stable despite a lower Underlying Surplus in 2012-13.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 155% over the period, well above our 100% benchmark. Council's Road asset consumption ratio was at 59% in 2013, slightly below the benchmark of 60%. This indicates Council's roads had sufficient capacity to continue to provide services to its ratepayers but that, based on this ratio, it was at moderate risk.

Council's Net financial liabilities ratios were positive, indicating its liquidity is strong and it had capacity to borrow should the need arise.

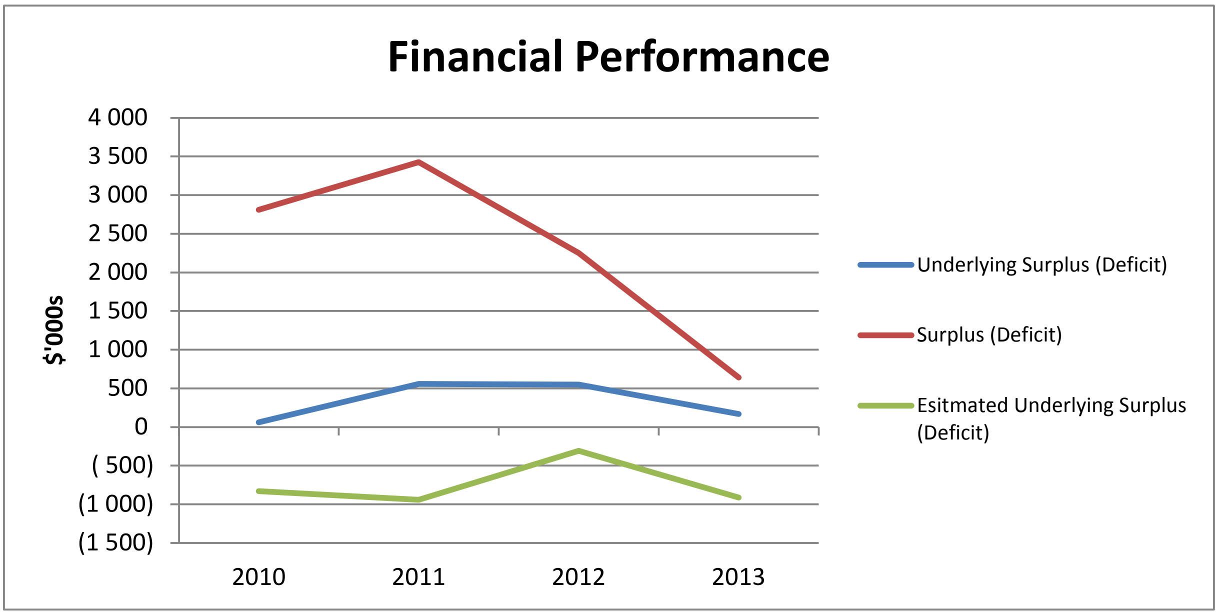
As at 30 June 2013, Council did not have an audit committee or current long-term financial or asset management plans. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that, at 30 June 2013, Council was at high sustainability risk from a governance perspective and low risk from financial operating, asset management and net financial liabilities perspectives.

Council's Comments on this Assessment of its Financial Sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

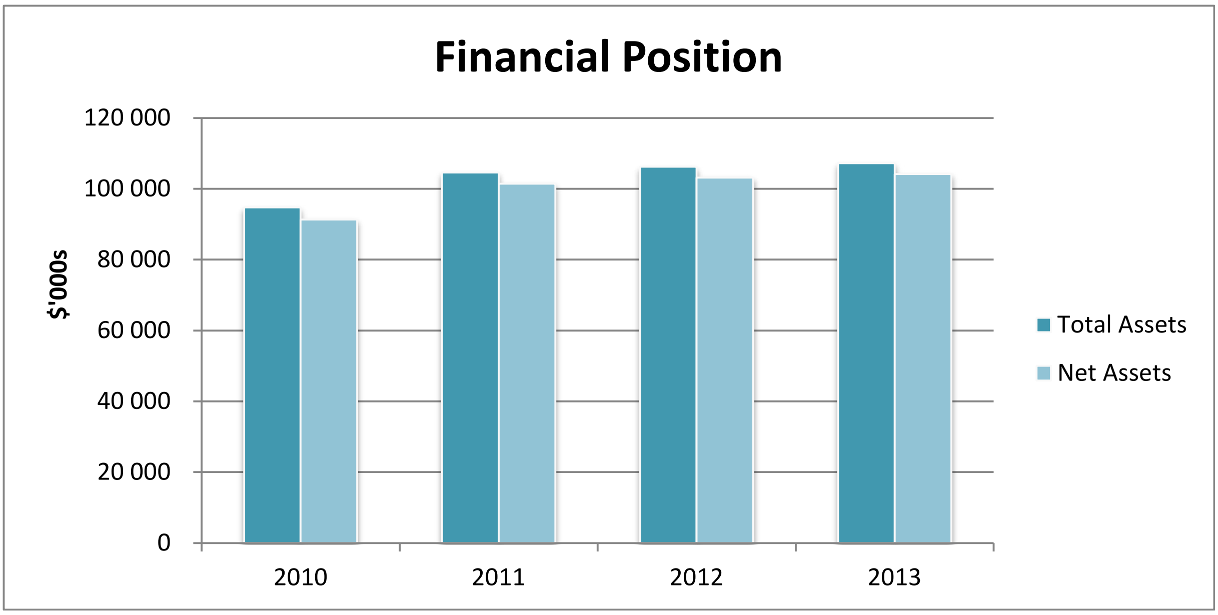
FINANCIAL ANALYSIS



Council continued to maintain a positive underlying result in 2012-13. It also continued to perform above budget, however it was noted that Council had significantly under-budgeted for operating grants in each of the years under review, largely contributing to the above budget trend.

Council's Underlying Surplus of $0.168m was $0.382m lower than the underlying result reported in 2011-12. The decrease was mainly due higher Employee costs, $0.240m, and materials and contracts, $0.137m, while total revenue remained consistent.

Overall, Council reported a Net Surplus of $0.639m after accounting for Capital grants. This was significantly lower than in prior years primarily due to higher levels of Capital grants received prior to 2012-13.



Council's Total Assets and Net Assets increased slightly over the period. Net Assets increased by $12.773m, or 14.0%, primarily due to an increase in the value of infrastructure assets.

In 2012-13, Council reported a slight increase in Net Assets of $0.957m to $104.161m at 30 June. The increase reflected the Comprehensive Surplus of the same amount.

Council has a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management, with the latest additions being a swimming pool in Queenstown, and various cycle-ways situated around the municipality.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	6 283	6 301	6 160	5 489
Fees and charges	880	993	1 130	916
Grants**	1 280	2 184	2 307	2 301
Other revenue	849	1 186	871	1 395
Interest revenue	356	290	451	278
Total Revenue	**9 648**	**10 954**	**10 919**	**10 379**
Employee costs	3 888	3 859	3 619	3 196
Depreciation	2 475	2 727	2 633	2 383
Other expenses	4 112	4 115	4 023	4 139
Finance costs	88	85	94	102
Total Expenses	**10 563**	**10 786**	**10 369**	**9 820**
Underlying Surplus (Deficit)	**(915)**	**168**	**550**	**559**
Mining companies contribution to Trial Harbour Road	0	0	0	250
Capital grants	182	505	789	2 199
Financial assistance grant received in advance**	0	941	975	499
Offset Financial assistance grant in advance**	0	(975)	(499)	(441)
Land and buildings transferred by Crown	0	0	97	163
Structures transferred from MAST	0	0	0	111
Transfer from Westhaven Homes	0	0	340	0
Adjustment for Valuation on Land and Buildings Purchased	0	0	0	227
Removal of Assets not Controlled	0	0	0	(142)
Net Surplus (Deficit)	**(733)**	**639**	**2 252**	**3 425**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(25)	(548)	6 599
Current year fair value adjustment Cradle Mountain Water	0	342	27	118
Total Comprehensive Income (Expense)	**0**	**317**	**(521)**	**6 717**
Comprehensive Surplus (Deficit)	**(733)**	**956**	**1 731**	**10 142**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit)*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	5 299	5 721	4 166	5 530
Receivables	656	393	614	371
Inventories	69	35	42	39
Other	41	54	169	108
Total Current Assets	**6 065**	**6 203**	**4 991**	**6 048**
Payables	1 102	874	951	815
Borrowings	132	124	115	108
Provisions – employee benefits	444	479	437	472
Other	228	264	309	578
Total Current Liabilities	**1 906**	**1 741**	**1 812**	**1 973**
Net Working Capital	**4 159**	**4 462**	**3 179**	**4 075**
Property, plant and equipment	75 476	74 611	74 281	63 414
Investment in Cradle Mountain Water	25 726	25 383	25 356	25 238
Other	18	36	54	99
Total Non-Current Assets	**101 220**	**100 030**	**99 691**	**88 751**
Borrowings	1 020	1 153	1 277	1 392
Provisions – employee benefits	198	135	93	76
Total Non-Current Liabilities	**1 218**	**1 288**	**1 370**	**1 468**
Net Assets	**104 161**	**103 204**	**101 500**	**91 358**
Reserves	63 261	62 622	60 370	34 413
Accumulated surpluses	40 900	40 582	41 130	56 945
Total Equity	**104 161**	**103 204**	**101 500**	**91 358**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 518	7 840	7 029	6 465
Cash flows from Government	2 187	2 815	2 468	2 234
Payments to suppliers and employees	(7 782)	(7 646)	(7 375)	(6 348)
Interest received	296	448	332	180
Finance costs	(87)	(96)	(103)	0
Distributions - Cradle Mountain Water	683	429	560	266
Cash from (used in) Operations	**2 815**	**3 790**	**2 911**	**2 797**
Payments for property, plant and equipment	(3 586)	(3 110)	(6 618)	(6 129)
Proceeds from sale of property, plant and equipment	155	13	252	156
Cash from (used in) Investing Activities	**(3 431)**	**(3 097)**	**(6 366)**	**(5 973)**
Capital grants and contributions	317	977	2 199	2 414
Proceeds from borrowings	0	0	0	1 500
Repayment of borrowings	(124)	(115)	(108)	0
Cash from (used in) Financing Activities	**193**	**862**	**2 091**	**3 914**
Net Increase (Decrease) in Cash	**(423)**	**1 555**	**(1 364)**	**738**
Cash at the beginning of the year	5 721	4 166	5 530	5 458
Less cash transferred to Cradle Mountain Water	0	0	0	(666)
Cash at End of the Year	**5 298**	**5 721**	**4 166**	**5 530**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		639	2 252	3 425	2 809
Operating surplus ratio*, **	>0	1.53	5.04	5.39	0.67
Asset Management					
Asset sustainability ratio*	100%	98%	109%	215%	199%
Asset renewal funding ratio*, ***	90% - 100%	N/A	N/A	N/A	N/A
Road asset consumption ratio*	>60%	59.3%	61.5%	57.1%	56.7%
Asset investment ratio	>100%	145%	118%	277%	267%
Liquidity					
Net financial assets (liabilities) ($'000s)		2 831	3 085	1 598	2 460
Net financial liabilities ratio*, ****	(0%-50%)	25.8%	28.3%	15.4%	26.7%
Operational Efficiency					
Liquidity ratio	2:1	4.07	4.84	3.48	3.93
Current ratio	1:1	3.18	3.56	2.75	3.07
Interest Coverage	3:1	31.36	38.48	27.26	-
Self financing ratio		25.7%	34.7%	28.0%	30.4%
Own source revenue		88.3%	78.9%	77.8%	77.0%
Debt collection	30 days	33	20	35	23
Creditor turnover	30 days	54	47	33	31
Rates per capita ($)		1,315	1,260	1,085	994
Rates to operating revenue		57.5%	56.4%	52.9%	55.1%
Rates per rateable property ($)		1 378	1 322	1 154	1 073
Operating cost to rateable property ($)		2 340	2 204	2 043	1 928
Employee costs expensed ($'000s)		3 859	3 619	3 196	3 048
Employee costs capitalised ($'000s)		158	225	224	165
Total employee costs ($'000s)		4 017	3 844	3 420	3 213
Employee costs as a % of operating expenses		36%	35%	33%	33%
Average staff numbers (FTEs)		60	56	53	56
Average staff costs ($'000s)		67	69	65	57
Average leave balance per FTE ($'000s)		11	11	10	10

* *For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

** *This ratio is also called the Underlying result ratio.*

*** *Information not available to calculate ratio.*

**** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

WEST TAMAR COUNCIL

SNAPSHOT

- Council has consistently produced Underlying Surpluses. The surpluses have consistently exceeded budgeted results.
- Council recorded a Comprehensive Surplus of $4.457m, resulting in Total Equity at 30 June 2013 of $262.865m.

Council 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.

We noted deficiencies in the areas of IS, revaluation methodology and credit card documentation. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments that occurred during the year, nor were there any major variations noted between 2012-13 and 2011-12.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
A full revaluation of land, buildings and bridges assets was undertaken in 2012-13. 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. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate independent expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 2 September 2013.

KEY DEVELOPMENTS

There were no key developments during the year.

KEY FINDINGS

Information Security

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in user access management, application monitoring and user access rights including segregation of duties.

Revaluation Methodology

Council completed a revaluation of roads and stormwater assets during 2012-13. Testing of the revaluation revealed weaknesses in the methodology adopted to determine fair value replacement values for the assets.

Discussions with Council determined it would be prudent to defer the recognition of the revaluation until 2013-14, enabling it to review the methodology and fair value replacement values.

Credit Cards

When reviewing Council's credit card transactions it was noted that tax invoices were not always provided to support expenditure claimed and details to support Fringe Benefits Tax (FBT) calculations were not provided by the cardholder.

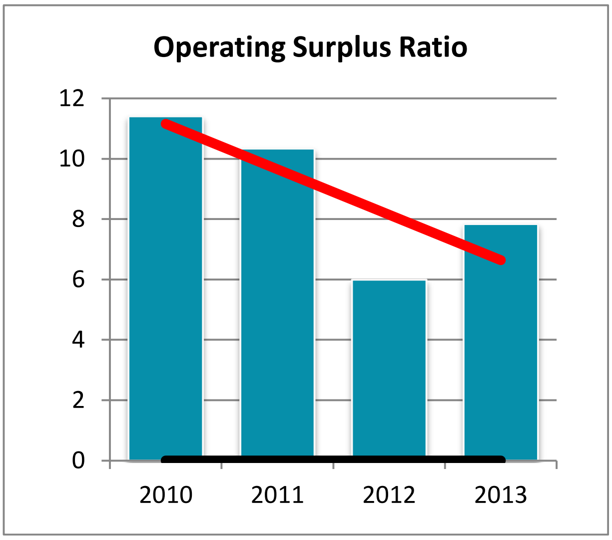
These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

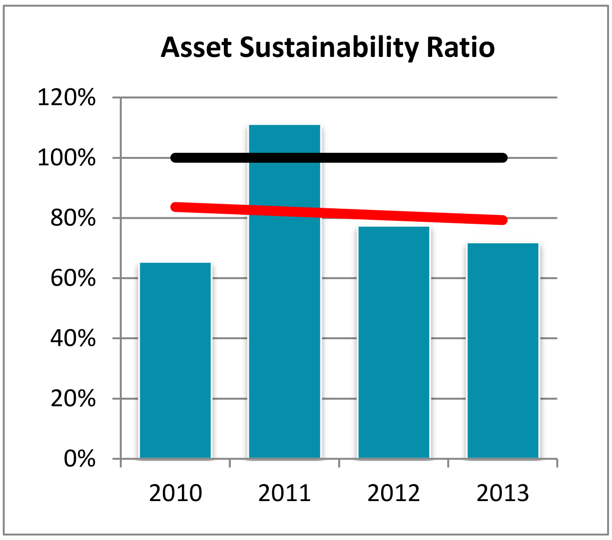
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded positive Operating surplus ratios over the four year period under review. Overall, Council's average ratio was 8.82, which is well above our benchmark indicating it generated sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

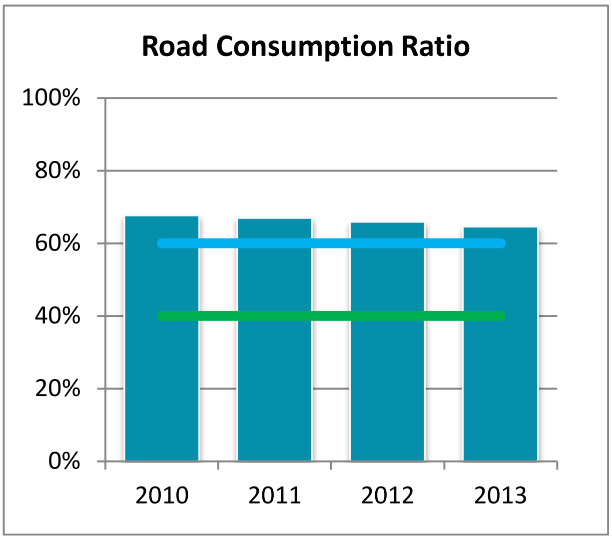


Asset sustainability ratios were below benchmark in three of the four years under review, with an average ratio of 81%. This indicates, subject to levels of maintenance expenditure and the long-term asset management plan, Council had not maintained its investment in existing assets.

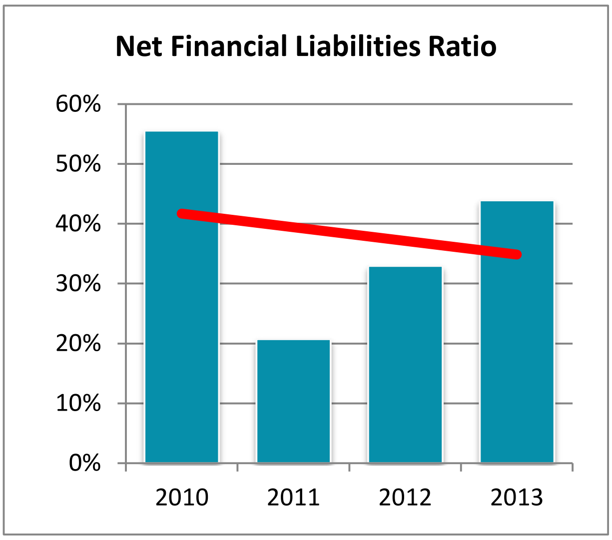
Asset Renewal Funding Ratio

Council's current long-term asset management and financial management plan forecasts planned and required renewal expenditure to 2031-32 and cover transport infrastructure, stormwater drainage and building and property assets.

Council's long-term asset management plan indicated that, based on planned asset replacement expenditure, its Asset renewal funding ratio was 83% at 30 June 2013 (2012, 85%). The ratio was slightly below our benchmark of between 90% and 100%. Council were aware of the funding shortfall and continued to review the long-term plan.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 35% of the service potential of its road assets. This was above the blue benchmark line which indicated Council had sufficient capacity to continue to provide services to its ratepayers.



Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of current and non-current liabilities in each year under review. These positive ratios indicated a strong liquidity position, with Council able to meet future commitments.

It is noted, that Council had contractual commitments totalling $2.803m (2011-12, $2.330m) which were not recognised on the Statement of Financial Position nor weree they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which had yet to be applied to the purpose for which they were provided, totalling $1.238m ($1.243m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it did not have an audit committee or internal audit function. Council has a Finance and Economic Development Unit, which in some respects, operates like an audit committee. This Unit included councillors and staff and oversees Council's annual financial statements. The inclusion of external members or establishing an active internal audit function would enhance Council's governance arrangements.

Council has long-term asset and financial management plans. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council. These plans have not been subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's Underlying Surplus was above benchmark for all four years under review.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, it had not been adequately investing in existing assets. However, Council's Road asset consumption ratio indicated it had sufficient capacity to service its ratepayers. Asset renewal funding ratio was slightly below our benchmark and indicated a funding gap between planned and required future asset replacement expenditure.

Council's Net financial liabilities ratio was positive, indicating liquidity was strong.

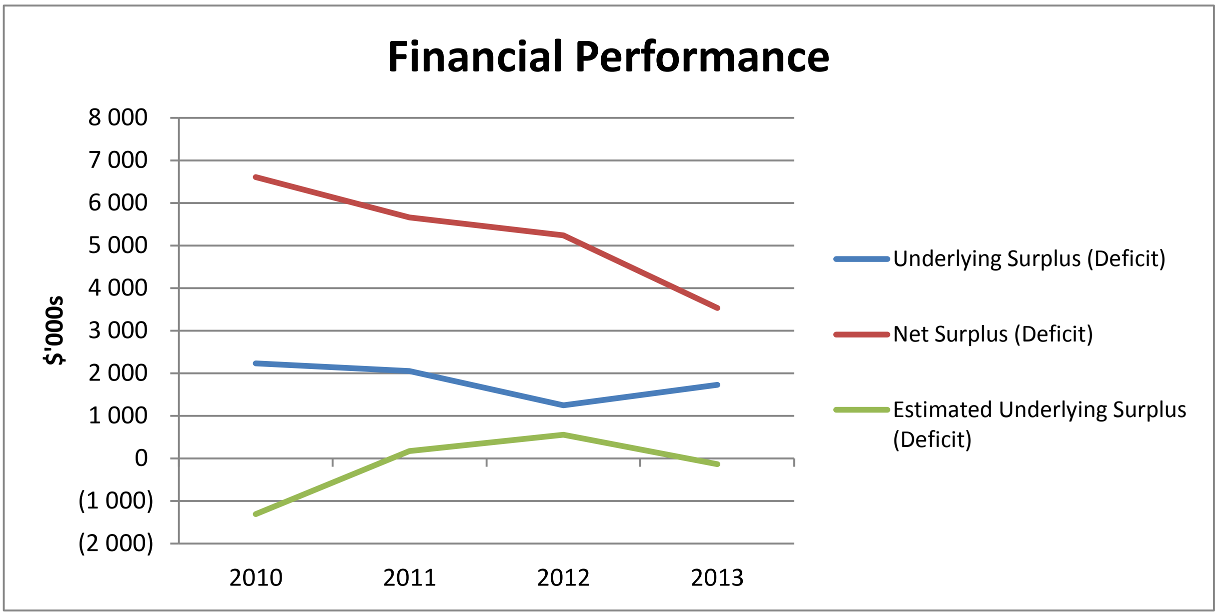
Council did not have an audit committee or internal audit function, but has a Finance and Economic Development Unit. However, Council did have long-term financial management and asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at a moderate sustainability risk from a governance and asset management perspective, but low sustainability risk from financial operating and net financial liabilities perspectives.

Council's Comments on this Assessment of its Financial Sustainability

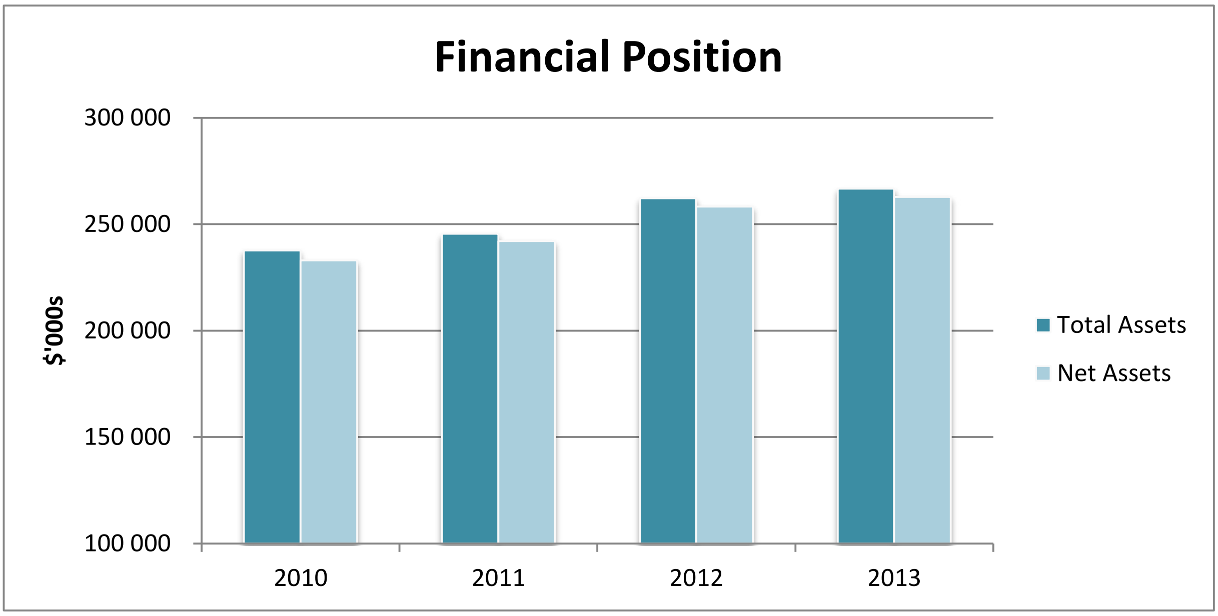
Council was offered the opportunity to comment and it advised that it did not have any comment to make.

FINANCIAL ANALYSIS



Council has recorded Underlying Surpluses in all four years under review. The surpluses consistently exceeded budgeted results.

Council produced an Underlying Surplus of $1.732m in 2012-13, an improvement of $0.485m from a surplus of $1.247m in 2011-12. This improvement was predominantly due to higher Rates $0.796m, increased returns from Ben Lomond Water, $0.282m, offset by increased employee expenses $0.264m, and Depreciation, $0.249m.



Council's Total Assets and Net Assets increased over the period. Net Assets increased by $29.818m, or 12.8%, primarily due to an increase in the value of infrastructure assets, Council's Investment in Ben Lomond Water and surpluses generated as a result of Capital grants and contributed assets.

Council's financial position improved as at 30 June 2013, with Net Assets increasing by 1.7% or $4.457m to $262.865m. The increase was attributable to a Net Surplus of $3.534m, Council's Investment in Ben Lomond Water $1.184m, offset by net asset revaluation decrements of $0.261m, primarily attributable to a write-down of buildings assets as a result of a full revaluation, undertaken by external valuers.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	14 036	14 223	13 427	12 538
Fees and charges	2 126	2 406	2 218	1 990
Grants**	1 218	2 434	2 473	2 605
Interest revenue	525	585	585	615
Other revenue	2 207	2 430	2 080	2 059
Total Revenue	**20 112**	**22 078**	**20 783**	**19 807**
Employee costs	6 900	7 122	6 858	6 276
Depreciation	5 467	5 322	5 073	4 610
Other expenses	7 882	7 902	7 605	6 871
Total Expenses	**20 249**	**20 346**	**19 536**	**17 757**
Underlying Surplus (Deficit)	**(137)**	**1 732**	**1 247**	**2 050**
Capital grants	350	363	374	861
Financial assistance grant received in advance**	0	1 251	1 243	656
Offset Financial assistance grant in advance**	0	(1 243)	(656)	(662)
Contributions of non-current assets	0	1 431	3 031	2 755
Net Surplus (Deficit)	**213**	**3 534**	**5 239**	**5 660**
Other Comprehensive Income				
Fair value revaluation of non-current assets - Council	0	(261)	10 707	1 740
Fair value adjustment arising from change in allocation order	0	0	0	975
Current year fair value adjustment Ben Lomond Water	0	1 184	367	673
Total Comprehensive Income (Expense)	**0**	**923**	**11 074**	**3 388**
Comprehensive Surplus (Deficit)	**213**	**4 457**	**16 313**	**9 048**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	12 640	10 009	7 044	14 989
Receivables	943	729	593	642
Inventories	251	263	221	207
Other	285	154	170	528
Total Current Assets	**14 119**	**11 155**	**8 028**	**16 366**
Payables	1 288	1 280	933	2 027
Interest bearing liabilities	194	220	261	287
Provisions – employee benefits	1 866	1 678	1 460	1 362
Other	55	95	70	47
Total Current Liabilities	**3 403**	**3 273**	**2 724**	**3 723**
Net Working Capital	**10 716**	**7 882**	**5 304**	**12 643**
Property, plant and equipment	189 318	189 018	175 827	161 474
Investment in Ben Lomond Water	63 175	61 993	61 626	59 978
Other	143	134	149	2
Total Non-Current Assets	**252 636**	**251 145**	**237 602**	**221 454**
Interest bearing liabilities	227	420	641	827
Provisions – employee benefits	242	185	159	209
Other	18	14	11	14
Total Non-Current Liabilities	**487**	**619**	**811**	**1 050**
Net Assets	**262 865**	**258 408**	**242 095**	**233 047**
Reserves	101 214	100 291	89 218	89 180
Accumulated surpluses	161 651	158 117	152 877	143 867
Total Equity	**262 865**	**258 408**	**242 095**	**233 047**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	17 650	16 886	16 901	15 705
Cash flows from Government	2 443	3 063	2 638	2 769
Payments to suppliers and employees	(15 870)	(14 891)	(15 987)	(13 174)
Interest received	581	572	709	660
Finance costs	(35)	(49)	(66)	(85)
Cash from (used in) Operations	**4 769**	**5 581**	**4 195**	**5 875**
Capital grants and contributions	363	374	861	2 261
Dividends received - Esk Water	0	0	0	184
Distributions received - Ben Lomond Water	2 130	1 829	1 765	1 918
Payments for property, plant and equipment	(4 731)	(4 875)	(14 842)	(10 450)
Proceeds from sale of property, plant and equipment	320	305	447	177
Loans repaid by debtors	0	12	6	8
Loan receivable advances	0	0	(165)	0
Cash from (used in) Investing Activities	**(1 918)**	**(2 355)**	**(11 928)**	**(5 902)**
Proceeds from interest bearing liabilities	0	0	100	0
Repayment of interst bearing liabilities	(220)	(261)	(312)	(311)
Cash From (used in) Financing Activities	**(220)**	**(261)**	**(212)**	**(311)**
Net Increase (Decrease) in Cash	**2 631**	**2 965**	**(7 945)**	**(338)**
Cash at the beginning of the year	10 009	7 044	14 989	15 327
Cash at End of the Year	**12 640**	**10 009**	**7 044**	**14 989**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		1 732	1 247	2 050	2 230
Operating surplus ratio*, **	>0	7.84	6.00	10.35	11.42
Asset Management					
Asset sustainability ratio*	100%	72%	77%	111%	65%
Asset renewal funding ratio*, ***	90% - 100%	83%	85%	78%	N/A
Roads consumption ratio*	>60%	64.6%	65.9%	67.0%	67.6%
Asset investment ratio	>100%	89%	96%	322%	216%
Liquidity					
Net financial assets (liabilities) ($'000s)		9 693	6 846	4 102	10 858
Net financial liabilities ratio*, ****	0% - (50%)	43.9%	32.9%	20.7%	55.6%
Operational Efficiency					
Liquidity ratio	2:1	8.84	6.73	6.04	6.65
Current ratio	1:1	4.15	3.41	2.95	4.40
Interest Coverage	3:1	135.26	112.90	62.56	68.12
Self financing ratio		21.6%	26.9%	21.2%	30.1%
Own source revenue		89.0%	88.1%	86.8%	85.8%
Debt collection	30 days	21	17	15	17
Creditor turnover	30 days	37	37	11	38
Rates per capita ($)		622	589	558	526
Rates to operating revenue		64.4%	64.6%	63.3%	59.8%
Rates per rateable property ($)		1 279	1 227	1 159	1 082
Operating cost to rateable property ($)		1 830	1 785	1 641	1 603
Employee costs expensed ($'000s)		7 122	6 858	6 276	5 967
Employee costs capitalised ($'000s)		196	248	240	175
Total employee costs ($'000s)		7 318	7 106	6 516	6 142
Employee costs as a % of operating expenses		35%	35%	35%	34%
Average staff numbers (FTEs)		92	91	92	89
Average staff costs ($'000s)		80	78	71	69
Average leave balance per FTE ($'000s)		23	20	18	18

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

BREAK O' DAY COUNCIL

SNAPSHOT

- Council reported an Underlying Deficit of $1.524m. This was an improvement on the Underlying Deficit in 2011-12 of $3.224m following the effect of significant natural disasters.
- Council has both estimated and recorded Underlying Deficits in each of the past four years.
- Its comprehensive result was a surplus of $6.294m, predominantly due to asset revaluation increments, $5.976m and Capital grants of $1.033m.
- Net Assets as at 30 June 2013 totalled $149.713m, with a higher cash balance due to infrastructure spending being financed via new borrowings and higher property asset values due to the revaluation.

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

We noted deficiencies in Council's identification and asset record management. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Key developments in the year included planning activities in relation to the Long-term Financial Management Plan, Municipal Management Plan and infrastructure works.

Major variations between the 2012-13 and 2011-12 financial years included:

- a reduction in grants of $3.427m, as a result of 2011-12 including significant one-off amounts relating to flood compensation claims
- substantial decrease in materials and services expense 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 the operation of waste transfer stations
- Borrowings taken out during the year of $1.300m to finance major infrastructure works.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
A revaluation of Council land and buildings was undertaken during the 2013 year using an independent valuer.	We tested the revaluation information in Council's asset register to the independent valuation and ensured the basis of valuation was reasonable.
Council applied a revaluation index to road, bridges and stormwater infrastructure assets to maintain the currency of valuations between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013. An unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Key developments in the year included:

- Council adopted its Long Term Management Plan 2012-13 to 2022-23, with the purpose of guiding Council to a more sustainable position. The plan aims at Council building on its asset sustainability achievements in 2013-14 and to achieve a positive operating surplus position by 2018-19
- Council undertook some major planning activities in relation to its strategic focus and future priorities in its Municipal Management Plan
- ongoing infrastructure works, particularly in relation to Council's bridge replacement program. There was a significant amount of works in progress at year end in relation to the Digital Hubs project, drainage and road upgrade works.

KEY FINDINGS

During the audit there were two audit findings of a moderate risk nature, they were:

- the survey undertaken in 2011, on which the current roads assets valuation is based, included some roads which were not Council assets
- during a review of land assets, a number of Council owned land assets were identified which were not previously recorded on the asset register.

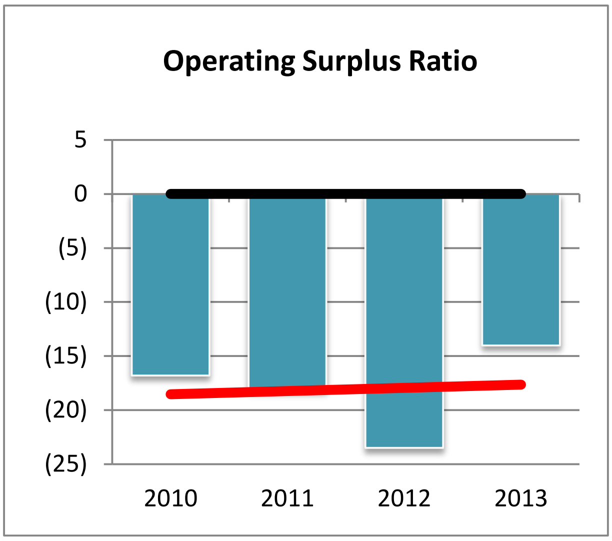
These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

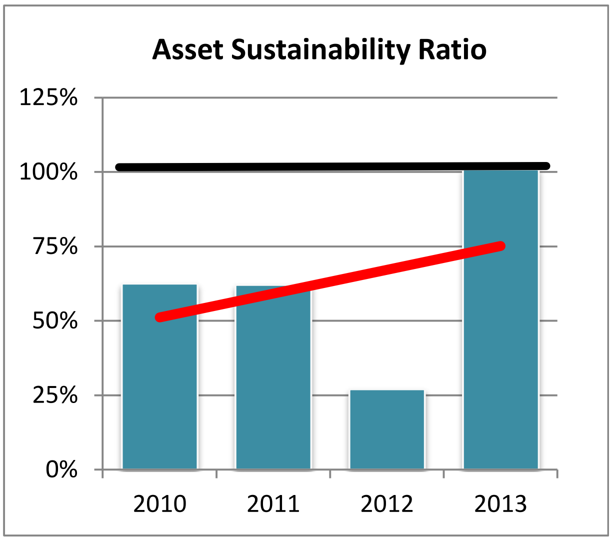
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded operating deficits in each of the past four years. Negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

The higher deficit in 2012 was predominantly due to an increase in materials and services costs and contract payments, in the main associated with the remediation of flood damage.



