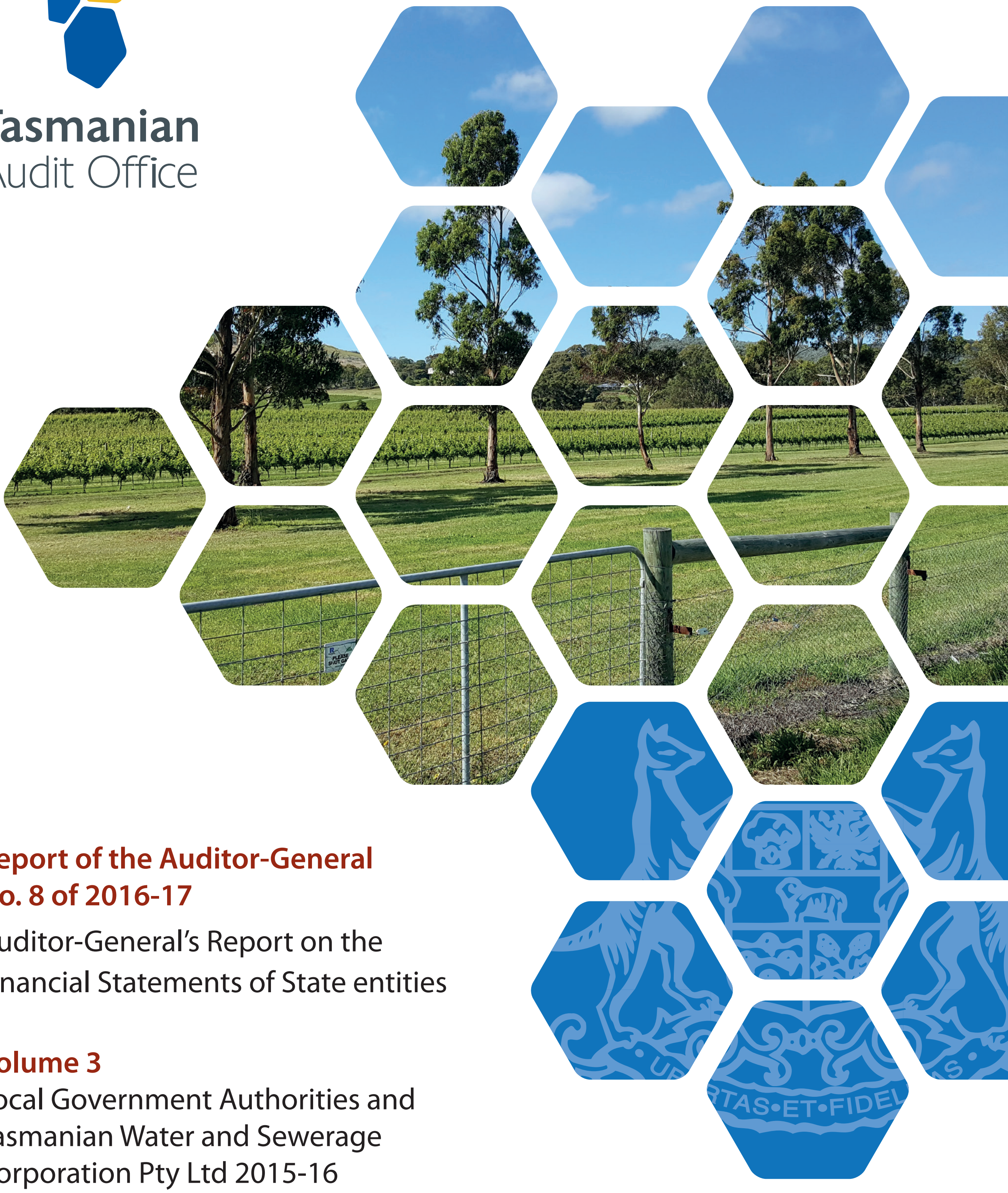
Tasmanian Audit Office



Report of the Auditor-General No. 8 of 2016-17

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

Volume 3

Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16

December 2016

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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.

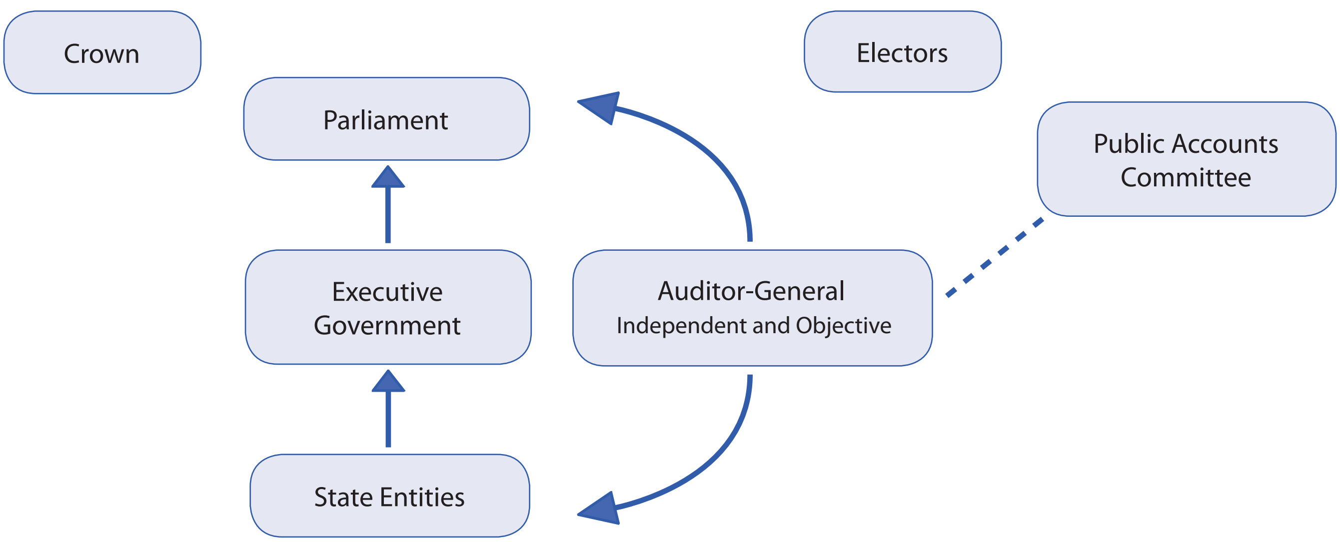
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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

The Auditor-General's role as Parliament's auditor is unique.



TASMANIA

2016
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 8 of 2015-16

Volume 3

Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16.

December 2016

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

Auditor-General's reports and other reports published by the Office can be accessed via the Office's website. For further information please contact:

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15 December 2016

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 8 of 2016-17, Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16.

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 State entities, Volume 3 - Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16.

Yours sincerely

Rod Whitehead
Auditor-General

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FOREWORD

This Report is the third Volume of my Report to Parliament covering the outcomes of our financial audit work for the 2015-16 financial year. It summarises the results of audits, key findings and developments and discusses the key audit matters considered during the audit of State entities in the local government sector, comprising the 29 councils, Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) and seven other local government entities.

This Report also includes commentary on significant financial reporting matters facing the sector, including compliance with Ministerial Orders, infrastructure financial accounting, land under roads, significant business activities, remuneration disclosures and amended related party disclosures. I provide an assessment of financial sustainability and commentary on local government operational efficiency by comparing the 29 councils across a range of efficiency measures, such as rates per head of population or average staff costs per FTE. No strong conclusions are drawn from this analysis with the information provided to enhance comparative performance.

Audits of entities included in this Report were completed satisfactorily and unqualified audit opinions were issued in all cases.

As a result of the audits of councils, we raised 78 matters, 55 of which were rated as high or moderate risk. Our audit opinion for TasWater included an ‘emphasis of matter’ paragraph that drew attention to a note in TasWater’s financial report that stated that the adopted valuation technique used to measure the fair value of infrastructure assets had not been applied consistently since the initial valuation on 1 July 2013, being the date TasWater commenced trading. We included an ‘other matter’ paragraph in our audit report for West Coast Council to highlight the non-disclosure of a Significant Business Activity (SBA) as determined by the Tasmanian Economic Regulator, as we believed it was important to inform the users of the financial report.

In aggregate the councils generated $745.73m in operating revenue and incurred $734.01m in operating expenditure. They managed property, plant and equipment, the majority infrastructure assets, valued at $8.18bn, had an investment in TasWater of $1.58bn and held $379.89m in cash. In aggregate, Councils generated an underlying surplus of $11.72m and a net surplus of $985.73m in 2015-16.

TasWater recorded an underlying profit of $11.00m and comprehensive surplus of $46.69m in 2015-16. It returned $30.00m to its owners in dividends, guarantee fees and income tax equivalents during the year. Water and sewerage infrastructure assets under TasWater’s management were valued at $1.99bn at 30 June 2016.

Seven other local government entities, excluding TasWater, returned an underlying surplus of $3.00m in the year ended 30 June 2016 and managed net assets of $22.06m.

Rod Whitehead
Auditor-General
15 December 2016

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SUMMARY

INTRODUCTION

This Report contains the results of our audits of financial reports of entities in the local government sector, comprising the 29 councils, TasWater and seven other local government entities with a 30 June 2016 year end.

Councils were created under the *Local Government Act 1993* (LGA) and provided governance, planning, service delivery, community development, asset management and local regulation to their regional areas. Councils determined service provision according to local needs and requirements of State legislation, and in some cases, established subsidiary or other entities as required to assist them achieve their objectives.

Councils vary widely in their size and location and in the broad range of community services they supply. For comparison purposes in this Report, we group them based on the Australian Classification of Local Government compressed into the five classifications used by Department of Premier and Cabinet's Local Government Division (LGD). This classification was based upon a national standard and is updated periodically for changes in population and other determining factors. The classification groups were:

- Urban medium, with populations between 30 000 – 70 000
- Urban small, with populations of up to 30 000
- Rural agricultural, very large, with populations between 10 000 – 20 000 at a density of <30 per square kilometre
- Rural agricultural, large, with populations between 5 000 – 10 000 at a density of <30 per square kilometre
- Rural agricultural, small and medium, with populations of up to 5 000 at a density of <30 per square kilometre.

CONCLUSION

The audits of all 29 councils and other entites included in this report were completed satisfactorily and unqualified audit reports were issued in all cases.

Emphasis of matter

Our audit opinion for TasWater included an 'emphasis of matter' paragraph that drew attention to Note 9 in TasWater's financial report. This note stated that the adopted valuation technique used to measure the fair value of infrastructure assets had not been applied consistently since the initial valuation on 1 July 2013, being the date TasWater commenced trading.

We include an emphasis of matter paragraph to highlight matters presented or disclosed in the financial report that we believe are important to bring to the users' attention, so as to assist with their understanding of the financial report. Including an emphasis of matter does not modify our audit opinion.

Other matter

In its 2015-16 financial report, West Coast Council failed to comply with section 84(2)(da) of the LGA and did not disclose an activity, overnight recreational vehicle parking and camping services, as SBA. The disclosure was not made on the basis that Council disagreed with the findings of the Regulator and disputed that it provided any services at all.

We included an 'other matter' paragraph to highlight the non-disclosure as we believed it was important to inform the users of the financial report. Including an 'other matter' paragraph does not modify our audit opinion.

KEY MATTERS CONSIDERED DURING THE AUDITS

Key audit matters were those matters that, in our professional judgement, were of most significance to the audit, and were addressed in the context of the audit of the financial report as a whole. Key matters specific to TasWater and other local government entities are discussed within the Audit Summary - Other Local Government Entities chapter later in this Report.

The most prevalent key matters considered during the audits of councils were valuation of infrastructure assets and fees and charges and other revenue.

Valuation of infrastructure assets

Property, plant and equipment included material long-life infrastructure assets, such as roads, bridges and stormwater. The fair values of these assets were based on depreciated replacement cost. The valuations were highly dependent on estimated unit rates and useful lives. The useful lives of assets and consequent depreciation policies had a significant impact on financial results.

This was a key audit matter due to the high dollar values involved and inherent subjectivity involved in making judgements in relation to the assumptions and estimates applied in the valuation methodology, including asset lives.

Audit procedures completed included:

- reconciled movements and closing balances to asset registers
- evaluated the valuation methodology used and work performed by management's expert, including testing of underlying data
- assessed key assumptions used
- assessed the competence of management's expert in accordance with Australian Auditing Standards (ASA)
- reviewed depreciation calculations, including assessment of asset lives
- examined the treatment of new capital works completed
- assessed the adequacy of disclosures in the financial report.

Fees and charges and other revenue

Fees and charges and other revenue comprised a wide variety of revenue streams some of which were inherently difficult to predict. Councils also had a number of locations where cash receipts were taken. This was a key audit matter due to the risk of completeness resulting from the variety of revenue types and cash receipting locations.

Audit procedures performed to ensure revenue was not materially misstated included:

- examined and documented processes involved in rendering and recording sales
- performed substantive testing over selected transactions
- conducted analytical comparisons of revenue to prior years and budgeted amounts.

FINDINGS FROM FINANCIAL AUDITS

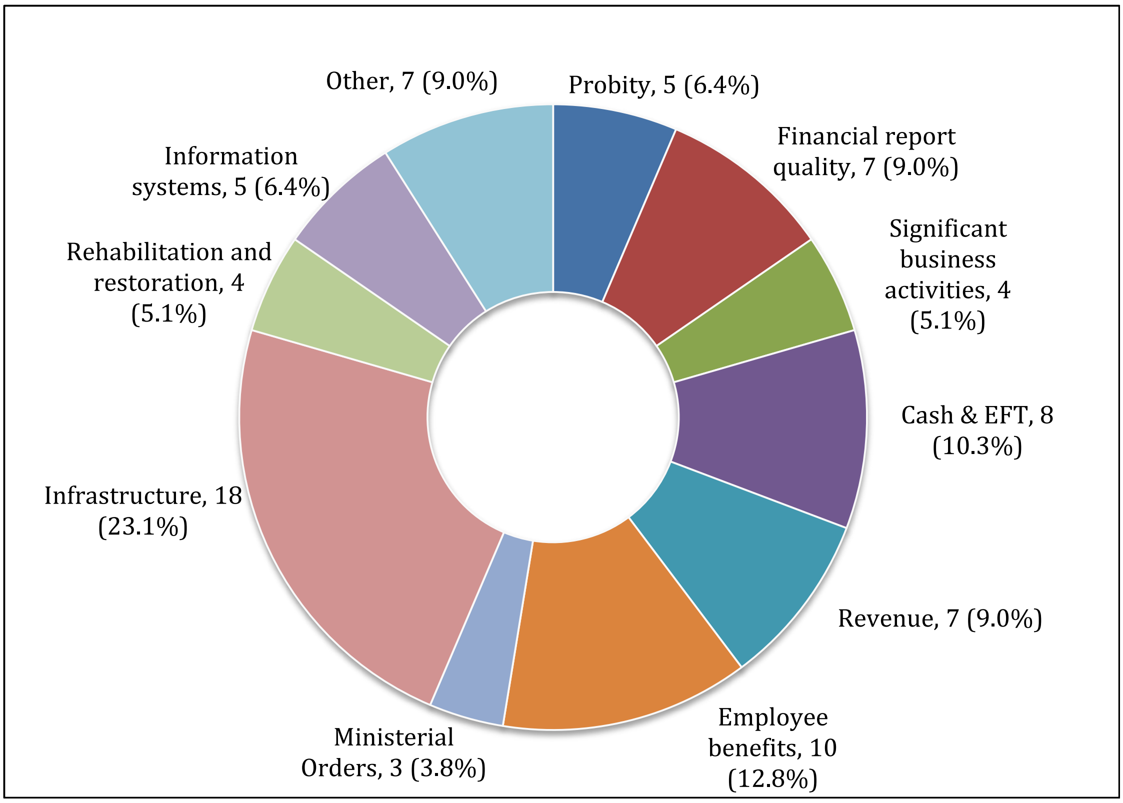
Audits of councils were completed satisfactorily, however a number of matters were raised during the course of the audits. Depending on the significance of the matters, they were either discussed and cleared with management (generally low risk issues) or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

Key recommendations included matters that:

- posed a significant business or financial risk to council
- could potentially have resulted in a modified audit opinion if not addressed as a matter of urgency
- were of a systemic nature that posed a moderate business or financial risk if not addressed as high priority within the current financial year
- may have escalated to high risk if not addressed promptly
- were low risk matters which had been reported to management in the past but had not been satisfactorily resolved or addressed.

Matters arising from 2015-16 audits have been grouped into relevant categories and are illustrated in Figure 1.

Figure 1: Matters raised



Source: Tasmanian Audit Office

Common finding areas across councils are discussed further below.

Probity best practice

Probity is a special consideration in the public sector that requires an understanding of the expectations and standards required for the use of public resources. We undertook procedures to review controls and safeguards that management had in place to ensure ethical and appropriate management of public resources.

We raised recommendations for councils to develop or strengthen existing policies and procedures for monitoring of attractive or portable assets, fuel card usage, acceptance of gifts and independent review of gift registers.

Quality of financial statements and accounting working papers

We raised concerns with seven councils around the financial statement preparation process and lack of quality review prior to submission for audit. Audit changes that could have been prevented if councils had implemented an internal quality review process included:

- financial report not mathematically accurate or complete
- comparative amounts not reflective of prior period audited financial reports
- inability to cross reference balances within the report
- rounding, spelling and typographical errors
- incorrect amendments made during correction of financial reports.

Similar matters were identified around supporting working papers. Most commonly these included detailed working papers not prepared for material balances or disclosures or working papers not reconciled between the financial statements, general ledger and supporting schedules.

Credit card administration

The use of credit cards by employees and elected members was generally regulated by internal policies. Those policies required all credit card transactions be authorised by a person independent from the cardholder. Generally, purchases made by the Mayor were authorised by the General Manager.

Some councils required the Mayor to authorise purchases made by the General Manager. However, the LGA does not allow for a person who is not an employee of council to authorise expenses. It is therefore necessary that a suitably senior employee authorises the General Manager's credit card transactions. In order to mitigate both the actual and perceived risks associated with credit cards, we recommended amendment of policies such that credit card purchases made by the General Manager be disclosed to and scrutinised by an appropriate committee, such as an audit panel, on a regular basis.

Information systems

Information Systems (IS) continued to be an area of audit attention. While we noted improvements in some councils, we continued to find matters of concern across the sector. Matters reported frequently, and in many cases repeatedly, centred on deficiencies in general environmental controls for security. These included:

- IS strategic plans, risk registers, security policies, disaster recovery or business continuity plans out of date or not yet prepared
- deficiencies in controls around the management of user access, including modification of user rights, access rights incompatible with duties or removal of rights after termination, both lack of formalised policies, or policies not being adhered to
- password weaknesses, parameter settings that did not meet local government best practice or passwords being shared
- security logs not implemented or reviewed on a regular basis
- inadequate formal change management processes and procedures surrounding software upgrades and IS changes.

EFT access

Councils utilised internet banking and electronic funds transfer (EFT) arrangements. A common issue identified was that some councils failed to remove employees as approved internet banking users and signatories to bank accounts in a timely manner when the employee ceased working for council.

Property, plant and infrastructure accounting

Matters raised relating to physical non-current assets included:

- full re-valuations not performed with sufficient regularity
- revaluation methodologies not documented in sufficient detail

- inappropriate indices used to estimate value for reporting purposes between full re-valuations
- work in progress not capitalised in a timely manner
- expenditure items capitalised
- inconsistent application of depreciation policies
- useful lives not supported with sufficient evidence of physical wear and tear, technological and commercial obsolescence of the assets
- asset registers not integrated or reconciled to general ledgers or financial statements
- asset systems not complete or accurate.

Provision for rehabilitation and restoration

Accounting methods applied in 2015-16 to restoration and rehabilitation of assets highlighted inconsistencies and inaccuracies in approaches. Where a council determined it had a legal or other requirement to restore and rehabilitate an asset, specific accounting treatments, discussed later in this Report, needed to be applied. Findings raised with councils included:

- despite evidence a liability existed, a provision was not raised
- incorrect application of cost or revaluation model or use of reserve to recognise future obligations
- inaccurate inflation and discounting calculations or errors in accounting for unwinding of discounting
- regular assessments of future obligations not undertaken
- accounting methods applied not reflected in financial statement disclosures.

Key finding recommendations

We recommended that relevant councils:

- ensure they apply quality review processes to the financial report and working papers before submission
- develop or strengthen existing policies and procedures for monitoring of attractive or portable assets, fuel card usage, acceptance of gifts and independent review of gift registers
- credit card purchases made by general managers be disclosed to and scrutinised by an appropriate committee, such as an audit panel, on a regular basis
- ensure IS documentation and procedures are reviewed regularly and implemented
- ensure access to systems and EFT arrangements is removed in a timely manner after employee termination
- prepare detailed methodology and documentation to support regular revaluations of non-current assets, including review of useful lives
- ensure timely and appropriate capitalisation of work in progress
- implement integration or regular reconciliations between asset register data and the general ledger
- review current restoration and rehabilitation accounting methods.

SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

Apart from the requirement for local government entities to submit their financial reports within 45 days after the end of each financial year, section 19 of the *Audit Act 2008* (Audit Act) required the Auditor-General to finalise audits within 45 days from the day financial reports were received. Table 1 details when financial reports were received and audit opinions were issued.

Section 17 of the Audit Act also provided for the Auditor-General to determine whether signed financial reports submitted were complete in all material respects. Upon receipt of signed financial reports we reviewed and evaluated them to ensure they were complete. We also confirmed the accuracy of comparatives and cross references, and ensured the statements were arithmetically correct.

Central Coast Council's financial report, received on 15 August 2016, was not accepted as materially complete following the initial review process. We were subsequently advised by council that the issues that led to non-acceptance had emanated from formatting changes. The report was resubmitted on 22 August 2016 and accepted as materially complete.

Table 1 - Timeliness of reportings

Entity	Signed Financial Report Received and Accepted	Clear opinion issued	Other / Emphasis of Matter	Audit opinion signed	Weeks from 30 June to issue audit opinion
LOCAL GOVERNMENT AUTHORITIES					
Urban medium					
Clarence City Council	15 August 2016	✓		20 September 2016	10 - 12
Glenorchy City Council	15 August 2016	✓		6 September 2016	8 - 10
Hobart City Council	15 August 2016	✓		29 September 2016	12 - 14
Kingborough Council	15 August 2016	✓		12 September 2016	10 - 12
Launceston City Council	12 August 2016	✓		23 September 2016	12 - 14
Urban small					
Brighton Council	15 August 2016	✓		2 September 2016	8 - 10
Brighton Industrial and Housing Corporation**	15 August 2016	✓		2 September 2016	8 - 10
Microwise Pty Ltd**	15 August 2016	✓		2 September 2016	8 - 10
Burnie City Council	15 August 2016	✓		20 September 2016	10 - 12
Burnie Airport Corporation Unit Trust**	3 August 2016	✓		5 September 2016	8 - 10
Tas Communications Unit Trust**	22 July 2016	✓		5 September 2016	8 - 10
Central Coast Council	22 August 2016	✓		6 October 2016	14 - 16*
Devonport City Council	15 August 2016	✓		26 August 2016	8 - 10
West Tamar Council	15 August 2016	✓		5 September 2016	8 - 10
Rural agricultural, very large					
Derwent Valley Council	15 August 2016	✓		16 September 2016	10 - 12
Huon Valley Council	15 August 2016	✓		26 September 2016	12 - 14
Meander Valley Council	12 August 2016	✓		26 September 2016	12 - 14

Entity	Signed Financial Report Received and Accepted	Clear opinion issued	Other / Emphasis of Matter	Audit opinion signed	Weeks from 30 June to issue audit opinion
Northern Midlands Council	15 August 2016	✓		7 September 2016	8 - 10
Sorell Council	12 August 2016	✓		20 September 2016	10 - 12
Waratah-Wynyard Council	15 August 2016	✓		29 September 2016	12 - 14
Rural agricultural, large					
Break O'Day Council	12 August 2016	✓		26 September 2016	12 - 14
Circular Head Council	15 August 2016	✓		20 September 2016	10 - 12
Dorset Council	15 August 2016	✓		29 September 2016	12 - 14
George Town Council	15 August 2016	✓		29 September 2016	12 - 14
Kentish Council	15 August 2016	✓		29 September 2016	12 - 14
Latrobe Council	15 August 2016	✓		29 September 2016	12 - 14
Southern Midlands Council	15 August 2016	✓		29 September 2016	12 - 14
Rural agricultural, small and medium					
Central Highlands Council	8 August 2016	✓		16 September 2016	10 - 12
Flinders Council	15 August 2016	✓		26 September 2016	12 - 14
Glamorgan Spring Bay Council	15 August 2016	✓		29 September 2016	12 - 14
King Island Council	12 August 2016	✓		26 September 2016	12 - 14
Tasman Council	12 August 2016	✓		22 September 2016	10 - 12
West Coast Council	10 August 2016		✓	23 September 2016	12 - 14
Other Local Government entities					
Copping Refuse Disposal Site Joint Authority	15 August 2016	✓		28 September 2016	12 - 14
Cradle Coast Authority	11 August 2016	✓		22 September 2016	10 - 12
Dulverton Regional Waste Management Authority	11 August 2016	✓		16 September 2016	10 - 12
Southern Tasmanian Councils Authority	12 August 2016	✓		23 September 2016	12 - 14
Southern Waste Strategy Authority	12 August 2016	✓		26 September 2016	12 - 14
Local Government Association of Tasmania	12 August 2016	✓		13 September 2016	10 - 12
Northern Tasmania Development Association Inc	12 August 2016	✓		16 August 2016	< 8
Tasmanian Water and Sewerage Corporation Pty Ltd	15 August 2016		✓	31 August 2016	8 - 10

** Audit opinion issued within 45 days of acceptance of financial report*

*** Audited subsidiaries*

SUBMISSIONS AND COMMENTS RECEIVED

Copies of relevant Chapters were provided to councils and other entities in accordance with section 30(2) of the Audit Act.

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.

George Town Council

The underlying result for the 2015-16 financial year being a deficit of $0.81m is primarily the result of recent infrastructure revaluations and a resulting increase in depreciation charges of approximately $0.55m. Council's capacity to frame a budget that immediately addresses this is somewhat limited as like many smaller and medium size Council's, opportunities to raise additional own source revenue and reduce operating expenditure are not easily identified. Nevertheless, Council has budgeted for a reduced underlying deficit of $0.63m for the 2016-17 financial year, thereby improving Council's underlying result by $0.18m assuming the budget is achieved. Council is also hopeful of returning to an underlying surplus within the next few years.

John Martin, General Manager

Auditor-General's Response

Council's underlying deficit noted above of $0.81m excludes losses on disposal of assets of $0.22m. Council's underlying deficit, as calculated and presented in Attachment 2 and Table 13, was $1.03m.

REPORTING AND AUDIT RESPONSIBILITIES

REPORTING FRAMEWORK

Local government entities are required to prepare annual reports, with financial reports complying with Australian Accounting Standards (AAS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), and the LGA. Council annual reports are tabled at council annual general meetings and are subject to audit by the Auditor-General.

Companies controlled by councils are also required to prepare annual reports in accordance with the *Corporations Act 2001*.

All audited local government entities had a 30 June balance date.

A special purpose financial report (SPFR) is a financial report that does not adopt all AASs and Interpretations. For the Local Government Association of Tasmania (LGAT), we have accepted the preparation of a SPFR. There were no instances where the accounting standards and interpretations adopted by LGAT were not complied with or where the SPFR failed to satisfy our requirements.

LEGISLATIVE FRAMEWORK

The powers and functions of councils are set out in the LGA which provides the legal basis for the existence of councils and sets out many of the requirements that must be met by councils. Section 20 of the LGA describes the functions and powers of councils to:

- provide for the health, safety and welfare of the community
- represent and promote the interests of the community
- provide for the peace, order and good government of the municipal area.

In performing its functions the LGA requires a council to consult, involve and be accountable to the community.

The responsible authority under the LGA is the General Manager. The LGA requires the General Manager to:

- keep records of the transactions and activities of the council, council committees, special committees and controlling authorities and the assets and liabilities of the council
- prepare and forward to the Auditor-General a copy of the council's financial report for each financial year in accordance with the Audit Act
- certify that the financial report fairly represented:
    - the financial position of the council
    - the results of the council's operations
    - the cash flows of the council
- ensure that the certified financial report is tabled at a meeting of the council as soon as practicable.

RESPONSIBLE MINISTER

The responsible Minister for all local government is the Minister for Planning and Local Government.

ACCOUNTABILITY REQUIREMENTS

All councils and entities controlled by councils come under the provisions of the Audit Act. Section 17 of the Audit Act requires accountable authorities as soon as possible and within 45 days after the end of each financial year to prepare and forward to the Auditor-General a copy of the financial statements for that financial year.

AUDIT REQUIREMENTS

Section 18 of the Audit Act requires the Auditor-General to audit the financial report and any other information submitted by a council or entity controlled by a council.

The Auditor-General provides Parliament with independent assurance of the financial reports of public sector entities to enhance public sector accountability. This assurance is provided through annual financial audits of each local government entity which culminate in the issue of management letters, audit opinions and reports to Parliament.

Section 19 of the Audit Act requires the Auditor-General to:

- prepare and sign an opinion on an audit carried out in accordance with requirements determined by the Australian Auditing and Assurance Standards (AAAS)
- provide the opinion prepared and signed and any formal communication of audit findings that is required to be prepared in accordance with the AAAS, to the appropriate Minister and provide a copy to the relevant accountable authority.

The Auditor-General must finalise the audit opinion for a local government entity within 45 days of receiving a financial report from the accountable authority.

The auditor's report, which includes the audit opinion, provides assurance about the reliability of the financial report, including compliance with legislative requirements.

In accordance with the AAAS, the auditor may issue one or more audit opinion types:

- an ***unmodified opinion*** (often interchanged with unqualified opinion) is issued when the financial report complies with relevant accounting standards and prescribed requirements
- a ***qualified opinion*** is issued when the financial report as a whole complies with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion
- an ***adverse opinion*** is issued when the financial report as a whole does not comply with relevant accounting standards and legislative requirements
- a ***disclaimer of opinion*** is issued when the auditor is unable to express an opinion as to whether the financial report complies with relevant accounting standards and legislative requirements
- an ***emphasis of matter*** paragraph may be included with the audit opinion to highlight an issue of which the auditor believes the users of the financial report need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion
- an ***other matter*** paragraph may be included with the audit opinion to refer to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

LEGISLATIVE REFORMS

The Local Government (General) Regulations 2015 amend and remake the *Local Government (General) Regulations 2005*. The Regulations took effect on 29 June 2015.

Main changes included:

- increased the threshold for which councils are required to undertake a public tender process from $100 000 to $250 000. This was in line with the threshold applied to State Government public tender processes
- clarified the exemption from the tender process requirements for tenders undertaken on behalf of councils by local government associations also applied to entities established by local government associations
- created a new division in relation to tenders and contracts required to be included by each council in its annual report
- updated expenses and allowances for elected members
- increased the threshold for instalment payment of rates
- amended requirements under Schedules 5 and 6 - Council Land Information Certificate (s337) and Questions.

The *Local Government (Audit Panels) Amendment Order 2015* took effect on 1 January 2016 with the primary purpose to ensure that a councillor, or an employee, of a municipal council is not appointed as a member of an audit panel of another municipal council. Further commentary is included in Significant Financial Reporting Matters chapter in this Report.

The LGD is overseeing a targeted review of the LGA at the request of the Minister. The review is aimed at improving governance arrangements within councils. It is expected any amendments to the LGA as a result of the review will be introduced to Parliament by May 2017.

The following matters are being considered as part of the review:

- functions of mayors, deputy mayors and elected members
- appointment, functions and powers of the General Manager
- financial management and reporting
- functions and powers of the Director of Local Government
- functions, powers and procedures of the Local Government Board
- functions, powers and procedures of a Board of Inquiry
- local government elections – electoral rolls, funding and advertising
- recognition, structure and role of regional bodies
- reduction of unnecessary administrative requirements.

EMERGING EVENTS AFFECTING THE SECTOR

Sector reform - Feasibility Studies

The Tasmanian Government established four Memorandums of Understandings (MoUs) to conduct feasibility studies for 24 councils. Clarence City Council participated in both southern region studies. The MoUs outline the Terms of Reference for each study, joint funding arrangements, and the roles and responsibilities of stakeholders. The four studies will consider various reform opportunities for:

- four Greater Hobart Councils
- four South East Councils
- nine Cradle Coast Councils
- eight Northern Councils.

Each study will consider the potential for, and possible savings from voluntary amalgamations, shared services, fee for service and other reform models considered appropriate.

The studies are expected to be finalised during 2016-17. Participating councils will consider outcomes of the studies and consult with the communities included in any reform proposals.

Four reform principles were established that must be met before proposals arising from the studies are considered. Reform proposals must:

- be in the interest of ratepayers
- improve the level of services for communities
- preserve and maintain local representation
- ensure that the financial status of the entities is strengthened.

The Tasmanian Government will fund, in partnership with councils, the development of feasibility studies of proposed amalgamations and strategic shared services.

The first draft report into the four South East Councils was issued during October 2016. The public report studied four options for mergers between the four councils.

TasWater returns

TasWater announced in June 2016 that it would cap returns to owner councils at $20.00m, a decrease from the current overall return rate of $30.00m per annum. The decision was based on the need for TasWater to maintain funds within the entity to upgrade infrastructure for non-conforming sewerage treatment plants and provide treated water supplies to some settlements that are currently subject to permanent boil water alerts or do not consume notices.

Demographic influences

Comments here are made in reference to Table 2 which contains demographic information relating to each council municipal area.

The Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth, increased by 1 824, 0.4%, from 2014-15 to 2015-16. Across the State, populations of each municipal area vary considerably, ranging from Flinders' population of 783, (2014-15, 779) to Launceston's population of 67 078, (67 114). The major cities' populations represented 49.2% or 254 126, (49.1%, 252 849) of the total population, but only covered 4.0% or 2 711 square kilometres (sq kms) of the State's area. Conversely, the 13 smaller rural councils' combined populations represented 13.2%, 68 368 (13.2%, 68 405) of the total population, but covered 59.7% or 40 593 sq kms of the State's area.

