Tasmanian
Audit Office

# Report of the Auditor-General No. 7 of 2014-15

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

## Volume 4

## Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14

### Part I: Key Points, Joint Authorities, TasWater and Other Matters

February 2015

Strive • Lead • Excel | To Make a Difference

## THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, 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.

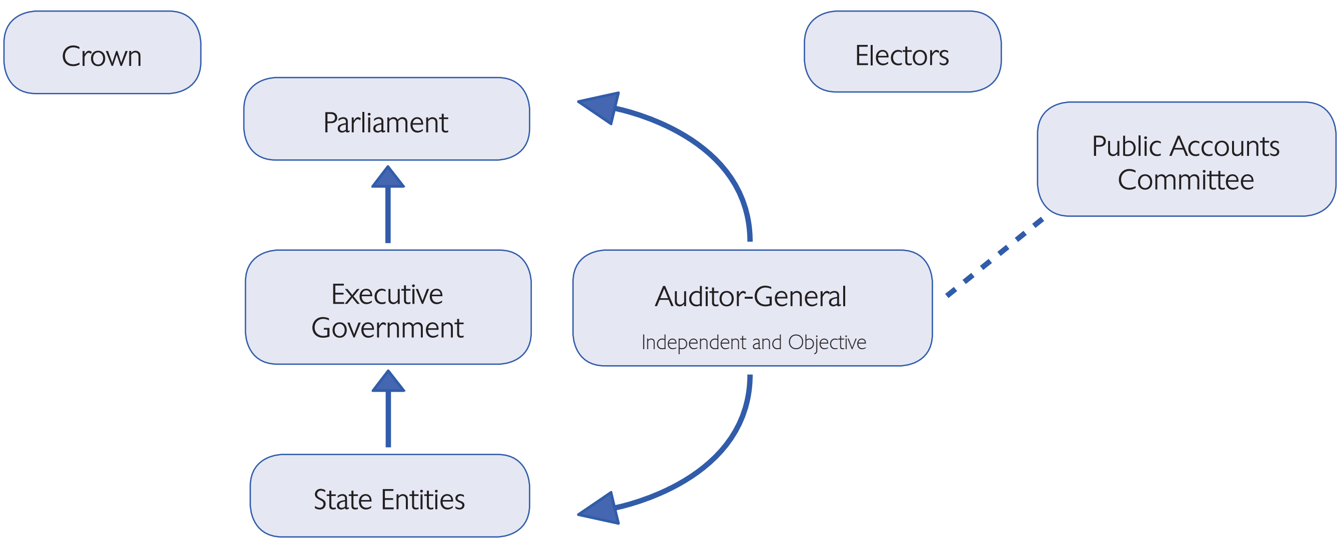
We can also carry out investigations but only relating to public money or to public property.

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

2015

PARLIAMENT OF TASMANIA

# Report of the Auditor-General No. 7 of 2014-15

## Volume 4

Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14, Part I: Key Points, Joint Authorities, TasWater and other matters.

## February 2015

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:

Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001
Phone: (03) 6226 0100, Fax (03) 6226 0199
Email: admin@audit.tas.gov.au
Website: www.audit.tas.gov.au

ISSN 1327 2608

This report is printed on FSC Mix Paper from responsible sources.

Tasmanian
Audit Office

Level 4, Executive Building, 15 Murray Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6226 0100 | Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

19 February 2015

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

**Report of the Auditor-General No. 7 of 2014-15, Auditor-General's Report on the Financial Statements of State entities, Volume 4 – Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14, Part I: Key Points, Joint Authorities, TasWater and other matters.**

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 4 - Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14, Part I: Key Points, Joint Authorities, TasWater and other matters.

Yours sincerely

H M Blake
Auditor-General

# FOREWORD

This Volume details findings from financial audits of 29 local government councils for the year ended 30 June 2014 and our assessments of their financial sustainability. Also included are outcomes from our audits of the financial statements of local government joint authorities and Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater).

In the Tasmanian context, local government councils manage significant revenues, expenditures and investments in infrastructure. In the year ended 30 June 2014, operating revenues totalled $0.706bn, operating expenses $0.707bn, investment in new assets was $0.214bn and physical non-current assets at 30 June 2014 were $8.465bn. Cash holdings totalled $0.305bn.

Local government joint authorities, excluding the Local Government Association of Tasmania, in the year ended 30 June 2014 had Total Revenue $18.559m, Total Expenses $17.487m, Total Assets $28.693m and Total Liabilities $14.417m. Cash holdings totalled $7.767m.

TasWater is included in this Volume for the first time because from 1 July 2013 it was classified in the local government sector. It commenced trading on 1 July 2013 following the amalgamation of three regional water and sewerage corporations and their common services provider. Its Net Profit after Taxation was $27.236m for 2013-14 and it returned $29.000m 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 $1.828bn at 30 June 2014.

My assessments as to the financial sustainability of councils were based on their financial performance, asset management and liquidity related ratios and governance aspects as these relate to audit committees and long-term asset and financial management plans. My conclusion was that financial performance has not shown any signs of significant improvement over the past four years with still too many councils incurring operating deficits. Governance arrangements were better as expected given the Ministerial Orders issued in February 2014 requiring councils to establish audit panels, develop long-term financial and asset management strategies, policies and plans. Asset management continued to improve, and at 30 June 2014, liquidity of all councils was strong. Overall, it is my view that all councils are financially sustainable but improvements are needed in some areas.

This Report also includes, for the first time, separate commentary on local government operational efficiency by providing a high level comparison of all 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.

A follow-up audit found that the majority of councils adopted, or were already applying, most recommendations made in my Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*. Also pleasing was that my recommendations made in 2008-09 in relation to rating procedures led to constructive amendments to legislation.

My Report also includes discussion about how councils, in their capacity as lessors, are complying with accounting standards and the *Local Government Act 1993* regarding leasing and procurement practices adopted by councils who participated in the Commonwealth's digital project.

H M Blake

Auditor-General

19 February 2015

# TABLE OF CONTENTS

## PART I

## PART II

# INTRODUCTION

## SCOPE OF THIS REPORT

This Report deals with the outcomes from completed financial statement audits of Local Government Councils reporting for the financial year ended 30 June 2014.

Also included are outcomes from completed financial statement audits of seven Local Government Business Units and TasWater.

The Report includes, in Part A of this Volume, separate Chapters dealing with:

- common areas of audit attention, financial sustainability, operational efficiency and comparative analysis, implementation of Ministerial Orders and accounting for infrastructure asset recommendations. These Chapters include all councils
- how relevant councils accounted for or managed lease incentives, the local government digital project, compliance with the rating procedures in the *Local Government Act 1993* and the impact of the amalgamation of TasWater.

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

## FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 18 February 2015.

In addition to this Introduction, this Report includes:

- Part I:
    - Key Points
    - Areas of Audit Attention
    - Infrastructure Financial Accounting in Local Government
    - Lease Incentives – Councils as Lessors
    - Local Government Comparative Analysis
    - Local Government Digital Project
    - Local Government Financial Sustainability
    - Local Government Operational Efficiency
    - Ministerial Orders
    - Rating Procedures – Compliance with the *Local Government Act 1993*
    - Tasmanian Water and Sewerage Corporation Pty Ltd
    - Impact of Establishing TasWater
    - Local Government Business Units
- Part II:
    - Local Government Councils categorised as:
        - Major city councils
        - Medium councils
        - Small councils.

## PRESENTATION OF FINANCIAL INFORMATION - COUNCILS

The review and analysis of the financial statements of councils covers the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and Financial Analysis. Our review of the financial statements usually covers four financial periods which represents council operations after the transfer of responsibilities for water and sewerage activities. The financial analysis section of each Chapter also includes an examination of four years of data.

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

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

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

## KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention are included in the Report to assist Parliamentarians and other users to understand our approach in auditing councils and other Local Government Business Units.

The identification of these areas, which are considered 'risks' associated with the entity's operations, ensure audit resources are allocated efficiently and effectively.

## INFRASTRUCTURE FINANCIAL ACCOUNTING IN LOCAL GOVERNMENT

Our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* made 22 recommendations aimed at improving how councils manage their infrastructure. In Report we follow up actions taken by councils.

## LEASE INCENTIVES – COUNCILS AS LESSORS

This Chapter discusses the requirements of:

- Australian Accounting Standards 117 Accounting for Leases focussing on those situations where councils are lessors
- Interpretation 115 Operating Leases – Incentives
- Australian Accounting Standard 140 Investment Properties
- Section 77 Grants and Benefits of the Local Government Act 1993.

## COMPARATIVE ANALYSIS

This Report again includes a Chapter comparing the performance of councils using a number of point in time indicators.

## DIGITAL PROJECT

The Australian Government's Department of Broadband Communications and the Digital Economy provided funding to nine councils under this project. This Chapter summarises our findings of whether or not these councils complied with the *Local Government Act 1993* in expending funds provided.

## FINANCIAL SUSTAINABILITY RATIOS

The ratios applied in assessing the financial sustainability of councils have remained unchanged from our 2013 Report. While not a ratio, we have continued assessing applicable governance arrangements as a criteria when assessing financial sustainability. Details of the ratios, governance arrangements considered and criteria are outlined in the Chapter headed "Local Government Financial Sustainability".

## OPERATIONAL EFFICIENCY RATIOS

Measures of operational efficiency of councils have been included in the Comparative Analysis section of this Volume in prior years but without separate commentary. This year we provide further analysis of five operational ratios. Details of the ratios are outlined in the Chapter headed "Local Government Operational Efficiency".

## MINISTERIAL ORDERS

In February 2014 Ministerial Orders were gazetted requiring councils to establish audit panels, develop long-term financial and asset management strategies, policies and plans and to report certain financial management indicators. This Chapter reviews councils' performance in implementing these requirements.

## RATING PROCEDURES

We reviewed council rating practices in 2008-09 and at that time reported our findings to the Department of Premier and Cabinet. This Chapter summarises actions taken since then.

## TASWATER

The ABS classified TasWater into the Local Government Sector for financial reporting purposes and as a result it is now included in this Volume under the Chapter headed "Tasmanian Water and Sewerage Corporation Pty Ltd". In addition a Chapter titled "Impact of Establishing TasWater" has been included to cover the impact of the transfer of Tasmania's 29 Council's shareholdings in the former water corporations to TasWater.

## SUBMISSIONS AND COMMENTS RECEIVED

All councils were given the opportunity to provide us with comments, for inclusion in their respective chapters, on our "Conclusions as to financial sustainability and operational efficiency". Their comments have been included where received. Comments provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response or comment. However, where in our view appropriate, our comments were amended to take into account observations provided.

# KEY POINTS

The summary below notes the key points identified in this Report.

Page

## PART I

### Infrastructure Financial Accounting in Local Government — 22

The majority of the 29 councils adopted, or were already applying, most recommendations apart from Recommendation 22 which concerned the need to recognise land under roads at fair value, regardless of when the land was acquired.

Key changes resulting from the Infrastructure Report included:

- decreased use of residual values
- greater use of componentisation to reflect assets with different estimated useful lives
- increased capitalisation of gravel re-sheeting of unsealed roads.

### Lease Incentives - Councils as Lessors — 28

Following an independent request we reviewed compliance by councils with section 77 *Grants and benefits* of the *Local Government Act 1993* and accounting requirements dealing with leases where councils are lessors.

**Recommendation**

*We recommend that, where relevant and material, councils comply with the requirements of AASB 117, AASB 140 and Section 77 of the Local Government Act 1993 as this applies to accounting for leasehold properties, lease incentives provided and peppercorn or nil rental benefits provided.*

### Local Government Comparative Analysis — 31

Twelve councils recorded a net Underlying Deficit in 2013-14. Combined Underlying Deficits totalled $1.656m.

Most councils managed working capital effectively and can meet their short-term commitments from existing current assets.

For the 29 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 134.8% indicating most councils were re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100%.

### Local Government Digital Project — 42

Sorell, George Town and Glamorgan Spring Bay Councils failed to comply with the tendering requirements of the *Local Government Act (1993)* (The Act) for the supply of goods and services greater than $100 000.

**Recommendations**

*We recommended that:*

- *Councils seek tenders for all goods and services at or over the prescribed amount of $100 000.*
- *Where a council seeks to take advantage of the exemptions available in section 27(1), it obtain legal advice to support its interpretation of the regulations.*
- *Where the regulations require specific actions, councils ensure they meet these requirements.*

## Local Government Financial Sustainability 45

Fifteen of the 29 councils, over the eight year period of review, averaged an Operating surplus ratio below the benchmark of zero, which is too high. Twelve recorded Operating deficits in 2013-14.

Nineteen councils have implemented asset management and financial management plans in accordance with the requirements of the Ministerial Orders, 18 of which equalled or bettered the benchmark for the Asset renewal funding ratio of 90-100%.

Councils, in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from financial operating and asset management perspectives but low risk from a net financial liabilities perspective.

**Recommendation**

*We recommend that all councils develop plans with the objective of achieving positive Operating surplus ratios.*

## Local Government Operational Efficiency 61

This chapter highlights operational efficiency of councils by comparing rates per rateable property, rates per head of population, operating costs per rateable property, average staff costs per FTE and FTEs per head of population. We note variations between councils many of which were not unexpected.

## Ministerial Orders 68

We assessed, not audited, compliance with three Orders issued in February 2014. We found that 12 of the 29 Councils fully complied with all three Orders, with another six Councils at least partially complying with all three.

There were 11 councils who had still to start implementing at least one of the Orders.

## Rating Procedures - Compliance with the Local Government Act (1993) 74

This chapter summarises our findings and actions taken as a result of a review conducted in 2008-09. Importantly, an amendment to this Act in 2011-12 validated potential contraventions to the rating provisions we identified in 2008-09.

## Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) 76

TasWater commenced trading on 1 July 2013 and generated an Underlying Profit (before contributions, other transactions and taxation) of $26.990m.

Net Assets taken over were recorded at a write down of $231.645m on transfer with the main decrease resulting from revised assumptions applied in valuing infrastructure assets.

## Impact of Establishing TasWater 88

TasWater's Net Assets at 30 June 2014, $1.536bn, were $223.432m lower than the combined Net Assets of the previous four corporations.

Total Investments held in TasWater by councils decreased in line with the reduction in TasWater's Net Assets at 30 June 2014. This reduction impacted upon councils differently, based upon their new proportional ownership in TasWater.

Southern and northern councils' shares decreased and as a result they recognised a reduction in their investment of $179.052m and $67.789m respectively. North-west councils had an increase in their share which resulted in higher investments of $24.063m.

Total distributions received by councils from TasWater were $29.000m in 2013-14, which was higher by $5.318m than those received in 2012-13.

# PART II

## Major Councils 7

### Clarence City Council 8

Recorded an Underlying Surplus of $3.542m in 2013-14.

At 30 June 2014, its Net Assets were $590.747m.

Was at moderate financial sustainability risk from an asset management perspective, but low sustainability risk from financial operating, net financial liability and governance perspectives.

### Glenorchy City Council 19

Recorded an Underlying Deficit of $5.565m in 2013-14. Underlying deficits were reported in all four years under review.

As at 30 June 2014, its Net Assets were $678.504m.

Was at moderate financial sustainability risk from financial reporting and asset management perspectives but low financial sustainability risk from financial liabilities and governance perspectives.

### Hobart City Council 30

Recorded an Underlying Surplus of $3.553m in 2013-14.

At 30 June 2014, its Net Assets were $874.690m.

Was at low financial sustainability risk from asset management, net financial liabilities, governance and financial operating perspectives.

### Launceston City Council 42

Recorded an Underlying Deficit of $2.755m in 2013-14. Underlying deficits were reported in all four years under review.

At 30 June 2014, its Net Assets were $1.467bn.

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

## Medium Councils 53

### Brighton Council 54

Recorded an Underlying Deficit of $0.140m in 2013-14.

At 30 June 2014, its Net Assets were $178.514m.

Recognised land under roads, $12.290m, for the first time in 2013-14.

Was at a moderate financial sustainability risk from a governance perspective and low risk from net financial liabilities, asset management and financial operating perspectives. However, because of a number of downward financial trends, Council needs to closely monitor its financial performance and position.

## Burnie City Council 66

Recorded an Underlying Deficit of $1.920m in 2013-14.

At 30 June 2014, its Net Assets were $359.442m.

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

## Central Coast Council 80

Recorded an Underlying Surplus of $0.345m in 2013-14.

At 30 June 2014, its Net Assets were $443.335m.

Recognised land under roads, $25.006m, for the first time in 2013-14.

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

## Derwent Valley Council 91

Recorded an Underlying Surplus of $1.021m in 2013-14.

At 30 June 2014, its Net Assets were $93.068m.

The Net Surplus for the year, $0.593m, was significantly influenced by the sale of Willow Court Oval, $0.535m.

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

## Devonport City Council 101

Recorded an Underlying Surplus of $1.085m in 2013-14.

At 30 June 2014, its Net Assets were $452.243m.

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

## Huon Valley Council 112

Recorded an Underlying Surplus of $0.646m in 2013-14.

At 30 June 2014, its Net Assets were $214.403m.

The Net Deficit, $2.718m, was largely influenced by the transfer of the Esperance Multi-Purpose Health Centre's assets to a not-for-profit organisation for no consideration.

Was at low financial sustainability risk from financial operating, asset management, net financial liabilities and governance perspectives.

## Kingborough Council 122

Recorded an Underlying Surplus of $0.163m in 2013-14.

At 30 June 2014, its Net Assets were $573.470m.

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

## Meander Valley Council 134

Recorded an Underlying Surplus of $0.672m in 2013-14.

At 30 June 2014, its Net Assets were $234.787m.

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

## Northern Midlands Council 144

Recorded an Underlying Surplus of $0.070m in 2013-14.

At 30 June 2014, its Net Assets were $258.899m.

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

## Sorell Council 154

Recorded an Underlying Surplus of $1.670m in 2013-14.

At 30 June 2014, its Net Assets were $215.856m.

Completed the construction of its new council chambers during the year, costing $5.280m, and received an insurance claim of $0.975m for the Dunalley hall destroyed in the 2013 bushfires.

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

## Waratah-Wynyard Council 165

Recorded an Underlying Deficit of $1.658m in 2013-14.

At 30 June 2014, its Net Assets were $181.406m.

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

## West Tamar Council 176

Recorded an Underlying Surplus of $0.625m in 2013-14.

At 30 June 2014, its Net Assets were $273.423m.

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

## Small Councils 186

### Break O'Day Council 187

Recorded an Underlying Surplus of $0.078m in 2013-14.

At 30 June 2014, its Net Assets were $148.698m.

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

### Central Highlands Council 197

Recorded an Underlying Deficit of $0.849m in 2013-14.

At 30 June 2014, its Net Assets were $139.662m.

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

### Circular Head Council 207

Recorded an Underlying Deficit of $1.438m. Council reported underlying deficits in all four years under review and its Operating ratio is heading in the wrong direction.

At 30 June 2014, its Net Assets were $164.425m.

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

### Dorset Council 220

Recorded an Underlying Deficit of $0.512m in 2013-14.

At 30 June 2014, its Net Assets were $183.340m.

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

### Flinders Council 231

Recorded an Underlying Deficit of $1.883m in 2013-14. Underlying deficits were reported in all four years under review.

At 30 June 2014, its Net Assets were $52.447m.

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

## George Town Council 241

Recorded an Underlying Surplus of $0.226m in 2013-14.

At 30 June 2014, its Net Assets were $120.806m.

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

## Glamorgan Spring Bay Council 251

Recorded an Underlying Surplus of $0.218m in 2013-14.

At 30 June 2014, its Net Assets were $105.424m.

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

Purchased the former call centre in Triabunna and converted it into new council chambers at a cost of $0.951m.

## Kentish Council 264

Recorded an Underlying Surplus of $0.354m in 2013-14.

At 30 June 2014, its Net Assets were $114.405m.

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

## King Island Council 276

Recorded an Underlying Deficit of $0.176m in 2013-14. Underlying deficits were reported in all four years under review.

At 30 June 2014, its Net Assets were $68.936m.

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

## Latrobe Council 286

Recorded an Underlying Surplus of $1.060m in 2013-14.

At 30 June 2014, its Net Assets were $169.086m.

Took over the control of the Axeman's Hall of Fame, valued at $1.280m.

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

## Southern Midlands Council 298

Recorded an Underlying Deficit of $0.193m in 2013-14. Underlying deficits were reported in all four years under review.

At 30 June 2014, its Net Assets were $99.096m.

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

## Tasman Council 310

Recorded an Underlying Surplus of $1.034m in 2013-14.

At 30 June 2014, its Net Assets were $49.043m.

Council recognised land under roads, $2.531m, for the first time in 2013-14.

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

## West Coast Council 320

Recorded an Underlying Deficit of $0.929m in 2013-14.

At 30 June 2014, its Net Assets were $104.862m.

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

# AREAS OF AUDIT ATTENTION

## INTRODUCTION

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

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

These and other factors influence audit plans and identification of areas for particular audit attention. In almost all cases, there will be common areas requiring audit attention and these are noted in this Chapter. Not included, however, are the following areas that received audit attention this year and which are dealt with in separate chapters in this Volume:

- compliance by councils with the requirements in Ministerial Orders issued in February 2014
- compliance by councils with our *Infrastructure Financial Accounting on Local Government* Report tabled in the Parliament in December 2013
- impact on councils of the decision by TasWater to write down the carrying amount of its infrastructure assets on 1 July 2013.

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

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

## COMMON AREAS OF AUDIT ATTENTION

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

| Description of Area | Audit Approach |
|---|---|
| Councils have significant capital works and maintenance expenditure programs. | We:<br>• undertook audit procedures aimed at ensuring capital and maintenance expenditure was appropriately accounted for and disclosed<br>• where material, reviewed tender and contract policies and tested procedures in place at councils for compliance with the *Local Government Act 1993*. |
| Councils hold significant balances in term deposits. Cash and cash equivalents by nature are liquid assets and are highly susceptible to fraud. | We:<br>• tested placement of investments and obtained confirmations at year end<br>• performed audit procedures over completeness of cash to ensure that all deposits were brought to account. |
| Councils' major revenue is derived from rates and related charges which are calculated on individual properties. | We:<br>• substantiated rates by reconciling councils' rateable and non-rateable AAV to the Valuer-General's AAV total and re-calculated these and other charges<br>• assessed forecast rate increases as part of analytical review procedures over rates and charges for the period, building on changes from the prior period into our expectations. |
| Councils have a wide range of revenue streams that make up their user charges revenue. This can include several locations where cash receipts are handled. | We documented and assessed controls over various cash receipting locations on a rotating basis (where applicable).<br>Key revenue and receipting controls over revenue transactions throughout the period where tested for compliance in accordance with our controls testing plan. |
| Councils receive significant funds from the Australian Government, through the State Grants Commission, in the form of financial assistance grants. Such financial assistant grants are provided for general purpose use and for the provision of local roads. | Audit confirmed such balances via external confirmations, obtained from the Department of Treasury and Finance, and reconciled these balances to the financial statements. |
| Staff within councils are able to place orders for goods and services under various delegation limits and centralised payment processing systems. These arrangements require effective internal controls including separation between ordering and approval processes. | Audit testing included:<br>• detailed analytical procedures performed over expenditure accounts against prior year and budget<br>• Understanding key controls over payment and expenditure transactions and subjecting these to audit tests throughout the period. |

| Description of Area | Audit Approach |
|---|---|
| Councils employ a large number of employees, on differing rates of pay, and employee expenses is a significant expenditure item. A number of employees complete timesheets which increases the complexity of the payroll process. | Audit testing included:<br>• detailed analytical procedures performed over wages and salary accounts, based upon average full time equivalent employee numbers<br>• verifying that key controls over payroll transactions were complied with throughout the period. |
| Annual leave and long service leave (LSL) balances are material in most councils. Calculations of LSL and some annual leave liabilities are based on a number of assumptions and, where applicable, discounting is applied. | Employee provision calculations were tested for accuracy and reasonableness. We also tested the allocation between current and non-current liabilities. |
| Councils process a number of journal entries within their finance systems to manage transactions, adjust account balances or correct misallocations. | Audit tested a sample of general journals posted throughout the year, to ensure that these journals represented valid transactions and were supported by adequate documentation. |

# INFRASTRUCTURE FINANCIAL ACCOUNTING IN LOCAL GOVERNMENT

## SNAPSHOT

- The Infrastructure Report made 23 recommendations, 22 of which were relevant to councils.
- The majority of the 29 councils adopted, or were already applying, most recommendations apart from Recommendation 22 which concerned the need to recognise land under roads at fair value, regardless of when the land was acquired.
- Other than Recommendation 22, the principal areas of non-compliance related to:
  - inadequate componentisation of assets, particularly the separate identification and recognition of road pavement sub-base and base and road earthworks
  - lack of formal documentation to support councils' methodologies surrounding the annual review of accounting estimates and approval by General Managers
  - non-disclosure of the value of capital renewal and capital new/upgrade expenditure by asset class in financial statements
- Key changes resulting from the Infrastructure Report included:
  - decreased use of residual values
  - greater use of componentisation to reflect assets with different estimated useful lives
  - increased capitalisation of gravel re-sheeting of unsealed roads.

## INTRODUCTION

An independent expert was appointed by us to review (the Review) approaches to the valuation and depreciation of long-lived infrastructure assets, including the use of residual values and compliance with Australian Accounting Standards (AAS), by local government councils. The outcomes of the Review were reported in Report of the Auditor-General No. 5 2013-14 *Infrastructure Financial Accounting in Local Government*, tabled in December 2013 (referred to here as the Infrastructure Report).

The Review was aimed at addressing concerns in local government asset management and financial accounting and reporting. The Infrastructure Report's recommendations reflected requirements of AAS and the asset management practices of local governments in Australia. By not implementing its recommendations, councils may be at risk of breaching the requirements of AAS and/or its practices lagging behind best practice, potentially resulting in lack of consistency and comparability of financial reporting by Tasmanian councils.

The Infrastructure Report made 23 recommendations, of which 22 were relevant to councils. Adoption of the relevant recommendations was followed up during 2013-14 council audits.

## ACTION TAKEN BY US DURING 2013-14 AUDITS OF FINANCIAL STATEMENTS

During our 2013-14 audits of local government financial statements, we undertook additional procedures to follow-up the recommendations made in the Infrastructure Report. These procedures included enquiry of council staff and review of asset registers, policies and procedures to determine if all 22 recommendations relevant to councils were adopted.

Table 1 provides a summary of the adoption of each recommendation.

### Table 1: Extent to which our recommendations were adopted by councils

| Recommendation | Number of Councils Not Adopting Recommendation |
|---|---|
| 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. | 8 |
| 2. Assets should be recognised at cost based on a modern equivalent asset. Donated or contributed assets should be recognised at fair value in accordance with Accounting Standards. Periodic revaluations of infrastructure assets should be based on the amount required currently to replace the service capacity of the asset. | 1 |
| 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 |
| 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 re-valued as modern equivalent assets being the cost that is required currently to replace the service capacity of an asset. | 4 |
| 5. Useful lives should be assigned to all infrastructure related assets with the exception of land and certain earthworks with the characteristics of land. The assessment of useful life should be based on engineering reviews of expected physical wear and tear and technological and commercial obsolescence of the asset. | 2 |
| 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. | 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. | 3 |
| 8. The condition of assets is only one of several factors that should be used to predict the remaining useful life of assets used for calculating depreciated replacement cost and depreciation. Condition should not on its own be used to directly determine the value of depreciation or depreciated replacement cost. | 0 |
| 9. Councils should adopt a consistent, systematic methodology to grade and report on the condition of infrastructure. | 1 |
| 10. Assets that have an expected useful life should be depreciated over the estimated useful life in a manner that represents the pattern of consumption of future economic benefits embodied in the asset. The consumption of future economic benefits is related to the consumption of service potential and not to the physical condition of assets. | 0 |

| Recommendation | Number of Councils Not Adopting Recommendation |
|---|---|
| 11. The depreciation method should be assessed annually to ensure that it continues to represent the underlying pattern of consumption of future economic benefits embodied in the asset. | 1 |
| 12. Road and other assets should be derecognised (written off) when the asset is replaced or renewed. | 3 |
| 13. Councils:<br>• recognise resheeting of unsealed roads as capital expenditure<br>• with a relatively small expenditure on resheeting unsealed roads should consider capitalisation of unsealed road resheeting as a network asset(s) for resheeting completed in the reporting period<br>• the network asset(s) for each period should be depreciated over the estimated useful life and derecognised at the end of the useful life. | 1 |
| 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. | 3 |
| 15. Councils should undertake an annual review of accounting estimates as required by Australian Accounting Standards, 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 |
| 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 |
| 17. The value of capital renewal and capital new/upgrade expenditure by asset class should be disclosed in financial statements. | 8 |
| 18. The residual values for infrastructure assets should be disclosed in the financial statements. | 0 |
| 19. Management assessments and decisions which impact the financial statements should be supported by appropriate and sufficiently reliable, precise and detailed documentation. | 2 |

| Recommendation | Number of Councils Not Adopting Recommendation |
|---|---|
| 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:<br>• Operating surplus ratio<br>• Asset sustainability ratio<br>• Asset renewal funding ratio<br>• Road asset consumption ratio<br>• Net financial liabilities ratio. | 3 |
| 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. | 3 |
| 22. Councils recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads*, regardless of when the land was acquired. Councils should approach the Tasmanian Valuer-General 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. | 17 |

As illustrated in Table 1, the majority of the 29 councils adopted, or were already applying, most recommendations from the Infrastructure Report, apart from Recommendation 22. Recommendations with lower rates of adoption were:

- Recommendation 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*

  This recommendation was not adopted by eight councils. The principal areas of non-compliance related to councils not separately identifying pavement sub-base and base as components of a road and not recognising road earthworks as a component, where material. While most councils indicated they intend to adopt the recommendation in 2014-15, some councils advised that their engineering staff will consider, but may not adopt the recommendation. We will perform follow-up procedures in 2014-15 as we believe that pavement sub-base and base and earthworks should be identified and recorded as separate components of a road asset.

- Recommendation 15 – *Councils should undertake an annual review of accounting estimates as required by Australian Accounting Standards, 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*

  Although this recommendation was not adopted by five councils, we found that annual reviews of accounting estimates were undertaken. The primary aspect of non-compliance related to the lack of formal documentation to support councils' methodologies and approval by General Managers.