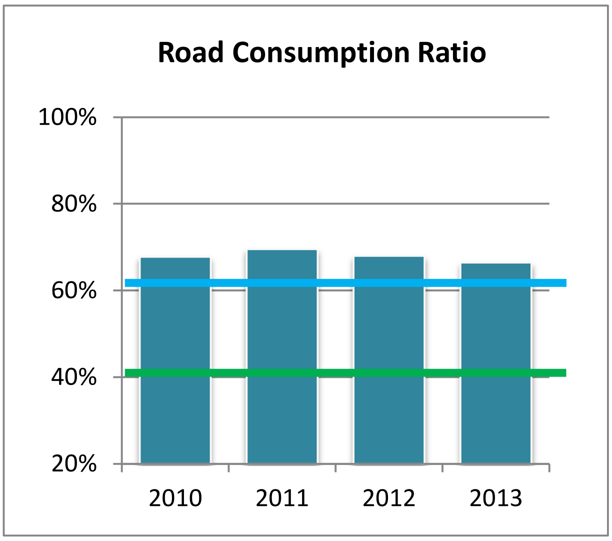
The Asset sustainability ratio reached the 100% benchmark in 2013, after being significantly below in each of the previous three years under review. This was assisted by Council's decision to utilise borrowings to improve sustainability as part of its long-term financial plan.

Over the period, Council's average ratio was 63%, indicating, subject to adequate levels of maintenance expenditure, Council has under-invested in existing assets.

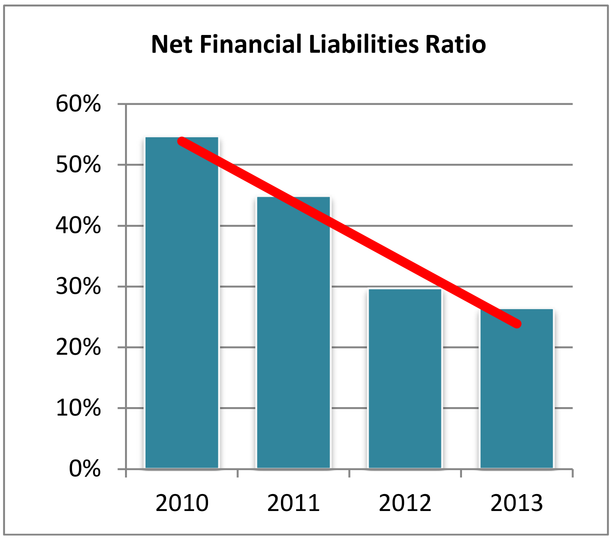
The 2012 result was adversely impacted by the major flood events experienced in the municipality during that year which absorbed much of Council's resources in emergency remediation work that would otherwise have been put into capital works.

Asset Renewal Funding Ratio

Council is yet to complete its long-term asset plans, and therefore we were unable to compute an Asset renewal funding ratio.



The graph above indicates that at 30 June 2013, Council had used (consumed) approximately 34% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period being 68%, indicating a low financial sustainability risk in relation to road assets. Overall, at this point in time, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded positive Net financial liabilities ratios in all years under review which means that its financial assets exceeded its total liabilities each year. This indicated that Council was in a strong liquidity position and able to meet existing commitments with a capacity to borrow further should the need arise.

Council's Total Liabilities consisted of Payables, provisions, trust funds and deposits and interest-bearing loans and Borrowing. It had been debt free since 2010, until the decision was taken to utilise its borrowing capacity during the current year with a $1.300m loan taken out to fund infrastructure works.

Council had contractual commitments of $2.756m (2011-12, $3.465m), which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $0.802m ($0.239m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $0.614m, 11.3% of the total cash and financial assets balance.

Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of governance arrangements indicated that Council:

- did not have an audit committee at 30 June 2013
- was nearing completion of its long-term asset management plan.

Conclusion as to Financial Sustainability

Taken together these ratios indicate a gradual improvement when considering Council's financial sustainability. From a financial operating perspective, Council's Operating surplus ratio was below benchmark for all four years under review indicating it did not generate sufficient revenue to meet operating requirements. Council's improved ratio in 2013 compared to the previous three years, indicated actions taken in 2012 to restructure Council's cost base had a positive impact. In addition, Council's liquidity was strong, and it generated positive operating cash flows indicating it was in a sound position to meet its short-term commitments. It took a strategic decision during 2013 to borrow to invest in infrastructure and should have a capacity to borrow further should the need arise.

Council's Asset sustainability ratio indicated, based on our 100% benchmark, that the previous years' under-investment in existing assets over the period of the analysis was reversed in 2013, albeit with the assistance of Borrowings. Furthermore, Council's Road consumption ratio shows low risk, indicating that its road assets continued to provide service capacity to its ratepayers.

Council's governance arrangements had improved with the adoption of its long-term financial management plan. It is nearing completion of its long-term asset management plan and did not have an audit committee. Council needs to continue to focus on these governance aspects.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at high financial sustainability risk from a financial operating and governance perspective, moderate risk from an asset management perspective and low risk from a financial liability perspective.

Council's Comments on this Assessment of its Net Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

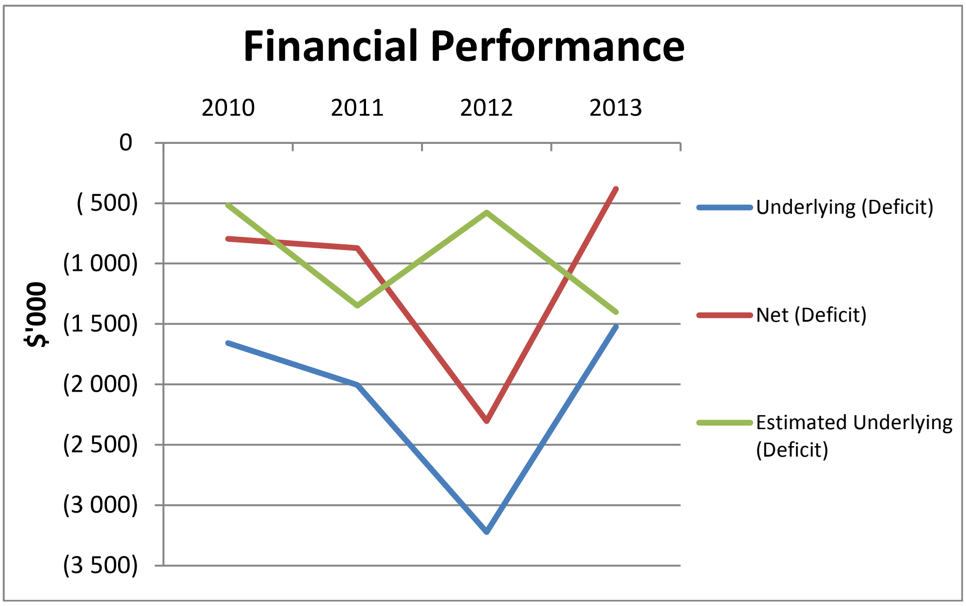
Council generally agrees with the report and comments identified by the Tasmanian Audit Office. Council notes the cooperative approach undertaken by the Office and its contracted auditors in terms of planning and implementation of audit and communication throughout.

However, Council does not agree with the conclusions with respect to Break O'Day's financial sustainability:

- Council does not believe that the lack of an Audit Committee/Panel and incomplete asset management plans translates to a high risk from a governance perspective. Council considered appointing an audit committee, including: cost/benefit, availability of appropriately skilled independent committee members and the fact that Council as a whole considers financial and other risk information monthly, and reviews budgets quarterly. Council determined that Audit Committee was not warranted for a Council in our particular circumstance and while Council understands the benefits attributable to independent reviews of finance and risk, does not agree that this so significantly inflates financial risk.

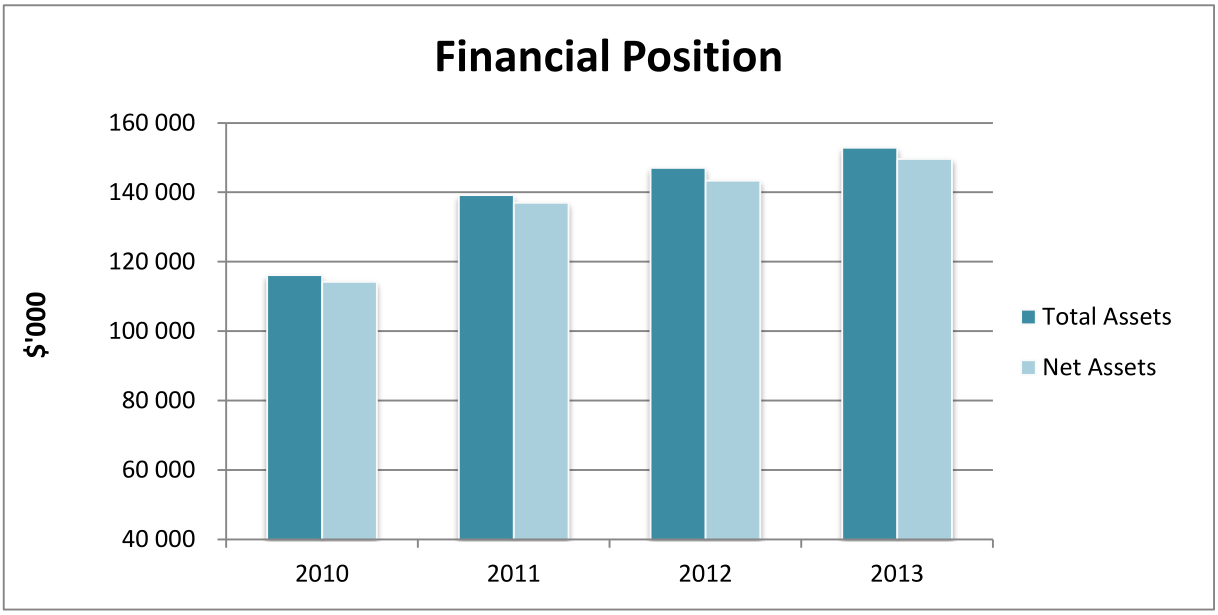
- Council has adopted and implemented a Long-Term Financial Plan and is implementing elements of its asset management plans. Council understands the risks associated with information gaps arising from using depreciation as a proxy for Asset Management Plan information in Long-Term Financial Planning. However, for a Council of our size and circumstance, considering the level of Bridge, Road and Building information available, Council does not agree that the gaps in Asset Management Planning add so substantially to the level of financial risk and therefore, again, believes that the conclusions drawn from the report, in this regard, is overstated.
- Council notes the trends in the reported financial ratios. Council further notes the adoption of the Long-Term Financial Plan and the planned use of debt to fund the 'catching up' of asset replacement, particularly bridges in the early years of the plan. Council believes, that, if the anomalous periods of the multiple natural disaster events are taken into account, and the flow-on of Council's actions in addressing operational costs through restructuring activities, Council is clearly trending towards a financial sustainable position. Again, Council therefore believes that the high financial sustainability risk is also overstated, not only from a governance perspective but also from an operating perspective.

FINANCIAL ANALYSIS



Council made an Underlying Deficit in all four years under review. This combined with consistent Estimated Underlying Deficits, indicated that it may not be generating sufficient revenue to meet operating requirements. Council significantly improved its Underlying Deficit from $3.224m in 2011-12 to $1.524m this year. The improvement was driven by lower Employee costs and a 4.69% increase in Rates. It reported a Net Deficit of $0.383m after accounting for Capital grants, which was slightly above budget.

Over the four year period of review, the Underlying result fluctuated significantly. This was most notable in 2011-12, due to several one-off items relating to flood emergency remediation works and employee redundancies.



Council's Total Assets and Net Assets increased steadily over the period under review by $5.806m and $6.294m respectively. This was mainly attributed to higher values relating to infrastructure assets and Council's Investment in Ben Lomond Water, partly offset by lower cash and higher Borrowings.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	6 909	6 882	6 604	6 162
Fees and charges	788	666	695	724
Grants**	1 733	2 619	5 529	3 576
Interest revenue	273	325	369	318
Other revenue	465	390	527	310
Total Revenue	**10 168**	**10 882**	**13 724**	**11 090**
Employee costs	3 877	3 614	4 599	4 468
Depreciation	2 855	3 361	3 370	3 257
Finance costs	36	28	4	4
Other expenses	4 801	5 403	8 975	5 365
Total Expenses	**11 569**	**12 406**	**16 948**	**13 094**
Underlying Surplus (Deficit)	**(1 401)**	**(1 524)**	**(3 224)**	**(2 004)**
Capital grants	982	1 033	294	1 123
Financial assistance grant received in advance**	0	1 324	1 216	591
Offset Financial assistance grant in advance**	0	(1 216)	(591)	(583)
Net Surplus (Deficit)	**(419)**	**(383)**	**(2 305)**	**(873)**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	5 976	8 460	13 528
Fair value adjustment arising from change in allocation order	0	0	0	9 752
Current year fair value adjustment Ben Lomond Water	0	701	217	398
Total Comprehensive Income Items	**0**	**6 677**	**8 677**	**23 678**
Total Comprehensive Surplus (Deficit)	**(419)**	**6 294**	**6 372**	**22 805**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	5 416	4 460	5 570	6 877
Receivables	654	3 298	1 569	465
Inventories	110	48	77	36
Other	34	314	70	111
Total Current Assets	**6 214**	**8 120**	**7 286**	**7 489**
Payables	1 153	2 834	878	638
Borrowings	38	0	0	0
Provisions – employee benefits	509	488	654	649
Other	107	222	414	442
Total Current Liabilities	**1 807**	**3 544**	**1 946**	**1 729**
Net Working Capital	**4 407**	**4 576**	**5 340**	**5 760**
Property, plant and equipment	109 298	102 287	95 443	82 337
Investment in Ben Lomond Water	37 400	36 699	36 482	26 331
Other	0	0	0	24
Total Non-Current Assets	**146 698**	**138 986**	**131 925**	**108 692**
Borrowings	1 262	0	0	0
Provisions – employee benefits	46	63	138	134
Provisions – rehabilitation	84	80	80	76
Total Non-Current Liabilities	**1 392**	**143**	**218**	**210**
Net Assets	**149 713**	**143 419**	**137 047**	**114 242**
Reserves	133 649	126 757	118 093	103 901
Accumulated surpluses	16 064	16 662	18 954	10 341
Total Equity	**149 713**	**143 419**	**137 047**	**114 242**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 427	7 605	6 975	7 226
Cash flows from Government	5 276	5 231	2 950	2 901
Payments to suppliers and employees	(11 246)	(12 750)	(10 017)	(9 045)
Interest received	304	369	433	357
Cash from Operations	**2 761**	**455**	**341**	**1 439**
Capital grants and contributions	1 328	30	1 068	878
Dividends - Ben Lomond Water	4	133	122	1
Payments for property, plant and equipment	(4 474)	(1 733)	(3 015)	(3 274)
Proceeds from sale of property, plant and equipment	37	5	177	391
Cash from (used in) Investing Activities	**(3 105)**	**(1 565)**	**(1 648)**	**(2 004)**
Proceeds from borrowings	1 300	0	0	0
Contribution Ben Lomond Water to repay debt	0	0	0	716
Repayment of borrowings	0	0	0	(716)
Cash from (used in) Financing Activities	**1 300**	**0**	**0**	**0**
Net (Decrease) Increase in Cash	**956**	**(1 110)**	**(1 307)**	**(565)**
Cash at the beginning of the year	4 460	5 570	6 877	7 559
Less cash transferred to Ben Lomond Water	0	0	0	(117)
Cash at End of the Year	**5 416**	**4 460**	**5 570**	**6 877**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(1 524)	(3 224)	(2 004)	(1 659)
Operating surplus ratio*, ****	>1.0	(14)	(23)	(18)	(17)
Asset Management					
Asset sustainability ratio*	>100%	101%	27%	62%	63%
Asset renewal funding ratio*, **	90% - 100%	N/A	N/A	N/A	N/A
Road asset consumption ratio*	>60	66.5%	68.0%	69.6%	67.8%
Building consumption ratio		100.0%	97.7%	100.0%	84.6%
Bridges consumption ratio		51.5%	51.5%	50.4%	49.7%
Drainage consumption ratio		63.3%	61.8%	50.5%	52.1%
Total asset consumption ratio*		54.6%	60.9%	61.6%	58.8%
Liquidity					
Net financial assets (liabilities) ($'000s)		2 871	4 071	4 975	5 403
Net financial liabilities ratio*, ***	0% - (50%)	26.4%	29.7%	44.9%	54.7%
Operational Efficiency					
Liquidity ratio	2:1	4.68	2.54	5.53	6.80
Current ratio	1:1	3.44	2.29	3.74	4.33
Interest coverage		100.16	-	-	-
Asset investment ratio	>100%	133%	51%	93%	104%
Self financing ratio		25.4%	3.3%	3.1%	14.6%
Own source revenue		75.9%	59.7%	67.8%	73.2%
Debt collection	30 days	32	25	31	26
Creditor turnover	30 days	47	33	35	29
Rates per capita ($)		1,056	1,014	946	915
Rates to operating revenue		63.2%	48.1%	55.6%	59.3%
Rates per rateable property ($)		1 084	1 041	986	946
Operating cost to rateable property ($)		1 955	2 672	2 095	1 862
Employee costs expensed ($'000s)		3 614	4 599	4 468	4 037
Employee costs capitalised ($'000s)		170	159	172	339
Total employee costs ($'000s)		3 784	4 758	4 640	4 376
Employee costs as a % of operating expenses		29%	27%	34%	35%
Staff numbers (FTEs)		52	51	61	61
Average staff costs ($'000s)		73	93	76	72
Average leave balance per FTE ($'000s)		11	11	13	11

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

***** This ratio is also called the Underlying result ratio.*

CENTRAL HIGHLANDS COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $1.386m in 2012-13, an improvement on the prior period but worse than budget.
- It incurred underlying deficits in each of the four years under review with the average deficit being $2.035m per annum.
- Despite this, cash generated from operations remained positive with $1.670m generated this year.
- Council recorded a Net Deficit of $0.700m.
- Net Assets totalled $141.832m at 30 June 2013, an increase of $1.876m from the prior year.

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

Audit findings included the need for Council to address matters associated with calculation of rates revenue, authorisation of payments, and review procedures over bank reconciliations. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Key developments in the year consist of rates remodelling to ensure compliance with the amended *Local Government Act 1993* (the Act) and approval of a long-term asset management plan and a long-term financial plan.

There were no major variations in financial performance or position between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to road and bridges to maintain the currency of valuations between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013, and an unqualified audit report was issued on 15 September 2013.

KEY DEVELOPMENTS

Rates Remodelling

The Act set requirements relating to fixed rates charges, which cannot exceed an amount equal to 50% of a council's general rates for a year. To ensure compliance with the Act, Council remodelled its rates charges in 2012-13. This resulted in Council making a general rate comprising 2.868479 cents (2011-12, 4.237128 cents) in the dollar on Assessed Annual Values, with a fixed charge of $313.39 on all rateable land. This differed from the minimum general rate of $340.00 in 2011-12. Rates revenue increased by $0.172m, or 6%, compared to 2011-12.

Long-Term Financial Plan and Long-Term Asset Management Plan

Council's audit committee approved its long-term financial plan and long-term asset management plan for roads and bridges on 10 January 2013.

KEY FINDINGS

During the audit, a number of moderate risk audit findings were identified and reported to management. These related to:

- the calculation of rates revenue, which included the original Valuer-General report for rates raised for the 2012-13 financial year, could not be located
- PropertyWise rates information was not reconciled monthly to the Navision system
- outstanding rates debtors were not reviewed on a monthly basis by an independent person
- the authorisation of payments in accordance with Council policy
- the review process for bank reconciliations.

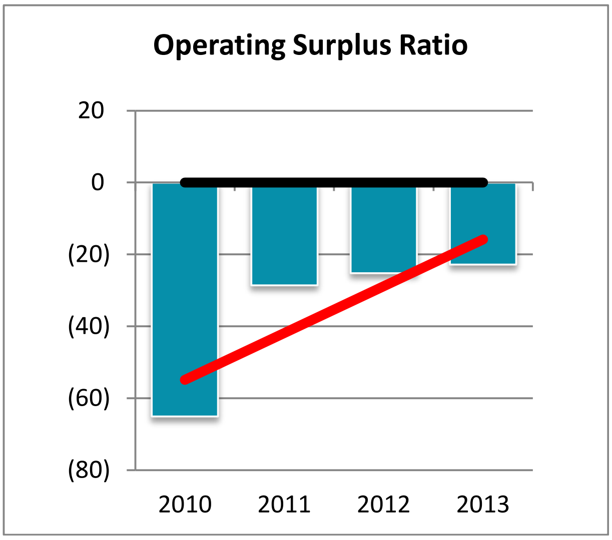
These matters are being addressed by management.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

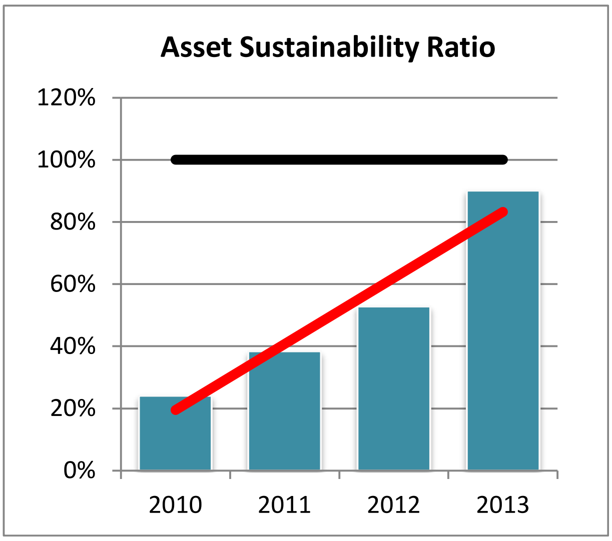
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Underlying Surplus ratio reflects Underlying Deficits in all four years under review. The results for the past three years have seen an improvement in the trend line and significant improvement on the negative ratio noted in 2010. The negative ratio noted in that year was impacted by higher Depreciation charges before the change in accounting estimate relating to changing the residual value for unsealed roads from nil to 50%.

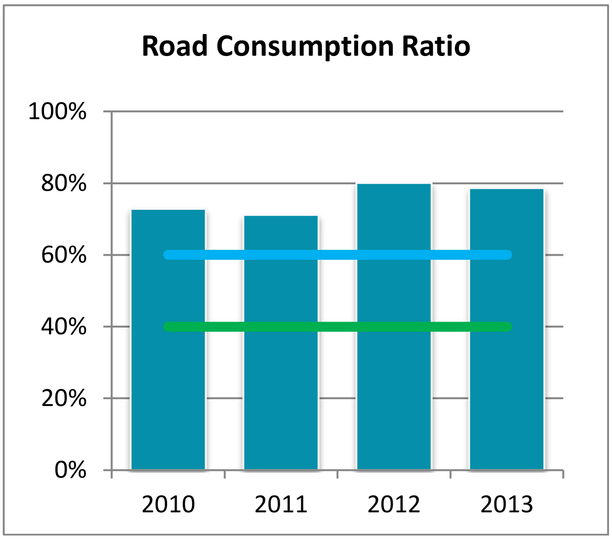
The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including Depreciation charges. It is our view that, to assure long-term financial sustainability, Councils should, as a minimum, operate on a break-even basis.



The Asset sustainability ratio was below the benchmark of 100% in all four years under review, although the trend line has risen each year, with the current year ratio being 90%. However, the average ratio of 51% over the four year period indicated that Council was, subject to levels of maintenance expenditure, under-investing in existing assets.

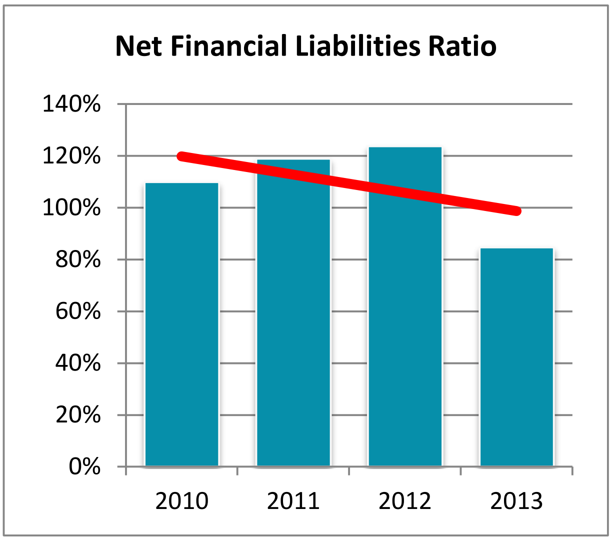
Asset Renewal Funding Ratio

Council's long-term asset and financial management plans indicated the Asset renewal funding ratio was 182%, much higher than our benchmark 90%-100%, at 30 June 2013 for roads and bridges. This is based on planned asset replacement expenditure and asset replacement expenditure actually required. This ratio indicated Council's funding levels were sufficient to continue to provide existing service in the next ten years. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 20% of the service potential of its road infrastructure assets. This was reasonably consistent over the four year period and indicated low financial sustainability risk. Roads are Council's most significant asset.

When read together the Road consumption and Asset sustainability ratios provided differing conclusions. In the past low levels of road asset consumption led to a low investment although investments in road infrastructure over the past four years did increase. Council's long-term assets management plan indicated that Council was increasing investment in existing road assets.



Council recorded a positive Net financial liabilities position with liquid assets well in excess of current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, and an ability to meet its existing obligations. Council's Total Liabilities mainly consisted of Payables and Employee provisions.

Council had contractual commitments of $0.929m (2011-12, $0.475m), which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $0.172m ($0.209m).

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $0.680m, 11.1% of the total Cash and cash equivalents balance.

Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it has an audit committee. In 2012-13, an external consultant with accounting experience was engaged to:

- assist the audit committee as it related to Council's financial sustainability
- provide accounting software training
- supported the audit committee in recommending the financial statements to the General Manager for certification.

In 2012-13, Council approved and implemented long-term financial and asset management plans.

Council's governance arrangements had improved. However, these could be strengthened if its audit committee was supported by an internal audit function.

Conclusion as to Financial Sustainability

Council incurred operating deficits at high levels in each of the past four years indicating high financial sustainability risk.

However, its Net financial liabilities ratio was strong, due to its large cash and investment balances and no borrowings. Council had the capacity to service debt and could borrow should the need arise.

Council's Asset sustainability ratio was below benchmark. However, this ratio improved over the past four years as investments in infrastructure grew. Its Road asset consumption ratio remained in the low risk range and its long-term asset management plan indicated that Council had sufficient funding to adequately invest in its infrastructure.

Council had an audit committee in place and implemented long-term asset management and financial plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at high financial sustainability risk from a financial operating perspective, moderate risk from governance and asset management perspectives and low risk from a financial liabilities perspective.

Council's Comments on this Assessment of its Net Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council's Road consumption ratio has been between 71% and 80% over the past four years which indicates a low risk rating (above 60% is low risk). This would indicate that Council's road assets are being maintained above an acceptable level and their physical condition supports this.

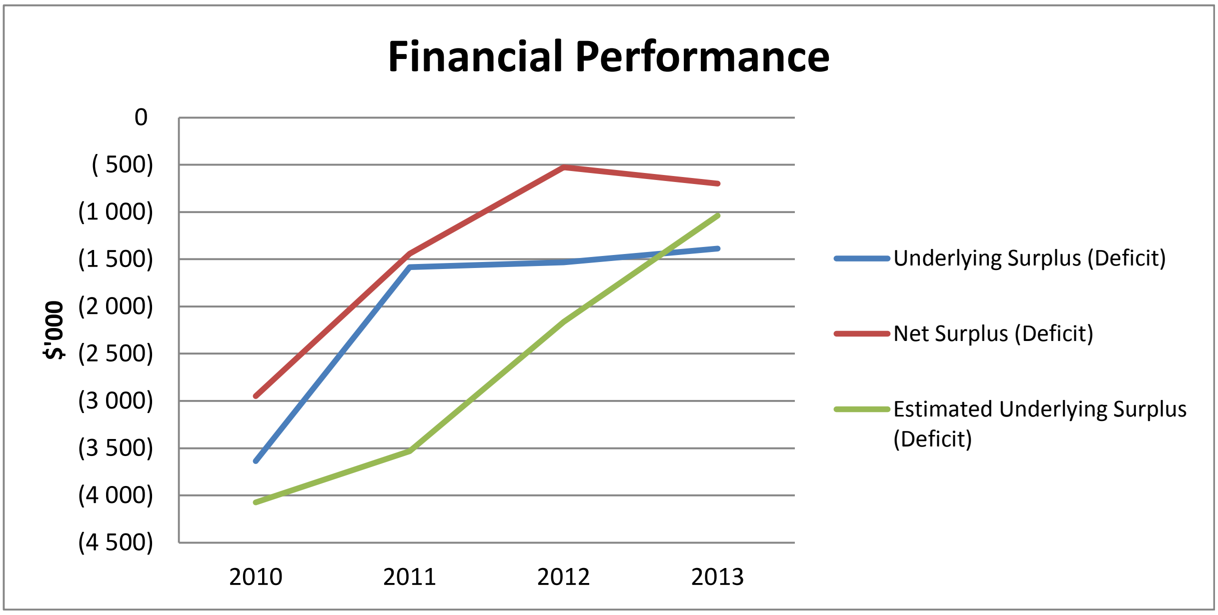
The Asset sustainability ratio indicates the opposite and indicates that council is under-investing in existing assets with roads being the most significant asset (84% of assets are roads). This ratio is influenced by the depreciation cost attributed to assets.

A review of council's road assets is currently underway and it indicates that there may be an anomaly in the value placed on the unsealed roads in the municipal area. The value appears to be substantially overstated which in turn overstates the depreciation cost. These findings are supported by the conflicting conclusions provided by the Road consumption and Asset sustainability ratios.

Depreciation costs contribute 39% of council's total expenses and any reduction in depreciation will have a noticeable effect on its net position and therefore its financial sustainability.

Based on existing ratios Council is at a high financial sustainability risk but we expect that the review of Council's road assets and the amount of depreciation attributed thereto will provide evidence to show that council is financially sustainable.

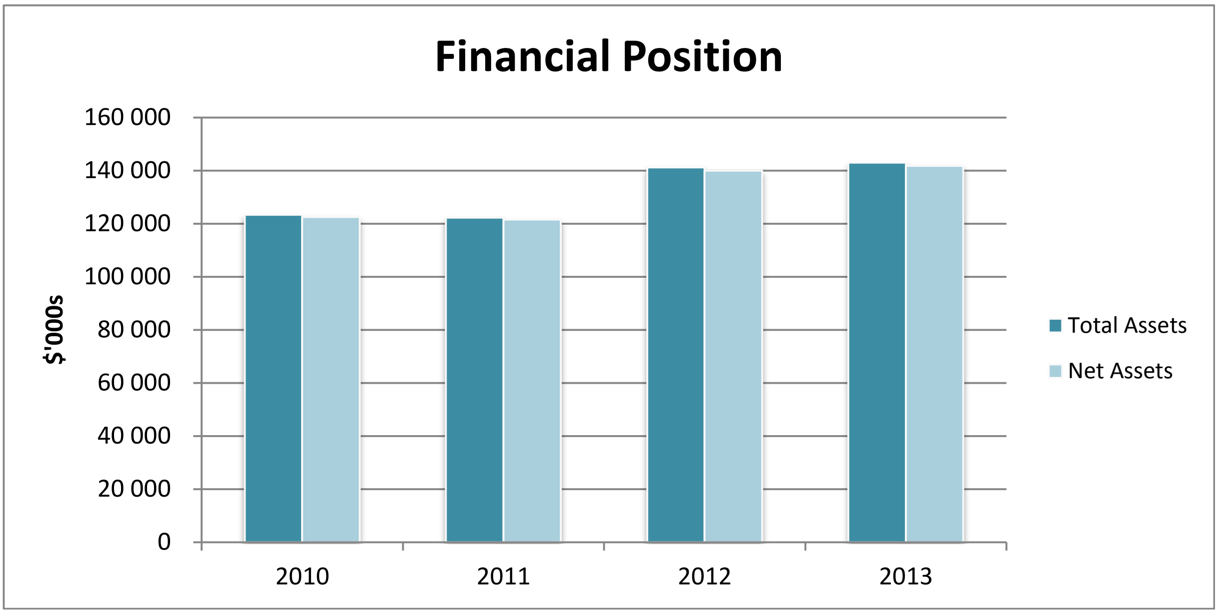
FINANCIAL ANALYSIS



While Council incurred Underlying Deficits and Net Deficits each year, it significantly improved its underlying result over the four years under review and budgeted to do so. In particular, the underlying result improved in 2010-11, by $2.056m from 2009-10, although this was largely due to the change in accounting estimate following the introduction of a residual value for unsealed roads from nil to 50%. This caused a reduction in Depreciation from $4.700m in 2009-10 to $2.916m in 2010-11.

Council reported an Underlying Deficit of $1.386m in 2012-13, a slight improvement of $0.148m from 2011-12, mainly due to a combination of higher rates revenue and lower material and services expenses.

Council's Underlying Deficit was consistently lower than its estimated Underlying Deficit for three out of four years under review. The major difference in 2010-11 was the change in Depreciation of unsealed roads already referred to, which was not budgeted for. In 2012-13, the actual Underlying Deficit was $0.349m higher than the budgeted amount, which was primarily due to less grant receipts received.



Council's Total Assets and Net Assets remained relatively consistent during the period under review, except for a major increase in 2012, which was the result of an asset revaluation.

Net Assets increased by $1.876m to $141.832m at 30 June 2013 due principally to an upward revaluation movement for road and bridges of $2.578m, Capital grants, $0.578m, offset by the Underlying Deficit of $1.378m.

Council has a number of functional activities that provide a broad level of services to its ratepayers. However, the majority of its funding and assets relate to works and infrastructure management. At 30 June 2013, infrastructure assets, mainly comprised of roads, bridges and stormwater and drainage assets, represented 90.19% of Property, plant and equipment, and 79.78% of Net Assets.

Cash and Financial assets totalled $8.005m, being the highest component of current assets at 96.4%.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	2 960	2 975	2 803	2 680
Fees and charges	259	249	258	339
Grants**	2 555	2 201	2 268	1 955
Interest revenue	323	309	392	319
Other revenue	387	356	379	251
Total Revenue	**6 484**	**6 090**	**6 100**	**5 544**
Employee costs	1 738	1 809	1 713	1 583
Depreciation	2 700	2 933	3 026	2 916
Other expenses	3 083	2 734	2 895	2 627
Total Expenses	**7 521**	**7 476**	**7 634**	**7 126**
Underlying Surplus (Deficit)	**(1 037)**	**(1 386)**	**(1 534)**	**(1 582)**
Capital grants	380	578	528	121
Financial assistance grant received in advance**	0	1 056	948	467
Offset financial assistance grant in advance**	0	(948)	(467)	(447)
Net Surplus (Deficit)	**(657)**	**(700)**	**(525)**	**(1 441)**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	2 578	18 932	378
Current year fair value adjustment Southern Water	0	(2)	20	53
Total Comprehensive Income Items	**0**	**2 576**	**18 952**	**431**
Comprehensive Surplus (Deficit)	**(657)**	**1 876**	**18 427**	**(1 010)**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*
The offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$’000s
Cash and cash equivalent	6 079	8 481	6 882	6 522
Financial assets	1 926	0	0	0
Receivables	235	266	453	402
Inventories	10	17	17	13
Other	49	74	102	103
Total Current Assets	**8 299**	**8 838**	**7 454**	**7 040**
Payables	515	549	195	242
Finance lease	13	20	0	0
Provisions – employee benefits	553	626	514	502
Total Current Liabilities	**1 081**	**1 195**	**709**	**744**
Net Working Capital	**7 218**	**7 643**	**6 745**	**6 296**
Property, plant and equipment	125 460	123 108	105 610	107 116
Investment in Southern Water	9 230	9 231	9 211	9 158
Total Non-Current Assets	**134 690**	**132 339**	**114 821**	**116 282**
Provisions – employee benefits	76	26	37	38
Total Non-Current Liabilities	**76**	**26**	**37**	**38**
Net Assets	**141 832**	**139 956**	**121 529**	**122 540**
Reserves	115 741	113 139	93 600	93 074
Accumulated surpluses	26 091	26 817	27 929	29 466
Total Equity	**141 832**	**139 956**	**121 529**	**122 540**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 971	4 055	3 577	4 477
Cash flows from Government	2 309	2 713	1 922	1 484
Payments to suppliers and employees	(4 920)	(4 489)	(4 576)	(4 701)
Interest and dividends received	310	369	320	222
Cash from (used in) Operations	**1 670**	**2 648**	**1 243**	**1 482**
Capital grants and contributions	572	527	121	410
Payments for property, plant and equipment	(2 786)	(1 642)	(1 124)	(1 625)
Proceeds from sale of property, plant and equipment	68	66	119	140
Cash from (used in) Investing Activities	**(2 146)**	**(1 049)**	**(884)**	**(1 075)**
Payment for financial assets	(1 926)	0	0	0
Cash from (used in) Financing Activities	**(1 926)**	**0**	**0**	**0**
Net Increase (Decrease) in Cash	**(2 402)**	**1 599**	**359**	**407**
Cash at the beginning of the year	8 481	6 882	6 523	6 116
Cash at End of the Year	**6 079**	**8 481**	**6 882**	**6 523**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(1 386)	(1 534)	(1 582)	(3 638)
Operating surplus ratio*, **	>0	(22.76)	(25.21)	(28.54)	(65.06)
Asset Management					
Asset sustainability ratio*	100%	90%	53%	38%	24%
Asset renewal funding ratio*	90% - 100%	182%	N/A	N/A	N/A
Road asset consumption ratio*	>60%	78.7%	80.1%	71.2%	72.9%
Asset investment ratio	>100%	95%	54%	39%	35%
Liquidity					
Net financial assets (liabilities) ($'000s)		5 157	7 526	6 589	6 142
Net financial liabilities ratio*, ***	0 - (50%)	84.7%	123.7%	118.8%	109.8%
Operational Efficiency					
Liquidity ratio	2:1	11.96	15.37	37.62	28.61
Current ratio	1:1	7.68	7.40	10.51	9.46
Interest coverage	3:1	0	0	0	0
Self financing ratio		27.4%	43.5%	22.4%	26.5%
Own source revenue		63.9%	62.7%	64.7%	66.1%
Debt collection	30 days	27	32	55	49
Creditor turnover	30 days	44	44	13	16
Rates per capita ($)		1 256	1 194	1 141	1 092
Rates to operating revenue		48.9%	46.1%	48.3%	45.3%
Rates per rateable property ($)		808	763	729	694
Operating cost to rateable property ($)		2 030	2 078	1 940	2 532
Employee costs expensed ($'000s)		1 809	1 713	1 583	1 536
Employee costs capitalised ($'000s)		109	115	94	7
Total employee costs ($'000s)		1 918	1 828	1 677	1 543
Employee costs as a % of operating expenses		24%	22%	22%	17%
Average staff numbers (FTEs)		34	29	28	27
Average staff costs ($'000s)		57	63	60	57
Average leave balance per FTE ($'000s)		19	23	20	20

** For commentary on these indicators refer to the Financial Results section of this chapter.*

*** This ratio is also called the underlying result ratio.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Central Highlands Council, liquid assets exceed total liabilities.