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

Table 2 – Demographics

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Urban medium						
Clarence	54 674	378	144.6	25 032	66.2	0.5
Glenorchy	45 827	121	378.4	21 030	173.7	0.5
Hobart	50 714	78	651.0	23 990	308.0	0.5
Kingborough	35 833	720	49.8	17 123	23.8	0.5
Launceston	67 078	1 414	47.5	31 147	22.0	0.5
UM Total 2015-16	**254 126**	**2 711**	**93.7**	**118 322**	**43.6**	**0.5**
UM Average per Council 2015-16	**50 825**	**542**	**254.3**	**23 664**	**118.7**	**0.5**
Urban small						
Brighton	16 010	171	93.5	7 369	43.0	0.5
Burnie	19 887	611	32.5	9 569	15.7	0.5
Central Coast	22 401	933	24.0	11 307	12.1	0.5
Devonport	25 533	111	229.4	12 111	108.8	0.5
West Tamar	23 202	691	33.6	11 813	17.1	0.5
US Total 2015-16	**107 033**	**2 518**	**42.5**	**52 169**	**20.7**	**0.5**
US Average per Council 2015-16	**21 407**	**504**	**82.6**	**10 434**	**39.3**	**0.5**
Rural agricultural, very large						
Derwent Valley	10 026	4 108	2.4	5 229	1.3	0.5
Huon Valley	16 354	5 507	3.0	10 609	1.9	0.6
Meander Valley	19 686	3 330	5.9	9 897	3.0	0.5
Northern Midlands	12 749	5 137	2.5	6 850	1.3	0.5
Sorell	13 955	584	23.9	8 798	15.1	0.6
Waratah-Wynyard	14 289	3 531	4.0	7 555	2.1	0.5
RAVL Total 2015-16	**87 059**	**22 197**	**3.9**	**48 938**	**2.2**	**0.6**
RAVL Average per Council 2015-16	**14 510**	**3 700**	**7.0**	**8 156**	**4.1**	**0.6**
Rural agricultural, large						
Break O'Day	6 469	3 526	1.8	6 297	1.8	1.0
Circular Head	8 245	4 898	1.7	4 908	1.0	0.6
Dorset	7 105	3 228	2.2	5 279	1.6	0.7
George Town	6 802	653	10.4	4 354	6.7	0.6
Kentish	6 481	1 156	5.6	3 770	3.3	0.6
Latrobe	10 938	601	18.2	6 035	10.0	0.6
Southern Midlands	6 278	2 615	2.4	3 594	1.4	0.6
RAL Total 2015-16	**52 318**	**16 676**	**3.1**	**34 237**	**2.1**	**0.7**
RAL Average per Council 2015-16	**7 474**	**2 382**	**6.1**	**4 891**	**3.7**	**0.7**

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Rural agricultural, small and medium						
Central Highlands	2 309	7 982	0.3	3 725	0.5	1.6
Flinders	783	1 997	0.4	1 190	0.6	1.5
Glamorgan Spring Bay	4 493	2 591	1.7	5 700	2.2	1.3
King Island	1 577	1 096	1.4	1 693	1.5	1.1
Tasman	2 405	661	3.6	3 480	5.3	1.4
West Coast	4 483	9 590	0.5	4 751	0.5	1.1
RASM Total 2015-16	**16 050**	**23 917**	**0.7**	**20 539**	**0.9**	**1.3**
RASM Average per Council 2015-16	**2 675**	**3 986**	**1.3**	**3 423**	**1.8**	**1.3**
Total State 2015-16	**516 586**	**68 018**	**7.6**	**274 205**	**4.0**	**0.5**
Average per Council 2015-16	**17 813**	**2 345**	**61.2**	**9 455**	**29.3**	**0.6**
Total 2014-15	**514 762**	**68 018**	**7.6**	**273 637**	**4.0**	**0.5**
Average per Council 2014-15	**17 750**	**2 345**	**61.0**	**9 436**	**29.4**	**0.7**
Total 2013-14	**513 159**	**68 018**	**7.5**	**269 153**	**4.0**	**0.5**
Average per Council 2013-14	**17 695**	**2 345**	**60.9**	**9 281**	**29.0**	**0.7**

Source: Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2014-15. Released 30 March 2016.

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

Rateable properties obtained from council.

SIGNIFICANT FINANCIAL REPORTING MATTERS

Local government entities are required to prepare annual reports, with financial reports complying with AAS, other authoritative pronouncements of the AASB, and the LGA. This Chapter highlights the common or significant matters across the sector.

KEY RESULTS AND DEVELOPMENTS

Ministerial Orders
Twenty-six councils fully complied with the three Orders gazetted on 19 February 2014, with the remaining three at least partially complying with all three Orders.
All councils had established audit panels with independent members in accordance with the *Local Government (Audit Panels) Amendment Order 2015*.
Infrastructure Financial Accounting
At 30 June 2016, there were 32 instances where councils had not adopted the 22 recommendations made in our *Report No. 5 of 2013-14, Infrastructure Financial Accounting in Local Government* (the Infrastructure Report), compared with 50 at 30 June 2015.
Land Under Roads
At 30 June 2016, 25 councils had adopted our recommendation by recognising all land under roads regardless of when acquired.
Two councils had only recognised land under roads acquired post 1 July 2008 and two councils had not recognised any land under roads regardless of when acquired.
Four councils recognised land under roads in any form for the first time in 2015-16.
A further seven councils that had previously recognised land under roads post 1 July 2008, recognised land under roads acquired before 1 July 2008 for the first time during 2015-16.
Land under roads recognised by council's totalled $1.29bn.
Twenty-two (out of 27) councils valued land under roads, on an individual road basis, with the rate provided by the Office of the Valuer-General (OVG) for the relevant property class where the road is located.
Significant Business Activities
Eighteen councils disclosed one or more SBAs.
The Tasmanian Economic Regulator (the Regulator) determined that free recreational vehicle (RV) parking at Queenstown and Rosebery was an SBA of West Coast Council. Council did not include required information in the 2015-16 financial report and an 'other matter' paragraph was included within our audit opinion as a result.
Eleven councils determined that they did not have any SBAs to report.
Remuneration Disclosures
Four councils fully adopted our model disclosure by disclosing individual key management personnel remuneration.
Three councils disclosed the total dollar amount of the General Manager's remuneration.
Eight councils, including one of those above, disclosed the aggregate remuneration of all key management personnel remuneration, but not by individual employee.
One council separately identified the remuneration paid to the General Manager in the annual report.
TasWater disclosed Director and Senior Executive Remuneration in the notes to its financial report in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*. The Directors' report attached to the financial report disclosed the dollar value of individual remuneration classified into short-term and post-employment benefits.

Related party disclosures
Applies to annual reporting periods beginning on or after 1 July 2016.
Removes the exemption from AASB 124 for not-for-profit public sector entities.
The requirements apply prospectively, with comparative information not required in the first period of application.
The principle underpinning AASB 124 is that transactions with related parties should be disclosed and key management personnel (KMP) are related parties.
Requires disclosure of related party relationships, transactions and outstanding balances, including commitments.
Prescribes specific and general disclosures for related party relationships, related party transactions and resulting balances.
Includes transactions with close family members of KMP.
Related party transactions occurring during the course of delivering a public sector entity's objectives, which occur on the same terms as those provided to the general public, may be considered by the entity as not material for the purposes of disclosure in the financial statements. These are sometimes termed *ordinary citizen transactions.*
Due to the significance of these new requirements councils will need to prioritise identification of related parties and establishment of systems to capture transactions in order to comply with the requirements of AASB 124.

RECOMMENDATIONS

We continued to make a number of recommendations from matters discussed in this Chapter.

Ministerial Orders

We recommend that those councils who had not yet adopted long-term financial and asset management plans and strategies prioritise completion.

Infrastructure assets

We recommend that councils continue to review infrastructure financial accounting practices, and those that have not yet adopted the recommendations from our Infrastructure Report, do so.

Land under roads

We recommend that:

- those councils yet to recognise all land under roads do so
- the five councils currently not valuing on an individual road reservation basis using rates provided by the OVG, consider the adoption of this method of valuation, so as to ensure consistency across local government.

Significant Business Activities

We continue to recommend that councils revisit the applicable SBA reporting requirements under Section 84(2)(da) of the LGA as new business activities commence and during the preparation of their annual financial reports, and that these assessments be documented.

Remuneration disclosures

We continue to recommend that all local government entities consider disclosure of specific information relating to remuneration of each member of KMP consistent with the illustrative example provided by the office for Local Government Financial Statements for 30 June 2016. The illustrative example followed disclosure requirements for Government businesses and departments.

Related party disclosures

We recommend that councils prioritise identification of related parties and establishment of systems to capture transactions in order to comply with the requirements of AASB 124.

MINISTERIAL ORDERS

Background

As reported in the *Report of the Auditor-General No.7 of 2014-15 Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14* (the 2014 Report) the then Minister for Local Government made the following Ministerial Orders (the Orders) under Sections 70F, 84 (2A) and 85B of the LGA, effective on the day of their gazettal, which occurred on 19 February 2014:

- The *Local Government (Contents of Plans and Strategies) Order 2014* (Contents of Plans and Strategies Order)
- The *Local Government (Audit Panels) Order 2014* (Audit Panels Order)
- The *Local Government (Management Indicators) Order 2014* (Management Indicators Order).

We followed up progress towards compliance with the Orders during our financial audits within the following parameters:

- **Audit panels** – it was our expectation that by June 2015 all councils would have established, or progressed establishment of, audit (or equivalent) panels with charters consistent with the Audit Panels Order. We found this not to be the case in 2014-15 and reported this to the relevant councils. However, non-compliance did not impact our audit opinion on the financial reports. By 30 June 2016, all councils had complied.
- **Content of plans, policies and strategies** – it was not, and is not, our intention to audit long-term asset management or financial management plans. These are 'forward looking' with our focus being on 'historical' financial information. However, as part of our audits we:
  - enquired as to the existence of these plans or progress towards their development
  - established whether they had been reviewed and reported on (to council) by audit panels (the Audit Panels Order makes this a requirement)
  - made enquiry into the extent of reporting by management on compliance with, and achievement of, these plans and evidence of their regular review and update
  - reported our findings to relevant councils. However, other than any potential impact on the Asset renewal funding ratio referred to later, non-compliance did not impact our audit opinion on the financial report.
- **Management indicators** – other than for the Asset renewal funding ratio, councils reported all of the indicators in the notes to their 2015-16 financial report. We audited the indicators and formed an opinion on them along with our opinion on the financial report as a whole. Any non-compliance was reported to respective councils. Where there was non-compliance, we assessed the materiality thereof and any implications on our audit opinion.
- **Asset renewal funding ratio** – this is a 'forward looking' ratio requiring completion of long-term asset management and long-term financial management plans at least for the next ten years. We enquired into the existence of these plans and their formal adoption. We also ensured the mathematical accuracy of the calculation of the ratio, and long-term financial management plans but we did not, and will not, attempt to form a view regarding other matters such as assumptions and judgements made, priorities

chosen, systems implemented, etc. As a result, our audit reports included the following sentence:

'My audit is not designed to provide assurance on the accuracy and appropriateness of the budget information or the Asset renewal funding ratio in council's financial report.'

The outcomes of our work were reported to respective councils. However, non-compliance did not impact upon our audit opinion on the financial report.

Findings

Audit panels

The table below records our findings in regards to councils' compliance with the Audit Panels Order at both 30 June 2015 and 30 June 2016, including comparison of membership of audit panels.

Table 3: Audit Panels Order

Council	2015 Audit Panels	2016 Audit Panels	2016 Number of Independent Members	2016 Number of Elected Members
Urban medium				
Clarence	i	i	3	2
Glenorchy	i	i	3	2
Hobart	i	i	3	2
Kingborough	i	i	3	2
Launceston	i	i	2	2
Urban small				
Brighton	p*	i	1	2
Burnie	i	i	3	2
Central Coast	i	i	2	2
Devonport	i	i	3	2
West Tamar	i	i	1	2
Rural agricultural, very large				
Derwent Valley	x	i	2	2
Huon Valley	i	i	2	2
Meander Valley	i	i	2	1
Northern Midlands	i	i	2	2
Sorell	p*	i	3	2
Waratah-Wynyard	i	i	4	0
Rural agricultural, large				
Break O'Day	i	i	1	2
Circular Head	i	i	4	1
Dorset	i	i	1	2
George Town	i	i	1	2
Latrobe	i	i	1	2
Kentish	i	i	1	2
Southern Midlands	i	i	1	2

Council	2015 Audit Panels	2016 Audit Panels	2016 Number of Independent Members	2016 Number of Elected Members
Rural agricultural, small and medium				
Central Highlands	p*	i	1	2
Flinders	i	i	2	2
Glamorgan Spring Bay	p*	i	2	2
King Island	i	i	4	0
Tasman	p*	i	3	2
West Coast	s	i	1	2

Rating symbols	
i	*fully implemented*
*p**	*implemented with independence issues*
s	*partially implemented, charter approved, appointing members 2016*
x	*not started*

As noted previously, it was our expectation that by 30 June 2015 all councils would have established, or would have progressed establishment of, audit (or equivalent) panels with charters consistent with the Audit Panels Order. At 30 June 2015 Derwent Valley Council had not commenced establishment, West Coast Council had progressed establishment but not yet appointed members and Brighton, Sorell, Central Highlands, Glamorgan Spring Bay and Tasman Councils had implemented audit panels but we had concerns over the independence of members.

The Audit Panels Order required the audit panel to have a minimum of one independent member when the panel has three members and two independent members when the panel has four or five members. It was our understanding that in 2014-15 employees from other councils were appointed as 'independent' members of the audit panels for Brighton, Sorell, Central Highlands, Glamorgan Spring Bay and Tasman Councils.

While this was technically in accordance with the requirements of the Audit Panels Order, this arrangement, in our view, impinged on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of the council. It is important for panel members to not only be independent, but also to be perceived in that way.

The Local Government (Audit Panels) Amendment Order 2015 (Amended Order) took effect on 1 January 2016 with the primary purpose to address this matter and ensure that a councillor, or an employee, of a municipal council is not appointed as a member of an audit panel of another municipal council.

At 30 June 2016 all councils were in compliance with the Amended Order and had independent members which met the new definition of independence.

Two councils had audit panels that consisted solely of independent members. This arrangement complied with the Audit Panels Order.

Two councils did not conduct the required four meetings per financial year in 2015-16, however, they complied with all other aspects of the Audit Panels Order.

Internal Audit

Internal Audit is a function which can evaluate the efficiency and effectiveness of internal processes such as controls, finance and risk management. This function can be delivered by various methods, either in-house or by external service providers.

A number of councils are considering, or have already implemented, arrangements to perform an in-house function similar to an internal audit, delivered either by their own employees or employees from other councils. We understand that in some cases, external consultants with internal audit experience have been utilised in development of the arrangements which included:

- internal audit process instructions
- reporting forms
- schedule of activities.

While such internal arrangements do not provide the same level of independence or experience as would be the case with an external provider, they represent a reasonable starting point.

There are several aspects of an internal audit function that, if considered during implementation, will assist councils to maximise the benefits these arrangements can provide. These include, but are not limited to:

- careful choice of employees used to undertake review projects because of self-interest, self-review, familiarity and intimidation threats
- capability, including level of training, of employees undertaking reviews
- status and authority provided within the role, including highlighting the relative autonomy and independence of employees tasked with undertaking reviews
- well-documented framework that describes the nature and purpose of the review function as well as how it intends to achieve this purpose
- relevant policies and procedures to support the objectivity and independence of the review function
- a work-plan which adequately supports the purpose and role of the review function
- professional body membership that would obligate compliance with professional standards relating to objectivity and internal policies and ensure sufficient background in ethical standards required to maintain independence.

Contents of plans and strategies and management indicators

The following table records our findings in regards to councils' compliance with the Contents of Plans and Strategies and the Management Indicators Orders.

Table 4: Contents of plans and strategies and management indicators

Council	2015 Contents of plans and strategies	2015 Management indicators	2016 Contents of plans and strategies	2016 Management indicators
Urban medium				
Clarence	i	i	i	i
Glenorchy	i	i	i	i
Hobart	i	i	i	i
Kingborough	i	i	i	i
Launceston	i	i	i	i
Urban small				
Brighton	i	i	i	i
Burnie	i	i	i	i
Central Coast	i	i	i	i
Devonport	i	i	i	i
West Tamar	i	i	i	i
Rural agricultural, very large				
Derwent Valley	i	i	i	i
Huon Valley	i	i	i	i
Meander Valley	i	i	i	i
Northern Midlands	i	i	i	i
Sorell	i	p	i	i
Waratah-Wynyard	i	i	i	i
Rural agricultural, large				
Break O'Day	p	p	i	i
Circular Head	p	p	i	i
Dorset	p	i	p	i
George Town	i	i	i	i
Latrobe	p	i	i	i
Kentish	i	i	i	i
Southern Midlands	p	i	i	i
Rural agricultural, small and medium				
Central Highlands	i	i	i	i
Flinders	i	i	i	i
Glamorgan Spring Bay	p	i	i	i
King Island	p	p	p	p
Tasman	i	i	i	i
West Coast	p	p	i	p

Rating symbols

i *fully implemented*

p *partially implemented*

In 2015-16, 27 of the councils had fully complied and two partially complied with the Management Indicators Order. This improved from 24 fully compliant, and five partially compliant in 2014-15. Two councils only partially complied with the Plans and Strategies Order down from eight the previous year. Full compliance across both orders rose from 21 to 26.

Dorset Council had all the required plans in place at 30 June 2016 however its strategic plan was for a five-year period rather than the ten year period required by the Contents of Plans and Strategies Order. Council believed the latter years of a ten year plan would lack relevance and would be less effective than the current five year rolling strategic plan.

INFRASTRUCTURE ASSETS

Follow-up of Infrastructure Report

The Infrastructure Report made 23 recommendations, of which 22 were relevant to councils. During our audits of local government financial reports since the Infrastructure Report, we undertook additional procedures to determine if all 22 recommendations relevant to councils were adopted.

Councils made further progress towards adopting recommendations made the Infrastructure Report. At 30 June 2016, there were 32 instances where councils had not adopted our recommendations, compared with 50 in the prior year.

Table 5 provides a summary of those recommendations that have not yet been fully implemented by councils at 30 June 2016.

Table 5: Extent to which our recommendations were not adopted by councils

Recommendation		Number of councils not adopting recommendation 2015	Number of councils not adopting recommendation 2016
1	The components of a road asset should be identified and recognised at fair value and should be separately valued and depreciated over their useful lives.	5	3
3	Residual values for property, plant and equipment assets be recognised only where the estimated amount to be received from disposal of the asset is greater than the cost of disposal of the asset.	2	1
4	Assets subject to planned 'optimal' renewal methods be componentised to recognise the different useful lives estimated for each part of the asset. The componentised assets be revalued as modern equivalent assets being the cost that is required currently to replace the service capacity of an asset.	4	3
6	Useful lives should be reviewed annually to ensure that the value of depreciation calculated and recognised remains relatively accurate and to support ongoing asset renewal planning.	1	2
7	Road earthworks assets established with an unlimited useful life should be reviewed annually for obsolescence and if any earthworks asset is assessed as having a remaining useful life, changes be made to recognise the remaining useful life.	2	2

Recommendation		Number of councils not adopting recommendation 2015	Number of councils not adopting recommendation 2016
12	Road and other assets should be de-recognised (written-off) when the asset is replaced or renewed.	2	2
14	Councils should prepare and adopt a policy for revaluation, defining the criteria to be used in determining whether the carrying amount differs materially from that which would be determined using fair value at the end of the reporting period. The policy should include the method of assessing fair value and the source information to be used.	2	3
15	Councils should undertake an annual review of accounting estimates as required by AAS, to be approved by the General Manager. The review should include the useful life, residual value and depreciation methods applied, whether there is a material difference between the carrying value of assets recorded at fair value with that determined using fair value and whether there are any indications of impairment of assets. The rationale and documented support for any action or non-action taken should be part of the information provided.	5	3
16	Councils should undertake an annual review of the currency and accuracy of asset registers and the General Manager should report the rationale and documented support for any decision to revalue or not revalue to the audit committee and/or the council.	4	2
17	The value of capital renewal and capital new/upgrade expenditure by asset class should be disclosed in financial statements.	4	4
20	The five financial ratios shown below, indicating the financial sustainability of councils together with explanations of variances from expected benchmarks, should be disclosed in council financial statements: • Operating surplus ratio • Asset sustainability ratio • Asset renewal funding ratio • Road asset consumption ratio • Net financial liabilities ratio	1	2
21	An integrated approach to financial management should be supported by the development of financial management strategies in conjunction with the development of the long-term financial plan as a single integrated financial planning document.	1	1
22	Councils recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired. Councils should approach the OVG to determine and agree a process of valuing land under roads in each municipal area and to facilitate a regular revaluation of land under roads.	15	4

Areas where the recommendations had been fully complied with have not been re-disclosed in the table above, nor discussed below.

Residual values

In past years there had been differing views between engineers and accountants regarding the definition, use and validity of residual values in the valuation and depreciation of infrastructure assets for financial reporting purposes. The AASB clarified during 2015-16 that residual value, as defined in AASB 116 *Property, Plant and Equipment*, did not include cost savings from the re-use of parts of infrastructure assets[1]. The conclusion reached by the AASB confirmed the recommendation made in the Infrastructure Report that residual values for property, plant and equipment assets should be recognised only where the estimated amount to be received from disposal of the asset is greater than the cost of disposal of the asset.

Impairment versus write-off of infrastructure assets

Where council assets are destroyed, for example as a result of a natural disaster, AASB 116 and AASB 136 *Impairment of Assets* required the asset to be derecognised/written-off through council's statement of comprehensive income. This is contrasted with the circumstance where an asset can still be used but with reduced functionality, for example a two-way bridge reduced to one lane. In this instance, the bridge is impaired and adjustments can be taken against any previous revaluation increments held in council's asset revaluation reserves.

Useful life reassessment

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* makes it clear that the useful lives of, or expected pattern of consumption of the future economic benefits embodied in, depreciable assets are an estimate. Changes to estimates must be applied prospectively, that is, it is applied to transactions, other events and conditions from the date of the change in estimate. The standard also sets out disclosure requirements for such changes.

In the past it has been common practice for some councils to change useful lives retrospectively, usually as part of a revaluation. We have accepted this treatment when an item of property, plant and equipment is revalued and at the date of the revaluation:

- the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset (e.g. the gross carrying amount is restated by reference to observable market data or it is restated proportionately to the change in the carrying amount)
- the accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

LAND UNDER ROADS

Councils continued to recognise land under roads for the first time in 2015-16.

Land under roads is defined as land under roadways, and road reserves, including land under footpaths, nature strips and median strips. AASB 1051 requires that land under roads acquired after the end of the first reporting period ending on or after 1 July 2008 is accounted for under AASB 116. Recognition of land under roads acquired prior to 1 July 2008 is optional under AASB 1051, however it has been our long-standing view that councils should recognise all land under roads, regardless of when the land was acquired.

[1] *AASB Media Release 3 July 2015*

Valuation methods

In July 2014, in response to requests from councils, the OVG provided the LGAT with a schedule of rates for property class categories in each municipality.

The OVG derived the rates by dividing land values by land area by property class category in each municipality. A 30% discount was applied to average values in each category (residential, commercial, industrial, community and other) to equate to unimproved values. No discount was applied to the primary production property class category.

The majority of councils that recognised land under roads adopted these rates for their land under roads valuation, although we noticed two different approaches with regard to the use of these rates:

- rates applied to land under roads, on an individual road basis, with the rate determined by the property class surrounding the road (Method 1)
- multiple property class rates averaged and applied to the total land under road area (Method 2).

Another method of valuation used by councils was to create an average land value rate for the municipality by dividing the value of land for whole municipal area by total municipal land area. This average land value rate was then applied to the land under road area (Method 3).

The General Manager is required to determine which method is suitable for the financial report and ensure they understand the inputs and assumptions and how they apply the valuation in order to meet the disclosure requirements of AASB 13 *Fair Value Measurement.*

We reviewed the methods applied to land under road valuations by councils and consider the application of the OVG rates based on individual road reservations, classified by property class surrounding the road (Method 1), to be the preferred method. This method provides for a simple and efficient valuation process using recognised and justifiable values.

Adoption in financial reports

At 30 June 2016, 25 (2014-15, 14) councils had fully adopted our recommendation by recognising all land under roads regardless of when acquired. Two councils had only recognised land under roads acquired post 1 July 2008, (nine) and two, (six) councils had not recognised any land under roads regardless of when acquired. In the two latter cases land under roads acquired since 1 July 2008 was assessed as immaterial. We will continue to monitor land acquisitions by these councils.

Four councils recognised land under roads in any form for the first time this year, refer to shaded areas in the following table. A further seven councils, that had previously only recognised land under roads acquired post 1 July 2008 recognised land under roads acquired before 1 July 2008 for the first time.

The table 6 demonstrates our findings in regards to council adoption of our recommendation, including valuation methodology.

Table 6: Land Under Roads

Council	Land under Roads pre 1 July 2008	Land under Roads post 1 July 2008 Recognised	Value $m	Road length*	Method of recognition**
Urban medium					
Clarence	y	y	100.27	430	1
Glenorchy	y	y	139.76	293	1
Hobart	y	y	688.21	297	1
Kingborough	y	y	57.25	513	3
Launceston	n	y	2.62	707	1
Urban small					
Brighton	y	y	12.29	153	1
Burnie	y	y	24.37	352	1
Central Coast	y	y	26.04	663	1
Devonport	y	y	86.83	239	1
West Tamar	n	y	1.22	449	1
Rural agricultural, very large					
Derwent Valley	n	n	n/a	330	n/a
Huon Valley	y	y	22.58	757	3
Meander Valley	y	y	26.10	792	1
Northern Midlands	y	y	14.43	979	1
Sorell	y	y	15.41	335	2
Waratah-Wynyard	y	y	4.41	522	2
Rural agricultural, large					
Break O'Day	y	y	2.63	554	1
Circular Head	y	y	7.02	767	1
Dorset	y	y	3.35	739	1
George Town	y	y	5.95	285	1
Latrobe	y	y	4.40	485	1
Kentish	y	y	19.74	286	1
Southern Midlands	y	y	2.98	803	1
Rural agricultural, small and medium					
Central Highlands	y	y	0.96	752	1
Flinders	y	y	1.93	385	1
Glamorgan Spring Bay	y	y	10.17	345	2
King Island	n	n	n/a	432	n/a
Tasman	y	y	2.51	203	1
West Coast	y	y	4.08	175	1

** Roads Owned By Local Government, by local government areas - January 2004, per ABS 1362.6 - Regional Statistics, Tasmania, 2007 (discontinued)*

*** refer Valuation Methods section earlier for definitions*

Shaded areas signify first time recognition in 2015-16

INTANGIBLE ASSETS (AASB 138)

AASB 138 *Intangible Assets* defines an intangible asset as an identifiable non-monetary asset without physical substance. The Framework for the Preparation and Presentation of Financial Report (the Framework) defines assets as resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Therefore an intangible asset is an identifiable non-monetary resource without physical substance that is controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

A number of councils had developed or commissioned projects that, in some cases, they considered to be intangible assets. Projects included review of current systems and business processes, development of service level agreements and strategic plans.

The question of whether plans or studies similar to those mentioned above meet the definition of intangible assets under AASB 138 was raised at the Australasian Council of Auditors-General Financial Reporting and Auditing Committee (the Committee) in October 2016. The Committee, which consists of technical experts from audit offices around Australia, including the Australian National Audit Office, agreed that these projects do not meet the definition of an intangible asset under AASB 138. This is consistent with our interpretation and application of AASB 138 as discussed with a number of councils during completion of the 30 June 2016 audits.

REHABILITATION AND RESTORATION

Specific accounting treatments apply for future rehabilitation and restoration of waste management, landfill, quarry and similar sites. Accounting treatments involved consideration of the appropriate accounting standards which included:

- AASB 116 requires the cost of an item of property, plant and equipment (such as landfill sites) to include an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item
- AASB 137 *Provisions, Contingent Liabilities and Contingent Asset* sets out how the resulting provision for restoration needs to be recognised and measured
- AASB *Interpretation 1* discussed changes in existing decommissioning, restoration and similar liabilities.

Accounting methods applied in 2015-16 to restoration and rehabilitation of assets highlighted inconsistencies and inaccuracies in approaches. Where council had determined it had a legal or other requirement to restore and rehabilitate an asset, specific accounting treatments needed to be applied.

SIGNIFICANT BUSINESS ACTIVITIES

In 1995, Australian governments, acting on recommendations made by the Independent Committee of Inquiry into a National Competition Policy (also known as the Hilmer Report), agreed to the National Competition Policy (NCP). The principal objective of NCP was to promote competition within the economy where it was considered to be in the public benefit.

NCP applied the concept of competitive neutrality and required that government entities should not enjoy any net competitive advantage simply as a result of their public ownership. The aim was to eliminate resource allocation distortions from public ownership of entities engaged in significant commercial activities, so that ultimately, all government businesses compete on fair and equal terms with private sector businesses, where this was in the public benefit[2].

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[2] *In the context of this Chapter, government businesses refers to businesses run by local government councils.*

The following documents, released in December 2013, provided guidance on the application of competitive neutrality principles to local government in Tasmania:

- NCP – applying the Principles to Local Government in Tasmania identification and management of SBAs by local government in Tasmania to comply with competitive neutrality principles[3].
- Councils were required to identify which of their activities are SBAs and, therefore, to which competitive neutrality principles (either corporatisation or full cost attribution, as appropriate) should be applied. Single and joint local government authorities were also required to comply with the competitive neutrality principles.
- Section 84(2)(da) of the LGA required councils to include in their annual financial statements the operating, capital and competitive neutrality costs in respect of each SBA undertaken during the financial year together with a statement of the revenue associated with that activity.
- Councils must report their compliance with NCP in their financial statements including:
    - progress made in implementing competitive neutrality principles
    - outcome of any public benefit assessments undertaken
    - SBAs as identified by councils or determined by the Regulator following a competitive neutrality complaint
    - any complaints received and the outcome of the investigation of those complaints.

Where a person believes that a council undertaking a SBA has contravened competitive neutrality principles and there has been an adverse effect, a complaint may be lodged with the Regulator who has the power to receive and investigate complaints.

In 2010-11, the Regulator received several complaints from private caravan site owners about councils providing free or low priced overnight RV camping services. The Regulator found that councils breached competitive neutrality principles under the NCP. Further complaints were received in 2012-13 in relation to councils providing free RV overnight parking and/or camping services. In those cases the Regulator found that the councils had not contravened the competitive neutrality principles. In 2015-16 the Regulator received one further complaint in relation to councils providing free RV overnight parking and/or camping services.

As a result of the 2015-16 investigation, the Regulator determined that overnight recreational vehicle parking and camping services operated by West Coast Council was an SBA due to the impact on the relevant markets. Accordingly, the Regulator determined that the complaint was justified in relation to both services, because in providing the camping areas without charge the Council had neither considered nor applied full cost attribution. In its 2015-16 financial report, West Coast Council failed to comply with section 84(2)(da) of LGA and did not disclose the activity as an SBA. The disclosure was not made on the basis that Council disagreed with the findings of the Regulator and disputed that it provided any services at all. We included an 'other matter' paragraph in our audit report to highlight the non-disclosure as we believed it was important to inform the users of the financial report. Including an 'other matter' paragraph did not modify our audit opinion.

We identified SBA disclosure as an area of audit focus after noting a lack of consistency in business operations disclosed as SBAs in local government financial statements. In 2014-15 we recommended that all councils review their business operations to identify new SBAs and determine whether SBAs previously disclosed met the current definition for disclosure.

[3] *Reports are available on the Office of the Tasmanian Economic Regulator's website.*

In 2015-16, after this process was undertaken by councils, we reviewed SBA assessments with consideration given to:

- completeness of activities assessed
- councils consideration of the relevant market
- results of investigations by the Regulator.

Whilst we reviewed the SBA assessments, our audit responsibility did not extend to the determination of SBAs by the General Manager. However, where SBAs were identified, we tested calculations and disclosures.

Table 7, summarises SBAs disclosed by councils. Eighteen councils disclosed one or more SBAs. Eleven councils determined that they did not have any SBAs to report.

Activities assessed as SBAs varied due to location, size and nature of council.

Table 7 SBA's

Council	No SBAs disclosed	Entertainment/ Function Centre	Travel and Information centre	Child Care	Health Care Centre	Seniors Day Respite Centre	Parking	Airport	Camping & RV	Swimming Pool	Gym / Sports Centre	Tip/ Waste	Private Works	Transport Infrastructure
Urban medium														
Clarence	✓													
Glenorchy		✓		✓								✓		
Hobart			✓				✓			✓				
Kingborough				✓		✓					✓			
Launceston							✓			✓	✓			
Urban small														
Brighton	✓													
Burnie*		✓					✓			✓		✓		
Central Coast				✓										
Devonport		✓					✓					✓		
West Tamar	✓													
Rural agricultural, very large														
Derwent Valley														✓
Huon Valley					✓									
Meander Valley	✓													
Northern Midlands	✓													
Sorell	✓													
Waratah-Wynyard				✓										

Council	No SBAs disclosed	Entertainment/ Function Centre	Travel and Information centre	Child Care	Health Care Centre	Seniors Day Respite Centre	Parking	Airport	Camping & RV	Swimming Pool	Gym / Sports Centre	Tip/ Waste	Private Works	Transport Infrastructure
Rural agricultural, large														
Break O'Day	✓													
Circular Head									✓			✓		
Dorset	✓													
George Town												✓		
Latrobe														
Kentish	✓								✓					
Southern Midlands	✓													
Rural agricultural, small and medium														
Central Highlands									✓					
Flinders								✓					✓	
Glamorgan Spring Bay			✓		✓									
King Island								✓						✓
Tasman	✓													
West Coast												✓		

** Trading activities of Burnie Arts and Function Centre only*

REMUNERATION DISCLOSURES

For a number of years, most recently in *Auditor-General's Report No. 4 of 2014-15*, we have recommended that all State entities fully adopt the remuneration related disclosure requirements of AASB 124 as well as the requirements of the *Corporations Act 2001* as they relate to disclosing entities i.e. by individual employee.

Currently, there is no legislative requirement for councils to report, in their financial report, remuneration of KMP. The LGA required councils to include in their annual report:

- a statement of the total allowances and expenses paid to the mayor, deputy mayor and councillors
- the number of employees who hold senior positions, in bands of $20 000, according to the total annual remuneration (salary, including superannuation, the value of the use of a motor vehicle and any other allowances or benefits).

These disclosures were not subject to our audit unless they were included in financial statements. Furthermore, the disclosure was limited to employees of council who hold positions designated by council as being senior positions which are not defined by the LGA.

In line with our previous recommendation, we included example disclosure of KMP remuneration in our Local Government Model Financial Statements for 30 June 2016, and recommended that councils consider adoption.

We noted during our current audits that voluntary remuneration disclosures, although varied, on the whole increased across councils:

- Central Highlands, Clarence, Tasman and Waratah-Wynyard councils fully adopted our recommendation and disclosed all KMP by individual and amount by component.
- Brighton, Burnie and Glamorgan Spring Bay councils chose to partially adopt and disclosed the dollar value of General Manager's remuneration in their financial report.
- Break O'Day, Dorset, Flinders, Glamorgan Spring Bay, King Island, West Coast, Derwent Valley and Sorell councils disclosed the total dollar amount of all KMP remuneration, but not by individual employee.
- Devonport City Council separately identified the remuneration paid to the General Manager in the annual report.

TasWater disclosed Director and Senior Executive Remuneration in the annual report in accordance with AASB 124. The Directors' Report included in the annual report disclosed the dollar value of individual remuneration classified into short-term and post-employment benefits.

RELATED PARTY DISCLOSURES

In March 2015 the AASB issued AASB 2015-6 *Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*. The standard removed the prior exemption from AASB 124 for not-for-profit public sector entities, including local government, and applies to annual reporting periods beginning on or after 1 July 2016.