- Recommendation 17 – *The value of capital renewal and capital new/upgrade expenditure by asset class should be disclosed in the financial statements*

  This recommendation was not adopted by eight councils. In accordance with the requirements of the Local Government Ministerial Orders issued in February 2014, councils were required to disclose financial sustainability indicators including an asset sustainability ratio. This represents renewal and upgrade expenditure on existing assets divided by depreciation on existing assets. All councils complied with this requirement.
  However, the Infrastructure Report recommended additional disclosure showing the value of capital renewal and capital new/upgrade by asset class as this provides further information relating to the asset sustainability ratio.

- Recommendation 22 - *Councils recognise the value of all land under roads at fair value, regardless of when the land was acquired*

  This recommendation was not adopted by 17 councils. These councils complied with AASB 1051 *Land Under Roads* by recognising material land under roads subsequent to reporting periods ending on or after 31 December 2007, but they did not recognise all land under roads.
  We noted that councils liaised with the Valuer-General who provided each council with unit rates for various classifications of land within respective municipalities. Several councils chose not to recognise land under roads based on these rates due to concerns over the variability of the rates and difficulties in matching the Valuer-General's classifications to the types of land contained in the asset registers of the councils. In these cases, councils indicated that they would undertake further investigation and possible consultation with the Valuer-General to enable recognition of all land under roads in future.

Recommendations that were not adopted were reported to management for further consideration. Reference should be made to individual council chapters for further detail. It is our intention to follow-up the implementation of these recommendations in 2014-15.

As previously noted, the aim of the Review was to improve consistency and comparability of financial reporting across local government. One of our main concerns was the increased use of residual values for long-lived infrastructure assets, particularly roads, and the impact on annual depreciation charges. As a result of the recommendations made in the Infrastructure Report, a number of councils chose to remove existing residual values. This is discussed in more detail in the Residual Values section below.

## OTHER KEY CHANGES MADE BY COUNCILS

Other key changes resulting from the Infrastructure Report included:

- Greater use of componentisation to reflect assets with different estimated useful lives. Typical examples included the separate identification of road pavement base and sub-base assets and further componentisation of building assets. Where an asset can be seen as being comprised of a number of component assets of different useful lives, each component should be separately identified, valued and depreciated. Greater use of componentisation of assets allows for the recognition of non-depreciable components and other components with extremely long useful lives while also making provision for the future potential obsolescence of the assets.

- An increase in the capitalisation of gravel resheeting of unsealed roads. It was noted that one council did not adopt the Infrastructure Report's recommendation and continued to expense gravel re-sheeting. Re-sheets should be recognised as a component asset of a road segment, similar to sealed wearing surfaces and pavements. However, a council may choose, on the basis of materiality and cost/benefit considerations, to recognise a network asset for relatively small re-sheeting expenditure in the reporting period. The consistent treatment of gravel re-sheeting as an asset allows for greater comparability between councils, both in terms of asset valuations and depreciation charges.

## RESIDUAL VALUES[1]

In prior years, we noticed a number of councils, as part of revaluations, introduce the concept of 'residual values' for long-lived assets, particularly roads. This resulted in a reduction in annual depreciation charges and improvements in road consumption and asset sustainability ratios.

The Infrastructure Report identified two main concerns regarding the use of residual values when valuing infrastructure assets, particularly roads, which were that application of residual values to an asset or group of assets:

1. ignores the fact that at some point in time, the asset(s) may no longer be required and its/their function may be decommissioned due to obsolescence
2. does not comply with Australian Accounting Standards in particular AASB 116 *Property, Plant and Equipment* (AASB 116).

Our Infrastructure Report concluded that asset management practices of councils complied with Australian Accounting Standards but that some alteration to existing practices was required. This included reduced reliance on residual values and, as previously noted, we recommended that 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.

It is pleasing to note that those councils that had significant residuals balances in prior years adopted our recommendation and removed these balances in 2013-14. In combination with the removal of residuals, some councils appropriately extended the lives of relevant assets, resulting in minimal impact on depreciation.

---

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

# LEASE INCENTIVES - COUNCILS AS LESSORS

## KEY POINTS

- During 2013-14 we were requested to provide advice on disclosure requirements relating to the transparency of potential benefits provided by a council to commercial entities in the form of rental discounts and other potential benefits. This was satisfactorily resolved with that Council providing improved disclosure.
- In case this matter was relevant to financial reporting in all councils, we performed a survey of 27 councils during our financial statement audits.
- We considered AASB 117 *Accounting for leases*, Interpretation 115 *Operating Leases* and Section 77 *Grants and benefits* of the *Local Government Act 1993.*
- AASB 117 and Interpretation 115 establish the need for disclosure in notes to financial statements, including details of any lease incentives entered into, and that these requirements capture future obligations.
- Section 77 provides a requirement for disclosure of discounted rentals provided, and that such disclosure generally occurs within the mandatory disclosure section of councils' annual reports. However, the Act is silent on whether agreements entered into which provide benefits into the future need to be disclosed.

## RECOMMENDATION

We recommend that, where relevant and material, councils comply with the requirements of AASB 117, AASB 140 and Section 77 of the *Local Government Act 1993* as this applies to accounting for leasehold properties, lease incentives provided and peppercorn or nil rental benefits provided.

## INTRODUCTION

A number of local government councils own a range of facilities that are available for lease by not-for-profit sport, recreational and community organisations. Leases to not-for-profit organisations, in general, do not reflect commercial arrangements and have no, or minimal, lease charges. Land and building which are leased under these arrangements are recognised within Property, plant and equipment (PP&E) in Statements of Financial Position and associated rental income is recognised in accordance with councils' revenue recognition policies.

In addition, a number of mainly city councils, lease their land and buildings to third parties on commercial terms which may include incentives, for example rent-free periods or discounted rent. Assets leased in this manner are recognised either as investment properties or as part of PP&E.

## REQUEST OF AUDIT

During 2013-14 we were requested to provide advice on disclosure requirements relating to the transparency of potential benefits provided by a council to commercial entities in the form of rental discounts and other potential benefits.

## OUR VIEWS

Our initial view was that Section 77 *Grants and benefits of the Local Government Act 1993* (the Act) provided a requirement for disclosure of discounted rentals provided, and that such disclosure generally occurs within the mandatory disclosure section of councils' annual reports.

However, the Act is silent on whether agreements entered into which provide benefits into the future need to be disclosed. We formed the view that the principles within accounting standards, specifically AASB 117 *Accounting for leases*, and Interpretation 115 *Operating Leases – Incentives*, establish the need for disclosure in notes to financial statements, including details of any lease incentives entered into, and that these requirements capture future obligations.

## REQUIREMENTS OF AASB 117, INTERPRETATION 115 AND SECTION 77

Paragraphs 49 to 56 of AASB 117 prescribe a number of quantitative and qualitative disclosures for lessors. Lessors are required to disclose future lease payments receivable in bands and include a general description of leasing arrangements.

Paragraphs 3 and 4 of Interpretation 115 prescribe that:

- all incentives shall be recognised as an integral part of the net consideration agreed for the use of leased assets and
- the aggregate cost of the incentive is to be recognised as a reduction of rental income over the lease term on a straight line basis.

Section 77 permits a council to make a grant or provide a pecuniary benefit or a non-pecuniary benefit that is not a legal entitlement to any person, other than a councillor, for any purpose it considers appropriate. Such a benefit may include in-kind assistance and fully or partially reduced fees, rates or charges and remission of rates or charges. This section goes on to require that details of any grant made or benefit provided are to be included in the annual report of the council.

In our view, Section 77 applies to rental benefits and incentives with disclosure required in both the annual financial statements, where AASB 117 applies, and in the annual report.

## REQUIREMENTS OF AASB 140 INVESTMENT PROPERTY

Where councils own properties held for investment, this accounting standard requires such properties to be reported at fair value so that they reflect market value at the end of a reporting period.

## ACTION TAKEN

### Disclosure of rental benefits provided by councils as lessors

The matter raised with us was satisfactorily resolved when the council concerned made disclosure of benefits provided in its annual report for the year ended 30 June 2014. However, compliance with disclosure requirements of the leasing standard referred to is still under consideration and will be addressed by us as part of audits in 2014-15. In the interim, some councils included brief disclosure notes within the accounting policies section of their financial reports as these related to peppercorn rentals.

### Accounting for investment properties in compliance with AASB 140

Where applicable, councils are not complying with AASB 140 for three general reasons:

- amounts in the context of other assets are not material
- carrying out annual revaluations can be expensive
- there was a lack of certainty as to whether a property was held for investment or other purposes.

We similarly agreed to address this as part of audits in 2014-15.

## ADDRESSING THIS IN 2014-15

In preparation for addressing this next year, 27 councils were surveyed regarding the extent to which they held commercial properties and, if so, whether or not lease incentives or benefits were being provided. A copy of the survey questions is included as an attachment to this Chapter. Responses provided are noted next to each question.

Based on these surveys, our initial conclusion was that reporting of lessor disclosures needs improvement and we noted the following matters to be addressed by us and by councils as part of preparing financial statements in 2014-15:

1. Establish which councils own investment properties and, if so, is there compliance with AASB 140?
2. For councils holding investment properties, are any of these properties being leased out and, if so, are lease incentives being provided? Where this is the case, such incentives will need to

be quantified and AASB 117 complied with where material. This may require comparison between leases charged and market values of those lease arrangements.

3. To what extent do councils provide free or peppercorn rental access to council properties? Where this is the case, we will ensure compliance with section 77 and that associated assets are recorded and are non-investment properties.

## RECOMMENDATION

We recommend that, where relevant and material, councils comply with the requirements of AASB 117, AASB 140 and Section 77 of the *Local Government Act 1993* as this applies to accounting for leasehold properties, lease incentives provided and peppercorn or nil rental benefits provided.

## ATTACHMENT I

Survey questions responded to by the 27 councils surveyed (survey carried out as part of financial statements audits in June to September 2014).

| Survey Question | Results of Survey |
|---|---|
| 1. Does council lease out any property, ie., acts as a lessor? If not, survey ends here. | All Councils responded to the survey. |
| 2. If so, please provide a brief overview of the nature of property leased out by council, including the amount of lease payments received both for more significant leases and also in total. | 23 of the 27 councils had lessor arrangements in place. Some had commercial as well as non-commercial leases. |
| 3. If council leases out property, does it comply with recognition and disclosure requirements of AASB 117 and AASB 140 in its financial statements? Please summarise the nature of recognition and disclosure by council. | Four of the 23 councils with lessor arrangements complied with AASB 117. The remainder did not comply generally on the basis of materiality. |
| 4. Have lease payments receivable been compared to market values? If not, why not? If so, please explain basis used to determine market values. | 16 of 23 councils compared lease values to market values. |
| 5. If lease payments are below market, is the difference treated correctly as a lease incentive per AASB 117? Please explain the financial statement treatment of these, referencing back to AASB 117 and, if necessary to Interpretation 115. | Two of the 16 councils referred to in question 4 have lease incentives. However, There was no compliance with AASB 117, again on the basis of materiality. |
| 6. Has council complied with the requirements of the *Local Government Act 1993*, mainly sections 77? | Of the 23 councils with leases, two appeared not to have leases with community groups and two appeared to disclose benefits as required under Section 77. The remainder, 17 were not compliant in disclosing lease benefits to community groups. |

The survey highlighted the need for improvements in disclosure and measurement of the benefits provided. We will undertake audits of the disclosure of lease incentives in 2014-15.

# LOCAL GOVERNMENT COMPARATIVE ANALYSIS

## SNAPSHOT

- Twelve councils recorded a net Underlying Deficit in 2013-14. Combined Underlying Deficits totalled $1.656m.
- The 29 councils raised $424.731m in rates for 2013-14, an increase of 4.6%. Cities, in general, earn a greater percentage of their operating revenue from rates.
- Council's employed 3 404 FTEs at 30 June 2014. Average employee costs per FTE was $76 000.
- On average, councils are rating $1 373 per rateable property, but are expending $2 530 in operating costs. Councils' operating expenses are being supported by other revenue sources including fees and charges, interest revenue and grants.
- Most councils managed working capital effectively and can meet their short-term commitments from existing current assets.
- All councils had large or reasonably large bank and investment balances some of which were committed to future capital projects.
- For the 29 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 134.8% indicating most councils were re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100%.
- 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.
- Outstanding rates totalled $15.801m at 30 June 2014 with an average per council of $0.545m (2012-13, $0.527m).

## INTRODUCTION

Comparative analysis covering financial and other information for Tasmania's 29 councils has been compiled with results provided in four attachments to this Chapter. The information provided is for the financial year ended 30 June 2014. The attachments are presented with councils grouped as either major city; other urban and large rural; or other smaller rural.

This is the ninth year that this analysis has been included in this Report. While only one year's data is provided, where relevant, comparative totals for 2012-13 are included.

The attachments are:

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

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

When considering the various ratios and observations reported in this Chapter, it needs to be borne in mind that they are only indicators of performance or of financial position. The various ratios should not be considered in isolation. However, taken together various ratios can indicate good or poor financial condition or performance. It is also important to review these ratios over time with the analysis in this Chapter only considering performance for the single 2013-14 financial year.

## DEMOGRAPHICS

Comments here are made by reference to Attachment 2.

The Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth, decreased by 799, 0.16%, from 2012-13 to 2013-14. Across the State, populations of each municipal area vary considerably, ranging from 784 (802) in Flinders to 67 035 (67 146) in Launceston. The major cities' populations represented 42.21% or 216 627 (42.00%, 215 951) of the total population, but only covered 2.93% or 1 991 sq kms of the State's area in square kilometres. Conversely, the 13 smaller rural councils' combined populations represented 13.32%, 68 375 (13.30%, 68 386) of the total population, but covered 59.7% or 40 593 sq kms of the State's area in square kilometres.

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

## EMPLOYEE COSTS

Comments here are made by reference to Attachment 3, which summarises Employee costs, Employee entitlements and Full Time Equivalents (FTEs) for the 29 councils.

The 29 councils employed 3 404 (3 417) FTEs at 30 June 2014 and incurred employee costs of $268.349m ($259.074m) for the financial year. Average employee costs per FTE varied from a high of $88 000 per FTE at George Town Council to a low of $54 000 per FTE at Tasman Council with the average being $76 000.

Councils' FTEs per 1 000 head of population also varied with smaller rural councils having lower population bases and higher ratios. Flinders Council had a ratio of 26.8 FTEs per 1 000 head of population due to its small population. The average for the 29 councils was 8.2 FTE per 1 000 head of population.

At 30 June 2014, the amount of annual, long service and some sick leave accrued by the 29 councils for their employees totalled $62 585m ($60 317m). On a per FTE basis this equated to $17 665 with variations between councils ranging from $10 737 per FTE at Tasman to $33 540 at Derwent Valley.

## STATEMENT OF COMPREHENSIVE INCOME

Comments here are made by reference to Attachment 4.

### Surplus/(Deficits)

The combined total Surplus for the 29 councils was $59.072m, an increase of 139% from 2012-13 ($25.002m) and included:

- $25.374m ($32.939m) in capital grant funding
- $47.043m ($34.780m) in contributed assets, mainly through subdivisions
- negative $35.812m (negative $0.116m) net financial assistance grants as a result of these Grants no longer being received in advance
- $46.490m ($6.354m) in other non-operating revenue, which included $22.573m of infrastructure take up adjustments by Launceston City Council, offset by
- $21.737m ($42.105m) in non-operating expenditure.

However, on an "underlying" basis, for the year ended 30 June 2014 councils recorded combined Underlying Deficits of $1.656m ($7.547m Underlying Deficit). Twelve councils recorded a net Underlying deficit for the 2013-14 financial year with results varying from an Underlying Surplus of $3.553m at Hobart to an Underlying Deficit of $5.565m at Glenorchy.

On a Comprehensive income basis, the combined Comprehensive deficit totalled $190.237m ($146.554m Comprehensive Surplus), a decrease of $336.791m. The Comprehensive income items for this year mainly consisted of the following:

- fair value net asset revaluation decrements of $67.526m ($93.325m)
- write down of councils' net investments in TasWater of $145.962m ($13.937m) based on movements in TasWater's net assets during 2013-14
- actuarial gains of $40.428m ($12.100m) on defined benefit superannuation schemes. These gains only applied to those councils not operating under multi-employer defined benefit schemes.

## Revenue raising capacities

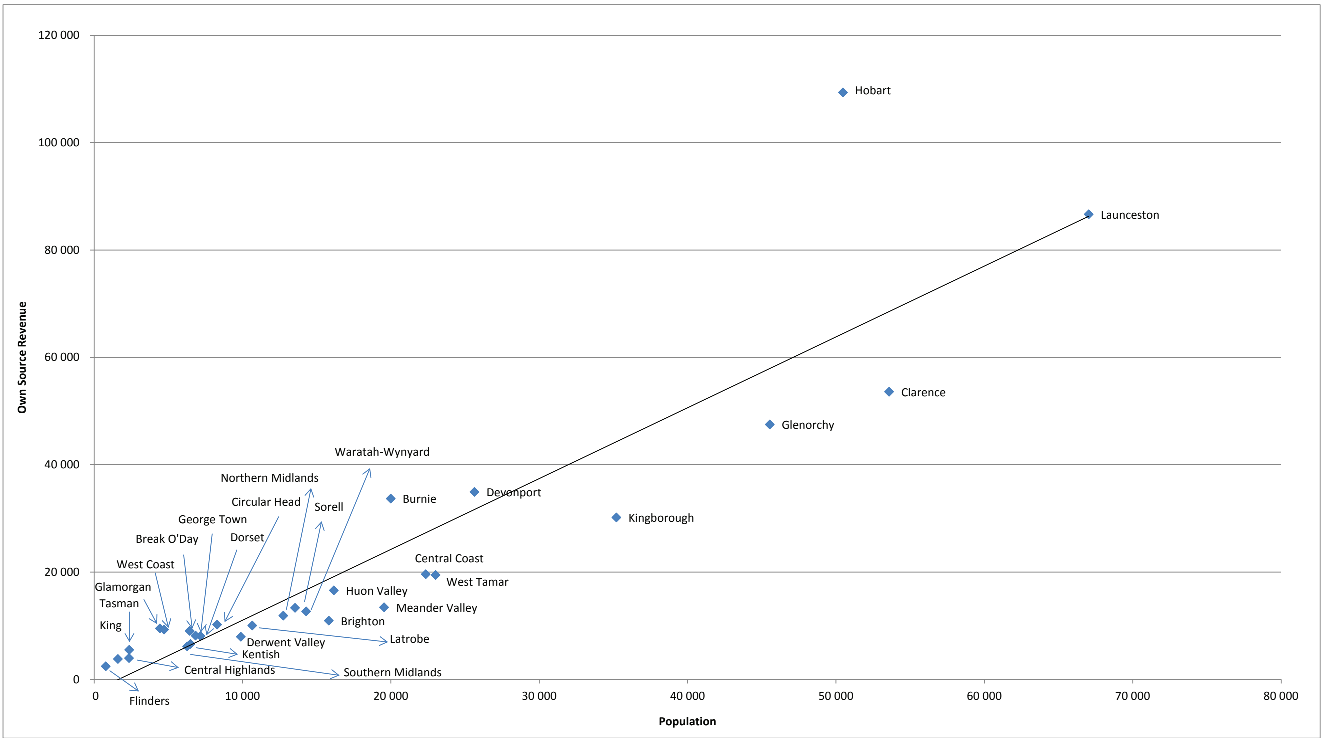
The 29 councils raised $424.731m ($405.950m) in rates for 2013-14, an increase of 4.6%. Cities, in general, earn a greater percentage of their operating revenue from rates. This was reflected in the rate revenue to operating revenue ratio. In contrast, councils that had a lower rate to operating revenue ratio received a higher percentage of recurrent grant revenue. It was noted that there were five councils (seven) with rate revenue to operating revenue ratios of less than 50% meaning that they were heavily reliant on recurrent grant funding. One of these councils also had the lowest average rates per rateable valuation although it generated relatively high rate revenues per head of population.

On average councils were rating $1 373 per rateable property, but are expending $2 530 in operating costs. Councils' operating expenses were being supported by other revenue sources including fees and charges, interest revenue and grants. A reduction in grant funding would have a significant impact on local government, with any possible loss in revenue having to be offset by an increase in rates or a reduction in costs and services, in particular those funded by grants.

## Councils' own source revenue

The following graph shows councils' own source revenue and population.

### Figure 1: Councils' own source revenue




*Source: Tasmanian Audit Office*

Councils' own source revenues represents operating revenue other than recurrent grants. In general terms, the graph above highlights that councils' with larger populations such as cities like Hobart and Launceston, have the ability to generate a larger portion of own source revenue as a result of larger populations. The smaller rural councils, who have lower population levels, cannot generate as much own source revenue and rely more heavily on grant funding.

Attachment 4 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, $1 757 King Island, $1 429 and Central Highlands, $1 004, compared to Hobart, $69, or Glenorchy, $72.

## Depreciation to operating revenues

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

The ratio of depreciation to operating revenues for the 29 councils was 25.4% (25.2%), with major cities averaging 20.5% (21.0%), other urban and larger rural councils 24.1% (24.1%) and other smaller rural councils 28.0% (28.0%). The ratios remained fairly constant from 2012-13 to 2013-14.

There were considerable fluctuations in the percentages of the smaller rural council. These varied between 17.0% at Glamorgan Spring Bay, which had a comparatively low infrastructure assets base with non-current infrastructure and Property, plant and equipment assets per head of population of $17 849, to 43.8% at Central Highlands where the non-current infrastructure and Property, plant and equipment assets per head of population was $54 041. This highlighted the importance of having long-term asset management plans (further information about this is included in the Local Government Financial Sustainability Chapter) and budgeting to ensure that operating revenues are sufficient to cover all operating costs, including depreciation. It is acknowledged that the latter will be more difficult in regional communities with significant infrastructure.

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

# STATEMENTS OF FINANCIAL POSITION

Comments here are made with reference to Attachment 5.

## Management of working capital

On the basis that a working capital ratio of one or better is effective, all councils manage working capital (total current assets less total current liabilities expressed as a ratio greater or less than one) effectively with most achieving a ratio of well above one at 30 June 2014. This ratio provides an indication as to whether or not an entity can meet its short-term commitments from existing current assets.

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

## Management of infrastructure and other non-current assets

Included in total non-current assets, amounting to $8.464bn ($8.261bn), were infrastructure and property, plant and equipment assets controlled by the 29 councils at 30 June 2014 totalling $6.641bn ($6.578bn).

In 2013-14 payments made by councils for property, plant and equipment totalled $213.666m ($222.084m) and depreciation charged on these assets totalled $157.717m ($153.695m). A useful measure to assess the extent to which a council was adequately investing in its non-current asset base is expenditure on all assets expressed as a percentage of depreciation with an ideal target of not less than 100%. However, a better measure for this ratio is to express expenditure on existing assets as a percentage of depreciation. This particular measure is further assessed in the Chapter dealing with Financial Sustainability.

For the 29 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 134.8% (139.7%) indicating most councils were re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100%. In each case, further details are provided in individual council Chapters of this Report.

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

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

The ratio of non-current infrastructure 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 it is that some councils vary significantly from the average of $24 370 ($25 067).

## Management of debt

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

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

Brighton, Huon Valley, Kingborough, West Tamar, Northern Midlands, Central Highlands and Flinders Councils did not have any loan debt at 30 June 2014.

The indebtedness ratio complements the current ratio and illustrates a council's ability to meet longer term commitments. The ratio compares non-current liabilities to a council's own source revenue, the lower the percentage the stronger a council's position to meet longer term liabilities. Those councils with ratios well above the average of 2.6% (18.3%) were, in general, holding higher levels of non-current borrowings at 30 June 2014 than the councils with lower ratios. However, the ratios indicate all councils could meet future longer-term debt commitments.

## Collection of rates

For the 29 councils, rate debts owing to them at 30 June 2014 totalled $15.801m ($15.289m) with an average per council of $0.545m ($0.527m). Expressing rate debtors as a percentage of rates raised indicated that, in general, councils were recovering outstanding rate debts in a reasonable timeframe. Southern Midlands Council at 12.91% had the highest ratio. It is noted, however, that all councils had significant power under the *Local Government Act 1993* to recover rate debts against a property.

# ATTACHMENT 2 – LOCAL GOVERNMENT COMPARATIVE ANALYSIS

## 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 |
|---|---|---|---|---|---|---|
| Clarence | 53 582 | 378 | 141.8 | 24 117 | 63.8 | 0.5 |
| Glenorchy | 45 537 | 121 | 376.0 | 20 862 | 172.3 | 0.5 |
| Hobart | 50 473 | 78 | 647.9 | 23 915 | 307.0 | 0.5 |
| Launceston | 67 035 | 1 414 | 47.4 | 30 831 | 21.8 | 0.5 |
| Brighton | 15 813 | 171 | 92.3 | 7 110 | 41.5 | 0.4 |
| Burnie | 19 986 | 611 | 32.7 | 9 415 | 15.4 | 0.5 |
| Central Coast | 22 347 | 933 | 23.9 | 10 631 | 11.4 | 0.5 |
| Derwent Valley | 9 886 | 4 108 | 2.4 | 5 144 | 1.3 | 0.5 |
| Devonport | 25 628 | 111 | 230.3 | 12 000 | 107.8 | 0.5 |
| Huon Valley | 16 159 | 5 507 | 2.9 | 10 294 | 1.9 | 0.6 |
| Kingborough | 35 201 | 720 | 48.9 | 16 904 | 23.5 | 0.5 |
| Meander Valley | 19 543 | 3 330 | 5.9 | 9 678 | 2.9 | 0.5 |
| Northern Midlands | 12 754 | 5 137 | 2.5 | 6 713 | 1.3 | 0.5 |
| Sorell | 13 537 | 584 | 23.2 | 8 614 | 14.8 | 0.6 |
| Waratah-Wynyard | 14 291 | 3 531 | 4.0 | 7 513 | 2.1 | 0.5 |
| West Tamar | 23 012 | 691 | 33.3 | 11 300 | 16.4 | 0.5 |
| Break O'Day | 6 430 | 3 526 | 1.8 | 6 357 | 1.8 | 1.0 |
| Central Highlands | 2 355 | 7 982 | 0.3 | 3 880 | 0.5 | 1.6 |
| Circular Head | 8 287 | 4 898 | 1.7 | 4 898 | 1.0 | 0.6 |
| Dorset | 7 158 | 3 228 | 2.2 | 5 207 | 1.6 | 0.7 |
| Flinders | 784 | 1 997 | 0.4 | 1 207 | 0.6 | 1.5 |
| George Town | 6 828 | 653 | 10.5 | 4 442 | 6.8 | 0.7 |
| Glamorgan Spring Bay | 4 437 | 2 591 | 1.7 | 5 520 | 2.1 | 1.2 |
| Kentish | 6 495 | 1 156 | 5.6 | 3 583 | 3.1 | 0.6 |
| King Island | 1 605 | 1 096 | 1.5 | 1 649 | 1.5 | 1.0 |
| Latrobe | 10 655 | 601 | 17.7 | 5 817 | 9.7 | 0.5 |
| Southern Midlands | 6 271 | 2 615 | 2.4 | 3 569 | 1.4 | 0.6 |
| Tasman | 2 363 | 661 | 3.6 | 3 391 | 5.1 | 1.4 |
| West Coast | 4 707 | 9 590 | 0.5 | 4 592 | 0.5 | 1.0 |
| **Total 2013-14** | **513 159** | **68 018** | **7.5** | **269 153** | | |
| **Average per Council 2013-14** | **17 695** | **2 345** | **60.9** | **9 281** | **29.0** | **0.7** |
| **Total 2012-13** | **513 958** | **67 853** | **7.6** | **267 511** | | |
| **Average per Council 2012-13** | **17 723** | **2 340** | **61.2** | **9 225** | **28.9** | **0.7** |

| | |
|---|---|
| **Average Population per square kilometre for Tasmania** | **7.54** |
| **Average Rateable properties per square kilometere** | **3.96** |
| **Average Rateable properties per Head of Population** | **0.52** |

*Source: Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2010-11. Updated August 2014. Local Government areas taken from ABS website "2001 Census Community Profile Series" Statistics estimated at 30 June 2005. Rateable properties obtained from council.*

# ATTACHMENT 3 - LOCAL GOVERNMENT COMPARATIVE ANALYSIS

## Employee Costs

| Council | Total Employee Costs | FTEs | Average Cost Per FTE* | FTE Per 1 000 Population | Total Labour Costs to Operating Revenue | Total Labour Costs to Operating Expenditure | Provisions for Employee Entitlements | Employee Entitlements Per FTE |
|---|---|---|---|---|---|---|---|---|
| | $'000s | No. | $'000s | No. | % | % | $'000s | $ |
| Clarence | 16 035 | 235 | 68 | 4.4 | 27.36 | 29.1 | 4 060 | 17 277 |
| Glenorchy | 22 745 | 270 | 84 | 5.9 | 44.81 | 40.4 | 6 061 | 22 448 |
| Hobart | 52 736 | 614 | 86 | 12.2 | 46.73 | 48.2 | 13 695 | 22 305 |
| Launceston | 37 051 | 427 | 87 | 6.4 | 39.65 | 38.5 | 6 924 | 16 215 |
| Brighton | 4 067 | 50 | 81 | 3.2 | 32.24 | 31.9 | 1 033 | 20 660 |
| Burnie | 15 164 | 185 | 82 | 9.3 | 40.04 | 38.1 | 2 877 | 15 551 |
| Central Coast | 9 936 | 141 | 70 | 6.3 | 41.65 | 42.3 | 2 813 | 19 950 |
| Derwent Valley | 3 527 | 50 | 71 | 5.1 | 30.09 | 33.0 | 1 677 | 33 540 |
| Devonport | 12 514 | 163 | 77 | 6.4 | 33.65 | 34.7 | 2 784 | 17 080 |
| Huon Valley | 9 457 | 131 | 72 | 8.1 | 47.27 | 48.8 | 1 685 | 12 863 |
| Kingborough | 12 233 | 178 | 69 | 5.1 | 35.92 | 36.1 | 2 277 | 12 792 |
| Meander Valley | 6 146 | 77 | 80 | 3.9 | 33.54 | 34.8 | 1 463 | 19 000 |
| Northern Midlands | 4 606 | 57 | 81 | 4.5 | 28.75 | 28.9 | 1 284 | 22 526 |
| Sorell | 5 981 | 76 | 79 | 5.6 | 36.22 | 40.3 | 973 | 12 803 |
| Waratah-Wynyard | 5 905 | 83 | 71 | 5.8 | 37.11 | 33.6 | 1 494 | 18 000 |
| West Tamar | 7 947 | 95 | 84 | 4.1 | 36.07 | 37.1 | 2 317 | 24 389 |
| Break O'Day | 4 030 | 52 | 78 | 8.1 | 32.83 | 33.0 | 603 | 11 596 |
| Central Highlands | 1 936 | 36 | 54 | 15.3 | 30.64 | 27.0 | 692 | 19 222 |
| Circular Head | 4 655 | 59 | 79 | 7.1 | 35.55 | 32.0 | 1 055 | 17 881 |
| Dorset | 4 499 | 57 | 79 | 8.0 | 37.35 | 35.8 | 1 088 | 19 088 |
| Flinders | 1 742 | 21 | 83 | 26.8 | 45.67 | 30.6 | 322 | 15 333 |
| George Town | 3 945 | 45 | 88 | 6.6 | 39.75 | 40.7 | 689 | 15 311 |
| Glamorgan Spring Bay | 3 633 | 54 | 67 | 12.2 | 31.70 | 32.3 | 663 | 12 278 |
| Kentish | 2 397 | 32 | 75 | 4.9 | 25.77 | 26.8 | 442 | 13 813 |
| King Island | 2 140 | 30 | 71 | 18.7 | 35.08 | 34.1 | 402 | 13 400 |
| Latrobe | 3 441 | 45 | 76 | 4.2 | 30.07 | 33.1 | 903 | 20 067 |
| Southern Midlands | 3 862 | 54 | 72 | 8.6 | 38.45 | 37.7 | 1 367 | 25 315 |
| Tasman | 1 224 | 19 | 64 | 8.0 | 18.85 | 22.4 | 204 | 10 737 |
| West Coast | 4 795 | 68 | 71 | 14.4 | 41.91 | 38.8 | 738 | 10 853 |
| **Total** | **268 349** | **3 404** | | | | | **62 585** | |
| **Average per Council** | **9 253** | **117** | **76** | **8.2** | **35.7** | **35.2** | **2 158** | **17 665** |
| **Total 2012-13** | **259 074** | **3 417** | | | | | **60 317** | |
| **Average per Council 2012-13** | **8 934** | **118** | **72** | **8.3** | **35.4** | **34.7** | **2 080** | **16 680** |