CIRCULAR HEAD COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.537m in 2012-13. Over the last four years, Council averaged an Underlying Deficit of $0.192m.
- Council budgeted for Underlying Deficits in the past three years.
- For 2012-13 Council achieved a Net Surplus of $4.185m and its Comprehensive Surplus was $9.012m.
- Net Assets as at 30 June 2013 were $156.803m.

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

We noted deficiencies in Council's IS systems, user access management and authorisation of disbursements. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactory with no other items outstanding.

Council is in discussion with the 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 collaterised debt obligations.

RESOURCE SHARING ARRANGEMENTS

Council entered into a resource sharing arrangement in December 2008 with Waratah-Wynyard Council to fund the services of a General Manager. The arrangement was expanded to include further shared employees as positions became available or opportunities were identified. At 30 June 2013 there were 15 (2012, 14) resource shared positions of which 7.1 full time equivalents were employed by Council and 7.9 employed by Waratah-Wynyard Council.

The resource sharing arrangement was entered into by Council with the aim of enabling continual improvement in areas such as asset management, risk and human resources which support Council's future strategic objectives, to ensure Council continues to attract and keep quality staff, provide succession planning and extend service provision that would not be viable on an individual council basis. The arrangement enables Council to better progress asset management planning, address business risks and improves human resource practices.

A Resource Sharing Committee comprising three councillors from each Council was established to identify opportunities to improve services and manage the resource sharing arrangements.

An outcome of these arrangements is that the two Councils have formed a Strategic Projects Office (SPO) that is tasked with the primary objectives of progressing outcomes of each Council's five year strategic plans and facilitating special projects. The SPO also investigates opportunities that may present themselves, that further the strategic intent of each Council or allow each Council to think outside the square and initiate a 'new way of doing things' for the community.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
A comprehensive survey of stormwater assets was performed by an independent surveyor. The survey found a number of assets were not recorded and assets that did not exist. In addition, Council undertook a revaluation of stormwater assets as at 1 July 2012.	We tested the results of the survey to information in Council's asset register. The qualifications, independence and competency of the valuer were reviewed. We tested asset replacement rates applied to the updated stormwater asset information and confirmed the appropriateness of the new rates with Council's engineering staff.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Resource Sharing Arrangements

Council's Resource Sharing Arrangement with Waratah-Wynyard Council is due to expire in the 2013-14 financial year. Discussions regarding the renewal of the arrangement are in progress.

Stormwater Asset Survey and Revaluation

Council engaged an engineering firm to perform a comprehensive survey of all stormwater assets in 2012. Following the survey, Council's engineers revalued stormwater assets during 2012-13. The outcome of these activities was the net recognition of $2.408m of unrecognised stormwater assets and a revaluation increment of $3.434m.

KEY FINDINGS

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When examining Council's IS system, we noted that no formal structures or processes exist to identify, detect, report and rectify information technology security issues.

Council does not undertake formal periodic reviews of user access to ensure access levels are appropriate and terminated employee access is removed. In addition it was noted that only single authorisation was required for cash disbursements in Council's banking software.

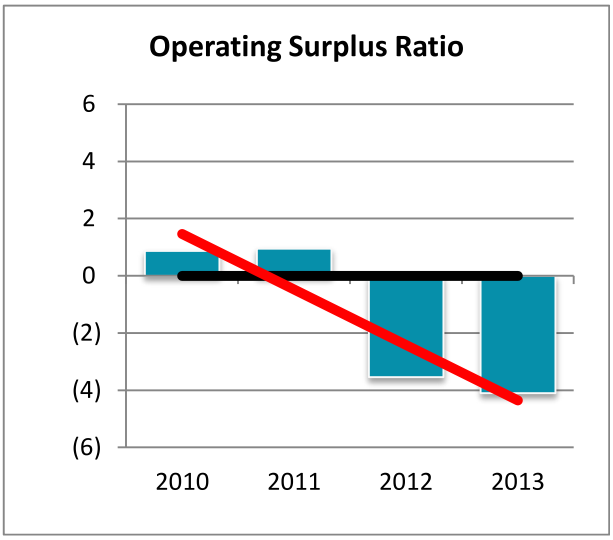
These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactory with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

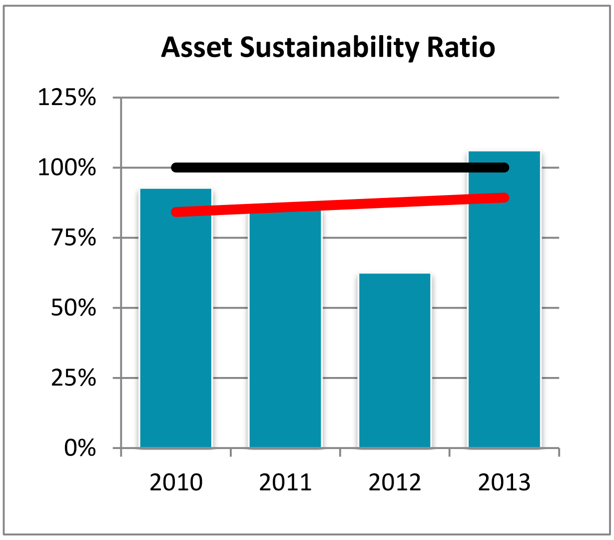
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Operating surplus ratio reflects Underlying Deficits recorded in the past two years. The ratio indicates Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

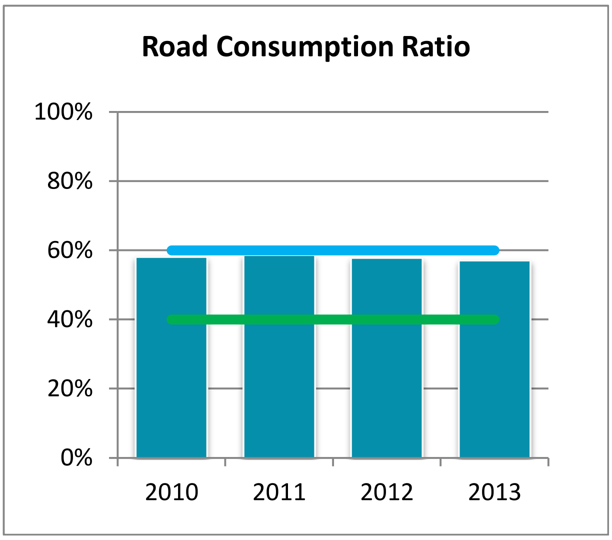
It is of concern that the ratio is trending downwards. The deteriorating result is primarily attributable to increased Depreciation charges resulting from a revaluation of transport infrastructure in 2010-11. The impact of the higher depreciation charges have not been fully incorporated into Council's budget.



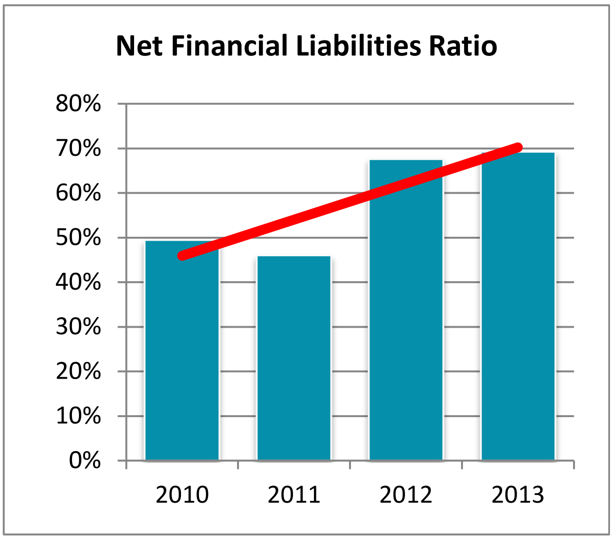
Asset sustainability ratios were below the 100% benchmark in the three of the four years under review. Over the four year period, Council's average ratio was 87%, indicating subject to levels of maintenance expenditure, the existence of a long-term asset management plan, and based on our 100% benchmark, Council was under-investing in existing assets.

Asset Renewal Funding Ratio

Council's long-term asset management plan indicated an Asset renewal funding ratio of 134% (2012, 139%) at 30 June 2013, which is well above our benchmark of 90% to 100%. However, over the 20 year life of the plan the asset renewal funding ratio is 91.8% which is within our benchmark. Council intends undertaking renewal works in line with this long-term asset management plan and its long term financial management plan.



The graph above indicates at 30 June 2013, Council had consumed approximately 43% of the service potential of its road assets. Based on our benchmark, Council's road assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded positive Net financial liabilities positions with liquid assets well in excess of current and non-current liabilities in each year under review. The positive ratios indicate a strong liquidity position, with Council able to meet its commitments and having capacity to borrow.

It is noted that Council had contractual commitments totalling $0.660m (2011-12, $0.597m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $1.356m ($1.235m). Commitments and unspent grants need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it does not have an audit committee, but had a Risk Committee. We found the Committee had met irregularly during the financial year. Council did not have an active internal audit function.

Council's governance could be strengthened if it established an audit committee with both internal and external members.

Council had long-term asset management and financial management plans covering the period 2009 to 2028. The plans cover transport, stormwater, solid waste, recreation and building assets. The plans are not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's Operating surplus ratio was negative in the last two years and trending downwards. This was due to Council's Underlying Deficits which averaged $0.192m for the period under review.

The Asset sustainability ratio indicated Council, based on our 100% benchmark, under-invested in existing assets. However, the Road asset consumption ratio indicated that there was sufficient capacity to continue to provide services to its ratepayers. Asset renewal funding ratio of 134% (91.8% based on 20 year plan) indicated Council will substantially fund its required future asset replacement expenditure.

Council's liquidity position was strong with it able to meet all its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

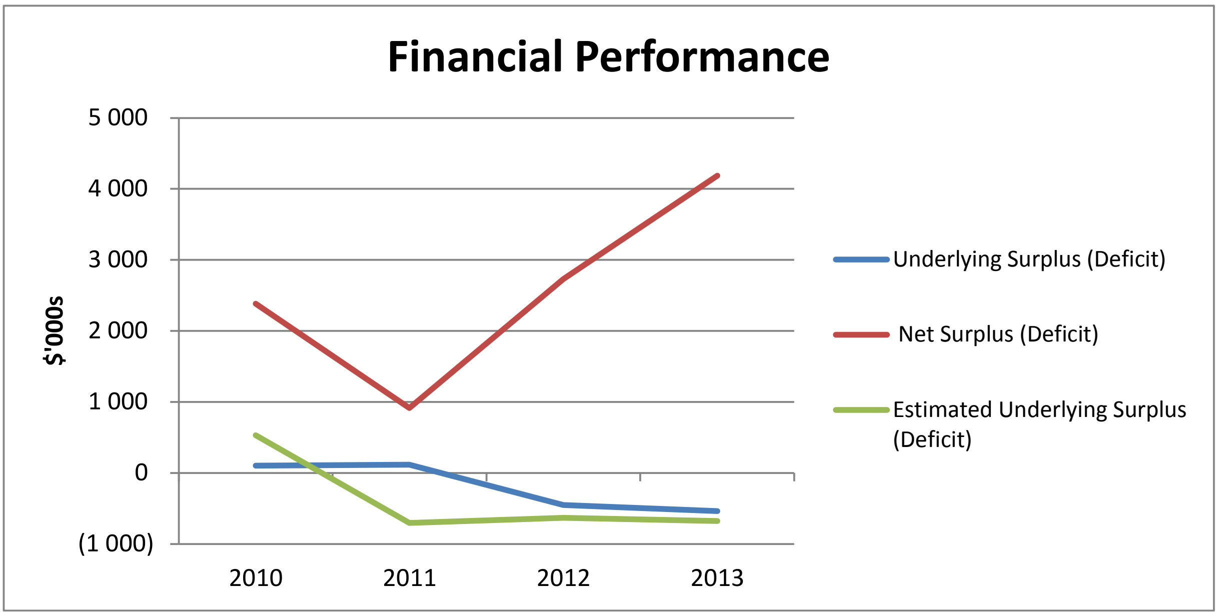
From a governance perspective, Council did not have an audit committee or an internal audit function, but had both long-term asset management and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at moderate risk from asset management, financial operating and governance perspectives and at low risk from a net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

Council was offered the opportunity to comment and it advised that it did not have any comment to make.

FINANCIAL ANALYSIS

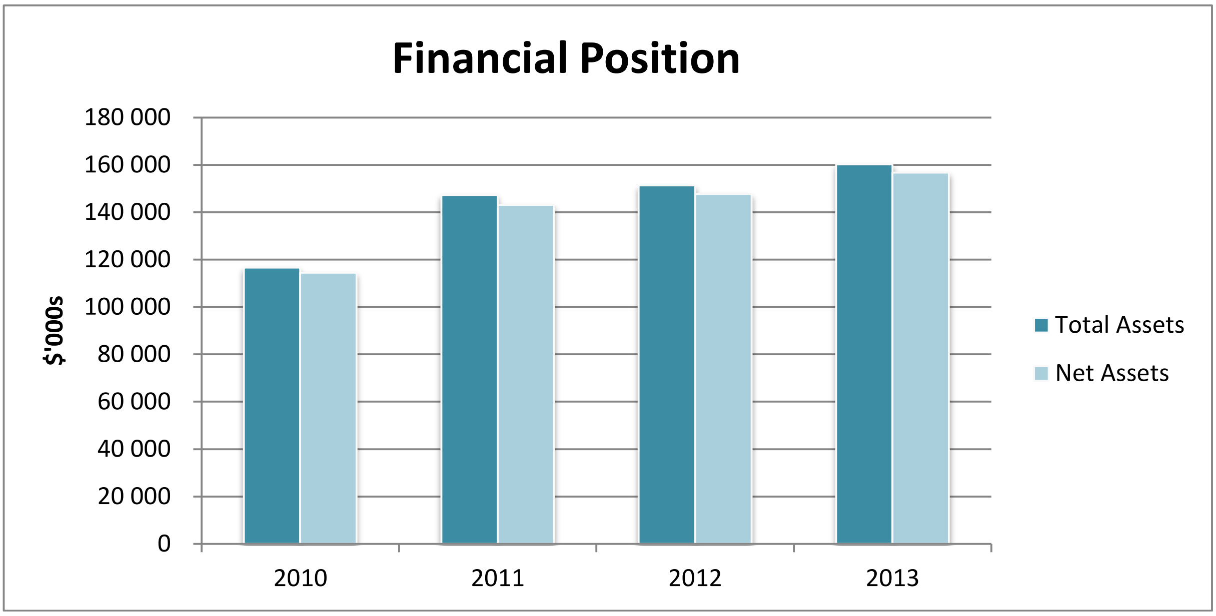


Council recorded an Underlying Deficit of $0.537m in 2012-13, which was $0.084m higher than the $0.453m deficit in the preceding year. Over the four year period, Council averaged an Underlying Deficit of $0.192m.

Although the average deficit is not significant, it is disappointing that Council continued to budget for underlying deficits in the last three years. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.

Over the period under review Council's Estimated underlying surplus (Deficit) were close to its Underlying Surplus (Deficit) indicating Council's results have been fairly consistent with its budgets.

The significant increase in the 2012-13 Net Surplus was primarily due to the recognition of $2.760m in assets and the reversal of impairment on collaterised debt obligations, $0.697m.



Council's Total Assets and Net Assets increased significantly over the period under review, with Total Assets increasing by $43.614m, or 37.37%. The movement related primarily to land, transport infrastructure and stormwater asset revaluations.

At 30 June 2013 Council reported an increase in Net Assets of $9.012m to $156.803m. This increase was mainly attributable to:

- net recognition of stormwater assets of $2.408m
- revaluation of stormwater infrastructure, $3.434m, and land $1.238m
- reversal of impairment losses previously recognised for collaterised debt obligations, $0.697m.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	6 731	6 781	6 554	6 219
Fees and charges	1 644	1 658	1 697	1 752
Grants**	2 513	2 955	2 919	2 679
Interest revenue	600	487	587	590
Other revenue	1 074	1 250	1 065	1 099
Total Revenue	**12 562**	**13 131**	**12 822**	**12 339**
Employee costs	4 599	4 239	4 024	3 958
Depreciation	3 082	3 188	3 130	2 579
Finance costs	108	104	131	33
Other expenses	5 450	6 137	5 990	5 651
Total Expenses	**13 239**	**13 668**	**13 275**	**12 221**
Underlying Surplus (Deficit)	**(677)**	**(537)**	**(453)**	**118**
Capital grants	658	1 144	2 767	347
Financial assistance grant received in advance**	0	1 356	1 235	633
Offset Financial assistance grant in advance**	0	(1 235)	(633)	(631)
Unrealised gain on investment	0	0	0	0
Impairment on investments	0	697	(185)	271
Recognition of assets	0	2 760	0	178
Net Surplus (Deficit)	**(19)**	**4 185**	**2 731**	**916**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	4 527	1 843	27 705
Fair value adjustment arising from change in allocation order	0	0	0	(65)
Current year fair value adjustment Cradle Mountain Water	0	300	24	104
Total Other Comprehensive Income (Expense)	**0**	**4 827**	**1 867**	**27 744**
Comprehensive Surplus (Deficit)	**(19)**	**9 012**	**4 598**	**28 660**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash	10 533	11 338	8 951	6 924
Financial assets	793	96	281	510
Receivables	1 285	841	633	563
Inventories	192	152	182	133
Other	79	48	67	84
Total Current Assets	**12 882**	**12 475**	**10 114**	**8 214**
Payables	1 183	903	1 200	990
Borrowings	409	384	361	100
Provisions – employee benefits	764	705	653	586
Total Current Liabilities	**2 356**	**1 992**	**2 214**	**1 676**
Net Working Capital	**10 526**	**10 483**	**7 900**	**6 538**
Property, plant and equipment	124 921	116 705	115 078	86 314
Investment in Cradle Mountain Water	22 515	22 215	22 191	22 153
Other	0	0	0	23
Total Non-Current Assets	**147 436**	**138 920**	**137 269**	**108 490**
Borrowings	1 037	1 450	1 834	395
Provisions – employee benefits	122	162	142	100
Total Non-Current Liabilities	**1 159**	**1 612**	**1 976**	**495**
Net Assets	**156 803**	**147 791**	**143 193**	**114 533**
Reserves	60 700	55 873	53 980	26 086
Accumulated surpluses	96 103	91 918	89 213	88 447
Total Equity	**156 803**	**147 791**	**143 193**	**114 533**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 753	9 445	9 156	8 783
Cash flows from Government	3 076	3 521	2 681	2 885
Payments to suppliers and employees	(11 157)	(11 069)	(10 054)	(10 053)
Interest received	487	587	590	521
Finance costs	(105)	(132)	(28)	(34)
Cash from (used in) Operations	**2 054**	**2 352**	**2 345**	**2 102**
Capital grants and contributions	1 144	2 767	347	2 015
Distributions received - Cradle Mountain Water	844	531	520	328
Redemption of Financial Assets	0	0	500	0
Payments for property, plant and equipment	(4 560)	(2 967)	(3 704)	(4 127)
Proceeds from sale of property, plant and equipment	101	65	319	892
Cash from (used in) Investing Activities	**(2 471)**	**396**	**(2 018)**	**(892)**
Proceeds from borrowings	0	0	1 800	0
Repayment of borrowings	(388)	(361)	(100)	(94)
Cash from (used in) Financing Activities	**(388)**	**(361)**	**1 700**	**(94)**
Net Increase (Decrease) in Cash	**(805)**	**2 387**	**2 027**	**1 116**
Cash at the beginning of the year	11 338	8 951	6 924	5 808
Cash at End of the Year	**10 533**	**11 338**	**8 951**	**6 924**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(537)	(453)	118	103
Operating surplus ratio*, **	> 0	(4.09)	(3.53)	0.96	0.87
Asset Management					
Asset sustainability ratio*	100%	106%	63%	85%	93%
Asset renewal funding ratio* ***	90% - 100%	134%	139%	N/A	N/A
Road asset consumption ratio*	> 60%	57.1%	57.8%	58.7%	58.1%
Asset investment ratio	>100%	148%	93%	144%	158%
Liquidity					
Net financial assets (liabilities) ($'000s)		9 096	8 671	5 675	5 826
Net financial liabilities ratio*, ****	0% - (50%)	69.3%	67.6%	46.0%	49.4%
Operational Efficiency					
Liquidity ratio	2:1	7.42	9.46	6.14	6.87
Current ratio	1:1	5.47	6.26	4.57	4.90
Interest Coverage	3:1	18.56	16.82	82.75	60.82
Self financing ratio		15.6%	18.3%	19.0%	17.8%
Own source revenue		80.9%	77.0%	78.3%	75.4%
Debt collection	30 days	56	36	29	26
Creditor turnover	30 days	40	34	30	20
Rates per capita ($)		817	793	753	715
Rates to operating revenue		51.6%	51.1%	50.4%	50.4%
Rates per rateable property ($)		1 390	1 370	1 302	1 244
Operating cost to rateable property ($)		2 802	2 775	2 558	2 449
Employee costs expensed ($'000s)		4 239	4 024	3 958	3 417
Employee costs capitalised ($'000s)		196	195	124	86
Total employee costs ($'000s)		4 435	4 219	4 082	3 503
Employee costs as a % of operating expenses		31%	30%	32%	29%
Average staff numbers (FTEs)		55	52	56	52
Average staff costs ($'000s)		81	81	73	67
Average leave balance per FTE ($'000s)		16	17	14	13

* *For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

** *The ratio is also called the Underlying result ratio.*

*** *Information was not available to calculate this ratio in prior years.*

**** *This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, as is the case with Circular Head Council, liquid assets exceed total liabilities.*

DORSET COUNCIL

SNAPSHOT

- Council recorded its first Underlying Deficit since 2007-08 in the current financial year. The 2012-13 deficit was $0.264m.
- Disappointing is that Council had estimated Underlying Deficits in each of the past three years.
- Its Comprehensive Surplus was $4.656m resulting in Total Equity at 30 June 2013 of $177.713m

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

We noted deficiencies in Council's IS systems and asset record management. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments or major variations in financial results between the 2012-13 and 2011-12 financial years. However, actual results in 2012-13 were better than budget almost entirely due to actual operating costs being $1.094m, or 24%, less than budget.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to road, bridges and stormwater infrastructure assets to maintain the currency of valuation between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.
A revaluation of buildings was brought to account at 1 July 2012. The valuation was undertaken by an independent valuer.	We tested the revaluation information in Council's asset register to the independent valuation and reviewed the qualifications of the valuer.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 27 September 2013.

KEY DEVELOPMENTS

There were no key developments during the year.

KEY FINDINGS

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in application monitoring and user access management, including access rights. There were no formal policies to ensure user access was authorised or periodic reviews of user access were performed.

Council maintain its assets information in excel spreadsheets. There is a plan in place to move to an appropriate asset management system, but the transition has not been implemented. There is a significant risk associated with the use of spread-sheets surrounding data integrity and security.

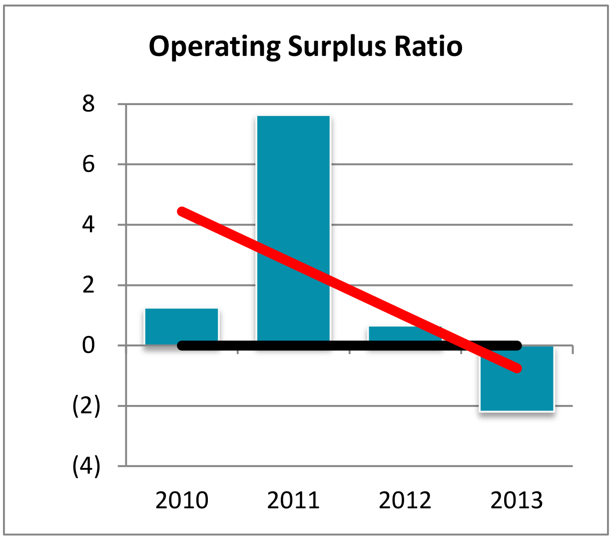
These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

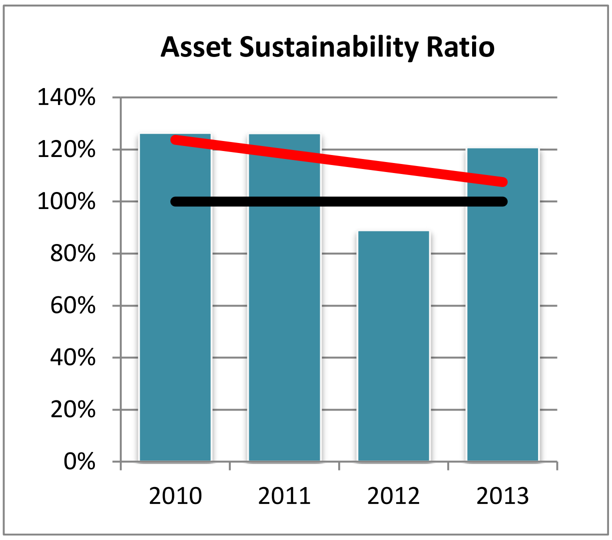
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded positive Operating surplus ratios in the first three years under review. The negative ratio in 2013 reflected an Underlying Deficit. Over the four year period, Council averaged a positive ratio of 1.8, which indicated Council generated sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

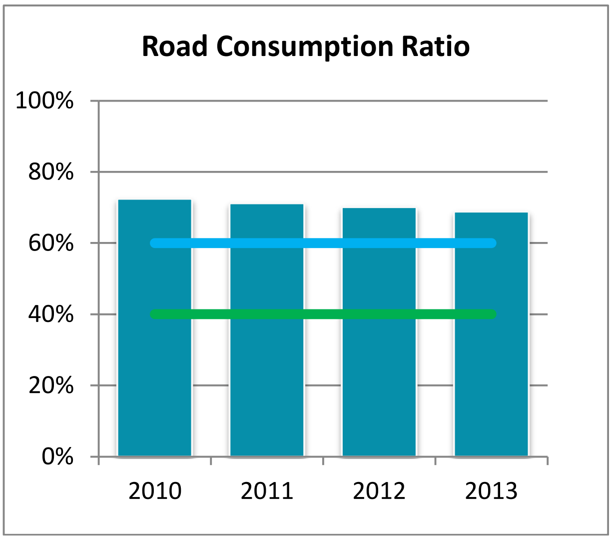


Asset sustainability ratio was above benchmark in three of the four years under review. Council's average ratio was 116%, indicating, subject to levels of maintenance expenditure and the long-term asset management plan, it maintained its investment in existing assets.

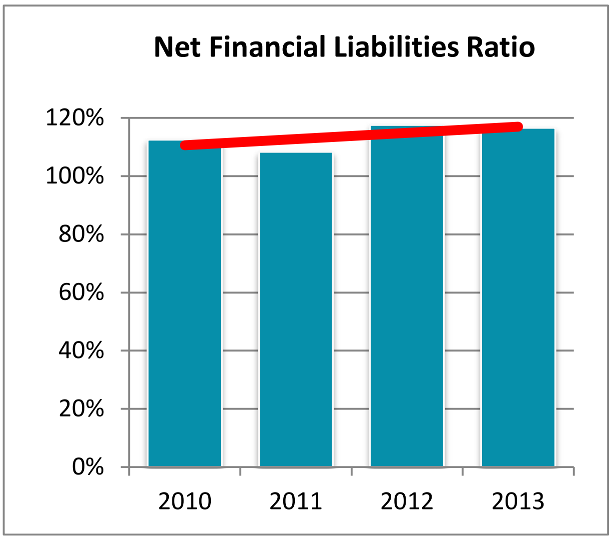
Asset Renewal Funding Ratio

Council implemented a long-term asset management plan and a long-term financial management plan during 2011-12. The plans forecast planned and required renewal expenditure to 2031-32 and covered roads, bridges and stormwater. The plans were updated in 2012-13, but is not subject to audit.

The plans indicate that, based on planned asset replacement expenditure, its Asset renewal funding ratio is 72% (2012, 58%) at 30 June 2013. The ratio was significantly below our benchmark of between 90% and 100%, but had improved. Council is aware of an $18.758m ($23.316m) funding shortfall and continues to review its long-term financial plans.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 31% of the service potential of its road infrastructure assets. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicated a strong liquidity position, with Council able to meet existing obligations. Council's total liabilities consisted of Payables, trust funds, deposits, Borrowings and employee provisions.

It is noted that Council had contractual commitments totalling $1.089m (2011-12, $0.967m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $1.633m ($1.522m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of governance arrangements indicated that Council does not have an audit committee or an internal audit function. Council did have a long-term asset management plan for bridges, roads and stormwater and a long-term financial management plan covering a ten year period. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Council's governance could be strengthened if it established an audit committee with both internal and external members.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's average surplus position over the four year period indicated it generated sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio averaged 116%, above our 100% benchmark. This indicates Council adequately maintained its investment in existing assets over the past four years. Council's Road consumption ratios deteriorated slightly over the four year period, but its roads had sufficient capacity to continue to provide services to its ratepayers. However, the Asset renewal funding ratio of 72% indicated Council has a substantial funding gap between its planned and required future asset replacement expenditure.

Council's Net financial liabilities ratio was positive indicating its liquidity was strong.

Council did not have an audit committee or internal audit function. These aspects of governance need to be addressed. However, Council did have long-term financial management and asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at moderate risk from a governance perspective but low financial sustainability risk from a financial operating, asset management and net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

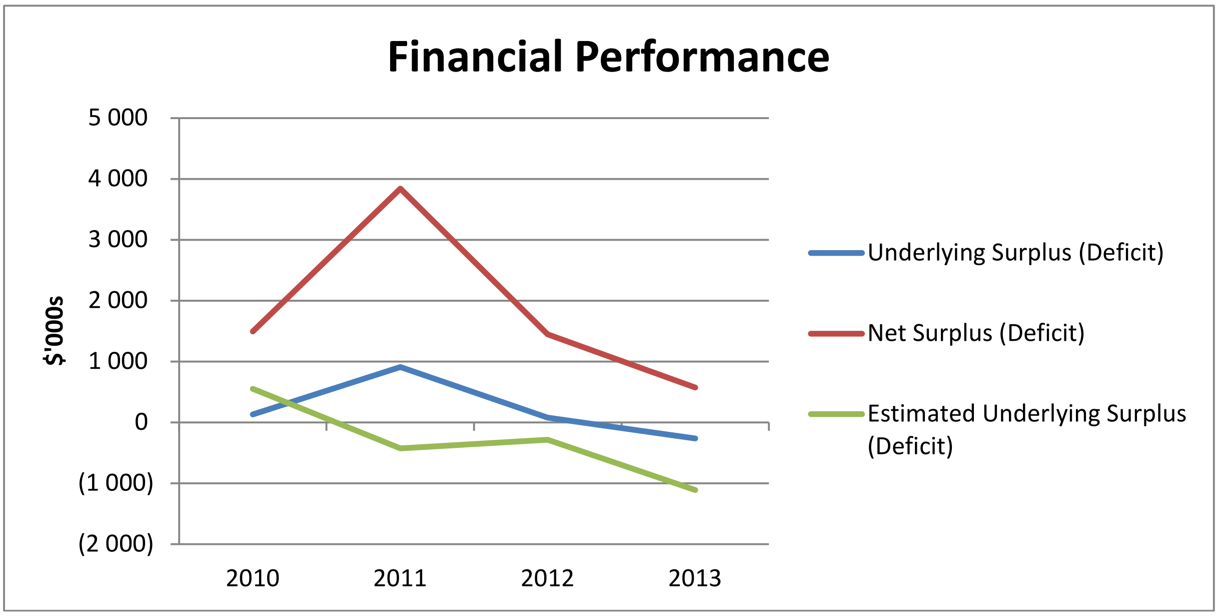
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council agrees with the conclusions of the Auditor-General and believes they support management's recent focus on reducing the operating cost structure of council.

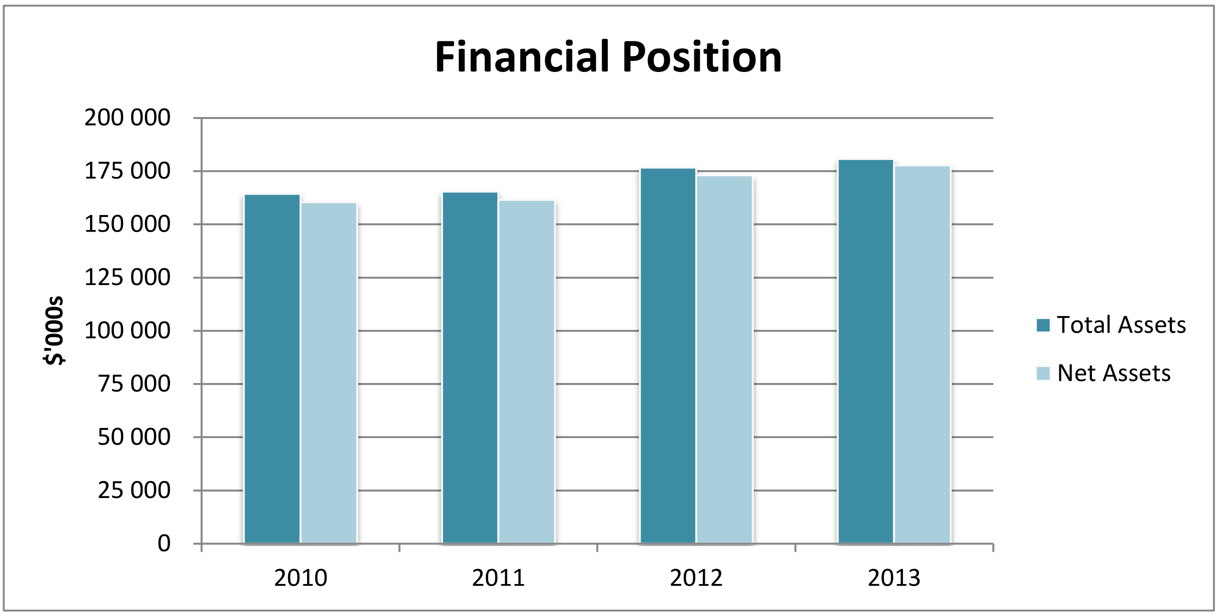
As a result of this focus, Council has identified savings within operations of approximately $415,000, which were partly implemented during 2012-13. The full impact of these changes will be realised in 2013-14 and subsequent financial years. This will address Council's operating position and historic reliance on bank interest.

During 2012-13, Council also adopted long-term asset management plans for its major infrastructure assets of roads, bridges and stormwater. The plans identified a significant cumulative renewal funding shortfall for road assets. The operational savings identified in the 2013-14 budget not only significantly improve Council's financial sustainability but have also provided Council with the financial capacity to increase the annual allocation for road renewal in its long term financial plan by $600,000 per annum.