The term '*related party*' is defined in AASB 124 and includes, but is not limited to:

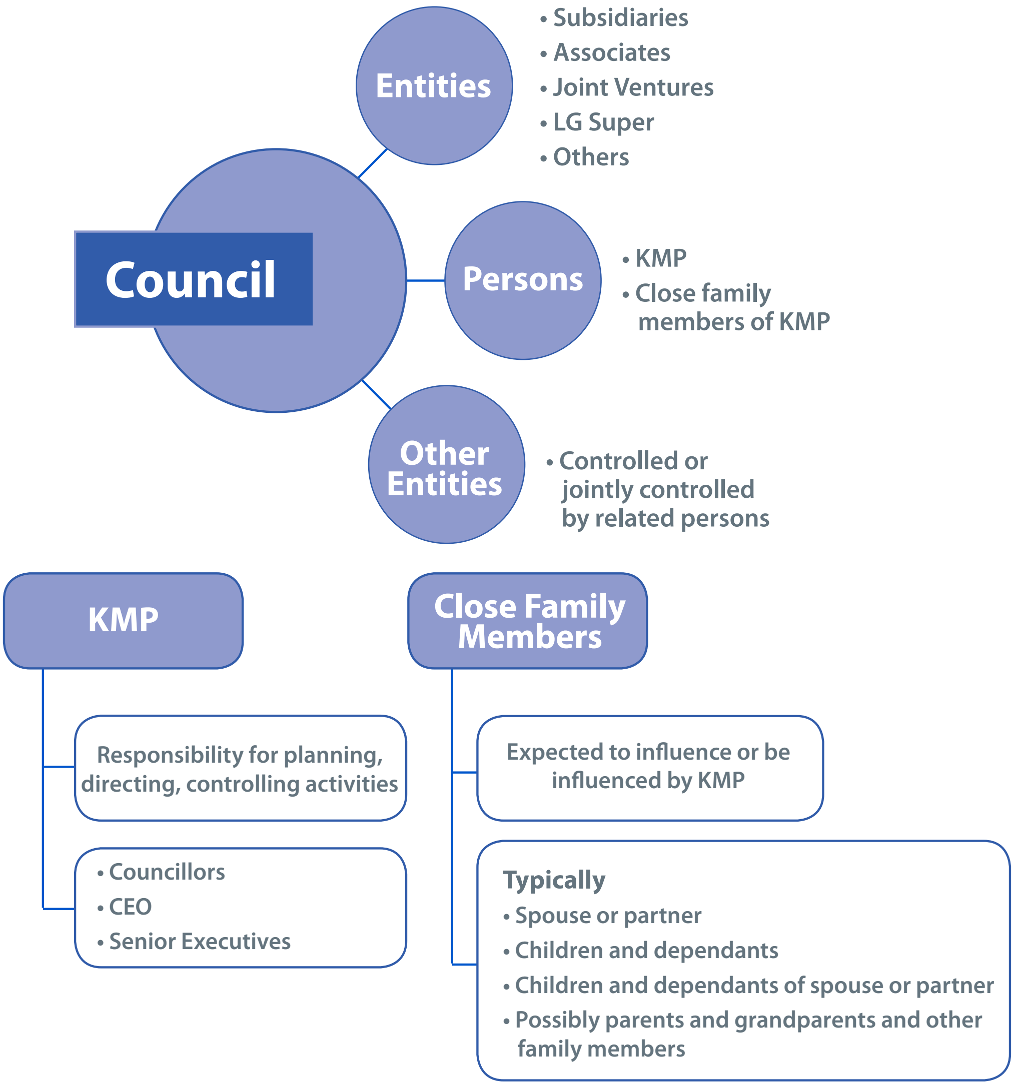
- a party who has control, significant influence or joint control over the entity
- a member of the KMP of the entity
- a close member of the family of any individual referred to above.

Related parties are likely to include the mayor, councillors, general managers, senior or executive management, their close family members and any entities that they control or jointly control. Any transactions between council and these parties, whether monetary or not, will need to be identified and possibly disclosed.

Disclosures include:

- nature of the relationship
- amount of transactions, balances outstanding and commitments
- any provisions for doubtful debts or bad debts expensed
- aggregate KMP compensation split into specified categories (i.e. short-term, post-employment, other long-term and termination benefits).

Figure 2: Related party identification



Source: Queensland Department of Infrastructure, Local Government and Planning

Steps to comply with AASB 124

Responsibility for ensuring all related parties and associated transactions are identified and appropriately disclosed in the financial statements rests with those charged with governance.

There are many issues for councils to consider in preparation for financial reporting. Key steps that need to be undertaken for compliance with AASB 124 include:

- familiarisation with the new requirements
- Aldermen, councillors and other KMP need to be made aware of AASB 124, the definition of related parties and that it extends to close family members
- establishment of a system to identify and record related parties and related party relationships
- if declarations are to be used for identification of related parties, they will need to capture sufficient information in order for the entity to be able to fully comply with the requirements of AASB 124
- identification and definition of *ordinary citizen transactions* which are usually not disclosed
- establishment of a system to identify and record related party transactions and related party transaction terms and conditions
- assessment of materiality of the related party transactions that have been captured
- make disclosures and provide information for audit.

A working party which involves representatives from councils, LGD, LGAT and TAO is developing guidance to assist entities implement the changes.

Audit implications

It is important for councils to note that the information collected and disclosed in accordance with AASB 124 will be subject to audit as it forms part of the financial statements. Audit procedures will not only consider the disclosures made but also the systems and processes implemented by council. These will be examined to ensure disclosures are complete and no material transactions have been omitted.

FINANCIAL ANALYSIS

INTRODUCTION

This Chapter contains our financial analysis of Tasmanian councils covering:

- key developments affecting councils
- the aggregated financial results of councils for the 2016 financial year. This includes comment on the main drivers behind the net result achieved and comparative data for the preceding two years.

KEY RESULTS AND DEVELOPMENTS

Key Developments
A number of councils undertook significant investment activities, including the establishment of new entities.
Councils throughout the State were heavily impacted by natural disasters.
Three councils participated in inter-governmental infrastructure exchange arrangements.
All councils were involved in major infrastructure projects.
A number of councils recognised or undertook major reassessments of their rehabilitation and restoration provisions for landfill, quarry or similar sites.
Following a Board of Inquiry all Huon Valley Councillors were terminated and a Commissioner appointed.
An ongoing dispute between Launceston City Council and TasWater regarding a fee for access to a combined sewerage and stormwater system owned by TasWater was resolved in arbitration.
Aggregated financial results
Councils generated a combined net Underlying Surplus of $11.72m in 2015-16 (2014-15, $6.39m), with 11 (14) councils generating net Underlying Deficits totalling $7.29m ($15.29m).
The Net surplus for 2015-16 was $985.73m, an increase of $664.79m. The significant increase related to the initial recognition of land under roads acquired prior to 1 July 2008 by four councils and the initial recognition of all land under roads by seven councils.
Councils raised $456.91m in rates, an increase of 3.5%.
Net assets increased from $9.21bn to $10.20bn. The increase in Net assets primarily represented higher Property, plant and equipment of $996.92m, which again, reflected the significant value of land under roads recognised in 2015-16.
Cash and financial assets decreased from $394.43m to $379.89m.
Most councils managed working capital effectively and could meet their short-term commitments from existing current assets.
Outstanding rates totalled $15.39m at 30 June 2016 with an average per council of $0.53m ($0.54m).

KEY DEVELOPMENTS

Key developments specific to TasWater and other local government entities are discussed within the Other Local Government Entities Chapter in this Report.

Investment activities

Councils enter into investment arrangements or establish entities under the LGA to facilitate or assist with delivery of services to local communities. New or changed investment activities noted in 2015-16 included:

- Brighton Council's subsidiary, Microwise Australia Pty Ltd, purchased the Derwent Indoor Sports Centre for $0.66m as an investment property.
- Burnie City Council finalised its strategy of exiting from direct delivery of child care services, with the transfer of the Autism Centre to local provider, St Giles, in October 2016.
- Central Highlands Council provided an interest free loan of $0.50m to TasWater during 2015-16 repayable over 20 years to enable a treated water supply to be provided to residents of Gretna.
- Circular Head and Huon Valley Councils previously owned investment securities that incurred significant capital losses in the past. These securities formed the basis of a class action that both Councils were parties to. Legal action recovered a portion of the capital losses in 2015-16.
- Dorset Council agreed to purchase 1 126ML of water rights from Tasmanian Irrigation Pty Ltd at a cost of $1.58m to ensure commencement of the Scottsdale Irrigation Scheme. A deposit was paid in 2015-16, the balance remained as a commitment. Council intends to sell the water rights at a future date as the scheme progresses.
- Dorset Council incorporated NE Care Inc (NE Care) under the *Associations Incorporation Act 1964* for the purpose of managing operations of the Aminya Aged Care facility. In November 2015, Council facilitated the transfer of operations from Presbyterian Care Tasmania to NE Care by acquiring the assets necessary to continue operations. NE Care entered into a management agreement with May Shaw Health Centre Inc. (May Shaw). Assets necessary to operate the facility were transferred to May Shaw as part of this agreement and the building and land were retained and recognised by Council.
- At 30 June 2015, Glenorchy City Council was in dispute with a contractor responsible for the construction of the Derwent Park Stormwater Harvesting and Industrial Re-use Project. The value of the claim against the contractor, who was in liquidation, was $1.60m at 30 June 2016. Subsequently Council submitted a claim with insurers. Resolution of the claim was in progress at 30 June 2016.
- Hobart City Council signed an agreement in July 2015 with the Derwent Sailing Squadron to act as guarantor for a $4.10m loan.
- Pursuant to a Deed between Hobart City Council and Myer Pty Ltd (Myer) in 2014-15, a $1.75m instalment was paid to Myer upon commencing trading to the public in November 2015. A second $1.75m instalment was paid in July 2016 (and accrued in the 2015-16 period) after full occupation of the Liverpool Street property by Myer.
- Huon Valley Council established a not-for-profit company to manage the Geeveston Town Hall. As a result Council presented consolidated statements in 30 June 2016.

Natural disasters

Councils throughout Tasmania were heavily impacted by bushfires and a major flood event in January 2016 and further flooding in June 2016. The damage and costs are still being assessed, however some councils incurred significant operational costs and infrastructure losses and were pursuing insurance and/or National Disaster Relief and Recovery Arrangement funding. Councils that experienced a significant financial impact as a consequence of one or more natural disaster related events included:

- Break O'Day
- Central Coast
- Circular Head
- Kentish
- Northern Midlands
- Meander Valley
- Waratah-Wynyard.

Transfers of assets

Inter-governmental infrastructure exchange arrangements can be undertaken for specific purposes. Arrangements discussed below were noted from our 2015-16 financial report audits.

Dorset Council transferred $13.46m of road and bridges to the Department of State Growth (State Growth) and received $2.24m of infrastructure assets through an infrastructure exchange.

Launceston City Council, the University of Tasmania (UTAS), the State Government and TasTAFE entered into a Memorandum of Understanding to explore the potential of an inner Launceston City university campus. In November 2015, Council approved the transfer of land at the Inveresk Precinct to allow an expanded Northern campus to proceed.

Burnie City Council commenced a 25+25 year lease with UTAS for the Makers Workshop building in July 2015. UTAS now has primary usage of the Makers Workshop building for educational purposes. Total fixed assets de-recognised by Council in 2014-15 as part of the transfer were $6.38m.

Major infrastructure projects

A number of councils undertook major infrastructure projects during 2015-16. Significant recent projects are noted below.

Break O'Day Council completed Stages 1 and 2 of the multi-purpose stadium at St Helens with a cost to date of $2.12m. Funding was received from the Tasmanian Government, $0.25m and Australian Government, $0.50m, with the balance from council cash reserves. The total project, at completion of stage 3, is estimated to cost $2.50m. The stadium opened in February 2016.

Burnie City Council completed the re-development of the Burnie Aquatic Centre at a cost of $8.84m, jointly funded by Council, $2.80m, State and Australian Governments. The centre opened in July 2016.

Circular Head Council closed the existing pool facility in Smithton in October 2015. Council committed $4.70m and secured capital grant funding under the Commonwealth National Stronger Regions Fund of $3.82m that ensured Stage 1 of a Community Wellbeing Centre could commence construction in 2016-17.

Clarence City Council completed Stage 1 of the Indoor Bowls Facility at Howrah with a total project cost of $1.19m.

Devonport City Council progressed its Living City Project, a rejuvenation of the central business district, with commencement of Stage one of the development. Stage 1 is estimated to cost approximately $70.00m, of which $48.00m is to be funded by Council's cash reserves and new borrowings. The value of land and buildings purchased by Council as part of this project was $12.39m at 30 June 2016. No additional borrowings were required to fund the project in 2015-16.

Launceston City Council continued the Invermay Flood Protection Enhancement Project, funded by Council and State and Australian Governments. Compulsory acquisitions were undertaken and the expenditure on the project for the 2015-16 financial year was $2.53m. Benefits of work completed to date on the levee system were realised during the June 2016 flood events with Invermay largely protected from inundation.

Launceston City Council also commenced its City Heart Project development with a total budget over several years of $37.38m. Council spent $2.40m in 2015-16 which included completion of the Quadrant Mall redevelopment.

Rehabilitation provision

A number of councils recognised or undertook major reassessments of their rehabilitation and restoration provisions for landfill, quarry or similar sites during 2015-16. These included:

- Latrobe Council recognised a $2.69m landfill rehabilitation provision for the Port Sorell site.
- Burnie City Council revised its rehabilitation provision by $2.53m upon approval from the Environmental Protection Agency (EPA) of commencement of a landfill leachate treatment wetlands project to free up capacity in TasWater's network.

Other significant developments

Huon Valley Council was the subject of a Board of Inquiry by the Minister for Planning and Local Government. The inquiry resulted in the termination of all Councillors in October 2016 and the appointment of a Commissioner for twelve months.

An ongoing dispute between Launceston City Council and TasWater regarding a fee for access to the combined sewerage and stormwater system owned by TasWater was resolved in arbitration. Council and TasWater continued to negotiate a Service Level Agreement after year end.

AGGREGATED FINANCIAL RESULTS

This section provides comparative analysis of the aggregated financial results of all councils. Analysis includes aggregated statements of comprehensive income, financial position and cash flows. Transactions between councils have not been identified or eliminated in our aggregation of the financial reports. All numbers refer to aggregated balances unless otherwise stated.

Comparative analysis covering financial and other information for councils has been compiled with results provided in three attachments to this Chapter. The information provided is for the financial year ended 30 June 2016. The attachments are presented with councils classified as noted in the Summary Chapter earlier in this Report.

For the purpose of calculating a council's Underlying Surplus or Deficit (underlying result), we have relied on the definition of Underlying Surplus or Deficit in the Management Indicators Order, as follows:

"underlying surplus or deficit is the amount that is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of a council for a financial year less the recurrent expenses of the council for the financial year".

Based on the definition, in particular the reference to "other income of a capital nature", we have treated Roads to Recovery (RTR) funding as non-recurrent income. We noted some councils believe funding received for the replacement and renewal of existing assets should be treated as recurrent income to offset the associated depreciation on those assets.

We also noted differing treatments of profit or loss on disposal of non-current physical assets. Some councils treated the profit or loss as a recurrent item while others treated it as non-recurrent. It is our view that profit or loss on disposal of assets is recurrent in nature, unless there is an unusual reason for the profit or loss, such as a natural disaster.

We are currently working with the LGAD to provide further guidance to councils to ensure consistent calculation of underlying results.

In preparing this Report, we reclassified certain financial statement items to ensure comparability between councils. Therefore, the Underlying Surpluses or Deficits reported in this Report may not agree to the management indicator disclosed in council financial statements in all cases.

Table 8: Aggregated Statement of Comprehensive Income

	2015-16 $'000s	2014-15 $'000s	2013-14 $'000s
Rates	456 910	441 665	424 731
Fees and charges	121 233	116 337	112 212
Grants	91 632	91 814	91 199
Interest revenue	14 305	14 624	16 335
Other revenue	61 649	63 536	61 068
Total Revenue	**745 729**	**727 976**	**705 545**
Employee costs	260 656	254 992	252 076
Depreciation	163 163	160 089	158 894
Finance costs	4 941	5 564	5 398
Other expenses	305 248	300 852	290 833
Total Expenses	**734 008**	**721 497**	**707 201**
Underlying Surplus (Deficit)	**11 721**	**6 479**	**(1 656)**
Capital grants	58 729	35 781	25 374
Contributions of non-current assets	3 404	14 170	2 962
Contributions of non-current assets - subdivisions	31 862	13 263	19 325
Financial assistance grant received in advance [1]	(34 500)	34 500	(35 812)
Recognition of land under roads	918 564	182 987	37 296
Other non-current asset recognition/derecognition adjustments	7 432	37 411	19 943
Non-current asset fair value revaluation adjustment	(9 003)	(238)	(5 517)
Other	(2 476)	(3 407)	(2 213)
Net Surplus (Deficit)	**985 733**	**320 946**	**59 702**
Other Comprehensive Income			
Fair value revaluation of non-current assets	(19 586)	257 461	(33 261)
Fair value adjustment in TasWater	26 385	12 299	(223 034)
Actuarial gain(loss) on defined benefit plan	371	4 563	6 289
Other	373	538	68
Total Comprehensive Income (Expense)	**7 543**	**274 861**	**(249 938)**
Comprehensive Surplus (Deficit)	**993 276**	**595 807**	**(190 236)**

Individual council results are summarised in Attachment 2.

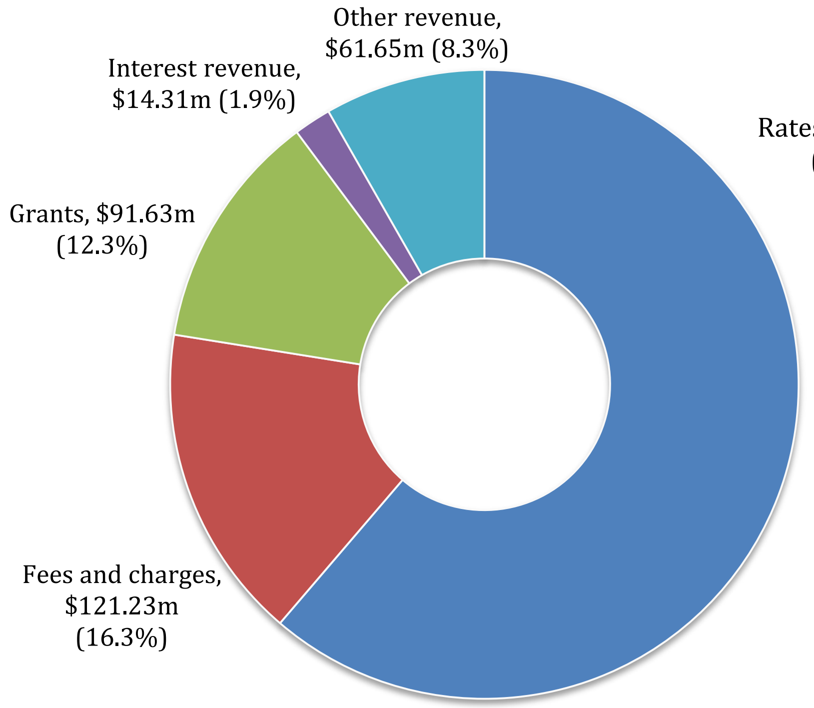
[1] *Financial assistance grant advance payments have been reallocated to the relevant year for the calculation of the Underlying result. The offset to the Financial assistance received in advance line item is within Grants revenue.*

Underlying result

The aggregated underlying result was a surplus of $11.72m. The surplus arose primarily due to containment of expenditure relative to increased revenue activity. Total Revenue increased by 2.4% (2014-15, 3.2%) primarily driven by increased Rates revenue of $15.25m ($16.93m) and Fees and charges of $4.90m ($4.13m).

Eleven councils recorded an Underlying Deficit for the 2015-16 financial year totalling $7.29m. Overall results ranged from an Underlying Surplus of $3.02m at Devonport City Council to an Underlying Deficit of $2.17m at Kingborough Council.

Figure 3: Operating Revenue



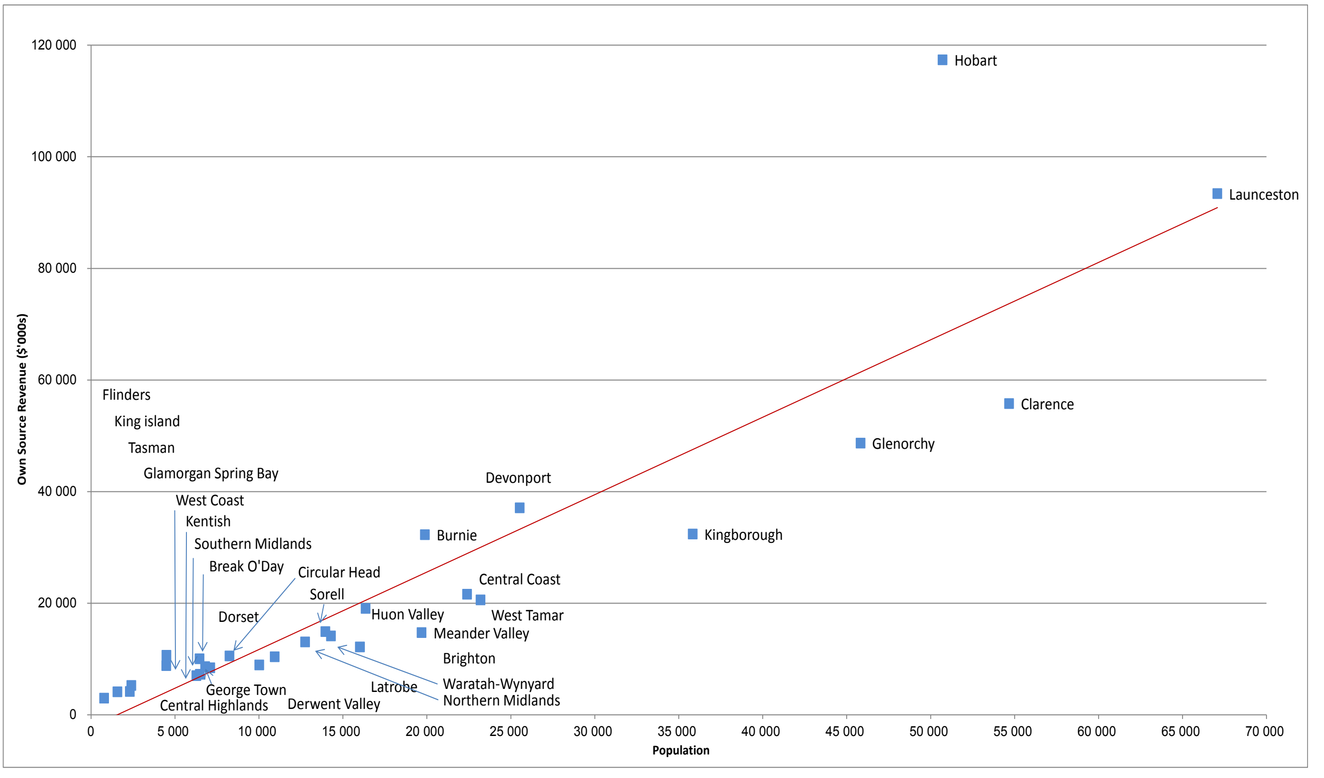
Source: Tasmanian Audit Office

Councils raised $456.91m ($441.67m) in rates for 2015-16, an increase of 3.5%. Cities, in general, earned a greater percentage of their operating revenue from rates. This was reflected in the rate revenue to operating revenue ratio. In contrast, councils that had a lower rate to operating revenue ratio received a higher percentage of recurrent grant revenue. It was noted that there were seven councils with rate revenue to operating revenue ratios of less than 50% meaning that they were heavily reliant on recurrent grant funding. One of these councils also had the lowest average rates per rateable valuation of $871 though it generated relatively high rate revenues per head of population of $1 405.

On average, councils rated $1 461 per rateable property, but expended $2 547 per rateable property on operating costs. Councils' operating expenses were supported by other revenue sources including fees and charges, interest revenue and grants. A reduction in grant funding would have a significant impact on local government, with any possible loss in revenue having to be offset by increased rates or reduced costs and services.

Councils' own source revenues represented operating revenue other than recurrent grants. Figure 4 shows councils' own source revenue and population.

Figure 4: Own source revenue by capita

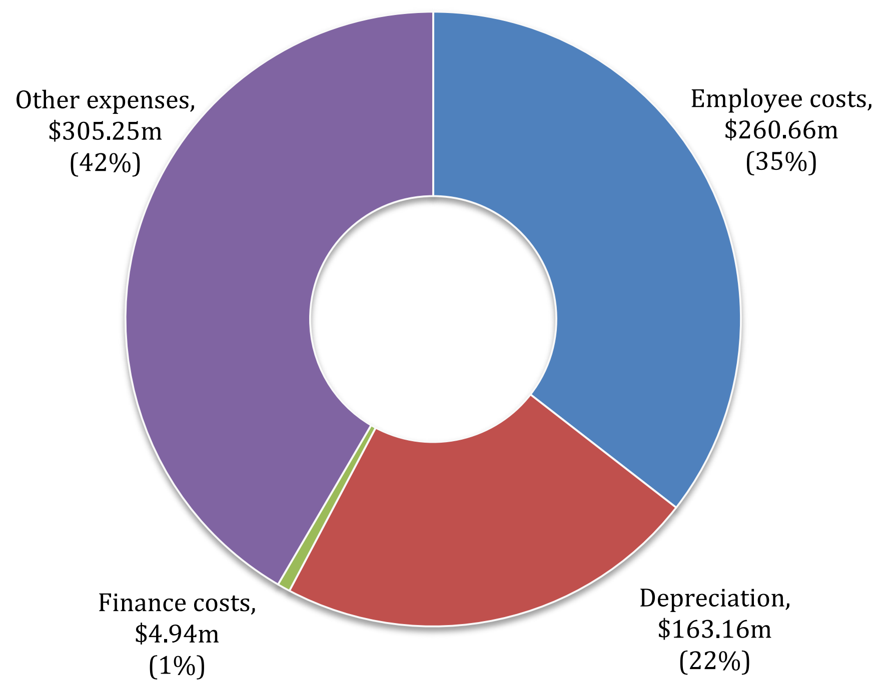


Source: Tasmanian Audit Office

In general terms, the graph above highlights those councils with larger populations, such as cities like Hobart, Clarence and Launceston, had the ability to generate a larger portion of own source revenue as a result of larger populations. The smaller rural councils, who had lower population levels, could not generate as much own source revenue and relied more heavily on grant funding.

Attachment 2 shows ratios of operating (or recurrent) grants per head of population and operating grants compared to operating revenues. These ratios confirm previous observations that smaller councils were more reliant on recurrent operating grants. To illustrate this point, smaller rural councils' grants per head of population were considerably greater than other councils, for example Flinders $2 080, King Island $1 221 and Central Highlands $1 018, compared to Hobart $86, or Glenorchy $69.

Figure 5: Operating Expenses



Source: Tasmanian Audit Office

Total Expenses increased by 1.7% (2014-15, 2.0%). Employee costs, with an increase of 2.2% (1.2%), represented the expense category with the largest increase from the prior year. Employee costs were impacted by Enterprise Bargaining Agreement increases ranging from 2% to 3% in the current financial year.

The largest expense line item was Other expenses, which increased 1.5% from the previous year. Other expenses included items such as:

- materials and supplies
- contractor services
- consultant services
- energy supplies
- insurance
- corporate support
- community services support
- memberships and promotions.

The comments below are made by reference to Attachment 1, which summarises Employee costs, Employee entitlements and FTEs for the councils.

Councils employed 3 273 (3 308) FTEs at 30 June 2016 and incurred employee costs of $260.66m ($271.18m) for the financial year. Average employee costs per FTE varied from a high of $101 000 per FTE at Flinders to a low of $56 000 per FTE at Central Highlands with the average for all councils being $81 000.

Councils' FTEs per 1 000 head of population also varied with smaller rural councils having lower population bases and higher ratios. Flinders had a ratio of 28.1 FTEs per 1 000 head of population due to its small population. The average for councils was 8.0 FTE per 1 000 head of population.

Capital and non-recurrent items

Significant capital and non-recurrent items included:

- **Recognition of land under roads -** amounted to $918.56m in 2015-16 ($182.99m). The increase was due to the number and size of councils initially recognising land under roads during 2015-16. The requirement to recognise land under roads is discussed in the Significant Financial Reporting Matters chapter of this Report.
- **Financial Assistance Grants -** the Australian government provides Financial Assistance Grants to councils for two components – general purpose and local road components. Both components of the grant are untied in the hands of local government, allowing councils to spend the grants according to local priorities. These grants are generally paid in quarterly instalments so that, in a normal financial year, four quarterly instalments of about $17.00m to $18.00m in total for the State might be expected. However, in recent years the Australian Government paid some quarterly payments in advance. Payments in 2014-15 included advance payments of $34.50m being half of the 2015-16 allocations. In accordance with AASB 1004 *Contributions*, councils recognised advance payments as income when they received the funds. West Tamar Council was the only council that did not recognise the advance payment in 2014-15 as income because it did not receive the funds into its bank account until after 30 June 2015. These arrangements significantly distorted financial results of councils. The advance payments have been removed from the calculation of the 2014-15 underlying result and included in the 2015-16 calculation. The offset to the financial assistance received in advance is Grants revenue.
- **Capital grants** – represent Tasmanian or Australian government grants for new and upgraded assets and asset replacements. These included Australian grants for RTR and bridges. The Tasmanian Government also provided capital grants for improving public spaces, street renewal, road safety, memorials and other purposes. Additional RTR funding equivalent to one year's allocation was available to councils in 2015-16 under a double funding arrangement from the 2014-15 to 2018-19 RTR program. Other notable increased or one-off grants this year included flood mitigation of $5.75m to the Launceston City Council and $2.00m this year (2014-15, $0.75m) for the Burnie Aquatic Centre to the Burnie City Council. It is expected that capital grants will vary year to year depending upon applications made by councils and the budget priorities of the governments.
- **Contributed subdivision assets -** totalled $31.86m (2014-15, $13.26m). These were predominantly subdivision hand-overs from developers upon completion.
- **Non-Current Asset recognition and derecognition adjustments -** in 2015-16 these mainly related to:
  - Launceston City Council initial recognition of compacted subgrade base, $11.95m
  - Kingborough Council recognised retaining walls as a componentised asset, $6.35m, for the first time
  - Glenorchy City Council recognition of road formation assets, $11.71m
  - Dorset Council recognised additional $2.24m road and bridge assets offset by transfer of road and bridge assets worth $13.46m through an infrastructure exchange with State Growth
  - Devonport City Council derecognised a number of buildings including the former council offices under the Living City Project with total a value of $3.09m
  - both Glenorchy City, $6.25m, and Sorell Councils, $5.68m, derecognised property and infrastructure for assets no longer in use or controlled by council.

- **Non-Current Asset revaluation adjustment** - 2015-16 included a decrease in the valuation of land under roads at Dorset Council for which there was no pre-existing asset revaluation reserve, $8.81m.

Other comprehensive income

The Comprehensive result in 2015-16 was a surplus of $993.28m (2014-15, $595.81m) an improvement of $397.47m.

Major Other comprehensive income items were:

- Net fair value revaluation decrement of Non-Current Assets of $19.59m (2014-15, $257.46m increment). This included four councils, Kingborough, Launceston City, Huon Valley and George Town with large revaluation decrements totalling $112.35m that offset increments within the sector. Assets such as land, buildings and infrastructure were revalued to ensure they reflected fair value at balance date. Revaluation increments and decrements, where prior asset revaluation increments existed, were offset and recorded in Other Comprehensive Income. The movement in the fair value was dependent on a number of inputs, with changes in construction costs and re-assessment of the age and capacity of the assets being major factors.
- Councils own a proportional interest in TasWater and account for their ownership interest in accordance with AASB 139 *Financial Instruments: Recognition and Measurement.* This investment was classified as an "available-for-sale financial asset". The $26.39m increase in the fair value reflected higher TasWater Net Assets.
- Two councils, Hobart City and Launceston City, manage defined benefit superannuation plans which are valued annually. The valuation results in gains or losses depending upon actuarial assumptions. The aggregated actuarial gain for 2015-16 was $0.37m ($4.56m).

Table 9: Aggregated Statement of Financial Position

STATEMENT OF FINANCIAL POSITION

	2015-16 $'000s	2014-15 $'000s	2013-14 $'000s
Cash and financial assets	379 885	394 426	346 434
Receivables	35 465	40 542	36 346
Inventories	3 400	4 505	3 103
Other	5 844	6 002	11 014
Assets held for transfer and resale	3 793	18 461	3 148
Total Current Assets	**428 387**	**463 936**	**400 045**
Payables	67 984	65 691	61 907
Interest bearing liabilities	8 252	8 933	9 146
Provisions - employee benefits	53 552	52 726	49 963
Other	13 744	13 324	14 824
Total Current Liabilities	**143 532**	**140 674**	**135 840**
Net Working Capital	**284 855**	**323 262**	**264 205**
Property, plant and equipment	8 179 239	7 182 314	6 641 446
Investment in TasWater	1 575 183	1 548 798	1 536 454
Museum collection	237 112	236 035	235 709
Other	37 188	30 346	51 331
Total Non-Current Assets	**10 028 722**	**8 997 493**	**8 464 940**
Interest bearing liabilities	74 247	77 671	78 273
Provisions - employee benefits	15 561	13 583	17 018
Other	541	659	626
Provision for rehabilitation	22 269	21 196	21 273
Provisions - aged persons units	1 813	1 775	1 893
Total Non-Current Liabilities	**114 431**	**114 885**	**119 083**
Net Assets	**10 199 146**	**9 205 871**	**8 610 062**
Reserves	4 351 539	4 498 156	4 203 703
Accumulated surpluses	5 844 383	4 704 499	4 403 195
Outside equity interest	3 224	3 216	3 164
Total Equity	**10 199 146**	**9 205 871**	**8 610 062**

Individual council results are summarised in Attachment 3.

Net Assets rose from $9.21bn to $10.20bn, an increase of $0.99bn or 10.8%. This movement primarily represented the increase in Property, plant and equipment, $996.93m, which comprised initial recognition of land under roads, $918.56m, purchase and construction of Property, plant and equipment, $239.62m, contributions of subdivision assets, $31.86m, less depreciation, $163.16m, fair value revaluation decrements, $28.59m, and disposals of assets, $18.99m.

Other movements in items in the Statement of Financial Position are explained below:

- Decreased Cash and financial assets, $14.54m, which is analysed in the following section on the Aggregated Statement of Cash Flows.
- Receivables decreased by $5.08m and included unpaid rates and other receivables such as fees and fines debtors, tax clearing accounts and prepayments. The decrease was predominantly due to amounts receivable at 30 June 2015 for proceeds from a property sale in Main Road, Glenorchy, $2.06m, and an amount receivable from the Australian Government for the Kangaroo Bay development in Clarence City, $2.40m. Both these debts were receipted during 2015-16.
- Assets held for transfer or resale decreased from $18.46m to $3.79m as Dorset Council completed an exchange of road and bridge infrastructure to State Growth.
- The investment in TasWater increased by $26.39m and reflected the higher Net assets of TasWater at 30 June 2016.
- The Museum collection primarily comprised the Queen Victoria Museum and Art Gallery heritage and cultural asset collection. Additional heritage assets recognised during 2015-16 were valued at $1.08m.
- Other non-current assets increased by $6.84m mainly due to increased investment in associates, $2.70m, separation of Autism Centre assets by Burnie City Council in preparation for transfer to a private operator in 2016-17, $1.67m, and the purchase of parking lots and residential investment properties by Glenorchy City valued at $1.35m.
- Decreased Interest bearing liabilities of $4.11m as loan repayments exceeded loan draw-downs.
- At 30 June 2016, the amount of annual, long service and sick leave accrued by the councils for their employees totalled $68.87m (2014-15, $64.40m). On a per FTE basis this equated to $19 449 with variations between councils ranging from $7 931 per FTE at King Island to $33 002 at Derwent Valley.