# ATTACHMENT 4 - LOCAL GOVERNMENT COMPARATIVE ANALYSIS

## 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 | % | % |
| Clarence | 58 606 | 968 | 59 574 | 55 064 | 0 | 55 064 | 3 542 | 4 510 | 7.6 | (34 394) | 6.0 | 23.5 |
| Glenorchy | 50 762 | 3 183 | 53 945 | 56 327 | 2 224 | 58 551 | (5 565) | (4 606) | (8.5) | (36 825) | (11.0) | 20.9 |
| Hobart | 112 862 | 4 061 | 116 923 | 109 309 | 981 | 110 290 | 3 553 | 6 633 | 5.7 | (74 406) | 3.2 | 18.5 |
| Launceston | 93 444 | 23 959 | 117 403 | 96 199 | 1 474 | 97 673 | (2 755) | 19 730 | 16.8 | 22 177 | (3.0) | 20.9 |
| Brighton | 12 613 | 17 512 | 30 125 | 12 753 | 0 | 12 753 | (140) | 17 372 | 57.7 | (12 892) | (1.1) | 1.1 |
| Burnie | 37 869 | 2 508 | 40 377 | 39 789 | 5 827 | 45 616 | (1 920) | (5 239) | (13.0) | 5 556 | (5.1) | 12.6 |
| Central Coast | 23 857 | 24 045 | 47 902 | 23 512 | 688 | 24 200 | 345 | 23 702 | 49.5 | 11 621 | 1.5 | 17.0 |
| Derwent Valley | 11 720 | (428) | 11 292 | 10 699 | 0 | 10 699 | 1 021 | 593 | 5.3 | (4 033) | 8.7 | 12.4 |
| Devonport | 37 188 | 6 230 | 43 418 | 36 103 | 3 755 | 39 858 | 1 085 | 3 560 | 8.2 | 4 341 | 2.9 | 22.8 |
| Huon Valley | 20 008 | (965) | 19 043 | 19 362 | 2 399 | 21 761 | 646 | (2 718) | (14.3) | (9 027) | 3.2 | 12.2 |
| Kingborough | 34 052 | 833 | 34 885 | 33 889 | 0 | 33 889 | 163 | 996 | 2.9 | (21 043) | 0.5 | 13.2 |
| Meander Valley | 18 327 | (1 533) | 16 794 | 17 655 | 131 | 17 786 | 672 | (992) | (5.9) | (44 224) | 3.7 | 20.5 |
| Northern Midlands | 16 019 | (1 148) | 14 871 | 15 949 | 0 | 15 949 | 70 | (1 078) | (7.2) | (4 790) | 0.4 | 17.7 |
| Sorell | 16 511 | 935 | 17 446 | 14 841 | 972 | 15 813 | 1 670 | 1 633 | 9.4 | (647) | 10.1 | 29.8 |
| Waratah-Wynyard | 15 914 | (677) | 15 237 | 17 572 | 1 669 | 19 241 | (1 658) | (4 004) | (26.3) | 5 319 | (10.4) | 8.0 |
| West Tamar | 22 030 | 195 | 22 225 | 21 405 | 0 | 21 405 | 625 | 820 | 3.7 | 10 558 | 2.8 | 23.5 |
| Break O'Day | 12 274 | (163) | 12 111 | 12 196 | 0 | 12 196 | 78 | (85) | (0.7) | (1 015) | 0.6 | 14.2 |
| Central Highlands | 6 319 | (547) | 5 772 | 7 168 | 0 | 7 168 | (849) | (1 396) | (24.2) | (2 170) | (12.5) | 10.3 |
| Circular Head | 13 096 | (512) | 12 584 | 14 534 | 1 204 | 15 738 | (1 438) | (3 154) | (25.1) | 7 622 | (11.0) | 5.4 |
| Dorset | 12 047 | 22 | 12 069 | 12 559 | 0 | 12 559 | (512) | (490) | (4.1) | 5 625 | (4.3) | 21.2 |
| Flinders | 3 814 | 1 848 | 5 662 | 5 697 | 0 | 5 697 | (1 883) | (35) | (0.6) | (36 399) | (49.3) | (5.0) |
| George Town | 9 925 | (470) | 9 455 | 9 699 | 0 | 9 699 | 226 | (244) | (2.6) | 3 316 | 2.3 | 18.6 |
| Glamorgan Spring Bay | 11 461 | 474 | 11 935 | 11 243 | 0 | 11 243 | 218 | 692 | 5.8 | (4 849) | 1.9 | 14.3 |
| Kentish | 9 302 | (527) | 8 775 | 8 948 | 0 | 8 948 | 354 | (173) | (2.0) | 16 006 | 3.8 | 9.8 |
| King Island | 6 100 | (510) | 5 590 | 6 276 | 0 | 6 276 | (176) | (686) | (12.3) | (689) | (2.9) | 18.4 |
| Latrobe | 11 443 | 2 723 | 14 166 | 10 383 | 0 | 10 383 | 1 060 | 3 783 | 26.7 | 4 510 | 9.3 | 20.5 |
| Southern Midlands | 10 045 | (1 103) | 8 942 | 10 238 | 0 | 10 238 | (193) | (1 296) | (14.5) | (2 097) | (1.9) | 13.3 |
| Tasman | 6 495 | 2 365 | 8 860 | 5 461 | 413 | 5 874 | 1 034 | 2 986 | 33.7 | 1 911 | 15.9 | 24.7 |
| West Coast | 11 442 | (183) | 11 259 | 12 371 | 0 | 12 371 | (929) | (1 112) | (9.9) | 701 | 8.1 | 10.6 |
| **Total** | **705 545** | **83 095** | **788 640** | **707 201** | **21 737** | **728 938** | **(1 656)** | **59 702** | | **(190 237)** | | |
| **Average per Council** | **24 329** | **2 865** | **27 194** | **24 386** | **750** | **25 136** | **(57)** | **2 059** | **2.1** | **(6 560)** | **(0.9)** | **15.5** |
| **Total 2012-13** | **680 175** | **74 654** | **754 829** | **687 722** | **42 105** | **729 827** | **(7 547)** | **25 002** | | **146 554** | | |
| **Average per Council 2012-13** | **23 454** | **2 574** | **26 029** | **23 715** | **1 452** | **25 166** | **(260)** | **862** | **5.8** | **5 054** | **(2.1)** | **22.8** |

** Operating revenue includes 2010 financial assistance grant received in June 2009.*

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

# ATTACHMENT 4 - LOCAL GOVERNMENT COMPARATIVE ANALYSIS

## Statement of Comprehensive Income (cont.)

| 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 | Council's Own Source Revenue to Operating Revenue | Operating Government Grants* | Operating Grants Per Head of Population | Operating Government Grants to Operating Revenue | Depreciation to Operating Revenue |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000s | % | $ | $ | $ | $'000s | % | $'000s | $ | % | % |
| Clarence | 43 720 | 74.6 | 1 813 | 816 | 2 283 | 53 578 | 91.4 | 5 028 | 94 | 8.6 | 18.6 |
| Glenorchy | 28 134 | 55.4 | 1 349 | 618 | 2 700 | 47 489 | 93.6 | 3 273 | 72 | 6.4 | 29.1 |
| Hobart | 70 885 | 62.8 | 2 964 | 1 404 | 4 571 | 109 362 | 96.9 | 3 500 | 69 | 3.1 | 15.0 |
| Launceston | 57 829 | 61.9 | 1 876 | 863 | 3 120 | 86 631 | 92.7 | 6 813 | 102 | 7.3 | 19.3 |
| Brighton | 7 356 | 58.3 | 1 035 | 465 | 1 794 | 10 940 | 86.7 | 1 673 | 106 | 13.3 | 23.2 |
| Burnie*** | 20 271 | 53.5 | 2 153 | 1 014 | 4 226 | 33 686 | 89.0 | 4 183 | 209 | 11.0 | 21.1 |
| Central Coast | 13 114 | 55.0 | 1 234 | 587 | 2 212 | 19 596 | 82.1 | 4 261 | 191 | 17.9 | 24.5 |
| Derwent Valley | 5 715 | 48.8 | 1 111 | 578 | 2 080 | 7 929 | 67.7 | 3 791 | 383 | 32.3 | 18.6 |
| Devonport | 26 084 | 70.1 | 2 174 | 1 018 | 3 009 | 34 927 | 93.9 | 2 261 | 88 | 6.1 | 24.0 |
| Huon Valley | 10 181 | 50.9 | 989 | 630 | 1 881 | 16 574 | 82.8 | 3 434 | 213 | 17.2 | 29.8 |
| Kingborough | 21 828 | 64.1 | 1 291 | 620 | 2 005 | 30 159 | 88.6 | 3 893 | 111 | 11.4 | 20.4 |
| Meander Valley | 9 801 | 53.5 | 1 013 | 502 | 1 824 | 13 429 | 73.3 | 4 898 | 251 | 26.7 | 26.2 |
| Northern Midlands | 8 861 | 55.3 | 1 320 | 695 | 2 376 | 11 872 | 74.1 | 4 147 | 325 | 25.9 | 29.0 |
| Sorell | 10 949 | 66.3 | 1 271 | 809 | 1 723 | 13 331 | 80.7 | 3 180 | 235 | 19.3 | 23.8 |
| Waratah-Wynyard | 9 614 | 60.4 | 1 280 | 673 | 2 339 | 12 677 | 79.7 | 3 237 | 227 | 20.3 | 25.6 |
| West Tamar | 14 877 | 67.5 | 1 317 | 646 | 1 894 | 19 450 | 88.3 | 2 580 | 112 | 11.7 | 23.6 |
| Break O'Day | 7 322 | 59.7 | 1 152 | 1 139 | 1 919 | 9 024 | 73.5 | 3 250 | 505 | 26.5 | 27.7 |
| Central Highlands | 3 049 | 48.3 | 786 | 1 295 | 1 847 | 3 955 | 62.6 | 2 364 | 1 004 | 37.4 | 43.8 |
| Circular Head | 6 967 | 53.2 | 1 422 | 841 | 2 967 | 10 214 | 78.0 | 2 882 | 348 | 22.0 | 32.4 |
| Dorset | 6 097 | 50.6 | 1 171 | 852 | 2 412 | 8 084 | 67.1 | 3 963 | 554 | 32.9 | 32.6 |
| Flinders | 1 306 | 34.2 | 1 082 | 1 666 | 4 720 | 2 441 | 64.0 | 1 373 | 1 751 | 36.0 | 37.7 |
| George Town | 7 021 | 70.7 | 1 581 | 1 028 | 2 183 | 8 159 | 82.2 | 1 766 | 259 | 17.8 | 21.4 |
| Glamorgan Spring Bay | 6 323 | 55.2 | 1 145 | 1 425 | 2 037 | 9 494 | 82.8 | 1 967 | 443 | 17.2 | 17.0 |
| Kentish | 4 660 | 50.1 | 1 301 | 717 | 2 497 | 6 610 | 71.1 | 2 692 | 414 | 28.9 | 28.6 |
| King Island | 1 896 | 31.1 | 1 150 | 1 181 | 3 806 | 3 806 | 62.4 | 2 294 | 1 429 | 37.6 | 29.7 |
| Latrobe | 6 223 | 54.4 | 1 070 | 584 | 1 785 | 10 030 | 87.7 | 1 413 | 133 | 12.3 | 21.9 |
| Southern Midlands | 4 245 | 42.3 | 1 189 | 677 | 2 869 | 6 143 | 61.2 | 3 902 | 622 | 38.8 | 27.3 |
| Tasman | 3 997 | 61.5 | 1 179 | 1 691 | 1 610 | 5 504 | 84.7 | 991 | 419 | 15.3 | 18.8 |
| West Coast | 6 406 | 56.0 | 1 395 | 1 361 | 2 694 | 9 252 | 80.9 | 2 190 | 465 | 19.1 | 25.6 |
| **Total** | **424 731** | | | **25 209** | **72 252** | **586 973** | | **91 199** | | | |
| **Average per Council** | **14 646** | **56.1** | **1 373** | **910** | **2 530** | **21 184** | **80.0** | **3 145** | **384** | **20.0** | **25.4** |
| **Total 2012-13** | **405 950** | | | **25 209** | **72 252** | **586 973** | | **93 202** | **11 469** | | |
| **Average per Council 2012-13** | **13 998** | **55.9** | **1 326** | **869** | **2 491** | **20 240** | **79.3** | **3 214** | **395** | **20.7** | **25.2** |

** Operating grant revenue excludes 2012-13 financial assistance grant received in June 2012, but includes 2011-12 financial assistance grant received in June 2012.*

*** First year ratio has been included in Comparative Analysis.*

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

# ATTACHMENT 5 - LOCAL GOVERNMENT COMPARATIVE ANALYSIS

## Statement of Financial Position

| Council | Current Assets | Current Liabilities | Working Capital | Current Ratio | Net Financial Liabilities Ratio* | Non-Current Assets | Non Current Liabilities | Loan Debt | Interest Coverage | Indebtedness Ratio | Rate Debtors | Rate Debtors to Rates Raises |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000s | $'000s | $'000s | No. | % | $'000s | $'000s | $'000s | % | % | $'000s | % |
| Clarence | 57 917 | 9 528 | 48 389 | 6.1 | 79.1 | 543 438 | 1 080 | 703 | 307.06 | 1.76 | 1 706 | 3.90 |
| Glenorchy | 37 864 | 11 878 | 25 986 | 3.2 | 18.1 | 665 039 | 12 521 | 8 171 | 15.58 | 3.47 | 592 | 2.10 |
| Hobart | 40 995 | 21 737 | 19 258 | 1.9 | (9.8) | 883 098 | 27 666 | 16 162 | 37.20 | 5.35 | 1 074 | 1.52 |
| Launceston | 64 700 | 27 440 | 37 260 | 2.4 | 22.0 | 1 445 069 | 15 526 | 10 091 | 30.04 | 2.85 | 1 049 | 1.81 |
| Brighton | 4 360 | 1 642 | 2 718 | 2.7 | 12.3 | 175 904 | 108 | 0 | N/a | 0.97 | 41 | 0.56 |
| Burnie | 12 686 | 6 966 | 5 720 | 1.8 | (0.7) | 358 832 | 5 110 | 4 444 | 19.94 | 3.25 | 1 269 | 6.26 |
| Central Coast | 4 323 | 4 240 | 83 | 1.0 | (26.4) | 449 395 | 6 143 | 3 188 | 22.86 | 2.29 | 501 | 3.82 |
| Derwent Valley | 2 338 | 2 419 | (81) | 1.0 | (23.3) | 95 765 | 2 616 | 2 739 | 7.68 | 5.13 | 575 | 10.06 |
| Devonport | 11 370 | 5 848 | 5 522 | 1.9 | (38.1) | 466 311 | 19 590 | 20 020 | 7.23 | 5.33 | 209 | 0.80 |
| Huon Valley | 7 229 | 3 173 | 4 056 | 2.3 | 19.2 | 210 474 | 127 | 0 | N/a | 1.52 | 472 | 4.64 |
| Kingborough | 9 533 | 6 825 | 2 708 | 1.4 | 6.3 | 571 293 | 531 | 0 | N/a | 1.27 | 233 | 1.07 |
| Meander Valley | 21 596 | 2 455 | 19 141 | 8.8 | 69.0 | 221 885 | 6 239 | 3 600 | N/a | 3.57 | 806 | 8.22 |
| Northern Midlands | 9 063 | 1 976 | 7 087 | 4.6 | 40.3 | 252 113 | 301 | 0 | N/a | 0.87 | 933 | 10.53 |
| Sorell | 5 191 | 2 882 | 2 309 | 1.8 | (5.7) | 216 525 | 2 978 | 3 225 | 23.84 | 2.64 | 148 | 1.35 |
| Waratah-Wynyard | 7 201 | 2 231 | 4 970 | 3.2 | 23.3 | 176 836 | 400 | 16 | N/a | 1.43 | 741 | 7.71 |
| West Tamar | 13 525 | 3 759 | 9 766 | 3.6 | 39.7 | 264 188 | 531 | 227 | 224.35 | 1.54 | 985 | 6.62 |
| Break O'Day | 7 890 | 1 864 | 6 026 | 4.2 | 11.8 | 147 027 | 4 355 | 4 262 | 19.32 | 4.01 | 724 | 9.89 |
| Central Highlands | 5 700 | 875 | 4 825 | 6.5 | 73.2 | 134 947 | 110 | 0 | N/a | 0.70 | 207 | 6.79 |
| Circular Head | 8 259 | 2 191 | 6 068 | 3.8 | 38.1 | 159 220 | 863 | 1 041 | 6.88 | 1.82 | 400 | 5.74 |
| Dorset | 15 312 | 2 089 | 13 223 | 7.3 | 95.9 | 171 493 | 1 376 | 203 | 158.38 | 1.85 | 606 | 9.94 |
| Flinders | 7 924 | 518 | 7 406 | 15.3 | 184.7 | 45 276 | 235 | 0 | N/a | 1.42 | 55 | 4.21 |
| George Town | 4 198 | 1 786 | 2 412 | 2.4 | (0.9) | 120 728 | 2 334 | 2 240 | 13.99 | 3.30 | 167 | 2.38 |
| Glamorgan Spring Bay | 2 361 | 1 905 | 456 | 1.2 | (13.2) | 106 786 | 1 818 | 1 987 | 19.96 | 3.41 | 239 | 3.78 |
| Kentish | 6 780 | 1 114 | 5 666 | 6.1 | 36.9 | 110 345 | 1 606 | 1 569 | 7.45 | 2.32 | 598 | 12.83 |
| King Island | 5 317 | 1 481 | 3 836 | 3.6 | 45.1 | 65 821 | 721 | 862 | 23.96 | 3.10 | 83 | 4.38 |
| Latrobe | 8 965 | 2 607 | 6 358 | 3.4 | 72.8 | 164 268 | 1 540 | 326 | 105.73 | 2.39 | 109 | 1.75 |
| Southern Midlands | 9 108 | 1 953 | 7 155 | 4.7 | 59.8 | 92 919 | 978 | 895 | 21.95 | 2.87 | 548 | 12.91 |
| Tasman | 4 301 | 390 | 3 911 | 11.0 | 53.3 | 45 571 | 439 | 428 | 50.81 | 1.66 | 365 | 9.13 |
| West Coast | 4 038 | 2 067 | 1 971 | 2.0 | 5.9 | 104 132 | 1 241 | 1 020 | 14.41 | 3.06 | 366 | 5.71 |
| **Total** | **400 044** | **135 839** | **264 205** | | | **8 464 698** | **119 083** | **87 419** | | | **15 801** | |
| **Average per Council** | **13 795** | **4 684** | **9 111** | **4.1** | **30.6** | **291 886** | **4 106** | **3 014** | **54.2** | **2.6** | **545** | **5.5** |
| **Total 2012-13** | **444 706** | **134 811** | **309 895** | | | **8 621 324** | **131 344** | **85 598** | | | **15 289** | |
| **Average per Council 2012-13** | **15 335** | **4 649** | **10 686** | **4.7** | **38.6** | **297 287** | **4 529** | **2 952** | **140.1** | **18.3** | **527** | **5.2** |

## ATTACHMENT 5 - LOCAL GOVERNMENT COMPARATIVE ANALYSIS

### Statement of Financial Position (cont.)

| Council | Payments for Property, Plant and Equipment | Depreciation | Total Capital Expenditure 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 | % | % | $ | $ | $ |
| Clarence | 14 312 | 10 926 | 131.0 | 8.6 | 998 399 | 7 043 | 15 649 |
| Glenorchy | 20 269 | 14 774 | 137.2 | 17.7 | 4 119 802 | 10 956 | 23 915 |
| Hobart | 25 197 | 16 900 | 149.1 | 9.9 | 8 963 338 | 13 834 | 29 197 |
| Launceston | 19 047 | 18 013 | 105.7 | 17.0 | 694 518 | 14 646 | 31 844 |
| Brighton | 2 677 | 2 921 | 91.6 | 17.8 | 764 145 | 8 278 | 18 410 |
| Burnie | 9 494 | 7 976 | 119.0 | 14.6 | 483 712 | 14 788 | 31 391 |
| Central Coast | 7 179 | 5 835 | 123.0 | 28.5 | 400 760 | 16 734 | 35 175 |
| Derwent Valley | 3 714 | 2 183 | 170.1 | 13.3 | 18 445 | 7 665 | 14 731 |
| Devonport | 19 029 | 8 910 | 213.6 | 14.6 | 3 410 566 | 14 812 | 31 633 |
| Huon Valley | 7 906 | 5 967 | 132.5 | 17.6 | 32 482 | 11 071 | 17 378 |
| Kingborough | 8 863 | 6 938 | 127.7 | 22.0 | 666 241 | 13 629 | 28 381 |
| Meander Valley | 4 801 | 4 804 | 99.9 | 17.4 | 51 151 | 8 717 | 17 602 |
| Northern Midlands | 6 000 | 4 639 | 129.3 | 24.1 | 41 547 | 16 732 | 31 790 |
| Sorell | 9 741 | 3 924 | 248.2 | 17.4 | 326 286 | 14 069 | 22 110 |
| Waratah-Wynyard | 3 871 | 4 080 | 94.9 | 13.9 | 37 855 | 9 353 | 17 791 |
| West Tamar | 6 465 | 5 210 | 124.1 | 14.1 | 303 185 | 9 105 | 18 543 |
| Break O'Day | 4 714 | 3 398 | 138.7 | 15.7 | 32 551 | 17 849 | 18 054 |
| Central Highlands | 3 863 | 2 766 | 139.7 | 41.7 | 15 943 | 54 041 | 32 801 |
| Circular Head | 5 590 | 4 240 | 131.8 | 19.4 | 27 554 | 16 285 | 27 552 |
| Dorset | 6 366 | 3 922 | 162.3 | 25.5 | 48 086 | 21 682 | 29 807 |
| Flinders | 1 136 | 1 437 | 79.1 | 32.1 | 21 027 | 53 548 | 34 782 |
| George Town | 2 963 | 2 128 | 139.2 | 14.5 | 155 949 | 14 914 | 22 925 |
| Glamorgan Spring Bay | 3 135 | 1 952 | 160.6 | 12.0 | 29 397 | 17 169 | 13 801 |
| Kentish | 2 815 | 2 659 | 105.9 | 22.2 | 89 297 | 15 893 | 28 810 |
| King Island | 2 050 | 1 814 | 113.0 | 32.2 | 55 722 | 38 044 | 37 029 |
| Latrobe | 4 065 | 2 503 | 162.4 | 21.6 | 223 769 | 12 611 | 23 100 |
| Southern Midlands | 2 484 | 2 746 | 90.5 | 19.1 | 31 064 | 12 956 | 22 764 |
| Tasman | 1 828 | 1 224 | 149.3 | 11.1 | 67 346 | 18 824 | 13 118 |
| West Coast | 4 092 | 2 928 | 139.8 | 11.9 | 7 976 | 16 249 | 16 656 |
| **Total** | **213 666** | **157 717** | | | | | |
| **Average per Council** | **7 368** | **5 439** | **134.8** | **18.9** | **762 694** | **17 293** | **24 370** |
| **Total 2012-13** | **222 084** | **153 695** | | | | | |
| **Average per Council 2012-13** | **7 658** | **5 300** | **139.7** | **5.9** | **776 690** | **18 311** | **25 067** |

# LOCAL GOVERNMENT DIGITAL PROJECT

## SNAPSHOT

- The Australian Government Department of Broadband, Communications and the Digital Economy (the Department) provided funding to nine Tasmanian Councils under the Local Government Digital Project.
- Costs incurred on the projects totalled $4.531m, funded by Commonwealth grants of $3.169m and council own sources, $1.362m.
- Sorell, George Town and Glamorgan Spring Bay Councils failed to comply with the tendering requirements of the *Local Government Act (1993)* (The Act) for the supply of goods and services greater than $100 000.

We recommended that:

- Councils seek tenders for all goods and services at or over the prescribed amount of $100 000.
- Where a council seeks to take advantage of the exemptions available in section 27(1), it obtain legal advice to support its interpretation of the regulations.
- Where the regulations require specific actions, councils ensure they meet these requirements.

## INTRODUCTION

The Department provided funding, commencing in June 2012, to nine Tasmanian Councils under the Local Government Digital Project (the Project). Rounds one, two and three of the Project provided funding for the following objectives:

- Development and implementation of a system that provided a range of videoconferencing, work flow and communications applications to allow community members, developers and other stakeholders to communicate and interact, using the National Broadband Network (NBN).
- Delivery of local government services in NBN fibre rollout sites. This was aimed at co-ordinating and facilitating responses to a range of emergency management situations in a local government area.
- Delivery of local government services in the municipal NBN fibre rollout area, including community engagement and interactive training workshops.

Costs incurred, by the nine councils, on the projects totalled $4.531m, funded by Commonwealth grants of $3.169m and council own sources, $1.362m. The following table provides details of each council's funding, own contributions and total costs for their projects.

| Council | Grant funding | Council Contributions | Total Cost |
|---|---|---|---|
| | $ | $ | $ |
| Break O'Day | 410 300 | 138 000 | 548 300 |
| Circular Head | 412 483 | 177 890 | 590 373 |
| Clarence City | 412 000 | 190 222 | 602 222 |
| Dorset | 247 434 | 82 500 | 329 934 |
| George Town | 412 500 | 137 500 | 550 000 |
| Glamorgan Spring Bay | 412 500 | 137 500 | 550 000 |
| Kingborough* | 155 000 | 50 403 | 205 403 |
| Launceston City | 384 780 | 340 236 | 725 016 |
| Sorell | 321 640 | 107 852 | 429 492 |
| **Total** | **3 168 637** | **1 362 103** | **4 530 740** |

** Council did not expend total grant funding.*

## ACTIONS TAKEN BY COUNCILS

Councils entered into contracts with suppliers to meet the objectives of the grant funding, but in most cases did not seek tenders. Instead, most councils considered, and in some cases resolved, that the required services and products could only be delivered by a specific supplier, due to its knowledge of the software systems used by participating councils and in the NBN rollout. It was believed no other suppliers in Tasmania had the skills and expertise to meet the funding objectives.

The Department provided each council with a videoconferencing services panel document, which detailed a number of suppliers able to undertake work on their project. All suppliers on this panel document were mainland based and as noted above, the councils did not believe that local suppliers had sufficient knowledge of the software systems used. Councils were not required by the Commonwealth to use or seek tenders from the panel document suppliers.

## REQUIREMENTS OF THE LOCAL GOVERNMENT ACT 1993

Section 333A(1) of the *Local Government Act 1993* (the Act) requires the following:

> *"Council must invite tenders for any contract it intends to enter into for the supply or provision of goods and services valued at or above the prescribed amount".*

The prescribed amount is defined in the *Local Government (General) Regulations 2005* (Regulations) as $100 000.

However, sub-section (3) provides for prescribed situations or contracts where sub-section (1) is not applicable. Section 27 of the Regulations, *Non-application of public tender process*, details prescribed situations and contracts for the purposes of section 333A (3) of the Act. Specifically, most councils relied on section 27(1)(h) of the Regulations to support their decision not to seek tenders for the NBN project. Section 27(1)(h) states:

> *(1) The following situations and contracts are prescribed for the purposes of section 333A(3) of the Act:*
>
> *(h) a contract for goods or services if the council resolves by absolute majority and states the reasons for the decision, that a satisfactory result would not be achieved by inviting tenders because of:*
>
> *i. extenuating circumstance;*
>
> *ii. the remoteness of the locality; or*
>
> *iii. the unavailability of competitive or reliable tenderers;…*

The decision of councils not to seek tenders on the NBN project rested with each individual council. The Act and Regulations provide relief from seeking tenders where there is the unavailability of competitive or reliable tenders.

One council relied on section 27(1)(b) of the Regulations to support its decision not to seek tenders for the NBN project. Section 27(1)(b) states:

> *(b) a contract for goods or services supplied or provided by, or obtained through, an agency of a State or of the Commonwealth;…*

This Council believed the suppliers best placed to deliver the desired services were those nominated by the Department in the services panel document. Council sought quotes from all panel document suppliers, reviewed the quotes through a standard evaluation process and appointed the successful provider.