FINANCIAL ANALYSIS



Council recorded its first Underlying Deficit since 2007-08 in the current financial year. The 2012-13 deficit of $0.264m was $0.344m below the surplus of $0.080m in the previous year. The result was not unexpected bearing in mind that Council budgeted for deficits in each of the past three years. The result would have been worse had Council not deferred some projects and made savings in expenditure. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break even basis.



Council's Total Assets and Net Assets increased over the period. Net Assets increased by $17.215m, or 10.7%, primarily due to an increase in the value of infrastructure assets, Council's Investment in Ben Lomond Water and surpluses generated as a result of Capital grants and contributed assets.

In 2012-13, Council reported an increase in Net Assets of $4.656m to $177.713m at 30 June. The increase was largely due to revaluation increments in the replacement value of roads, $2.883m, bridges, $0.515m, and stormwater, $0.332m. In addition, Council recorded a Net Surplus of $0.575m and increased its Investment in Ben Lomond Water by $0.351m.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	**2012-13** Actual $'000s	**2011-12** Actual $'000s	**2010-11** Actual $'000s
Rates	5 938	6 004	5 822	5 600
Fees and charges	786	885	882	843
Grants**	3 975	3 796	4 076	3 777
Interest revenue	750	774	938	938
Other revenue	471	573	489	770
Total Revenue	**11 920**	**12 032**	**12 207**	**11 928**
Employee costs	4 216	4 203	3 992	3 935
Depreciation	3 163	3 608	3 584	3 211
Finance costs	90	17	21	27
Other expenses	5 562	4 468	4 530	3 844
Total Expenses	**13 031**	**12 296**	**12 127**	**11 017**
Underlying Surplus (Deficit)	**(1 111)**	**(264)**	**80**	**911**
Capital grants	541	728	595	1 197
Financial assistance grant received in advance**	0	1 633	1 522	752
Offset Financial assistance grant in advance**	(1 522)	(1 522)	(752)	(714)
Contributions non-current assets	0	0	0	1 697
Net Surplus (Deficit)	**(2 092)**	**575**	**1 445**	**3 843**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	3 730	9 950	1 403
Fair value initial adjustment Ben Lomond Water	0	0	0	(4 389)
Current year fair value adjustment Ben Lomond Water	0	351	108	199
Total Other Comprehensive Income (Expense)	**0**	**4 081**	**10 058**	**(2 787)**
Comprehensive Surplus (Deficit)	**(2 092)**	**4 656**	**11 503**	**1 056**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit. An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.*

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	16 350	17 389	15 912	15 446
Receivables	668	682	825	464
Inventories	115	103	105	84
Other	182	253	204	194
Total Current Assets	**17 315**	**18 427**	**17 046**	**16 188**
Payables	361	333	310	321
Borrowings	27	25	95	89
Provisions – employee benefits	1 033	1 003	947	1 057
Provisions – tip rehabilitation	10	546	560	693
Trust and deposits	86	327	326	214
Total Current Liabilities	**1 517**	**2 234**	**2 238**	**2 374**
Net Working Capital	**15 798**	**16 193**	**14 808**	**13 814**
Property, plant and equipment	144 691	139 994	129 989	125 695
Investment in Ben Lomond Water	18 700	18 349	18 241	22 431
Investment pine plantation	3	2	91	125
Total Non-Current Assets	**163 394**	**158 345**	**148 321**	**148 251**
Borrowings	203	230	255	350
Provisions – employee benefits	86	61	57	87
Provisions – tip rehabilitation	1 190	1 190	1 263	1 130
Total Non-Current Liabilities	**1 479**	**1 481**	**1 575**	**1 567**
Net Assets	**177 713**	**173 057**	**161 554**	**160 498**
Reserves	106 728	106 153	56 846	55 229
Accumulated surpluses	70 985	66 904	104 708	105 269
Total Equity	**177 713**	**173 057**	**161 554**	**160 498**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 686	7 985	7 607	7 765
Cash flows from Government	3 907	4 743	3 815	3 230
Payments to suppliers and employees	(9 034)	(8 871)	(8 663)	(7 653)
Interest received	884	849	938	742
Finance costs	(17)	(21)	(27)	(12)
Cash from (used in) Operations	**3 426**	**4 685**	**3 670**	**4 072**
Capital grants and contributions	728	595	1 197	1 339
Payments for property, plant and equipment	(5 391)	(4 065)	(4 591)	(6 669)
Distributions received - Ben Lomond Water	2	67	104	14
Proceeds from sale of property, plant and equipment	221	291	175	425
Cash from (used in) Investing Activities	**(4 440)**	**(3 112)**	**(3 115)**	**(4 891)**
Proceeds from borrowings	0	0	0	300
Repayment of borrowings	(25)	(96)	(89)	(62)
Cash from (used in) Financing Activities	**(25)**	**(96)**	**(89)**	**238**
Net Increase (Decrease) in Cash	**(1 039)**	**1 477**	**466**	**(581)**
Cash at the beginning of the year	17 389	15 912	15 446	**16 627**
Add transfer from non-current investments	0	0	0	(600)
Cash at End of the Year	**16 350**	**17 389**	**15 912**	**15 446**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(264)	80	911	133
Operating surplus ratio*, **	>0	(2.19)	0.66	7.64	1.25
Asset Management					
Asset sustainability ratio*	100%	121%	89%	126%	126%
Asset renewal funding ratio*, ***	90% - 100%	72%	59%	N/A	N/A
Road asset consumption ratio*	>60%	68.9%	70.1%	71.2%	72.5%
Asset investment ratio	>100%	149%	113%	143%	198%
Liquidity					
Net financial assets (liabilities) ($'000s)		14 022	14 356	12 924	11 969
Net financial liabilities ratio*, ****	0% - (50%)	116.5%	117.6%	108.4%	112.5%
Operational Efficiency					
Liquidity ratio	2:1	35.90	26.38	22.90	25.50
Current ratio	1:1	11.41	8.25	7.62	6.82
Interest Coverage	3:1	200.53	222.10	134.93	338.33
Self financing ratio		28.5%	38.4%	30.8%	38.3%
Own source revenue		68.5%	66.6%	68.3%	69.8%
Debt collection	30 days	35	37	47	27
Creditor turnover	30 days	11	12	12	10
Rates per capita ($)		839	819	761	727
Rates to operating revenue		49.9%	47.7%	46.9%	50.4%
Rates per rateable property ($)		1 161	1 133	1 093	1 052
Operating cost to rateable property ($)		2 378	2 361	2 150	2 059
Employee costs expensed ($'000s)		4 203	3 992	3 935	3 615
Employee costs capitalised ($'000s)		333	370	340	276
Total employee costs ($'000s)		4 536	4 362	4 275	3 891
Employee costs as a % of operating expenses		34%	33%	36%	34%
Average staff numbers (FTEs)		60	60	57	54
Average staff costs ($'000s)		76	73	76	73
Average leave balance per FTE ($'000s)		19	18	18	21

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

FLINDERS COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.459m, which was an improvement on the previous year and better than budget.
- Its comprehensive result was $2.428m resulting in Net Assets at 30 June 2013 of $88.847m.

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

We noted deficiencies in Council's preparation of its financial statements, which delayed the finalisation of the audit. During the year, management made the decision to 'write-down' the wearing surface of unsealed roads. A number of issues arose from that decision and was later reversed, resulting in amendment to the financial statements. This matter has been reported to, and is being addressed by, management.

The audit was completed satisfactorily with no other matters outstanding.

There were no key developments noted in 2012-13.

Major variations between 2012-13 and 2011-12 financial years were:

- higher Depreciation expense due mainly to the revaluation of infrastructure assets at 30 June 2012 and the decision to remove residual values from road infrastructure
- reduced Other expenses due to lower payments for contractors, materials and supplies
- Council made a Loss on disposal of assets of $0.222m last year primarily due to the transfer of land and buildings to Ben Lomond Water
- higher Capital grants, due to additional funding received for Roads to Recovery programs.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
To maintain the currency of the value of roads, bridges, drainage, culverts and building assets in years between formal valuations, Council applies cost indexation.	We confirmed the appropriateness and validity of thee indices and ensured they were applied correctly.

AUDIT OF THE 2012-13 STATEMENTS

Financial statements were signed on 15 August 2013. Amended and resigned financial statements were received on 4 October 2013 and an unqualified audit opinion was issued on 7 October 2013.

KEY DEVELOPMENTS

There were no key developments noted in 2012-13.

KEY FINDINGS

Accounting for Surface Component of Unsealed Roads

During the year, management made the decision to 'write-down' the wearing surface of unsealed roads. A number of issues arose from that decision. It is our view that the cost of re-sheeting of unsealed roads, where the service potential of the surface extends beyond twelve months, is of capital nature. Therefore, such costs should be capitalised and depreciated over the useful life of the asset. Management's decision led to a potential understatement of non-current assets and most importantly an understatement of Depreciation charges and an overstatement of maintenance expenses. As a result of our discussions with management, it was agreed that the decision to 'write-down' the wearing surface of unsealed roads be reversed with the financial statements amended accordingly.

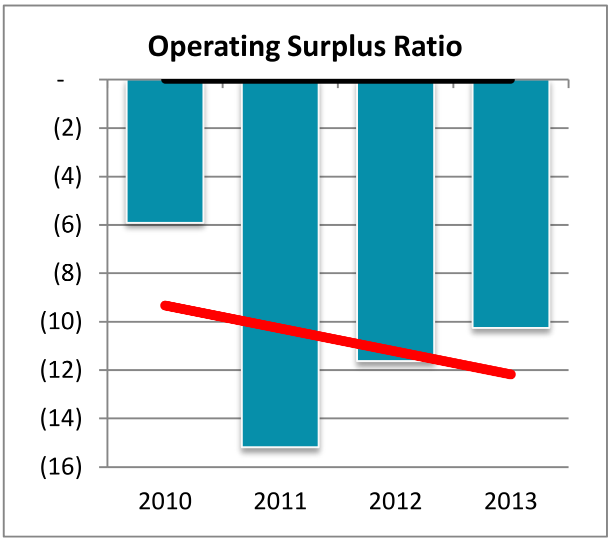
Other Matters

Both the original and amended financial statements were deficient in a number of areas. Additional work was necessary to ensure that the financial statements were complying with Australian Accounting Standards. This impacted on the timeliness of the audit completion. This matter has been reported to, and is being addressed by, management.

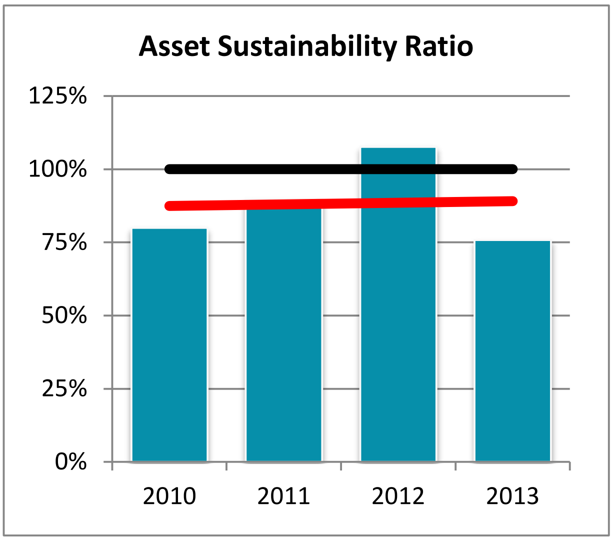
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs and the discussion about the Asset renewal funding ratio, summarise key rations highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



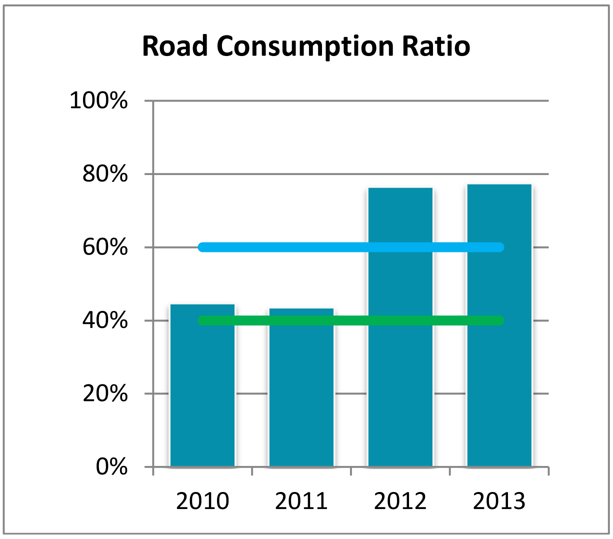
Council's Operating surplus ratio reflects Underlying Deficits recorded in each of the past four years. This ratio has been trending downwards, however, has improved since 2011. The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. Council's Operating surplus ratio averaged a negative 10.75% over the last four years.



Asset sustainability ratios were below the benchmark in two of the four years under review. Over the four year period, Council's average ratio was 88% indicating it did not maintain its investment in existing assets. The ratio exceeded the benchmark in 2012 primarily due to higher expenditure on buildings and infrastructure assets in that year. The reduction in 2013 was mainly due to higher Depreciation charges following the revaluation of infrastructure assets at 30 June 2012.

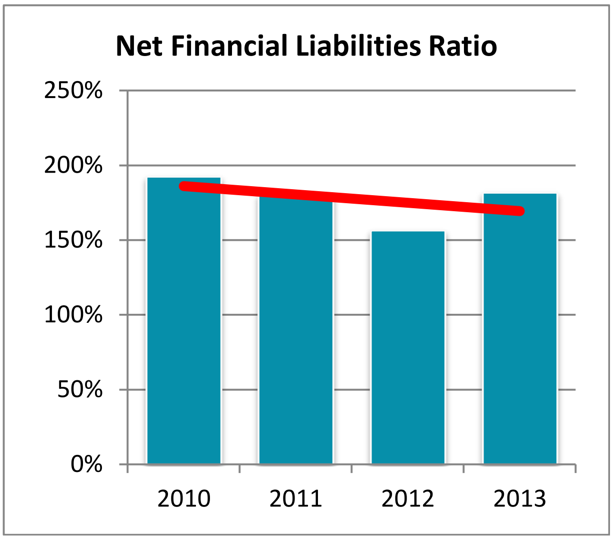
Asset Renewal Funding Ratio

Council's long-term Transport Asset Management Plan and long-term financial management plan indicated an Asset renewal funding ratio of 54.6% based on planned asset replacement expenditure. This compares unfavourably with the benchmark of not less than 90%. This is a situation that will need to be remedied by Council. This is based on planned asset replacement expenditure and asset replacement expenditure actually required for the period 2013 to 2032. We understand it is Council's intention to undertake renewal works in line with the long-term Transport Asset Management Plan.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 24% of its road assets indicating that, at that point in time; the remaining service potential was relatively high to its ratepayers.

The improved ratio from 2011-12 was due to Council revaluing its road infrastructure at 30 June 2012.



Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicated a strong liquidity position, whereby Council is able to meet all existing commitments. Council had no borrowings in the period under review, its liabilities were Payables, trust funds, deposits and provisions.

It was noted that Council's Cash and cash equivalents are subject to a number or internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $0.350m of the total Cash and cash equivalents balance of $3.034m.

In addition, Council received grants during the year which had yet to be applied to the purpose for which they were provided, totalling $0.349m.

Unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it had an Audit and Finance Committee, long-term asset management and financial management plans.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded an operating deficit in each of the four years under review.

Asset sustainability ratios indicated that Council based on our 90% – 100% benchmark, under-invested in existing assets over the four years. Council's Road consumption ratio indicates a low risk to the service potential of road assets. In addition, its Asset renewal funding ratio of 54.6%, was below the benchmark of 90%.

The Net financial liabilities ratio was positive and Council had no debt indicating that at 30 June 2013, it was in a position to meet short-term obligations and had capacity to borrow should the need arise.

Council does have a long-term asset management and financial management plans. It has also established an Audit and Finance Committee, but it does not review the annual financial report.

Based on these ratios and governance arrangements, we have concluded that at 30 June 2013, Council was at high risk from financial operating perspective, moderate risk from governance and asset management perspectives and low risk from net financial liabilities perspective.

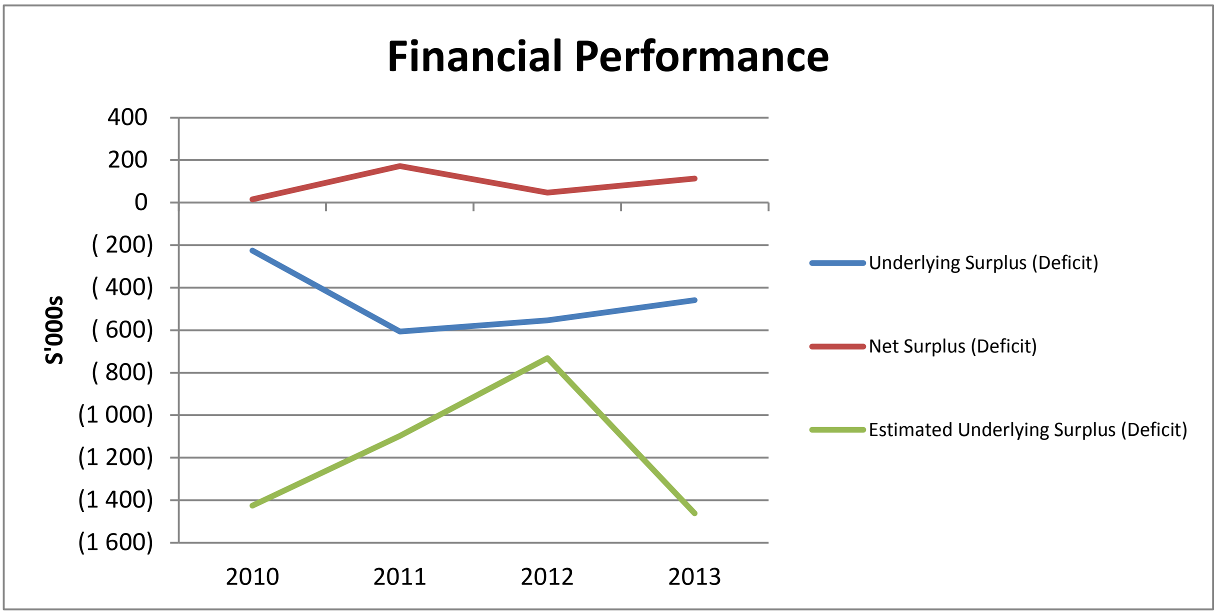
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Flinders Council continues to improve its asset and financial management systems, service delivery and overall governance arrangements while maintaining service standards that meet the needs of our remote island based communities. As one of only two Council's in Tasmania who service remote island municipal areas, the use of homogenised benchmarking to assess sustainability continues to highlight the void that exists between the Auditor General's (and the State Government's) criteria for sustainability and the capacity of small, remote communities to fund the service standards and governance structures now seen as a minimum requirement.

With strong cash reserves, no borrowings, well reasoned and considered long-term financial and asset management plans and a lean and efficient workforce, the major risks to the organisation are in fact the ever increasing regulatory compliance and service delivery burdens imposed on Council by the State Government. While much of the reform agenda seen over the past few years may have importance and relevance for urban-based Councils, the impost and impact on small communities continues to add unsustainable costs and further erode genuine on-ground service standards in place of regulatory enforcement and compliance reporting. The current situation is incongruous whereby on one hand Council is told to increase revenues and cut expenditure to become sustainable while on the other hand being forced to invest ever increasing amounts into regulatory compliance and State based service delivery and reporting. Flinders Council has the capacity to deliver services that are fit for purpose for our island communities but with a static rate base and over 60% of the islands land mass being classified as either Crown or Aboriginal Lands (exempt from rating) it does not have the capacity, without the requisite funding support, to increase services in line with the raft of reform and regulatory based compliance requirements we are seeing coming from the current State Government. The risk outlined above is mirrored across remote areas of Australia and to date neither State nor Federal Governments have seen fit to recognise that specific place-based approaches are required to support the ongoing viability of remote and isolated areas such as Flinders.

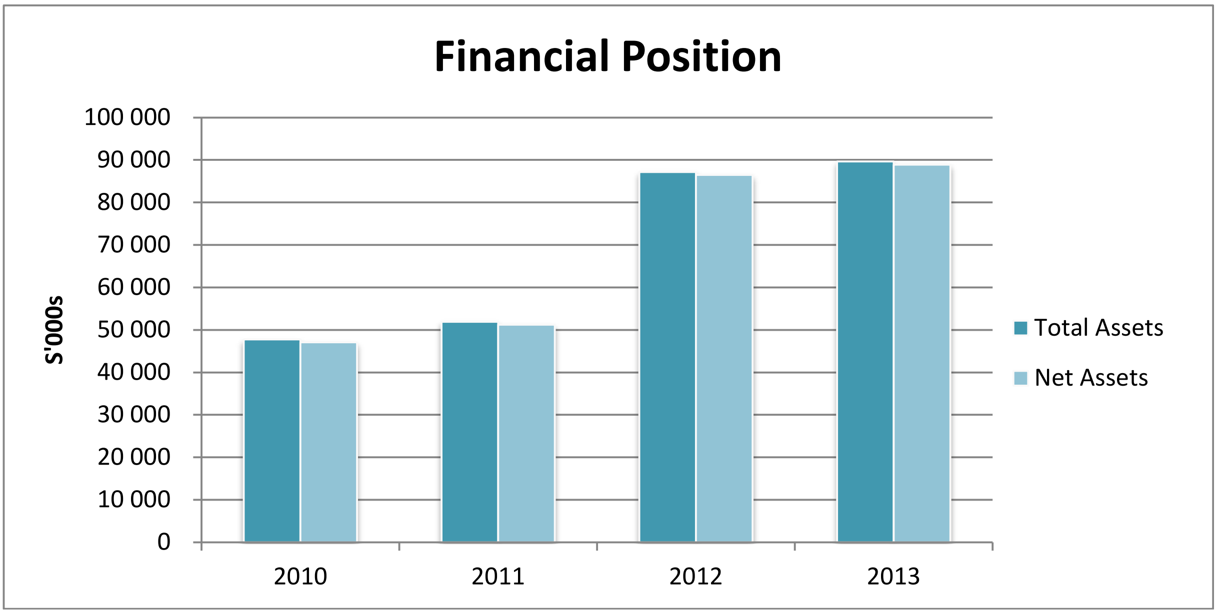


In 2012-13 Council again recorded an Underlying Deficit. This year, the Underlying Deficit was $0.459m, which was a slight improvement on 2011-12. The improvement was mainly due to a combination of reduced Other expenses, due primarily to lower payments for material and contracts of $0.498m and no Loss on disposal of assets being recorded in 2012-13.

Council's Underlying Deficit was consistently better than estimated Underlying Deficit. The variance was mainly due to Council over-budgeting for Employee costs and Other expenses.

Council recorded Net Surpluses in each of the four years under review due to Capital grants received.

Average staff costs have varied over the period primarily due to the Average staff numbers changing due to mix between full-time and part-time employees.



Council's Total Assets and Net Assets increased over the four year period. In 2011-12, Net Assets increased significantly due to a net revaluation increment of road infrastructure of $35.665m.

Council continued to have high Net Working Capital, $8.964m in 2013, primarily due to its Cash and cash equivalents, $3.034m, and Financial assets, $5.672m, comprising of mainly short term deposits, $5.065m.

Total Liabilities have remained around the same level over the four year period and a small balance when compared to Total Assets. Council's Total Liabilities are manageable and it is debt free.

Council's Liquidity ratio has been above benchmark in all four years. The decrease in 2013 was primarily due to less Cash and cash equivalents and Receivables at 30 June.

Average leave balances per FTE has decreased in 2013 due to a long-term employee retiring during the year.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	1 252	1 247	1 221	1 142
Fees and charges	988	925	901	732
Grants**	978	1 951	2 220	1 606
Interest revenue	332	316	388	417
Gain on disposal of assets	96	13	0	71
Other revenue	0	23	32	28
Total Revenue	**3 646**	**4 475**	**4 762**	**3 996**
Employee costs	1 948	1 536	1 496	1 381
Depreciation	1 752	1 798	1 446	1 421
Loss on disposal of assets	0	0	222	0
Other expenses	1 795	1 600	2 152	1 801
Total Expenses	**5 495**	**4 934**	**5 316**	**4 603**
Underlying Surplus (Deficit)	**(1 849)**	**(459)**	**(554)**	**(607)**
Capital grants	387	853	269	284
Financial assistance grant received in advance**	0	349	630	298
Offset Financial assistance grant received in advance**	0	(630)	(298)	(281)
Assets not previously recognised	0	0	0	478
Net Surplus (Deficit)	**(1 462)**	**113**	**47**	**172**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	2 249	35 776	1 928
Fair value initial adjustment Ben Lomond Water	0	0	0	0
Fair value adjustment arising from change in allocation order	0	0	0	1 950
Current year fair value adjustment Ben Lomond Water	0	66	21	38
Total Other Comprehensive Income (Expense)	**0**	**2 315**	**35 797**	**3 916**
Comprehensive Surplus (Deficit)	**(1 462)**	**2 428**	**35 844**	**4 088**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$’000s
Cash and cash equivalents	3 034	3 577	1 777	1 177
Financial assets	5 672	4 213	6 057	6 703
Receivables	159	370	115	125
Inventories	40	90	89	85
Other	59	57	65	44
Total Current Assets	**8 964**	**8 307**	**8 103**	**8 134**
Payables	302	217	200	203
Provisions – employee benefits	173	268	151	134
Other	24	24	159	95
Total Current Liabilities	**499**	**509**	**510**	**432**
Net Working Capital	**8 465**	**7 798**	**7 593**	**7 702**
Property, plant and equipment	77 000	75 270	40 262	38 135
Investment in Ben Lomond Water	3 538	3 472	3 451	1 463
Other	76	84	93	12
Total Non-Current Assets	**80 614**	**78 826**	**43 806**	**39 610**
Provisions – employee benefits	55	32	33	60
Provisions – Quarry pit reinstatement	99	129	190	165
Other	78	43	0	0
Total Non-Current Liabilities	**232**	**204**	**223**	**225**
Net Assets	**88 847**	**86 419**	**51 175**	**47 087**
Reserves	49 239	46 923	12 153	10 505
Accumulated surpluses	39 608	39 496	39 022	36 582
Total Equity	**88 847**	**86 419**	**51 175**	**47 087**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 669	2 267	2 084	2 319
Cash flows from Government	2 556	2 412	1 666	1 608
Payments to suppliers and employees	(3 242)	(3 915)	(3 349)	(2 793)
Interest received	316	378	395	344
Cash from (used in) Operations	**1 299**	**1 142**	**796**	**1 478**
Capital grants and contributions	853	269	332	215
Redemption of financial assets	0	1 845	646	0
Purchase of financial assets	(1 459)	0	0	(2 185)
Payments for property, plant and equipment	(1 362)	(1 556)	(1 274)	(1 129)
Proceeds from sale of property, plant and equipment	103	68	71	0
Distributions from Ben Lomond Water	23	32	29	24
Cash from (used in) Investing Activities	**(1 842)**	**658**	**(196)**	**(3 075)**
Net Increase (Decrease) in Cash	**(543)**	**1 800**	**600**	**(1 597)**
Cash at the beginning of the year	3 577	1 777	1 177	2 774
Cash at End of the Year	**3 034**	**3 577**	**1 777**	**1 177**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(459)	(554)	(607)	(226)
Operating surplus ratio*, **	>0	(10.26)	(11.63)	(15.19)	(5.92)
Asset Management					
Asset sustainability ratio*	100%	76%	108%	90%	80%
Asset renewal funding ratio*, ***	90%-100%	54.6%	56.0%	N/A	N/A
Road asset consumption ratio*	>60%	76.3%	77.8%	39.0%	40.5%
Asset Investment ratio	>100%	78%	108%	90%	80%
Liquidity					
Net financial assets (liabilities) ($000s)		8 134	7 447	7 216	7 348
Net financial liabilities ratio*, ****		181.8%	156.4%	180.6%	192.4%
Operational Efficiency					
Liquidity ratio	2:1	6.72	8.14	5.39	4.37
Current ratio	1:1	17.96	16.32	15.89	18.83
Interest coverage	3:1	-	-	-	-
Self financing ratio		29.0%	24.0%	19.9%	38.7%
Own source revenue		56.4%	53.4%	59.8%	58.6%
Debt collection	30 days	27	64	22	25
Creditor turnover	30 days	56	40	42	25
Rates per capita ($)		1 555	1 519	1 269	1 161
Rates to operating revenue		27.9%	25.6%	28.6%	27.3%
Rates per rateable property ($)		1 074	1 050	1 022	945
Operating cost to rateable property ($)		4 250	4 571	4 121	3 672
Employee costs expensed ($'000s)		1 536	1 496	1 381	1 203
Employee costs capitalised ($'000s)		77	105	62	56
Total employee costs ($'000s)		1 613	1 601	1 443	1 259
Employee costs as a % of operating expenses		31%	28%	30%	30%
Average staff numbers (FTEs)		20	19	20	19
Average staff costs ($'000s)		79	84	73	65
Average leave balance per FTE ($'000s)		11	16	9	10

* *For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

** *This ratio is also called the Underlying result ratio.*

*** *New ratio in 2011-12. Information not obtained or available to calculate prior years ratios.*

**** *The benchmark between 0% - (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, as is the case with Flinders Council, liquid assets exceed total liabilities.*

Where the ratio is positive, as is the case with Flinders Council, liquid assets exceed total liabilities.

GEORGE TOWN COUNCIL

SNAPSHOT

- Council's underlying results improved over the period under review, with Underlying Surpluses in both 2011-12 and 2012-13. This improvement is consistent with surpluses exceeding budget results in these years.
- Council has, in general, budgeted for Underlying Surpluses, which is consistent with the need to assure long-term financial sustainability and indicate that Council are operating on a break even basis.
- Council reported a Comprehensive Surplus of $4.858m and at 30 June 2013 held Net Assets of $117.490m.

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

A key finding this year was that Council's initial treatment of road revaluations, performed using a condition based assessment methodology, which resulted in a $5.384m write back of accumulated depreciation. This treatment is not permissible under accounting standards and was reversed prior to finalising the financial statements.

The audit was completed satisfactorily with no other items outstanding.

Key developments this year included Council moving to capital value methodology for assessing rates and completing the construction of the $1.480m Egg Island Creek Bridge.

There were no major variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to stormwater and road infrastructure assets to maintain the currency of valuation between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.
A revaluation of bridge assets was brought to account at 1 August 2012. The valuation was undertaken by an independent valuer.	We tested the revaluation information in Council's asset register to the independent valuation.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 28 September 2013.

KEY DEVELOPMENTS

Rating Methodology

Council has moved from an assessed annual value of the land to a capital value of the land methodology for general rates per section 90(3) of the *Local Government Act 1993*.

Capital Works

Council completed the construction of the Egg Island Creek Bridge in Hillwood at a cost of $1.480m on the 27 March 2013. The project was self-funded by Council with the assistance of $0.482m in federal grants.

KEY FINDINGS

In undertaking a revaluation of road assets, Council applied a condition based assessment methodology, which resulted in a $5.384m write-back of accumulated depreciation. This approach did not comply with relevant accounting standards and the adjustment was reversed.

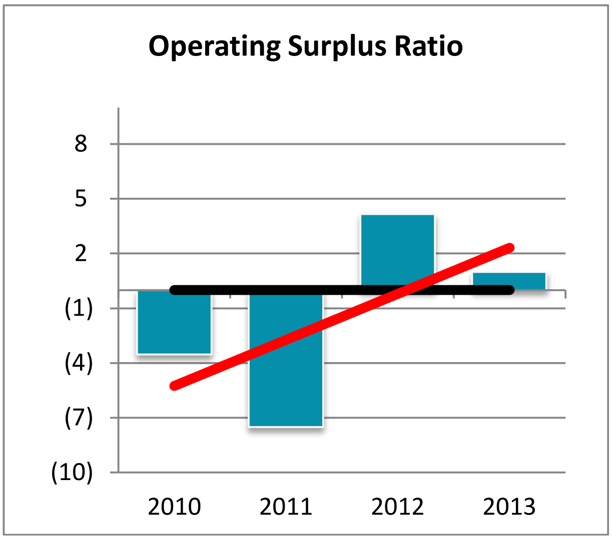
We recommended that Council reassess how it performs revaluations of assets in future periods to ensure the correct accounting treatment occurs. Council had agreed to consider this matter as part of a road revaluation to be completed in 2013-14.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

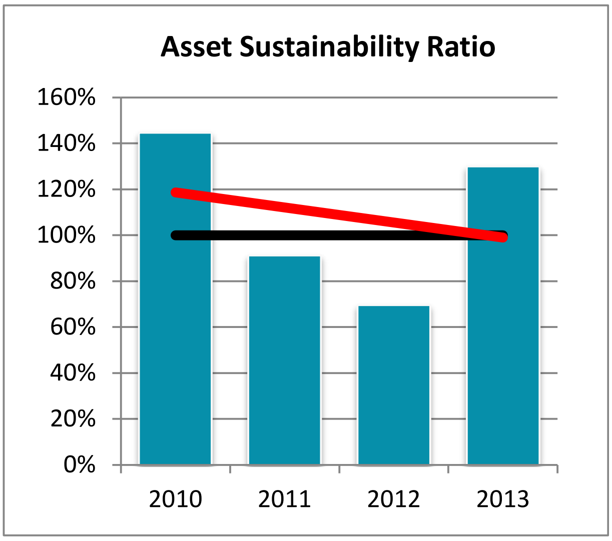
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Operating surplus ratio reflects Underlying Surpluses in the past two years. Council has limited operational expenditure increases through the reduction of contractor costs which were partly offset by corresponding increases in employee costs.

Over the four year period Council recorded an average Operating surplus ratio of negative 1.45. It is pleasing that results are trending upwards. However, a negative average ratio indicates Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

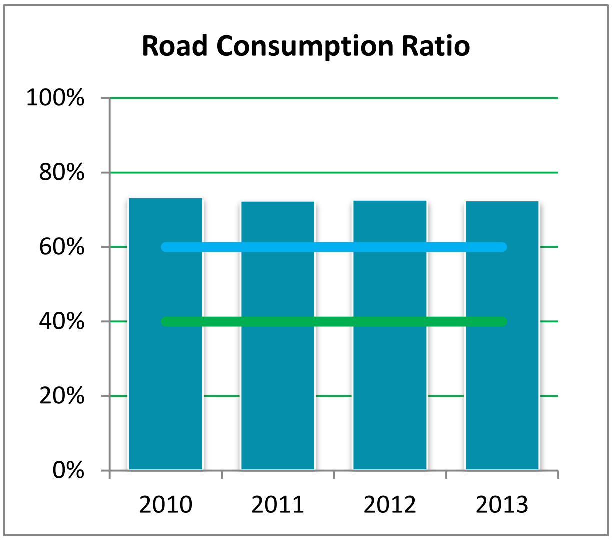


Asset sustainability ratios were above the 100% benchmark in two of the four years under review. Over the four year period, Council's average ratio was 109%, indicating it maintained its investment in existing assets at levels in excess of its annual Depreciation charges.

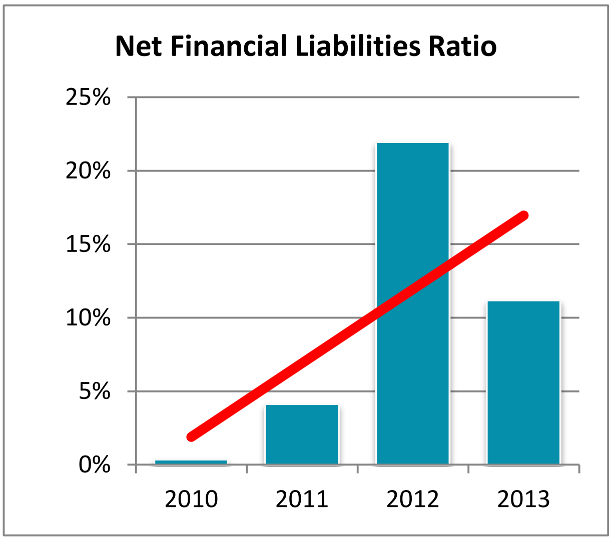
Asset Renewal Funding Ratio

Council's long-term asset management plan indicated the Asset renewal funding ratio was 77% at 30 June 2013, below our 90% benchmark. This is based on planned asset replacement expenditure and asset replacement expenditure actually required and was taken from Council's draft long-term asset management and long-term financial management plans for the period 2013 to 2022, which are not subject to audit.

Council has selected a strategy it considers to be most affordable and achievable based on its available resources. The strategy is to maintain assets at their current condition with the exception of all roads will incur some deterioration. Council expect, based on the strategies chosen, perceived community satisfaction will be between satisfied and very satisfied.



The ratio at 30 June 2013 indicated Council had used (consumed) approximately 28% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period of 73%. This result is considered a low financial sustainability risk and Council's road assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded a positive Net financial liabilities ratio with liquid assets greater than current and non-current liabilities in each year under review. This indicated a strong liquidity position, with Council able to meet existing commitments. The ratio had improved over the past four years due to Council's stronger cash position and total liabilities remaining consistent.