Management of working capital

On the basis that a working capital ratio (Total Current Assets divided by Total Current Liabilities expressed as a ratio greater or less than one) of one or more is effective, 28 councils managed working capital effectively with most achieving a ratio of well above one at 30 June 2016. This ratio provided an indication as to whether or not a council could meet its short-term commitments from existing current assets.

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

Collection of rates

Council rate debtors at 30 June 2016 totalled $14.78m (2014-15, $15.13m) with an average per council of $0.51m ($0.52). Expressing rate debtors as a percentage of rates raised indicated that, in general, councils were recovering outstanding rate debts in a reasonable timeframe. Northern Midlands, primarily due to one large debtor, had the highest ratio at 14.3% and therefore was the least efficient at recovering debt. Councils generally have significant power under the LGA to recover rate debts against a property. This was not the case for the Northern Midlands as rates for a major debtor were payable under a Commonwealth lease agreement meaning the relevant provision of the LGA was not applicable.

Management of infrastructure and other non-current assets

Included in Total Non-Current Assets of $10.03bn (2014-15, $9.00bn), were infrastructure and Property, plant and equipment assets controlled by councils at 30 June 2016 totalling $8.18bn ($7.18bn).

Non-current asset management impacts council financial sustainability through maintenance and depreciation expenditure, new and replacement asset construction costs and fair value measurement adjustments.

In 2015-16 payments made by councils for Property, plant and equipment totalled $239.62m ($217.44m) and depreciation charged on these assets totalled $163.16m ($160.09m).

A useful measure to assess the adequacy of a council's investment in non-current assets is expenditure on existing assets expressed as a percentage of depreciation, with an ideal target of not less than 100%. This is known as the Asset sustainability ratio and is discussed later in the next Chapter on Financial Sustainability.

Another indicator which can be used to assess whether or not a council is adequately re-investing in its non- current assets is to compare rate revenue to non-current infrastructure assets. This ratio indicates the level of rating used in relation to infrastructure assets managed by each council. The higher the ratio the better. This ratio ranged from lowest, Flinders 3.2%, to highest, Tasman 9.2%.

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

The ratio of non-current infrastructure and Property, plant and equipment assets per rateable valuation indicated that each rateable valuation supported a fairly consistent level of infrastructure. We have not analysed why some councils varied significantly from the average of $26 874 ($25 295).

Management of debt

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

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

Brighton, Central Highlands, Dorset, Huon Valley, Kingborough and Northern Midlands Councils did not have any loan debt at 30 June 2016.

The indebtedness ratio complements the current ratio and illustrates a council's ability to meet long-term commitments. The ratio compares non-current liabilities to a council's own source revenue, the lower the percentage the stronger a council's position to meet long-term liabilities. Those councils with ratios well above the average of 19.1 (2014-15, 17w)ere, in general, holding higher levels of non-current borrowings at 30 June 2016 than councils with lower ratios. However, the ratios indicate all councils could meet future long-term debt commitments.

Table 10: Aggregated Statement of Cash Flows

	2015-16 $'000s	2014-15 $'000s	2013-14 $'000s
Operating cash flows			
Receipts from customers	642 559	627 530	594 880
Cash flows from government	62 951	122 990	55 178
Payments to suppliers and employees	(579 455)	(570 504)	(561 417)
Interest received	12 874	14 321	16 288
Distributions from TasWater	30 000	26 011	28 914
Finance costs	(4 415)	(4 165)	(4 188)
Cash from Operations	**164 514**	**216 183**	**129 655**
Investing cash flows			
Capital grants and contributions	53 658	37 989	27 921
Payments for property, plant and equipment	(239 617)	(217 441)	(213 669)
Proceeds from sale of property, plant and equipment	7 057	14 353	10 788
Proceeds from financial assets	1 358	4 479	10 534
Cash used in Investing Activities	**(177 544)**	**(160 620)**	**(164 426)**
Financing cash flows			
Repayment of interest bearing liabilities	(8 136)	(9 019)	(8 023)
Proceeds from interest bearing liabilities	4 138	8 159	10 387
Other	146	(13)	66
Cash from (used in) Financing Activities	**(3 852)**	**(873)**	**2 430**
Net Increase (Decrease) in Cash	**(16 882)**	**54 690**	**(32 341)**
Cash at the Beginning of the Year	358 348	303 658	335 999
Financial assets	38 422	36 077	42 777
Cash and Financial assets at End of the Year	**379 888**	**394 425**	**346 435**

At 30 June 2016 the cash position had decreased by $14.54m from $394.43m to $379.89m.

Cash from Operations decreased by $51.67m to $164.51m predominantly due to lower Cash flows from government, $60.04m, as a result of the payment of two additional quarterly Financial Assistance Grant instalments by the Australian Government in 2014-15. Receipts from customers mainly consisted of rates and fees and charges.

Cash used in Investing activities increased by $16.92m to $177.54m. Councils continued to invest significantly in property, plant and equipment with $239.62m spent this year. This was primarily funded from Capital grants and cash generated from operations.

Cash from Financing Activities remained relatively stable with more debt repaid than drawn down.

Attachment 1 – Employee Costs

Council	Total Employee Costs (including capitalised wages)	FTE's	Average Cost per FTE *	FTE per 1000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Urban medium								
Clarence	18 093	236	77	4.3	26.8	27.7	4 539	19 233
Glenorchy	21 996	232	95	5.1	37.2	36.8	5 294	22 819
Hobart	53 027	571	93	11.3	42.0	43.0	17 415	30 499
Kingborough	13 846	192	72	5.4	37.1	35.0	2 544	13 250
Launceston	39 234	427	92	6.4	37.7	38.5	7 568	17 719
UM Total 2015-16	**146 196**	**1 658**					**37 360**	
UM Average per Council 2015-16	**29 239**	**332**	**86**	**6.5**	**36.3**	**36.3**	**7 472**	**20 704**
Urban small								
Brighton	4 101	56	73	3.5	27.0	26.8	1 148	20 500
Burnie	13 458	155	87	7.8	35.8	35.4	2 919	18 832
Central Coast	10 768	136	79	6.1	39.3	40.3	2 884	21 206
Devonport	11 680	146	80	5.7	29.0	31.4	2 601	17 815
West Tamar	8 358	99	84	4.3	34.0	35.9	2 322	23 455
US Total 2015-16	**48 365**	**592**					**11 874**	
US Average per Council 2015-16	**9 673**	**118**	**81**	**5.5**	**33.0**	**34.0**	**2 375**	**20 362**
Rural agricultural, very large								
Derwent Valley	4 200	52	80	5.2	32.1	33.6	1 728	33 002
Huon Valley	9 806	129	76	7.9	39.2	40.4	2 138	16 548
Meander Valley	6 615	80	83	4.1	33.1	33.9	1 581	19 763
Northern Midlands	5 317	62	86	4.9	29.4	28.5	1 172	18 903
Sorell	5 716	67	86	4.8	31.0	32.6	1 074	16 078
Waratah-Wynyard	6 696	84	80	5.9	36.1	35.6	1 929	23 036
RAVL Total 2015-16	**38 350**	**474**					**9 622**	
RAVL Average per Council 2015-16	**6 392**	**79**	**82**	**5.4**	**33.5**	**34.1**	**1 604**	**21 222**

Council	Total Employee Costs (including capitalised wages)	FTE's	Average Cost per FTE *	FTE per 1000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Rural agricultural, large								
Break O'Day	4 243	52	82	8.0	29.8	28.6	853	16 486
Circular Head	4 471	52	86	6.3	30.7	30.5	1 265	24 350
Dorset	4 608	53	87	7.5	27.2	31.1	1 033	19 491
George Town	4 360	48	91	7.1	37.2	33.9	883	18 396
Kentish	2 760	33	84	5.1	26.8	27.5	501	15 228
Latrobe	3 659	50	73	4.6	29.2	30.1	998	19 960
Southern Midlands	3 895	52	75	8.3	35.4	33.5	1 286	24 731
RAL Total 2015-16	**27 996**	**340**					**6 819**	
RAL Average per Council 2015-16	**3 999**	**49**	**83**	**6.7**	**30.9**	**30.7**	**974**	**19 806**
Rural agricultural, small and medium								
Central Highlands	1 854	33	56	14.4	26.9	27.1	774	23 243
Flinders	2 232	22	101	28.1	45.3	37.2	325	14 773
Glamorgan Spring Bay	4 020	60	67	13.4	31.1	31.3	825	13 750
King Island	1 926	29	66	18.4	28.7	32.2	230	7 931
Tasman	1 386	19	73	7.9	22.5	26.9	288	15 158
West Coast	4 447	46	97	10.3	39.0	41.2	749	16 283
RASM Total 2015-16	**15 865**	**209**					**3 191**	
RASM Average per Council 2015-16	**2 644**	**35**	**77**	**15.4**	**32.3**	**32.6**	**532**	**15 190**
Total 2015-16	**276 772**	**3 273**					**68 866**	
Average per Council	**9 544**	**113**	**81**	**8.0**	**33.0**	**33.3**	**2 375**	**19 394**
Total 2014-15	**271 180**	**3 308**					**64 399**	
Average per Council	**9 351**	**114**	**79**	**8.0**	**35.1**	**35.5**	**2 221**	**18 892**
Total 2013-14	**268 349**	**3 404**					**62 585**	
Average per Council 2013-14	**9 253**	**117**	**76**	**8.2**	**35.7**	**35.2**	**2 158**	**17 665**

* *Staff costs include capitalised salaries and wages*

Attachment 2 –Statement of Comprehensive Income

Council	Operating Revenue*	Non-Operating Revenue *	Total Revenue	Operating Expenditure	Non-Operating Expenditure **	Total Expenditure	Underlying Surplus/ (Deficit)	Net Surplus/ (Deficit)	Net Surplus/ (Deficit) to Total Revenue	Comprehensive Surplus/ (Deficit)	Operating Surplus Ratio	Self Financing Ratio
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%	$'000s	%	%
Urban medium												
Clarence	60 926	12 701	73 627	58 987	0	58 987	1 939	14 640	19.9	19 652	3.2	37.6
Glenorchy	51 835	152 739	204 574	52 362	6 721	59 083	(527)	145 491	71.1	194 149	(1.0)	23.4
Hobart	121 694	689 523	811 217	118 755	492	119 247	2 939	691 970	85.3	703 067	2.4	17.6
Kingborough	36 253	10 700	46 953	38 418	1 377	39 795	(2 165)	7 158	15.2	(35 336)	(6.0)	13.7
Launceston	101 092	28 037	129 129	98 917	0	98 917	2 175	30 212	23.4	11 305	2.2	21.7
UM Total 2015-16	**371 800**	**893 700**	**1 265 500**	**367 439**	**8 590**	**376 029**	**4 361**	**889 471**		**892 837**		
UM Average per Council 2015-16	**74 360**	**178 740**	**253 100**	**73 488**	**1 718**	**75 206**	**872**	**177 894**	**43.0**	**178 567**	**(0.0)**	**22.8**
Urban small												
Brighton	13 876	359	14 235	13 950	0	13 950	(74)	285	2.0	(4 760)	(0.5)	19.0
Burnie	35 948	29 052	65 000	36 338	1 099	37 437	(390)	27 563	42.4	32 927	(1.1)	23.3
Central Coast	25 480	(187)	25 293	24 877	185	25 062	603	231	0.9	28 735	2.4	19.3
Devonport	39 331	2 601	41 932	36 308	3 022	39 330	3 023	2 602	6.2	5 989	7.7	23.6
West Tamar	23 729	4 742	28 471	22 486	0	22 486	1 243	5 985	21.0	1 654	5.2	27.7
US Total 2015-16	**138 364**	**36 567**	**174 931**	**133 959**	**4 306**	**138 265**	**4 405**	**36 666**		**64 545**		
US Average per Council 2015-16	**27 673**	**7 313**	**34 986**	**26 792**	**861**	**27 653**	**881**	**7 333**	**14.5**	**12 909**	**2.7**	**22.6**
Rural agricultural, very large												
Derwent Valley	13 086	(964)	12 122	12 515	0	12 515	571	(393)	(3.2)	3 436	4.4	15.3
Huon Valley	22 934	1 162	24 096	22 215	0	22 215	719	1 881	7.8	(14 960)	3.1	22.1
Meander Valley	18 966	26 454	45 420	18 555	385	18 940	411	26 480	58.3	34 364	2.2	31.1
Northern Midlands	16 854	14 532	31 386	17 402	0	17 402	(548)	13 984	44.6	12 900	(3.3)	26.1
Sorell	17 668	17 447	35 115	16 812	5 680	22 492	856	12 623	35.9	13 040	4.8	29.1
Waratah-Wynyard	17 090	232	17 322	17 308	145	17 453	(218)	(131)	(0.8)	403	(1.3)	14.7
RAVL Total 2015-16	**106 598**	**58 863**	**165 461**	**104 807**	**6 210**	**111 017**	**1 791**	**54 444**		**49 183**		
RAVL Average per Council 2015-16	**17 766**	**9 811**	**27 577**	**17 468**	**1 035**	**18 503**	**299**	**9 074**	**23.8**	**8 197**	**1.7**	**23.1**

Council	Operating Revenue*	Non-Operating Revenue **	Total Revenue	Operating Expenditure	Non-Operating Expenditure **	Total Expenditure	Underlying Surplus/ (Deficit)	Net Surplus/ (Deficit)	Net Surplus/ (Deficit) to Total Revenue	Comprehensive Surplus/ (Deficit)	Operating Surplus Ratio	Self Financing Ratio
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%	$'000s	%	%
Rural agricultural, large												
Break O'Day	13 521	4 152	17 673	14 111	0	14 111	(590)	3 562	20.2	5 713	(4.4)	17.5
Circular Head	13 602	8 249	21 851	13 728	48	13 776	(126)	8 075	37.0	8 491	(0.9)	23.7
Dorset	12 498	3 556	16 054	10 953	22 269	33 222	1 545	(17 168)	(106.9)	(16 879)	12.4	23.1
George Town	10 409	5 915	16 324	11 440	198	11 638	(1 031)	4 686	28.7	(21 087)	(9.9)	14.8
Kentish	10 001	(283)	9 718	9 736	818	10 554	265	(836)	(8.6)	(696)	2.6	28.5
Latrobe	11 826	1 952	13 778	11 466	2 943	14 409	360	(631)	(4.6)	(2 416)	3.0	20.2
Southern Midlands	10 410	725	11 135	11 028	0	11 028	(618)	107	1.0	1 329	(5.9)	14.1
RAL Total 2015-16	**82 267**	**24 266**	**106 533**	**82 462**	**26 276**	**108 738**	**(195)**	**(2 205)**		**(25 545)**		
RAL Average per Council 2015-16	**11 752**	**3 467**	**15 219**	**11 780**	**3 754**	**15 534**	**(28)**	**(315)**	**(4.8)**	**(3 649)**	**(0.4)**	**20.3**
Rural agricultural, small and medium												
Central Highlands	6 515	1 284	7 799	6 477	0	6 477	38	1 322	17.0	1 351	0.6	15.3
Flinders	4 605	233	4 838	5 610	0	5 610	(1 005)	(772)	(16.0)	(717)	(21.8)	5.0
Glamorgan Spring Bay	12 447	294	12 741	12 367	0	12 367	80	374	2.9	905	0.6	10.3
King Island	6 030	191	6 221	5 384	0	5 384	646	837	13.5	919	10.7	22.8
Tasman	6 155	98	6 253	5 153	0	5 153	1 002	1 100	17.6	1 113	16.3	25.6
West Coast	10 948	3 898	14 846	10 350	0	10 350	598	4 496	30.3	8 685	5.5	19.9
RASM Total 2015-16	**46 700**	**5 998**	**52 698**	**45 341**	**0**	**45 341**	**1 359**	**7 357**		**12 256**		
RASM Average per Council 2015-16	**7 783**	**1 000**	**8 783**	**7 557**	**0**	**7 557**	**227**	**1 226**	**10.9**	**2 043**	**2.0**	**16.5**
Total 2015-16	**745 729**	**1 019 394**	**1 765 123**	**734 008**	**45 382**	**779 390**	**11 721**	**985 733**		**993 276**		
Average per Council	**25 715**	**35 152**	**60 866**	**25 311**	**1 565**	**26 876**	**404**	**33 991**	**15.9**	**34 251**	**1.1**	**20.9**
Total 2014-15	**727 976**	**325 889**	**1 053 865**	**721 497**	**11 422**	**732 919**	**6 479**	**320 946**		**595 807**		
Average per Council	**25 103**	**11 238**	**36 340**	**24 879**	**394**	**25 273**	**223**	**11 067**	**27.1**	**20 545**	**1.1**	**33.6**
Total 2013-14	**705 545**	**83 095**	**788 640**	**707 201**	**21 737**	**728 938**	**(1 656)**	**59 702**		**(190 236)**		
Average per Council 2013-14	**24 329**	**2 865**	**27 194**	**24 386**	**750**	**25 136**	**(57)**	**2 059**	**2.1**	**(6 560)**	**(0.9)**	**15.5**

* *Operating revenue has been adjusted for 2015-16 Financial Assistance Grant received in June 2015.*

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

Council	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Operating costs per Rateable Valuation	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants*	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	$'000s	%	$	$	$	$'000s	%	$'000s	$	%	%
Urban medium											
Clarence	44 629	73.3	1 783	816	2 356	55 746	91.5	5 180	95	8.5	19.9
Glenorchy	32 727	63.1	1 556	714	2 490	48 680	93.9	3 155	69	6.1	24.9
Hobart	75 191	61.8	3 134	1 483	4 950	117 351	96.4	4 343	86	3.6	15.2
Kingborough	24 015	66.2	1 402	670	2 244	32 374	89.3	3 879	108	10.7	23.6
Launceston	62 324	61.7	2 001	929	3 176	93 378	92.4	7 714	115	7.6	19.2
UM Total 2015-16	**238 886**					**347 529**		**24 271**			
UM Average per Council 2015-16	**47 777**	**65.2**	**1 975**	**922**	**3 043**	**69 506**	**92.7**	**4 854**	**94**	**7.3**	**20.6**
Urban small											
Brighton	8 080	58.2	1 096	505	1 893	12 163	87.7	1 713	107	12.3	21.5
Burnie	21 877	60.9	2 286	1 100	3 797	32 273	89.8	3 675	185	10.2	22.3
Central Coast	13 983	54.9	1 237	624	2 200	21 601	84.8	3 879	173	15.2	24.2
Devonport	26 458	67.3	2 185	1 036	2 998	37 064	94.2	2 267	89	5.8	22.0
West Tamar	16 180	68.2	1 370	697	1 903	20 571	86.7	3 158	136	13.3	22.4
US Total 2015-16	**86 578**					**123 672**		**14 692**			
US Average per Council 2015-16	**17 316**	**61.9**	**1 635**	**793**	**2 558**	**24 734**	**88.6**	**2 938**	**138**	**11.4**	**22.5**
Rural agricultural, very large											
Derwent Valley	6 389	48.8	1 222	637	2 393	8 918	68.1	4 168	416	31.9	19.1
Huon Valley	11 332	49.4	1 068	693	2 094	19 046	83.0	3 888	238	17.0	27.2
Meander Valley	11 027	58.1	1 114	560	1 875	14 715	77.6	4 251	216	22.4	25.8
Northern Midlands	9 545	56.6	1 393	749	2 540	13 048	77.4	3 806	299	22.6	31.7
Sorell	11 573	65.5	1 315	829	1 911	14 887	84.3	2 781	199	15.7	26.3
Waratah-Wynyard	10 444	61.1	1 382	731	2 291	14 108	82.6	2 982	209	17.4	23.9
RAVL Total 2015-16	**60 310**					**84 722**		**21 876**			
RAVL Average per Council 2015-16	**10 052**	**56.6**	**1 249**	**700**	**2 184**	**14 120**	**78.8**	**3 646**	**263**	**21.2**	**25.6**

Council	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Operating costs per Rateable Valuation	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants*	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	$'000s	%	$	$	$	$'000s	%	$'000s	$	%	%
Rural agricultural, large											
Break O'Day	8 193	60.6	1 301	1 267	2 241	10 014	74.1	3 507	542	25.9	26.7
Circular Head	7 595	55.8	1 547	921	2 797	10 542	77.5	3 060	371	22.5	31.2
Dorset	6 750	54.0	1 279	950	2 075	8 424	67.4	4 074	573	32.6	25.0
George Town	7 549	72.5	1 734	1 110	2 627	8 613	82.7	1 796	264	17.3	27.5
Kentish	4 974	49.7	1 319	767	2 582	7 246	72.5	2 755	425	27.5	27.0
Latrobe	6 621	56.0	1 097	605	1 900	10 380	87.8	1 446	132	12.2	22.4
Southern Midlands	4 700	45.1	1 308	749	3 068	7 006	67.3	3 404	542	32.7	26.8
RAL Total 2015-16	**46 382**					**62 225**		**20 042**			
RAL Average per Council 2015-16	**6 626**	**56.3**	**1 369**	**910**	**2 470**	**8 889**	**75.6**	**2 863**	**407**	**24.4**	**26.7**
Rural agricultural, small and medium											
Central Highlands	3 243	49.8	871	1 405	1 739	4 164	63.9	2 351	1 018	36.1	32.0
Flinders	1 501	32.6	1 261	1 917	4 714	2 976	64.6	1 629	2 080	35.4	31.1
Glamorgan Spring Bay	6 892	55.4	1 209	1 534	2 170	10 652	85.6	1 795	400	14.4	16.2
King Island	2 122	35.2	1 253	1 346	3 180	4 105	68.1	1 925	1 221	31.9	27.0
Tasman	4 294	69.8	1 234	1 785	1 481	5 247	85.2	908	378	14.8	18.6
West Coast	6 702	61.2	1 411	1 495	2 178	8 805	80.4	2 143	478	19.6	23.7
RASM Total 2015-16	**24 754**					**35 949**		**10 751**			
RASM Average per Council 2015-16	**4 126**	**50.7**	**1 207**	**1 580**	**2 577**	**5 992**	**74.6**	**1 792**	**929**	**25.4**	**24.8**
Total 2015-16	**456 910**					**654 097**		**91 632**			
Average per Council	**15 756**	**57.7**	**1 461**	**987**	**2 547**	**22 555**	**81.3**	**3 160**	**385**	**18.7**	**24.3**
Total 2014-15	**441 665**					**635 190**		**91 814**			
Average per Council	**15 230**	**56.7**	**1 410**	**946**	**2 505**	**21 903**	**80.7**	**3 166**	**382**	**19.3**	**24.3**
Total 2013-14	**424 731**					**586 973**		**91 199**			
Average per Council 2013-14	**14 646**	**56.1**	**1 373**	**910**	**2 530**	**20 240**	**80.0**	**3 145**	**384**	**20.0**	**25.4**

**Operating grant revenue includes 2015-16 Financial Assistance Grant received in June 2015.*

Attachment 3 –Statement of Financial Position

Council	Current Assets	Current Liabilities	Working Capital	Working Capital Ratio	Net Financial Liabilities Ratio	Non-Current Assets	Non-Current Liabilities	Loan Debt	Interest coverage	Indebtedness Ratio	Rate Debtors	Rate Debtors to Rates Raised
	$'000s	$'000s	$'000s	No.	%	$'000s	$000s	$'000s	No.	No.	$'000s	%
Urban medium												
Clarence	62 927	9 497	53 430	6.6	85.0	683 061	945	371	287.5	1.7	1 924	4.3
Glenorchy	17 648	10 875	6 773	1.6	(11.0)	878 061	10 701	6 020	36.7	22.0	525	1.6
Hobart	43 456	25 380	18 076	1.7	(5.5)	1 598 017	23 463	13 097	28.4	20.0	989	1.3
Kingborough	9 444	8 118	1 326	1.2	2.0	563 757	611	0	0.0	1.9	353	1.5
Launceston	69 500	26 621	42 879	2.6	31.0	1 638 867	10 569	5 367	62.4	11.3	1 531	2.5
UM Total 2015-16	**202 975**	**80 491**	**122 484**			**5 361 763**	**46 289**	**24 855**			**5 322**	
UM Average per Council 2015-16	**40 595**	**16 098**	**24 497**	**2.7**	**20.3**	**1 072 353**	**9 258**	**4 971**	**83.0**	**11.4**	**1 064**	**2.2**
Urban small												
Brighton	5 282	1 851	3 431	2.9	15.0	173 903	134	0	0.0	1.1	18	0.2
Burnie	13 006	7 615	5 391	1.7	1.3	392 188	4 161	3 910	40.8	12.9	836	3.8
Central Coast	7 963	5 286	2 677	1.5	(14.1)	501 308	5 886	3 061	41.6	27.2	228	1.6
Devonport	18 761	6 220	12 541	3.0	(19.3)	512 441	20 070	20 507	9.6	54.1	517	2.0
West Tamar	13 038	3 073	9 965	4.2	39.0	272 436	371	40	939.1	1.8	1 026	6.3
US Total 2015-16	**58 050**	**24 045**	**34 005**			**1 852 276**	**30 622**	**27 518**			**2 625**	
US Average per Council 2015-16	**11 610**	**4 809**	**6 801**	**2.7**	**4.4**	**370 455**	**6 124**	**5 504**	**206.2**	**19.4**	**525**	**2.8**
Rural agricultural, very large												
Derwent Valley	2 778	2 854	(76)	1.0	(24.2)	103 281	3 026	3 213	13.0	33.9	531	8.3
Huon Valley	10 807	3 042	7 765	3.6	30.4	248 002	280	0	0.0	1.5	383	3.4
Meander Valley	23 961	3 037	20 924	7.9	75.0	259 494	6 424	3 600	28.9	43.7	472	4.3
Northern Midlands	11 170	2 731	8 439	4.1	49.0	281 606	121	0	0.0	0.9	1 366	14.3
Sorell	8 573	2 468	6 105	3.5	19.0	233 611	2 564	2 605	30.7	17.2	222	1.9
Waratah-Wynyard	9 748	3 236	6 512	3.0	29.0	194 414	756	506	0.0	5.4	375	3.6
RAVL Total 2015-16	**67 037**	**17 368**	**49 669**			**1 320 408**	**13 171**	**9 924**			**3 349**	
RAVL Average per Council 2015-16	**11 173**	**2 895**	**8 278**	**3.8**	**29.7**	**220 068**	**2 195**	**1 654**	**12.1**	**17.1**	**558**	**6.0**

Council	Current Assets	Current Liabilities	Working Capital	Working Capital Ratio	Net Financial Liabilities Ratio	Non-Current Assets	Non-Current Liabilities	Loan Debt	Interest coverage	Indebtedness Ratio	Rate Debtors	Rate Debtors to Rates Raised
	$'000s	$'000s	$'000s	No.	%	$'000s	$000s	$'000s	No.	No.	$'000s	%
Rural agricultural, large												
Break O'Day	7 691	1 874	5 817	4.1	(20.3)	162 023	8 347	8 263	7.6	83.4	392	4.8
Circular Head	10 689	2 670	8 019	4.0	57.1	187 716	118	348	85.7	1.1	301	4.0
Dorset	16 515	2 251	14 264	7.3	107.0	132 999	120	0	412.7	1.4	241	3.6
George Town	4 907	1 829	3 078	2.7	(2.0)	118 982	3 125	3 081	14.2	36.3	277	3.7
Kentish	8 576	1 793	6 783	4.8	48.9	120 400	1 436	1 406	30.1	19.8	267	5.4
Latrobe	8 084	2 556	5 528	3.2	8.0	186 427	3 916	276	126.5	37.7	126	1.9
Southern Midlands	10 124	1 988	8 136	5.1	69.3	98 245	978	945	0.0	14.0	564	12.0
RAL Total 2015-16	**66 586**	**14 961**	**51 625**			**1 006 792**	**18 040**	**14 319**			**2 168**	
RAL Average per Council 2015-16	**9 512**	**2 137**	**7 375**	**4.5**	**38.3**	**143 827**	**2 577**	**2 046**	**96.7**	**27.7**	**310**	**5.0**
Rural agricultural, small and medium												
Central Highlands	6 899	993	5 906	6.9	89.0	90 119	80	0	0.0	1.9	154	4.7
Flinders	6 674	718	5 956	9.3	102.0	49 851	1 026	683	14.5	34.5	159	10.6
Glamorgan Spring Bay	1 920	2 180	(260)	0.9	(30.0)	121 421	3 214	3 195	13.9	30.2	121	1.8
King Island	5 885	859	5 026	6.9	48.7	68 779	846	975	27.4	20.6	74	3.5
Tasman	6 150	348	5 802	17.7	90.0	47 926	411	304	66.6	7.8	258	6.0
West Coast	6 211	1 569	4 642	4.0	36.0	109 387	732	726	39.9	8.3	548	8.2
RASM Total 2015-16	**33 739**	**6 667**	**27 072**			**487 483**	**6 309**	**5 883**			**1 314**	
RASM Average per Council 2015-16	**5 623**	**1 111**	**4 512**	**7.6**	**56.0**	**81 247**	**1 052**	**981**	**27.1**	**17.2**	**219**	**5.8**
Total 2015-16	**428 387**	**143 532**	**284 855**			**10 028 722**	**114 431**	**82 499**			**14 778**	
Average per Council	**14 772**	**4 949**	**9 823**	**4.4**	**31.2**	**345 818**	**3 946**	**2 845**	**81.3**	**19.1**	**510**	**4.5**
Total 2014-15	**463 936**	**140 674**	**323 262**			**8 997 493**	**114 884**	**86 604**			**15 131**	
Average per Council	**15 998**	**4 851**	**11 147**	**4.9**	**35.9**	**310 258**	**3 962**	**2 986**	**75.8**	**17.6**	**522**	**4.0**
Total 2013-14	**400 045**	**135 840**	**264 205**			**8 464 940**	**119 083**	**87 419**			**15 801**	
Average per Council 2013-14	**13 795**	**4 684**	**9 111**	**4.1**	**30.6**	**291 894**	**4 106**	**3 014**	**54.2**	**17.9**	**545**	**5.5**

Attachment 3 – Statement of Financial Position (continued)

Council	Payments for Property, Plant & Equipment	Depreciation	Total Capital Expenditure on Existing Assets to Depreciation Ratio	Rate Revenue to Property, Plant and Equipment	Property, Plant and Equipment per Square Kilometre	Property, Plant and Equipment per Head of Population	Property, Plant and Equipment per Rateable Valuation
	$'000s	$'000s	%	%	$	$	$
Urban medium							
Clarence	20 268	12 135	88.0	8.7	1 358 278	9 391	20 511
Glenorchy	21 987	12 882	89.0	4.6	5 820 050	15 380	33 514
Hobart	30 183	18 444	128.9	5.2	18 411 027	28 281	59 784
Kingborough	9 886	8 560	70.0	5.1	652 419	13 111	27 437
Launceston	27 303	19 440	80.0	5.3	826 269	17 413	37 500
UM Total 2015-16	**109 627**	**71 461**					
UM Average per Council 2015-16	**21 925**	**14 292**	**91.2**	**5.8**	**5 413 608**	**16 715**	**35 749**
Urban small							
Brighton	3 889	2 982	85.0	6.4	740 625	7 924	17 217
Burnie	17 817	8 030	63.0	6.7	532 956	16 374	34 030
Central Coast	7 549	6 155	100.0	3.3	453 051	18 872	37 388
Devonport	12 023	8 666	58.0	6.3	3 791 896	16 529	34 847
West Tamar	6 871	5 316	75.0	7.5	313 182	9 329	18 322
US Total 2015-16	**48 149**	**31 149**					
US Average per Council 2015-16	**9 630**	**6 230**	**76.2**	**6.0**	**1 166 342**	**13 806**	**28 361**
Rural agricultural, very large							
Derwent Valley	1 929	2 500	76.5	7.7	20 158	8 260	15 837
Huon Valley	8 124	6 231	112.0	5.2	39 198	13 200	20 349
Meander Valley	6 302	4 884	101.0	5.3	61 960	10 482	20 849
Northern Midlands	8 965	5 335	124.0	3.9	47 099	18 976	35 317
Sorell	6 294	4 639	50.0	5.6	355 415	14 866	23 580
Waratah-Wynyard	5 436	4 076	90.0	7.0	42 504	10 503	19 865
RAVL Total 2015-16	**37 050**	**27 665**					
RAVL Average per Council 2015-16	**6 175**	**4 611**	**95.4**	**5.4**	**109 235**	**13 605**	**23 992**

Council	Payments for Property, Plant & Equipment	Depreciation	Total Capital Expenditure on Existing Assets to Depreciation Ratio	Rate Revenue to Property, Plant and Equipment	Property, Plant and Equipment per Square Kilometre	Property, Plant and Equipment per Head of Population	Property, Plant and Equipment per Rateable Valuation
	$'000s	$'000s	%	%	$	$	$
Rural agricultural, large							
Break O'Day	4 863	3 614	77.5	6.4	36 562	19 928	20 472
Circular Head	5 064	4 250	109.4	4.7	33 247	19 750	33 178
Dorset	7 974	3 125	191.0	5.8	35 771	16 250	21 870
George Town	2 891	2 863	67.0	7.6	152 547	14 645	22 879
Kentish	2 407	2 700	58.5	4.4	97 496	17 390	29 895
Latrobe	3 653	2 651	64.0	4.3	258 560	14 195	25 727
Southern Midlands	4 667	2 792	131.3	5.5	32 904	13 708	23 945
RAL Total 2015-16	**31 519**	**21 995**					
RAL Average per Council 2015-16	**4 503**	**3 142**	**99.8**	**5.5**	**92 441**	**16 552**	**25 424**
Rural agricultural, small and medium							
Central Highlands	2 419	2 088	96.2	4.0	10 232	35 374	21 927
Flinders	2 595	1 431	123.0	3.2	23 282	59 368	39 063
Glamorgan Spring Bay	3 554	2 014	153.0	7.7	34 751	20 043	15 799
King Island	1 907	1 626	111.0	3.3	58 312	40 519	37 742
Tasman	1 276	1 143	68.0	9.2	70 839	19 455	13 445
West Coast	1 521	2 591	41.0	8.3	8 446	18 068	17 049
RASM Total 2015-16	**13 272**	**10 893**					
RASM Average per Council 2015-16	**2 212**	**1 816**	**98.7**	**5.9**	**34 310**	**32 138**	**24 171**
Total 2015-16	**239 617**	**163 163**	**2 681.3**				
Average per Council	**8 263**	**5 626**	**92.5**	**5.8**	**1 183 415**	**18 537**	**26 874**
Total 2014-15	**217 441**	**160 089**					
Average per Council	**7 498**	**5 520**		**18.7**	**811 951**	**17 632**	**25 295**
Total 2013-14	**213 669**	**158 894**					
Average per Council 2013-14	**7 368**	**5 479**		**18.9**	**762 694**	**17 293**	**24 370**

FINANCIAL SUSTAINABILITY

INTRODUCTION

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

The ratios used to assess financial sustainability were selected because they provided a set of inter-related indicators enabling self and comparative assessment. Because these ratios provide a method to analyse past results, they can help to forecast or identify trends. Therefore, councils can use ratios such as those applied here to assess their own current and future financial performance and position.

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

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

- Operating surplus ratio[1,2]
- Asset sustainability ratio
- Asset renewal funding ratio
- Road asset consumption ratio
- Net financial liabilities ratio.

1 Also referred to as the Underlying Surplus or Underlying Deficit ratios

2 In preparing this Report, we reclassified certain financial statements items. Dollar amounts presented in tables, the text and figures have been rounded.