## FINDINGS

Of the nine councils that receive funding:

- Break O'Day, Circular Head and Dorset Councils resolved by absolute majority to appoint a specific supplier without going to tender in accordance with section 27(1)(h) of the Regulations
- Launceston City Council did not require any one contract over $100 000, excluding it from section 333A(1)
- Clarence City Council appointed a supplier through a tender process in compliance with section 333A(1)

- Kingborough Council sought quotes from each supplier provided in the services panel document provided by the Department. It considered the use of the panel document suppliers allowed it to rely on section 27 (1) (b) of the Regulations and not to seek public tenders. However, Council did not seek legal advice to support it decision.
- Sorell, George Town and Glamorgan Spring Bay Councils failed to comply with the tendering requirements of the Act. These councils should have resolved by absolute majority to appoint a specific supplier without going to tender in accordance with section 27 (1) (h).

## RECOMMENDATIONS

We recommend that:

- Councils seek tenders for all goods and services at or over the prescribed amount of $100 000.
- Where a council seeks to take advantage of the exemptions available in section 27(1), it obtain legal advice to support its interpretation of the regulations.
- Where the regulations require specific actions, councils ensure they meet these requirements.

# LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY

## SNAPSHOT

- Fifteen of the 29 councils, over the eight year period of review, averaged an Operating surplus ratio below the benchmark of zero, which is too high. Twelve recorded Operating deficits in 2013-14.
- While there was an improvement in the average Asset sustainability ratio over the period under review, at a total councils level, in general, councils are slightly under-investing in capital expenditure on existing assets.
- Nineteen councils have implemented asset management and financial management plans in accordance with the requirements of the Ministerial Orders, 18 of which equalled or bettered the benchmark for the Asset renewal funding ratio of 90-100%.
- Councils' road assets have sufficient capacity to provide services to rate payers with no council in the high risk category at 30 June 2014.
- All councils were in a position where they were able to service their current commitments, had manageable debt levels and capacity to borrow should the need arise.
- Councils, in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from financial operating and asset management perspectives but low risk from a net financial liabilities perspective.

## RECOMMENDATIONS

We recommend that all councils develop plans with the objective of achieving positive Operating surplus ratios.

## INTRODUCTION

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

The ratios analyse councils' operating results, asset management practices and net financial liabilities (liquidity) over the eight year period to 30 June 2014. However, the Asset renewal funding ratio was only calculated based on long-term financial and asset management plans, where available, examined since 30 June 2012.

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

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

## INDICATORS OF FINANCIAL SUSTAINABILITY

A generally accepted definition of financial sustainability is whether local government councils have sufficient current and prospective financial capacity to meet their current and prospective financial requirements. Therefore, to be sustainable, councils 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 applied to assess financial sustainability were selected because they provide a set of interrelated indicators enabling self and comparative assessment. Because these ratios provide a method to analyse past results they can be helpful as indicators in forecasting and identifying trends.

Therefore, councils can use ratios such as those applied here to assess their own current and future financial performance and position.

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

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

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

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

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

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

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

| Indicator | Formula | Benchmark | Description |
|---|---|---|---|
| Operating surplus ratio (Underlying result ratio) | $\frac{\text{Net operating surplus divided by}}{\text{Total operating revenue}}$ | Greater than 0 – break even operating result | A positive result indicates a surplus, the larger the surplus the stronger the result and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long term.<br>Net result and underlying revenue are obtained from the Comprehensive Income Statement and are adjusted for one-off material items, asset disposal and fair value adjustments, amounts received specifically for new or upgraded assets, physical resources received free of change (such as developer contributions, operating results from discontinued operations and operating grants received in advance (such as financial assistance grants), financial assistance grants received in the wrong financial period, developer contributions and any other material one-off (non-recurring) items of revenue or expenditure. |

| Indicator | Formula | Benchmark | Description |
|---|---|---|---|
| Asset sustainability ratio | Renewal and upgrade expenditure on existing assets divided by<br>———<br>Depreciation on existing assets | At least 100% | Comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate.<br>Expenditure included on the numerator must be expenditure that was 'capitalised', not expensed, on assets that will require future maintenance and depreciation.<br>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. |
| Asset renewal funding ratio | Future (planned) asset replacement expenditure compared with<br>———<br>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.<br>This is a most useful measure relying on the existence of long-term financial (or separate asset) management plans. Where these may exist, unless they have been independently assured, they will not be used (however, we subsequently decided to accept plans as provided). |
| Asset consumption ratio – roads | Depreciated replacement cost divided by<br>———<br>Current replacement cost | >60% | Shows the depreciated replacement cost of an entity's depreciable assets relative to their 'as new' (replacement) value.<br>It therefore shows the average proportion of new condition left in assets.<br>Depending on the nature of the entity's assets, this ratio could be calculated in total and by asset class, for example roads, bridges and stormwater assets. |

| Indicator | Formula | Benchmark | Description |
|---|---|---|---|
| Net financial liabilities ratio | Liquid assets less Total liabilities compared to<br>———————<br>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.<br>Where the value is falling over time, it indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.<br>Reasons for an increase in the net financial liabilities ratio will sometimes also result in an entity incurring higher net operating costs (eg from additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the entity's overall operating result.<br>A Council with a healthy operating surplus could quite appropriately decide to allow its Net financial liabilities ratio to increase in order to provide additional services to its community through the acquisition of additional assets without detracting from its financial sustainability. |

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

As noted we expanded our sustainability assessment of councils by incorporating information on governance arrangements focussing on audit committees, their charters and the existence of an internal audit function. In conjunction with operating performance, asset management and the extent to which net liabilities can be serviced by operating income, we consider appropriate audit committee arrangements, including oversight of financial sustainability, as relevant to our comparative assessment of councils. The results of our review are detailed in a Governance section in this Chapter.

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

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

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

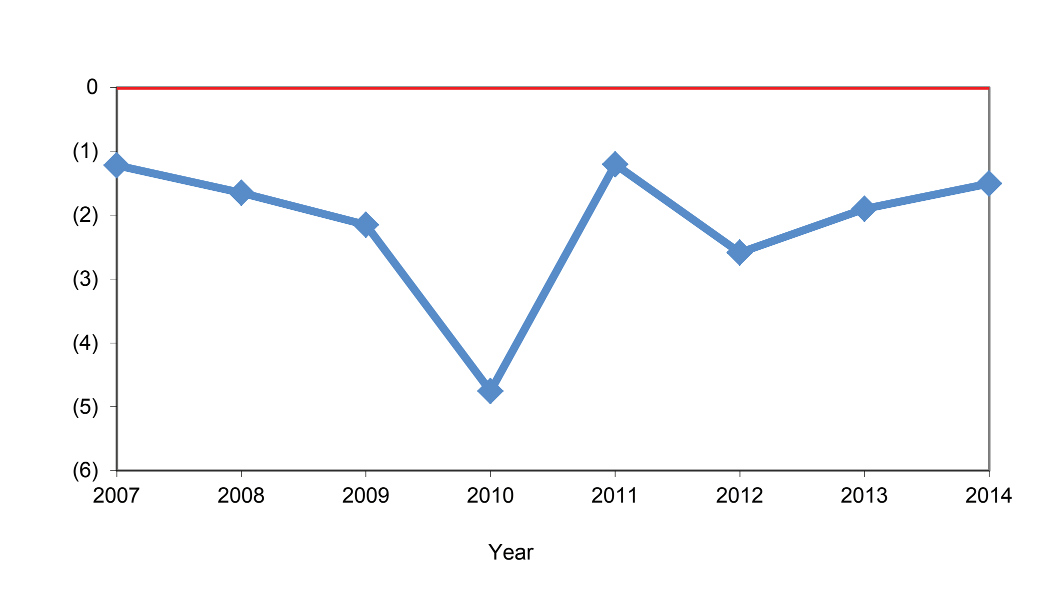
## FINANCIAL SUSTAINABILITY TRENDS

### Operating surplus ratio

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

Figure 2 shows the operating surplus ratio achieved on a consolidated basis by the 29 councils in each of the past eight years.

Figure 2: Average all councils Operating surplus ratio




*Source: Tasmanian Audit Office*

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

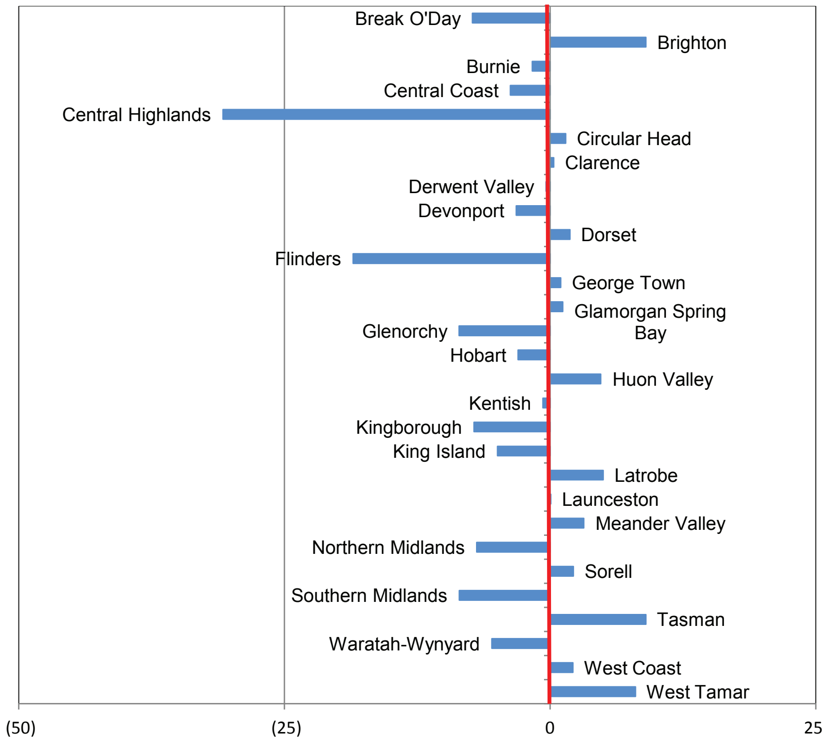
There was a significant improvement in 2010-11, with a ratio of minus 1.2. However, the average operating margin declined to minus 2.2 in 2011-12, with slight increases since then, to an average of minus 1.6 across all councils in 2013-14.

The 29 councils generated a combined Net underlying deficit of $1.656m in 2013-14 (2012-13, $7.547m), with 12 councils generating Net operating deficits totalling $18.018m ($15.871m) in that financial year. The following table shows all councils that generated Net operating deficits in 2013-14 along with respective operating margins.

| | Underlying Deficit 2013-14 | Operating Surplus Ratio 2013-14 |
|---|---|---|
| | $'000s | $'000s |
| Brighton | (140) | (1.1) |
| Burnie | (1 920) | (5.1) |
| Central Highlands | (849) | (12.5) |
| Circular Head | (1 438) | (11.0) |
| Dorset | (512) | (4.3) |
| Flinders | (1 883) | (49.4) |
| Glenorchy City | (5 565) | (11.0) |
| King Island | (176) | (2.9) |
| Launceston City | (2 755) | (3.0) |
| Southern Midlands | (193) | (1.9) |
| Waratah-Wynyard | (1 658) | (10.4) |
| West Coast | (929) | (8.1) |
| **TOTAL** | **(18 018)** | |

Figure 3 details the eight-year average operating surplus ratio for each council.

Figure 3: Eight-year average operating surplus ratios

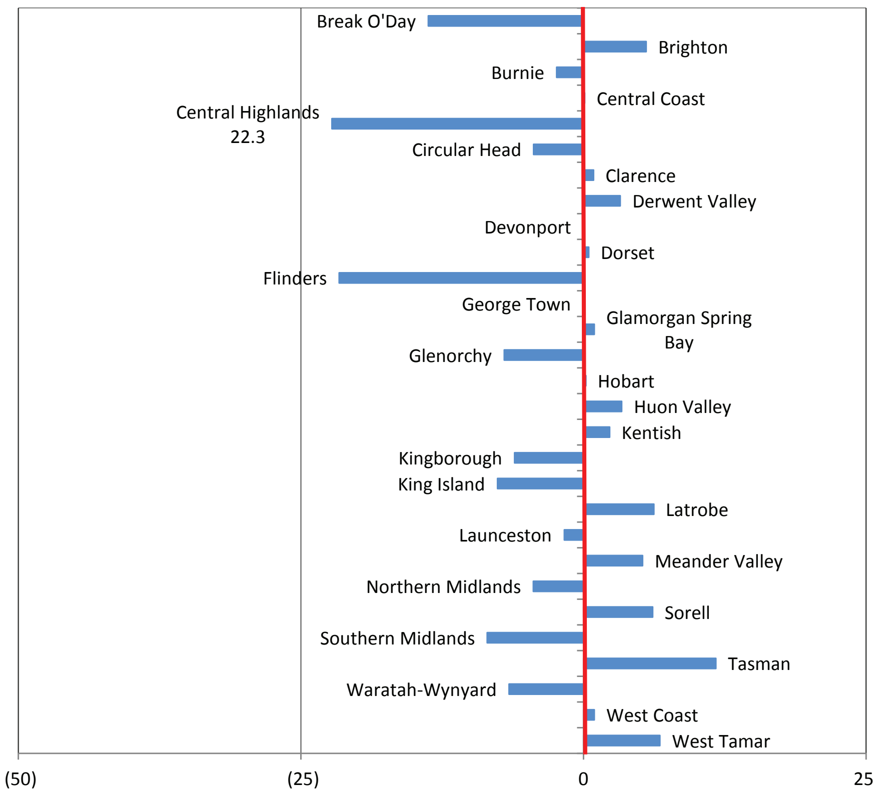



*Source: Tasmanian Audit Office*

The figure shows that 15 of the 29 councils, on average over the eight-year period, operated below the benchmark. Of the 29 councils, 12 (16) recorded operating deficits, and therefore a negative Operating surplus ratio, in 2013-14.

Figure 4 details the four-year average operating surplus ratio for each council. This was included to assess whether or not there has been improvement and to remove the negative impact in 2009-10 of the water and sewerage reforms.

Figure 4: Four-year average Operating surplus ratio




*Source: Tasmanian Audit Office*

The figure shows that, similar to the eight year average, 14 of the 29 councils, operated below the benchmark on average over the past four years. This indicates that on the whole there has been no noticeable improvement across councils in relation to operating results.

### Conclusion based on assessment of the Operating surplus ratio

Fifteen councils with an average operating surplus below benchmark over the past eight years, and 14 over the past four years, is too high. This conclusion is not new and it is disappointing that, taken as a whole, there has been little change over the past eight years.

## RECOMMENDATION

We recommend all councils develop plans with the objective of achieving positive Operating surplus ratios.

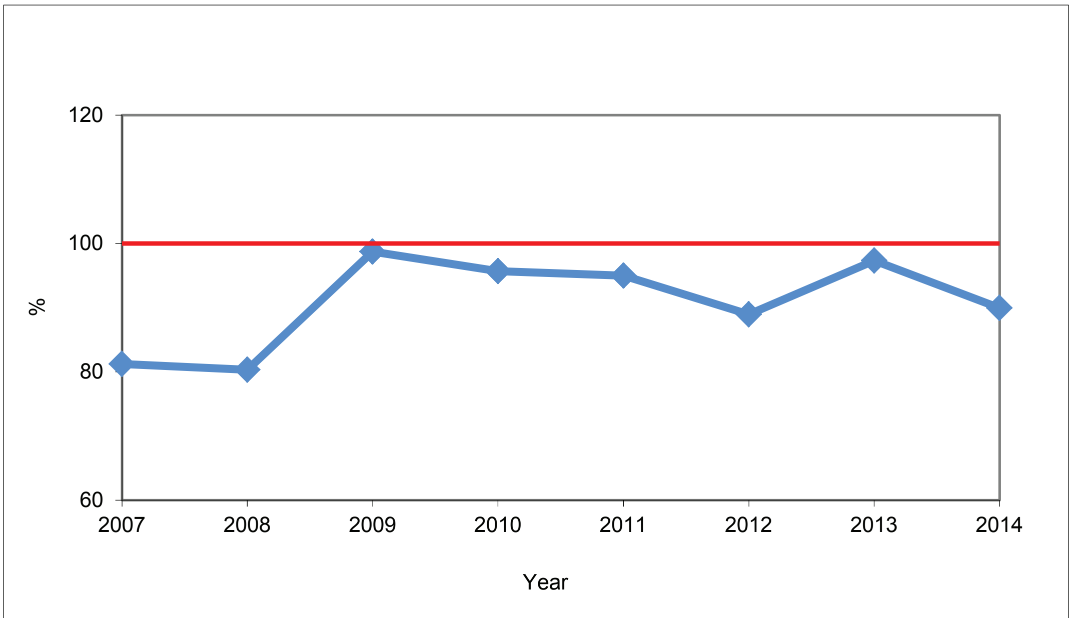
## Asset sustainability ratio

This ratio calculates the extent to which councils are maintaining operating capacity through renewal of their existing asset base. The generally accepted benchmark for this ratio, subject to levels of maintenance expenditure and the existence of 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 a number of years. As a result, our assessment is based on an eight-year average. It is also acknowledged that this ratio has imperfections which are addressed by the Asset renewal funding ratio discussed later in this Chapter. However, until all councils have established adequate long-term asset management and financial plans in accordance with the Local Government Ministerial Orders, we will continue to include the asset sustainability ratio in our assessments of financial sustainability.

Figure 5 shows the asset sustainability ratio on a consolidated basis for the 29 councils in each of the past eight years.

### Figure 5: Average Asset sustainability ratio



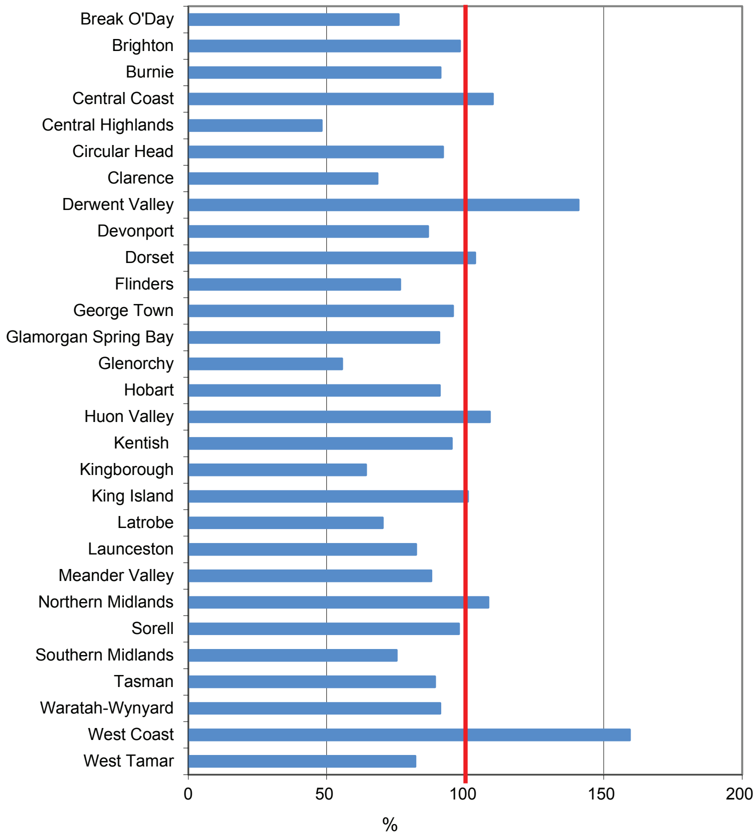

*Source: Tasmanian Audit Office*

Councils expended, on average over eight years, 91% (92% over seven years) of their depreciation expense to maintain their existing non-current assets.

The ratio improved from 79% in 2007 to 92% in 2014 with this increase likely in part due to the development of management and financial plans.

Figure 6 shows the average eight-year asset sustainability ratio achieved by each council.

Figure 6: Eight-year average Asset sustainability ratio




*Source: Tasmanian Audit Office*

In most cases councils failed to meet the benchmark, with only seven (eight) having an asset sustainability ratio equal to or above 100% over the eight year period. However, a further three (eight) councils averaged above 90% and only one was below 50% (two).

### Conclusion based on assessment of the Asset sustainability ratio

Councils on the whole have slightly under invested in capital expenditure on existing assets in comparison to the benchmark. Results have improved across the board since we began the review eight years ago as there has been a greater focus on long-term planning.

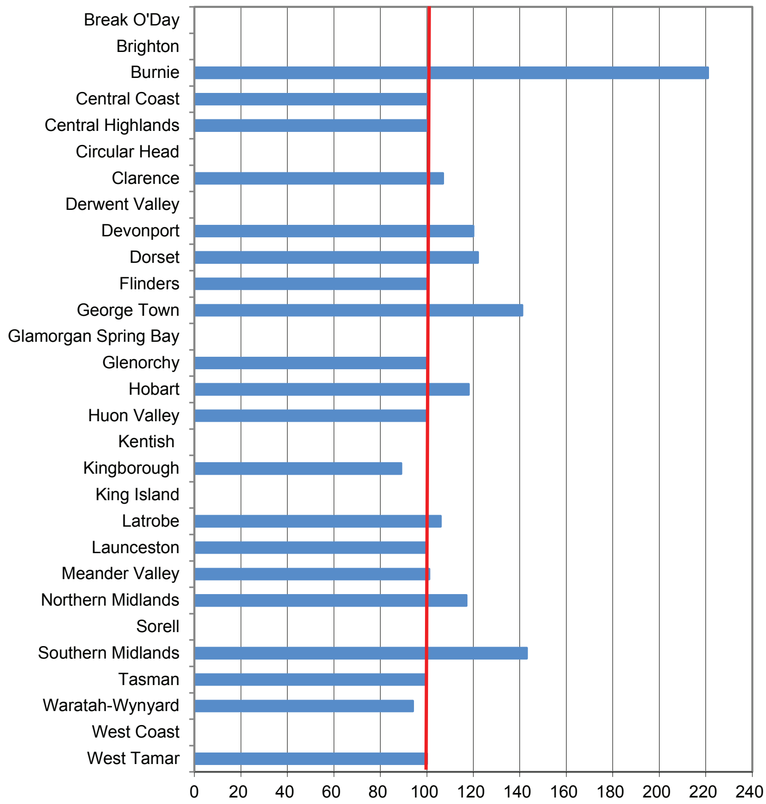
## Asset renewal funding ratio

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 7 shows the Asset renewal funding ratio for those councils that had long-term financial and asset management plans. The ratio is calculated at 30 June 2014 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 the *Local Government Act 1993*, and some extending to up to 20 years. Where there is no blue line, this represents no asset management or financial plans in accordance with the Ministerial Orders, making it difficult to calculate the Asset renewal funding ratio.

Figure 7: Asset renewal funding ratio




*Source: Tasmanian Audit Office*

Councils that produced long-term financial and asset management plans in accordance with the Ministerial Orders have 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 buildings infrastructure assets by each council in accordance with the requirements of the *Local Government Act 1993*.

Nineteen of the 29 councils demonstrated ratios equal to or better than our 90% benchmark with only one being just below at 89%. Nine (seven in 2012-13) councils had no approved plans established in accordance with the Ministerial Orders.

### Conclusion based on assessment of the Asset renewal funding ratio

Nineteen councils have developed approved asset management and financial management plans in accordance with the requirements of the Ministerial Orders, 18 of which equalled or bettered benchmark.

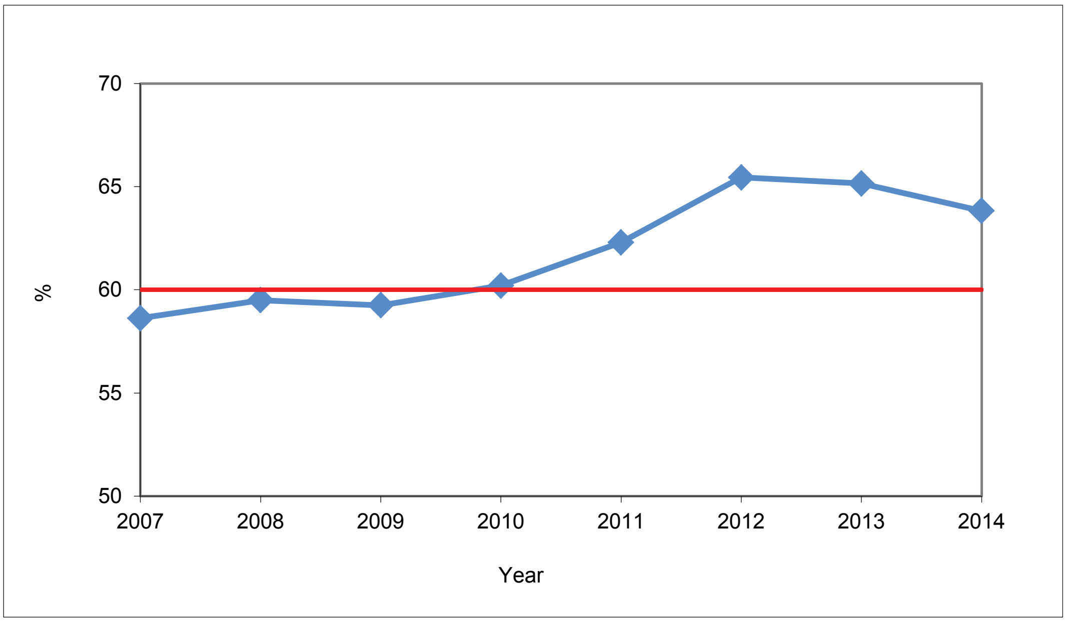
## Road consumption ratio

Our review of asset consumption was based only on road infrastructure primarily due to these assets representing 68.8%, or $3.243bn, of total infrastructure assets held by the 29 councils of $4.712bn.

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

Figure 8: Average Road consumption ratio




*Source: Tasmanian Audit Office*

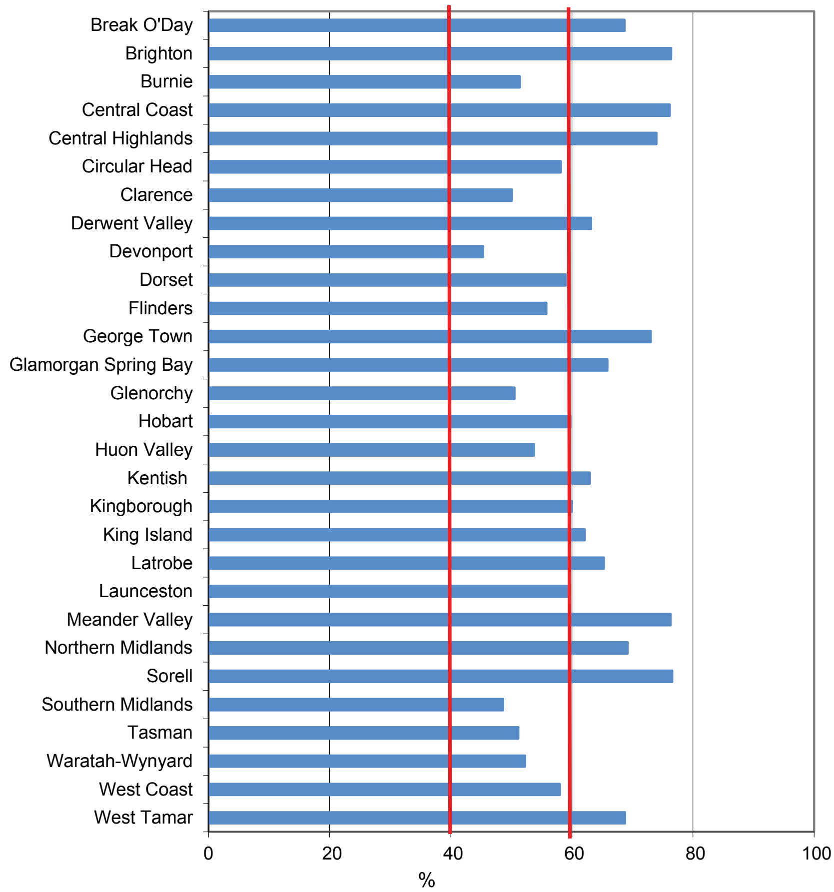
The figure indicates relatively low levels of consumption of council road assets with improvement over the period. The Road consumption ratio improved from 58% in 2007 to 64% in 2014, with all councils within a low or moderate asset sustainability risk. A number of reasons contributed to the improvement including:

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

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

Figure 9 shows the eight-year average Road consumption ratio for each council.

Figure 9: Eight-year average Road consumption ratio




*Source: Tasmanian Audit Office*

Fifteen (15 in 2013) of the 29 councils, on average over the eight-year period to 30 June 2014, had low asset management risk with the remaining 14 (14) at moderate risk.

### Conclusion based on assessment of the Road consumption ratio

There has been improvement in the level of consumption of road infrastructure assets over the eight year period. At 30 June 2014, no council was below our high risk benchmark of 40%.

## Net financial liabilities ratio

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

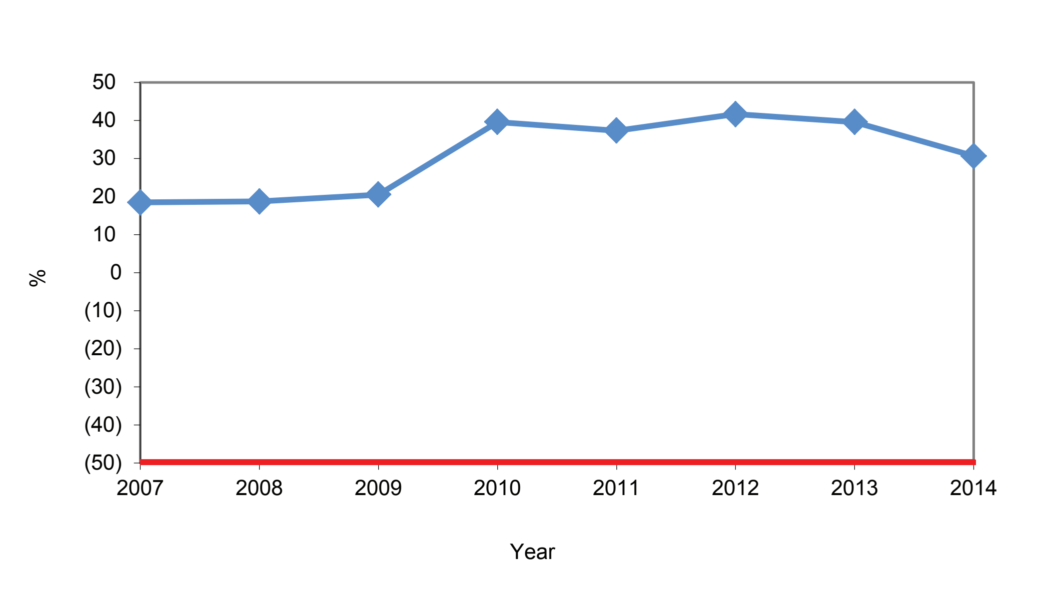
Where the ratio is positive, it indicates a council's Liquid assets exceeded its Total Liabilities and that, therefore, at least in the immediate term, additional operating income is not needed to service current obligations.