It is noted, that Council had contractual commitments totalling $1.482m (2011-12, $1.040m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which had yet to be applied to the purpose for which they were provided, totalling $0.876m ($0.848m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $3.587m or 80.5% of the total cash and financial assets balance of $4.451m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it does not have an audit committee or internal audit function. Council's governance could be strengthened if it established an audit committee with both internal and external members.

Council had an infrastructure asset management plan covering all infrastructure assets for the period 2013-22 and a financial management plan covering the same period. However, these were draft documents and had not been subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded an Underlying Surplus in the current year, but over the four year period averaged negative Operating surplus ratio of 1.45.

Asset sustainability ratio shows Council averaged 109%, which was above our 100% benchmark. This indicated Council maintained its investment in existing assets at, on average, above benchmark levels over the past four years. Council's Road consumption ratio remained above 70% over the four year period, indicating its road infrastructure assets were at low sustainability risk. Its Asset renewal funding ratio of 77% indicated Council will not be meeting its long-term capital renewal requirements as identified in its infrastructure asset management plan.

Council's Net financial liabilities ratio was positive indicating its liquidity was sound and it had the capacity to borrow should the need arise.

From a governance perspective, Council did not have an audit committee although it did have draft long-term infrastructure management and long-term financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at moderate sustainability risk from a governance and financial operating perspective and low risk from an asset management and net financial liabilities perspective.

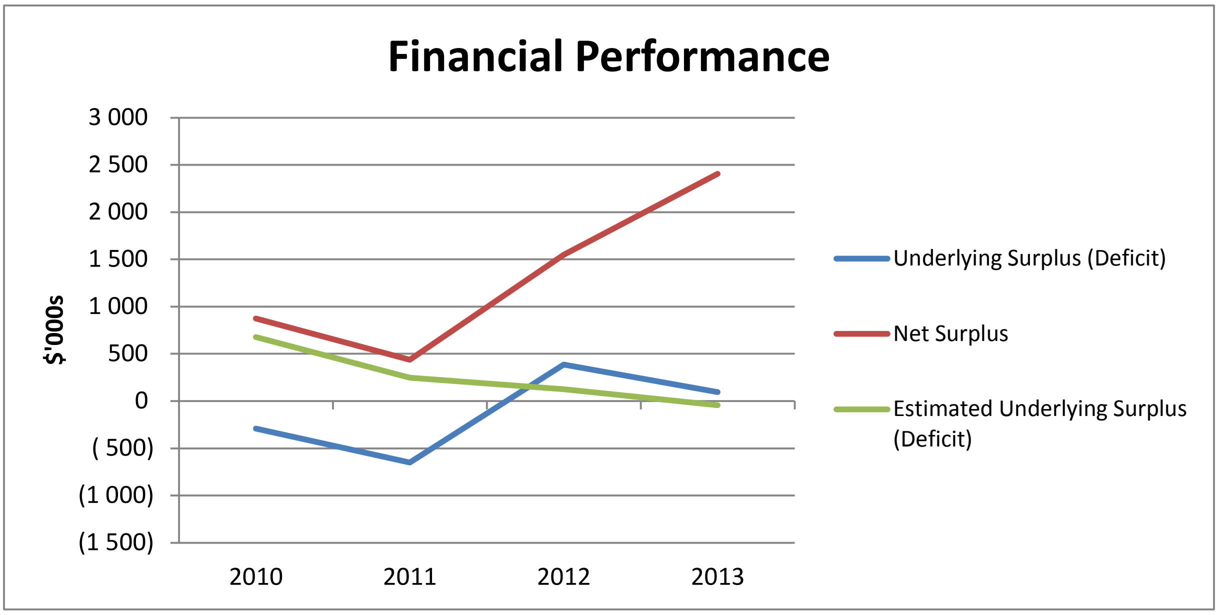
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council notes the comments made in respect of the Auditor General's report and the assessment of financial sustainability risk, being moderate from a governance and operating perspective and low from an asset and net financial liability perspective. Council continues to budget for an Underlying Surplus as a key strategy to maintain long term financial sustainability. With regard to the asset renewal funding ratio of 77%, Council will consider a range of strategies in order to meet asset renewal requirements. These strategies will then be reflected in the Asset Management Plan and the Long-Term Financial Plan.

FINANCIAL ANALYSIS

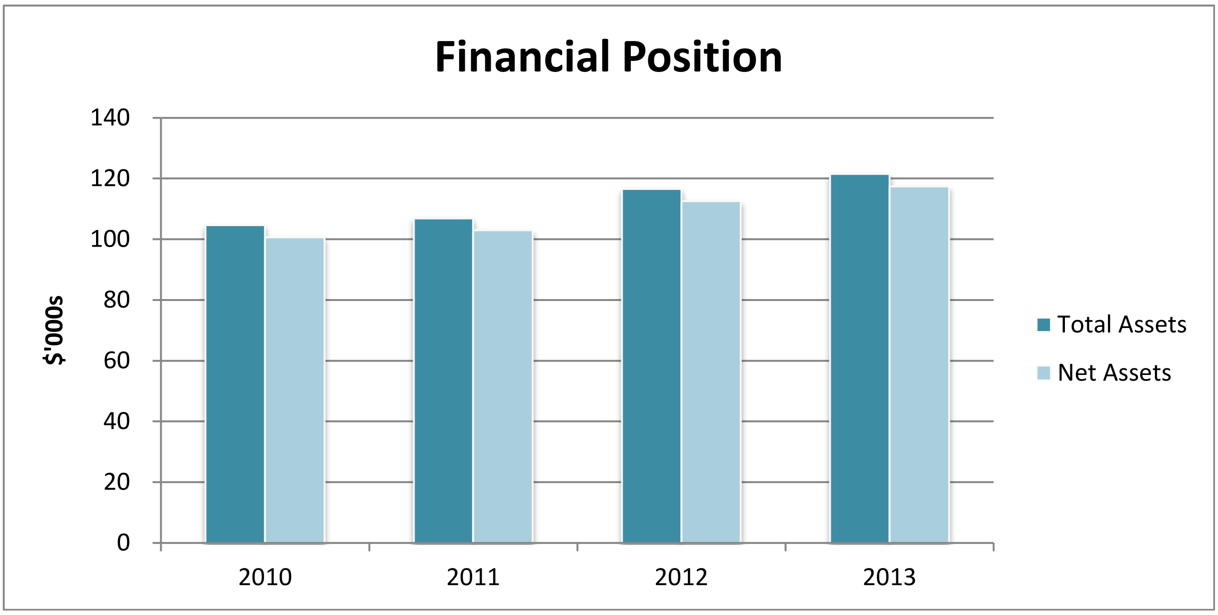


Council's underlying results improved over the period under review, with Underlying Surpluses in both 2011-12 and 2012-13. This improvement is consistent with surpluses exceeding budget results in these years.

In 2012-13, it reported an Underlying Surplus of $0.094m, which was higher than budget but below the surplus of $0.386m reported in the previous year.

Council has, in general, budgeted for Underlying Surpluses, which is consistent with the need to assure long-term financial sustainability and indicate Council operated on a break-even basis.

Net Surplus in 2012-13 improved on prior year results mainly due to the recognition of $1.766m of donated land and previously unrecognised road assets.



Council's Total Assets and Net Assets increased steadily over the period under review, with Total Assets increasing by $16.881m (13.81%) from 2009-10 to 2012-13. The movement related primarily to asset revaluation increments for drainage, land and buildings and capital expenditure on roads and bridges.

In 2012-13 Council reported a Net Assets increase of $4.858m to $117.490m. The increase is attributed to expenditure on capital works in 2012-13. Major expenditure included $1.235m on roads, $0.365m on Plant and equipment and $1.346m on bridges, jetties and pontoons.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	6 654	6 672	6 425	5 746
Fees and charges	565	440	517	610
Grants**	1 741	1 683	1 690	1 637
Interest revenue	140	170	234	182
Other revenue	327	512	412	495
Total Revenue	**9 427**	**9 477**	**9 278**	**8 670**
Employee costs	3 205	3 482	3 152	3 027
Depreciation	2 127	2 087	2 047	1 868
Finance costs	217	130	179	173
Other expenses	3 922	3 684	3 514	4 253
Total Expenses	**9 471**	**9 383**	**8 892**	**9 321**
Underling Surplus (Deficit)	**(44)**	**94**	**386**	**(651)**
Capital grants	592	518	691	625
Financial assistance grant received in advance**	0	876	849	415
Offset Financial assistance grant in advance**	(849)	(849)	(415)	(409)
Fair value of assets received free of charge	0	1 766	0	0
Insurance recovery - misappropriation	0	0	0	390
Insurance recovery - Hillwood Football Club building	0	0	38	250
Write off - Hillwood Football Club building	0	0	0	(182)
Net Surplus (Deficit)	**(301)**	**2 405**	**1 549**	**438**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	2 046	7 987	2 584
Fair value adjustment arising from change in allocation order	0	0	0	(975)
Current year fair value adjustment Ben Lomond Water	0	407	126	231
Total Other Comprehensive Income	**0**	**2 453**	**8 113**	**1 840**
Comprehensive Surplus (Deficit)	**(301)**	**4 858**	**9 662**	**2 278**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit. An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.*

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$’000s
Cash and financial assets	4 452	5 710	4 063	3 375
Receivables	644	265	254	610
Non-current assets held for sale	709	707	704	699
Other	46	41	48	91
Total Current Assets	**5 851**	**6 723**	**5 069**	**4 775**
Payables	482	384	624	713
Borrowings	132	159	54	51
Provisions - employee benefits	613	458	447	281
Other	397	384	181	191
Total Current Liabilities	**1 624**	**1 385**	**1 306**	**1 236**
Net Working Capital	**4 227**	**5 338**	**3 763**	**3 539**
Property, plant and equipment	93 942	88 523	80 660	77 926
Investment in Ben Lomond Water	21 732	21 325	21 199	21 943
Total Non-Current Assets	**115 674**	**109 848**	**101 859**	**99 869**
Borrowings	2 232	2 363	2 522	2 576
Provisions - employee benefits	179	191	130	140
Total Non-Current Liabilities	2 411	2 554	2 652	2 716
Net Assets	**117 490**	**112 632**	**102 970**	**100 692**
Reserves	67 748	66 339	56 793	53 154
Accumulated surpluses	49 742	46 293	46 177	47 538
Total Equity	**117 490**	**112 632**	**102 970**	**100 692**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 691	7 907	8 257	6 875
Cash flows from Government	1 711	2 124	1 643	1 614
Payments to suppliers and employees	(7 315)	(7 326)	(7 769)	(7 010)
Interest received	170	234	182	144
Finance costs	(130)	(179)	(173)	(239)
Misappropriation loss	0	0	0	(186)
Cash from (used in) Operations	**2 127**	**2 760**	**2 140**	**1 198**
Capital grants and contributions	518	691	625	1 336
Payments for property, plant and equipment	(4 013)	(1 934)	(2 199)	(2 939)
Proceeds from sale of property, plant and equipment	185	8	0	23
Distributions Ben Lomond Water	83	176	173	152
Cash from (used in) Investing Activities	**(3 227)**	**(1 059)**	**(1 401)**	**(1 428)**
Repayment of borrowings	(158)	(54)	(51)	(48)
Cash from (used in) Financing Activities	**(158)**	**(54)**	**(51)**	**(48)**
Net Increase (Decrease) in Cash	**(1 258)**	**1 647**	**688**	**(278)**
Cash at the beginning of the year	5 710	4 063	3 375	3 653
Cash at End of the Year	**4 452**	**5 710**	**4 063**	**3 375**

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		94	386	(651)	(292)
Operating surplus ratio*, **	>0	0.99	4.16	(7.51)	(3.52)
Asset Management					
Asset sustainability ratio*	100%	130%	70%	91%	145%
Asset renewal funding ratio*, ***	90%-100%	77%	100%	N/A	N/A
Road asset consumption ratio*	>60%	72.5%	72.7%	72.4%	73.4%
Asset investment ratio	>100%	192%	94%	118%	285%
Liquidity					
Net financial assets (liabilities) ($'000s)		1 061	2 036	359	32
Net financial liabilities ratio*, ****	0% - (50%)	11.2%	21.9%	4.1%	0.4%
Operational Efficiency					
Liquidity ratio	2:1	5.04	6.45	5.03	3.89
Current ratio	1:1	3.60	4.85	3.88	3.86
Interest coverage		15.36	14.42	11.37	12.42
Self financing ratio		22.4%	29.7%	24.7%	33.7%
Own source revenue		82.2%	81.8%	81.1%	80.7%
Debt collection	30 days	33	14	15	35
Creditor turnover	30 days	13	14	13	22
Rates per capita ($)		983	930	834	845
Rates to operating revenue		70.4%	69.2%	66.3%	68.5%
Rates per rateable property ($)		1 515	1 469	1 330	1 329
Operating cost to rateable property ($)		2 130	2 033	2 157	1 985
Employee costs expensed ($'000s)		3 482	3 152	3 027	2 547
Employee costs capitalised ($'000s)		467	390	293	191
Total employee costs ($'000s)		3 949	3 542	3 320	2 738
Employee costs as a % of operating expenses		37%	35%	32%	30%
Average staff numbers (FTEs)		49	45	44	47
Average staff costs ($'000s)		81	79	75	58
Average leave balance per FTE ($'000s)		16	14	13	9

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratio.*

***** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, as s is the case with George Town Council, liquid assets exceed total liabilities.

GLAMORGAN SPRING BAY COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit for the year of $0.717m, a significant decline on last year.
- Council's net result for the year was a surplus of $0.193m.
- At 30 June 2013, Council had Net Assets of $110.272m with its most significant asset being Property, plant and equipment, $72.673m and largest liability, Borrowings $1.407m.
- Although Council submitted financial statements by the due date, they were not complete in all material respects and were returned to Council.

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

We noted deficiencies in user access controls in Council's general ledger, business continuity arrangements, and financial statement preparation processes, as well as non-compliance with the procurement policy and a number of internal controls weaknesses were identified. These matters were reported to, and are being dealt with, by management.

The audit was completed satisfactorily with no other items outstanding.

Key developments this year included:

- revaluation of Council infrastructure assets as at 30 June 2013 resulting in a revaluation increment, $19.333m,
- Council provided unbudgeted administration services for the health and medical centres in Bicheno and Triabunna from July 2012 costing $0.245m
- Council incurred a loss of $0.020m due to fraud
- implementation of a new general ledger which is 'cloud' based on 1 July 2012
- acquisition of the Spring Bay child care centre from Northern Childcare Network
- new loans of $1.200m from the Tasmanian Public Finance Corporation to fund the Triabunna Marina development in 2013-14
- a contribution, $0.050m, to the East Coast Regional Tourism Board, a new incorporated organisation set up in partnership with Tourism Tasmania and Break O'Day Council to promote tourism in the region
- Council implemented a flat rating system for non-vacant residential properties and vacant residential land by setting an average area rate.

Major variations between the 2012-13 and 2011-12 financial years included:

- Contribution - non–monetary assets, $0.260m, relating to the acquisition of the Spring Bay child care centre
- the visitor information centres incurred a net loss of $0.166m.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
During the year Council undertook a revaluation of infrastructure assets which were last revalued in June 2005. Although assets were indexed in subsequent years, without sufficient regularity in revaluation there is an increased risk that assets may differ significantly from their fair value.	We performed tests on revaluation of Council's roads, bridges, footpath, kerbs and stormwater and drainage assets as at 30 June 2013 conducted by external valuers.
A 'cloud' based accounting system was implemented by Council on 1 July 2012. Risks arising from the implementation exist in the areas of data security, user access management and business continuity processes.	We tested the new system focussing on data security, application monitoring, user access management, IT Business Continuity Processes as well as review of Council's service level agreement with the application supplier.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013. However, these financial statements were rejected because Council did not meet the requirement under the *Audit Act 2008* of lodging financial statements that were 'complete in all material respects'.

Updated financial statements were received on 30 August 2013. An unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Revaluation of Infrastructure Assets

Council's buildings, roads, footpath, kerbs and stormwater infrastructures were revalued independently as at 30 June 2013. The revaluation resulted in a $19.333m revaluation increment.

Flat Rating of Residential Properties

At a special meeting of Council on the 3 August 2012, it resolved to implement a flat rating system for non-vacant residential properties and vacant residential land by setting an average area rate (AAR). As a result of changes to the *Local Government Act 1993* (LG Act) and after obtaining approval from the Director of Local Government, Council was able to charge an AAR. The introduction of the AAR should enable Council to raise future increases in rates by means of indexation. Council obtained legal advice on the rates resolution to ensure it met the requirements of the LG Act, which it did.

KEY FINDINGS

There was one high risk finding identified during the course of the audit regarding user access rights in Council's new accounting system. We noted that the system could not restrict users from performing incompatible functions given their duties.

There were also moderate risk findings identified and brought to the Council's attention, as detailed below:

- the 'cloud' based accounting system was implemented by Council on 1 July 2012. However, there are aspects of this application which are unknown and Council needs to be aware of the risks. The major risks appear to exist in data storage and IT business continuity
- when reviewing procurement of goods and services by credit cards, we noted that supporting invoices for credit card transactions incurred by some staff could not be located for the period from July 2012 to January 2013
- when reviewing the financial statements for 2012-13, we noted a number of discretions which were subsequently addressed
- a number of internal control weaknesses and reconciliations requiring attention were identified
- land and buildings had not been revalued since 2005.

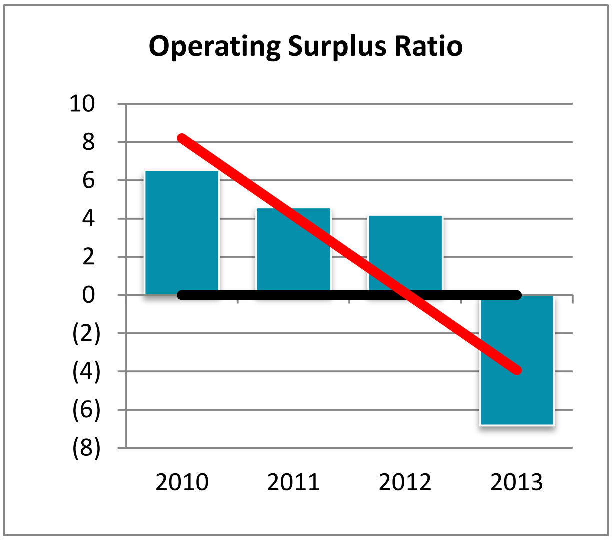
These matters were raised with management and are being addressed.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangement.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.

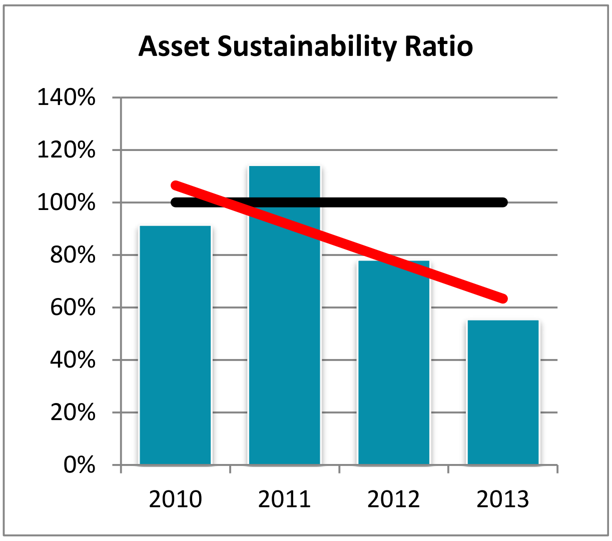


Council' Operating surplus ratio dropped below benchmark of zero in 2012-13. The decline in the ratio was mainly due to additional expenses incurred such as:

- valuation costs associated with revaluation of Council's infrastructure assets as at 30 June 2013
- a net loss of $0.245m incurred relating to running medical centres in Triabunna and Bicheno which came under Council's management from July 2012
- a net loss of $0.166m incurred by visitor information centres mainly due to setup and staffing costs. Improvements are expected by Council over the next few years as business picks up
- a new annual contribution of $0.050m to the East Coast Regional Tourism Board
- feasibility study on marine infrastructure for which funding was received in 2011-12
- higher Depreciation.

A negative ratio this year indicates Council did not generate sufficient revenue to fulfil its operation requirements, including Depreciation charges. However, over the four years reviewed the ratio averaged 2.13.

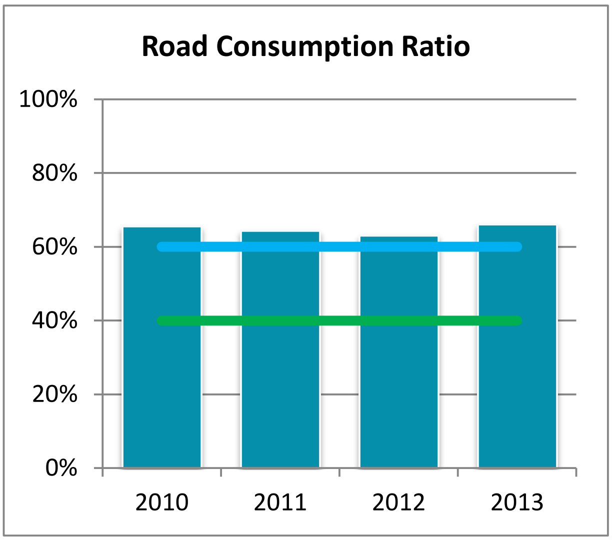
Of concern is that Council budgeted for Underlying Deficits in each of the four years under review.



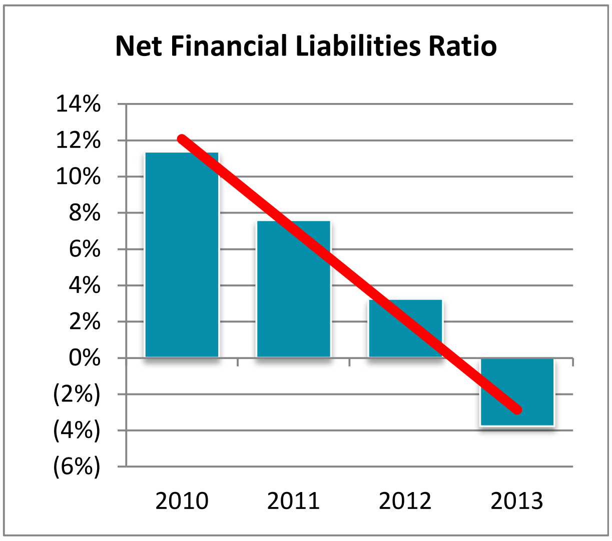
Asset sustainability ratio was below benchmark in three of the four years under review. Over the four years, Council's average ratio was 85%, and below the benchmark, indicating that, subject to levels of maintenance expenditure and the existence of a long-term asset management plan, it did not adequately maintain its investment in existing assets.

Asset Renewal Funding Ratio

Council has developed draft asset and financial management plans, but these had not been approved by Council as at 30 June 2013.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 34% of the service potential of roads which means that, on average these assets had sufficient capacity to continue to provide service to ratepayers.



Council's Net financial liabilities ratio dropped to negative 3.8 in 2012-13 following the take up loans of $1.200m from the Tascorp for the Triabunna marina development. The loans are required to be fully repaid in ten years with principal repayments and interest charges to be made bi-annually.

A negative Net financial liabilities ratio was due to total liabilities exceeding liquid assets by $0.396m, which represents 3.8% of operating revenue. The negative ratio was within our benchmark of negative 50%. However, the downward trend requires attention by Council.

It was noted that Council's Cash and financial assets are subject to a number of internal restrictions, mainly leave provisions, that limit the amount available for discretionary use. Restricted funds represented, $1.025m of the total Cash and financial assets balance of $1.884m. Unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it:

- did not have an audit committee
- had not endorsed asset and financial management plans. However, we were advised that Council expected to have these plans endorsed at its October 2013 meeting that the plan will cover the period from 2013-14 to 2020-21.

Conclusion as to Financial Sustainability

From a financial operating perspective, over the four year period under review, Council consistently recorded Underlying Surpluses with the exception for the current year. Of concern is that Council budgeted for Underlying Deficits each year.

Asset sustainability ratio averaging 85% over the period was below our 100% benchmark. However, the Road asset consumption ratio indicated that Council's roads had sufficient capacity to provide service to ratepayers.

Council's Net financial liabilities ratio dropped to negative 4.0% in 2012-13, within our benchmark of negative 50%.

Council did not have an audit committee but is expected to have asset management and financial management plans endorsed in October 2013.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at a high risk from a governance perspective, at moderate financial sustainability risk from an asset management and net financial liabilities perspective and low risk from an operating perspective.

Council's Comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council on average over the last six years has reported an operating surplus of $129 000. The 2012-13 year was a particularly hard year with unexpected costs and in 2013-14 Council is expected to return to a small operating surplus. Council budgets for an underlying deficit as a worst case scenario.

The Asset sustainability ratio over six years is approximately 92%. It is unfair to determine this over four years as depreciation expense remains constant however asset renewal is only done as per the asset management plan. This enables new works to be increased in some years and renewals to be decreased. A fairer system would be to include all capital expenditure.

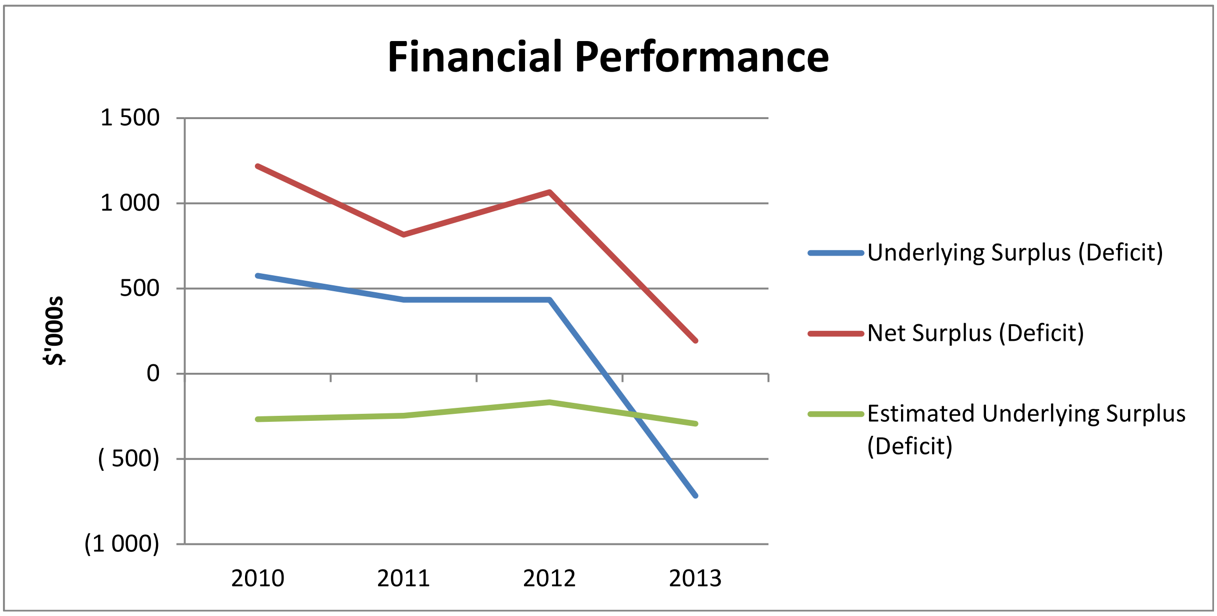
Borrowing caused the net financial liabilities to dip which will be adjusted in 2013-2014 as the assets come on line.

Council will try and get some interest in an audit committee in 2013-14, however previous enquiries have not succeeded.

Both asset and financial management plans have now been endorsed by Council.

Overall Council does not consider it is at high risk from a governance perspective and certainly not at moderate financial sustainability risk. We believe we are low risk in all categories.

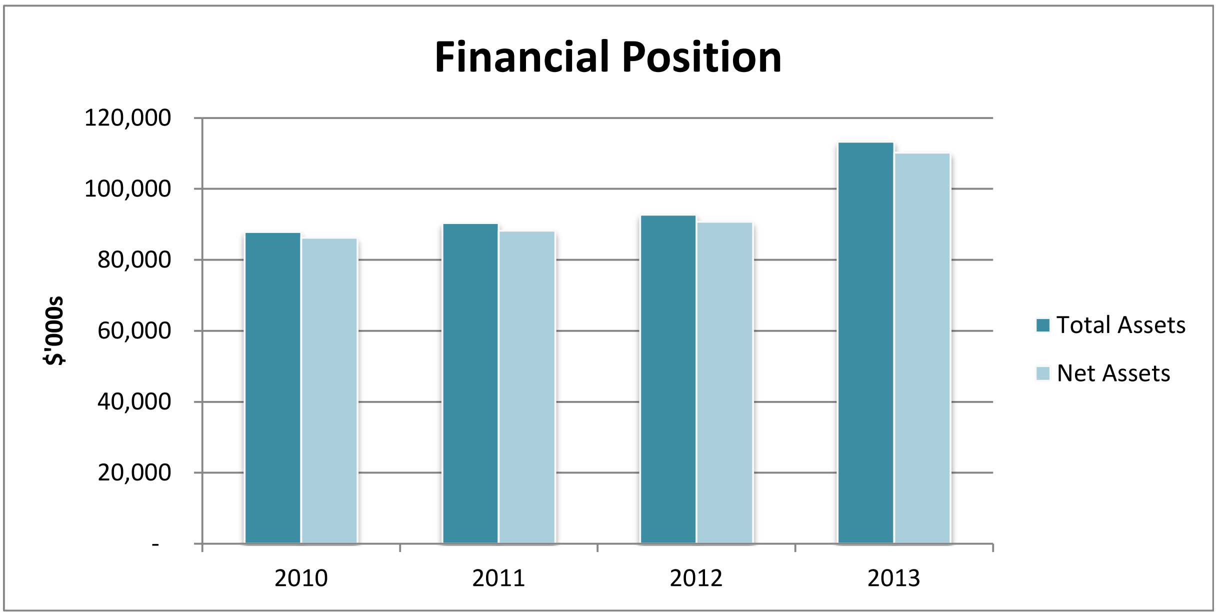
FINANCIAL ANALYSIS



Council's recorded Underlying Surpluses in each of the first three years of the period under review but an Underlying Deficit this year. The Underlying Deficit in 2012-13 was mainly due to additional expenses incurred referred to previously when discussing the Operating surplus ratio.

Over the four year period under review, Council's underlying result was consistently better than its underlying budgeted result with the exception for 2012-13. The higher than estimated Underlying Deficit in 2012-13 was mainly attributable to:

- higher than estimated Depreciation, $0.235m,
- a loss on operating the medical centres of $0.245m, when it was budgeted to break-even.



Council's Total Assets and Net Assets increased over the four years under review. Net Assets increased by $24.051m, or 27.9%, primarily due to an increase in the value of infrastructure assets and surpluses generated through Council's operations over the period.

In 2012-13, Council reported an increase in Net Assets of $19.469m to $110.272m at 30 June 2013. The increase was largely due to an upward revaluation of infrastructure assets as at 30 June 2013, $19.333m, investments in those infrastructure assets, $1.417m, partly offset by taking up loans for the Triabunna marina development, $1.200m.

Council has a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management. Infrastructure assets consisted of roads, bridges, marine facilities, stormwater and drainage assets which represented 49.7% of total Property, plant and equipment and 51.0% of total Net Assets.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	6 089	6 079	5 845	5 651
Fees and charges	1 202	1 141	1 214	1 173
Grants**	1 853	2 086	2 209	1 887
Other revenue	444	1 093	852	521
Interest revenue	130	99	160	201
Total Revenue	**9 718**	**10 498**	**10 280**	**9 433**
Employee costs	3 474	3 498	3 229	2 962
Depreciation	1 810	2 045	1 959	1 600
Other expenses	4 706	5 624	4 638	4 409
Finance costs	21	48	21	29
Total Expenses	**10 011**	**11 215**	**9 847**	**9 000**
Underlying Surplus (Deficit)	**(293)**	**(717)**	**433**	**433**
Capital grants	293	607	322	378
Contribution - non-monetary assets	0	260	0	0
Financial assistance grant received in advance**	0	670	627	317
Offset Financial assistance grant in advance**	0	(627)	(317)	(312)
Net Surplus (Deficit)	**0**	**193**	**1 065**	**816**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	19 333	1 385	1 017
Current fair value adjustment Southern Water	0	(8)	83	217
Total Comprehensive Income (Expense)	**0**	**19 325**	**1 468**	**1 234**
Comprehensive Surplus	**0**	**19 518**	**2 533**	**2 050**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance has been shown separately after Underlying Surplus (Deficit).*

The Offset figures enables the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	1 884	1 924	1 618	1 282
Receivables	398	373	291	334
Investments	411	11	910	1 085
Other	110	227	211	43
Total Current Assets	**2 803**	**2 535**	**3 030**	**2 744**
Payables	612	624	828	505
Borrowings	198	55	67	49
Provisions – employee benefits	513	467	441	416
Other	130	144	160	167
Total Current Liabilities	**1 453**	**1 290**	**1 496**	**1 137**
Net Working Capital	**1 350**	**1 245**	**1 534**	**1 607**
Property, plant and equipment	72 673	52 346	49 527	47 577
Investment in Southern Water	37 841	37 849	37 766	37 549
Receivables	44	47	51	54
Total Non-Current Assets	**110 558**	**90 242**	**87 344**	**85 180**
Borrowings	1 407	424	464	531
Provisions – employee benefits	229	259	143	35
Total Non-Current Liabilities	**1 636**	**683**	**607**	**566**
Net Assets	**110 272**	**90 804**	**88 271**	**86 221**
Reserves	48 029	28 655	27 242	25 960
Accumulated surpluses	62 243	62 149	61 029	60 261
Total Equity	**110 272**	**90 804**	**88 271**	**86 221**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 885	7 832	7 225	7 579
Cash flows from Government	2 129	2 595	1 962	2 013
Payments to suppliers and employees	(9 465)	(8 135)	(7 004)	(7 711)
Interest received	96	176	188	128
Finance costs	(37)	(27)	(30)	(49)
Cash from (used in) Operations	**1 608**	**2 441**	**2 341**	**1 960**
Capital grants and contributions	607	322	378	632
Investments realised (made)	(400)	899	175	(1 085)
Payments for property, plant and equipment	(3 005)	(3 438)	(2 571)	(1 889)
Proceeds from sale of property, plant and equipment	24	130	62	190
Cash from (used in) Investing Activities	**(2 774)**	**(2 087)**	**(1 956)**	**(2 152)**
Proceeds from borrowings	1 200	0	0	0
Repayment of borrowings	(74)	(48)	(49)	(78)
Cash from (used in) Financing Activities	**1 126**	**(48)**	**(49)**	**(78)**
Net Increase (Decrease) in Cash	**(40)**	**306**	**336**	**(270)**
Cash at the beginning of the year	1 924	1 618	1 282	2 317
Transfer of cash to Southern Water	0	0	0	(765)
Cash at End of the Year	**1 884**	**1 924**	**1 618**	**1 282**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(717)	433	433	574
Operating surplus ratio*, ****	>0	(6.83)	4.21	4.59	6.53
Asset Management					
Asset sustainability ratio*	100%	56%	78%	114%	91%
Asset renewal funding ratio**	90% - 100%	N/A	N/A	N/A	N/A
Roads consumption ratio*	>60%	66.1%	63.1%	64.3%	65.5%
Asset investment ratio	>100%	147%	175%	161%	129%
Liquidity					
Net financial liabilities ($'000s)		(396)	335	716	998
Net financial liabilities ratio*, ***	0% - (50%)	(3.8%)	3.3%	7.6%	11.4%
Operational Efficiency					
Liquidity ratio	2:1	3.32	3.40	3.15	4.88
Current ratio	1:1	1.93	1.97	2.03	2.41
Interest coverage	3:1	42.46	89.41	77.03	39.00
Self financing ratio		15.3%	23.7%	24.8%	22.3%
Own source revenue		80.1%	78.5%	80.0%	77.7%
Debt collection	30 days	20	19	16	19
Creditor turnover	30 days	16	22	22	19
Rates per capita ($)		1 372	1 326	1 254	1 172
Rates to operating revenue		57.9%	56.9%	59.9%	60.0%
Rates per rateable property ($)		1 084	1 052	1 016	966
Operating cost to rateable property ($)		2 000	1 773	1 618	1 505
Employee costs expensed ($'000s)		3 498	3 229	2 962	2 626
Employee costs capitalised ($'000s)		257	221	170	133
Total employee costs ($'000s)		3 755	3 450	3 132	2 759
Employee costs as a % of operating expenses		31%	33%	33%	32%
Average staff numbers (FTEs)		54	49	48	45
Average staff costs ($'000s)		70	70	66	61
Average leave balance per FTE ($'000s)		14	15	12	10

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *Information not available to calculate ratio.*

*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Glamorgan Spring Bay Council, liquid assets exceed total liabilities.