SUSTAINABILITY INDICATORS

Table 11 provides a description of the indicator, how it is calculated and, where applicable, a generally accepted benchmark.

KEY RESULTS AND DEVELOPMENTS

Financial sustainability
There were 13 councils with an average Operating surplus below our benchmark over the past ten years. A number of councils that achieved a negative Operating ratio in the current year also recorded a negative ratio over the ten-year period of review.
Twenty seven councils had developed approved asset management and financial management plans in accordance with the requirements of the Contents of Plans and Strategies Order.
The average of total capital expenditure on existing and new assets to depreciation ratio was 139.3%, indicating most councils were re-investing in their non-current assets. However, some councils stood out as being below the 100% benchmark.
Councils' road assets had sufficient capacity to provide services to rate payers with no council in the high risk category at 30 June 2016.
Councils on the whole had slightly under invested in capital expenditure on existing assets in comparison to our benchmark, which was consistent with the previous year.
Eleven councils invested in existing assets, on average over the ten-year period, in excess of their annual depreciation charge (seven in 2014-15). Results have improved since we began the review ten years ago due to a greater focus on long-term planning. It is recognised that this ratio may also reflect that, on average, the amount of expenditure required at this stage of the lifecycle of assets may be below long-term average requirements.
Management of debt ratios indicated that all councils with debt were comfortably able to meet their loan interest charges and future longer-term debt commitments.
The average Net financial liabilities ratio was positive in each of the ten years under review. This was because, on an aggregated basis, total liquid assets exceeded total liabilities. No council was below our benchmark.
At 30 June 2016, assessed on average performance over the past ten years, councils in general had a low financial sustainability risk from a net financial liabilities perspective but moderate risk from financial operating and asset management perspectives.

Table 11: Sustainability indicators

Indicator	Formula	Benchmark	Description
Operating surplus ratio (Underlying result ratio)	Net operating surplus divided by total operating revenue	Greater than zero - break even operating result	A positive result indicates a surplus. The larger the surplus the stronger the result and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term. The definition of Underlying Surplus or Deficit in the Management Indicators Order, is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of a council for a financial year less the recurrent expenses of the council for that year. The net result and revenue from the Comprehensive income statement are adjusted for non-recurrent and capital items such as fair value adjustments, capital grants, contributed assets such as developer contributions, operating results from discontinued operations and operating grants received in advance (such as financial assistance grants).
Asset sustainability ratio	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets	At least 100%	The rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, compared to depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. Expenditure included in the numerator must be expenditure that was 'capitalised', not expensed, on assets that will require future maintenance and depreciation. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.

Indicator	Formula	Benchmark	Description
Asset renewal funding ratio	Future (planned) asset replacement expenditure compared with Future asset replacement expenditure (actual) required	At least 90%	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels. This is a useful measure relying on the existence of long-term financial (or separate asset) management plans.
Asset consumption ratio - roads	Depreciated replacement cost divided by current replacement cost	Low risk >60% Moderate risk 40% to 60%	Shows the depreciated replacement cost of depreciable assets relative to their 'as new' (replacement) value. It shows the average proportion of 'new condition' left in assets.
Net financial liabilities ratio	Liquid assets less total liabilities compared to total operating revenue	Net financial liabilities between zero to negative 50% of operating income. Positive ratio indicates liquid assets in excess of total liabilities.	The significance of net amount owed compared with the period's income. Indicates the extent to which net financial liabilities could be met by operating income. Where the value is falling over time, it indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

On the following pages we apply these ratios to the aggregated financial position and performance of councils over a ten year period. With the exception of the asset renewal funding ratio, all data used in calculating the ratios and preparing the various graphs were sourced from audited financial statements. Where we were able to assess the Asset renewal funding ratio, this was based on unaudited long-term asset and financial management plans.

Within the graphs, where relevant, a blue line represents the actual ratio each year and a red line the benchmark for the period under review.

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

Table 12: Financial sustainability assessment

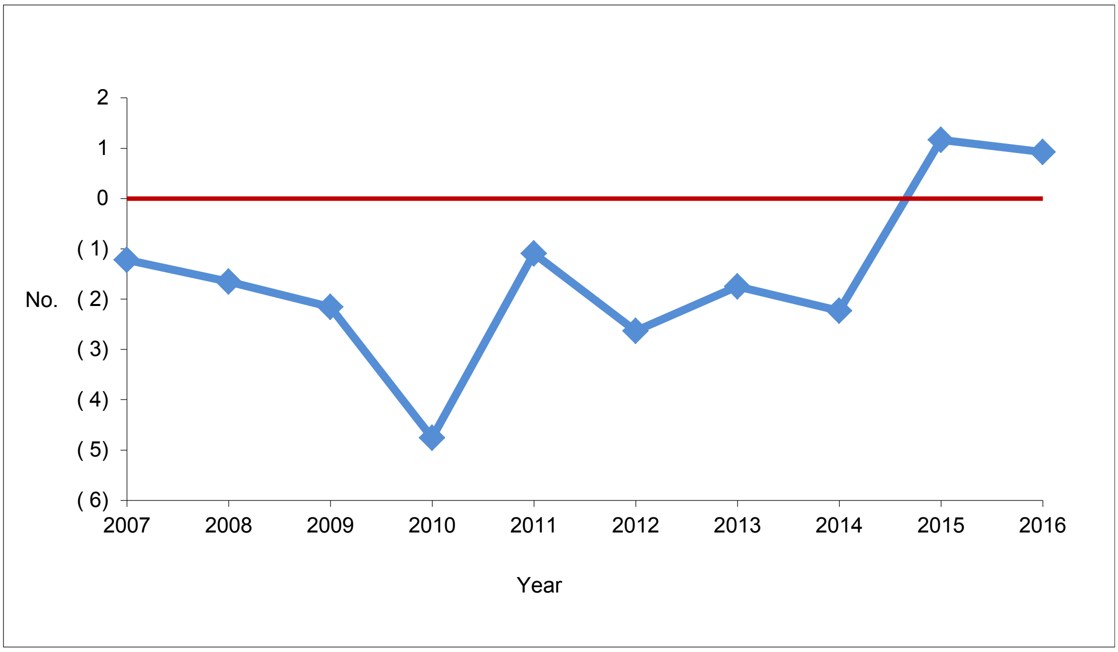
Ratio	Low	Moderate	High
Financial sustainability operating perspective	Average operating surplus over the past ten years > 0	Average operating deficits between 0% and negative 10% of operating revenue over the past ten years	Average operating deficits >10% of operating revenue over the past ten years
Financial sustainability asset management perspective	Asset sustainability ratio >100% and average road consumption ratio > 60%	Either Asset sustainability ratio between 50% and 100% or average road consumption ratio > 40%	Asset sustainability ratio < 50% and average road consumption ratio < 40%
Financial sustainability net financial liabilities perspective	Net financial liabilities ratio > than (50%)	Net financial liabilities ratio between (50%) and (100%)	Net financial liabilities ratio > (100%)

Operating surplus ratio

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

Figure 6 shows the operating surplus ratio achieved on an average all councils basis over the last ten years.

Figure 6: 10-year average all councils Operating surplus ratio



Source: Tasmanian Audit Office

The average Operating Surplus ratio exceeded the benchmark this year, for the second time in the 10 year period under review. The ratio hit its lowest point of negative 5.0 in 2009-10 which was attributed to the water and sewerage reforms which were effective 1 July 2009. Consequently, a number of councils required priority dividends to overcome lost operating income.

There was a significant improvement in 2010-11 when the ratio reached minus 1.1. Although there was a decline in the ratio in 2011-12, it has trended upwards since then. In 2015-16 the ratio was 1.0, a small decrease on the 2014-15 high of 1.2.

Councils generated a combined net Operating surplus of $11.72m in 2015-16 (2014-15, $6.39m), with 11 (14) councils generating net Operating deficits totalling $7.29m ($15.29m). Table 13 shows the Operating results of all councils in 2015-16 along with respective operating margins.

Table 13: Underlying Results Listing 2015-16

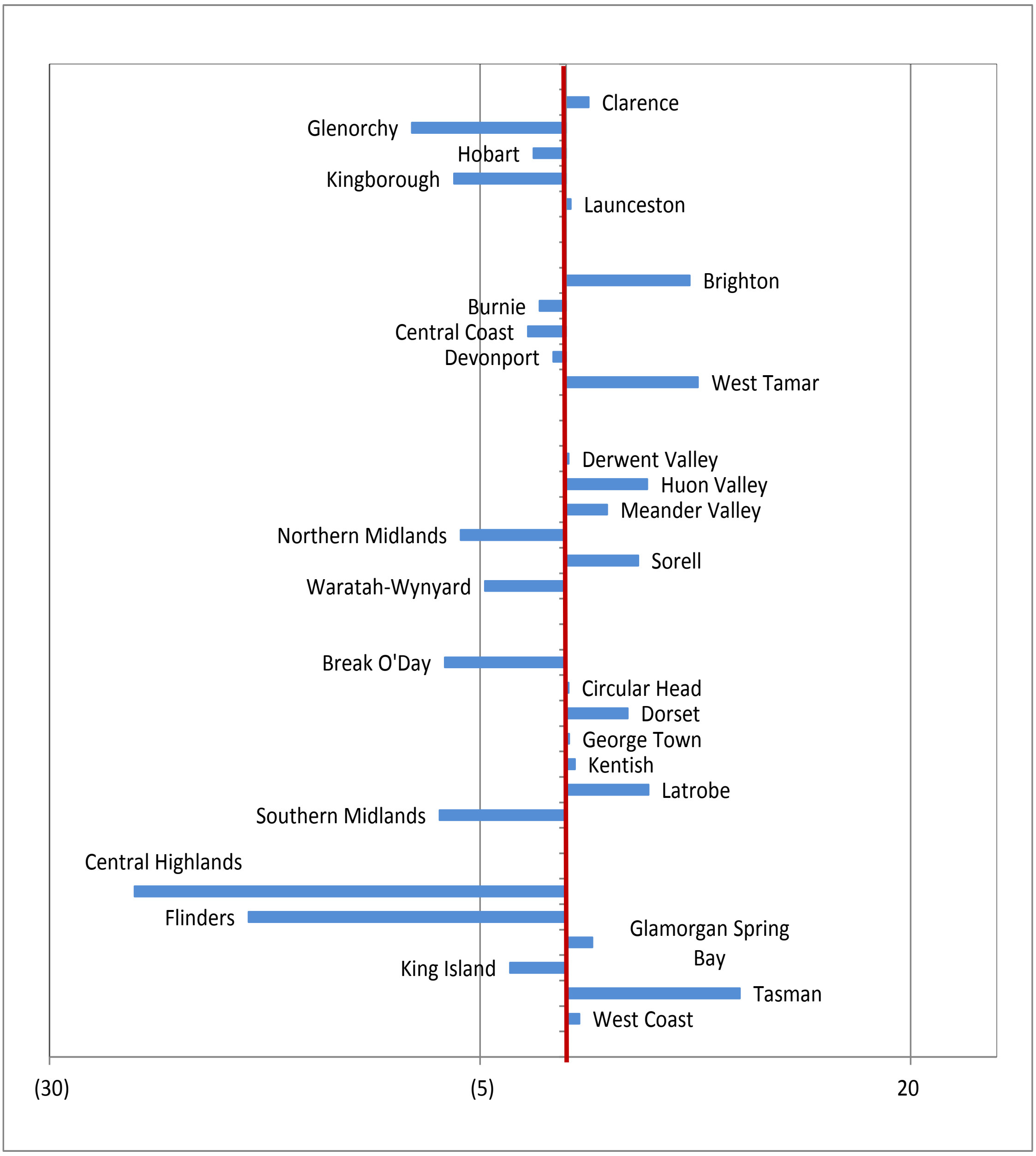
Council	Underlying Result 2015-16 $'000	Operating Surplus Ratio 2015-16	Operating Surplus Ratio Ten year average
Urban medium			
Clarence	1 939	3.2	1.3
Glenorchy	(527)	(1.0)	(9.0)
Hobart	2 939	2.4	(1.9)
Kingborough	(2 165)	(6.0)	(6.5)
Launceston	2 175	2.2	0.3
Urban small			
Brighton	(74)	(0.5)	7.2
Burnie	(390)	(1.1)	(1.6)
Central Coast	603	2.4	(2.2)
Devonport	3 023	7.7	(0.8)
West Tamar	1 243	5.2	7.7
Rural agricultural, very large			
Derwent Valley	571	4.4	0.2
Huon Valley	719	3.1	4.7
Meander Valley	411	2.2	2.4
Northern Midlands	(548)	(3.3)	(6.1)
Sorell	856	4.8	4.2
Waratah-Wynyard	(218)	(1.3)	(4.7)
Rural agricultural, large			
Break O'Day	(590)	(4.4)	(7.1)
Circular Head	(126)	(0.9)	0.2
Dorset	1 545	12.4	3.6
George Town	(1 031)	(9.9)	0.2
Kentish	265	2.6	0.5
Latrobe	360	3.0	4.8
Southern Midlands	(618)	(5.9)	(7.4)
Rural agricultural, small and medium			
Central Highlands	38	0.6	(25.1)
Flinders	(1 005)	(21.8)	(18.4)
Glamorgan Spring Bay	80	0.6	1.5
King Island	646	10.7	(3.3)
Tasman	1 002	16.3	10.1
West Coast	598	0.1	0.8
TOTAL	**11 721**		

Table 13 shows that:

- eighteen Councils contributed $19.01m to the overall Operating surplus of $11.72m
- three councils (Kingborough, George Town, and Flinders) contributed $4.20m (67%) towards the $7.29m Operating deficits generated by the remaining 11 councils
- with three exceptions, councils with a current Operating deficit also had negative 10-year average Operating deficit ratios
- seven councils with current Operating deficits, showed improvement compared to their 10-year average.

Figure 7 details the 10-year average operating surplus ratio for each council.

Figure 7: 10-year average operating surplus ratios



Source: Tasmanian Audit Office

Figure 7 shows that 13 of the councils, on average over the 10-year period, operated below the benchmark. Eleven councils (2014-15, 14) recorded Operating deficits.

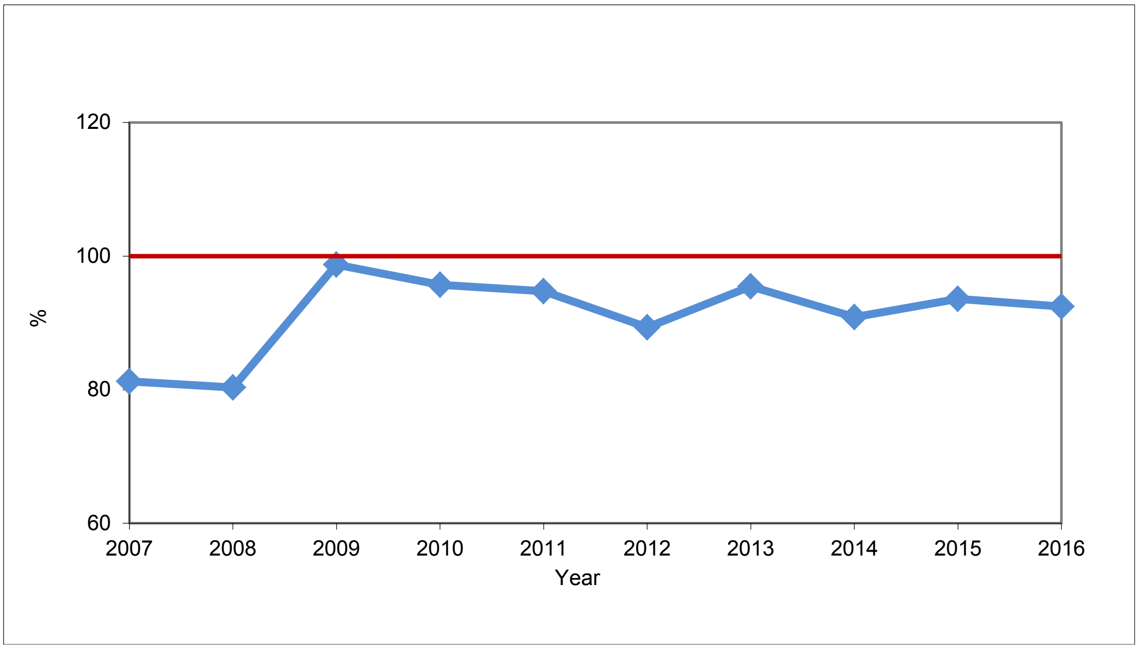
Asset sustainability ratio

This ratio shows the extent to which councils are maintaining operating capacity through renewal of their existing asset base. The generally accepted benchmark for this ratio, subject to levels of maintenance expenditure and the existence of approved long-term asset management plans, is 100%.

The benchmark is based on a council expending its annual depreciation expense on asset renewals within the year. However, it is acknowledged that this is unlikely to occur every year or evenly over time. As a result, our assessment is based on a 10-year average. It is also acknowledged that this ratio has imperfections which are better addressed by the Asset renewal funding ratio discussed later in this Chapter. However, until all councils have established adequate long-term asset management and financial plans, we will continue to include the Asset sustainability ratio in our assessments of financial sustainability.

Figure 8 shows the Asset sustainability ratio on an average all councils basis over the last 10 years.

Figure 8: 10-year Average all councils Asset sustainability ratio

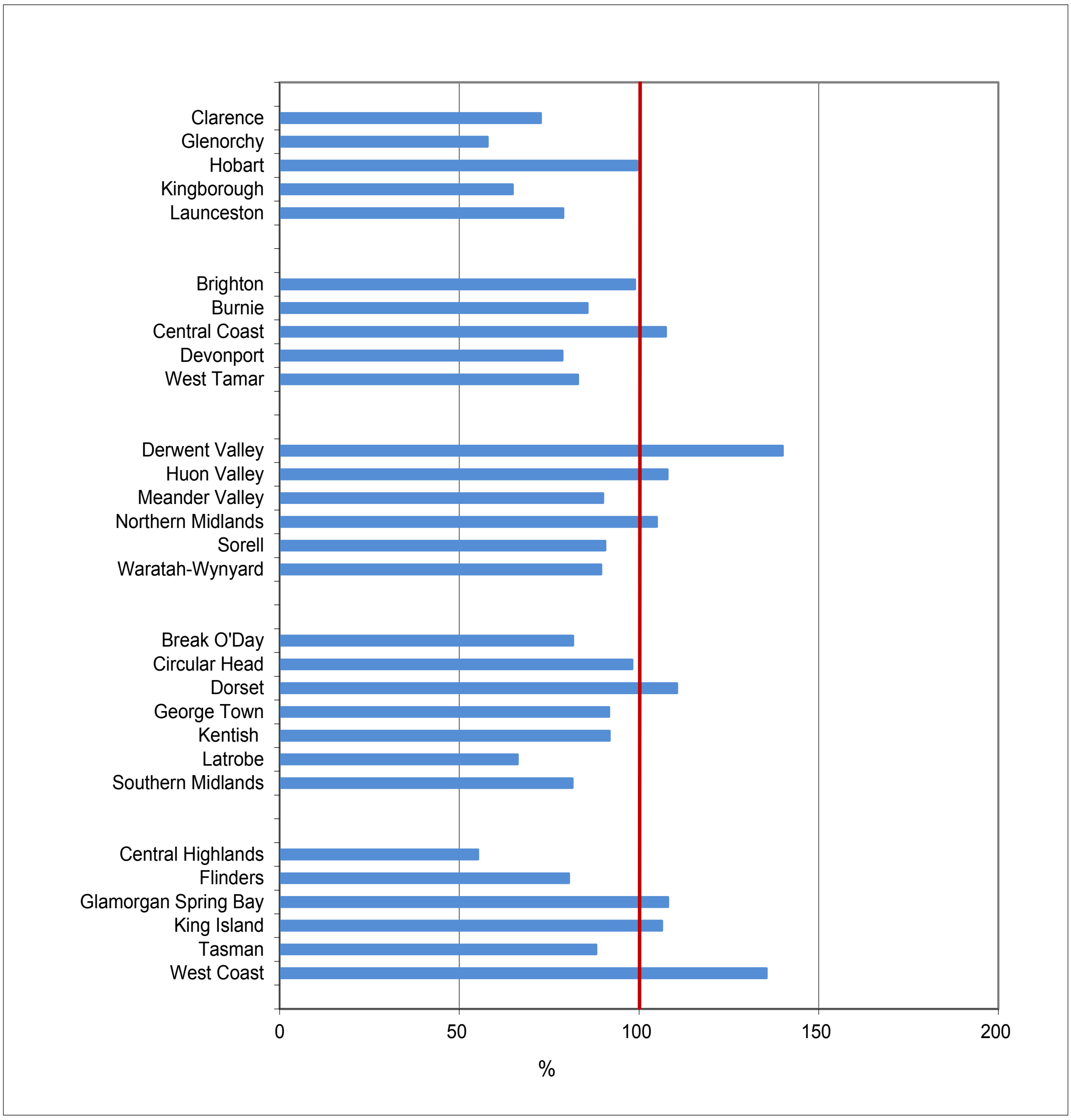


Source: Tasmanian Audit Office

Councils expended, on average, 91% of their depreciation expense to maintain existing non-current assets. The ratio improved from 81% in 2007 to 92% in 2016 with this increase likely in part due to the development of management and financial plans.

Figure 9 shows the average 10-year Asset sustainability ratio achieved by each council.

Figure 9: 10-year average Asset sustainability ratio



Source: Tasmanian Audit Office

In most cases councils failed to meet the benchmark, with only eight having an Asset sustainability ratio equal to or above 100% over the 10-year period. However, a further seven councils averaged above 90% and there were none below 50%.

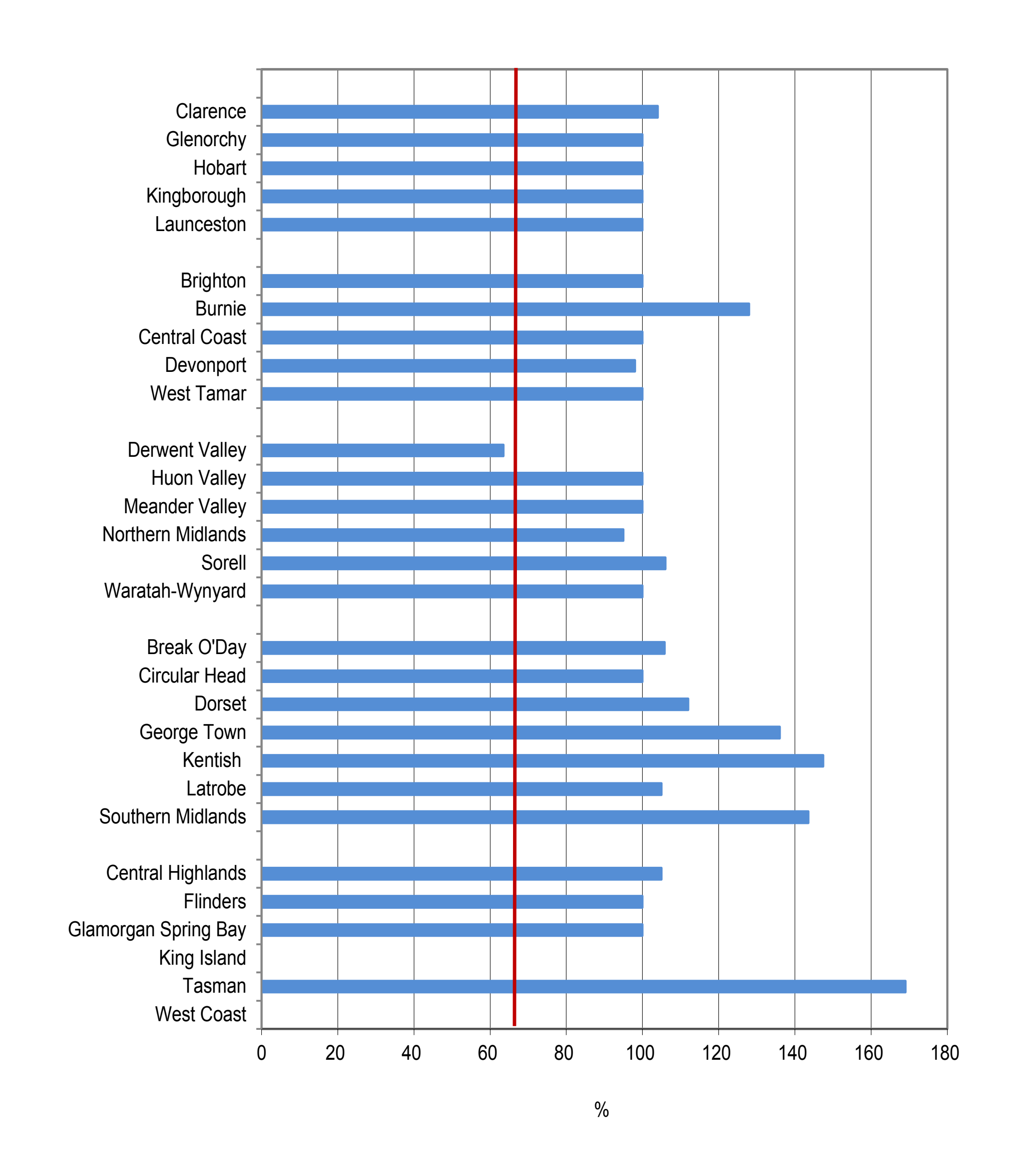
Asset renewal funding ratio

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

The measure relies on the existence of long-term financial and long-term asset management plans. The ratio measures planned asset replacement requirements against planned asset replacement expenditure. To maintain operating capacity, we would expect a council to fund 90% of its planned asset requirements. Identification of shortfalls enables councils to develop strategies to address future asset replacement requirements in full.

Figure 10 shows the Asset renewal funding ratio for those councils that had long-term financial and asset management plans. The ratio was calculated at 30 June 2016 on estimated required and planned capital expenditure. The periods covered by financial and asset management plans varied, with a minimum of 10 years being required by LGA, and some extending up to 20 years. The absence of a blue line is due to the absence of asset management or financial plans, making it impossible to calculate this ratio.

Figure 10: Asset renewal funding ratio



Source: Tasmanian Audit Office

Councils that had long-term financial and asset management plans had detailed projections of required future capital expenditure. In most cases councils indicated their intention to fully fund the required work. The ratio, at a minimum, was calculated on transport, stormwater and building infrastructure assets for each council.

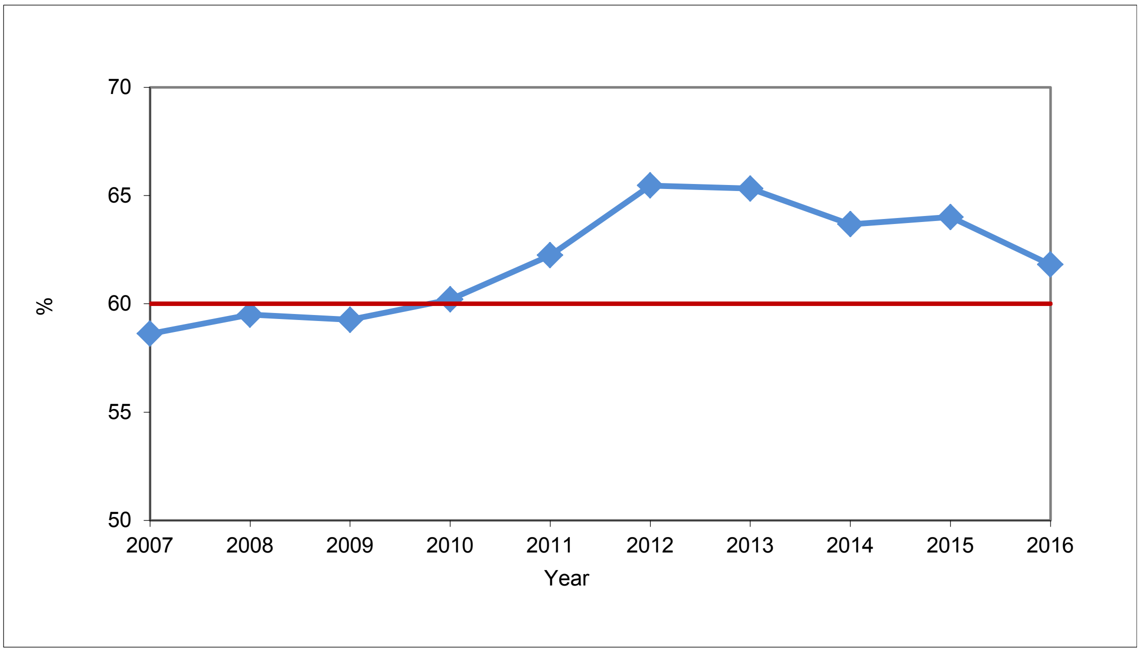
Twenty six (21 in 2014-15) councils demonstrated ratios equal to or better than our 90% benchmark, which represented an improvement from the previous year. Two councils as opposed to five in 2014-15 did not have approved plans.

Road asset consumption ratio

Our review of asset consumption was based only on road infrastructure primarily due to these assets representing in excess of 50% of total infrastructure assets held by councils. The ratio indicates the levels of service potential available in existing road infrastructure managed by councils. The higher the percentage, the greater future service potential is available to provide services to ratepayers.

Figure 11 shows the Road asset consumption ratio on an average all councils basis for councils over the last 10 years. A ratio above 60% represented low financial sustainability risk and less than 40% high risk.

Figure 11: 10–year average all councils Road asset consumption ratio



Source: Tasmanian Audit Office

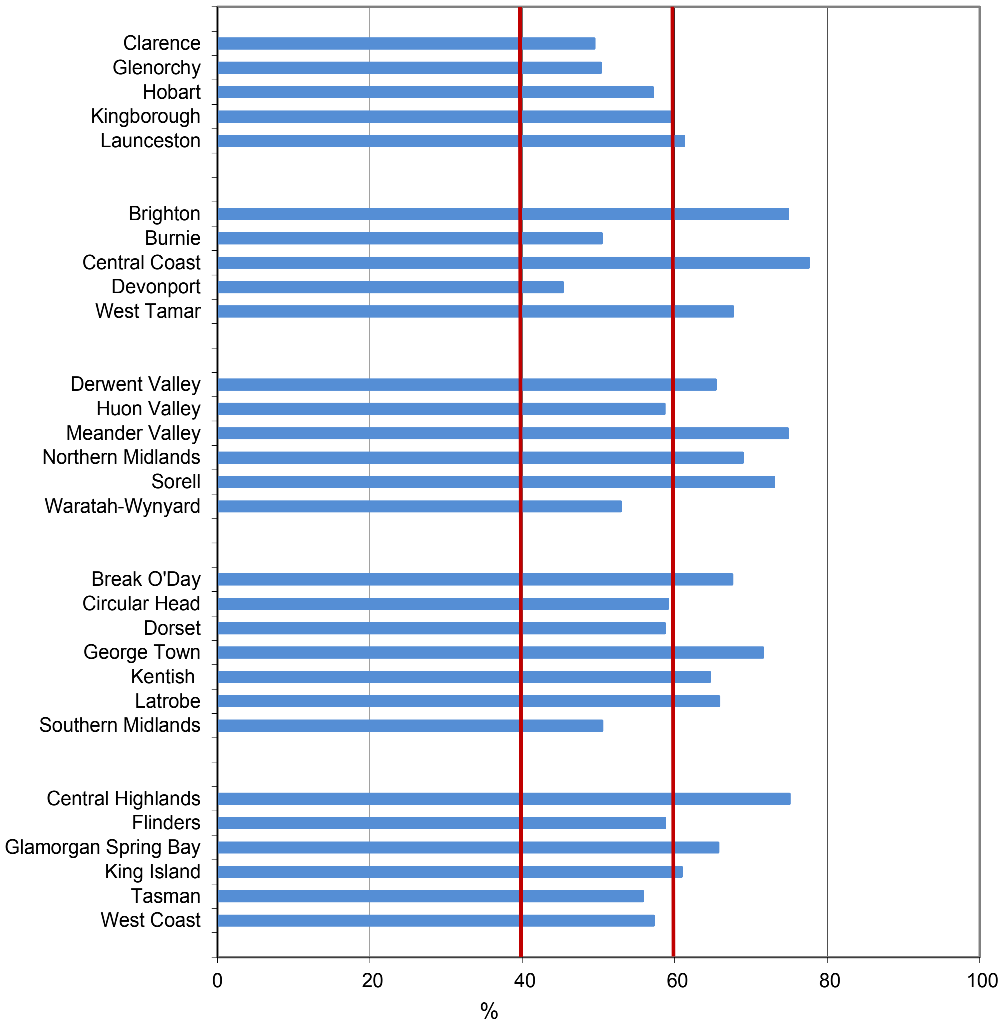
Figure 11 indicated relatively low levels of consumption of council road assets, with all councils within a low or moderate asset sustainability risk. The Road asset consumption ratio improved from 59% in 2007 to 65% in 2012 but declined slightly to 62% in 2016. A number of reasons contributed to the overall improvement since 2007 including:

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

The ratio indicated, on an aggregated basis, that councils had sufficient service capacity remaining in their road infrastructure assets.

Figure 12 shows the 10-year average Road asset consumption ratio for each council.

Figure 12: 10-year average Road asset consumption ratio



Source: Tasmanian Audit Office

Fifteen councils, on average over the 10-year period, had low asset management risk with the remaining 14 at moderate risk.

Net financial liabilities ratio

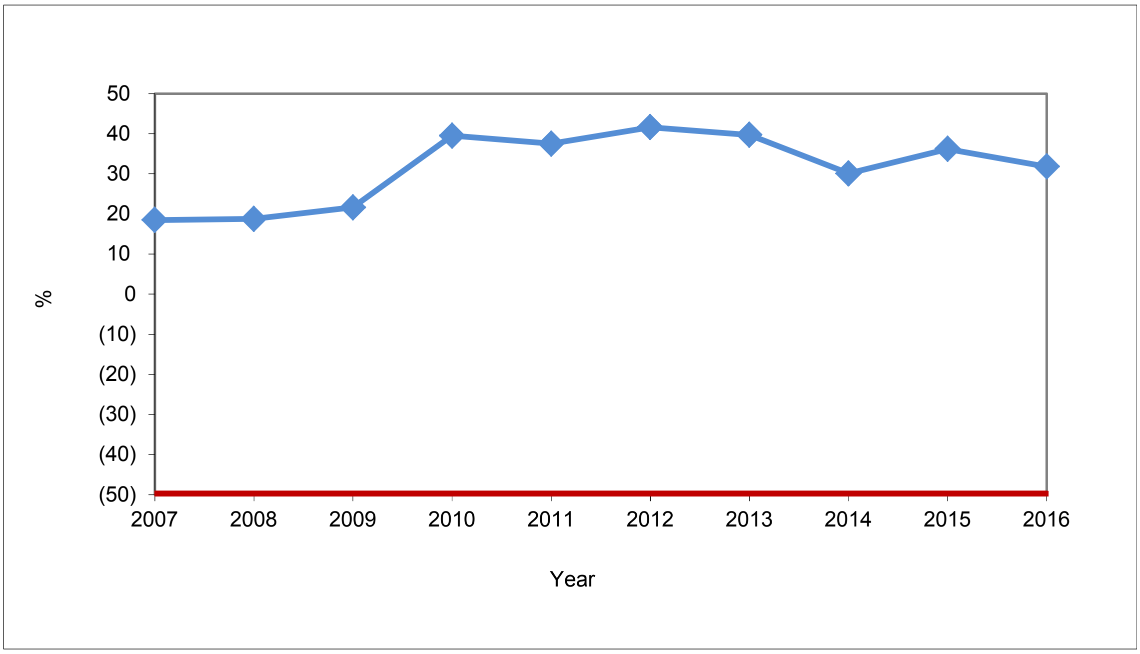
This ratio indicates the net financial obligations of councils compared to their operating income in any one year; specifically, the extent to which net financial liabilities (liquid assets less total liabilities) could be met by operating income.