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

Figure 10 shows the Net financial liabilities ratio on a consolidated basis for the 29 councils in each of the past eight years.

Figure 10: Average Net financial liabilities ratio




*Source: Tasmanian Audit Office*

The average Net financial liabilities ratio was positive each year. This was because, on a consolidated basis, total liquid assets exceeded total liabilities. At 30 June 2014, the 29 councils had Current liabilities of $135.640m and Non-current liabilities of $119.379m, which included Borrowings of $87.192m. However, Cash and other current Liquid assets totalled $360.461m, which was $105.442m greater than Total Liabilities. Operating revenue generated during 2013-14 totalled $704.493m.

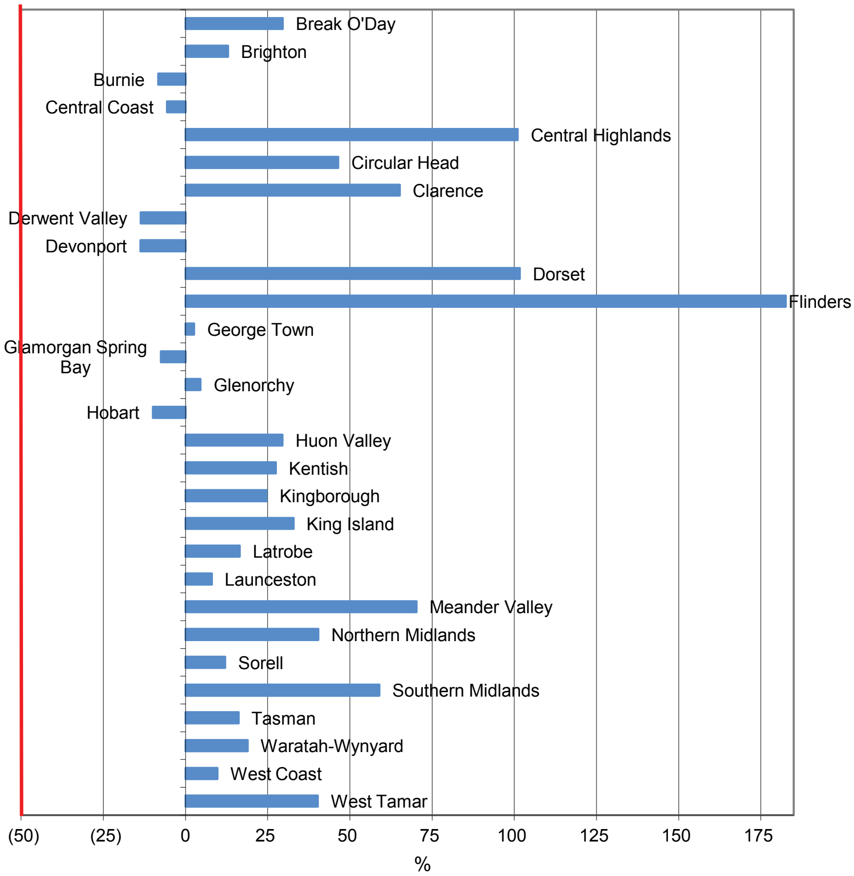
The ratio improved in 2009-10 when many councils transferred borrowings to the water and sewerage corporations.

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

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

Figure 11 shows the average eight-year Net financial liabilities ratio for each council.

Figure 11: Eight-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. The figure also indicates that a number of councils were holding high liquid assets relative to their liabilities.

### Conclusion based on assessment of Net financial liabilities ratio

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

## Governance

Our review specifically concentrated on whether each council had:

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

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

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

It should be noted that Ministerial Orders were issued under the *Local Government Act 1993* in February 2014 that require councils to maintain long-term financial and asset management plans, and maintain an audit panel. Where councils are making progress towards implementing these requirements we have discussed this in the relevant chapters. Our expectation is that all councils will be compliant with the Orders by 30 June 2015, meaning they will have an operating audit panel with independent members and have implemented long-term financial and asset management plans by then.

The following table summarises the results of our review.

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

* *No internal audit function*

** *Plans are workshopped and approved by Council*

*** *Risk and Ethics Committee*

**** *Finance and Economic Development Unit*

Based on our review 18 councils had audit committees. Of those that did not, we noted a number had finance committees that undertook some roles of an audit committee. Eighteen had long-term asset management plans and twenty two had long-term financial management plans.

### Conclusions as to governance arrangements

Overall, only six councils were assessed at low risk from a governance perspective. However, it is our expectation that, in compliance with the Ministerial Orders, by 30 June 2015 all councils will have complied with the Orders by implementing these governance arrangements.

## OVERALL FINANCIAL SUSTAINABILITY ASSESSMENT

Based on these ratios and governance arrangements we concluded that, at 30 June 2014, assessed on average performance over the past eight years, councils in general had a high financial sustainability risk from a governance perspective, moderate financial sustainability risk from financial operating and asset management perspectives but low risk from a net financial liabilities perspective.

While there has been some improvement since 2012-13, a number of councils need to address continued operating deficits, introduction of audit committees and further development of long-term asset and financial management plans.

As mentioned in previous reports, Councils are generally under-investing in existing assets, although not significantly, with only seven out of 29 councils investing in existing assets, on average over an eight year period, in excess of their annual depreciation charge.

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

Individual assessments are included in each council's Chapter.

# LOCAL GOVERNMENT OPERATIONAL EFFICIENCY

## SNAPSHOT

- This Chapter includes an analysis of the following five operational efficiency ratios for councils; rates per rateable property, rates per head of population, operating costs per rateable property, average staff costs per FTE and FTEs per head of population.
- All graphs and commentary should be read with caution given that numerous factors unique to municipalities can impact on total rates, operating and employee costs and staff levels.
- On average, the greater the number of rateable properties in a municipality, the higher the rates.
- There was much variation in rates per capita, but overall, the higher the population the lower the rates per capita.
- There is a greater disparity between councils in regard to operating costs per rateable property than rates per rateable property. However, consistent with rates per rateable property, Hobart, Burnie and Devonport Cities were higher than the average operating cost per rateable property.
- Average staff costs per FTE varied significantly between councils – from a high of $0.088m at George Town to a low of $0.054m at Central Highlands. This variation was less for city councils with Launceston being the highest at $0.087m and Clarence the lowest at $0.068m.
- FTEs increased as the population of the municipality increased.
- The ratio of FTEs per head of population was relatively consistent across councils with the only outlier being Hobart City, which had a significantly higher number of FTEs per head of population, potentially because of the activities undertaken by its outside labour force as well as factors unique to it being the State's capital.

## INTRODUCTION

Indicators of operational efficiency of councils were included in the Comparative Analysis section of this Volume in prior years but without separate commentary. This year we provide further analysis of 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.

Our analysis provides a high level comparison across all councils with further detail provided in individual chapters that reviews operational efficiency over a four year period.

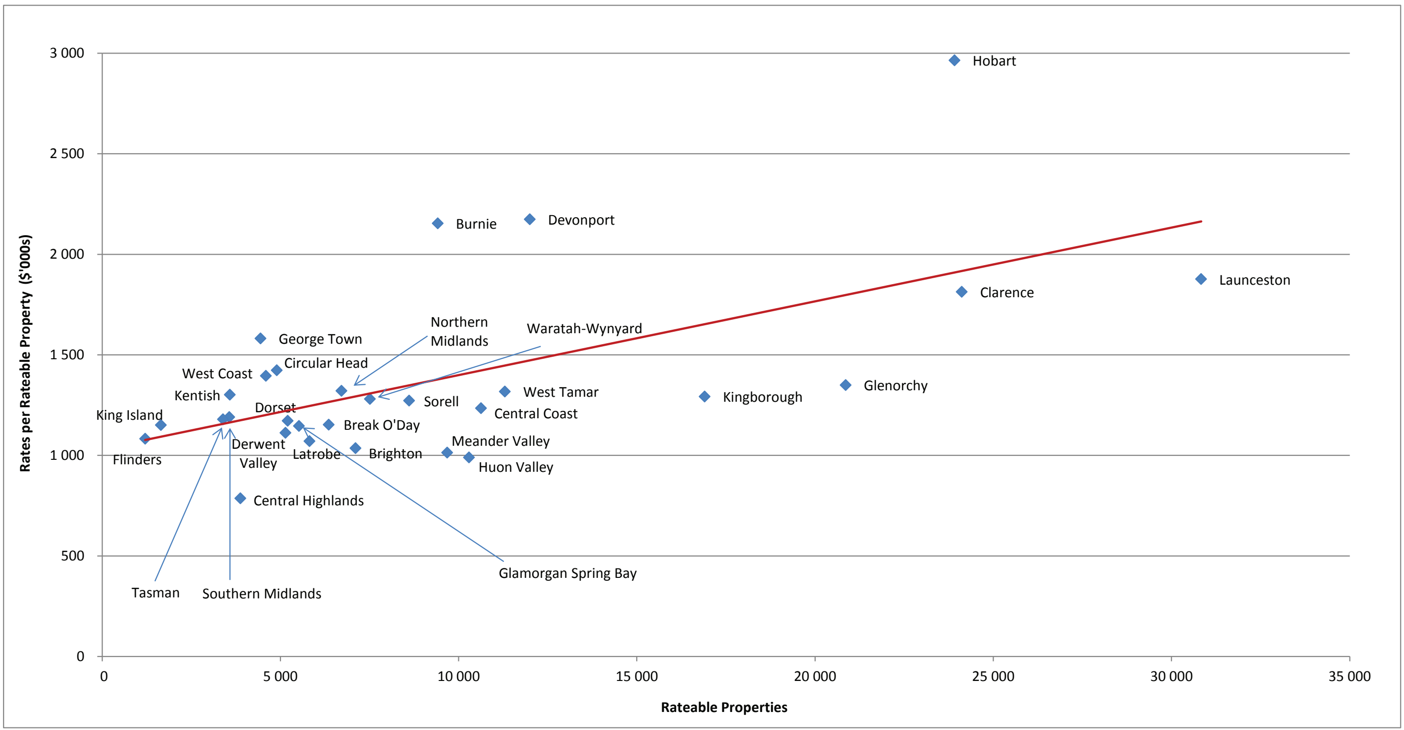
## OPERATIONAL EFFICIENCY

All graphs below should be read with caution given that numerous factors unique to each municipality can impact on the rates levied, operating and employee costs and staff levels. These factors include relative size of commercial sectors, movements in capital property value, the number of rateable properties, population sizes, commercial versus rural properties, the range of services provided by councils and the levels of own-source revenues. In addition, there may be other relevant measures that can provide further indications of operational efficiency and no measure should therefore be read in isolation.

## Rates per rateable property

Figure 12 shows the rates per rateable property for each council.

### Figure 12: Rates per rateable property




*Source: Tasmanian Audit Office*

Figure 12 indicates four things:

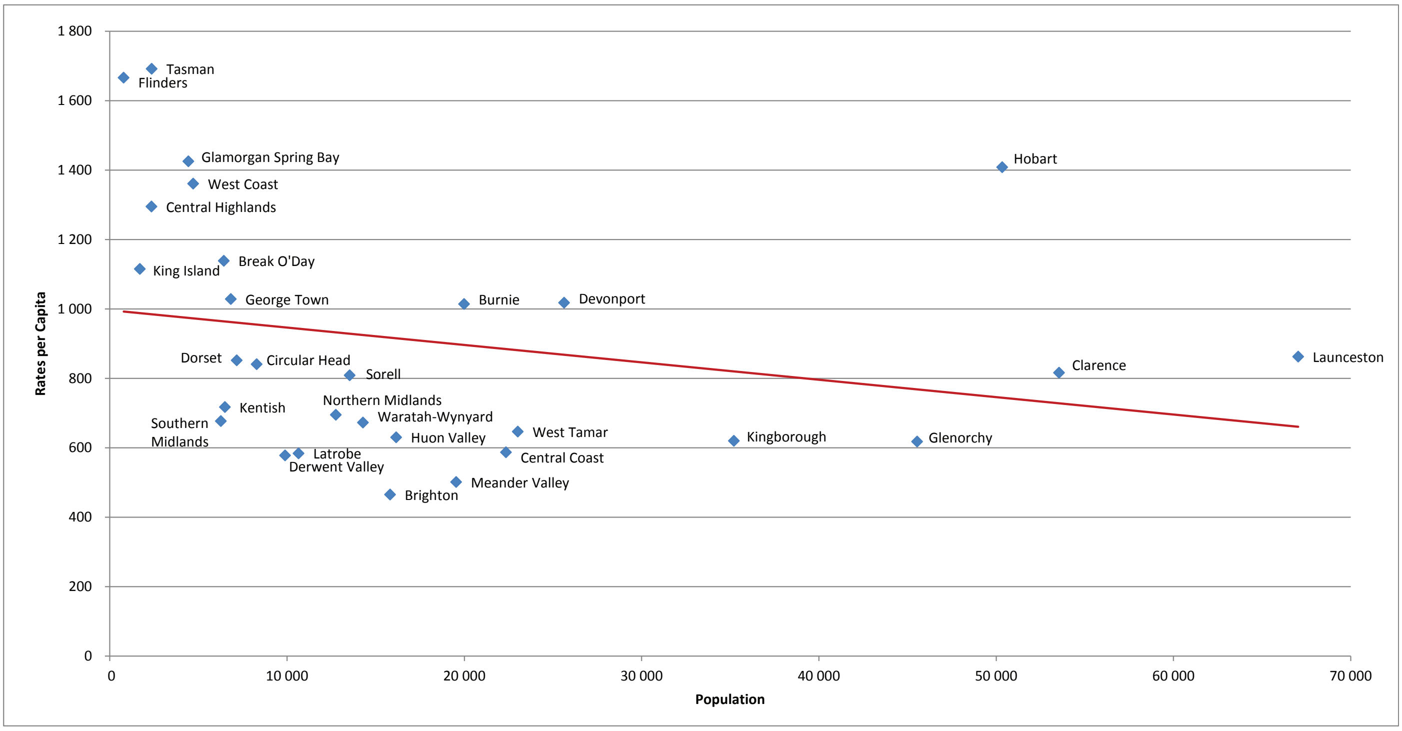
1. on average, the greater the number of rateable properties in a municipality, the higher the rates
2. other than Glenorchy, the other five city councils had the highest rates
3. of the small councils, George Town had the highest rates per rateable property
4. Central Highlands had the lowest rates, followed by Latrobe and Huon Valley.

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.

## Rates per head of population

Figure 13 shows the rates per head of population (per capita) for each council.

Figure 13: Rates per capita




*Source: Tasmanian Audit Office*

Figure 13 indicates four things:

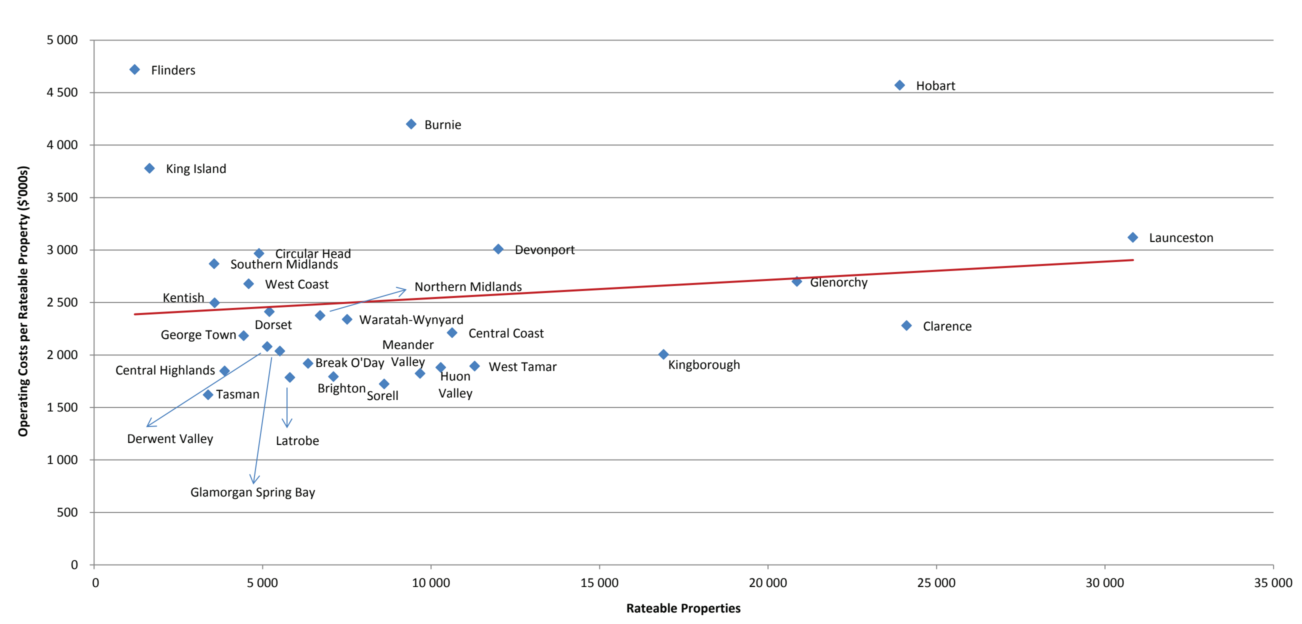
1. there was much variation in rates per capita
2. overall, the higher the population the lower the rates per capita
3. Hobart City was an exception to this general observation
4. five small councils with low populations had high rates per capita which was perhaps not unexpected bearing in mind the expectation that they provide similar levels of service from a low population base.

We note that seasonal factors at the time of census may influence population data in some municipal areas. Also, and as mentioned previously, regard must be made to the facts, that relative sizes within municipalities of high value commercial properties without corresponding residential populations, many of whom travel into cities to work, can inflate this ratio.

## Operating costs per rateable property

Figure 14 shows the operating costs per rateable property for each council.

Figure 14: Operating costs per rateable property



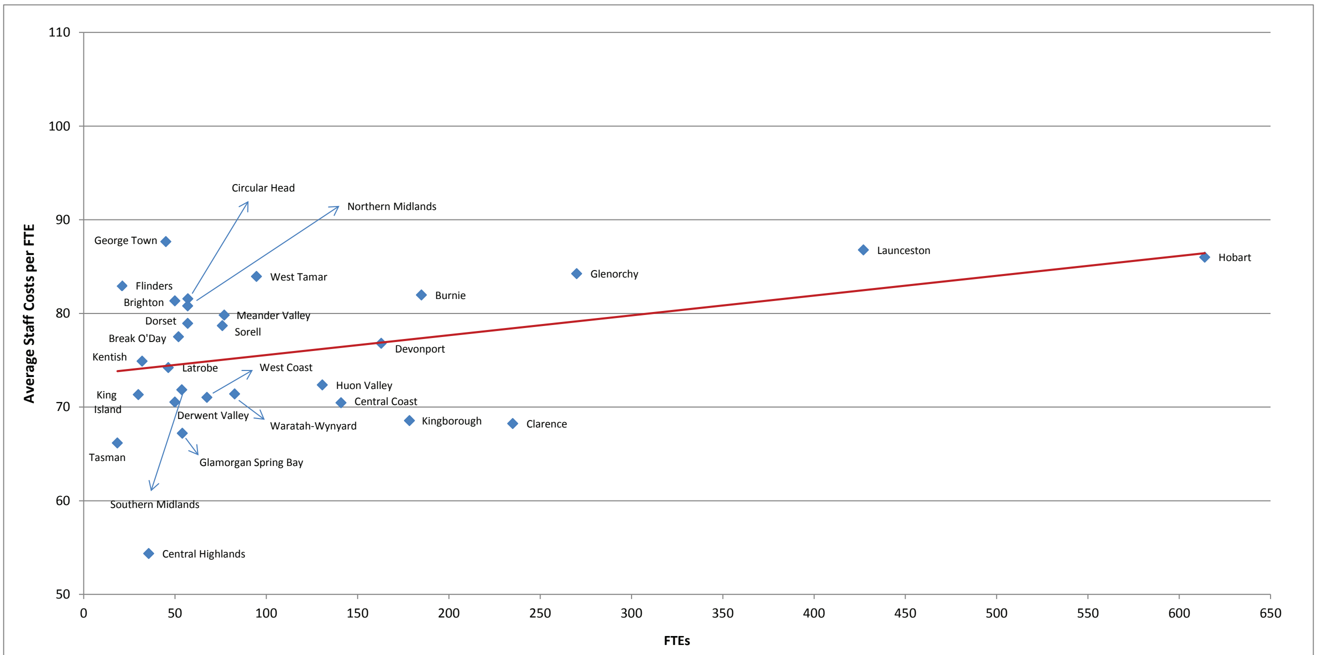

*Source: Tasmanian Audit Office*

Figure 14 highlights a greater disparity between councils' operating costs per rateable property than rates per rateable property. However, consistent with rates per rateable property, Hobart, Burnie and Devonport Cities were higher than the average operating cost per rateable property. Perhaps understandably, Flinders and King Island Councils had high operating costs per rateable property likely due to the smaller number of rateable properties in these municipalities. The relative size of commercial sectors which provide significant rates but not necessarily the proportionate number of rateable properties can inflate this ratio somewhat. In comparing councils it is also important to note that councils 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.

## Average staff costs per FTE

Figure 15 shows the average staff costs per FTE for each council.

Figure 15: Average staff costs per FTE




*Source: Tasmanian Audit Office*

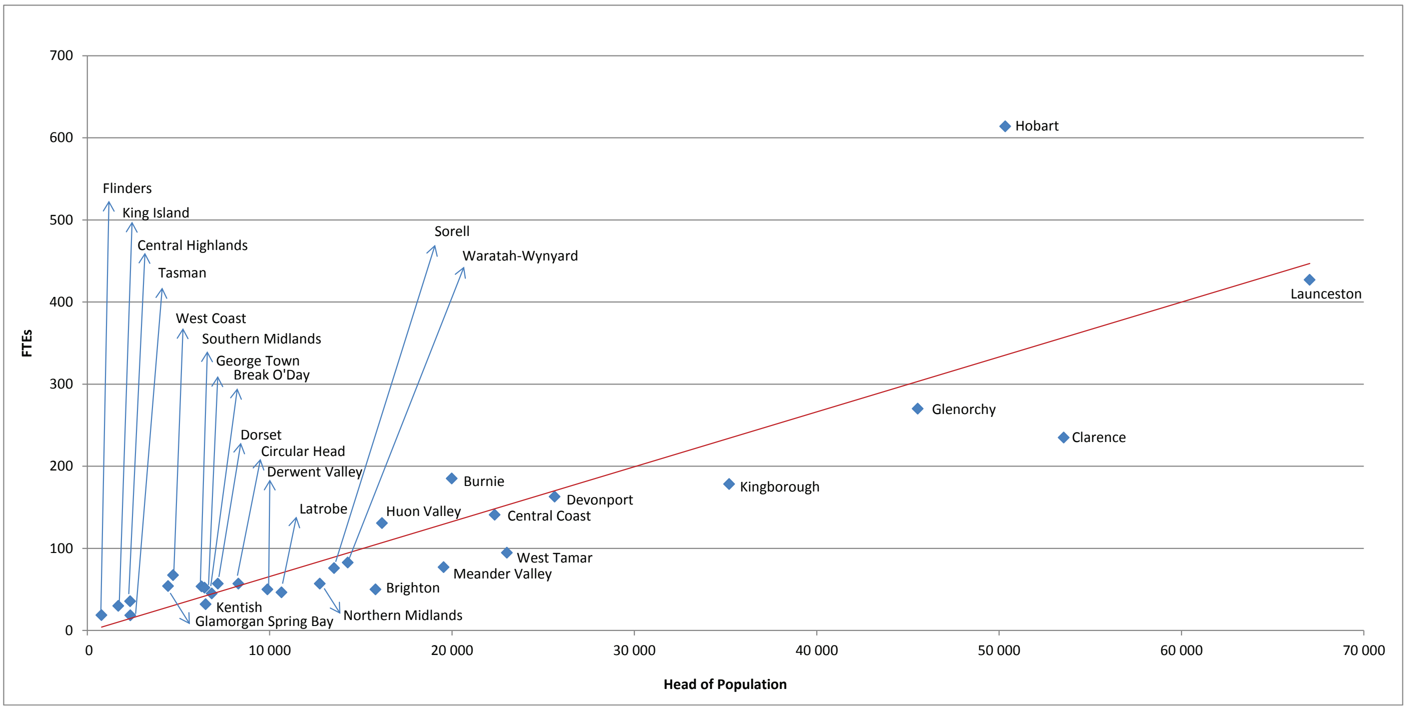
Figure 15 indicates that:

1. average staff costs per FTE varied significantly between councils – from a high of $0.088m at George Town to a low of $0.054m at Central Highlands. This was a variation of $0.033m
2. for city councils the variation was less with Launceston being the highest at $0.087m and Clarence the lowest at $0.068m.

## FTEs per head of population

Figure 16 shows the number of FTEs per head of population for each council.

Figure 16: FTEs per head of population




*Source: Tasmanian Audit Office*

Figure 16 indicates the obvious in that FTEs increased as the population of the municipality increases. The ratio of FTEs per head of population was relatively consistent across councils with the only outlier being Hobart City, which had a significantly higher number of FTEs per head of population, perhaps because, being the State's capital, it provides some functions unique to this role. It may also be reflective of Hobart maintaining an outside day labour force for both maintenance and construction activities while other councils may rely more on contractors.

## COMMENTS AND SUBMISSIONS RECEIVED

In accordance with section 30(2) of the *Audit Act 2008*, a copy of this Chapter was provided to all councils concerned.

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

## Circular Head Council

*In relation to "Average staff costs per FTE", Council has a resource sharing arrangement with the Waratah Wynyard Council. There are currently 13 shared positions. Staff members are employed by one Council and charged out to the other Council. Full employee costs are recorded at the employing Council and income is recorded for their charged out time.*

*There is a net benefit to Circular Head Council of around $170,000 in the 2014 financial year between buying and selling of staff time. This is shown as income, not as a reduction in wages. If the $170,000 were deducted from Total Employee Costs, then Council's "Average staff costs per FTE" would drop from $81,700 to around $78,700 bringing Council more in line with the average.*

*Mr T Smart*
*General Manager*

## Huon Valley Council

*The Huon Valley Council offers a wide variety of services that are not offered by many, if any, other Councils. The effect of the operation of these services is that it skews the operational ratios and therefore the comparisons made between the Huon Valley Council and others is obfuscated.*

*In particular, the Huon Valley Council owns and operates three medical practices. This includes the employment of all general practitioners, practice nurses and administrative staff and all operational expenses. The medical centres as a group operate on a cost neutral basis and do not rely on general rate income. Therefore any ratio incorporating operating expenses and employee costs as against rateable properties and average staff costs per FTE are skewed by these operating expenses.*

*By way of example if the operational expenses of the medical centres were excluded the effect on the ratios is as follows:-*

**Figure 1: Operating costs per rateable property**

| Inclusive of Medical Centres | Comparative Position | Exclusive of Medical Centres | Comparative Position |
|---|---|---|---|
| $1 880.90 | Approx. sixth lowest operating costs per property | $1 726.49 | Approx. second lowest costs per property |

**Figure 2: Average staff costs per FTE**

| Inclusive of Medical Centres | Comparative Position | Exclusive of Medical Centres | Comparative Position |
|---|---|---|---|
| $72 745.90 | Approx. twelfth lowest staff costs per FTE | $66 784.15 | Approx. third lowest costs per FTE |

*Medical centre operating data 2013/2014:*

| | |
|---|---|
| *Employee costs* | *$1 275 609* |
| *FTEs* | *8.45* |

*It is acknowledged that it is not possible to control for all variations in service delivery across Councils. However, given the particular circumstances in this instance the exclusion of medical centre operating costs provides for a fairer benchmark.*

*Simone Watson*
*General Manager*

## Kentish Council

*Kentish Council has no specific comment regarding the commentary and agrees with the general caution given regarding the impact of factors unique to each municipality on rates levied, operating and employee costs and staff levels.*

*Cr Don Thwaites*

*Mayor*

# MINISTERIAL ORDERS

## SNAPSHOT

- In February 2014 Ministerial Orders were gazetted requiring local government councils to establish audit panels, develop long-term financial and long-term asset management strategies, policies and plans and report certain financial sustainability indicators in the notes to annual financial statements.
- Other than the Asset renewal funding ratio, we audited the reported financial sustainability indicators at 30 June 2014.
- In the case of the Asset renewal funding ratio, where reported, we ensured they were in line with approved long-term financial and long-term asset management plans but we did not form an audit opinion on this ratio in particular because this ratio is forward looking and not historical financial information.
- Where a council did not report the Asset renewal funding ratio, reasons were provided along with details as to when compliance will be achieved.
- We assessed, not audited, compliance with three Orders. We found that 12 of the 29 Councils fully complied with all three Orders, with another six Councils at least partially complying with all three.
- There were 11 councils who had still to start implementing at least one of the Orders.
- There were no instances identified where councils refused to implement any of the three Orders and, as a result, all councils should be on track to meet our expectation of implementing the three Orders in full by 30 June 2015.

## BACKGROUND

Following consultation and building on the work of our Office, the *Local Government (Miscellaneous Amendments) Act 2013* (Amendments Act) received Royal Assent on 19 November 2013. Part 4 of the Amendments Act requires councils to:

- maintain long-term financial and asset management plans, financial and asset management strategies and an asset management policy
- maintain an audit panel
- report financial and asset management sustainability indicators in their financial statements.

The Amendments Act also provides a power for the Minister for Local Government to make Ministerial Orders outlining the detail and minimum requirements of the financial and asset management reforms detailed in these three dot points.

Part 4 of the Amendments Act was proclaimed on 7 February 2014. Subsequently, the then Minister for Local Government made the following Ministerial Orders under Sections 70F, 84 (2A) and 85B of the *Local Government Act 1993* (the Act):

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

These Orders were effective on the day of their gazettal which occurred on 19 February 2014.