**** *This ratio is also called the Underlying result ratio.*

KENTISH COUNCIL

SNAPSHOT

- Council maintained an Underlying Surplus this year and performed slightly better than forecast.
- It reported a Comprehensive Surplus of $4.391m resulting in Total Equity at 30 June 2013 of $98.399m.
- Over the period under review, Council's underlying result was consistently slightly above its estimated Underlying Result.

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

We noted deficiencies in Council's IS systems. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

There were no major new developments or variations between the 2012-13 and 2011-12 financial years.

RESOURCE SHARING ARRANGEMENTS

Council entered into a strategic alliance arrangement in 2008 with Latrobe Council. In March 2010, these councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal resource sharing arrangement was entered into with an intention of extending it to include other employees, as positions became available or opportunities were identified.

A Municipal Alliance Committee, comprising two councillors from each Council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. As local government looks at ways and means for providing cost effective practises, resource sharing is one of the strategies that can be used to ensure councils continue to attract and keep quality staff, provide succession planning and extend service provision that might not be viable on an individual council basis.

At 30 June 2013, Kentish and Latrobe Councils had six regular (2012, three regular, two occasional) resource shared positions.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to road infrastructure assets to maintain the currency of valuation between full revaluations.	We tested the validity of the indices and ensured they were correctly applied.
A revaluation of buildings and stormwater infrastructure assets was brought to account at 30 June 2013. The valuation was undertaken by Council management based on replacement costs and market information.	We: • tested the calculations and underlying assumptions supporting fair values of assets • examined revaluation information in Council's asset register to the underlying valuation data • reviewed the qualifications and independence of Council's engineer to enable us to conclude as to their expertise, and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

There were no key developments noted in 2012-13.

KEY FINDINGS

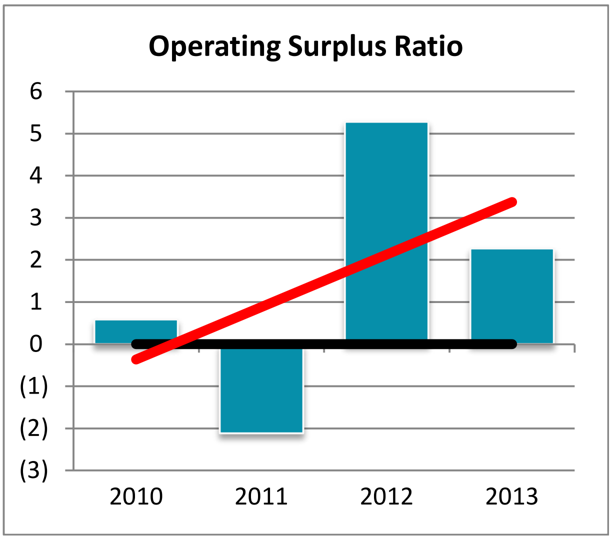
IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When examining the existence and adequacy of Council's IS system controls we noted weaknesses in user access management, including access rights, inadequate segregation of duties and the use of super-user accounts and lack of review of changes to master file data. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other matters outstanding.

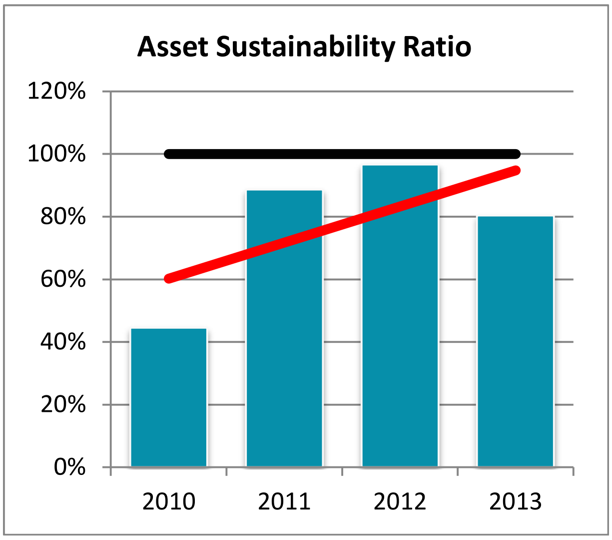
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



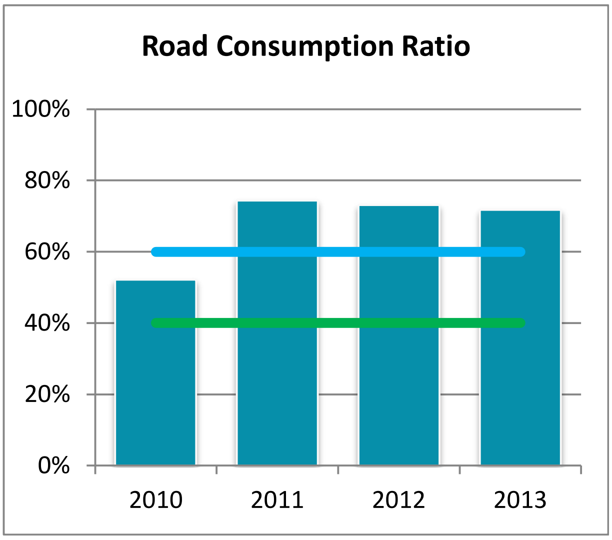
Council recorded Underlying Surpluses in three of the four years under review. The 2010-11 deficit was mainly due to flood damage expenses exceeding funding from the Tasmanian Relief and Recovery Arrangements Program – January 2011 Floods by $0.352m, a combination of timing of reimbursements and self-funding thresholds applied. Over the four year period, Council averaged a positive ratio of 1.51, which indicates it generated sufficient revenue to meet its operating requirements including Depreciation.



The Asset sustainability ratio was below benchmark in all years under review and averaged 78% over the period. The ratio indicated, subject to levels of maintenance expenditure, Council under-invested in existing assets.

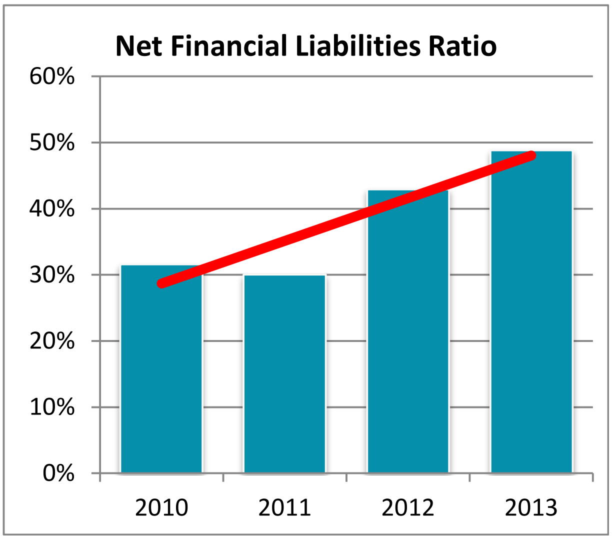
Asset Renewal Funding Ratio

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. The asset management plan is expected to be updated during 2013-14 based on data obtained from Council's valuers.



The improvement in the ratio at 30 June 2011 was primarily due to the revaluation of road assets at that date. The revaluation, undertaken by an external engineer, reviewed useful lives and residual values resulting in an adjustment to the accumulated depreciation balance.

At 30 June 2013, Council had consumed approximately 28% of the service potential of its road infrastructure assets indicating it had sufficient capacity to continue to provide services to ratepayers.



Council recorded a positive Net financial liabilities ratio with liquid assets well in excess of current and non-current liabilities. Its positive ratios indicated a strong liquidity position, with Council being able to meet current commitments.

It is noted that Council had contractual commitments totalling $1.210m (2011-12, $2.925m) which were not recognised in the Statement of Financial Position nor were they factored in to the Net financial liabilities ratio. Similarly, Council received grants during the year which had not yet been applied to the purpose for which they were provided, totalling $1.294m ($1.257m). In addition, Council's Cash and financial assets were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds, including contractual commitments, represented $2.893m or 45.8% of the total Cash and financial assets balance of $6.317m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing the overall liquidity position.

Governance

A review of governance arrangements indicated that Council had a finance and audit committee but that it meets irregularly and was not considered effective. Council did not have an active internal audit function. Its governance could be strengthened if its audit committee included both internal and external members, met regularly, was supported by an internal audit function, had some oversight regarding Council's financial sustainability and had a role in recommending to the General Manager certification of the financial statements.

Council had a road assets management plan and a financial plan adopted in July 2013 which extends to 2016-17. Both require improved financial data. The road asset management plan is currently under review which we understand is aimed at improving longer term asset replacement forecasts. These plans were not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded surpluses in three of the past four years with the Operating ratio trending upwards. The average Underlying Surplus was $0.121m, resulting in an average Operating surplus ratio of 1.15.

The Asset sustainability ratio indicated Council's expenditure on existing assets varied over the period and averaged 78%, which was below our 100% benchmark. This indicated Council had under-invested in existing assets over the past four years. Council's Road asset consumption ratio at 30 June 2013 indicated it has sufficient capacity to continue to provide services to its ratepayers.

Council's liquidity is adequate to meet its short-term commitments, it had a manageable debt level and a capacity to borrow should the need arise.

Council had established an audit committee but it met irregularly and did not have a significant role in the review of Council's annual financial statements. A road asset management plan exists, but is being updated and Council's financial management plan extends to 2016-17.

Based on these ratios and governance arrangements we concluded that at 30 June 2013 Council 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.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

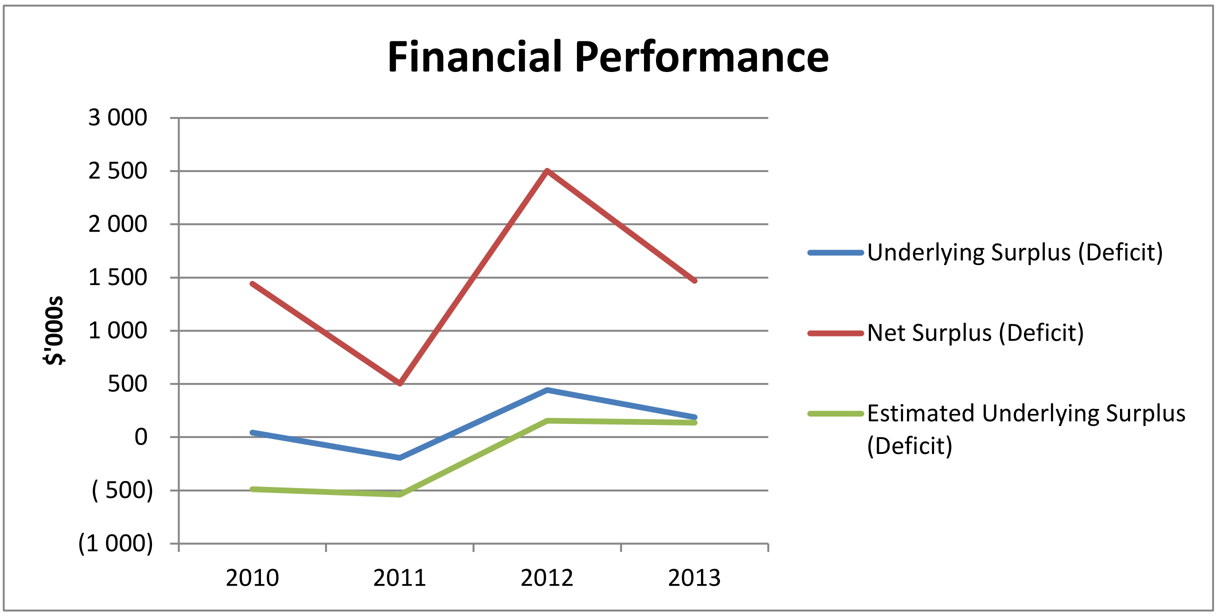
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council has continued to make progress on improving its management systems impacting upon financial sustainability. Further progress is expected over the 2013-14 financial year including completion of asset management plans for major asset classes and adoption of a ten year financial plan by Council.

Council will address governance risk establishing an audit committee by the end of the 2013-14 financial year.

Regarding the asset sustainability ratio, Council does not believe this ratio is a good short to medium-term measure of the investment required in existing assets. Council aims to renew its assets at the optimum time to minimise lifecycle costs. Renewal demand is variable depending on the age profile and condition of Council's assets and will typically vary from the depreciation figure used to calculate the asset sustainability ratio as this represents a long-term average. In Council's view, the average asset sustainability ratio of 78% merely reflects the fact that Council has less assets reaching the end of their useful lives than the long term average. This is supported by the road consumption ratio suggesting council had consumed only 28% of the service potential of its road assets.

FINANCIAL ANALYSIS



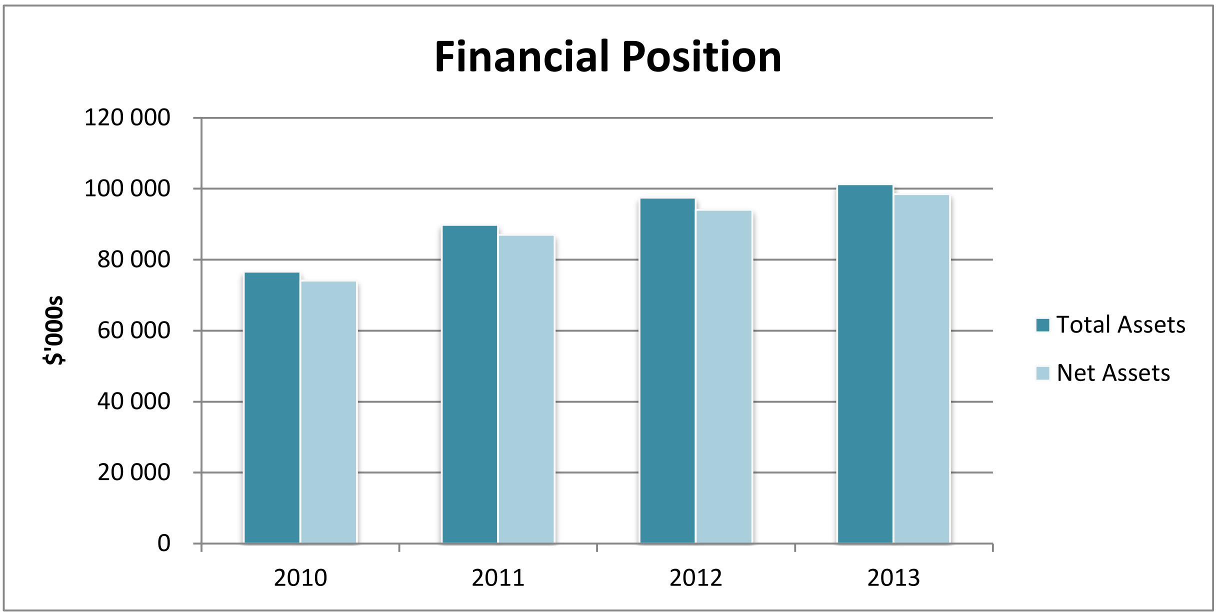
Council recorded an Underlying Surplus in three of the four years under review and averaged a surplus of $0.121m. It is pleasing that Council had budgeted for surpluses in the last two years.

Council achieved an Underlying Surplus of $0.188m largely in line with its estimated Underlying Surplus for 2012-13 of $0.136m.

However, the Underlying Surplus was a below the previous year of $0.444m, due mainly to 2011-12 including flood damage reimbursements of $0.314m, partially offset by related expenditure of $0.153m.

Due to the marginal level of Council's underlying results, 2010-11 and 2011-12 were significantly influenced by the timing of expenditure and reimbursements for the January 2011 floods, as illustrated in the table below. Expenditure outweighed reimbursements by $0.352m during 2010-11 and this reversed in 2011-12 with reimbursements exceeding expenditure by $0.161m. Over the two years Council received $1.567m and expended a total of $2.133m comprising both recurrent and capital expenditure. Minimum self-expenditure thresholds apply before disaster funding is approved. Council's underlying results with the impact of these removed would have been Underlying Surpluses of $0.158m for 2010-11 and $0.283m for 2011-12.

	2010-11	**2011-12**	**2012-13**	**Total**
	$'000s	$'000s	$'000s	$'000s
Flood damage reimbursements	1 253	314	0	1 567
Flood damage expenses	1 605	153	0	1 758
Net Revenue (Expense)	**(352)**	**161**	**0**	**(191)**
Underlying Surplus (Deficit)	**(194)**	**444**	**188**	**438**
Underlying Surplus Without Flood Impact	**158**	**283**	**188**	**629**
Flood damage capital expenditure	**81**	**294**	**0**	**375**



Council's Total Assets and Net Assets steadily increased over the period under review. Net Assets increased by $24.286m, 32.8%, primarily due to rises in the value of infrastructure assets.

In 2012-13 Council reported an increase in Net Assets of $4.391m to $98.399m. This was mainly due to a higher replacement value of roads, $6.245m, and grant funded capital expenditure, $1.245m, partly offset by decrements in buildings and stormwater assets, $3.407m.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	4 464	4 470	4 317	4 154
Fees and charges	220	351	337	362
Grants**	2 647	2 609	2 644	2 705
Interest revenue	248	253	280	280
Other revenue	513	580	817	1 650
Total Revenue	**8 092**	**8 263**	**8 395**	**9 151**
Employee costs	2 227	2 202	2 033	1 992
Depreciation	2 122	2 194	2 035	1 934
Finance costs	113	112	117	124
Other expenses	3 494	3 567	3 766	5 295
Total Expenses	**7 956**	**8 075**	**7 951**	**9 345**
Underlying Surplus (Deficit)	**136**	**188**	**444**	**(194)**
Capital grants	1 161	1 245	1 161	658
Financial assistance grant received in advance**	0	1 294	1 257	615
Offset Financial assistance grant in advance**	(1 257)	(1 257)	(615)	(575)
Capital contributions received for new or upgraded assets	0	0	256	0
Net Surplus	**40**	**1 470**	**2 503**	**504**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	2 838	4 514	15 850
Share of associate revaluation increment	0	0	7	55
Fair value adjustment arising from change in allocation order	0	0	0	(3 573)
Current year fair value adjustment Cradle Mountain Water	0	83	6	29
Total Other Comprehensive Income (Expense)	**0**	**2 921**	**4 527**	**12 361**
Comprehensive Surplus	**40**	**4 391**	**7 030**	**12 865**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit. An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.*

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit).*

The offset figures allows the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	6 317	6 554	4 422	4 609
Receivables	533	471	1 115	272
Other	192	206	211	223
Total Current Assets	**7 042**	**7 231**	**5 748**	**5 104**
Payables	661	1 234	551	245
Borrowings	74	70	70	67
Provisions – employee benefits	285	244	258	239
Other	111	112	108	124
Total Current Liabilities	**1 131**	**1 660**	**987**	**675**
Net Working Capital	**5 911**	**5 571**	**4 761**	**4 429**
Property, plant and equipment	87 422	83 528	77 417	61 452
Investments in associates	462	462	401	336
Investment in water corporation	6 290	6 207	6 201	9 745
Receivables	0	0	0	0
Total Non-Current Assets	**94 174**	**90 197**	**84 019**	**71 533**
Borrowings	1 570	1 644	1 714	1 781
Provisions – employee benefits	116	116	88	68
Total Non-Current Liabilities	**1 686**	**1 760**	**1 802**	**1 849**
Net Assets	**98 399**	**94 008**	**86 978**	**74 113**
Reserves	69 139	68 585	64 058	47 960
Accumulated surpluses	29 260	25 423	22 920	26 153
Total Equity	**98 399**	**94 008**	**86 978**	**74 113**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 923	6 680	5 924	4 795
Cash flows from Government	2 646	3 286	2 753	2 678
Payments to suppliers and employees	(6 293)	(6 425)	(7 414)	(6 284)
Interest received	277	260	280	136
Finance costs	(112)	(117)	(143)	(156)
Cash from (used in) Operations	**2 441**	**3 684**	**1 400**	**1 169**
Capital grants and contributions	1 245	1 161	658	1 464
Contributions - Capital	0	81	0	6
Payments for property, plant and equipment	(3 886)	(2 906)	(2 379)	(2 597)
Proceeds from sale of property, plant and equipment	62	173	198	26
Demolition costs	(15)	0	0	0
Cash from (used in) Investing Activities	**(2 594)**	**(1 491)**	**(1 523)**	**(1 101)**
Repayment of borrowings	(70)	(70)	(64)	(94)
Decrease in bonds and deposits (net)	(14)	9	0	0
Cash from (used in) Financing Activities	**(84)**	**(61)**	**(64)**	**(94)**
Net Increase (Decrease) in Cash	**(237)**	**2 132**	**(187)**	**(26)**
Cash at the beginning of the year	6 554	4 422	4 609	4 903
Less cash transferred to Cradle Mountain Water	0	0	0	(268)
Cash at End of the Year	**6 317**	**6 554**	**4 422**	**4 609**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		188	444	(194)	44
Operating surplus ratio*, **	>0	2.28	5.29	(2.12)	0.59
Asset Management					
Asset sustainability ratio*	100%	80%	97%	89%	45%
Asset renewal funding ratio*, ***	90% - 100%	N/A	N/A	N/A	N/A
Road asset consumption ratio*	>60%	71.8%	73.1%	74.4%	52.2%
Asset investment ratio	>100%	177%	143%	123%	149%
Liquidity					
Net financial assets (liabilities) ($'000s)		4 033	3 605	2 748	2 357
Net financial liabilities ratio*, ****	0 - (50%)	48.8%	42.9%	30.0%	31.6%
Operational Efficiency					
Liquidity ratio	2:1	8.10	4.96	7.60	11.19
Current ratio	1:1	6.23	4.36	5.82	7.56
Interest Coverage	3:1	20.79	30.49	8.79	6.49
Self financing ratio		29.5%	43.9%	15.3%	15.7%
Own source revenue		68.4%	68.5%	70.4%	67.8%
Debt collection	30 days	38	29	23	23
Creditor turnover	30 days	31	66	26	15
Rates per capita ($)		702	684	661	650
Rates to operating revenue		54.1%	51.4%	45.4%	54.7%
Rates per rateable property ($)		1 255	1 216	1 172	1 122
Operating cost to rateable property ($)		2 268	2 239	2 637	2 037
Employee costs expensed ($'000s)		2 202	2 033	1 992	1 978
Employee costs capitalised ($'000s)		66	55	-	-
Total employee costs ($'000s)		2 268	2 088	1 992	1 978
Employee costs as a % of operating expenses		27%	26%	21%	27%
Average staff numbers (FTEs)		33	31	29	30
Average staff costs ($'000s)		70	68	69	66
Average leave balance per FTE ($'000s)		12	12	12	10

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** Information not available to calculate ratio.*

***** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

KING ISLAND COUNCIL

SNAPSHOT

- Council reported an Underlying Deficit of $0.524m, which was an improvement on the previous year.
- The improved result was predominantly due to higher revenue from Rates, private works, royalties and development fees.
- Its Net Deficit was $0.097m, was an imporvement on the previous year. The improved result was due to Capital grants of $0.746m received this year.
- Council wrote-off waste disposal assets totalling $0.456m.
- As at 30 June 2013, Council's Total Assets were $71.628m and its Net Assets amounted to $69.624m.

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

We noted deficiencies in Council's policies management, segregation of duties, monitoring of inventory and processes around disposal of assets. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

During the year, Council approved two new golf course developments which resulted in higher revenue from planning application fees. It also changed its practices for capitalising works at the Parenna Waste Disposal site and decided to write-off existing assets and to expense all future costs. This resulted in an asset write-off totalling $0.456m.

There were no other major variations between the 2012-13 and 2011-12 financial years.

KEY AREAS OF AUDIT ATTENTION

There were no key areas of audit attention specific to Council. The areas which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013. These were amended and re-signed on 25 September 2013. An unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

Parenna Waste Disposal Site

Council reviewed its practices for capitalising works at this site and decided to write-off existing assets and to expense all future costs. The reason for the decision was that the useful life of landfill cells was considered to be less than twelve months and that rehabilitation works are performed at the time each cell is closed. The carrying value of these assets was $0.456m.

Golf Course Developments

Council approved two new golf courses at Cape Wickham and Three Rivers. These developments resulted in an increase of revenue in the form of planning fees and have the scope to further increase Council's revenue, for example landing charges should tourism grow.

KEY FINDINGS

During the audit we tested Council's policy register and noted that a number of policies required either updating or rescinding. Council acknowledged this finding and has commenced action to correct this. We also noted a lack of formal processes in documenting disposals of assets.

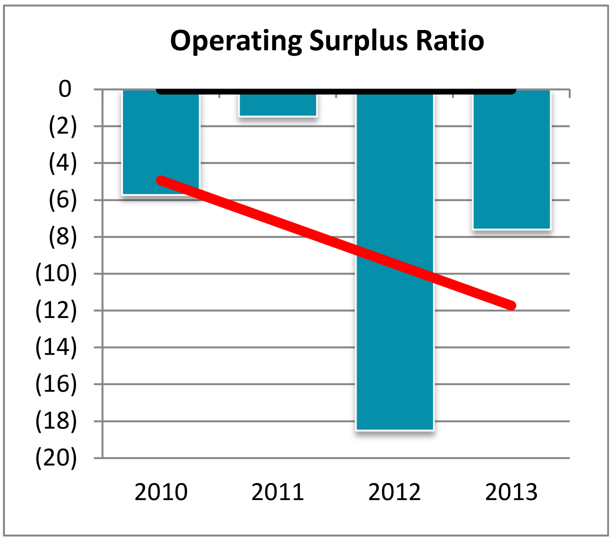
Last year, we raised with management the matter of inadequate segregation of duties concerning the raising and authorising of purchase orders, and the absence of a review over journal entries. Council has taken the view that due to the lack of available human resources, and the perceived low risk, no action will be taken. We recommended that Council reconsider its position due to the potential for fraud that a lack of segregation of duties may bring. It was also noted that there are insufficient controls to monitor inventory movement and valuation. Council acknowledged this and has commenced action to resolve these matters.

The audit was completed satisfactorily with no other matters outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

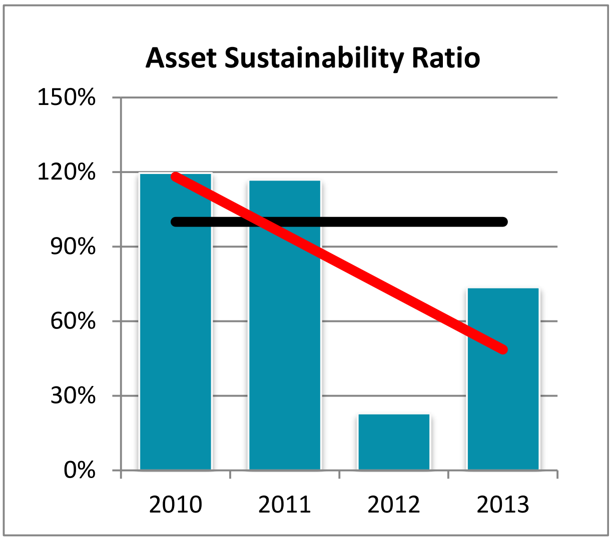
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each graph the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council's Operating surplus ratios reflect Underlying Deficits in all four years under review with the trend heading in the wrong direction. Negative ratios indicate that Council did not generate sufficient revenue to fulfil operating requirements, including its Depreciation charges. Council's Operating surplus ratios averaged a negative 8.33 over the last four years. This is a situation that will need to be remedied by Council.

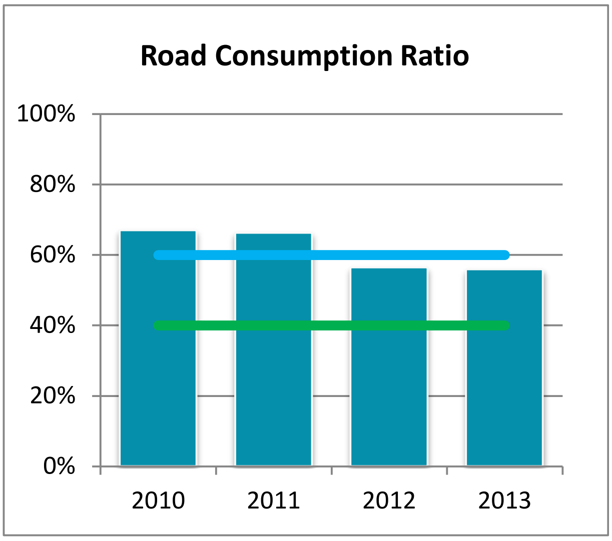
Council improved its underlying result in 2012-13. Nevertheless it still reported an Underlying Deficit of $0.524m and continued to perform below budget. The improved result this year was primarily due to higher revenue from Rates, private works, royalties and development fees.



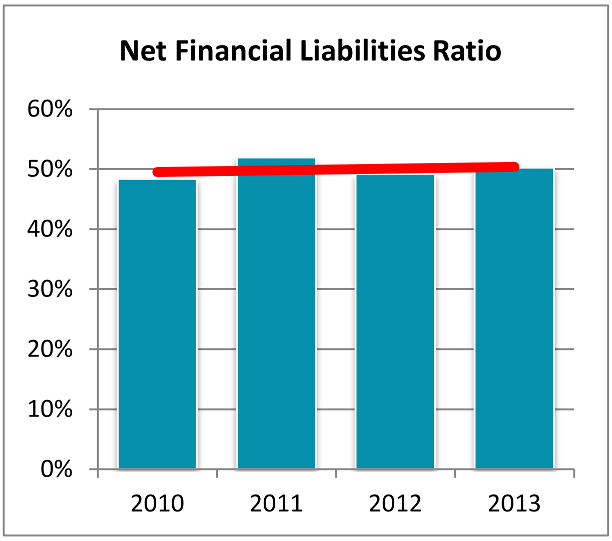
Asset sustainability ratio was below 100% in two of the four years under review and averaged 83% over that period. This indicated, subject to levels of maintenance expenditure and the implementation of a long-term asset management plan, that Council was under-investing in its existing assets although not significantly.

Asset Renewal Funding Ratio

Council did not have a long-term asset management plan. It does however have a long-term financial management plan 2008-2028, which incorporates percentage growth assumptions for assets and Depreciation. However, this plan has not been reviewed since it was adopted, and Council is in the process of updating it. As a result, we did assess it to reach conclusions about the Asset renewal funding ratio.



The graph above indicates that at 30 June 2013, Council had used (consumed) approximately 44% of the service potential of its road infrastructure assets. This indicates a moderate financial sustainability risk. However, over the four year period the ratio averaged 61%.



Council recorded a positive Net financial liabilities position with liquid assets in excess of current and non-current liabilities in each year under review. Positive ratios indicate a strong liquidity position, with Council able to meet existing commitments.

At 30 June 2013, Council held $5.075m in cash and term deposits. Reserves and restricted funds totalled $4.793m and Council had contractual commitments totalling $0.301m. Commitments and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it did not have an audit committee nor did it have approved and current long-term asset and financial management plans.

This indicates high risk from a governance perspective.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council recorded deficits in each of the past four years with a trend line heading downwards because of a large deficit reported in 2011-12. Council's operating surplus ratios averaged a negative 8.33 over the last four years and a negative 6.2 over a seven-year period.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 83% over the period, below our 100% benchmark. Its Road asset consumption ratio was at 56% in 2013, slightly below the benchmark of 60% but averaged at 61% over the period. This indicated Council's roads had sufficient capacity to continue to provide services to its ratepayers.

Council's Net financial liabilities ratios were positive indicating its liquidity was strong and it has the capacity to borrow should the need arise. However, the majority of its cash is restricted, to be used for specific purposes. Some of these restrictions are internally imposed.

As at 30 June 2013, Council did not have an audit committee nor approved and current long-term financial and asset management plans. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that, at 30 June 2013, Council was at high sustainability risk from a governance perspective, moderate risk from a financial operating and asset management perspective, but low risk from a net financial liabilities perspective.

Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council's cash position has improved and Council has succeeded in increasing its own source revenue for 2012-13. Council has had a successful year and there is expected positive economic growth for King Island in the coming years.

As in previous years, there are many cost increases that are beyond the control of Council that impact on the operating surplus and therefore the TAO's assessment of financial sustainability. This particularly applies to every small Council with static or negative growth in its municipality where there are limited opportunities to generate new untied revenue streams.

Depreciation charges increase each year calculated on assets that were previously transferred to Council by the Federal and State Governments without funds or an income stream to cover this expense. This applies to local government as a whole in Australia. King Island Council has made an effort to concentrate on renewal of existing assets, rather than upgrades or new assets.

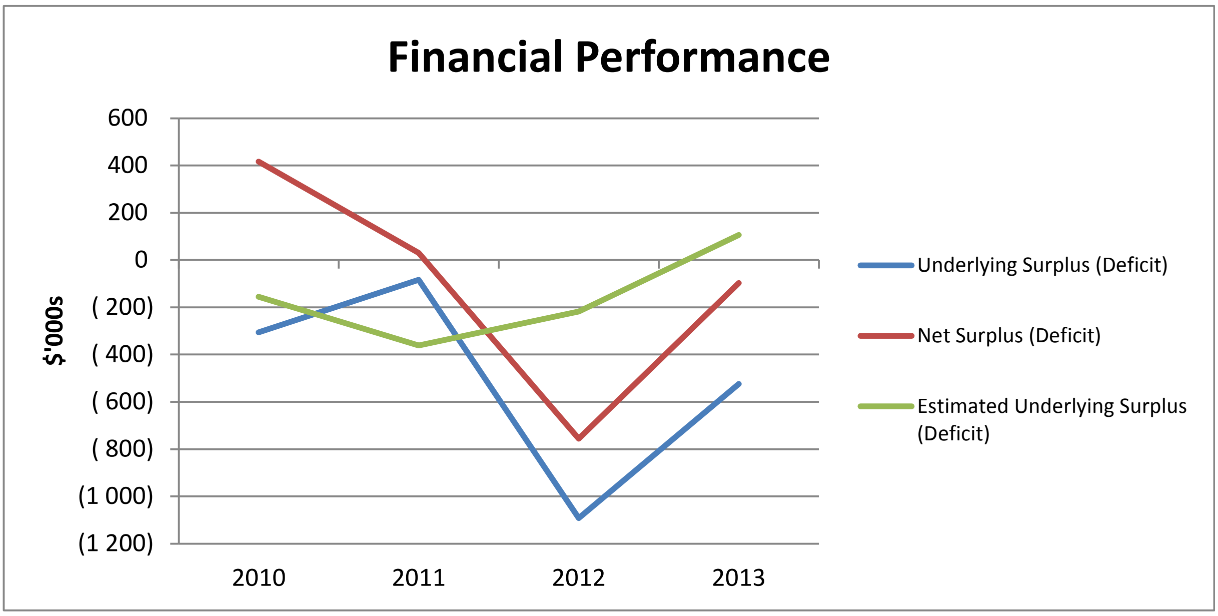
The cost of compliance also increases each year, partially due to the cost of shifting responsibilities from the State Government without ongoing compensation or assistance. The increased cost of governance without evidence of misgovernance is onerous on Local Government.

Asset management plans, long-term financial management plans and audit committees are not legislative requirements for local government in Tasmania. However, King Island Council has a draft asset management plan and an adopted long-term financial management plan. Council has determined that the cost and resources involved in an audit committee, along with the duplication of several external audits, is too onerous for King Island.

It is also noted that the Federal and State Governments do not implement these recommendations either.

Council considers itself to be financially sustainable and at low risk.