Where the ratio is positive, it indicates a council's liquid assets exceeded its total liabilities and that, therefore, at least in the immediate term, additional operating income is not needed to service current obligations. Conversely a negative ratio indicates an excess of total liabilities over liquid assets meaning that, if all liabilities fell due at once, additional operating revenue would be needed to fund the shortfall in liquid assets.

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

Figure 13 shows the Net financial liabilities ratio on an average all councils basis in each of the past 10 years.

Figure 13: 10-year overall average all councils Net financial liabilities ratio



Source: Tasmanian audit Office

The average Net financial liabilities ratio was positive each year. This was because, on an aggregated basis, total liquid assets exceeded total liabilities. At 30 June 2016, councils had current liabilities of $143.53m and non-current liabilities of $114.43m, which included borrowings of $82.50m. However, cash and other current liquid assets totalled $415.35m, which was $157.39m greater than total liabilities. Operating revenue generated during 2015-16 totalled $745.73m.

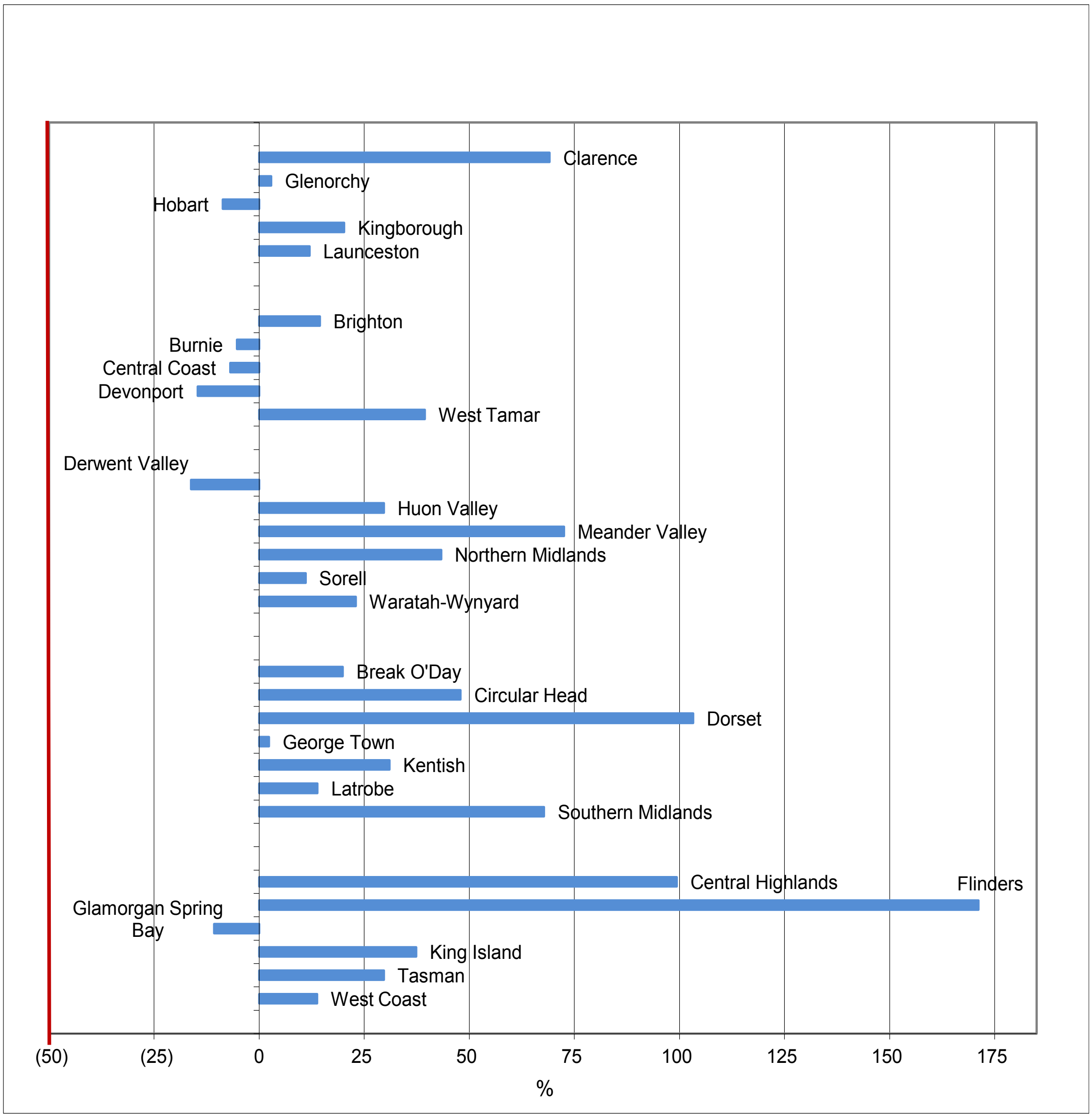
The ratio improved in 2009-10 when many councils transferred borrowings to the water and sewerage corporations at which time the average ratio for all councils was 39.5. This strong result continued since that time with the average ratio at 30 June 2016 being 31.2.

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

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

Figure 14 shows the average 10-year Net financial liabilities ratio for each council.

Figure 14: 10-year average Net financial liabilities ratio



Source: Tasmanian Audit Office

Based on our benchmark of between 0% and minus 50%, all councils were in a strong liquidity position. Figure 14 also indicated that a number of councils were holding high liquid assets relative to their liabilities.

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OPERATIONAL EFFICIENCY

INTRODUCTION

We have again provided an analysis of the operational efficiency of councils using the following five operational ratios:

- Rates per rateable property
- Rates per head of population
- Operating costs per rateable property
- Average staff costs per FTE
- FTEs per head of population.

We began providing this commentary to encourage greater reporting of such ratios and to provide examples of the types of ratios that could be used. It is not our intent to continue to produce this information in the future.

Our analysis provided a high level comparison across classifications of councils as noted in the Summary chapter earlier in this Report. This classification grouped councils of similar size and structure which should facilitate identification of how similar councils were performing.

All graphs below should be read with caution given that numerous factors unique to each council can impact on rates levied, operating and employee costs and staff levels. These factors include relative size of commercial sectors, movement in capital property values, number of rateable properties, population size, proportion of commercial versus rural properties, range of services provided, length of road networks and level of own-source revenue. Also, there may be other relevant measures that can provide further indications of operational efficiency and no measure should, therefore, be read in isolation.

KEY RESULTS

Operational efficiency
Councils employed 3 273 Full Time Equivalents (FTEs) at 30 June 2016. Average employee cost per FTE was \$81 000.
On average, councils were rating \$1 461 per rateable property, but expending \$2 547 in operating costs per rateable property. Councils' operating expenses were being supported by other revenue sources including fees and charges, interest revenue and grants.

Rates per rateable property

Figures 15.1 – 15.5 show the rates per rateable property for each council. The red line shows the trend across councils.

In general, the graphs indicated the following:

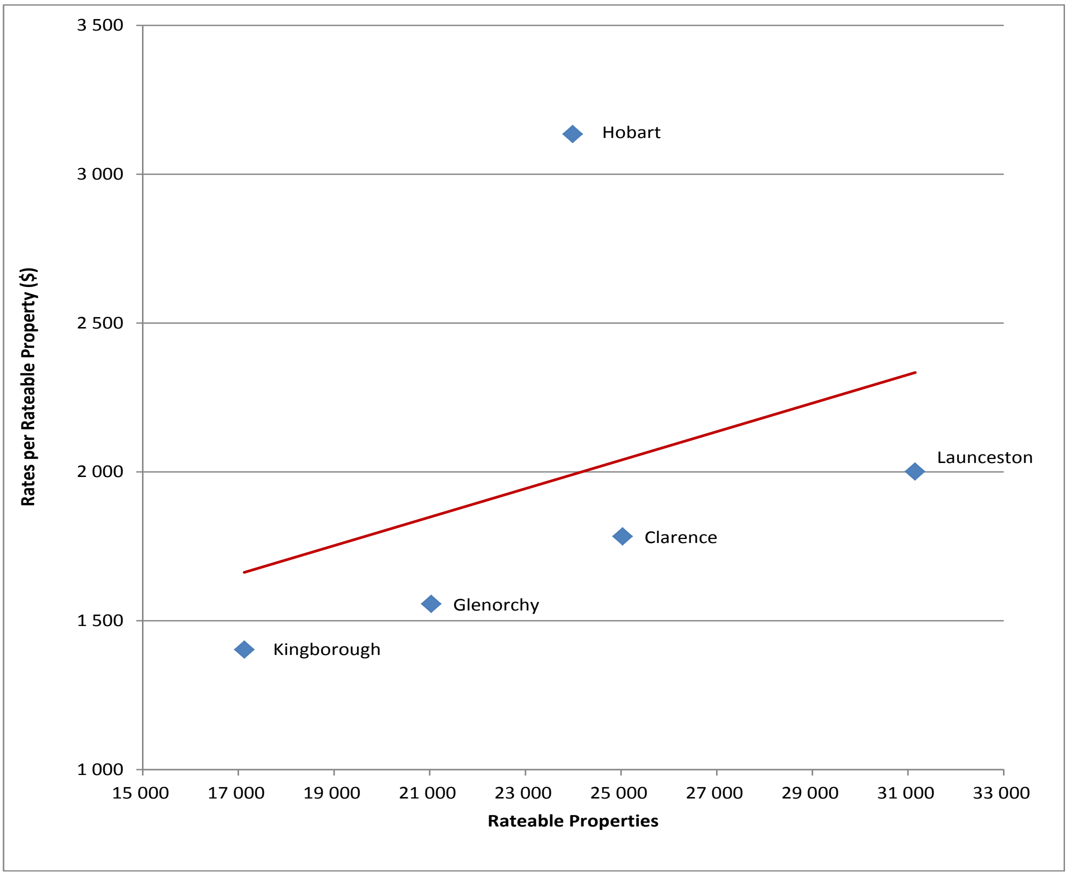
- on average for urban categories, the higher the number of rateable properties in a council, the higher the rates
- on average for rural categories, the higher the number of rateable properties in a council, the lower the rates.

In terms of outliers, the graphs showed:

- Hobart had the highest rates per rateable property, in excess of \$3 000. We note that the relative size of commercial sectors, which provide significant rates, can inflate this ratio somewhat. For example, in the case of Hobart, large commercial establishments like office buildings, hotels and the casino can pay significant rates but only count as one property.

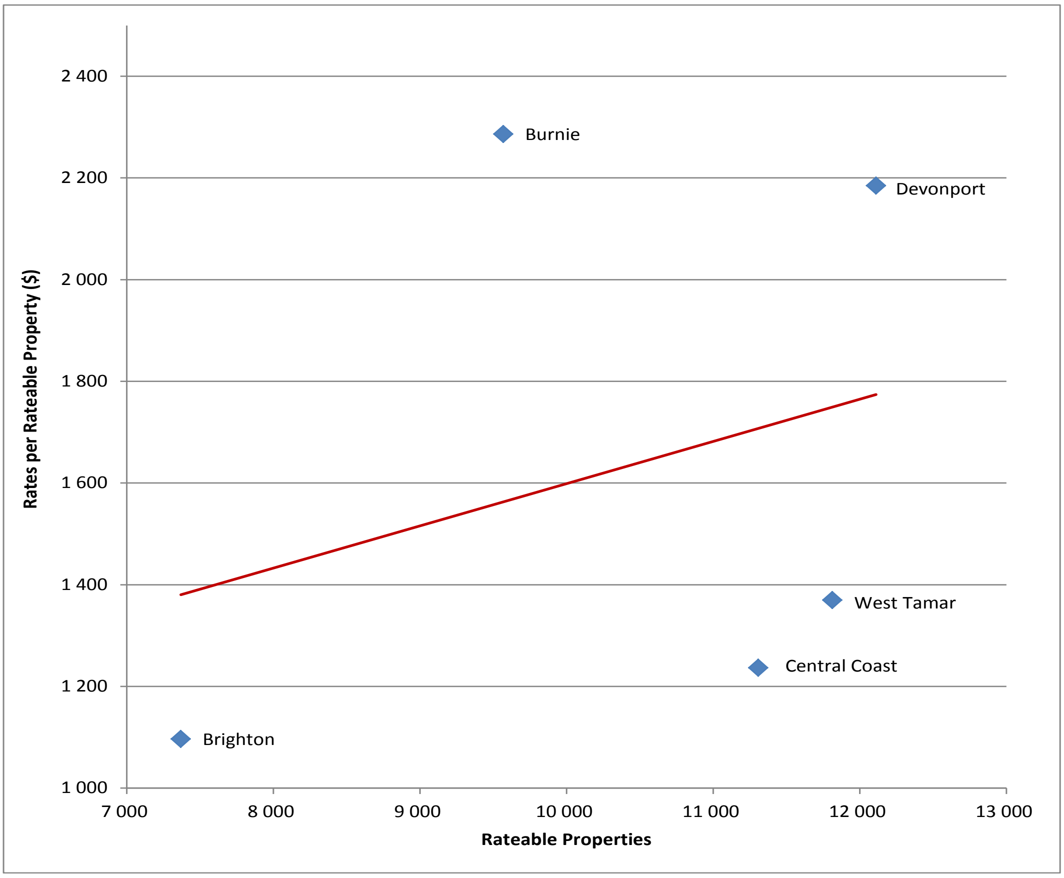
- Similarly to Hobart, Burnie and Devonport have larger commercial and industrial properties compared to other councils in the Urban small group as shown in Figure 15.2.
- George Town had the highest rates per rateable property in Figure 15.4. We note that the relatively high number of large industrial operations within the municipality can inflate this ratio. For example, industries can pay significant rates but only count as one property.
- West Coast had the highest rates per rateable property in Figure 15.5, due mainly to the impact of six mining operations located within the municipality. The mines comprised a relatively high proportion of Council's total rate income and resulted in an increased ratio.
- Central Highlands had the lowest rates per rateable property, both in Figure 15.5 and across all five classifications.

Figure: 15.1 Urban medium



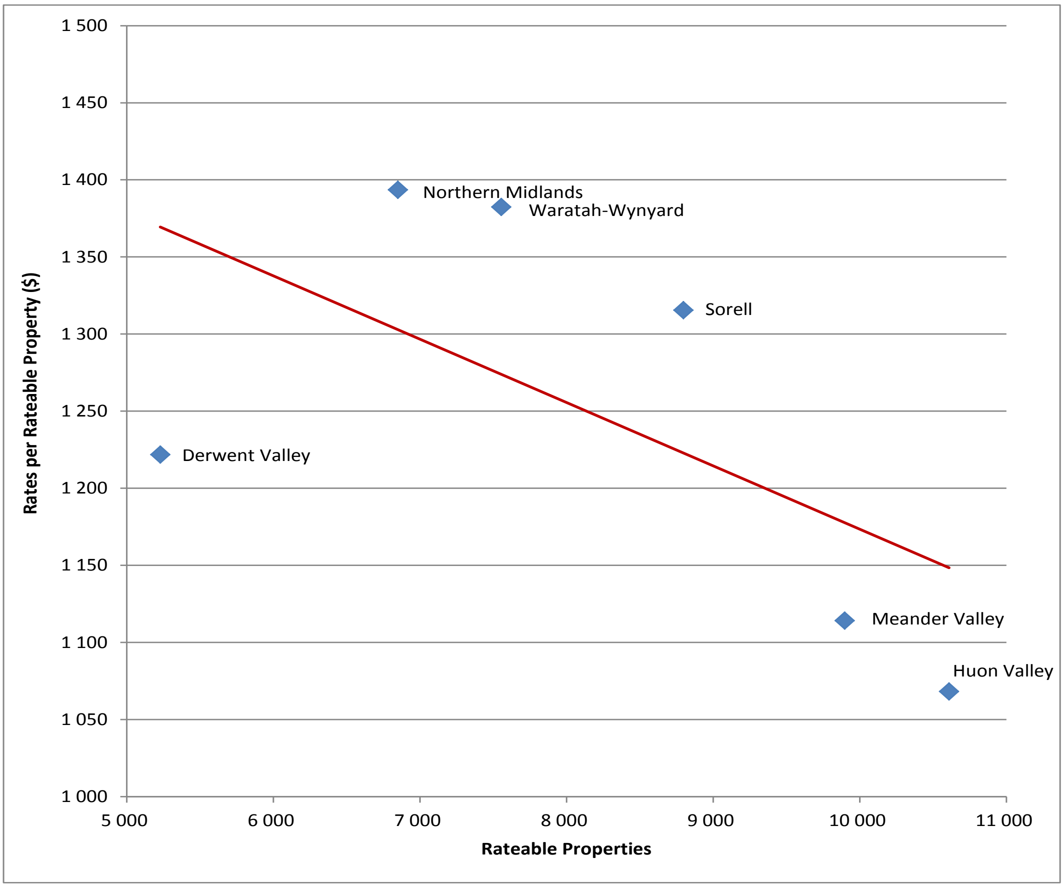
Source: Tasmanian Audit Office

Figure: 15.2 Urban small



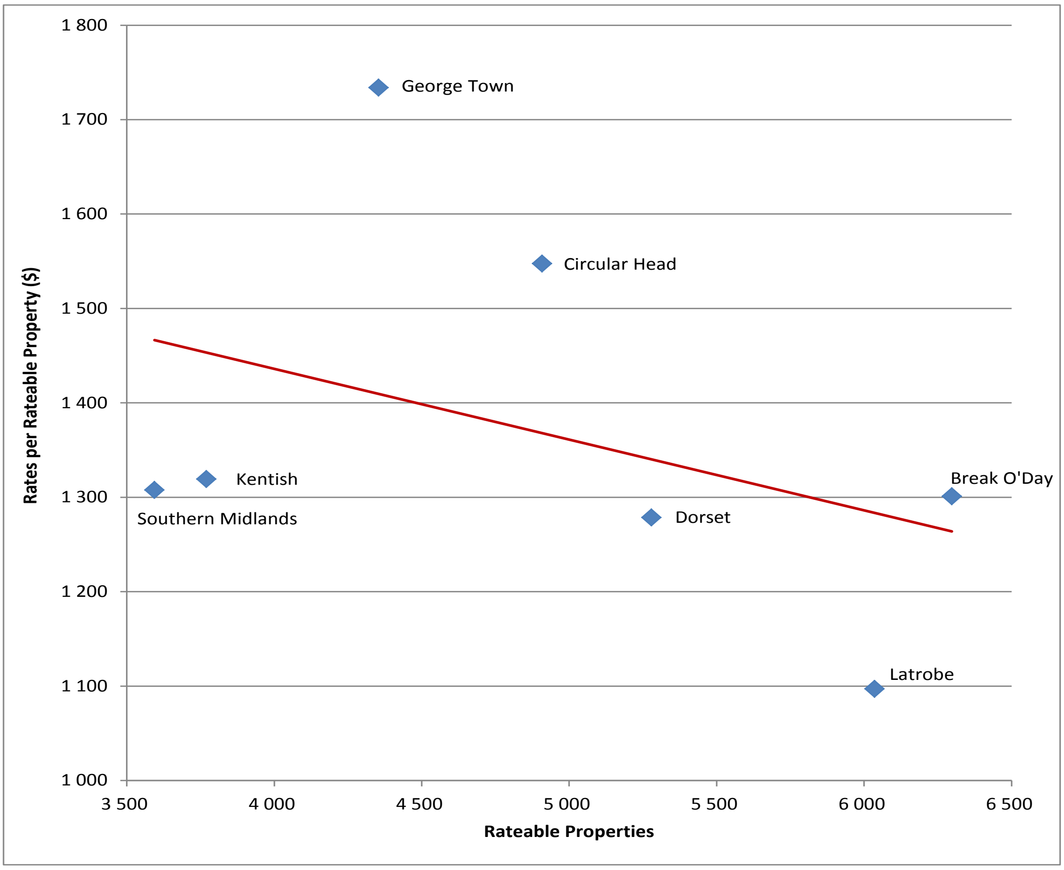
Source: Tasmanian Audit Office

Figure 15.3: Rural agricultural, very large



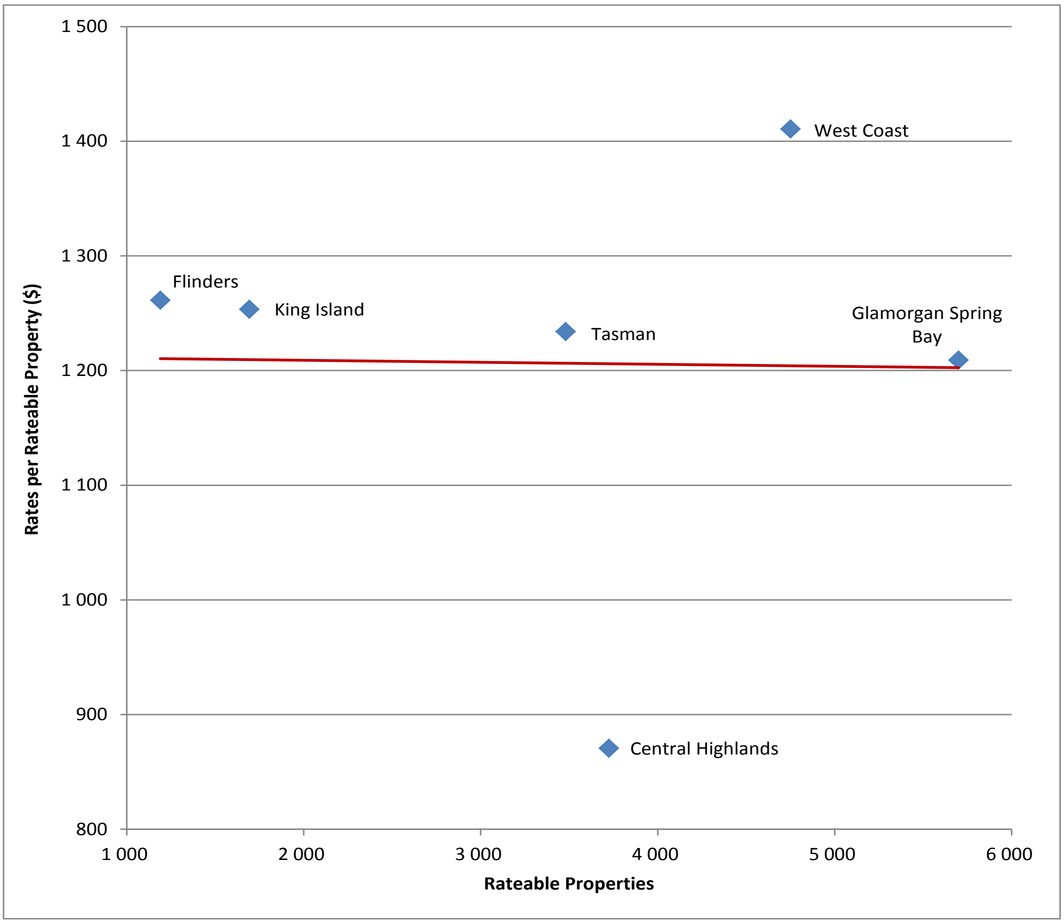
Source: Tasmanian Audit Office

Figure 15.4: Rural agricultural, large



Source: Tasmanian Audit Office

Figure 15.5: Rural agricultural, small and medium



Source: Tasmanian Audit Office

Rates per head of population

Figures 16.1 - 16.5 show the rates per head of population (per capita) for each council.

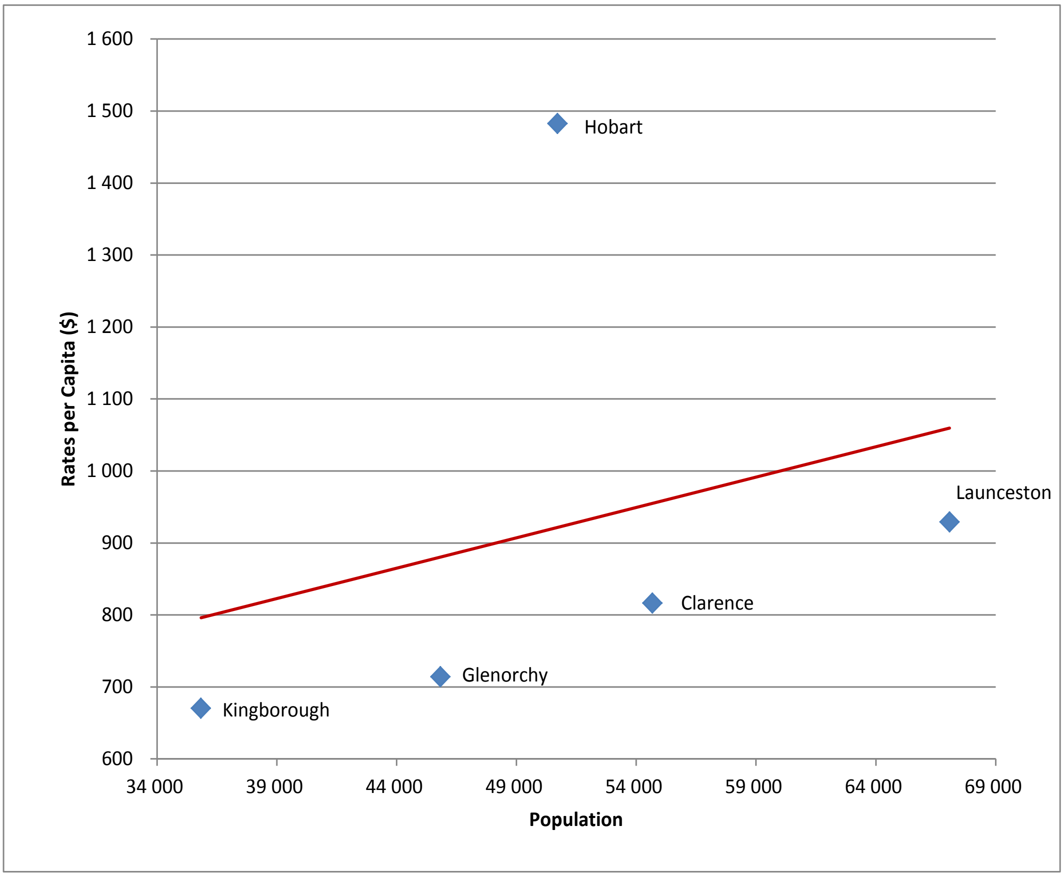
In general, the graphs indicated the following:

- on average for urban categories, the larger the population, the higher the rates per capita
- on average for rural categories, the larger the population, the lower the rates per capita
- there was much variation in rates per capita.

In terms of outliers, the graphs showed regard must be had to the fact that:

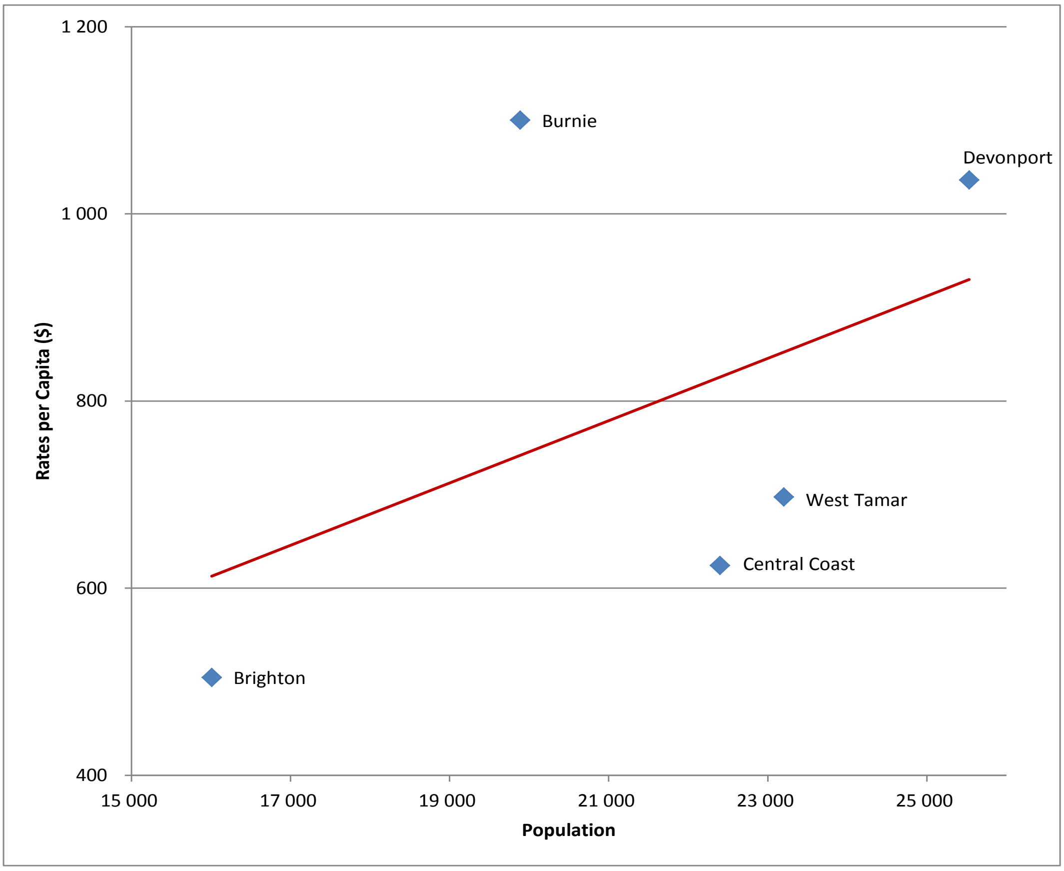
- high value commercial properties without corresponding residential populations, many of whom travel into cities to work, can inflate this ratio, as evidenced by the relatively high rates per capita for Hobart City, Burnie and Devonport
- popular holiday destinations, such as Break O'Day and Tasman had a large proportion of absentee property owners resulting in similarly high rates per capita
- seasonal factors at the time of census may influence population data in some municipal areas.

Figure 16.1: Urban medium



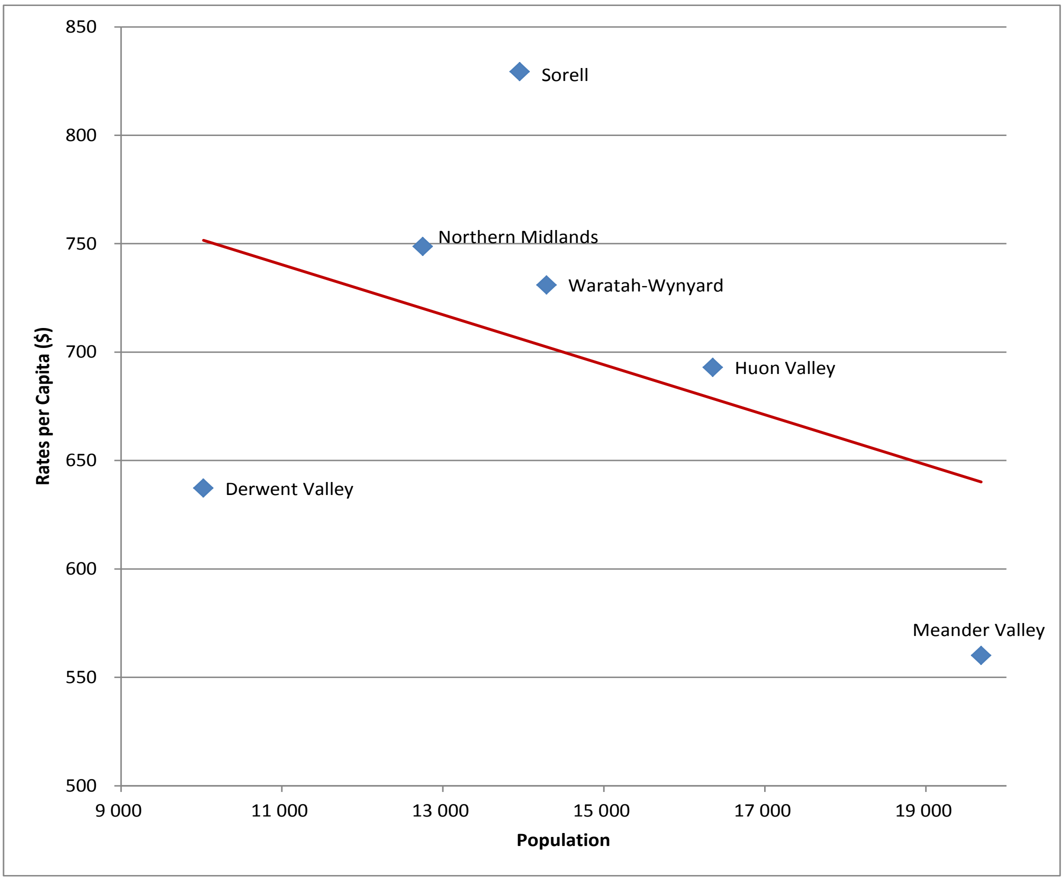
Source: Tasmanian Audit Office

Figure 16.2: Urban small



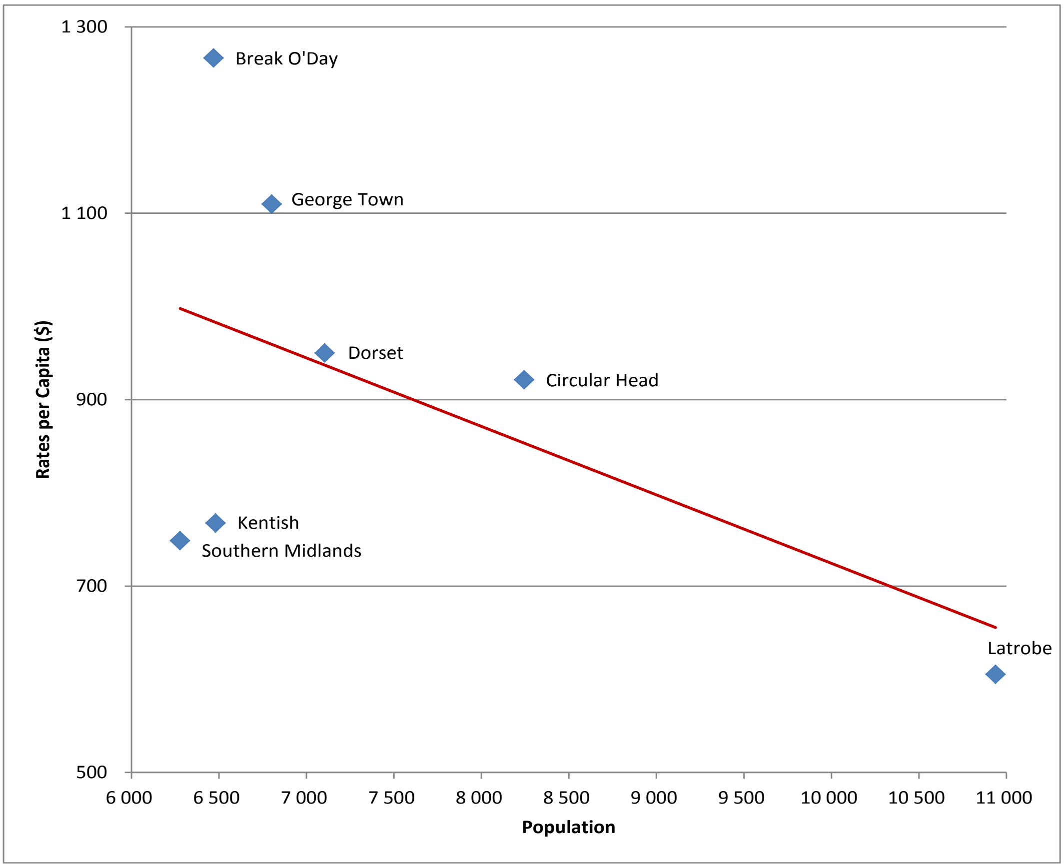
Source: Tasmanian Audit Office

Figure 16.3: Rural agricultural, very large



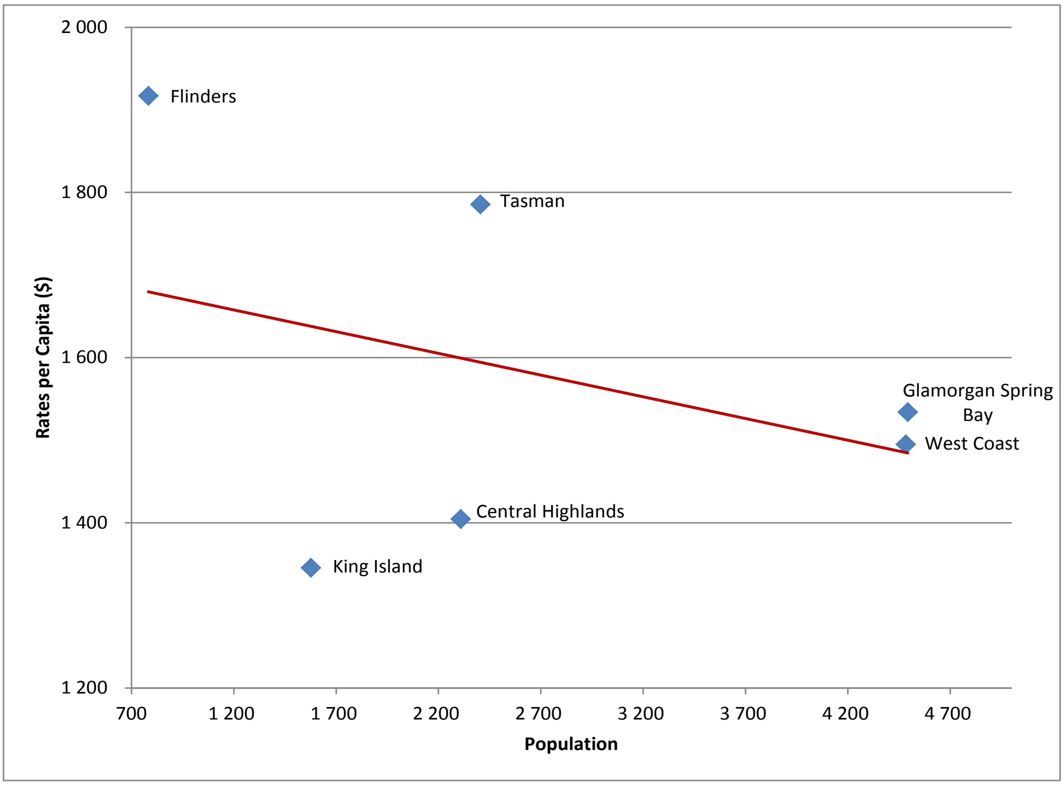
Source: Tasmanian Audit Office

Figure 16.4: Rural agricultural, large



Source: Tasmanian Audit Office

Figure 16.5: Rural agricultural, small and medium



Source: Tasmanian Audit Office

Operating costs per rateable property

When comparing councils it is important to note that they do not all provide the same services. For example, some councils operate medical centres and childcare centres that are not funded from rate revenue. This would inflate this ratio as well as the average staff costs per FTE.