## PRIMARY FUNCTIONS OR PURPOSE

The primary purpose and or functions of each order are:

### Audit panels

Clause 4 of *Local Government (Audit Panels) Order 2014* notes the following matters that an audit panel is to consider as part of keeping council's performance under review:

a. whether the annual financial statements of the council accurately represent the state of affairs of the council

b. whether and how strategic plan, an annual plan, a long-term financial management plan or a long-term strategic asset management plan of a council are integrated and the processes by which, and assumptions under which, those plans were prepared

c. the accounting, internal control, anti-fraud, anti-corruption and risk management policies, systems and controls that the council has in relation to safeguarding its long-term financial position

d. whether the council is complying with the provisions of the Act and any other relevant legislation

e. whether the council has taken any action in relation to previous recommendations provided by the audit panel to the council and, if it has taken such action, what that action was and its effectiveness.

### Contents of plans and strategies

This Order outlines required content and strategies of the following plans, which must be prepared under sections 70 and 70A to 70E of the Act:

a. long-term financial management plan

b. financial management strategy

c. long-term strategic asset management plan

d. asset management policy

e. asset management strategy.

It also details those classes of assets that are referred to as major assets for purposes of section 70 of the Act.

### Management indicators (referred to by us as financial sustainability indicators)

Section 84 subsection (2A) authorises that the Minister, by order, may specify that annual financial statements of councils include:

a. financial management indicators and

b. asset management indicators.

The Order requires inclusion of the following indicators in the notes to the annual financial statements of each council:

- Asset consumption ratio
- Asset renewal funding ratio
- Asset sustainability ratio
- Net financial liabilities
- Net financial liabilities ratio
- Underlying surplus or deficit
- Underlying surplus ratio.

## WHAT COUNCILS WERE REQUIRED TO DO

### Audit panels

Two situations were evident:

1. Those councils that had already established audit committees were required to ensure that their charters, member appointment, meeting and annual work plan arrangements satisfied the new Order.
2. Those councils, of which at 30 June 2013 there were a number who had no audit committees in place, needed to take steps to appoint committees/panels in line with the Order.

### Plans and strategies

Again, two situations were evident:

1. Those councils that had already developed the required strategies, policies and plans were required to ensure these are integrated and approved by respective audit panels.
2. Those councils who had no strategies or policies and plans in place, were required to take steps to ensure these documents are in line with the Order.

### Financial sustainability (management) indicators

Councils were required to calculate these ratios and include them in the notes to the annual financial statements signed by their general managers and presented for audit commencing 30 June 2014. Where, due to the possible lack of long-term asset management or financial management plans for example, councils were unable to calculate all ratios. Reasons for this were to be provided along with steps as to actions being taken to address this.

## WHAT WE DID

Auditing standard ASA 250 *Consideration of Laws and Regulations in relation to an Audit of a Financial Report* notes that the objectives of the auditor are (our emphasis by underlining):

a. To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations <u>generally recognised to have a direct effect on</u> the determination of material amounts and disclosures in the financial report;

b. To perform specified audit procedures to help identify instances of non-compliance with <u>other laws and regulations that may have a material effect on the financial report</u>; and

c. To <u>respond appropriately</u> to non-compliance or suspected non-compliance with laws and regulations identified during the audit.

This standard defines non-compliance as (our emphasis by underlining):

> *acts of omission or commission by the entity, <u>either intentional or unintentional</u>, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.*

As a result the three Orders had the following impacts on our audits for the year ended 30 June 2014:

- Audit panels – it was our expectation that by 30 June 2014 all councils will have established, or will have progressed establishment of, audit (or equivalent) panels with charters consistent with the Order. Where we found that this was not the case, we reported to the council and to Parliament as part this report. However, non-compliance did not impact on our audit opinion on the financial statements.
- 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, our audits for the 2013-14 financial year:

  - made inquiry into the existence of these plans or progress towards their development
  - established whether they had been reviewed and reported on (reported to Council) by audit panels (the Audit Panels Order makes this a requirement)
  - made inquiry into the extent of reporting by management on compliance with, and achievement of, these plans and evidence of their regular review and update.

  Our findings were reported to councils and to Parliament as part of this report. However, other than any potential impact on the asset renewal funding ratio referred to below, non-compliance will did not impact our audit opinion on the financial statements.

- Management indicators – our reports to Parliament regarding councils have for some time now included all of the indicators required by this Order and as anticipated, other than for the Asset renewal funding ratio, councils reported all of the indicators in the notes to their 2013-14 financial statements. We audited the indicators and formed an opinion on them along with our opinion on the financial statements as a whole. Any non-compliance was reported to respective councils and to Parliament as part of this report. Where there was non-compliance, we assessed the materiality thereof and any implications for 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. As noted in the previous dot point, we inquired into the existence of these plans, their adoption and so on. We also ensured the mathematical accuracy of the 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 report 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.*

  However, we tested calculation of the ratio.

The outcomes of our work are reported to respective councils and to the Parliament as part of this report with details provided in council by council chapters.

## OUR FINDINGS

The following table records our findings in regards to Council compliance with the three Orders.

| Local Government Ministerial Orders 2014 | Audit Panels | Contents of Plans and Strategies | Management Indicators |
|---|---|---|---|
| **City Councils** | | | |
| Burnie | i | i | i |
| Clarence | i | i | i |
| Devonport | i | i | i |
| Glenorchy | i | i | i |
| Hobart | i | i | i |
| Launceston | i | i | i |
| **Large Urban and Rural Councils** | | | |
| Central Coast | x | i | i |
| Circular Head | x | p | p |
| Huon Valley | i | i | i |
| Kingborough | i | i | i |
| Meander Valley | i | i | i |
| Waratah-Wynyard | x | i | i |
| West Tamar | i | i | i |
| **Medium Rural Councils** | | | |
| Brighton | p* | p | p |
| Derwent Valley | x | x | p |
| George Town | i | i | i |
| Latrobe | p | p | i |
| Northern Midlands | i | i | i |
| Sorell | p* | x | p |
| West Coast | x | x | p |
| **Smaller Rural Councils** | | | |
| Break O'Day | x | p | p |
| Dorset | x | p | i |
| Central Highlands | p* | i | i |
| Flinders | p** | i | i |
| Glamorgan Spring Bay | p* | p | p |
| Kentish | p | x | p |
| King Island | x | x | p |
| Southern Midlands | i | x | i |
| Tasman | p* | i | i |

* *Independence issue discussed on the following page*

** *Implemented however only have one independent member, need two*

*i = fully implemented*

*p = partially implemented*

*x = not started*

Based upon our assessment we found that 12 of the 29 Councils fully complied with all three Orders, with another six Councils at least partially complying with all three. There were 11 councils who have still to start implementing at least one of the Orders. All areas of partial or non-compliance were documented in detail within council's individual chapters in Part II of this Report.

The primary reason for partial implementation around audit panels related to independence issues that we have raised. The *Local Government (Audit Panels) Order 2014* (the Order) requires the audit panel to have a minimum number of independent persons. It is our understanding that finance managers from other councils have been appointed as independent members of the audit panels for Brighton, Sorell, Central Highlands, Glamorgan Spring Bay and Tasman Councils. While this is technically in accordance with the requirements of the Order, this arrangement, in our view, impinges 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. This concern has been flagged with each Council and is documented in each of their Chapters.

We highlight that there were no instances identified where councils refused to implement any of the three Orders and, as a result, all councils should be on track to meet our expectation of implementing the three Orders in full by 30 June 2015. This is in line with our expectations that were communicated in the Auditor-General's Report on the Financial Statements of State entities, Volume 5 which was Report No. 9 of 2013-14 tabled in May 2014.

# RATING PROCEDURES - COMPLIANCE WITH THE LOCAL GOVERNMENT ACT (1993)

## SNAPSHOT

- A review of rates raised in 2008-09 found 16 councils failed to comply with specific rating requirements of the Act.
- A Memorandum of Findings at the time to the Department of Premier and Cabinet (the Department) and to the Local Government Association of Tasmania (LGAT) made a number of recommendations to improve the rating procedures in councils.
- The Department recognised the need for a further review and provided funding for a comprehensive review of the rating system.
- Two amendment acts applicable to the 2011-12 rating year resulted in constructive changes to rating provisions in the Act.
- One of these amendments had the effect of validating all potential contraventions noted in the Memorandum.

## INTRODUCTION

Following completion of a review, in December 2009, we provided a Memorandum of Findings to the Department and to LGAT on whether, for the 2008-09 financial year, all councils:

- had complied with the provisions of Part 9 Rates and Charges of the *Local Government Act (1993)* (the Act)
- by review of their governance provisions, had applied appropriate rating.

## OUR FINDINGS IN 2008-09

Our review found 16 councils failed to comply with specific requirements of the Act. Contraventions by seven council were considered significant. As a result of our review, our Memorandum of Findings recommended that:

- all local government councils review their rating resolutions and ensure that these comply with the Act
- all councils develop legally compliant and unambiguous rating policies and practices which are consistently applied
- where rating policies or decisions are changed, reasons are documented and explained to ratepayers
- Government initiate a review of the rating provisions in the Act and, in so doing, take into account our Memorandum and that of the Local Government Working Group.

## ACTION TAKEN BY THE DEPARTMENT

The Department:

- noted our recommendations along with proposals related to amendment to Part 9 of the Act developed by a LGAT working group
- recognised the need for a further review and provided funding for a comprehensive review of the rating system.

Following a broad valuation and local government rating review, the local government sector, following extensive consultation with Government, the Department recommended changes to the Act, resulting in two amendment acts applicable to the 2011-12 rating year:

1. *Local Government Amendment Act 2011*

The amendment act increased the allowable fixed-charge component of rates from up to 20 per cent to up to 50 per cent and made it easier for councils to use fixed charges, introduce capped rate increases and clarify provisions to assist councils to better utilise the Act.

2. *Local Government Amendment Act (No. 2) 2011*

The amendment act introduced an 'averaged area rate', to provide councils with the flexibility to identify localities where residential ratepayers' property values may not be the preferred measure of ratepayers' capacity to pay. The amendment act required a council to undertake extensive public consultation prior to implementing an averaged area rate. It also provided for increased transparency in council rating by requiring all councils to develop and publish a rates and charges policy. These policies must take into account the principle that rates are a form of taxation; and that capacity to pay, based on the value of the property, must be a key consideration when setting rates.

The amendment act also addressed uncertainty concerning the use of a minimum amount payable on a general rate and whether a council has the power to vary the minimum amount payable under section 107 of the Act. In addition, it limited the number of properties that can be on the minimum amount to 35 per cent to ensure that councils do not use this provision to apply a quasi-flat rate through setting of a very high minimum amount and a low general rate.

Another key aspect of the amendment act was the inclusion of Schedule 10 – Validation under Section 350A of the Act. Schedule 10 validated all rates and charges, variations to rates and charges and minimum amounts payable that were made by councils prior to the introduction of the amendment act into Parliament. Consequently, potential contraventions noted in the previously mentioned Memorandum of Finding, were validated.

However, the amendment act did not affect proceedings that had already commenced or determined in a court of law. A legal challenge to a council's rates was in progress when the amendment act was passed and was not validated under Schedule 10. The council was successful in defending its rates in the Supreme Court.

## CONCLUSION

It is pleasing that issues and recommendations arising from our 2008–09 Memorandum of Findings, with assistance from the Department and LGAT, resulted in constructive amendments to rating provisions in the Act.

# TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD (TasWater)

## SNAPSHOT

- TasWater commenced trading on 1 July 2013 and generated an Underlying Profit (before contributions, other transactions and taxation) of $26.990m.
- Its Net Profit after Taxation was $27.236m with a Total Comprehensive Profit of $26.857m.
- It elected to apply the "acquisition (fair value) accounting" approach to recording the transfer of assets and liabilities from the former water corporations.
- Net Assets taken over were recorded at a write down of $231.645m on transfer with the main decrease resulting from revised assumptions applied in valuing infrastructure assets.
- During the year $78.432m was invested in Property, plant and equipment.
- TasWater is in dispute with Launceston City Council over contributions for the maintenance of the stormwater component of assets being maintained by TasWater. At 30 June 2014, discussions were ongoing.
- The Return on assets of 2.4% and Return on equity of 1.85% are considered low, especially in comparison to the pre-tax weighted average cost of capital of 6.68% used in the valuation of assets under an income model.
- TasWater had a current ratio of 0.45, below our expected benchmark of not less than one. This was impacted upon by high short term borrowings reflecting TasWater's decision to take advantage of current low interest rates on these borrowings.
- The financial statements included information on TasWater's two operating segments, water and sewerage. Both segments generated profits after tax.

The audit was completed satisfactorily with no major items outstanding.

## INTRODUCTION

The *Water and Sewerage Corporation Act 2012* was given Royal Assent on 11 December 2012. The Act provided for the establishment and incorporation of TasWater, and for the transfer of the assets, rights, liabilities, obligations and employees of the four corporations established under the *Water and Sewerage Corporations Act 2008* (trading as Ben Lomond Water, Cradle Mountain Water, Southern Water and Onstream) on 1 July 2013 following the cessation of the trading activities of these four corporations.

The new Act transferred Tasmania's 29 council's shareholdings in the former water corporations to TasWater.

TasWater was formed on 5 February 2013 under the *Corporations Act 2001* and pursuant to the *Water and Sewerage Corporation Act 2012*. It is governed by the Corporation's Constitution and its principal objectives are to:

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

Each of the principal objectives of the Corporation is of equal importance.

## KEY AREAS OF AUDIT ATTENTION

| Description of Area | Audit Approach |
|---|---|
| A significant risk for this audit was ensuring TasWater properly recorded assets and liabilities transferred from the four previous entities on 1 July 2013. | Details of how significant balances were dealt with are outlined in the Key Developments section of this Chapter. |
| TasWater is a for-profit entity expected to meet profit projections and distribution expectations. | We performed audit procedures to obtain a sufficient level of assurance that:<br>• revenue and expenses were recognised in the correct period<br>• capital costs were appropriately accounted for<br>• accounting policies were applied consistently and any changes thereto were adequately disclosed. |
| Customers in most areas are billed for the volume of water used. Estimation of usage between the last read date and 30 June 2014 is based on a complex model. | We performed audit procedures to ensure that unbilled water charges are not materially misstated. These procedures included:<br>• understanding assumptions used<br>• review of calculations<br>• analytical procedures. |
| Property, plant and equipment included material long-life infrastructure assets. The fair value of these water and sewerage assets was based on their 'value in use' (income valuation).<br>The income valuation methodology is based on projected net cash flows generated by the water and sewerage assets over a period of seven years. The projected net cash flows are then discounted to present value using a discount rate based on a real pre-tax weighted average cost of capital (WACC).<br>The calculation of value in use is highly dependent on a range of assumptions and estimates, such as the growth rate, inflation rate, forecast revenues, operating expenditure growth rate, WACC etc. | We examined:<br>• the valuation methodology and underlying data used to determine fair value, including testing significant assumptions, the valuation model and underlying data<br>• management's impairment testing<br>• relevant disclosure related to property, plant and equipment in the financial statements<br>• disclosure of critical accounting estimates and judgements in the financial report to ensure compliance with AASB 101 *Presentation of Financial Statements*. |
| TasWater is 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.<br>With the creation of TasWater, the validity of tax balances (including carried forward tax losses) needed to be established. | We reviewed and tested:<br>• initial tax balances<br>• the tax effect accounting calculations<br>• corresponding disclosure in the financial statements.<br>We also obtained a representation from TasWater's tax accountant. |

| Description of Area | Audit Approach |
|---|---|
| TasWater has employees who are members of defined benefit superannuation schemes. Its obligations under these schemes (less fair value of plan assets) are recognised in the statement of financial position.<br>The amount of this liability, and movements in the balance between financial years, are based on an annual actuarial valuation. This valuation was based upon a number of assumptions and use of discount rates, all of which are volatile. | We assessed the competence and qualifications of the actuaries performing the valuation, checked the information provided to the actuary and reviewed the actuarial reports including the reasonableness of the assumptions used. In undertaking this work, we applied the provisions of ASA 500 *Audit Evidence*. |
| Included in the balances transferred from the four previous water entities on 1 July 2013, were redundancy provisions created in anticipation of cost savings from a reduction in management positions.<br>As TasWater implemented its organisational structure, a number of employees received redundancies. | We tested a sample of redundancy payments to ensure they were accurate and appropriately authorised. |

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 7 August 2013 and an unqualified audit report was issued on 13 August 2014.

## KEY FINDINGS

The audit was completed without any significant audit findings.

## KEY DEVELOPMENTS

### Transfer assets and liabilities to TasWater

The creation of TasWater resulted in all assets, liabilities, rights and obligations being transferred to it on 1 July 2013 from the four previous entities. Journal entries were completed on 1 July 2013 recording assets and liabilities transferred. We worked closely with management and the Chair of the Board's Audit and Risk Committee in finalising opening accounting entries.

### Water and sewerage infrastructure

Most balances were transferred at amounts recorded by the previous entities. However, management indicated a preference to establish infrastructure asset balances at 1 July 2013 based on the expected future net earnings of TasWater.

A review of accounting treatments available found TasWater had the ability to make an accounting policy choice to utilise either of the following methods:

- book value (carry over basis) accounting – the net assets are transferred at the carrying values reported by the former Corporations or
- acquisition (fair value) accounting – the requirements of AASB 3 *Business Combinations* are applied by analogy with the net assets being transferred at fair value.

TasWater elected to apply the "acquisition (fair value) accounting" approach with which we concurred. Consequently, balances recorded at 1 July 2013 were based on business combination principles. In accepting this approach, it was indicated that we would expect voluntary compliance with all sections of AASB 3 including disclosure requirements. These disclosures were made.

While the basis of valuing infrastructure assets did not alter from the approach adopted by the former entities, major factors accepted were changes to some inputs to determining net earnings approach, including a reduction in anticipated price increases. This was the primary factor that resulted in a write down in the carrying amount of these assets by $324.939m which impacted upon annual depreciation charges and had the effect of improving the percentage return on equity.

## Other assets and liabilities

From our testing, we concurred with:

- the basis for impairing accounts receivable to ensure a consistent state-wide approach
- accounting for inventory – specifically the obsolescence provision
- the decision to write off previously capitalised expenditure included in capital work in progress that was assessed as not providing future economic benefit
- the restructure provision to reflect additional redundancies
- the restoration provision to ensure a consistent state-wide approach
- the onerous contract provision to reflect changes in expected future rental income.

The following table summarises balances transferred from the four corporations, the financial impact of the adjustments and the balances recognised by TasWater.

| | Unadjusted Balance at 30 June 2013 | Adjustments on Acquisition | Adjusted Balances Recognised at 1 July 2013 |
|---|---|---|---|
| | $'000s | $'000s | $'000s |
| Cash and cash equivalents | 12 308 | 0 | 12 308 |
| Gross trade receivables | 50 443 | 0 | 50 443 |
| Provision for doubtful debts | (2 874) | (1 037) | (3 911) |
| Inventories | 6 159 | (144) | 6 015 |
| Prepayments | 933 | 0 | 933 |
| Current tax asset | 1 017 | 35 | 1 052 |
| Property, plant and equipment | 2 138 248 | (324 939) | 1 813 309 |
| Deferred tax assets* | 35 749 | 32 993 | 68 742 |
| Borrowings | (323 079) | 0 | (323 079) |
| Employee benefits (incl. superannuation) | (26 495) | (2 484) | (28 979) |
| Payables | (21 964) | 0 | (21 964) |
| Current tax liability | (631) | 0 | (631) |
| Unearned Income | (39 911) | 0 | (39 911) |
| Deferred tax liabilities* | (66 248) | 66 248 | 0 |
| Other liabilities | (4 196) | (2 317) | (6 513) |
| | **1 759 459** | **(231 645)** | **1 527 814** |

* *The adjustments to current and deferred tax assets and liabilities represent the impact of the acquisition adjustments.*

The adjusted balances recognised at 1 July 2013 had a significant impact on the investment held by each owner council. The movement in councils' investment is summarised in this Report.

## Fixed and volumetric charges

Tariffs set in the 2012 Pricing Determination for the three regions and transitional arrangements towards the target tariffs resulted in the charges being calculated outside the former Corporations' revenue and invoicing system (Gentrack). The calculations were subject to quality assurance before uploading to the three Gentrack databases. This increased the complexity of fixed and volumetric charge calculations. Where current charges were less than the target tariffs, annual increases were capped to 10% or $50 per standard domestic service (applied to both water and sewerage), whichever was the larger. TasWater has one general ledger which receives revenue information from three regional Gentrack databases.

We performed substantive audit procedures to ensure that charges were not materially misstated, including:

- a recalculation of a selection of charges
- analytical procedures
- a review of information from three Gentrack databases in the Navision general ledger.

## Capital investment

TasWater undertook significant infrastructure investment. Capital expenditure was projected to be $117.2m in the 2013-14 financial year. During the year, TasWater paid $78.400m on Property, plant and equipment. Major additions included:

- construction of sewerage pump station and rising main at Taroona, $3.700m,
- Moonah property construction and fit out, $3.200m,
- Andrew Street pump station replacement (Brighton), $2.100m,
- construction of Fingal Water Treatment Plant, $2.200m,
- Meter replacement program, $2.700m,
- Lauderdale Sewerage Scheme – construction of sewer main and on-property connections, $4.100m,
- Construction of Bracknell Water Treatment Plant, $1.800m,
- Fluoride compliance upgrade, $1.700m,
- Installation of monitoring equipment and upgrade of SCADA systems, $1.500m,
- Water trunk main – summit reservoir to Lilydale, $1.200m,
- Capital fleet purchases, $3.200m,
- Construction of Westbury Water Treatment Plant, $1.200m,
- Sewerage main renewals- relining, $1.200m,
- Switchboard renewal program, $1.200m,
- Launceston Wastewater Treatment Ti-Tree Bend odour removal, $1.200m.

## Launceston City Council

When Launceston City Council (Council) transferred assets to Ben Lomond Water on 1 July 2009, the transfer included combined sewerage and stormwater assets. These assets were transferred to TasWater on 1 July 2013.

TasWater is seeking a recurring annual payment for maintenance of the stormwater component of the asset. Council disputed the request and, at 30 June 2014, discussions were ongoing.

At the time of completing our audit, this matter had not been resolved and was expected to go to arbitration. TasWater recorded this as a contingent asset at 30 June 2014 with which we concurred.

## Regulated water and sewerage services

The Economic Regulator instructed TasWater that it required a report on the performance of regulated water and sewerage services for the year ended 30 June 2014. The financial statements are to be completed by 31 October 2014 and will be subject to audit.

This audit was completed and an unqualified audit opinion issued on 5 December 2014.

## FINANCIAL ANALYSIS

Our analysis of TasWater's financial performance is outlined in the following paragraphs. Because this is its first year of operating, no graphs or charts are included.

## Background

The financial information provided in the appendices represents the results and balances of TasWater's first year of operation. Combined balances for the three former water corporations have been included to assist in analysis. However, the different nature of a single entity operation in comparison to the three independent water corporations means that comparisons should be read with caution.

The Combined balances exclude Onstream's transactions as its functions were principally financed by the former water corporations. The inclusion of Onstream's balances would require the elimination of inter-entity transactions to prevent over-statement. In addition, the Financial Analysis table includes six comparative indicators taken from a Victorian Auditor-General's Report *Water Entities: Results of the 2012-13 Audits*. The comparative indicators represent two regional urban water corporations with similar revenue and asset bases to TasWater and reflect a five year average to 2012-13. However, we acknowledge that making comparisons with entities from another jurisdiction needs to be read with caution because, for example, we are not aware of strategies they may have taken regarding short versus long term borrowings.

## Profitability

In its first year of operations, TasWater recorded a Net Profit of $27.236m. Its Underlying result (before contributions, other transactions and taxation) for 2013-14 was $26.990m. The Underlying result was an improvement of $11.760m recorded by the three former water corporations in 2012-13. The Underlying result is after removing the impact of developer contributions received.

The improved result was mainly attributable to higher Sales revenue of $16.213m, 6.7%, from both fixed and variable water and sewerage charges. The additional Sales revenue was in line with transition pricing arrangements which allowed for increases of up to 10% or $50, which ever was greater for a standard domestic water connection, plus the same side constraint per equivalent tenement for sewerage.

TasWater was able to contain increases in expenditure to $4.179m, 1.8%, of the combined expenditure of the three former water corporations in 2012-13. The increase in Employee benefits was primarily due to Onstream's employees being employed by TasWater in 2013-14. The offsetting decrease in Other operating expenses was due to the cessation of service provider payments to Onstream.

TasWater's Underlying result ratio of 10.4% and Self-financing ratio of 27.8% are comparable with the results of the two Victorian water corporations selected for comparative analysis. However, TasWater's Return on assets ratio of 2.4% and Return on equity ratio of 1.85% are considered low, especially in comparison to the pre-tax weighted average cost of capital of 6.68% used in the valuation of assets under an income model.

## Financial position

TasWater's financial position reflects a significant investment in water and sewerage infrastructure assets. At 30 June 2014, Property, plant and equipment represented 93.4% of the total assets.

During 2013-14, TasWater paid $78.432m on additions to Property, plant and equipment. Water and sewerage infrastructure improvements included:

- construction of a new sewage pipeline between Taroona and Sandy Bay and de-commissioned the Taroona Sewage Treatment Plant at a total cost of $5.200m to improve water quality in the Derwent Estuary.

- Moonah property construction and fit out, $3.200m
- commencement of customer connections to the pressure sewerage system as part of the $8.200m Lauderdale Sewerage Scheme.

Capital expenditure on existing assets resulted in a Capital investment ratio (expenditure on existing assets to depreciation on existing assets) of 128%, which exceeds our 100% benchmark. However, in comparison to the Victorian water corporations' average, this is low.

The majority of the capital works undertaken was funded through cash from operations and loan borrowings.

A review of financial management indicators suggests TasWater's borrowings are comparable to regional Victorian water corporations for Debt to Total Assets, Interest cover and the current ratio. At 30 June 2014, TasWater had a current ratio of 0.45, below our expected benchmark of not less than one. This means that current liabilities, primarily consisting of current, or short term, borrowings, were twice the amount of current assets. However, we note that:

- The high level of current borrowings reflects TasWater's strategy of taking advantage of low short-term interest rates. The alternative of re-financing short-term borrowings and placing them on terms greater than one year, which would improve the current ratio significantly, would negatively impact upon underlying profitability.
- TasWater sources its borrowings via TASCORP and is well inside of its borrowing facility limit.

## Cash flow

TasWater's cash flow statement reveals a decrease in its cash position of $9.287m, which included a Net borrowing increase of $9.578m. As such, cash holdings at year end in 2013 were inflated.

In summary the cash flow statement included:

| Details | |
|---|---|
| | $'000s |
| Cash from operations before interest paid | 88 719 |
| Net investments in infrastructure | (77 633) |
| | **11 086** |
| | |
| Net borrowings, capital contributions received in cash and capital grants | 14 320 |
| Funds available to service debt and pay dividends | 25 406 |
| | |
| Finance costs paid | (16 046) |
| Dividends paid | (18 647) |
| | |
| **Shortfall Funded from Existing Cash Reserves** | **(9 287)** |

The table indicates to us that TasWater's cash flows are tight and require careful monitoring in particular if it continues with its current capital expenditure programs and dividend policies. At 30 June 2014, TasWater had unutilised borrowing facilities of $67.344m.

In 2013-14 TasWater returned $29.000m to its owners in dividends, guarantee fees and taxation equivalents.