FINANCIAL ANALYSIS

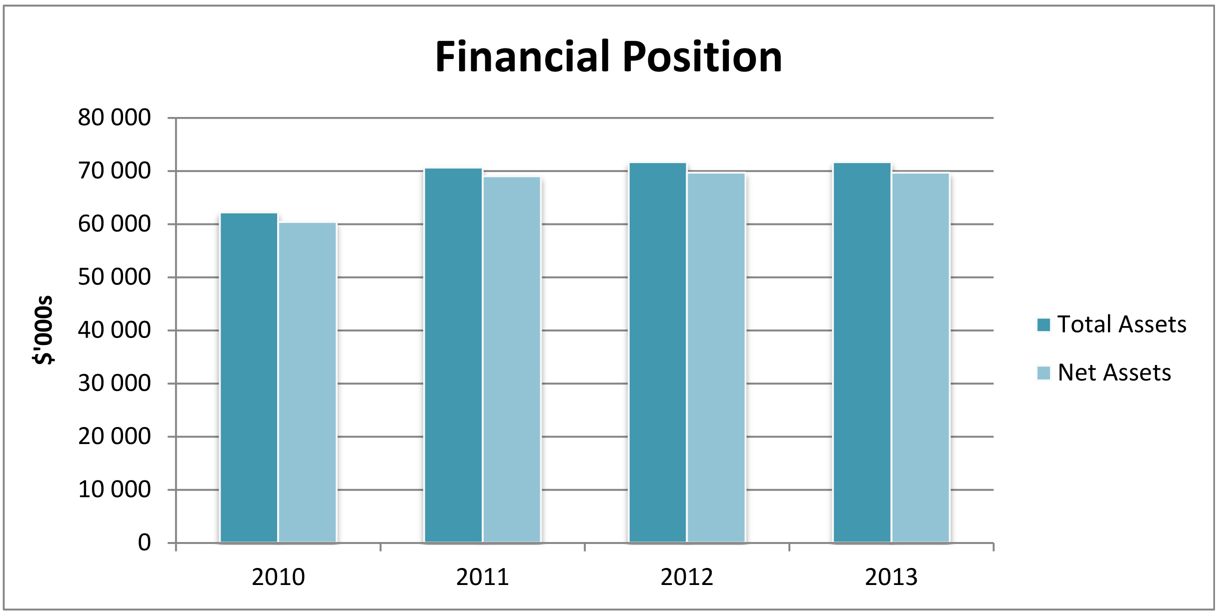


Council improved its underlying result in 2012-13, but continued to perform below budget. It reported an Underlying Deficit of $0.524m for 2012-13, which was an improvement of $0.568m on last year's Underlying Deficit of $1.092m. The improvement was attributed to an increased level of private works relating to State roads, additional one-off planning application fees for two new golf courses and higher sand mining royalties. Rates revenue increased by $0.127m or 7.3%.

Total Revenue and Total Expenses were higher this year partly because of TasWind Consultative Committee costs, for which Council was reimbursed by Hydro Tasmania.

The Underlying Deficit was $0.630m worse than a budgeted Surplus of $0.106m. The main reason for the variance was that Council under-budgeted for Depreciation charges by $0.539m.

Net Deficit was $0.097m and included capital grants which were partly offset by a write-off of the Parenna waste disposal site referred to earlier.



Council's Total Assets and Net Assets increased slightly over the period after 2009-10. Net Assets increased by $9.264m, or 15.3%, primarily due to an increase in the value of infrastructure assets.

Council reported a slight decrease in Net Assets of $0.032m to $69.624m at 30 June. The decrease was a combined result of the Net Deficit of $0.097m which was partially offset by an increase in the value of Council's investment in Cradle Mountain Water, $0.062m.

Council has a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management, consisting largely of roads and the aerodrome, which turned over $0.586m in 2012-13.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	1 842	1 876	1 749	1 658
Fees and charges	1 591	2 495	1 685	1 579
Grants**	1 704	2 121	2 079	2 171
Interest revenue	146	196	187	188
Other revenue	180	208	197	101
Total Revenue	**5 463**	**6 896**	**5 897**	**5 697**
Employee costs	2 228	2 500	2 395	2 117
Depreciation	1 371	1 910	1 758	1 269
Other expenses	1 704	2 955	2 784	2 337
Interest expense	54	55	52	58
Total Expenses	**5 357**	**7 420**	**6 989**	**5 781**
Underlying Surplus (Deficit)	**106**	**(524)**	**(1 092)**	**(84)**
Capital grants	0	746	0	269
Repayment of grants	0	0	0	(170)
Financial assistance grants received in advance**	0	735	646	310
Offset Financial assistance grant in advance**	0	(646)	(310)	(295)
Waste disposal site write-off	0	(456)	0	0
Found assets	0	48	0	0
Net Surplus (Deficit)	**106**	**(97)**	**(756)**	**30**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	3	1 412	8 421
Net asset revaluation increments/(decrements)	0	0	0	0
Fair value adjustment on available for sale assets	0	62	5	21
Change in fair value of investment in water corporation	0	0	0	163
Total Comprehensive Income (Expense)	**0**	**65**	**1 417**	**8 605**
Comprehensive Surplus (Deficit)	**106**	**(32)**	**661**	**8 635**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Underlying Result.*

The offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$’000s
Cash and financial assets	1 368	1 565	419	967
Receivables	393	488	508	377
Investments	3 707	2 795	2 507	2 601
Inventories	399	144	157	159
Other	70	35	0	91
Total Current Assets	**5 937**	**5 027**	**3 591**	**4 195**
Payables	468	237	223	206
Borrowings	167	157	138	142
Other	333	317	301	307
Provisions – employee benefits	395	399	345	459
Total Current Liabilities	**1 363**	**1 110**	**1 007**	**1 114**
Net Working Capital	**4 574**	**3 917**	**2 584**	**3 081**
Property, plant and equipment	61 056	62 004	62 421	53 580
Investment in Cradle Mountain Water	4 635	4 573	4 568	4 385
Total Non-Current Assets	**65 691**	**66 577**	**66 989**	**57 965**
Borrowings	587	754	555	659
Provisions – employee benefits	50	78	24	27
Other	4	6		
Total Non-Current Liabilities	**641**	**838**	**579**	**686**
Net Assets	**69 624**	**69 656**	**68 994**	**60 360**
Reserves	47 286	46 052	43 918	36 198
Accumulated surpluses	22 338	23 604	25 076	24 162
Total Equity	**69 624**	**69 656**	**68 994**	**60 360**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	4 957	3 596	3 281	3 366
Cash flows from Government	2 210	2 595	2 286	2 116
Payments to suppliers and employees	(5 896)	(5 066)	(4 684)	(3 927)
Interest received	196	150	189	110
Dividends	67	44	51	23
Proceeds from investments	0	0	94	0
Finance costs	(54)	(52)	(58)	(56)
Cash from (used in) Operations	**1 480**	**1 267**	**1 159**	**1 632**
Payments for property, plant and equipment	(1 407)	(634)	(1 788)	(1 704)
Proceeds from sale of property, plant and equipment	89	605	96	103
Cash from (used in) investing activities	**(1 318)**	**(29)**	**(1 692)**	**(1 601)**
Capital grants repaid		0	(170)	0
Capital grants (inclusive of GST)	746	0	269	738
Payments from trust funds	(36)	(21)	(6)	(8)
Investments in/(drawdowns from) term deposits	(912)	(289)	0	(321)
Repayment of borrowings	(157)	218	(108)	(311)
Cash from (used in) Financing Activities	**(359)**	**(92)**	**(15)**	**98**
Net Increase (Decrease) in Cash	**(197)**	**1 146**	**(548)**	**129**
Cash at the beginning of the year	1 565	419	967	838
Cash at End of the Year	**1 368**	**1 565**	**419**	**967**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		(524)	(1 092)	(84)	(306)
Operating surplus ratio*, ****	>0	(7.60)	(18.52)	(1.47)	(5.74)
Asset Management					
Asset sustainability ratio*	100%	74%	23%	117%	120%
Asset renewal funding ratio*, **	90% - 100%	N/A	N/A	N/A	N/A
Road asset consumption ratio*	>60%	55.8%	56.4%	66.3%	67.0%
Asset investment ratio	>100%	74%	36%	141%	138%
Liability Management					
Net financial assets (liabilities) ($'000s)		3 464	2 900	2 958	2 580
Net financial liabilities ratio*, ***	0 - (50%)	50.2%	49.2%	51.9%	48.4%
Operational Efficiency					
Liquidity ratio	2:1	5.99	6.86	5.19	6.02
Current ratio	1:1	4.36	4.53	3.57	3.77
Interest Coverage	3:1	26.41	23.37	18.98	28.14
Self financing ratio		21.5%	21.5%	20.3%	30.6%
Own source revenue		69.2%	64.7%	61.9%	61.8%
Debt collection	30 days	33	52	57	45
Creditor turnover	30 days	31	21	16	15
Rates per capita ($)		1,173	1,068	1,001	946
Rates to operating revenue		27.2%	29.7%	29.1%	29.7%
Rates per rateable property ($)		1 147	1 118	1 034	989
Operating cost to rateable property ($)		4 502	4 435	3 568	3 493
Employee costs expensed ($'000s)		2 500	2 395	2 117	1 751
Employee costs capitalised ($'000s)		173	96	213	235
Total employee costs ($'000s)		2 673	2 491	2 330	1 986
Employee costs as a % of operating expenses		34%	35%	37%	31%
Average staff numbers (FTEs)		34	34	33	33
Average staff costs ($'000s)		79	73	70	61
Average leave balance per FTE ($'000s)		11	14	11	15

* *For commentary on these indicators refer to the Financial Results section of this chapter.*

** *Information not available to calculate ratio.*

*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Central Highlands Council, liquid assets exceed total liabilities.

**** *This ratio is also called Underlying result ratio.*

LATROBE COUNCIL

SNAPSHOT

- In 2012-13, Council recorded an improved Underlying Surplus of $0.851m.
- Underlying Surpluses were recorded in each of the last four years, an annual average of $0.454m.
- Comprehensive Surplus was $2.707m, with Total Equity at 30 June 2013 of $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.

We noted deficiencies in Council's IS systems and that it failed to meet the legislative requirement by submitting its financial statements six days late. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments and no major variations in financial results between the 2012-13 and 2011-12 financial years or against budget in 2012-13.

RESOURCE SHARING ARRANGEMENTS

Council entered into a strategic alliance arrangement in 2008 with Kentish Council. In March 2010, these councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal resource sharing arrangement was entered into with an intention of extending it to include other employees, as positions became available or opportunities were identified.

A Municipal Alliance Committee consisting of two councillors from each Council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. As local government looks at ways and means for providing cost effective practises, resource sharing is one of the strategies that can be used to ensure councils continue to attract and keep quality staff, provide succession planning and extend service provision that might not be viable on an individual council basis.

At 30 June 2013, Latrobe and Kentish Councils had six regular (2012, three regular and two occasional) resource shared positions.

KEY AREAS OF AUDIT ATTENTION

There were no key areas of audit attention specific to Council. The areas which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 21 August 2013 and an unqualified audit report was issued on 4 October 2013.

KEY DEVELOPMENTS

There were no key developments.

KEY FINDINGS

Submission 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. Council failed to comply with this requirement and submitted its financial statements six days late.

Information Systems

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in user access management, including access rights, inadequate segregation of duties and a lack of review of changes to master file data.

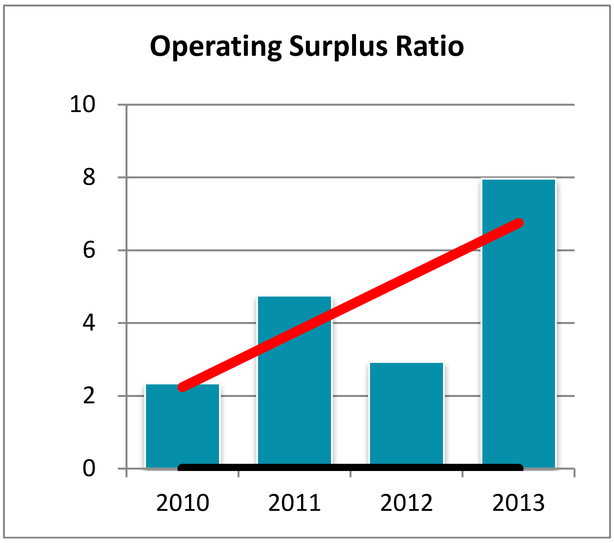
These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

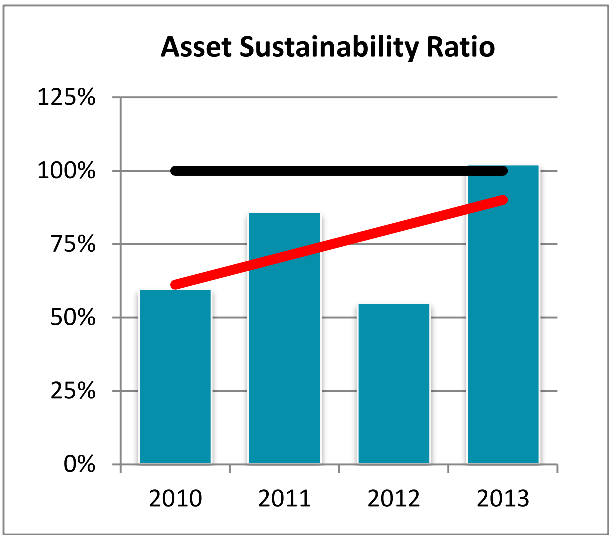
ASSESSMENT OF FINANCIAL SUSTAINABILITY

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Positive Operating surplus ratios reflected Council's Underlying Surpluses over the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

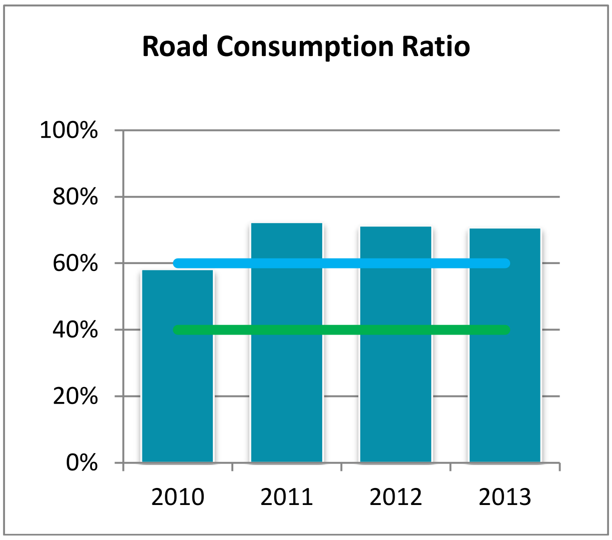


Asset sustainability ratio was below our benchmark in the first three years under review, but reached the benchmark in 2012 13. Council averaged a ratio of 76% over the period under review. This indicated, subject to levels of maintenance expenditure and the long-term asset management plans, Council may be under-investing in existing assets, although the improvement in 2012-13 is encouraging.

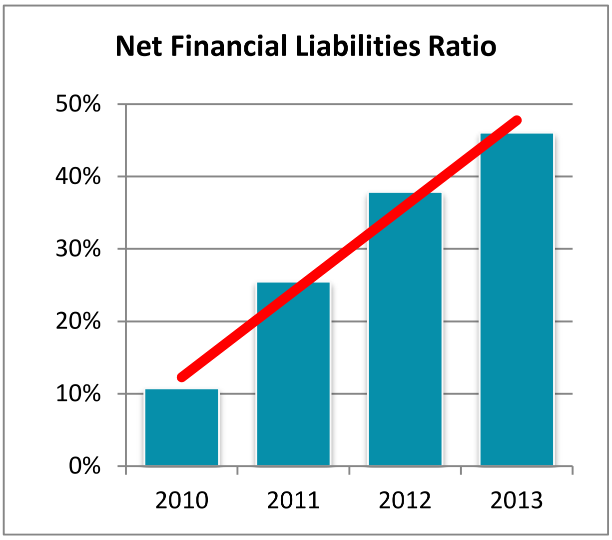
Asset Renewal Funding Ratio

Council's long-term asset management plan indicated that, based on planned asset replacement expenditure, its Asset renewal funding ratio was 106% at both 30 June 2013 and 30 June 2012, which is above our benchmark of between 90% and 100%. Council's current long-term asset management plans forecast planned and required renewal expenditure for:

- transport asset services, updated in December 2011 and extending to 2030-31
- parks and reserves – land improvements from 2010-11 to 2019-20.



The graph above indicated that at 30 June 2013 Council had used (consumed) approximately 29% of the service potential of its road assets. The ratio improved in 2010-11 due to a revaluation of roads on 1 July 2010 which included a review of useful lives and residual values. Overall, at 30 June 2013, the ratio indicated Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded positive Net financial liabilities ratios, with liquid assets in excess of current and non-current liabilities for the four years under review. The positive ratios indicate a strong liquidity position, with Council able to meet existing commitments.

Council's total liabilities consisted of Payables, employee provisions, rehabilitation provision, bonds, security deposits, refundable fees for aged care units and Borrowings.

It is noted that Council had contractual commitments totalling $3.993m (2011-12, $4.198m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which had not yet been applied to the purpose for which they were provided, totalling $0.711m ($0.734m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it does not have an audit committee or an internal audit function. Council's governance could be strengthened if it established an audit committee, with both internal and external members.

Council had long-term asset management and financial management plans. The asset management plan for transport infrastructure was reviewed in December 2011 and covers 2011-12 to 2030-31. The asset management plan for parks and reserves – land improvements covers 2010-11 to 2019-20. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

The long-term financial management plan was adopted by Council in 2005-06, was recently reviewed and extended to 2016-17. Council had commenced work on a ten year financial management plan, expected to be completed during 2013-14. It is noted these plans were not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's continuing Underlying Surpluses indicated it was generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicated, based on our 100% benchmark, it under-invested in existing assets over the period of the analysis, with an average ratio of 76%. However, the Road consumption ratio indicated Council's road consumption was in the low risk range, with road infrastructure assets only being 29% consumed. Its Asset renewal funding ratio indicated Council was planning to fund necessary replacement of existing assets over the life of its asset management plans.

Council's liquidity position was strong with it able to meet all of its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

From a governance perspective, Council did not have an audit committee or an internal audit function, but had both long-term asset and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at moderate risk from a governance and asset management perspective but low financial sustainability risk from financial operating and net financial liabilities perspectives.

Council's Comments on this Assessment of its Financial Sustainability

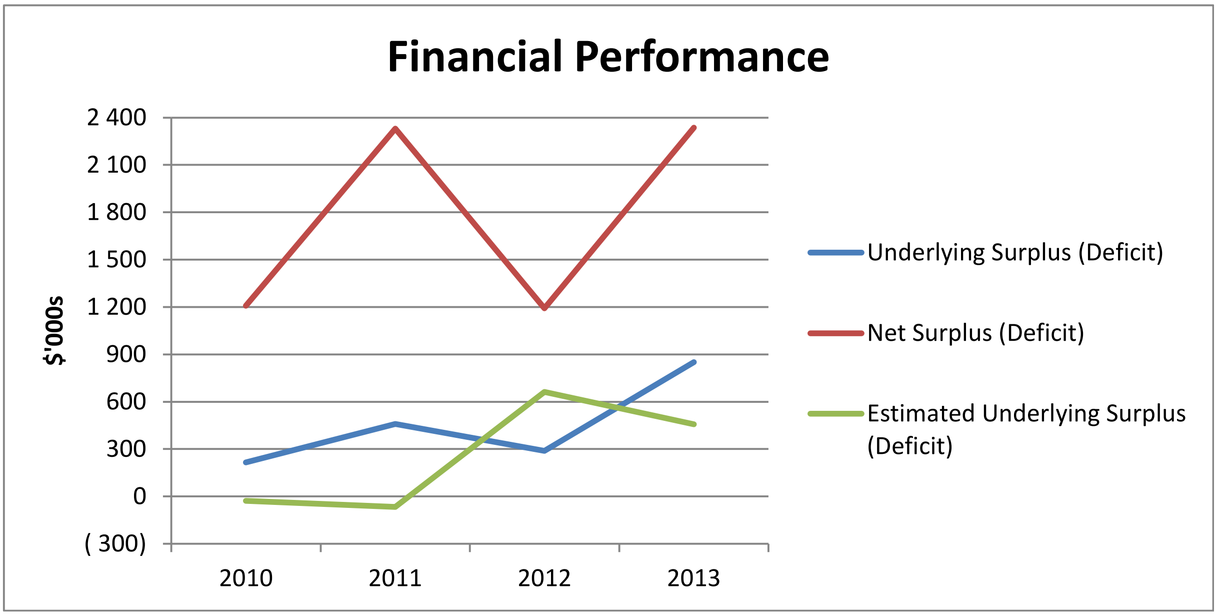
The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council has continued to make progress on improving its management systems impacting financial sustainability. Further progress is expected over the 2013-14 financial year including completion of asset management plans for all major asset classes and adoption of a ten year financial plan by Council.

Council also expects to establish an audit committee in the first quarter of 2014.

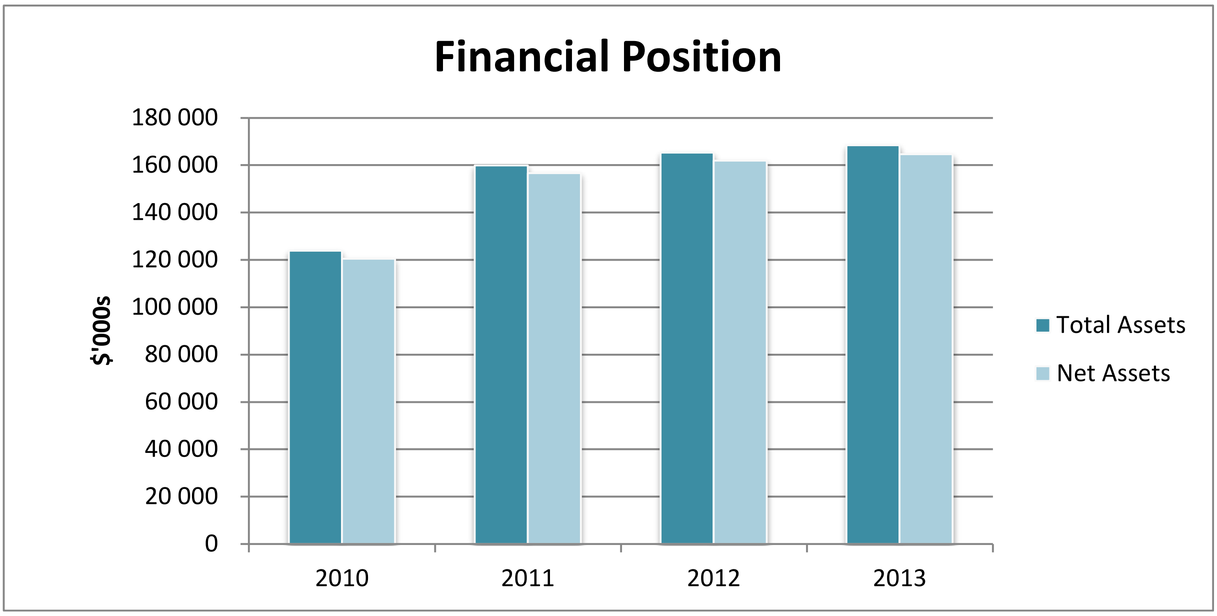
FINANCIAL ANALYSIS



Council recorded Underlying Surpluses in each of the years under review. The surpluses, in most years, exceeded budgeted results.

Council's financial performance improved to an Underlying Surplus of $0.851m in 2012-13 primarily due to higher returns from Cradle Mountain Water, $0.343m, and increased revenue from its investment in Dulverton Regional Waste Management Authority, $0.113m.

Net Surpluses fluctuated over the period. The higher result in 2012-13 included material subdivision asset contributions and Profit on sale of land. The 2010-11 Net Surplus included Elderly Persons Units' capital funding of $0.930m which contributed to the larger increase in that year.



Council's Total Assets and Net Assets increased over the period. The significant increase in 2010-11 was due to a revaluation of Council's road infrastructure assets of $30.082m.

At 30 June 2013 Council reported an increase in Net Assets of $2.707m to $164.576m. The increase was mainly due higher Cash and financial assets of $1.651m, as detailed in the Statement of Cash Flows, and an increase in Council's investment in Cradle Mountain Water, $0.361m.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	5 965	5 979	5 765	5 374
Fees and charges	967	1 339	1 442	1 496
Grants**	1 862	1 598	1 480	1 615
Interest revenue	322	404	408	337
Other revenue	1 145	1 372	729	854
Total Revenue	**10 261**	**10 692**	**9 824**	**9 676**
Employee costs	2 839	2 983	2 811	2 714
Depreciation	2 622	2 436	2 484	2 368
Finance costs	23	23	25	27
Other expenses	4 319	4 399	4 216	4 107
Total Expenses	**9 803**	**9 841**	**9 536**	**9 216**
Underlying Surplus (Deficit)	**458**	**851**	**288**	**460**
Capital grants	449	325	171	930
Financial assistance grant received in advance**	0	711	734	391
Offset Financial assistance grant in advance**	(720)	(734)	(391)	(370)
Contributions for non-current assets - other	0	29	165	329
Contributions of non-current assets - infrastructure	735	791	208	565
Profit on sale of land	(15)	363	16	26
Net Surplus (Deficit)	**907**	**2 336**	**1 191**	**2 331**
Other Comprehensive Income				
Fair value revaluation of non-current assets - Council	3 782	0	3 988	31 732
Fair value revaluation of non-current assets - Associates	0	10	15	57
Fair value adjustment arising from change in allocation order	0	0	0	1 949
Current year fair value adjustment Cradle Mountain Water	292	361	29	125
Total Other Comprehensive Income (Expense)	**4 074**	**371**	**4 032**	**33 863**
Comprehensive Surplus	**4 981**	**2 707**	**5 223**	**36 194**

* *The Estimate represents Council's original estimate for the year. This is provided for comparison only and was not subject to audit. An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.*

** *Grants received in advance have been shown separately after Underlying Surplus.*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	8 491	6 840	5 429	4 093
Receivables	220	265	275	277
Inventories	26	25	22	28
Other	1 081	1 277	1 411	1 395
Total Current Assets	**9 818**	**8 407**	**7 137**	**5 793**
Payables	903	835	705	745
Borrowings	23	21	20	41
Provisions – employee benefits	794	657	631	561
Other	423	389	431	384
Total Current Liabilities	**2 143**	**1 902**	**1 787**	**1 731**
Net Working Capital	**7 675**	**6 505**	**5 350**	**4 062**
Property, plant and equipment	130 752	129 387	125 280	92 706
Investments in associates	614	532	521	446
Investment in water corporation	27 150	26 789	26 760	24 686
Receivables	34	140	186	201
Total Non-Current Assets	**158 550**	**156 848**	**152 747**	**118 039**
Borrowings	326	349	370	630
Provisions – employee benefits	88	69	42	26
Provisions – rehabilitation	656	656	656	656
Other	579	410	383	337
Total Non-Current Liabilities	**1 649**	**1 484**	**1 451**	**1 649**
Net Assets	**164 576**	**161 869**	**156 646**	**120 452**
Reserves	89 501	89 130	85 098	53 184
Accumulated surpluses	75 075	72 739	71 548	67 268
Total Equity	**164 576**	**161 869**	**156 646**	**120 452**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 469	8 041	7 847	7 457
Cash flows from Government	1 575	1 896	1 563	1 710
Payments to suppliers and employees	(7 652)	(7 255)	(7 171)	(7 149)
Interest received	411	372	313	183
Finance costs	(23)	(25)	(27)	(31)
Cash from (used in) Operations	**2 780**	**3 029**	**2 525**	**2 170**
Capital grants and contributions	325	171	690	339
Capital contributions - cash	29	165	197	15
Distributions received - Cradle Mountain Water	634	399	402	244
Elderly persons unit donor fees	309	117	124	109
Community loans	14	24	13	(33)
Payments for property, plant and equipment	(3 187)	(2 639)	(2 770)	(2 173)
Proceeds from sale of property, plant and equipment	768	165	196	109
Cash from (used in) Investing Activities	**(1 108)**	**(1 598)**	**(1 148)**	**(1 390)**
Proceeds from borrowings	0	0	0	240
Repayment of borrowings	(21)	(20)	(41)	(69)
Cash from (used in) Financing Activities	**(21)**	**(20)**	**(41)**	**171**
Net Increase (Decrease) in Cash	**1 651**	**1 411**	**1 336**	**951**
Cash at the beginning of the year	6 840	5 429	4 093	4 028
Less cash transferred to Cradle Mountain Water	0	0	0	(886)
Cash at End of the Year	**8 491**	**6 840**	**5 429**	**4 093**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		851	288	460	216
Operating surplus ratio*, **	>0	7.96	2.93	4.75	2.34
Asset Management					
Asset sustainability ratio*	100%	102%	55%	86%	60%
Asset renewal funding ratio*, ***	90% - 100%	106%	106%	77%	N/A
Road asset consumption ratio*	>60%	70.7%	71.3%	72.4%	58.2%
Asset investment ratio	>100%	131%	106%	110%	96%
Liquidity					
Net financial assets (liabilities) ($'000s)		4 919	3 719	2 466	990
Net financial liabilities ratio*, ****	0% - (50%)	46.0%	37.9%	25.5%	10.7%
Operational Efficiency					
Liquidity ratio	2:1	6.46	5.71	4.93	3.74
Current ratio	1:1	4.58	4.42	3.99	3.35
Interest coverage	3:1	119.87	120.16	92.52	69.00
Self financing ratio		26.0%	30.8%	26.1%	23.5%
Own source revenue		85.1%	84.9%	83.3%	82.1%
Debt collection	30 days	11	13	15	15
Creditor turnover	30 days	33	34	30	38
Rates per capita ($)		511	565	536	522
Rates to operating revenue		50.3%	58.7%	55.5%	54.4%
Rates per rateable property ($)		938	1 030	977	928
Operating cost to rateable property ($)		1 718	1 704	1 676	1 665
Employee costs expensed ($'000s)		2 983	2 811	2 714	2 715
Employee costs capitalised ($'000s)		252	225	181	135
Total employee costs ($'000s)		3 235	3 036	2 895	2 850
Employee costs as a % of operating expenses		30%	29%	29%	30%
Average staff numbers (FTEs)		45	45	45	42
Average staff costs ($'000s)		73	67	65	68
Average leave balance per FTE ($'000s)		20	16	15	14

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information not obtained or unavailable to calculate prior year ratios.*

***** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

SOUTHERN MIDLANDS COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.553m. This was the fourth consecutive year of Underlying Deficits.
- Council continued to budget for Underlying Deficits. This is inconsistent with the need to assure long-term financial sustainability.
- Its Comprehensive result was a surplus of $2.834m, predominantly because of asset revaluation increments, $2.661m, and Capital grants of $0.605m.
- Council managed Net Assets worth $101.193m at 30 June 2013.

Council 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.

Audit findings included:

- weaknesses in user access management, including access rights and policies, password policy deficiencies, inadequate segregation of duties and use of super-user accounts, and lack of review of changes to master file data
- considerable time has elapsed since full revaluations were undertaken of some asset classes
- a number of weaknesses in Council's internal control structure
- its budget was based on operations excluding its subsidiaries.

These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other matters outstanding.

No key developments were noted.

There were no major variations between 2012-13 and 2011-12.

SUBSIDIARY ENTITIES

Council has a controlling interest in two companies; Heritage Building Solutions Pty Ltd and Heritage Education & Skills Centre Pty Ltd. It invested $0.200m in these companies in 2010-11, based on a strategic objective of developing its heritage base to generate employment and business growth and because of its large stock of heritage assets requiring conservation and restoration work.

The financial statements of these companies have been consolidated into Council's financial statements and related notes.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all Councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
A full revaluation of roads and bridges assets was undertaken during 2012-13. 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: • audited valuation reports, calculations and underlying assumptions supporting fair values of assets • assessed the qualifications of those persons conducting the valuations to ensure appropriate independent expertise and assessed the extent to which management reviewed and challenged their work.
Depreciation rates were reviewed by Council during 2012-13. Council reassessed the estimated useful lives of the components of its roads assets at 1 July 2012.	We performed analytical audit procedures to test the reasonableness of the depreciation expense by asset class.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 14 August 2013 and an unqualified audit report was issued on 30 September 2013.

KEY DEVELOPMENTS

No key developments were noted.

KEY FINDINGS

Information Security

IS is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the existence and adequacy of Council's IS system we noted weaknesses in user access management, including access rights and policies, password policy deficiencies, inadequate segregation of duties and use of super-user accounts, and lack of review of changes to master file data.

Internal Control Structure

A number of issues raised resulted from weaknesses in Council's internal control structure. It is noted that similar issues were raised in previous audits had not been fully addressed.

Matters raised included:

- limitations in segregation of duties between accounting and IS functions due primarily to the small number of staff employed
- lack of authorisation and review of key control documents around payroll disbursements and general journals

- supporting documentation was not always maintained for employee personnel records and journals
- shortcomings were identified with Council's on-line Electronic Funds Transfer (EFT) system including lack of a formal policy, overuse of super user access and a number of functions not requiring independent authorisation.

We recommended Council review its current internal control processes and segregation of accounting duties. These matters were reported to, and are being addressed by, management.

Currency of Valuations

A full revaluation of roads and bridges assets was undertaken by Council during 2012-13.

Land and buildings assets were last revalued in October 2008, and drainage assets were last revalued in July 2010. Council applied indexation to its buildings assets on 1 October 2010. Applying indices in this manner does not constitute a full revaluation.

Considerable time has elapsed since full revaluations were undertaken, resulting in the risk that the carrying amount of these assets does not reflect fair value, which in Council's case is written-down replacement cost.

Accordingly it was recommended Council update its valuations, based on a full revaluation, during 2013-14.

Comparing Budget to Actual Financial Performance

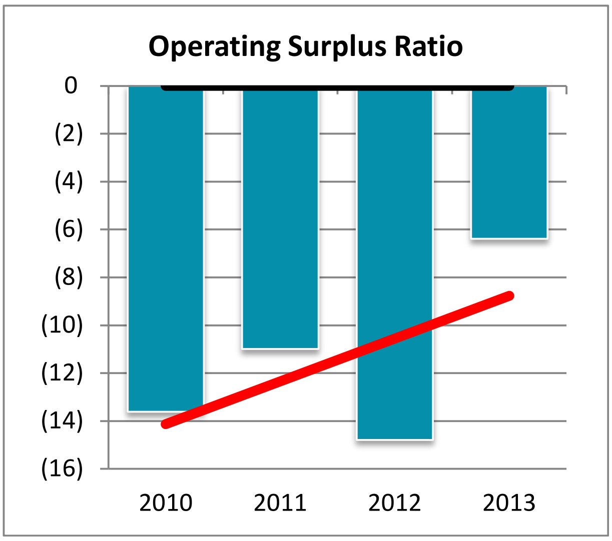
Council's financial report is prepared on a consolidated basis. However, its budget is based on Council's operations excluding its subsidiaries. Consequently, comparison in the Statement of Comprehensive Income section of this Chapter between actual and budget is impractical and lowers accountability. Council should consider preparing a budget covering all of its activities.

The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

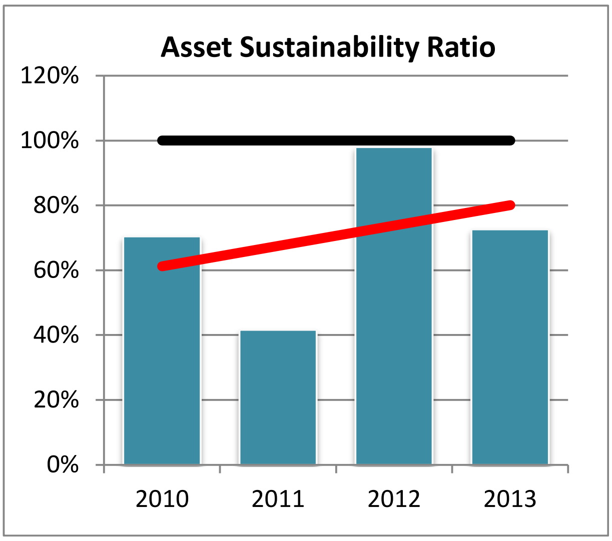
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded negative Operating surplus ratios in all four years. It recorded an average negative ratio of 11.45 over this period. The negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges.

Over the four year period, Council budgeted for $6.479m in deficits and generated deficits of $3.751m. We believe that, at a minimum, Council should budget for a break-even position.

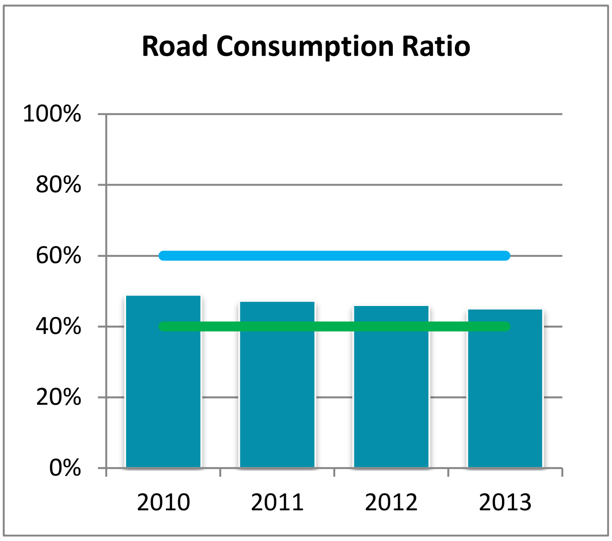


Asset sustainability ratios were below benchmark in all four years under review. Over the period, Council's average ratio was 71%, indicating, subject to levels of maintenance expenditure and the long-term asset management plan, Council had under-invested in existing assets.