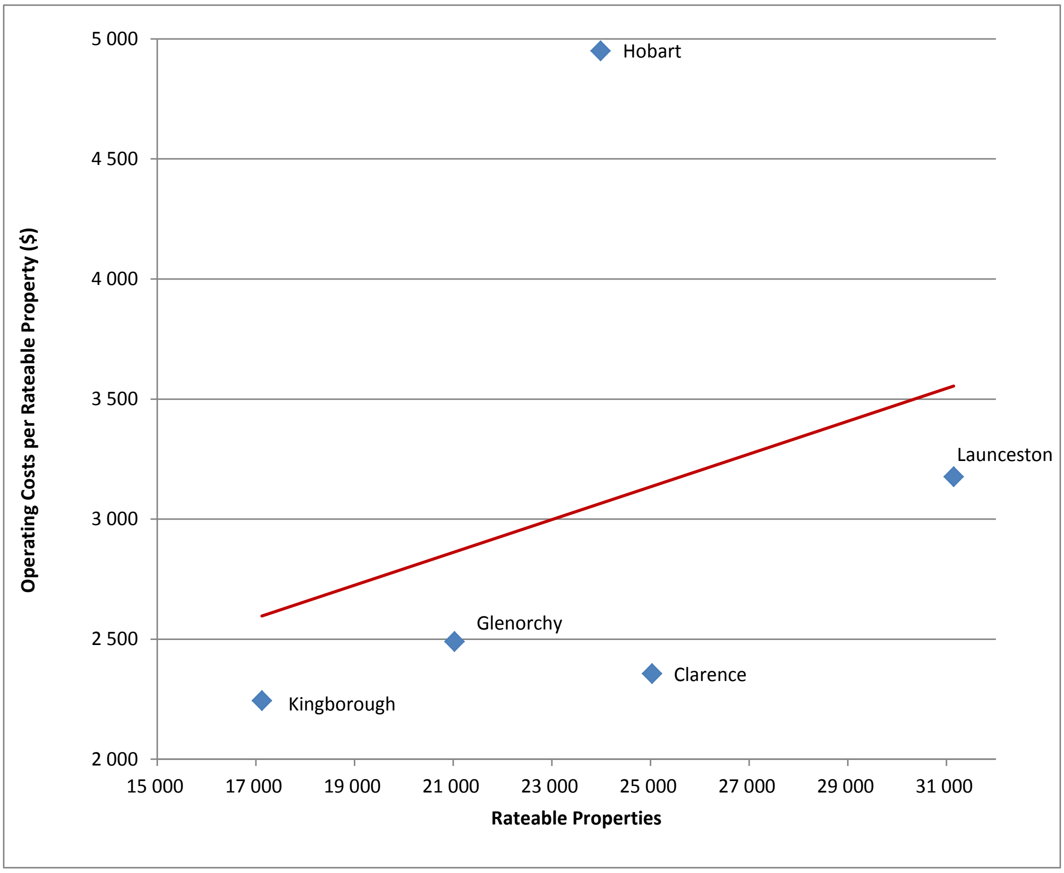
Figures 17.1 - 17.5 show operating costs per rateable property for each council. In general, the graphs indicated the following:

- on average for urban categories, the higher the number of rateable properties, the higher the operating costs
- on average for rural categories, the higher the number of rateable properties, the lower the operating costs
- there was also much variation in operating costs per rateable property.

In terms of outliers, the graphs showed:

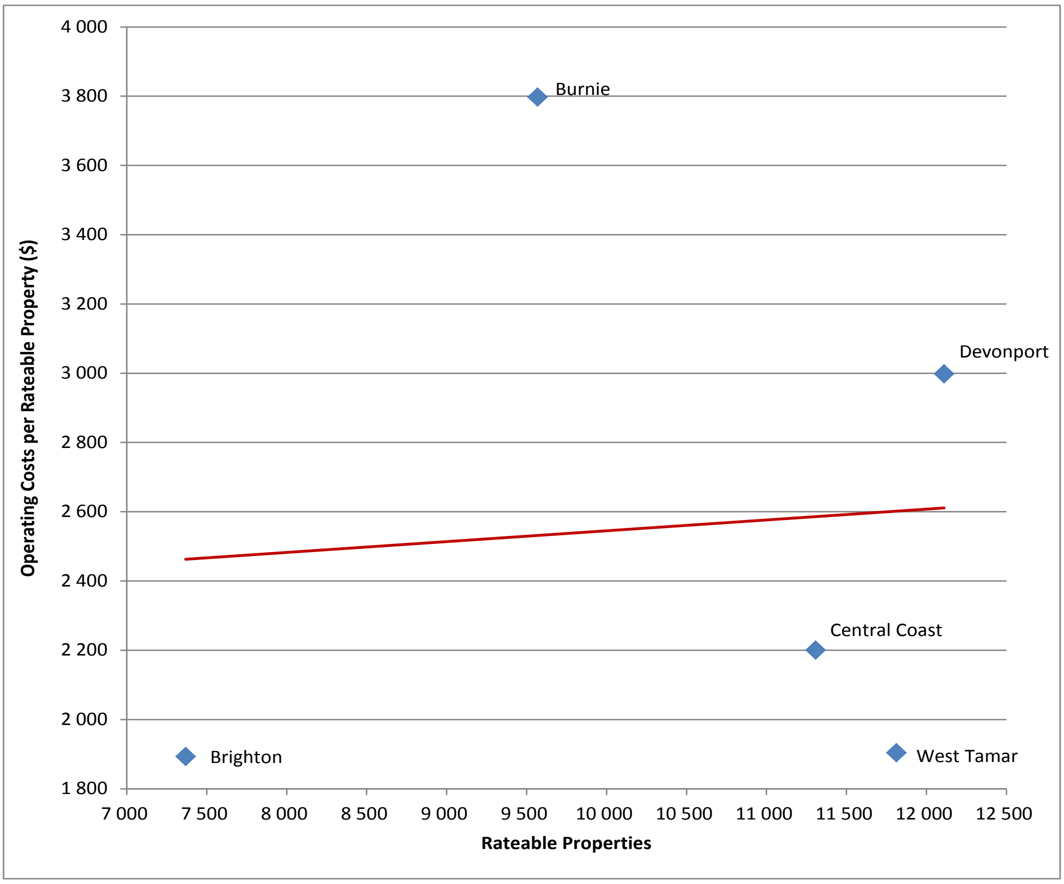
- The major outliers in Figure 17.2 were the two city councils, Burnie and Devonport. They had the two highest operating costs per rateable property. Burnie's ratio was impacted by the consolidation of Council's subsidiaries, Burnie Airport Corporation and Tas Communications, neither of which were funded by rate income.
- Figure 17.1 highlighted a greater dispersion between councils' operating costs per rateable property than rates per rateable property. However, consistent with analysis of rates per rateable property, Hobart had higher than the average operating cost per rateable property. The relative size of commercial sectors, which provide significant rates but not necessarily the proportionate number of rateable properties, can inflate this ratio somewhat.
- Southern Midlands had the highest operating costs per rateable property in Figure 17.4. We note that Council's ratio was impacted by the inclusion of expenditure relating to council owned entities, in particular Heritage Building Solutions. The inclusion of an additional $0.71m in expenditure due to consolidation represented approximately $198 per rateable property.

Figure 17.1: Urban medium



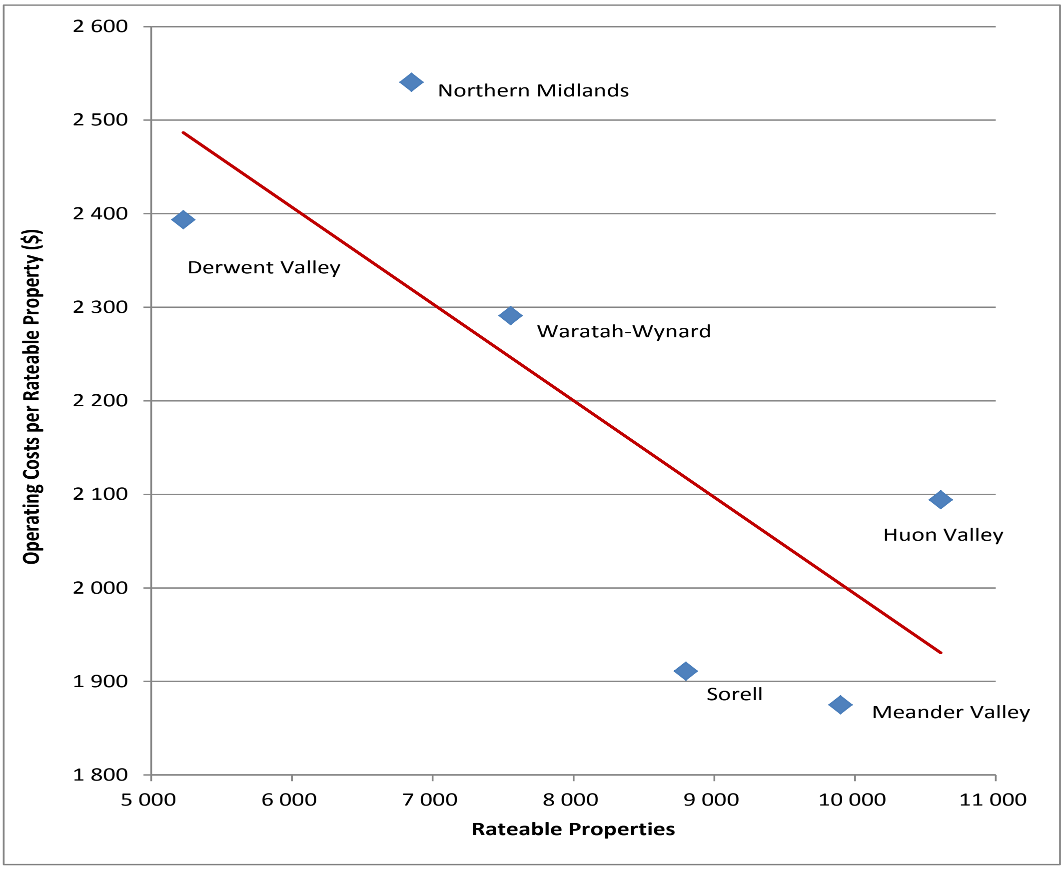
Source: Tasmanian Audit Office

Figure 17.2: Urban small



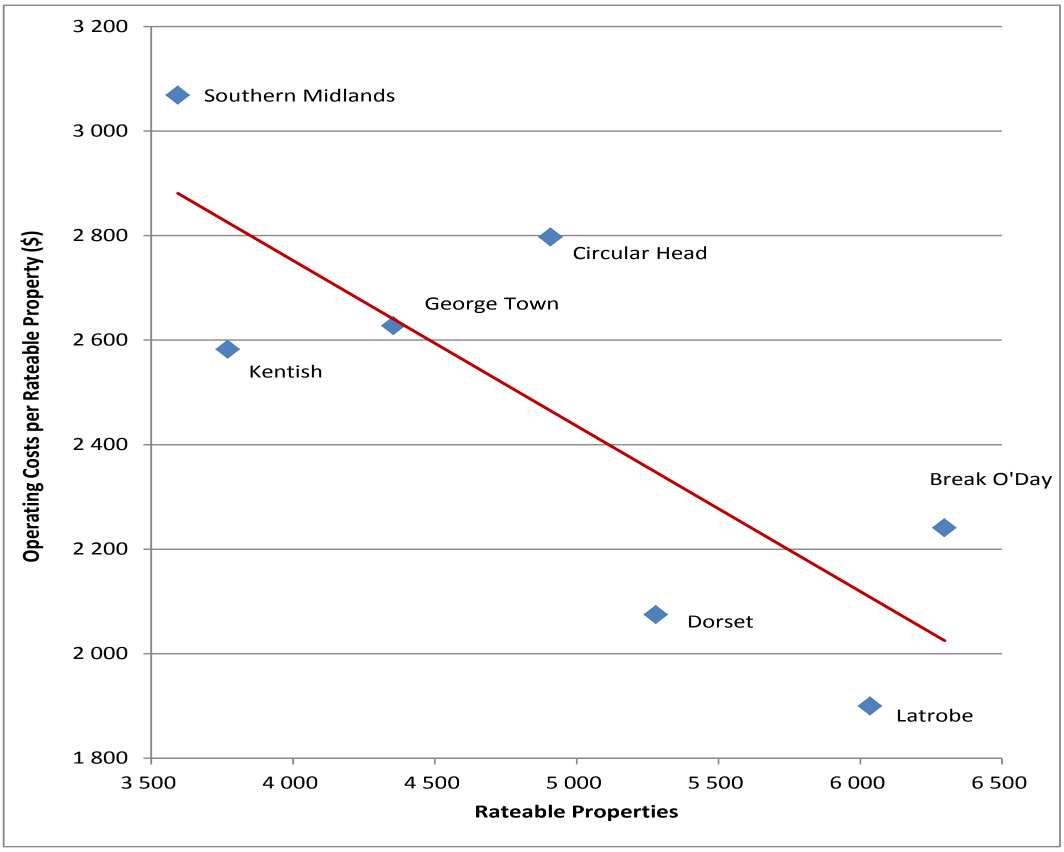
Source: Tasmanian Audit Office

Figure 17.3: Rural agricultural, very large



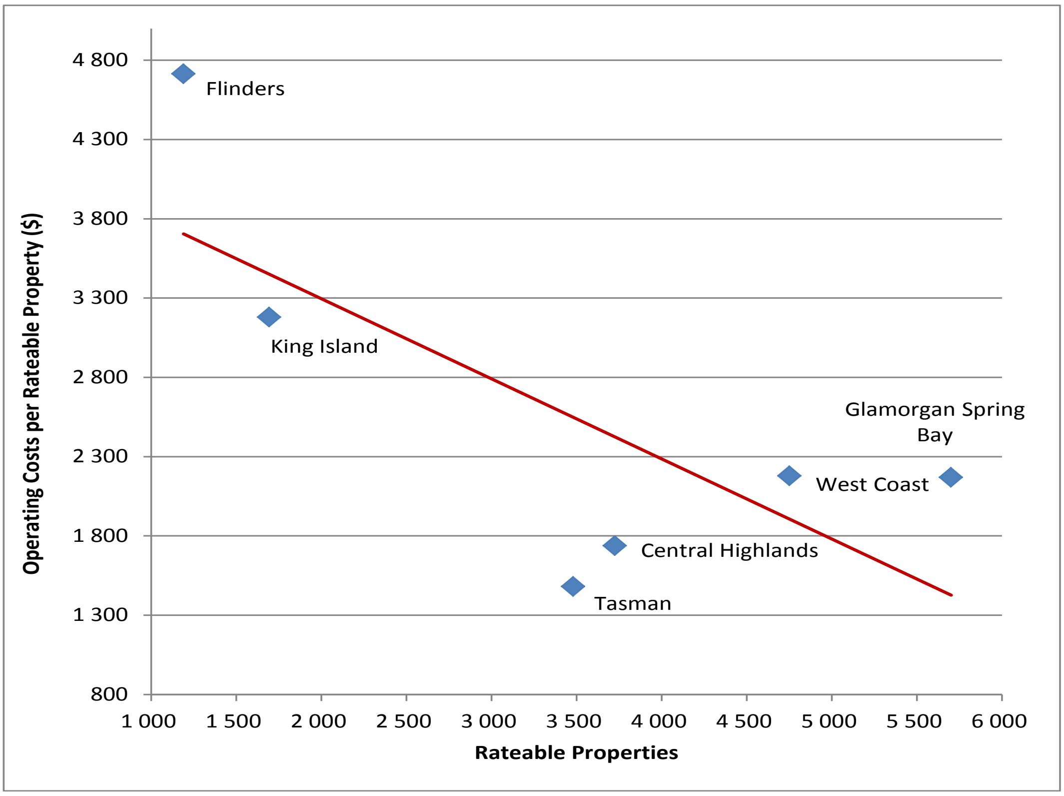
Source: Tasmanian Audit Office

Figure 17.4: Rural agricultural, large



Source: Tasmanian Audit Office

Figure 17.5: Rural agricultural, small and medium



Source: Tasmanian Audit Office

Average staff costs per FTE

Figures 18.1 - 18.5 show the average staff costs per FTE for each council. In general, the graphs indicated the following:

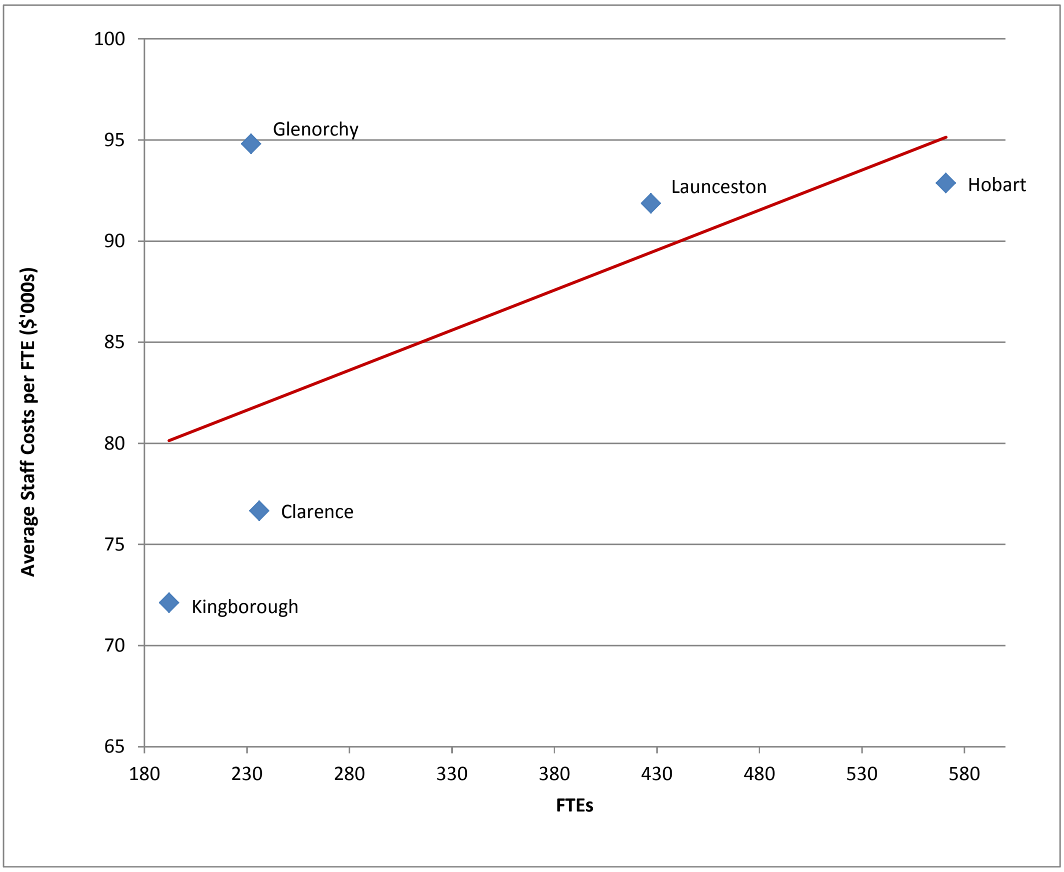
- There was much variation in average staff costs, with no real trend identified in relation to the size of the council based on the number of FTEs
- Sixteen councils had an average staff cost in the range of $75 000 to $90 000.

In terms of outliers, the graphs showed:

- Glenorchy, Hobart City and Launceston City, in the Urban Medium classification, had average staff costs in excess of $90 000, with Glenorchy equal second-highest overall with $97 000.
- Flinders and West Coast had the highest average staff cost, both for the Rural Agricultural, Small and Medium classification (Figure 18.5) and on an overall basis. We note that higher employee costs can be incurred to attract a skilled workforce to a remote location including relocation costs, additional superannuation contributions and other benefits.

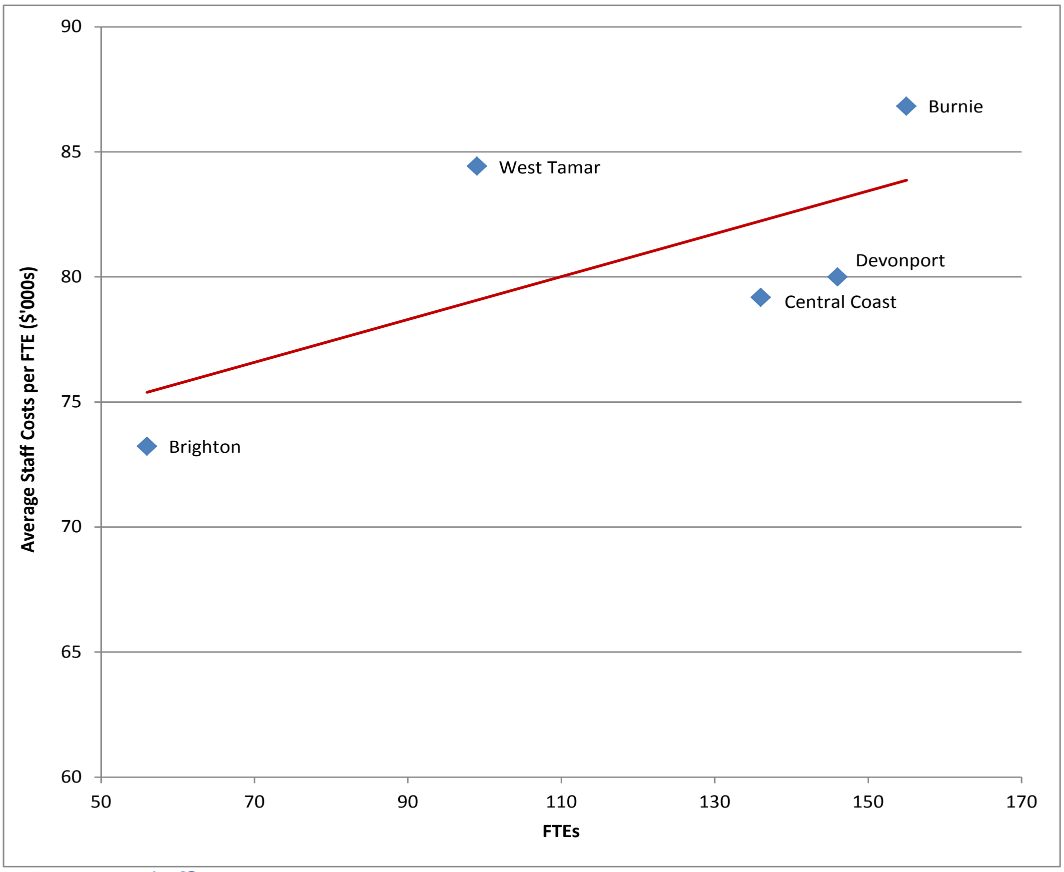
- Excluding Flinders and West Coast, Figure 18.5 showed a lower average staff cost for the Rural Agricultural, Small and Medium classification, with averages ranging from $56 000 to $73 000.

Figure 18.1: Urban medium



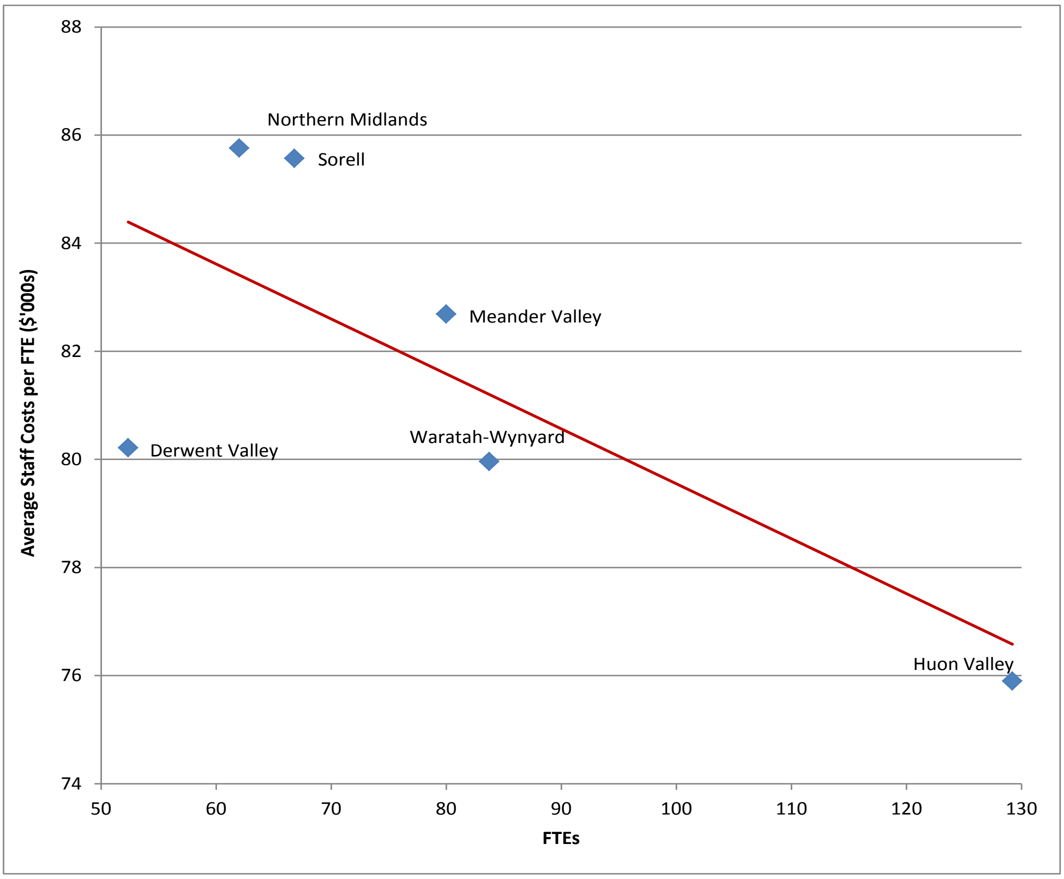
Source: Tasmanian Audit Office

Figure 18.2: Urban small



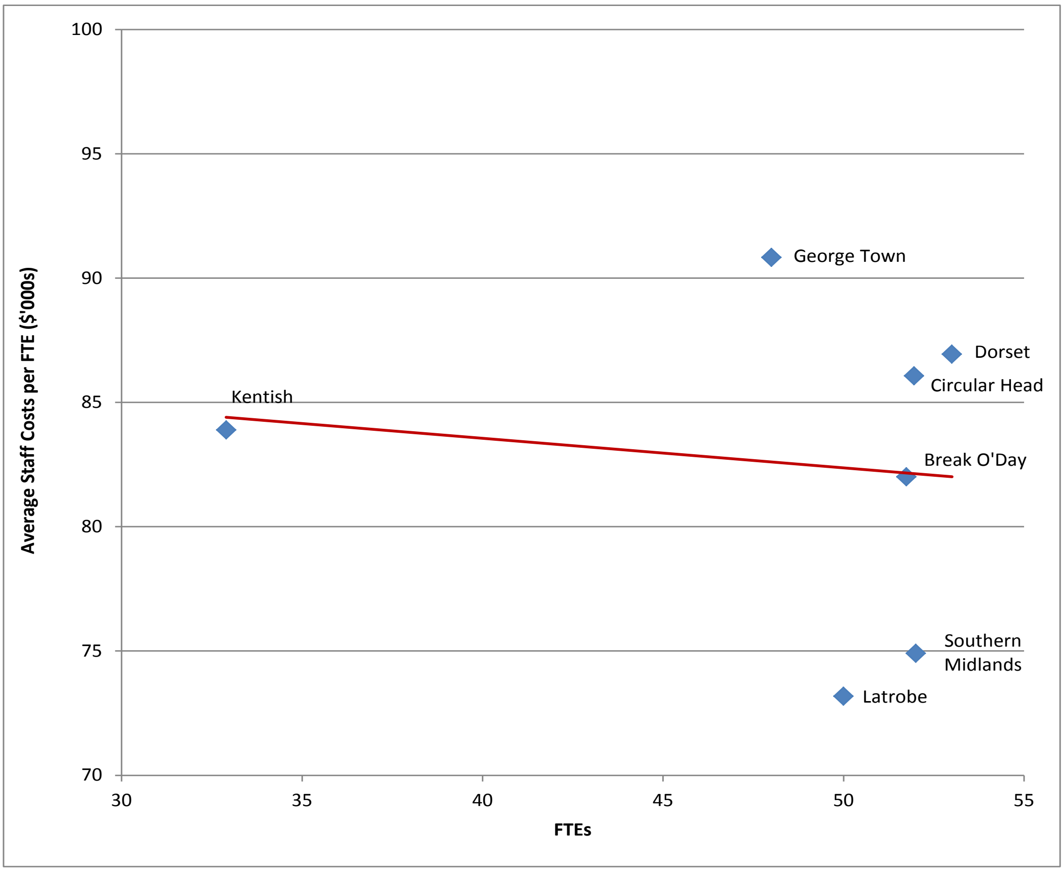
Source: Tasmanian Audit Office

Figure 18.3: Rural agricultural, very large



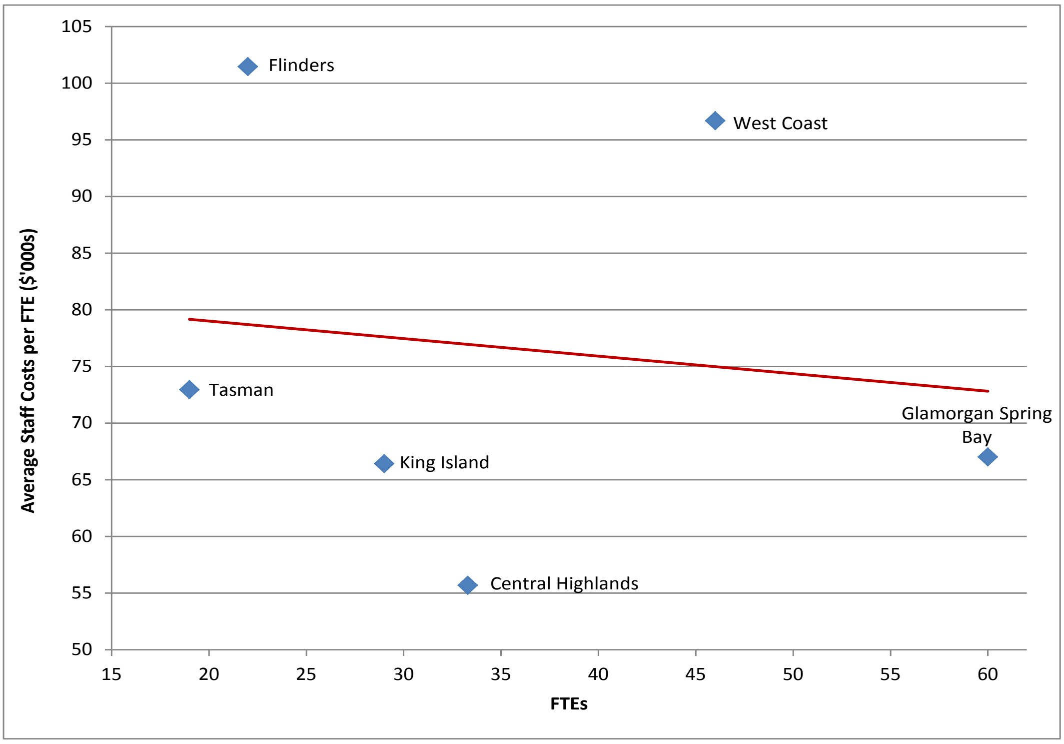
Source: Tasmanian Audit Office

Figure 18.4: Rural agricultural, large



Source: Tasmanian Audit Office

Figure 18.5: Rural agricultural, small and medium



Source: Tasmanian Audit Office

FTEs per head of population

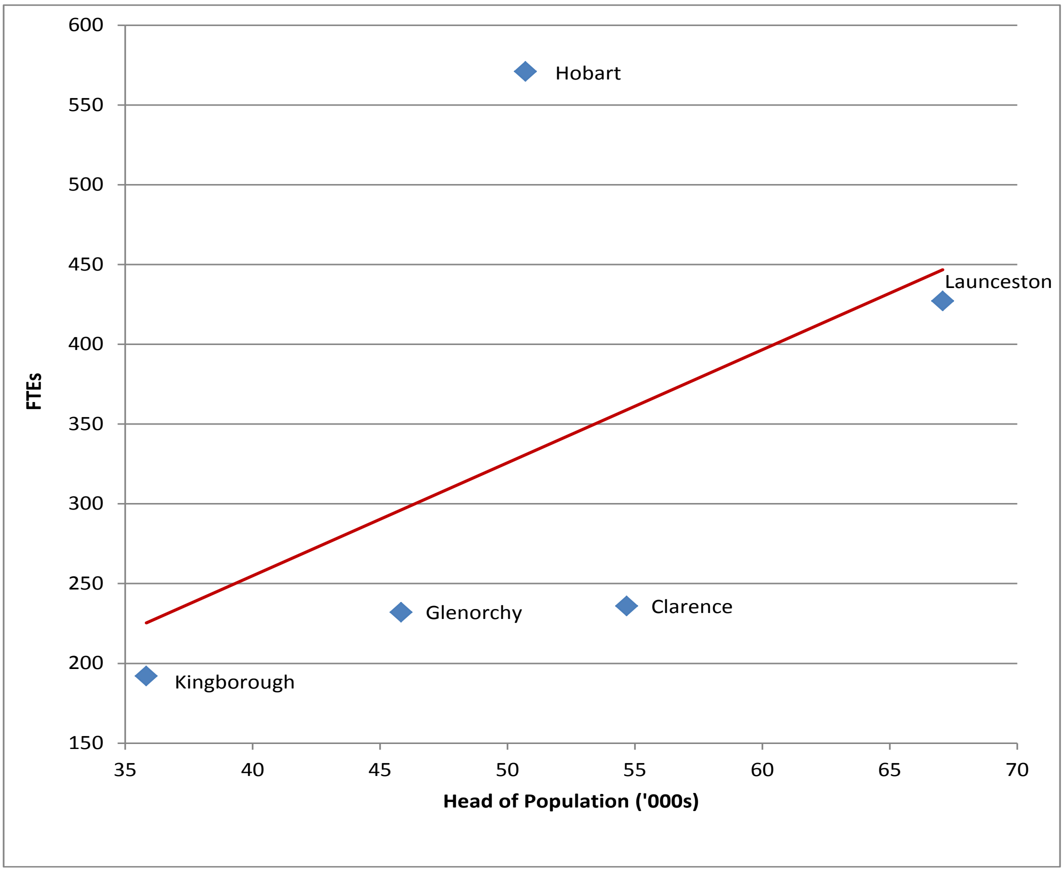
When using the analysis here, care is needed as some councils may provide services from their own workforce or by outsourced arrangements. If services are outsourced, this would not be included in the FTE count.