## Segment reporting

TasWater's financial statements included information on its two operating segments, water and sewerage. Both segments generated profits after tax.

| | Water | Sewerage | Other | Total |
|---|---|---|---|---|
| | $'000s | $'000s | $'000s | $'000s |
| Revenue | 140 698 | 130 867 | 2 074 | 273 639 |
| Expenses | (115 101) | (118 182) | (794) | (234 077) |
| **Profit before Tax** | **25 597** | **12 685** | **1 280** | **39 562** |
| Income tax expense | 7 943 | 3 998 | 385 | 12 326 |
| **Profit after Tax** | **17 654** | **8 687** | **895** | **27 236** |

## Statement of Comprehensive Income

| | TasWater 2013-14 | Combined 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Sales revenue | 257 423 | 241 210 |
| Other operating revenue excluding contributions from customers and developers | 3 644 | 3 918 |
| **Total Revenue** | **261 067** | **245 128** |
| | | |
| Depreciation | 61 212 | 59 563 |
| Employee benefits | 73 894 | 66 314 |
| Finance costs | 18 637 | 18 049 |
| Interest cost on defined benefit superannuation plan | 362 | 786 |
| Other operating expenses | 79 972 | 85 186 |
| **Total Expenses** | **234 077** | **229 898** |
| | | |
| **Underlying Profit** | **26 990** | **15 230** |
| | | |
| Net assets contributed on formation not previously recognised | 0 | 113 |
| Redundancy provision on restructure | 0 | (1 935) |
| Customer and developer contributions | 12 572 | 18 570 |
| Share of profit of associate | 0 | 185 |
| **Net Profit before Tax** | **39 562** | **32 163** |
| | | |
| Income tax equivalents expense | (12 326) | (9 724) |
| **Net Profit** | **27 236** | **22 439** |
| | | |
| **Other Comprehensive Income** | | |
| Superannuation actuarial gain/(loss) | (541) | 5 355 |
| Share of other comprehensive profit of associate | 0 | 119 |
| Income tax expense on above items | 162 | (1 573) |
| **Total Other Comprehensive Income** | **(379)** | **3 901** |
| | | |
| **Total Comprehensive Profit** | **26 857** | **26 340** |

## Statement of Financial Position

| | TasWater 2014 | Combined 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash | 3 021 | 10 564 |
| Receivables and pre-payments | 46 329 | 47 750 |
| Inventories | 5 290 | 6 159 |
| Assets held for sale | 1 672 | 0 |
| Current tax asset | 0 | 978 |
| **Total Current Assets** | **56 312** | **65 451** |
| | | |
| Payables | 19 619 | 21 668 |
| Borrowings | 86 135 | 106 937 |
| Employee benefits (incl. superannuation) | 14 990 | 15 807 |
| Unearned income | 1 585 | 1 793 |
| Current tax liability | 51 | 631 |
| Other current liabilities | 1 599 | 700 |
| **Total Current Liabilities** | **123 979** | **147 536** |
| | | |
| **Working Capital** | **(67 667)** | **(82 085)** |
| | | |
| Property, plant and equipment | 1 828 452 | 2 128 466 |
| Intangibles | 7 948 | 4 368 |
| Deferred tax assets | 64 813 | 0 |
| Investment in associate | 0 | 315 |
| **Total Non-Current Assets** | **1 901 213** | **2 133 149** |
| | | |
| Borrowings | 246 521 | 210 642 |
| Superannuation liability | 8 825 | 7 608 |
| Employee benefits | 1 369 | 1 650 |
| Unearned income | 36 380 | 38 011 |
| Deferred tax liabilities | 0 | 30 994 |
| Restoration provision | 4 427 | 2 703 |
| **Total Non-Current Liabilities** | **297 522** | **291 608** |
| **Net Assets** | **1 536 024** | **1 759 456** |
| | | |
| Reserves | 0 | 1 718 758 |
| Contributed equity | 1 527 814 | 0 |
| Retained earnings | 8 210 | 40 698 |
| **Total Equity** | **1 536 024** | **1 759 456** |

## Statement of Cash Flows

| | TasWater 2013-14 | Combined 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Receipts from customers and other sources | 272 980 | 284 313 |
| Payments to suppliers and employees | (174 051) | (175 201) |
| Interest received | 143 | 175 |
| Finance costs | (16 046) | (15 356) |
| Income tax equivalents | (7 764) | (8 492) |
| Guarantee fees paid | (2 589) | (2 549) |
| **Cash from Operations** | **72 673** | **82 890** |
| | | |
| Payments for property, plant and equipment | (69 425) | (101 566) |
| Capitalised costs | (9 007) | (11 466) |
| Proceeds from sale of property, plant and equipment | 799 | 925 |
| **Cash used in Investing Activities** | **(77 633)** | **(112 107)** |
| | | |
| Proceeds from borrowings | 188 250 | 253 676 |
| Repayment of borrowings | (178 672) | (212 441) |
| Dividends paid | (18 647) | (12 641) |
| Customer and development contributions* | 2 817 | 3 713 |
| Grant funds received | 1 925 | 2 791 |
| **Cash from Financing Activities** | **(4 327)** | **35 098** |
| | | |
| **Net Increase in Cash** | **(9 287)** | **5 881** |
| Cash at the beginning of the year** | 12 308 | **4 683** |
| **Cash at End of the Year** | **3 021** | **10 564** |

** Contributions from customers and developers are shown as arising from financing activities because they represent capital provided for investment in infrastructure.*

*** Cash at beginning of year includes $1.744m from Onstream, which was excluded from the Combined balance.*

## Financial Analysis

| | Bench Mark | TasWater 2013-14 | Victorian Water Corporations 2012-13 |
|---|---|---|---|
| **Financial Performance** | | | |
| Net profit ($'000s) | | 27 236 | |
| Modified EBIT ($'000s)* | | 45 989 | |
| Operating margin* | | 1.12 | |
| Return on assets* | | 2.4% | |
| Return on equity | | 1.8% | |
| Underlying result ratio | | 10.4% | 9.9% |
| Self financing ratio | | 27.8% | 27.7% |
| **Financial Management** | | | |
| Indebtedness ratio | | 47.5% | |
| Debt to equity | | 21.7% | |
| Debt to total assets | | 17.0% | 18.5% |
| Interest cover | >2 | 5.2 | 4.0 |
| Current ratio | >1 | 0.45 | 0.59 |
| Cost of debt | | 5.6% | 0 |
| Debt collection | 30 days | 47 | |
| Creditor turnover | 30 days | 20 | |
| **Asset Management** | | | |
| Asset investment ratio | >100% | 128% | 305% |
| Asset renewal ratio | 100% | N/a | |
| Consumption ratio | >40% | 87% | |
| **Returns to Owners** | | | |
| Dividends paid ($'000s) | | 18 647 | |
| Guarantee fee paid ($'000s) | | 2 589 | |
| Income tax paid ($'000s) | | 7 764 | |
| Total return to owners | | 29 000 | |
| Dividends paid or payable ($'000s) | | 18 647 | |
| Dividend payout ratio | 50% | 68.5% | |
| Dividend to equity ratio | | 1.2% | |
| **Other Information** | | | |
| Average staff numbers (FTEs) | | 814 | |
| Average staff costs ($'000s) | | 97 | |
| Average leave balance per FTE ($'000s) | | 18 | |

# IMPACT OF ESTABLISHING TASWATER

## SNAPSHOT

- The *Water and Sewerage Corporation Act 2012* provided for the establishment and incorporation of Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater).
- The new Act transferred Tasmania's 29 councils' shareholdings in the former water corporations to TasWater.
- The ABS classified TasWater into the Local Government Sector for financial reporting purposes and as a result the entity is included in this Volume.
- Councils' shares of investments in TasWater are now based upon equity voting proportions as set out in TasWater's Constitution.
- TasWater's Net Assets at 30 June 2014, $1.536bn, were $223.432m lower than the combined Net Assets of the previous four corporations.
- Total Investments held in TasWater by councils decreased in line with the reduction in TasWater's Net Assets at 30 June 2014. This reduction impacted upon councils differently, based upon their new proportional ownership in TasWater.
- Southern and northern councils' shares decreased and as a result they recognised a reduction in their investment of $179.052m and $67.789m respectively. North-west councils had an increase in their share which resulted in higher investments of $24.063m.
- Distributions received by councils from TasWater were based upon the previous structure up until 12 November 2013, which still included priority distributions. After this date, distributions were based on equity proportions per member for distribution purposes as set out in TasWater's Constitution.
- Total distributions received by councils from TasWater were $29.000m in 2013-14, which was higher by $5.318m than those received in 2012-13.
- Councils with priority distributions in the former structure received lower distributions from TasWater in 2013-14.

## BACKGROUND

The *Water and Sewerage Corporation Act 2012* was given Royal Assent on 11 December 2012. The Act provided for the establishment and incorporation of TasWater, and for the transfer of the assets, rights, liabilities, obligations and employees of the four corporations established under the *Water and Sewerage Corporations Act 2008* (trading as Ben Lomond Water, Cradle Mountain Water, Southern Water and Onstream) on 1 July 2013 following the cessation of the trading activities of these four corporations.

The new Act transferred Tasmania's 29 Council's shareholdings in the former water corporations to TasWater with each council provided with one share.

On 5 February 2013, TasWater was established under the *Corporations Act 2001*. The ABS classified TasWater into the Local Government Sector for financial reporting purposes and as a result the entity is included in this Volume. In previous years the four former corporations were dealt with by us as government businesses on the basis of the previous classification of them into the general government sector.

## IMPACT FOR LOCAL GOVERNMENT

The amalgamation of the four former entities into TasWater had a significant impact on the carrying value of each council's share of the net assets of TasWater and on proportions held.

## Proportional ownership of the investment in TasWater

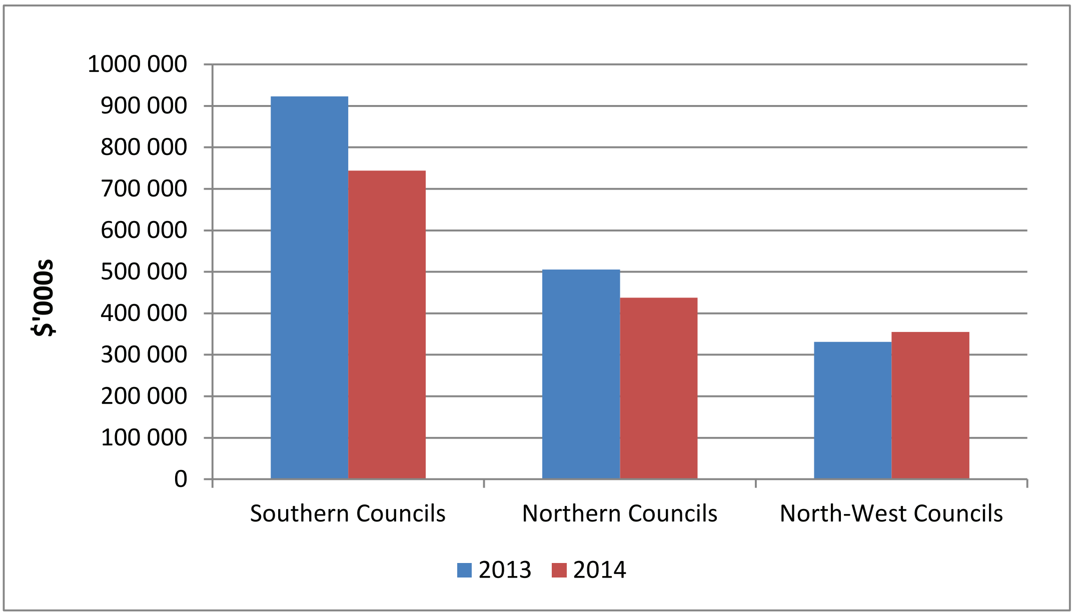
While each council owns one of 29 shares issued by TasWater, their proportion of net assets in, and dividends paid by, TasWater varies. Each council's share of net assets is based upon the equity voting proportions as set out in TasWater's Constitution. This basis was considered appropriate given the following facts in the Constitution:

- voting at general meetings is by show of hands, where every member has one vote or by a poll, where each member present has a proportionate vote at the percentage based on the equity proportions for voting purposes
- on winding up, any surplus assets are divided among the members in the equity proportions for voting purposes
- equity proportions for distribution purposes can be changed by a resolution passed by at least 75% of the members and any combination of members that hold at least 75% of the equity voting proportions.

TasWater's Net Assets were $1.536bn at 30 June 2014. This was $223.432m lower than the combined Net Assets of the previous four corporations. The reduction was primarily driven by the adjustment made to infrastructure asset balances on acquisition at 1 July 2013. Changes to the key inputs in the valuation, such as in the weighted cost of capital and reduction in anticipated future increases in water and sewerage prices, resulted in a downward adjustment of $324.939m. This reduction was partially offset by adjustments on recognition to Deferred tax assets, $32.993m, and Deferred tax liabilities, $66.248m, and the Comprehensive Profit for 2013-14, $26.857m. For more details refer to the TasWater Chapter in this Volume.

The impact on councils of these changes is displayed in Figure 17 by region.

Figure 17: Total investment balances in water entities by region




*Source: Tasmanian Audit Office*

Total Investments in TasWater decreased by $223.432m in line with the reduction in TasWater's Net Assets at 30 June 2014 when compared to the prior year combined Net Assets of the previous four corporations.

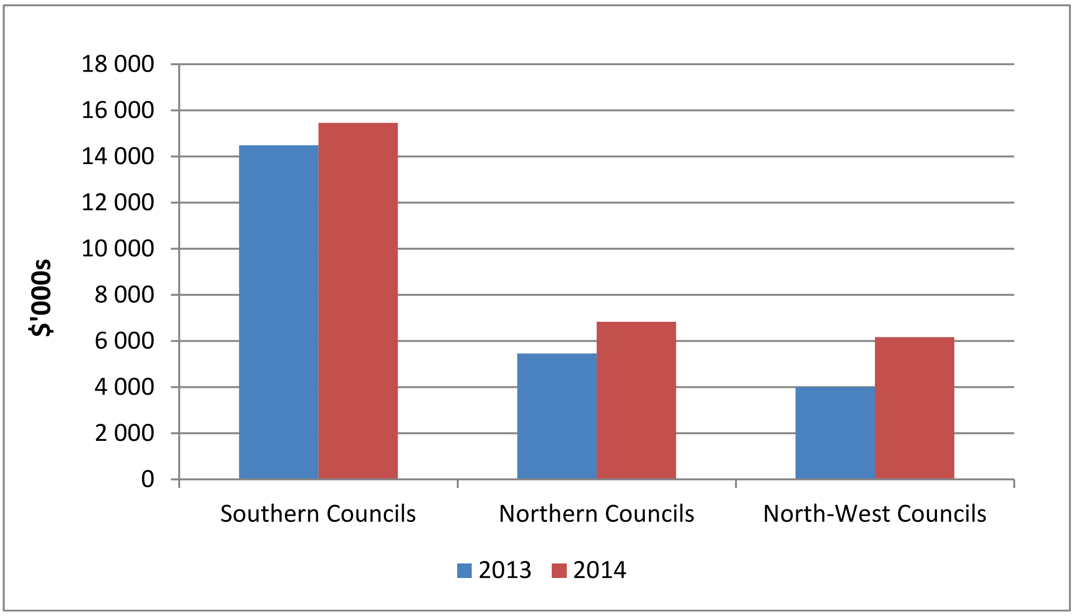
As indicated in Figure 17, this reduction impacted upon councils differently. Southern and northern councils had a decrease in their share and as a result recognised reductions in their investments of $179.052m and $67.789m respectively. Meanwhile north-west councils had an increase in their share which resulted in higher investments of $24.063m.

## Dividend distributions

Councils' distributions from TasWater were still in a transitional phase for 2013-14. Interim distributions up to 12 November 2013 were based upon the distribution structure of the previous four entities, which included priority distribution proportions. After this date distributions were based upon the equity proportions per member for distribution purposes as set out in TasWater's Constitution.

Figure 18 represents dividends received in 2013-14 and 2012-13 by region.

Figure 18: Total dividends received by region




*Source: Tasmanian Audit Office*

The total distribution received by councils from TasWater was $29.000m in 2013-14. This was $5.318m more than distributions from the four former corporations primarily driven by TasWater recording a higher net profit. As a result of this increase all three regions received higher distributions from TasWater as indicated in Figure 18.

The removal of the priority distribution proportion resulted in all councils' distribution now being solely based on their equity proportions. This meant that those councils who previously had a priority distribution received a lower distribution this year, while councils who previously did not receive a distribution, now do.

The following table outlines distributions in 2013 and 2014.

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| **Southern Councils** | | |
| Brighton | 1 013 | 1 070 |
| Central Highlands | 102 | 0 |
| Clarence | 2 207 | 0 |
| Derwent Valley | 276 | 0 |
| Glamorgan Spring Bay | 413 | 0 |
| Glenorchy | 5 416 | 8 888 |
| Hobart | 2 945 | 1 976 |
| Huon Valley | 744 | 844 |
| Kingborough | 1 677 | 1 200 |
| Sorell | 512 | 505 |
| Southern Midlands | 155 | 0 |
| Tasman | 6 | 0 |
| **Total** | **15 466** | **14 483** |
| **Northern Councils** | | |
| Break O'Day | 387 | 4 |
| Dorset | 196 | 2 |
| Flinders | 42 | 23 |
| George Town | 83 | 260 |
| Launceston | 3 538 | 2 465 |
| Meander Valley | 744 | 567 |
| Northern Midlands | 467 | 4 |
| West Tamar | 1 375 | 2 131 |
| **Total** | **6 832** | **5 456** |
| **North-West Councils** | | |
| Burnie | 995 | 342 |
| Central Coast | 962 | 0 |
| Circular Head | 400 | 844 |
| Devonport | 1 715 | 1 395 |
| Kentish | 88 | 0 |
| King Island | 97 | 67 |
| Latrobe | 662 | 629 |
| Waratah-Wynyard | 585 | 42 |
| West Coast | 663 | 678 |
| **Total** | **6 167** | **3 997** |
| **Total Distributions** | **28 465** | **23 936** |

# COPPING REFUSE DISPOSAL SITE JOINT AUTHORITY (The Authority)

## SNAPSHOT

- The Authority recorded an Underlying profit of $0.217m in 2013-14, a decrease of $0.690m from 2012-13.
- Its Comprehensive Profit was $0.152m, with Net Assets at 30 June 2014 of $3.630m.

Key financial reporting risks included the small number of staff, which increases risk due to a lack of segregation of duties, and the calculation of the provision for cell capping. These risks were mitigated to an acceptable level by the nature and extent of audit testing we performed.

We identified a 'moderate risk' audit finding relating to a lack of evidence of independent review of the bank reconciliation. This matter was reported to and addressed by management.

We recommended that the Authority consider establishing an audit committee and internal audit function.

The audit was completed satisfactorily with no other significant items outstanding.

Key developments in 2013-14 included:

- revenue was $2.004m lower primarily due to 2012-13 including additional tonnage received from the January 2013 bushfires in Southern Tasmania
- expenditure decreased by $1.314m, mainly due to lower Depreciation of the capping costs asset of $1.363m
- an asset relating to the provision for capping was recognised, with the asset's gross value equal to the existing liability
- participating councils provided an equity injection of $0.521m representing tax equivalent payments foregone.

## INTRODUCTION

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

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

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

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

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014, with amended re-signed statements received on the 22 September 2014. An unqualified audit report was issued on 24 September 2014.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

### Audit findings

The Authority's operations are undertaken by a small number of staff, which increases risk due to a lack of segregation of duties. The calculation of the provision for capping costs also represented a key financial reporting risk. These risks were mitigated to an acceptable level by the nature and extent of audit testing we performed.

In our management report we raised an issue regarding no evidence of an independent review of the bank reconciliation and minor matters regarding stale cheques and the process for raising debtor invoices. These matters were reported to and have been addressed or considered by management.

Other matters raised with the Authority included the lack of an audit committee and internal audit function. It was recommended that consideration be given to leveraging existing arrangements adopted by owner councils or the Authority establishing its own.

## Provision for capping costs

In 2013-14, the Authority recognised an asset relating to the provision for capping, with the asset's gross value equal to the existing liability. The value of the asset and liability were based on the costs associated with capping the utilised portion of the current cells. It is our view that, in order to comply with Australian Accounting Standards AASB 116 *Property, Plant and Equipment* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, the full costs expected to be incurred in capping the Authority's existing cells should be recognised as an asset and liability. Independent advice was obtained which supported the Authority's accounting treatment. This advice was accepted by our Office.

The advice included two related observations which were recommended be dealt with prior to preparation of the Authority's 2014-15 financial report. These observations related to the liability's classification between current and non-current and the need to estimate site reinstatement costs.

The audit was completed satisfactorily, with no other major issues identified.

### Management comments

The Authority's full response is reproduced below.

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

*When the Auditor-General first questioned the Authority's accounting treatment of capping costs, the Authority sought an independent expert opinion on this accounting treatment. The first independent opinion supported the Authority's approach. The Auditor-General did not agree with this first independent opinion, but agreed to accept the Authority's approach if a second independent opinion also supported it. A second independent opinion did support the Authority's approach.*

*In his report the Auditor-General implies that the independent advice recommended that site reinstatement costs be dealt with prior to preparation of the Authority's 2014-15 financial report. In fact the second independent opinion includes the statement that it is not possible to estimate site reinstatement cost at this time, and so the Authority's current policy should stand. As advised in separate correspondence from the Authority to the Auditor-General, the reason that the opinion states that reinstatement costs cannot be estimated at this time is the fact that the long lead time before any such expenditure will be incurred renders the amount immaterial. The Authority will continue to estimate the quantum of reinstatement costs and will account for them when they become material.*

### Response to Management Comments

*While we acknowledge management's comments in relation to the site reinstatement costs, we consider that some analysis is needed in the shorter term to confirm that these future costs do not materially impact the Authority's financial statements.*

## Capping of cells

The Authority is required to meet specific environmental conditions, set by the Environmental Protection Authority in order to conduct a waste management site, which includes a requirement to rehabilitate the site. As part of the regulatory requirements, the Authority undertakes significant works on sealing waste cells, to an environmentally appropriate level, a process known as capping. In 2012-13 a provision for capping of $1.447m was established to offset future capping expenditure.

In 2013-14 the provision was increased by $0.252m, resulting in a balance of $1.699m at 30 June 2014.

## Class C controlled waste facility development

Although approval was obtained in June 2012 for the C cell project, community debate continued during the year under review. The Authority is continuing its plans to progress construction of the cell.

## Carbon pricing

The *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* was enacted on 17 July 2014. The Act repealed the *Clean Energy Act 2011*, resulting in the removal of the carbon pricing mechanism. Despite repeal of the legislation, the Authority still takes action to reduce its gas emissions by the flaring of methane gas.

## CHAPTER APPENDICES

## Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Waste management revenue | 4 942 | 6 946 |
| **Total Revenue** | **4 942** | **6 946** |
| | | |
| Employee costs | 632 | 547 |
| Depreciation | 1 062 | 2 425 |
| Borrowings costs | 276 | 324 |
| Waste management costs | 2 755 | 2 743 |
| **Total Expenses** | **4 725** | **6 039** |
| | | |
| **Underlying Profit** | **217** | **907** |
| Income tax expense | (65) | (272) |
| **Comprehensive Profit** | **152** | **635** |

The Authority recorded an Underlying Profit of $0.217m in 2013-14, lower by $0.690m on the previous year.

Revenue was $2.004m lower primarily due to 2012-13 including additional tonnage received resulting from the January 2013 bushfires in Southern Tasmania. Offsetting this decrease, $0.259m was received in 2013-14 from funding provided by the Commonwealth for fire debris gate fee compensation, reflecting revenue foregone by the Authority in 2012-13.

Expenditure decreased by $1.314m, primarily due to lower Depreciation of $1.363m. The lower Depreciation mostly related to capping costs, which had Depreciation of $1.447m in 2012-13 compared with $0.252m in 2013-14. This movement reflected the recognition of the associated liability. Employee expenditure, $0.632m, rose due to general wage and board fee increases and the employment of two staff, one in February and another in June 2014. Borrowing costs decreased in line with the reduction in overall borrowings.

## Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash and financial assets | 2 284 | 2 599 |
| Receivables | 782 | 598 |
| Other | 132 | 33 |
| **Total Current Assets** | **3 198** | **3 230** |
| | | |
| Payables | 544 | 807 |
| Borrowings | 473 | 444 |
| Provision – income tax | 150 | 521 |
| Provision – cell capping | 1 699 | 1 447 |
| Provision – employee benefits | 52 | 37 |
| **Total Current Liabilities** | **2 918** | **3 256** |
| **Working Capital** | **280** | **(26)** |
| | | |
| Property, plant and equipment | 6 393 | 6 575 |
| Deferred income tax asset | 535 | 450 |
| Other | 100 | 100 |
| **Total Non-Current Assets** | **7 028** | **7 125** |
| | | |
| Borrowings | 3 652 | 4 125 |
| Deferred income tax liability | 1 | 1 |
| Provision – employee benefits | 25 | 16 |
| **Total Non-Current Liabilities** | **3 678** | **4 142** |
| **Net Assets** | **3 630** | **2 957** |
| | | |
| Contributed capital | 1 845 | 1 324 |
| Reserves | 627 | 627 |
| Accumulated (deficits) surpluses | 1 158 | 1 006 |
| **Total Equity** | **3 630** | **2 957** |

Total Equity increased by $0.673m to $3.630m due to the Comprehensive Profit and a $0.521m contribution by owners representing tax equivalent payments foregone.

While Cash decreased by $0.315m to $2.284m at 30 June 2014, cash inflows from operations were positive at $1.034m. These cash inflows were used to fund property, plant and equipment purchases of $0.629m and repay Borrowings and interest costs of $0.720m.

Receivables rose by $0.184m due in part to the accrual of $0.259m for the fire debris gate fee compensation.

Total Borrowings decreased by $0.444m due to repayments made.

The Provision for income tax, $0.150m, decreased due to the lower surplus this year.

As mentioned previously, the Provision for Capping increased by $0.252m reflecting the additional capping costs provided for.

# CRADLE COAST AUTHORITY (The Authority)

## SNAPSHOT

- The Authority recorded a Net Surplus of $0.185m for 2013-14.
- Net Assets increased to $2.406m at 30 June.
- Cash increased by $0.311m to $2.485m with the majority of the cash balance, $1.988m, restricted and will be used to complete specific projects.
- The Board resolved to separate the roles of the Chairman of the Board and Chief Executive Officer (CEO). Previously the CEO fulfilled both roles.
- The Authority has received a notice of intention to withdraw from a participating council. The withdrawal will not take effect until the year ending 30 June 2018.

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

The audit was completed satisfactorily with no other items outstanding.

## INTRODUCTION

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

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

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014. An unqualified audit report was issued on 25 September 2014.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

### Change in structure

The Board resolved to separate the roles of the Authority's Chairman of the Board and Chief Executive Officer (CEO). Up until 27 November 2013, the CEO also acted as Executive Chairman of the Board. The change in roles coincided with the resignation of the then incumbent CEO.

### Notice of intention to withdraw

The Authority has received a notice of intention to withdraw from a participating council. The withdrawal will not take effect until the year ending 30 June 2018. The Authority was unable to quantify the effect of the withdrawal, but this is likely to impact upon future Council contributions and/or services provided.

### Segregation of duties

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

# CHAPTER APPENDICES

## Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Government grants | 3 007 | 3 446 |
| Council contributions | 930 | 947 |
| Other income | 709 | 656 |
| **Total Revenue** | **4 646** | **5 049** |
| | | |
| Employee expenses | 2 033 | 2 089 |
| Interest expense | 28 | 0 |
| Depreciation and amortisation | 107 | 55 |
| Management and consultancy fees | 1 269 | 2 272 |
| Other expenses | 1 024 | 984 |
| **Total Expenses** | **4 461** | **5 400** |
| | | |
| **Net Surplus/(Deficit)** | **185** | **(351)** |

In 2013-14 the Authority recorded a Net Surplus of $0.185m (2012-13, deficit $0.351m), an improvement of $0.536m. This was primarily due to the 2012-13 period including expenditure to complete grant projects related to:

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

In addition, the net surplus was higher this year because the Authority amended its accounting treatment for the regional waste levy, to record the revenue on an accrual basis. Previously, July invoices related to the quarter ending June were not accrued. Consequently, the 2013-14 financial year included five quarterly instalments. The July 2014 accrual was for an amount of $0.072m. This adjustment has a one-off impact and assumes that from now on the accrual basis for recording this source of income will continue.

In 2013-14, the Authority commenced the repayment of loan borrowings used to fund the relocation of its offices in 2012-13. This resulted in Interest expenses of $0.028m being recognised in 2013-14.

Depreciation and amortisation is higher in 2013-14 as it includes an amortisation expense, $0.052m for leasehold expenses that are being written off over the term of the lease agreement.

Management and consultancy fees relate to expenditure on projects. When assessing the Authority's financial performance, it needs to be borne in mind that it receives and expends funding for specific regional purposes. The receipt of funding and its expenditure can span a number of financial periods, resulting in fluctuating results.

## Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash | 2 485 | 2 174 |
| Trade and other receivables | 161 | 300 |
| Plant and equipment | 288 | 205 |
| Leasehold improvements | 463 | 515 |
| **Total Assets** | **3 397** | **3 194** |
| | | |
| Payables | 256 | 227 |
| Provisions – employee benefits | 229 | 196 |
| Borrowings | 506 | 550 |
| **Total Liabilities** | **991** | **973** |
| **Net Assets** | **2 406** | **2 221** |
| | | |
| **Total Equity** | **2 406** | **2 221** |

Total Equity increased by the Net Surplus of $0.185m.

Cash increased by $0.311m to $2.485m at 30 June 2014. The majority of the cash balance, $1.988m is restricted and will be used to complete specific projects related to natural resource management, tourism and other core projects.

Trade receivables were lower in 2013–14 because the 2012–13 balance included three major contribution amounts outstanding at balance date.

Provisions – employee benefits was higher by $0.033m at 30 June 2014. The increase was primarily due to a restatement of employee long service leave entitlements to a 10 year service basis. The Authority had previously applied a 15 year service methodology, but received legal advice that its initial interpretation of long service leave requirements was incorrect. The estimated impact of the change was to increase the liability by $0.069m. The increase was partially offset by a payout of long service leave following the resignation of the former CEO.

# DULVERTON REGIONAL WASTE MANAGEMENT AUTHORITY (THE Authority)

## SNAPSHOT

- The Authority reported an Underlying Profit of $1.334m in 2013-14.
- It changed its accounting treatment of rehabilitation and aftercare costs, which resulted in the recognition of both an asset and liability representing the full costs of rehabilitating and decommissioning landfill cells in use.
- Aftercare costs were reassessed during the year and the aftercare liability increased to $1.508m at 30 June 2014.
- It had Net Assets of $7.320m at 30 June 2014.

The audit was completed satisfactorily and there were no audit findings.

Key developments in 2013-14 included:

- the carbon pricing legislation was repealed, however, the Authority still intends to establish infrastructure to capture 50% of its landfill emissions, which is expected to be completed by the end of 2014
- the Authority changed its accounting treatment of rehabilitation and aftercare costs. Previously, a liability was only recognised for the costs associated with the rehabilitation and decommissioning of the utilised portion of the landfill. The Authority now records both an asset and liability representing the full costs of rehabilitating and decommissioning landfill cells in use
- Aftercare costs were reassessed based on independent advice received by the Authority. The reassessment resulted in an increased aftercare liability of $1.508m at 30 June 2014.

## INTRODUCTION

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

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

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Initial signed financial statements were received on 14 August 2014, with amended statements received on 27 August 2014. An unqualified audit report was issued on 24 September 2014.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

### Audit findings

A key financial reporting risk was the lack of segregation of duties and calculation of provisions for rehabilitation and aftercare costs. These risks were mitigated to an acceptable level by the nature and extent of audit testing we performed.

The audit was completed satisfactorily and there were no audit findings.

### Carbon pricing

The *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* was enacted on 17 July 2014. The Act repealed the *Clean Energy Act 2011*, resulting in the removal of the carbon pricing mechanism. Despite the repeal of the legislation, the Authority still intends to establish infrastructure to capture 50% of its landfill emissions, which is expected to be completed by the end of 2014.

## Change of accounting policy on rehabilitation and aftercare costs

In 2013-14, the Authority changed its accounting policy on the measurement and recognition of future rehabilitation and aftercare costs. Previously, a liability was only recognised for the costs associated with the rehabilitation and decommissioning of the utilised portion of the landfill. The Authority now records both an asset and liability, representing the full costs of rehabilitating and decommissioning landfill cells in use. The Authority applied this change retrospectively, resulting in amended comparative figures for both 2011-12 and 2012-13 being disclosed in its 2013-14 financial statements.

The change in policy resulted in:

- an increase to the rehabilitation and aftercare liabilities at 30 June 2013,$0.543m and $0.237m respectively
- the recognition of corresponding rehabilitation and after care assets relating to the landfill site. At 30 June 2014, these assets totalled $0.696m (2012-13, $0.612m) and $1.235m ($0.355m) respectively.

## Reassessment of Aftercare Costs

In 2013-14, the Authority commissioned a detailed report to determine the likely aftercare and decommissioning costs at the end of the useful life of the landfill site. As a result of this report, the aftercare liability increased from $0.784m at 30 June 2013 to $1.508m at 30 June 2014. The cost per year of aftercare was estimated at $0.247m compared with $0.144m per the previous independent report. In addition, a contingency of 20% was added to these costs, which was previously not applied. The current aftercare period is estimated to be 30 years subsequent to closure of the landfill site.