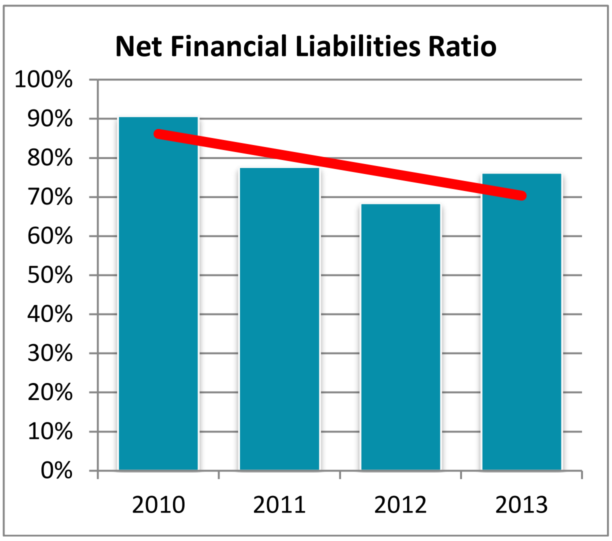
Asset Renewal Funding Ratio

Council's current long-term asset and financial management plans forecast planned and required renewal expenditure to 2022 and cover transport infrastructure, stormwater drainage and building and property assets. These plans are not subject to audit.

Council's long-term management plans indicated that, based on planned asset replacement expenditure, its Asset renewal funding ratio was 116% at 30 June 2013. The ratio was above our benchmark of between 90% and 100% because its long-term asset management plan used forecast depreciation expense as the basis for future planned renewal expenditure. The existing plan is currently being revised.



The previous graph indicated that at 30 June 2013 Council had consumed approximately 55% of the service potential of its road assets. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers, but was at a moderate risk rating.



Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of current and non-current liabilities in each year under review. These positive ratios indicated a strong liquidity position, with Council able to meet future commitments.

Cash and financial assets totalled $8.872m at 30 June 2013. This balance included $1.583m of grants which were yet to be spent for the purpose for which they were provided. In addition, Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use.

Restricted funds represented $1.799m, or 20.0%, of the total Cash and financial assets balance of $8.782m. Unspent grants and restrictions on cash need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it had an audit committee in place, comprising two elected representatives and one independent member. It did not have an internal audit function. Existence of an active internal audit function would enhance Council's governance arrangements.

It had a long-term asset and a financial management plan. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council. The plans were not subject to audit.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's Operating surplus ratio was below benchmark in all four years under review.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, it had not been adequately investing in existing assets over the period of the analysis. Council's Road asset consumption ratio revealed it had consumed approximately 55% of the service potential of its road assets, with the assets having sufficient capacity to continue to provide services to ratepayers. Its Asset renewal funding ratio indicated Council was planning to fund necessary replacement of existing assets over the life of its asset management plans.

Council's liquidity position was strong with it able to meet all its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

From a governance perspective, Council did have an audit committee, but no internal audit function. It had long-term asset and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2013, Council was at high financial 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.

Council's Comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

It is reported that Council had an Underlying Deficit of $0.553m in 2012-13. This amount is determined after having deducted the annual Roads to Recovery Grant (R2R) of $0.441m. This amount of funding has now been provided to local government for in excess of 10 years, and is guaranteed through to 2018-19. Council has incorporated this amount in its long-term financial management strategy beyond 2018-19, in the belief that this Program (or similar) will be ongoing. It is acknowledged that exclusion of this $441K would have a significant impact on Council's long-term financial sustainability, resulting in the need to substantially increase own-source revenue (i.e. rates and charges). Having said that, Council will fully assess the comments made by the Auditor-General as part of future financial and asset management planning sessions.

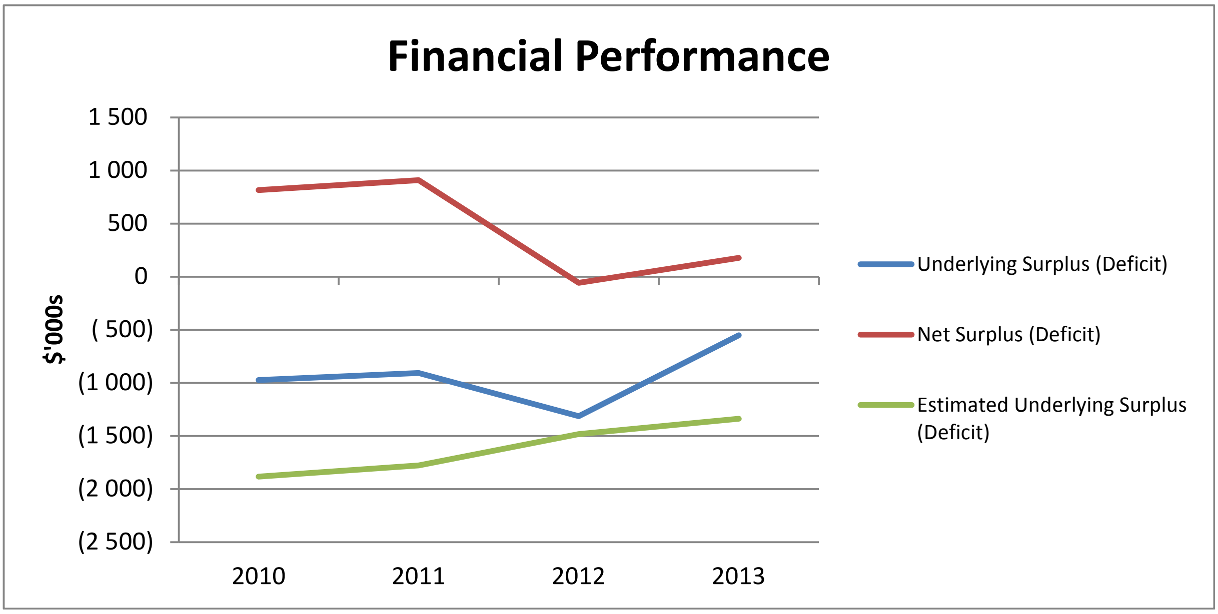
In reference to the Operating surplus ratio, this is trending in accordance with Council's long-term financial strategy, with the intent of reaching a break-even position in approximately 6 to 7 years.

Asset sustainability ratio – the trend indicates that Council has increased its investment in existing assets over the four previous financial. Again this is consistent with the long-term financial management strategy which aims to achieve 100% funding over the same timeframe mentioned above.

Information Security – subsequent to Audit, Council has conducted a full 'Information Communications Technology' Review. This included the conduct of a full risk-assessment and the preparation of a revised Business Continuity and Disaster Recovery Plan.

Internal Control Structures – The Auditor General's Report acknowledges that these matters are being addressed by Management and the Audit and Risk Committee. No specific comments are provided.

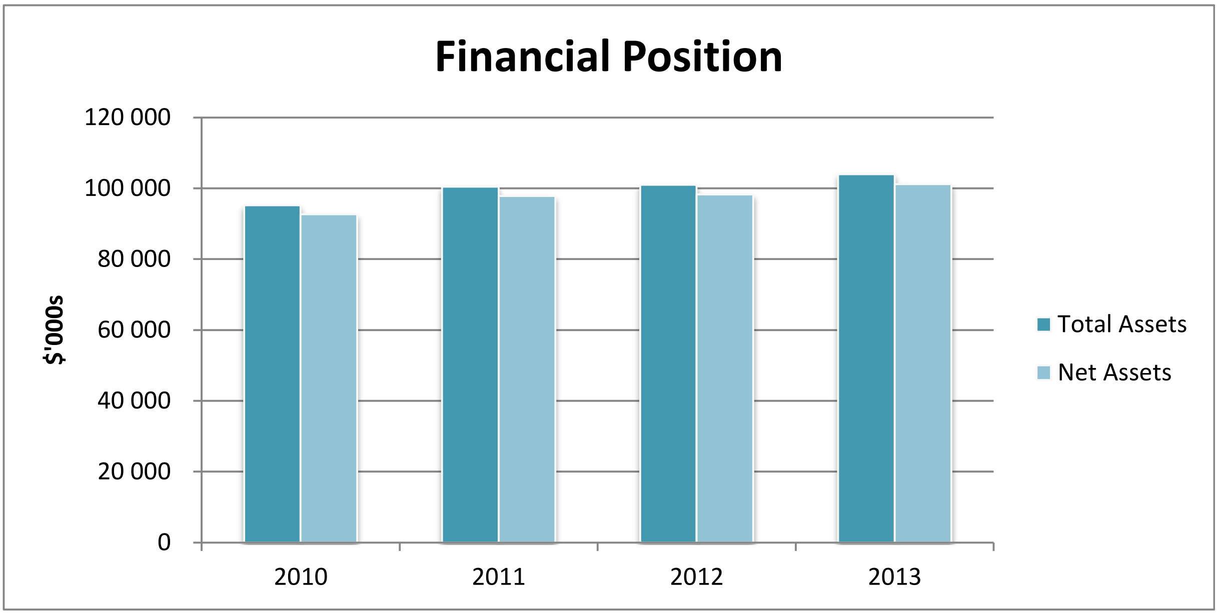
FINANCIAL ANALYSIS



Of concern is that Council recorded Underlying Deficits in all four years under review and budgeted for these deficit results.

Estimated Underlying Deficits decreased over the period under review and in 2012-13 Council budgeted for an Underlying Deficit of $1.338m. This is inconsistent with the need to assure long-term financial sustainability. We believe that at a minimum Council should budget for a break-even position before capital grants and infrastructure adjustments but inclusive of depreciation.

In 2012-13, Council performed better than forecast and recorded an Underlying Deficit of $0.553m, compared to an Underlying Deficit of $1.315m recorded last year. The lower deficit was primarily due to lower Depreciation charges, resulting from the reassessment of useful lives for roads assets, $0.547m.



Council's Total Assets increased by $8.467m, (9.1%), from 2010 to 2013. The movement related primarily to asset revaluation increments and changes in the value of Council's investment in Southern Water.

Council reported an increase in Net Assets of $2.834m to $101.193m at 30 June 2013. The increase was mainly due to an upward revaluation of Council's road and bridge infrastructure assets, $2.661m.

CHAPTER APPENDICES

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	3 993	4 029	3 811	3 617
Fees and charges	728	866	783	711
Grants**	3 111	3 095	3 140	3 001
Interest revenue	260	265	361	352
Other revenue	121	395	797	583
Total Revenue	**8 213**	**8 650**	**8 892**	**8 264**
Employee costs	3 609	3 358	3 377	2 908
Depreciation	3 120	2 655	3 114	3 185
Finance costs	59	57	64	69
Other expenses	2 763	3 133	3 652	3 011
Total Expenses	**9 551**	**9 203**	**10 207**	**9 173**
Underlying Surplus (Deficit)	**(1 338)**	**(553)**	**(1 315)**	**(909)**
Capital grants	619	605	519	1 784
Financial assistance grant received in advance**	0	1 583	1 459	720
Offset Financial assistance grant in advance**	0	(1 459)	(720)	(686)
Net Surplus (Deficit)	**(719)**	**176**	**(57)**	**909**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	2 661	522	1 402
Fair value adjustment arising from change in allocation order	0	0	0	2 747
Current year fair value adjustment Southern Water	0	(3)	30	80
Total Comprehensive Income (Expense)	**0**	**2 658**	**552**	**4 229**
Comprehensive Surplus (Deficit)	**(719)**	**2 834**	**495**	**5 138**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	8 782	8 081	8 281	8 457
Receivables	649	691	750	579
Inventories	280	330	246	97
Total Current Assets	**9 711**	**9 102**	**9 277**	**9 133**
Payables	618	657	568	531
Interest bearing liabilities	93	115	102	96
Provisions – employee benefits	1 122	987	1 009	914
Total Current Liabilities	**1 833**	**1 759**	**1 679**	**1 541**
Net Working Capital	**7 878**	**7 343**	**7 598**	**7 592**
Property, plant and equipment	80 477	78 098	77 383	75 149
Investment in water corporation	13 844	13 847	13 817	10 990
Total Non-Current Assets	**94 321**	**91 945**	**91 200**	**86 139**
Interest bearing liabilities	895	838	804	905
Provisions – employee benefits	111	91	130	100
Total Non-Current Liabilities	**1 006**	**929**	**934**	**1 005**
Net Assets	**101 193**	**98 359**	**97 864**	**92 726**
Reserves	41 888	41 712	41 677	37 941
Accumulated surpluses	59 305	56 647	56 187	54 785
Total Equity	**101 193**	**98 359**	**97 864**	**92 726**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 722	5 614	5 172	4 521
Cash flows from Government	3 219	3 879	3 035	2 839
Payments to suppliers and employees	(6 814)	(7 284)	(6 309)	(5 024)
Interest received	265	361	350	259
Finance costs	(57)	(64)	(69)	(55)
Cash from (used in) Operations	**2 335**	**2 506**	**2 179**	**2 540**
Capital grants and contributions	605	519	1 784	1 860
Payments for property, plant and equipment	(2 505)	(3 697)	(4 224)	(3 324)
Proceeds from sale of property, plant and equipment	231	420	179	326
Distributions received – Southern Water	0	5	0	0
Cash from (used in) Investing activities	**(1 669)**	**(2 753)**	**(2 261)**	**(1 138)**
Proceeds from interest bearing liabilities	150	150	0	150
Repayment of interest bearing liabilities	(115)	(103)	(94)	(84)
Cash from (used in) Financing Activities	**35**	**47**	**(94)**	**66**
Net Increase (Decrease) in Cash	**701**	**(200)**	**(176)**	**1 468**
Cash at the beginning of the year	8 081	8 281	8 457	7 026
Less cash transferred to Southern Water	0	0	0	(37)
Cash at End of the Year	**8 782**	**8 081**	**8 281**	**8 457**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying deficit ($'000s)		(553)	(1 315)	(909)	(974)
Operating surplus ratio*, **	>0	(6.39)	(14.79)	(11.00)	(13.61)
Asset Management					
Asset sustainability ratio*	100%	73%	98%	42%	70%
Asset renewal funding ratio*, ***	90% - 100%	116%	N/A	N/A	N/A
Roads consumption ratio*	>60%	45.0%	46.0%	47.2%	48.9%
Asset investment ratio	>100%	94%	119%	133%	108%
Liquidity					
Net financial assets (liabilities) ($'000s)		6 592	6 084	6 418	6 490
Net financial liabilities ratio*, ****	0% - (50%)	76.2%	68.4%	77.7%	90.7%
Operational Efficiency					
Liquidity ratio	2:1	13.26	11.36	13.48	14.41
Current ratio	1:1	5.30	5.17	5.53	5.93
Interest Coverage	3:1	39.96	38.16	30.58	45.18
Self financing ratio		27.0%	28.2%	26.4%	35.5%
Own source revenue		64.2%	64.7%	63.7%	60.8%
Debt collection	30 days	48	55	63	52
Creditor turnover	30 days	35	30	26	31
Rates per capita ($)		639	609	589	565
Rates to operating revenue		46.6%	42.9%	43.8%	47.8%
Rates per rateable property ($)		1 121	1 077	1 035	983
Operating cost to rateable property ($)		2 561	2 886	2 625	2 336
Employee costs expensed ($'000s)		3 358	3 222	2 908	2 613
Employee costs capitalised ($'000s)		151	155	362	284
Total employee costs ($'000s)		3 509	3 377	3 270	2 897
Employee costs as a % of operating expenses		36%	33%	32%	32%
Average staff numbers (FTEs)		54	47	47	44
Average staff costs ($'000s)		65	73	70	66
Average leave balance per FTE ($'000s)		23	23	24	23

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** New ratio included in 2010-11. Information unavailable to calculate ratio for Southern Midlands until 2012-13.*

***** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue.*

Where this ratio is positive, liquid assets exceed total liabilities.

TASMAN COUNCIL

SNAPSHOT

- Council generated an Underlying Surplus of $0.513m in 2012-13.
- It recorded a Net Surplus of $0.102m in 2012-13, and maintained a Net Surplus for all four years under review.
- As at 30 June 2013 Council had Net Assets of $47.132m.
- Council, while performing a stocktake, discovered assets to the value of $0.539m that were no longer held by Council. These assets were subsequently written off.

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

We noted the following findings:

- lack of segregation of duties in credit card payment authorisation and general journal processing
- asset depreciation rates differed from Council policy and Council maintained an outdated asset register.

These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other major items outstanding.

A major development in 2013 was the 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.

There were no major variations between 2012-13 and 2011-12.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention specific to Council are listed below and those which are common to all councils are presented in the Chapter titled Areas of Audit Attention in Part 1 of this Report.

Description of Area	Impact on Our Audit Approach
Council applied a revaluation index to road, bridges and storm water infrastructure assets to maintain the currency of valuation between full revaluations.	We audited the validity of the indices and ensured they were correctly applied.

AUDIT OF THE 2012-13 STATEMENTS

Signed financial statements were received on 15 August 2013 and an unqualified audit report was issued on 19 September 2013.

KEY DEVELOPMENTS

Tasman Peninsula Bushfires

In January 2013 the Tasman Peninsula was affected by bushfires. The worst affected area within the municipality was Murdunna where approximately 47 properties were partly or fully burnt. Although there was no damage to any Council-owned infrastructure, extra maintenance was needed.

Additional costs incurred by Council were reimbursed by the Red Cross and through the Tasmanian Disaster Relief and Recovery Arrangements. At year end the total expense for the bushfire was $0.657m, with income received of $0.528m.

Going forward, Council approved the waiver of all planning and building fees for those residents who are rebuilding. This waiver has an end date of 30 June 2014. An amount of $0.025m has been budgeted for bushfire expenditure for the 2013-14 year.

KEY FINDINGS

During our review of credit card expenditure it was noted that not all credit card expenditure was authorised by a second person.

Also noted was a lack of segregation of duties in processing general journal transactions, asset depreciation rates differed to Council policy and Council maintained an outdated asset register.

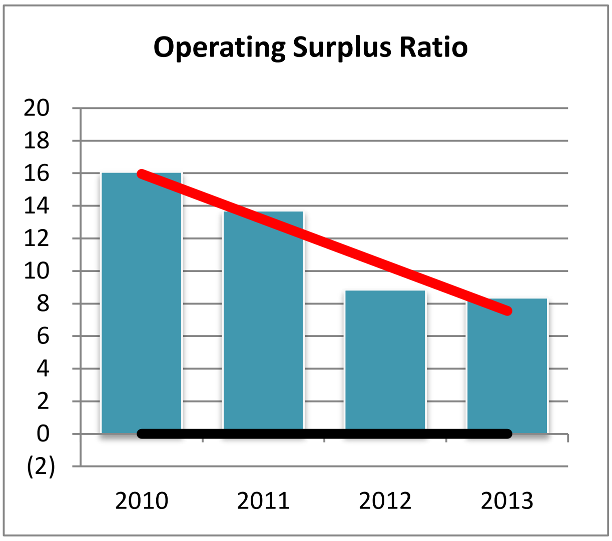
These matters were reported to, and are being addressed by, management

The audit was completed satisfactorily with no other major items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

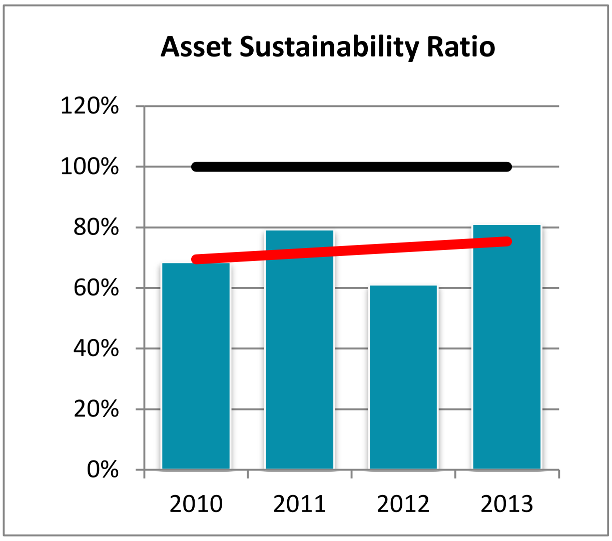
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend.



Council recorded a positive Operating surplus ratio in the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its

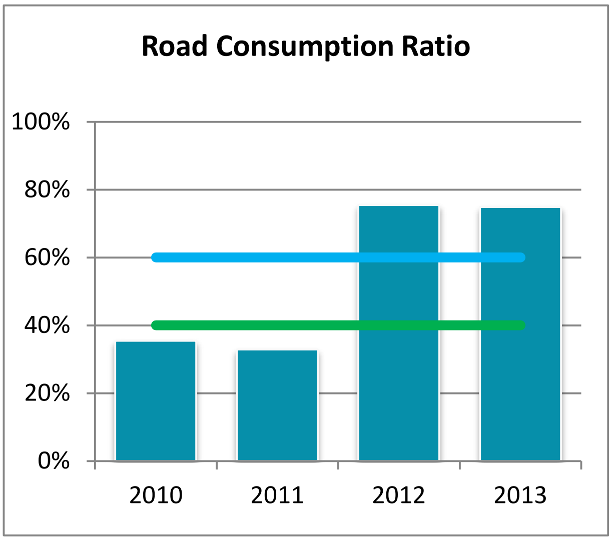
Depreciation charges. We note that there is a negative trend in the ratio over the four year period, however the ratio remains well above the benchmark.



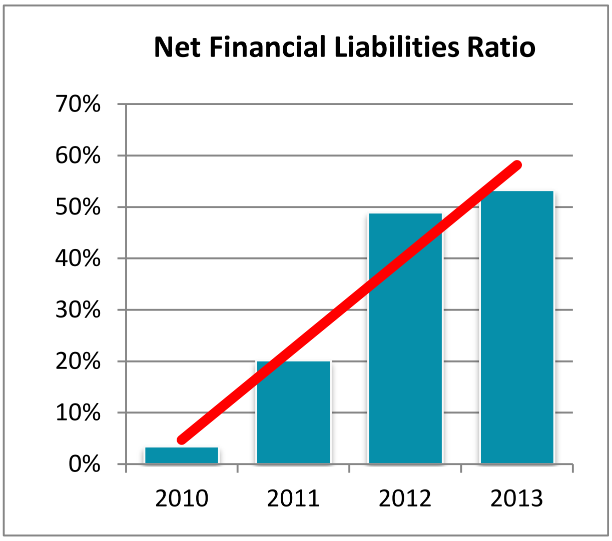
The Asset sustainability ratio was below benchmark in all four years and averaged 72% over the period, which indicates that Council was, subject to adequate levels of maintenance expenditure, under-investing in existing assets.

Asset Renewal Funding Ratio

Council's long-term asset management and financial management plans indicated the Asset renewal funding ratio was 101%, stronger than our 90% - 100% benchmark, at 30 June 2013 for road, infrastructure and stormwater assets. Council's long-term asset management plan covers the period 2013 to 2032. Council's long-term financial management plan covers the period 2013 to 2022. The long-term asset management plan details all renewals works required to maintain services to ratepayers. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan.



The graph above indicates that at 30 June 2013 Council had used (consumed) approximately 25% of its road assets indicating that, at that point in time; its roads had the capacity to continue to provide services to its ratepayers. Council undertook a full revaluation of its roads assets in 2011-12, which included a condition assessment and concluded that the remaining service potential of its roads assets was higher than previously assessed. Council undertook an indexed based revaluation of its roads assets in 2012-13.



Council's Net financial liabilities ratio improved over the four year period, with the positive ratio at 30 June 2013 indicating liquid assets well in excess of Total Liabilities. Council was in a strong liquidity position able to meet its current commitments. The improvements were due to growing cash and receivable balances relative to liabilities. Council's Total Liabilities consisted of Payables, employee provisions and Borrowings.

Council's cash position improved by $1.084m during 2011-12 mainly due to receipt of Commonwealth capital grant funding, which had not been claimed in prior years, and additional Commonwealth operating grant funding, coupled with a reduction in expenditure on investing activities.

However, Council's cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of governance arrangements indicated that Council:

- did not have an audit committee
- had a long-term financial management plan covering the period 2012 to 2022
- had a long-term asset management plan covering the period 2013 to 2032.

Conclusion as to Financial Sustainability

From a financial operating perspective, Council's operating surpluses indicated it was generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicated, based on our 100% benchmark, that it under-invested in existing assets over the last four years. Despite this, Council's Road consumption ratio improved in 2011-12 and remained constant in 2012-13 to the point where its consumption risk was low.

Net financial liabilities ratio was positive at 30 June 2013 demonstrating Council had the capacity to service debt and could borrow should the need arise.

Council did not have an audit committee. This aspect of governance needs to be addressed.

Based on these ratios and governance arrangements, we concluded that at 30 June 2013, Council was at moderate financial sustainability risk from a governance and an asset management perspective and low risk from financial operating and net financial liabilities perspectives.

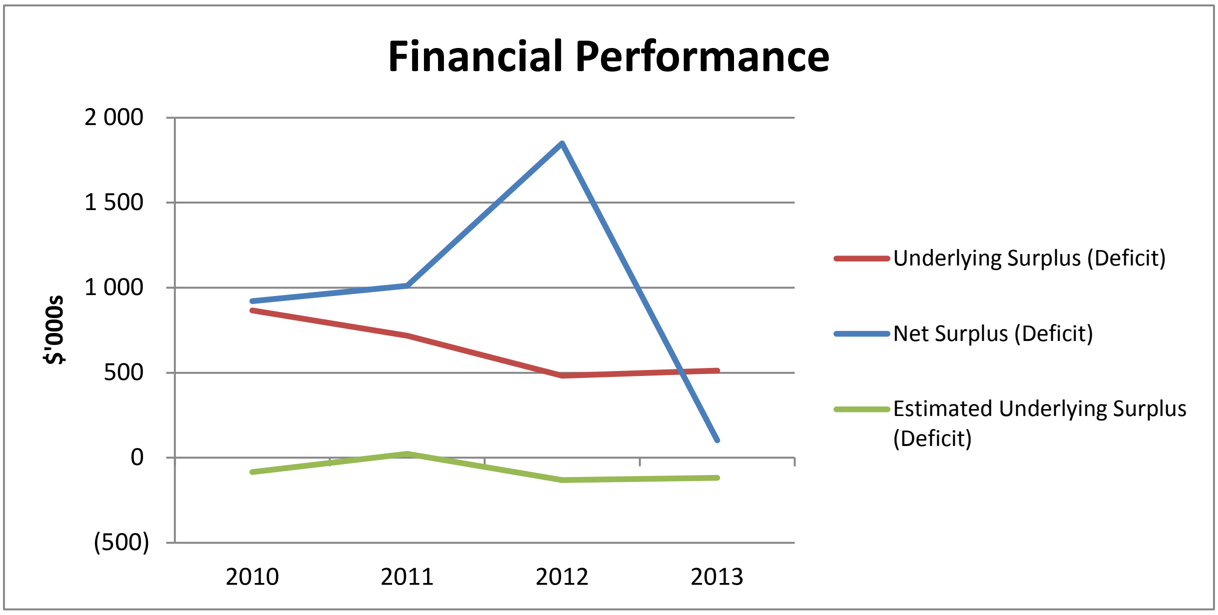
Council's Comments on this Assessment of its Financial Sustainability

The Council's full response is reproduced below.

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council anticipates to implement an audit committee by the end of the 2013-14 year.

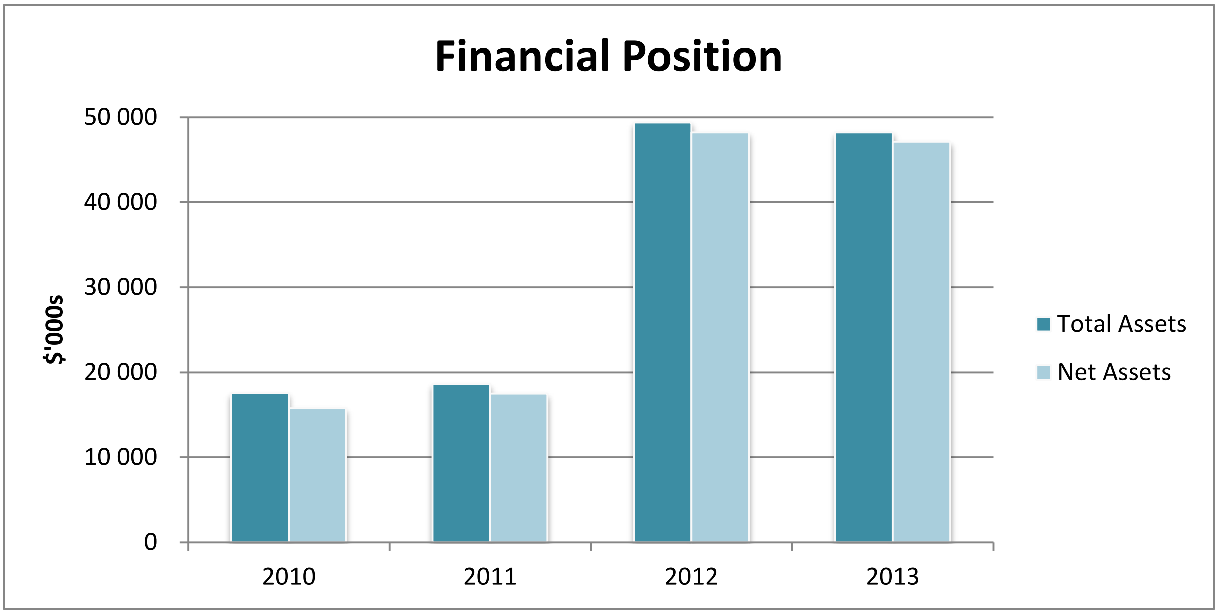
FINANCIAL ANALYSIS



Council generated an Underlying Surplus of $0.513m in 2012-13, which was better than the Estimated Underlying Deficit of $0.119m. Council generated an Underlying Surplus in all four years of the review.

During the period under review, Council's Underlying Surplus was consistently above its Estimated Underlying Surplus (Deficit). The variance was mainly attributed to Council budgeting for higher Employee costs and lower grant revenue. Average staff costs decreased over the four year period of review.

Council made a Net Surplus of $0.102m in 2012-13 which was $1.747m less than 2011-12. This was predominantly due to lower Capital grants and Contributions - non-monetary assets. In addition to this, Council, while performing a stocktake, discovered assets to the value of $0.539m that were no longer held by Council. These assets were subsequently written-off.



Council's Total Assets and Net Assets increased significantly over the four year period under review. Net Assets increased by $31.340m, or 196%, primarily due to a revaluation increment of its roads assets in 2011 12.

Infrastructure assets consisted of roads, bridges and storm water and drainage assets which represented 85.8% of total Property, plant and equipment and 77.7% of total Net Assets.

STATEMENT OF COMPREHENSIVE INCOME

	2012-13 Estimate* $'000s	2012-13 Actual $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s
Rates	3 751	3 788	3 686	3 552
Fees and charges	190	919	390	403
Grants**	1 108	992	945	888
Interest revenue	57	161	194	151
Other revenue	111	272	231	240
Total Revenue	**5 217**	**6 132**	**5 446**	**5 234**
Employee costs	1 389	1 074	1 135	1 176
Depreciation	1 213	1 105	1 197	985
Other expenses	2 686	3 392	2 578	2 300
Finance costs	48	48	54	55
Total Expenses	**5 336**	**5 619**	**4 964**	**4 516**
Underlying Surplus (Deficit)	**(119)**	**513**	**482**	**718**
Capital grants	0	117	571	145
Contributions - non-monetary assets	0	0	513	130
Net write off of property, infrastructure, plant and equipment	0	(539)	0	0
Financial assistance grant received in advance**	0	513	502	219
Offset Financial assistance grant in advance**	0	(502)	(219)	(200)
Net Surplus (Deficit)	**(119)**	**102**	**1 849**	**1 012**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(1 366)	28 893	672
Current year fair value adjustment Southern Water	0	1	2	5
Total Comprehensive Income (Expense)	**0**	**(1 365)**	**28 895**	**677**
Comprehensive Surplus (Deficit)	**(119)**	**(1 263)**	**30 744**	**1 689**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit).*

The offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.

STATEMENT OF FINANCIAL POSITION

	2013	2012	2011	2010
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	3 603	3 057	1 973	1 677
Receivables	511	523	219	274
Other financial assets	250	250	250	0
Inventory	16	6	0	0
Total Current Assets	**4 380**	**3 836**	**2 442**	**1 951**
Payables	268	267	181	307
Borrowings	244	84	89	219
Provisions – employee benefits	**95**	**74**	**69**	**50**
Other	**0**	**0**	**0**	**196**
Total Current Liabilities	**607**	**425**	**339**	**772**
Net Working Capital	**3 773**	**3 411**	**2 103**	**1 179**
Property, plant and equipment	42 677	44 553	15 215	14 595
Investments in associates	237	66	39	50
Investment in Southern Water	923	922	920	915
Intangible assets	15	29	15	48
Total Non-Current Assets	**43 852**	**45 570**	**16 189**	**15 608**
Borrowings	427	670	743	907
Provisions – employee benefits	48	47	20	20
Other	18	26	35	68
Total Non-Current Liabilities	**493**	**743**	**798**	**995**
Net Assets	**47 132**	**48 238**	**17 494**	**15 792**
Reserves	34 617	35 982	7 087	5 446
Accumulated surpluses	12 515	12 256	10 407	10 346
Total Equity	**47 132**	**48 238**	**17 494**	**15 792**

STATEMENT OF CASH FLOWS

	2012-13	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 097	4 272	4 408	3 891
Cash flows from Government	1 003	1 228	888	811
Payments to suppliers and employees	(4 751)	(3 886)	(3 901)	(3 510)
Interest received	175	174	199	56
Finance costs	(48)	(54)	(55)	(85)
Cash from (used in) Operations	**1 476**	**1 734**	**1 539**	**1 163**
Capital grants and contributions	117	571	145	263
Payment for other financial assets	0	0	(250)	0
Payments for property, plant and equipment	(969)	(1 143)	(853)	(765)
Proceeds from sale of property, plant and equipment	5	0	9	90
Cash from (used in) Investing Activities	**(847)**	**(572)**	**(949)**	**(412)**
Repayment of borrowings	(83)	(78)	(294)	(215)
Cash from (used in) Financing Activities	**(83)**	**(78)**	**(294)**	**(215)**
Net Increase (Decrease) in Cash	**546**	**1 084**	**296**	**536**
Cash at the beginning of the year	3 057	1 973	1 677	844
Transfer on restructure	0	0	0	297
Cash at End of the Year	**3 603**	**3 057**	**1 973**	**1 677**

FINANCIAL ANALYSIS

	Bench Mark	2012-13	2011-12	2010-11	2009-10
Profitability					
Underlying surplus (deficit) ($'000s)		513	482	718	866
Operating surplus ratio*, **	>0	8.37	8.85	13.72	16.08
Asset Management					
Asset sustainability ratio*	100%	81%	61%	79%	68%
Asset renewal funding ratio*, ****	90% - 100%	101%	N/A	N/A	N/A
Road asset consumption ratio*	> 60%	74.9%	75.4%	32.9%	35.5%
Asset investment ratio	>100%	88%	95%	87%	80%
Liquidity					
Net financial assets (liabilities) ($000's)		3 264	2 662	1 055	184
Net financial liabilities ratio*, ***	0% - (50%)	53.2%	48.9%	20.2%	3.4%
Operational Efficiency					
Liquidity ratio	2:1	8.04	10.20	8.12	2.70
Current ratio	1:1	7.22	9.03	7.20	2.53
Interest coverage	3:1	29.75	31.11	26.98	12.68
Self financing ratio		24.1%	31.8%	29.4%	21.6%
Own source revenue		83.8%	82.6%	83.0%	80.1%
Debt collection	30 days	19	39	20	26
Creditor turnover	30 days	22	26	21	36
Rates per capita ($)		1,552	1,509	1,461	1 395
Rates to operating revenue		61.8%	67.7%	67.9%	62.2%
Rates per rateable property ($)		1 119	1 096	1 058	868
Operating cost to rateable property ($)		1 674	1 492	1 362	1 150
Employee costs expensed ($'000s)		1 074	1 135	1 176	1 143
Employee costs capitalised ($'000s)		4	27	40	75
Total employee costs ($'000s)		1 078	1 162	1 216	1 218
Employee costs as a % of operating expenses		19%	23%	26%	26%
Average staff numbers (FTEs)		19	20	19	18
Average staff costs ($'000s)		58	59	64	68
Average leave balance per FTE ($'000s)		8	6	5	4

** For commentary on these indicators refer to the Assessment of Financial Sustainability section of this chapter.*

*** This ratio is also called the Underlying result ratio.*

**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Where the ratio is positive, as is the case with Tasman Council, liquid assets exceed total liabilities.

***** New ratio included in 2010-11, information not obtainable or available to calculate prior year ratios.*

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 I LEAD I EXCEL I TO MAKE A DIFFERENCE

Our Purpose

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

Availability of reports

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

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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