Figures 19.1 - 19.5 show the number of FTEs per head of population for each council. In general, the graphs indicated the following on average, the larger the population, the higher the FTEs per council.

In terms of outliers, the graphs showed:

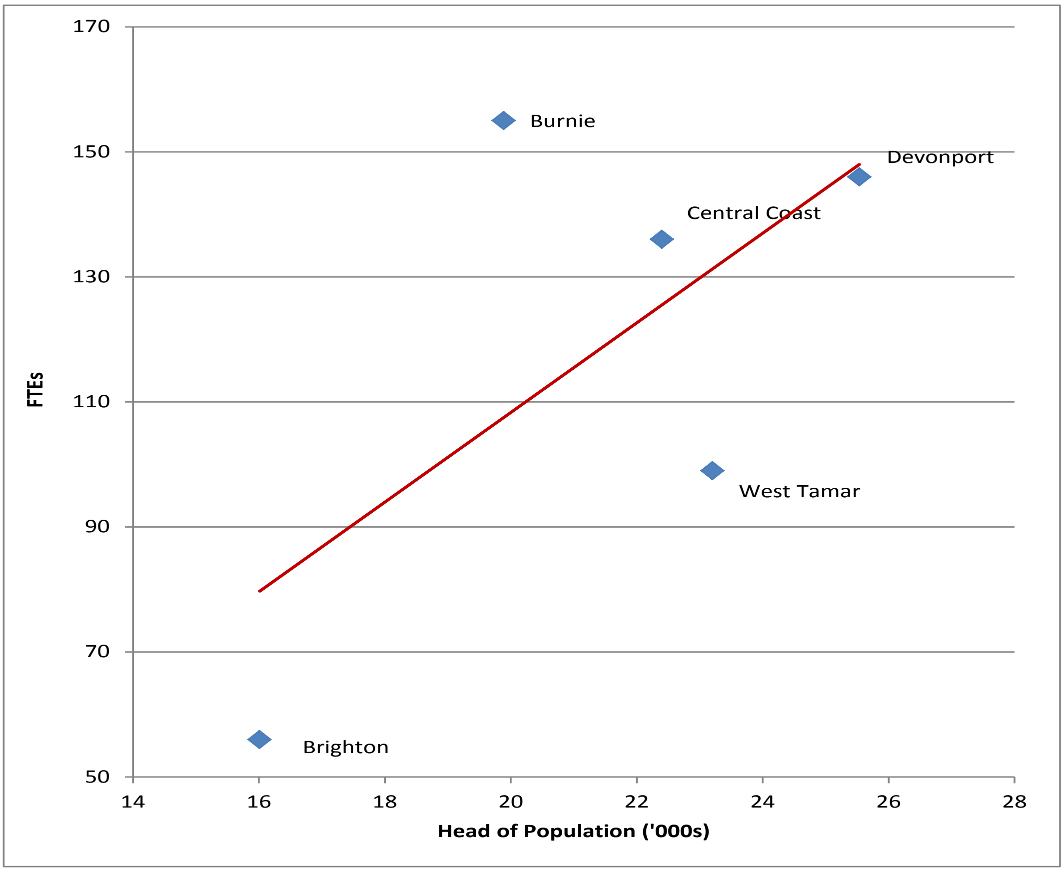
- The ratio of FTEs per head of population was relatively consistent across councils in Figure 19.1 with the only outlier being Hobart City, which had a significantly higher number of FTEs per head of population. The higher number of FTEs may be due to the unique functions it provides as the State's capital. It may also be reflective of Hobart maintaining an outside day labour force for both maintenance and construction activities while other councils rely more on contractors.
- Huon Valley had the highest number of FTEs and the second largest population in Figure 19.3. We noted that Council owns and operates three medical practices. This includes the employment of all general practitioners, practice nurses and administrative staff.

Figure 19.1: Urban medium



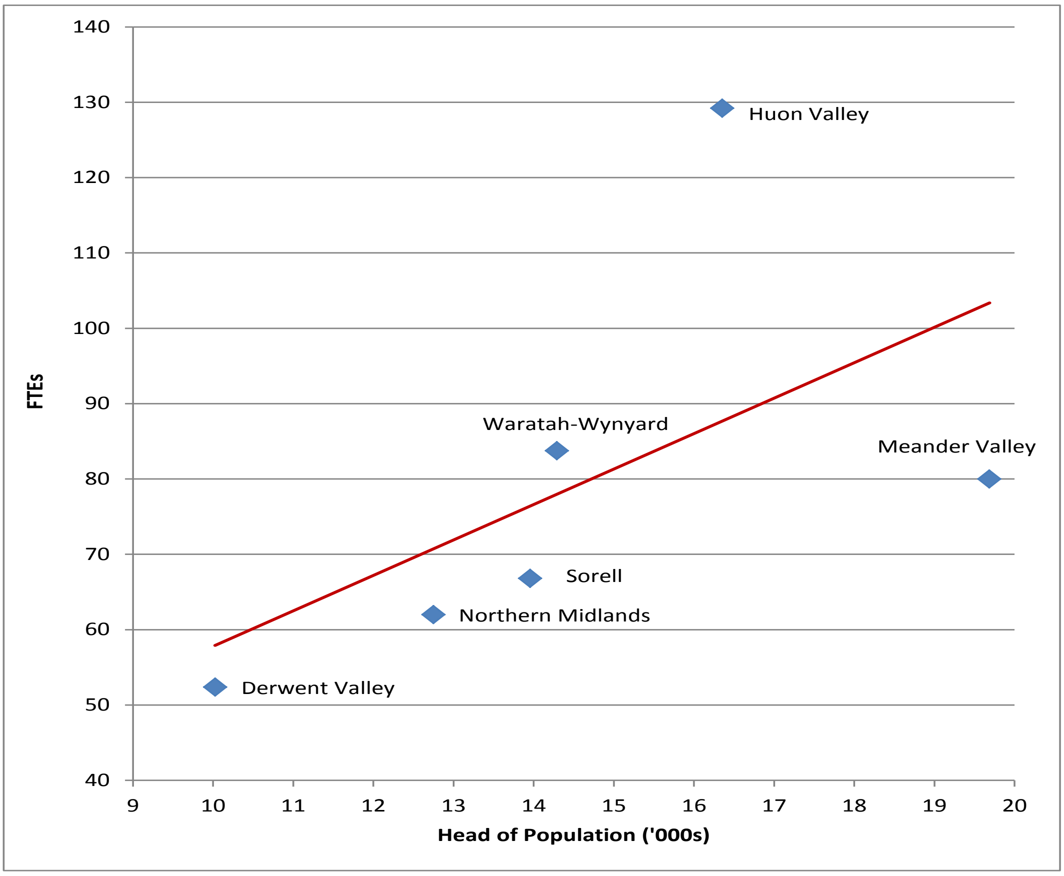
Source: Tasmanian Audit Office

Figure 19.2: Urban small



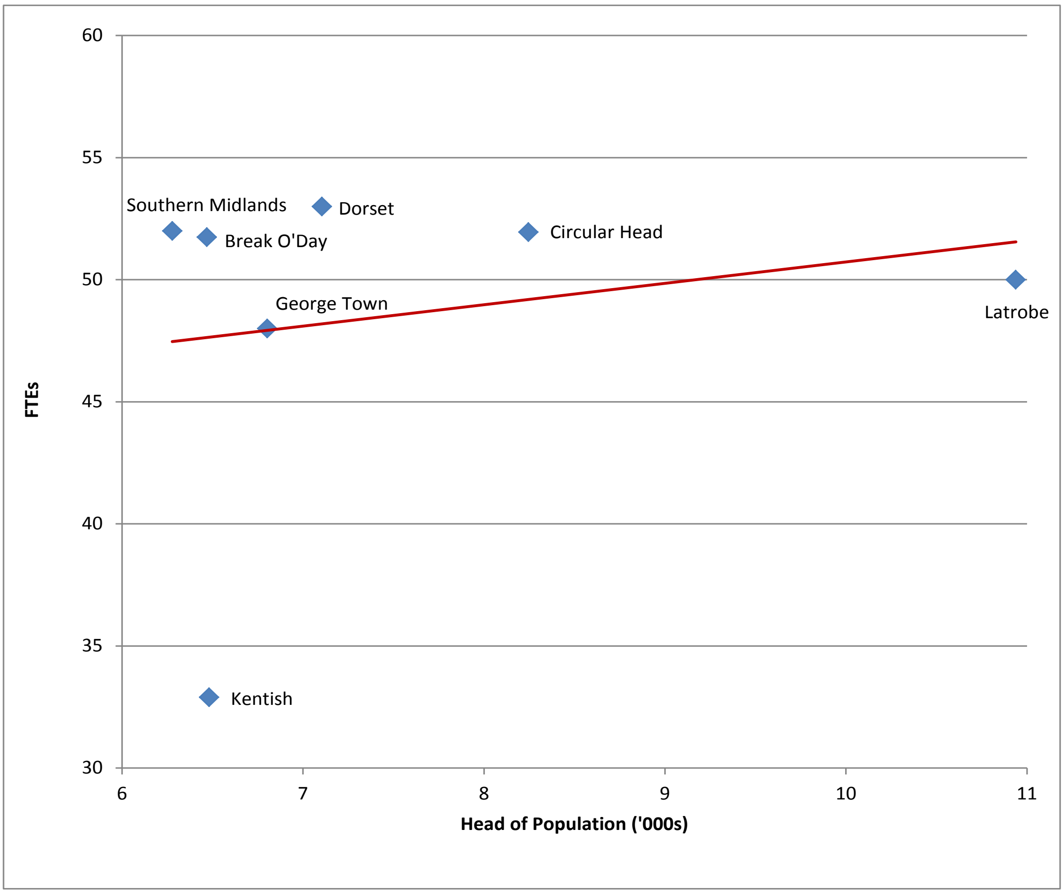
Source: Tasmanian Audit Office

Figure 19.3: Rural agricultural, very large



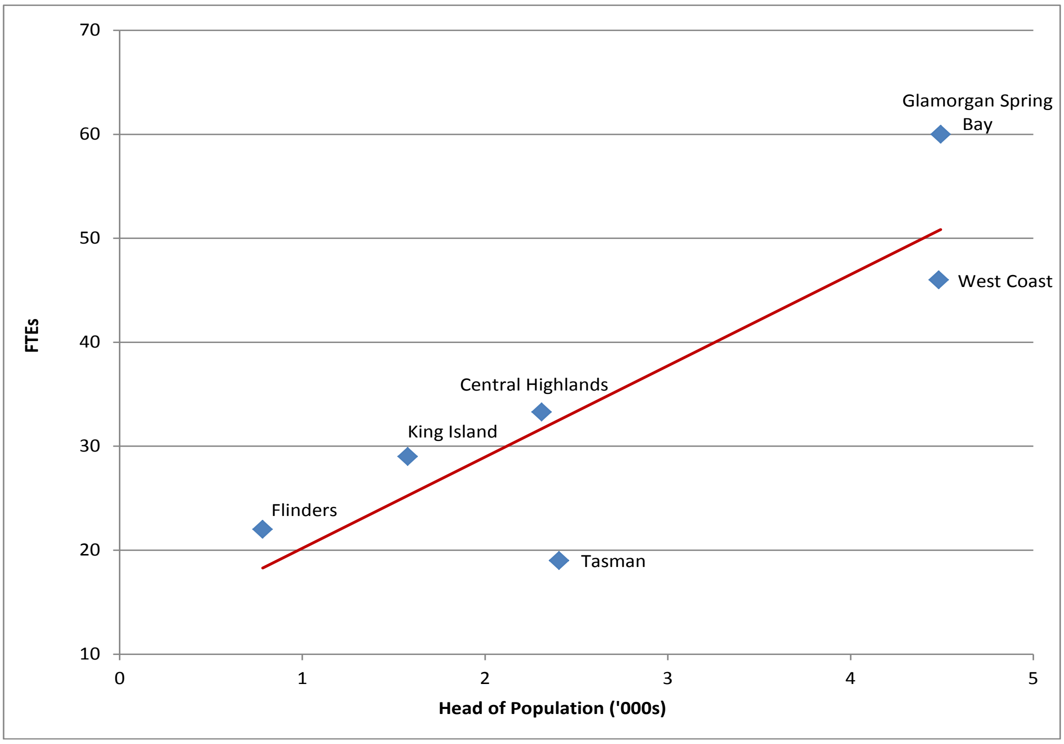
Source: Tasmanian Audit Office

Figure 19.4: Rural agricultural, large



Source: Tasmanian Audit Office

Figure 19.5: Rural agricultural, small and medium



Source: Tasmanian Audit Office

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AUDIT SUMMARY – OTHER LOCAL GOVERNMENT ENTITIES

INTRODUCTION

Entities included in this Chapter are:

- TasWater
- single or joint authorities controlled by councils and established under the LGA:
    - Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions
    - Cradle Coast Authority
    - Dulverton Regional Waste Management Authority
    - Southern Tasmanian Councils Authority
    - Southern Waste Strategy Authority
- Local Government Association of Tasmania
- Northern Tasmania Development Association Inc.

The financial results discussed were derived from the audited financial statements of each entity. The reporting framework for these entities was generally prescribed by their enabling legislation or rules. In our analysis of financial performance we have, if necessary, re-allocated certain revenue or expenditure items to better assist readers to interpret financial performance. For LGAT, we accepted preparation of a special purpose financial report. All other entities prepared general purpose financial statements.

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD

Tasmanian Water and Sewerage Corporation Pty Ltd, trading as TasWater, is a propriety limited company incorporated in Australia.

The principal activities of TasWater were the provision of water and sewerage services for residential and commercial customers throughout Tasmania.

KEY RESULTS AND DEVELOPMENTS

TasWater recorded an Underlying profit of $11.00m for the year, a $14.17m decrease from the prior year primarily due to higher employee benefits costs of $6.82m and higher other operating expenses of $4.50m. The decrease is also reflected in the lower Net profit before tax of $36.20m, which decreased by $11.18m.
TasWater's 2015-16 operating margin of 1.0 decreased from 1.1 in 2014-15, which reflected the lower net profit.
Total Comprehensive profit increased by $12.24m due to the revaluation of land and buildings of $24.11m (net of tax) during 2015-16, offset by the lower net profit.
Property, plant and equipment increased by $106.77m due to an upward asset revaluation of $34.45m, the recognition of previously unrecorded land and buildings, $5.43m and capital additions at cost of $132.17m, less depreciation of $70.00m and a revaluation decrement of land and buildings of $6.59m.
Borrowings increased by $64.54m to $430.28m. TasWater sourced its borrowings through Tascorp and was within its borrowing facility limit.
Ratios related to Debt to equity and total assets increased in line with the increased debt. However, Cost of debt decreased to 4.3% from 5.0% due to lower interest rates.
Current ratio remained relatively constant at 0.38, primarily due to current borrowings. The ratio remains below our expected benchmark of 1.0.
The total $30.00m return to owners was consistent with TasWater's corporate plan and was unchanged from the previous year.

CONCLUSION

The signed financial report was received on 15 August 2016.

Our audit opinion was issued on 22 August 2016 and included an emphasis of matter paragraph that drew attention to Note 9 of TasWater's financial statements. This note stated that the adopted valuation technique used to measure the fair value of infrastructure assets had not been applied consistently since the initial valuation on 1 July 2013, when TasWater commenced trading.

Our opinion on TasWater's financial report was not modified in respect of this matter.

In performing our audit we did not identify any significant deficiencies in internal control.

One of two findings from prior year was satisfactorily resolved. The remaining matter related to the valuation of infrastructure assets and was raised again in 2015-16.

Two high rated audit findings reported to TasWater related to:

Valuation of water and sewerage infrastructure

TasWater held significant water and sewerage infrastructure assets which included material long-life assets. TasWater's accounting policy was to measure infrastructure assets after initial recognition using the revaluation model under AASB 116. Further, TasWater elected the income approach to determine fair value in accordance with AASB 13.

As at 30 June 2016, the fair value of infrastructure assets reflected the initial fair value of the assets contributed by the four corporations established under the *Water and Sewerage Corporations Act 2008* on 1 July 2013, determined using an income model, plus additions and transfers at cost and less accumulated depreciation and asset disposals since that date.

Whilst we have accepted that the fair value of infrastructure assets is not materially misstated at 30 June 2016, we did express concern regarding the approach TasWater adopted in relation to assessing the fair value of infrastructure assets.

We recommended:

- TasWater formulate a policy as to the frequency valuations using the income approach are to be undertaken
- Taswater determine and recognise the fair value of infrastructure assets using an income approach valuation for 30 June 2017 in accordance with the requirements of, and guidance provided in, AASB 13
- the income approach valuation be based on the highest and best use of TasWater's infrastructure assets
- TasWater cease using a range of estimated values to assess the reasonableness of the carrying value of infrastructure assets.

Impairment of assets measured at fair value

AASB 136 recognises that the only difference between an asset's fair value, under AASB 13, and its fair value less costs of disposal, under AASB 136, is the direct incremental costs attributable to the disposal of the asset.

If the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset was impaired and recoverable amount need not be estimated.

We recommended that TasWater determine whether disposal costs for assets recognised at fair value are negligible so as to determine whether recoverable amount needed to be estimated each year.

BACKGROUND

The *Water and Sewerage Corporation Act 2012* provided for the establishment and incorporation of TasWater. It is governed by the Corporation's Constitution and its principal objectives are to:

- efficiently provide water and sewerage functions in Tasmania
- encourage water conservation, the demand management of water and the re-use of water on an economic and commercial basis
- be a successful business and, to this end, to:
  - operate its activities in accordance with good commercial practice
  - deliver sustainable returns to its members
  - deliver water and sewerage services to customers in the most cost-efficient manner.

The principal activities of TasWater during the course of the financial year were:

- the sourcing, treatment and delivery of reliable, quality drinking water to our customers
- the collection, transportation, treatment and safe return of wastewater to the environment.

AUDIT RESULTS

Key matters considered during the audit

Customer pricing arrangements

Tariffs set in the 2015-18 Pricing Determination for TasWater and transitional arrangements towards the target tariffs resulted in extensive changes to customer pricing arrangements in 2015-16. From 1 July 2015, all customers paying above the target tariff were immediately brought down to target tariff and those below continued to be progressively brought up to target tariff.

We performed substantive audit procedures to ensure that tariff charges were not materially misstated, which included:

- a recalculation of a selection of tariff charges
- analytical procedures to assess the accuracy of revenue.

Estimation of water usage

Customers with a water connection were invoiced for the volume of water used. However, the timing of invoices will result in water usage from the last meter reading date and the end of the financial year. To account for this usage, TasWater used a complex model to estimate unbilled water usage. The model is subject to a number of assumptions to determine the estimate.

We performed audit procedures to ensure that unbilled water balance was not materially misstated. These procedures included:

- an understanding of assumptions used
- a detailed review of calculations
- analytical procedures to assess the accuracy of the revenue.

Valuation of infrastructure assets

At 30 June 2016, the fair value of infrastructure assets reflected the initial fair value of the assets contributed by the four corporations established under the *Water and Sewerage Corporations Act 2008* on 1 July 2013, determined using an income approach model, plus additions and transfers at cost and less accumulated depreciation and asset disposals since that date. Since 1 July 2013, TasWater had not applied the income model to determine the fair value of infrastructure assets.

In completing our audit procedures we:

- reconciled movements in the carrying value of infrastructure assets
- examined additions and transfers at cost
- assessed the reasonableness of depreciation.

Impairment of infrastructure assets

TasWater reviewed the carrying value of its infrastructure assets to ensure the asset values were not impaired. An asset is impaired if the carrying amount exceeded its recoverable amount. AASB 136 defined the recoverable amount of an asset or a cash-generating unit as the higher of its fair value less costs of disposal and its value in use. To determine value in use, TasWater used an income model.

It is not necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeded the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

In completing our audit procedures we:

- examined valuation scenarios used by TasWater to assess the currency of the current carrying value, which included a review of underlying data, significant assumptions and the valuation model
- assessed an independent external report of the valuation model completed by an expert appointed by TasWater. Our assessment included examining the qualifications and experience of the independent contractor in accordance with applicable auditing standards
- examined management's assessment of the carrying value and any perceived impairment of the balance, which included the treatment of new capital works completed in 2015-16.

In addition, we reviewed relevant disclosure related to property, plant and equipment in the financial statements. We also reviewed the disclosure of critical accounting estimates and judgements in the financial report to ensure compliance with AASB 101 *Presentation of Financial Statements*.

Infrastructure investment

Capital expenditure for infrastructure was budgeted at $110.00m in 2015-16. A review of the capital works program identified a number of major capital projects, which included:

- Ringarooma Valley Treated Water Supply, $8.41m
- Asset Management Information System, $7.20m
- Statewide Supervisory Control and Data Acquisition (SCADA) program, $5.75m
- Flinders Island Treated Water Supply, $5.60m
- Sewerage Treatment Plant Inlet Works, $4.71m
- King Island Treated Water Supply, $1.30m
- Tolosa Dam Replacement Infrastructure, $1.30m.

In completing our audit procedures we:

- verified material capital works to supporting contracts/invoices
- reviewed the process and controls over tendering of capital
- verified the works in progress balance at year-end
- reviewed the disclosure of future commitments.

Freehold land and buildings revaluation

During 2015-16, TasWater appointed an external valuer expert, who undertook a revaluation of its freehold land and buildings. The valuation carried out in accordance with International Valuation Standards and the AASB determined the fair value of the land and buildings at 30 June 2016. The revaluation increased the value of freehold land and buildings by $27.72m.

In undertaking our audit procedures we:

- evaluated the valuation methodology used and work performed by management's expert
- assessed the competence of management's expert in accordance with Auditing Standards
- verified balances recognised as part of the revaluation
- assessed the adequacy of relevant disclosures in the financial report.

Borrowings

TasWater held borrowings of $430.28m at 30 June 2016. We confirmed the loan balance outstanding at 30 June 2016 with its lender Tascorp.

Income tax

TasWater was subject to the National Tax Equivalent Regime. Tax effect accounting calculations are subject to complex tax legislation and rulings and generally are performed within a short timeframe.

As a result, we:

- checked the tax effect calculations
- performed a reconciliation between tax expense and tax paid
- reviewed the disclosure in the notes to the financial statements
- obtained a representation from TasWater's tax expert.

FINANCIAL ANALYSIS

Figure 20 provides a snapshot of TasWater's financial results for 2015–16 in comparison to prior years.

Figure 20: Financial Results

	2015-16		2014-15		2013-14[2]
	$'000s	Ind	$'000s	Ind	$'000s
Financial performance					
Sales revenue	273 196	●	274 727	▲	257 423
Reconciliation underlying result to net profit					
Underlying profit before tax	11 002	▼	25 169	▼	26 990
Customer and developer contributions[3]	26 923	▲	22 213	▲	12 572
Initial recognition of assets	4 866	▲	0	●	0
Asset revaluation decrement	(6 593)	▼	0	●	0
Net profit before tax	**36 198**	▼	**47 382**	▲	**39 562**
Asset Revaluation movement	24 114	▲	0	●	0
Total comprehensive income	**46 688**	▲	**34 452**	▲	**26 857**
Financial position[1]					
Property, plant and equipment	1 985 155	▲	**1 878 388**	●	1 828 452
Borrowings	(430 283)	▲	(365 741)	▲	(332 656)
Net assets	**1 574 712**	●	**1 548 356**	●	**1 536 024**
Returns to owners					
Dividends paid	20 332		22 120		18 647
Guarantee fee paid	2 426		2 341		2 589
Income tax paid	7 242		5 539		7 764
Key financial ratios					
Operating margin	1.0	▼	1.1	●	1.1
Current ratio	0.38	●	0.39	▼	0.45
Return on assets	1.4%	▼	2.2%	●	2.4%
Return on equity	1.6%	▼	2.1%	▲	1.6%
Debt to equity	27.3%	▼	23.6%	▼	21.7%
Debt to total assets	20.5%	▼	18.2%	▼	17.0%
Cost of debt	4.3%	▲	5.0%	▲	5.6%

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. *Assets are positive, liabilities are negative.*
2. *TasWater was formed on 5 February 2013 and commenced operating from 1 July 2013. Consequently, there is no comparative information for 2012-13.*
3 *TasWater receive customer and developer contributions on a recurring basis. The contribution can be either cash or donated assets. Contributions received for no consideration are recognised at fair value. The value of contributions will fluctuate based on developer activity, with TasWater unable to control the amount of contributions it received each year.*

OTHER LOCAL GOVERNMENT ENTITIES

Entities included in this section are:

- Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions (SWS)
- Dulverton Regional Waste Management Authority (DRWMA)
- Cradle Coast Authority (CCA)
- Local Government Association of Tasmania (LGAT) established under the LGA
- Northern Tasmania Development Association Inc. (NTDAI)
- Southern Tasmanian Councils Authority (STCA)
- Southern Waste Strategy Authority (SWSA).

Both SWS and DRWMA were equity accounted by the councils that had an equity interest in those entities. This means that, following initial recognition, the carrying amount of the investment in SWS or DRWMA was increased or decreased to recognise each participating council's share of the joint authority's operating result, with a corresponding amount recognised in each council's profit or loss. Distributions received from the joint authority reduce the carrying amount of the investment.

Transactions and balances of the remaining five entities are generally not recorded or consolidated in councils' financial statements.

Key results and developments

Collectively, Other Local Government entities (excluding TasWater) controlled Net assets valued at $22.06m at 30 June 2016.
They reported a combined Underlying Surplus of $3.00m.
DRWMA returned $1.23m to its owner councils in dividends and tax equivalents.
SWS is expected to develop the State's first C waste cell.
SWSA will cease operations in December 2016, when all operational commitments are expected to be finalised.

Conclusion

All entities submitted their financial statements within the statutory deadline. Unqualified audit reports were issued in all cases.

Audits were completed satisfactorily, with no new key findings reported to management. In 2014-15 a recommendation was made to LGAT concerning the valuation of buildings, including improvements, owned and occupied by LGAT. This matter was resolved during the current year.

Key matters considered during the audits

SWS

SWS is expected to develop the State's first C waste cell. The initial development is anticipated to cost $6.00m with forecast completion in April 2017. As at 30 June 2016 SWS recognised a receivable from the State Government for $2.00m. The remainder of the development is expected to be funded by Clarence City Council which is to invest a further $1.60m and provide a loan to SWS for $2.40m.

Southern Waste Strategy Authority

SWSA will cease operations in December 2016 when all operational commitments are expected to be finalised. In an effort to reduce held funds prior to winding up, the Board decided not to charge subscriptions to the member councils. As a result, SWSA reported only $0.01m in income and a net deficit of $0.16m in 2015-16. Remaining funds on wind-up will be transferred to a trust account held by Glenorchy City Council and then distributed to remaining member councils in accordance with the Authority's rules.

Financial analysis

The following table summarises the financial results and position of Other Local Government entities for 2015-16.

Table 14: Financial Results

	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Comprehensive surplus (deficit) $'000s	Net Assets 2016 $'000s	Net Assets 2015 $'000s
SWS	500	339	339	4 118	3 779
DRWMA	2 775	1 941	2 424	10 907	8 884
CCA	42	42	42	2 290	2 248
LGAT (including LGAT Assist)	(226)	(226)	(226)	4 288	4 521
NTDAI	36	36	36	163	127
STCA	34	34	34	239	205
SWSA	(157)	(157)	(157)	52	209
Total	**3 004**	**2 009**	**2 492**	**22 057**	**19 973**

A review of the financial results of these entities for 2015-16 identified the following:

- the two waste management authorities (SWS and DRWMA) controlled Net assets totalling $15.03m at 30 June 2016 and reported a combined Underlying Surplus of $3.28m for the year
- DRWMA returned $1.23m to its owner councils in dividends, $0.40m, and tax equivalents, $0.83m
- the remaining five entities collectively controlled Net assets valued at $7.03m at 30 June 2016.

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 four volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Treasurer's Annual Financial Report, General Government Sector and Other State entities 2015-16

Volume 2 – Government Business 2015-16

Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16

Volume 4 – University and Other State Entities - 31 December 2016.

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.

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying surplus (Deficit)		Operating Revenue less Operating Expenses
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	Low risk>60% Moderate risk 40% to 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
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
Capital replacement gap, asset renewal ratio or renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Working capital ratio (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)		Liquid assets less total liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income
Net working capital		Current assets less current liabilities
Returns to Government		
CSO funding		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Dividends paid or payable		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		Amount of guarantee fees paid to owners (usually Government)
Income tax paid		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 or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE		Total employee annual and long service leave entitlements divided by FTEs
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 cost per FTE[2]		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised		Capitalised employee costs
Employee costs expensed		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses 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
Other Information		
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 entitlement.*

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 the 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 an entity 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 an entity'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** – 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.

OTHER INFORMATION

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

- **Employee costs expensed** – represents the level of employee costs expensed, ie. included in the Comprehensive Income Statement. This together with the Employee costs capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents.

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 FINDING – RISK CATEGORIES

In reporting audit finding to clients, we determine 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.

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.

Combined employee costs

For the purpose of this Report, combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government is responsible.

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.

Contributions from the State

Transactions in which one State entity provides goods, services, assets (or extinguishes a liability) or labour to another State entity without receiving approximately equal value in return. Grants can either be of a current or capital nature.

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.

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.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume 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.

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.

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 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.

Impairment loss

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

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.

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.

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.

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.

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.

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.

Operating cycle

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

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

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.

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.

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.

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.

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 Corporation
- 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 corporation

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.

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.

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 (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.

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ANAO	Australian National Audit Office
ASA	Australian Auditing Standard
BLW	Ben Lomond Water
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMW	Cradle Mountain Water
CPI	Consumer Price Index
Cth	Commonwealth
DBP	Defined Benefit Pension
DORC	Depreciated Optimised Replacement Cost
DRC	Depreciated Replacement Cost
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EOI	Expression of Interest
FPM	Financial Procedures Manual
FTE	Full-time Equivalent
GST	Goods and Services Tax
HR	Human Resources
IAASB	International Auditing and Assurance Standards Board
IPSASB	International Public Sector Accounting Standards Board
IT	Information Technology
KAM	Key Audit Matter
KMP	Key Management Personnel
KPI	Key Performance Indicators
LGAT	Local Government Association of Tasmania
LSL	Long Service Leave
NDRRA	Natural Disaster Relief and Recovery Arrangements
OTTER	Office of the Tasmanian Economic Regulator
RAB	Regulated Asset Base
SG	Superannuation Guarantee
SLA	Service Level Agreement
SPFR	Specific Purpose Financial Reports
SW	Southern Water
TASCORP	Tasmanian Public Finance Corporation
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TI	Tasmanian Irrigation Pty Ltd
WACC	Weighted Average Cost of Capital
WIP	Work in Progress

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APPENDIX 4 - RECENT PUBLICATIONS

Tabled	No.	Title
2015		
July	No. 1 of 2015-16	Absenteeism in the State Service
August	No. 2 of 2015-16	Capital works programming and management
October	No. 3 of 2015-16	Vehicle fleet usage and management in other state entities
October	No. 4 of 2015-16	Follow up of four reports published since June 2011
November	No. 5 of 2015-16	Volume 2 – Audits of General's Report on the Financial Statements of State entities - Government Business 2014-15
November	No. 6 of 2015-16	Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15
December	No. 7 of 2015-16	Volume 1 – Analysis of the Treasurer's Annual Financial Report 2014-15
2016		
February	No. 8 of 2015-16	Provision of social housing
February	No. 9 of 2014-15	Funding of Common Ground Tasmania
May	No. 10 of 2014-15	Volume 4 – State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters
June	No. 11 of 2014-15	Compliance with legislation
August	No. 1 of 2016-17	Ambulance emergency services
October	No. 2 of 2016-17	Workforce Planning
October	No. 3 of 2016-17	Annual Report
November	No. 4 of 2016-17	Event Funding
November	No. 5 of 2016-17	Park Management
November	No. 6 of 2016-17	Volume 1 – Analysis of the Treasurer's Annual Financial Report 2015-16
November	No. 7 of 2016-17	Volume 2 – Audits of General's Report on the Financial Statements of State entities - Government Business 2015-16

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

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Tasmanian Audit Office

Our Vision

Strive | Lead | Excel | To Make A Difference

Our Purpose

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

Availability of reports

Auditor-General's reports and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact the Office.

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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.

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