## CHAPTER APPENDICES

### Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Waste management revenue | 7 873 | 7 831 |
| **Total Revenue** | **7 873** | **7 831** |
| Employee costs | 436 | 382 |
| Borrowing costs (interest expense) | 130 | 180 |
| Borrowing costs (unwinding of discount) | 170 | 356 |
| Depreciation | 488 | 640 |
| Waste management costs | 5 247 | 5 158 |
| Reassessment of rehab provision | 68 | (200) |
| **Total Expenses** | **6 539** | **6 516** |
| **Underlying Profit** | **1 334** | **1 315** |
| Impairment of asset | (231) | 0 |
| **Profit before Tax** | **1 103** | **1 315** |
| Income tax expense | (331) | (395) |
| **Profit after Tax** | **772** | **920** |
| **Other Comprehensive Income** | | |
| Revaluation increment net of tax | 348 | (375) |
| **Comprehensive Profit** | **1 120** | **545** |

In 2013-14 the Authority recorded an Underlying Profit of $1.334m (2012-13, $1.315m) an increase of $0.019m. The improved result was impacted upon by the following:

- a reduction in the Borrowing costs relating to unwinding of the discount used in the calculation of the Provision for rehabilitation and aftercare of $0.186m
- lower Depreciation expense of $0.152m primarily due to the impact of the landfill revaluation in 2012-13 and the use of the diminishing value method of Depreciation
- higher expenditure of $0.268m relating to the reassessment of the rehabilitation provision.

## Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash | 2 074 | 1 534 |
| Receivables | 1 185 | 897 |
| Other assets | 64 | 77 |
| **Total Current Assets** | **3 323** | **2 508** |
| | | |
| Payables | 826 | 601 |
| Borrowings | 337 | 419 |
| Provisions - employee benefits | 66 | 27 |
| Provisions - income tax | 182 | 144 |
| Provisions - rehabilitation | 168 | 205 |
| **Total Current Liabilities** | **1 579** | **1 396** |
| **Working Capital** | **1 744** | **1 112** |
| | | |
| Property, plant and equipment | 9 965 | 8 944 |
| Deferred tax assets | 710 | 439 |
| Other assets | 63 | 88 |
| **Total Non-Current Assets** | **10 738** | **9 471** |
| | | |
| Borrowings | 1 726 | 2 114 |
| Provisions - employee benefits | 3 | 1 |
| Provisions - rehabilitation and aftercare | 2 130 | 1 233 |
| Deferred tax liabilities | 1 303 | 1 035 |
| **Total Non-Current Liabilities** | **5 162** | **4 383** |
| **Net Assets** | **7 320** | **6 200** |
| | | |
| Contributed capital | 1 747 | 1 747 |
| Reserves | 2 666 | 2 318 |
| Retained earnings | 2 907 | 2 135 |
| **Total Equity** | **7 320** | **6 200** |

Total Equity increased by the Comprehensive Profit to $7.320m at 30 June 2014. The Authority improved its Working Capital by $0.632m primarily due to an increase in Cash by $0.540m to $2.074m at the end of 2013-14 (2012-13, $1.534m).

Property, plant and equipment increased by $1.021m primarily due to revaluation increments of $1.323m less an impairment adjustment to an item of plant of $0.231m. The revaluation increments included $1.157m relating to the rehabilitation and aftercare assets.

The rehabilitation and aftercare provisions increased in total by $0.860m. This consisted of a reassessment of the provisions of $0.895m, unwinding of the discount of $0.170m less rehabilitation works undertaken during 2013-14 of $0.204m.

# LOCAL GOVERNMENT ASSOCIATION OF TASMANIA (LGAT)

## SNAPSHOT

- LGAT reported a Net Deficit of $0.019m for 2013-14.
- Its Net Assets totalled $2.842m at 30 June 2014, which included $2.723m in Cash and cash equivalents.
- Unspent grants totalled $0.436m.
- LGAT Assist reported a Net Deficit of $0.007m in 2013-14. It had $0.686m in Cash and cash equivalents and its loans portfolio totalled $0.490m.

The audit was completed satisfactorily with no items outstanding.

## INTRODUCTION

LGAT was established under Part 16 Division 1 of the *Local Government Act 1993*. It is predominantly funded by member councils. A General Management Committee (GMC) of eight members provides oversight to LGAT's operations. The GMC is elected by member council representatives every two years.

### LGAT Assist

*LGAT Assist* provides Local Government employees with support and assistance during times of health, financial and general personal difficulty by:

- offering low interest loans to council employees who are employed on a permanent basis and who are members of the Quadrant Superannuation Fund
- providing access to financial counseling to assist with household management
- awarding non-refundable grants in cases of extraordinary financial hardship.

Its board of directors is appointed by the GMC and LGAT provides administrative support. Financial results of LGAT Assist are reported separately in the financial statements of LGAT.

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. An unqualified audit report was issued on 26 September 2014.

The 2013-14 audit was carried out as an audit of a State entity following an amendment to the *Audit Act 2008*. Previously, LGAT was not a State entity within the meaning of that Act and the audit of its financial statements was carried out by arrangement.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

### Audit findings

There were no findings as a result of this year's audit. LGAT's small size and scale of its operations increases the audit risk due to lack of segregation of duties. While LGAT had in place compensating controls over payments, payroll and general journals, the key financial reporting risk remained. Lack of segregation of duties has the potential to result in a material misstatement to financial statements due to an error or fraud. The risk was mitigated to an acceptable level by the nature and extent of audit testing we performed, which predominantly consisted of substantive procedures.

### Hobart City Council (HCC)

HCC withdrew its membership at the beginning of 2013-14 and therefore did not pay subscription fees for the year. Under LGAT's Rules of Association, a member must give 12-months' notice of the intent to withdraw and pay that year's subscription fee. HCC's subscription fees for 2013-14 remained outstanding at 30 June 2014. LGAT provided for its impairment.

## Grant income

LGAT accounts for grants received on an earned basis. That is, grants are initially brought to account on receipt as a liability, which is then written off to revenue when the relevant expenditure is incurred.

## SUMMARY OF FINANCIAL RESULTS - LGAT

### Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Grants | 173 | 361 |
| Subscriptions | 997 | 968 |
| Other income | 737 | 653 |
| **Total Revenue** | **1 907** | **1 982** |
| | | |
| Employee costs | 892 | 836 |
| Depreciation | 31 | 31 |
| Grant and contributions | 192 | 417 |
| Other expenses | 811 | 715 |
| **Total Expenses** | **1 926** | **1 999** |
| | | |
| **Net Surplus (Deficit)** | **(19)** | **(17)** |

### Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 2 723 | 2 872 |
| Receivables | 131 | 93 |
| Property, plant and equipment | 1 016 | 1 017 |
| **Total Assets** | **3 870** | **3 982** |
| | | |
| Payables | 277 | 306 |
| Unspent grants | 436 | 542 |
| Provisions | 315 | 273 |
| **Total Liabilities** | **1 028** | **1 121** |
| | | |
| **Net Assets** | **2 842** | **2 861** |
| | | |
| **Total Equity** | **2 842** | **2 861** |

LGAT reported a Net Deficit of $0.019m in 2013-14 (2012-13, deficit $0.017m).

Grants and contributions, $0.173m, decreased from 2012-13 by $0.188m. The decrease in grant income, and corresponding expenditure, related to the Local Government Reform fund, $0.100m, and the Coastal Adaptation Pathways program which decreased $0.115m. This was offset by new funding of $0.037m for 26TEN, which is a network of organisations and individuals working together to improve adult literacy in Tasmania.

Total Equity decreased slightly to $2.842m at 30 June 2014 in line with the Net Deficit. Net Assets included a building purchased in July 2012, $0.897m. Cash and cash equivalents totalled $2.723m at 30 June 2014 and included Unspent grants, $0.436m.

## LGAT ASSIST

### Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Interest and other income | 64 | 65 |
| **Total Revenue** | **64** | **65** |
| | | |
| Administration | 34 | 34 |
| Other expenses | 37 | 32 |
| **Total Expenses** | **71** | **66** |
| | | |
| **Surplus (Deficit)** | **(7)** | **(1)** |

### Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 686 | 750 |
| Trade receivables | 1 | 1 |
| Loans | 490 | 434 |
| **Total Assets** | **1 177** | **1 185** |
| | | |
| **Total Liabilities** | **5** | **6** |
| | | |
| **Net Assets** | **1 172** | **1 179** |
| | | |
| **Total Equity** | **1 172** | **1 179** |

*LGAT Assist* recorded a Net Deficit of $0.007m for 2013-14. As a result, its Total Equity decreased to $1.172m at 30 June 2014. Net Assets consisted predominantly of Cash and cash equivalents, $0.686m, and loans, $0.510m, less provisions for impairment, $0.020m.

# NORTHERN TASMANIA DEVELOPMENT ASSOCIATION INC. (The Association)

## SNAPSHOT

- The Association is funded primarily by council contributions and government grants.
- It recorded a Comprehensive Deficit of $0.512m in 2013-14, compared with a Comprehensive Surplus of $0.843m last financial year.
- Net Assets decreased from $1.030m at 30 June 2013 to $0.518m at 30 June 2014 in line with the Deficit this year.
- The significant decrease in both the Comprehensive result and Net Assets was primarily due to the expenditure of government funding received in 2012-13 for the Hollybank Mountain Bike Project.

## INTRODUCTION

The Association was originally established as a company in 1992 as the Northern Tasmania Regional Development Board Pty Ltd. After an internal review of operations in 2012, the Board was wound up and replaced by the Northern Tasmania Development Association Inc, which was established to continue the Board's operations under the *Associations Incorporation Act 1964 (Tas)*.

The principal activity of the Association is to identify and facilitate economic and community development opportunities for the benefit of the residents of Northern Tasmania.

The Association was jointly established and is funded by eight local councils, being Break O'Day, Dorset, Flinders, George Town, Launceston City, Meander Valley, Northern Midlands and West Tamar Councils.

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. An unqualified opinion was issued on 22 August 2014.

The audit was completed satisfactorily with no matters outstanding.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

### Segregation of duties

Due to the Association's limited number of staff, there is a risk related to the segregation of duties and controls over financial operations and transactions. To overcome this risk, we adopted a fully substantive approach to the audit and obtained assurance from the verification of transactions and balances.

## SUMMARY OF FINANCIAL RESULTS

### Statement of Comprehensive Income

| | 2013-14 | 2012-13* |
|---|---|---|
| | $'000s | $'000s |
| Total revenue | 514 | 1 181 |
| Total expenses | 1 026 | 338 |
| **Net Surplus (Deficit)** | **(512)** | **843** |
| Income tax expense (benefit) | 0 | 0 |
| **Comprehensive Surplus (Deficit)** | **(512)** | **843** |

* *The 2012-13 figures represent a combination of the six months of Northern Tasmania Regional Development Board Pty Ltd to 31 Dec 2012 and the six months of Northern Tasmania Development Association Inc to 30 June 2013. Results for the period 1 July 2010 to 30 June 2012 related to the Northern Tasmania Regional Development Board Pty Ltd and 2013-14 was the first full year of results for the Association.*

The Association's Net Surplus (Deficit) was impacted upon by the timing of the receipt and expenditure of government grants. In 2012-13, $0.800m was received from the State Government for the Hollybank Mountain Bike Project. The majority of this funding was spent in 2013-14.

### Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Total assets | 544 | 1 181 |
| Total liabilities | 26 | 151 |
| **Net Assets** | **518** | **1 030** |
| **Total Equity** | **518** | **1 030** |

Net Assets decreased by $0.512m due primarily to the expenditure incurred on the Hollybank Mountain Bike Project.

# SOUTHERN TASMANIAN COUNCILS AUTHORITY (The Authority)

## SNAPSHOT

- The Authority reported a Net Deficit of $0.133m in 2013-14.
- Its Net Assets totalled $0.221m at 30 June 2014.
- It held $0.223m in cash, of which $0.106m related to unspent grants.
- A number of projects were completed during the year, or were nearing completion, resulting in a decrease in the Authority's grant revenue and a reduction in consulting and professional fees incurred.

## INTRODUCTION

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

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

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

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 10 September 2014.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

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

The audit was completed satisfactorily with no matters outstanding.

## SUMMARY OF FINANCIAL RESULTS

### Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Council contributions | 181 | 315 |
| Grants | 69 | 237 |
| Other income | 16 | 20 |
| **Total Revenue** | **266** | **572** |
| | | |
| Employee costs | 179 | 239 |
| Consulting and professional fees | 93 | 248 |
| Other expenses | 127 | 118 |
| **Total Expenses** | **399** | **605** |
| | | |
| **Net Surplus (Deficit)** | **(133)** | **(33)** |

## Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 223 | 374 |
| Other assets | 13 | 14 |
| **Total Assets** | **236** | **388** |
| Total liabilities | 15 | 34 |
| **Net Assets** | **221** | **354** |
| **Total Equity** | **221** | **354** |

# SOUTHERN WASTE STRATEGY AUTHORITY (The Authority)

## SNAPSHOT

- The Authority recorded a Net Deficit of $0.019m this year (2012-13, Surplus $0.053m)
- Net Assets totalled $0.181m ($0.200m) at 30 June.
- The Authority received a notice of intention to withdraw from a participating council. The withdrawal will take place from 1 July 2014.

The audit was completed satisfactorily with no matters outstanding.

## INTRODUCTION

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

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

## AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2014 and an unqualified audit opinion was issued on 10 September 2014.

## KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

There were no areas requiring particular audit attention.

### Resignation of membership

Hobart City Council resigned its membership from the Authority effective on 30 June 2014. The Authority does not anticipate any issues in meeting legal and financial obligations during 2014-15. Member subscriptions in 2014-15 will reduce by approximately $0.070m. Its longer-term viability will be reviewed by remaining member councils.

The audit was completed satisfactorily with no matters outstanding.

## SUMMARY OF FINANCIAL RESULTS

### Statement of Comprehensive Income

| | 2013-14 | 2012-13 |
|---|---|---|
| | $'000s | $'000s |
| Member subscriptions | 279 | 326 |
| Other income | 39 | 18 |
| **Total Revenue** | **318** | **344** |
| | | |
| Employee costs | 167 | 162 |
| Advertising | 47 | 42 |
| Consulting and professional fees | 37 | 22 |
| Programs costs | 31 | 15 |
| Other expenses | 55 | 50 |
| **Total Expenses** | **337** | **291** |
| | | |
| **Net Surplus (Deficit)** | **(19)** | **53** |

### Statement of Financial Position

| | 2014 | 2013 |
|---|---|---|
| | $'000s | $'000s |
| Cash and cash equivalents | 202 | 218 |
| Other assets | 27 | 27 |
| **Total Assets** | **229** | **245** |
| | | |
| **Total Liabilities** | **48** | **45** |
| **Net Assets** | **181** | **200** |
| | | |
| **Total Equity** | **181** | **200** |

The Authority recorded a Net Deficit of $0.019m, a $0.072m deterioration from the 2012-13 surplus. This result was primarily impacted upon by lower Member subscriptions of $0.047m. The Board sets Member subscriptions annually based on a $2 per tonne waste levy on tonnage processed in the previous year. The reduction is a direct result of less tonnes of waste in 2012-13.

The Authority's Total Equity declined as a direct result of the deficit this year, with a corresponding reduction in Cash and cash equivalents.

# 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*, consisting of five volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Analysis of the Treasurer's Annual Financial Report 2013-14

Volume 2 – General Government and Other State entities 2013-14

Volume 3 – Government Businesses 2013-14

Volume 4 – Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14

Volume 5 - Other State entities 30 June 2014 and 31 December 2014.

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

## FORMAT OF THE FINANCIAL ANALYSIS

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

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

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

## FINANCIAL ANALYSIS

| Financial Performance Indicator | Bench Mark[1] | Method of Calculation |
|---|---|---|
| **Financial Performance** | | |
| Earnings Before Interest and Tax (EBIT) ($'000s) | | Result from Ordinary Activities before Gross Interest Expense and Tax |
| EBITDA ($'000s) | | Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation |
| Operating Margin | >1.0 | Operating Revenue divided by Operating Expenses |
| Underlying surplus (deficit) ($'000s) | | 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 |

| Financial Performance Indicator | Bench Mark[1] | Method of Calculation |
|---|---|---|
| Return on assets | | EBIT divided by Average Total Assets |
| Return on equity | | Result from Ordinary Activities after Taxation divided by Average Total Equity |
| Self financing ratio | | Net Operating Cash Flows divided by Operating Revenue |
| **Financial Management** Asset consumption ratio | Between 40% and 60% | Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset |
| Asset renewal funding ratio | 90%-100% | Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required |
| Capital Investment Gap, Asset investment ratio or Investment gap | >100% | Payments for Property, plant and equipment divided by Depreciation expenses |
| 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 |
| Current ratio | >1 | Current Assets divided by Current Liabilities |
| Debt collection | 30 days | Receivables divided by billable Revenue multiplied by 365 |
| Debt to equity | | Debt divided by Total Equity |
| Debt to total assets | | Debt divided by Total Assets |
| Indebtedness ratio | | Non-Current Liabilities divided by Own Source Revenue |
| Interest coverage ratio | | Net operating cashflows less interest and tax payments divided by Net interest payments |
| Interest cover – EBIT | >2 | EBIT divided by Gross Interest Expense |
| Interest cover – EBITDA | >2 | EBITDA divided by Gross Interest Expense |
| Interest cover – Funds from Operations | >2 | Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense |
| Liquidity ratio | 2:1 | Liquid assets divided by current liabilities other than provisions |
| Net financial assets (liabilities) ($'000s) | | Total liquid assets less financial liabilities |

| Financial Performance Indicator | Bench Mark[1] | Method of Calculation |
|---|---|---|
| Net financial liabilities ratio | 0 – (50%) | Liquid assets less total liabilities divided by total operating income |
| **Returns to Government**<br>CSO funding ($'000s) | | Amount of community service obligation funding received from Government |
| Dividend payout ratio | | Dividend divided by Result from Ordinary Activities after Tax |
| Dividend to equity ratio | | Dividend paid or payable divided by Average Total Equity |
| Dividends paid or payable ($'000s) | | Dividends paid or payable that relate to the year subject to analysis |
| Effective tax rate | 30% | Income Tax paid or payable divided by Result from Ordinary Activities before Tax |
| Government guarantee fees ($'000s) | | Amount of guarantee fees paid to owners (usually Government) |
| Income tax paid ($'000s) | | Income Tax paid or payable that relates to the year subject to analysis |
| Total return to equity ratio | | Total Return divided by Average Equity |
| Total return to the State ($'000s) or total return to owners | | Dividends plus Income Tax and Loan Guarantee fees |
| **Other Information**<br>Average leave per FTE ($'000s) | | 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 staff costs[(2)] ($'000s) | | Total employee expenses (including capitalised employee costs) divided by FTEs |
| Employee costs[(2)] as a % of operating expenses | | Total employee costs divided by Total Operating Expenses |
| Employee costs capitalised ($'000s) | | Capitalised employee costs |
| Employee costs expensed ($'000s) | | Total employee costs per Income Statement |
| Operating cost to rateable property | | Operating expenses plus finance costs divided by rateable properties per valuation roll |
| Rates per capita | | Population of council area divided by rates revenue |
| Rates per operating revenue | | Total rates divided by operating revenue including interest income |

| Financial Performance Indicator | Bench Mark[1] | Method of Calculation |
|---|---|---|
| Rates per rateable property | | Total rates revenue divided by rateable properties per valuation rolls |
| Staff numbers FTEs | | Effective full time equivalents |

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

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

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

## RETURNS TO GOVERNMENT

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

- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

## OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – 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 consists of:

- 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 re-statement of items in its financial statements, or when it re-classifies 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 |
| AAV | Assessed Annual Value |
| ABS | Australian Bureau of Statistics |
| ACIPA | Academy of Creative Industries and Performing Arts |
| ACT | Australian Capital Territory |
| AEMO | Australian Energy Market Operator |
| AEMC | Australian Energy Market Commission |
| AER | Australian Energy Regulator |
| AETV | Aurora Energy Tamar Valley |
| AFS | Australian Financial Services |
| ANAO | Australian National Audit Office |
| APRA | Australian Prudential Regulation Authority |
| ARM | Asset Revaluation Model |
| ASA | Australian Auditing Standard |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Stock Exchange |
| ATO | Australian Taxation Office |
| BAC | Burnie Airport Corporation Unit Trust |
| BBP | Bell Bay Power Pty Ltd |
| BER | Building the Education Revolution |
| BHF | Better Housing Futures |
| BLW | Ben Lomond Water |
| BSE | Burnie Sports and Events Unit Trust |
| CC&BS | Customer Care and Billing System |
| CDO | Collateralised Debt Obligation |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CLAF | Crown Land Administration Fund |
| CLP | China Light and Power |
| CMW | Cradle Mountain Water |
| CPI | Consumer Price Index |
| CPOL | Cargo and Port Operational Logistics |
| CREST | Crown Land Administration System |
| CSO | Community Service Obligation |
| DBP | Defined Benefit Pension |
| DBSS | Defined Benefit Superannuation Scheme |
| DHHS | Department of Health and Human Services |
| DIER | Department of Infrastructure, Energy and Resources |
| DIISRTE | Department of Industry, Innovation, Science, Research and Tertiary Education |
| DoE | Department of Education |
| DoJ | Department of Justice |

| | |
|---|---|
| DORC | Depreciated Optimised Replacement Cost |
| DPAC | Department of Premier and Cabinet |
| DPEM | Department of Police and Emergency Management |
| DPIPWE | Department of Primary Industries, Parks, Water and the Environment |
| DTF | Department of Treasury and Finance |
| DVA | Department of Veterans Affairs |
| EBA | Enterprise Bargaining Agreement |
| EBIT | Earnings Before Interest and Tax |
| EBITDA | Earnings Before Interest, Tax, Depreciation and Amortisation |
| EEP | Environmental Energy Products |
| EFTSL | Equivalent Full-time Student Load |
| EOI | Expression of Interest |
| FCAS | Frequency Control Ancillary Services |
| FIND | Fines and Infringement Notices Database |
| FMAA | *Financial Management and Audit Act 1990* |
| FPM | Financial Procedures Manual |
| FRFI | *Forestry (Rebuilding the Forest Industry) Act 2014* |
| FSC | Forest Stewardship Council |
| FSI | Forest Services International |
| FSST | Forensic Science Services Tasmania |
| FTE | Full-time Equivalent |
| GBE | Government Business Enterprise |
| GDP | Gross Domestic Product |
| GGS | General Government Sector |
| GIF | Group Investment Fund |
| GMO | Grantham, Mayo and Otterloo |
| GSP | Gross State Product |
| GST | Goods and Services Tax |
| GWh | Gigawatt Hour |
| HEC | Hydro-Electric Corporation |
| HECS-HELP | Higher Education Loan Program |
| HIAPL | Hobart International Airport Pty Ltd |
| HoA | House of Assembly |
| HR | Human Resources |
| IMAS | Institute of Marine and Antarctic Studies |
| IPSASB | International Public Sector Accounting Standards Board |
| IRR | Inter Regional Revenues |
| IS | Information Security |
| IST | Island Specialty Timbers |
| IT | Information Technology |
| KIPC | King Island Ports Corporation |
| KMP | Key Management Personnel |
| KPI | Key Performance Indicators |
| KV | Kilovolt |
| LGAT | Local Government Association of Tasmania |

| | |
|---|---|
| LGH | Launceston General Hospital |
| LIST | Land Information System Tasmania |
| LSL | Long Service Leave |
| MAIB | Motor Accidents Insurance Board |
| MAR | Maximum Allowable Revenue |
| MIC | Member Investment Choice |
| MHS | Mental Health Services |
| MHS-N | Mental Health Services - North |
| MWh | Megawatt Hour |
| N/a | Not Applicable |
| NDRRA | Natural Disaster Relief and Recovery Arrangements |
| NEM | National Electricity Market |
| NEMMCO | National Electricity Market Management Company Limited |
| Newood | Newood Holdings Pty Ltd |
| NRAS | National Rent Affordability Scheme |
| NTER | National Taxation Equivalent Regime |
| NWRH | North West Regional Hospital |
| OPWG | Optical Ground Wire |
| PA | Public Account |
| PAYG | Pay As You Go |
| PFC | Public Financial Corporation |
| PFT | Private Forests Tasmania |
| PIRP | Prison Infrastructure and Redevelopment Program |
| PNFC | Public Non-Financial Corporation |
| PNT | Pacific National Tasmania |
| POAGS | P&O Automotive and General Stevedoring Pty Ltd |
| PRBF | Parliamentary Retiring Benefits Fund |
| PSF | Parliamentary Superannuation Fund |
| PT | Public Trustee |
| PWC | Price WaterhouseCoopers |
| RAB | Regulated Asset Base |
| RBF | Retirement Benefits Fund |
| RBFB | Retirement Benefits Fund Board |
| REC | Renewable Energy Certificates |
| RFDS | Royal Flying Doctor Service |
| RHH | Royal Hobart Hospital |
| RIN | Regulatory Information Notices |
| ROGS | Report on Government Services |
| RWSC | Rivers and Water Supply Commission |
| SDTF | Special Deposits and Trust Fund |
| SES | State Emergency Service |
| SEV | Soil Expectation Value |
| SFC | State Fire Commission |
| SFCSS | State Fire Commission Superannuation Scheme |

| | |
|---|---|
| SG | Superannuation Guarantee |
| SLIMS | Technology One Student Management System |
| SOC | State Owned Corporation |
| SPA | Superannuation Provision Account |
| SPFR | Specific Purpose Financial Reports |
| SW | Southern Water |
| TAC | Tasmanian Communications Unit Trust |
| TAFR | Treasurer's Annual Financial Report |
| TAHL | Tasmanian Affordable Housing Limited |
| TAS | Tasmanian Accumulation Scheme |
| TASCORP | Tasmanian Public Finance Corporation |
| TASSS | Tasmanian Ambulance Service Superannuation Scheme |
| TasWater | Tasmanian Water and Sewerage Corporation Pty Ltd |
| TCF | Tasmanian Community Fund |
| TCFA | Tasmanian Community Forest Agreement |
| TDIA | Tasmanian Dairy Industry Authority |
| TDR | Tasmania Development and Resources |
| TDRA | Temporary Debt Repayment Account |
| TESI | Tasmanian Electricity Supply Industry |
| TFA | Tasmanian Forest Agreement |
| TFIA | Tasmanian Forest Intergovernmental Agreement |
| TFS | Tasmanian Fire Service |
| THO | Tasmanian Health Organisation |
| THO-N | Tasmanian Health Organisation - North |
| THO-NW | Tasmanian Health Organisation - North West |
| THO-S | Tasmanian Health Organisation - South |
| TI | Treasurer's Instruction |
| TIDB | Tasmanian Irrigation Development Board Pty Ltd |
| TIPL | Tasmanian Irrigation Pty Ltd |
| TIS | Tasmanian Irrigation Schemes Pty Ltd |
| TMRN | Tasmanian Mobile Radio Network |
| TRB | Tasmanian Racing Board |
| TVPS | Tamar Valley Power Station |
| TUOS | Transmission Use of System |
| TUU | Tasmanian University Union Incorporated |
| TWSC | Tasmanian Water and Sewerage Corporation |
| UPF | Uniform Presentation Framework |
| VaR | Value at Risk |
| VET | Vocational Education and Training |
| VoIP | Voice over Internet Protocol |
| WACC | Weighted Average Cost of Capital |
| WHA | World Heritage Area |
| WIF | Water Infrastructure Fund |
| WIP | Work in Progress |

# APPENDIX 4 - RECENT PUBLICATIONS

| Tabled | Report No. | Title |
|---|---|---|
| **2013** | | |
| August | No. 1 of 2013-14 | Fraud control in local government |
| November | No. 2 of 2013-14 | Auditor-General's Report on the Financial Statements of State entities, Volume 1 - Executive and Legislature, Government Departments, Tasmanian Health Organisations, Other General Government Sector State entities, Other State entities and Superannuation Funds |
| November | No. 3 of 2013-14 | Auditor-General's Report on the Financial Statements of State entities, Volume 2 - Government Businesses, Other Public Non-Financial Corporations and Water Corporations |
| December | No. 4 of 2013-14 | Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities |
| December | No. 5 of 2013-14 | Infrastructure Financial Accounting in Local Government |
| **2014** | | |
| January | No. 6 of 2013-14 | Redevelopment of the Royal Hobart Hospital: governance and project management |
| February | No. 7 of 2013-14 | Police responses to serious crime |
| February | No. 8 of 2013-14 | Auditor-General's Report on the Financial Statements of State entities, Volume 4 - Analysis of the Treasurer's Annual Financial Report 2012-13 |
| May | No. 9 of 2013-14 | Auditor-General's Report on the Financial Statements of State entities, Volume 5 - State entities 30 June and 31 December 2013, matters relating to 2012-13 audits and key performance indicators |
| May | No. 10 of 2013-14 | Government radio communications |
| May | No. 11 of 2013-14 | Compliance with the Alcohol, Tobacco and Other Drugs Plan 2008-13 |
| June | No. 12 of 2013-14 | Quality of Metro services |
| June | No. 13 of 2013-14 | Teaching quality in public high schools |
| August | No. 1 of 2014-15 | Recruitment practices in the State Service |
| September | No. 2 of 2014-15 | Follow up of selected Auditor-General reports: October 2009 to September 2011 |
| September | No. 3 of 2014-15 | Motor vehicle fleet management in government departments |
| November | No. 4 of 2014-15 | Volume 3 - Government Businesses 2013-14 |
| November | No. 5 of 2014-15 | Volume 2 - General Government and Other State entities 2013-14 |
| December | No. 6 of 2014-15 | Volume 1 - Analysis of the Treasurer's Annual Financial Report 2013-14 |

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

Tasmanian Audit Office

Level 4, Executive Building, 15 Murray Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6226 0100 | Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

## 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.

# AUDIT MANDATE AND STANDARDS APPLIED

## Mandate

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

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

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

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

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

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

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

## Standards Applied

Section 31 specifies that:

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

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

(b) the Australian Auditing and Assurance Standards.'

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

Tasmanian
Audit Office

| | | | |
|---|---|---|---|
| **Phone** | (03) 6226 0100 | **Address** | Level 4, Executive Building |
| **Fax** | (03) 6226 0199 | | 15 Murray Street, Hobart |
| **email** | admin@audit.tas.gov.au | **Postal Address** | GPO Box 851, Hobart 7001 |
| **Web** | www.audit.tas.gov.au | **Office Hours** | 9am to 5pm Monday to Friday |

**Launceston Office**

| | | | |
|---|---|---|---|
| **Phone** | (03) 6336 2503 | **Address** | 2nd Floor, Henty House |
| **Fax** | (03) 6336 2908 | | 1 Civic Square, Launceston |