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 II: Councils

February 2015

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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.

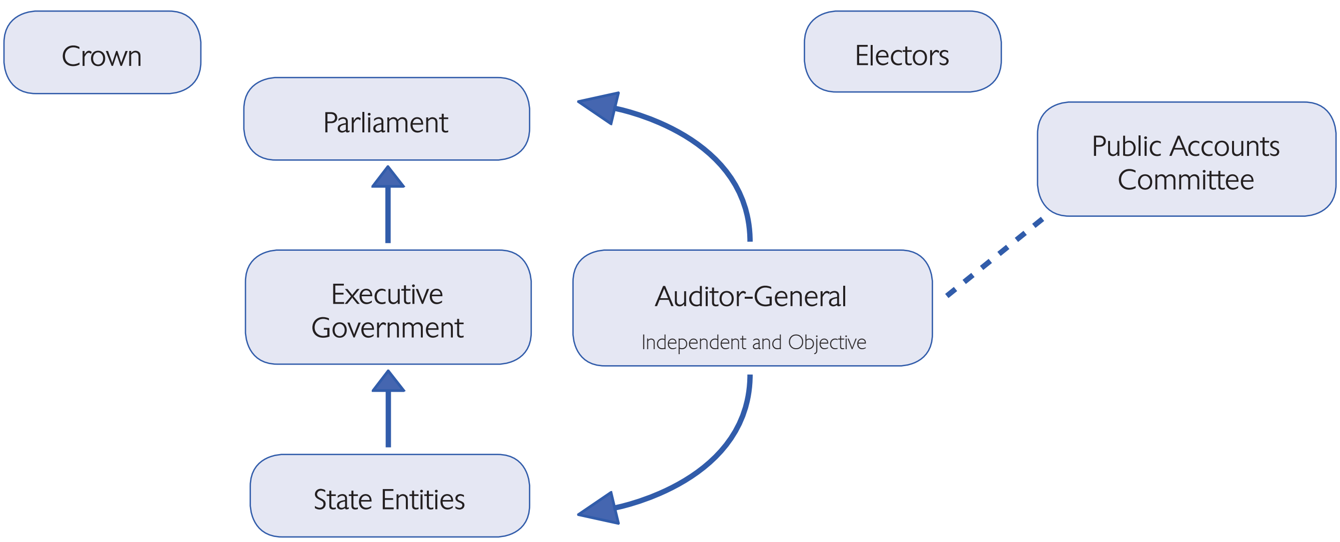
We can also carry out investigations but only relating to public money or to public property.

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 - Part II

Volume 4, Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14, Part II: Councils.

February 2015

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

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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

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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 II: Councils.

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 II: Councils.

Yours sincerely

H M Blake
Auditor-General

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MAJOR COUNCILS

CLARENCE CITY COUNCIL

SNAPSHOT

- Council's Underlying result improved to a surplus of $3.542m this year.
- Council's Net Surplus for the year of $4.510m (2013, deficit of $17.103m) was a significant improvement on the prior year which had been influenced by the write-off of third party assets that are now disclosed as contingent assets.
- At 30 June 2014, Council's Total Assets were $601.355m and its Net Assets $590.747m.
- Rates per capita increased by 15.75% over the three years since 30 June 2011 and Rates per rateable property increased by 15.60% over the same period. However, Operating costs per rateable property increased by only 6.04%, which helped Council to achieve an improved Underlying Surplus in 2013-14 of $3.542m (2012-13, $1.140m).
- FTEs increased by only 0.86% since 2011, with average staff costs per FTE increasing by 7.09%.

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

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed with no major findings or items outstanding.

Major developments for the year included:

- recognition of dividends from TasWater for the first time, totalling $2.207m, which was a significant contributor to Council's improved results
- changing its approach to raising rates, which is now based on the capital value of properties instead of the assessed annual value (AAV).

Major variations between the 2013-14 and 2012-13 financial years included:

- the change to the rating calculation noted previously together with higher State Government charges and levies coupled with growth in the municipality resulted in increased rates revenue of $3.249m. However, to smooth out the impact of the new rates charges and make it equitable for rate payers, Council remitted an additional $1.904m of rates in 2013-14
- the de-recognition of assets in 2012-13 resulted in Depreciation expense in that year dropping by $1.534m from 2011-12. In the current year, Depreciation increased by $0.657m, which was in line with expectations, given the level of capital expenditure
- the Investment in TasWater decreased by $39.5874m to $162.511m, due principally to a write-down in the value of TasWater's assets.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Significant capital works were budgeted for the financial year, at $16.540m, in addition to carried forward projects of $10.812m. Renewals activity was the focus for 2013-14, with the majority of capital funds to be spent on roads and related expenditure.	We tested that works were appropriately capitalised, and the associated expenditure was supported by appropriate documentation. In addition, contracts were tested to ensure compliance with Council's expenditure policies and delegations and the *Local Government Act 1993*.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014, with amended financial statements received on 9 September 2014. An unqualified audit report was issued on 11 September 2014.

KEY DEVELOPMENTS

Dividend received from TasWater

During the financial year, Council received a dividend from TasWater for the first time, amounting to $2.207m. This was a significant contributor to the improved results in 2013-14.

Change in rating approach

During the financial year Council changed its approach to raising rates, now basing the rating calculation on the capital value of properties instead of AAV. The move to capital value did not lead to higher rates. Instead, it resulted in a redistribution of the existing rate burden across properties. However, because of the redistribution, some properties experienced a very large increase in their rates, with others decreasing. To smooth this effect over time and make it more equitable for rate payers, Council provided special rebates to these properties.

The impact of this change, together with higher State Government charges and levies (fire services contribution, land tax and valuation fees), coupled with growth in the municipality, meant rates revenue increased by $3.249m. Council remitted $3.919m of rates in 2013-14 an increase of $1.936m from the previous year.

Overall, net rates increased by only 3.4% which reflects the increase in annual rates plus growth across the municipality.

KEY FINDINGS

No high or moderate risk findings were identified during the audit. A minor issue regarding the disclosure of employee on-costs was raised with management, which will be addressed during next year's audit.

The audit was completed satisfactorily with no other matters outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled in Parliament in December 2013.

We recommended that 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. We noted Council's decision not to recognise land under roads acquired prior to 30 June 2008 as permitted by the Standard. Despite this, we urge Council to reconsider its decision as it is inconsistent with our Report and with the number of other councils that have taken up the recommendation. There is also inconsistency in that some land under roads (post 2008) may be recognised and some not (pre 2008).

Apart from the previous matter, we noted that Council complied with 21 out of 22 recommendations relevant to councils.

Local Government Ministerial Orders

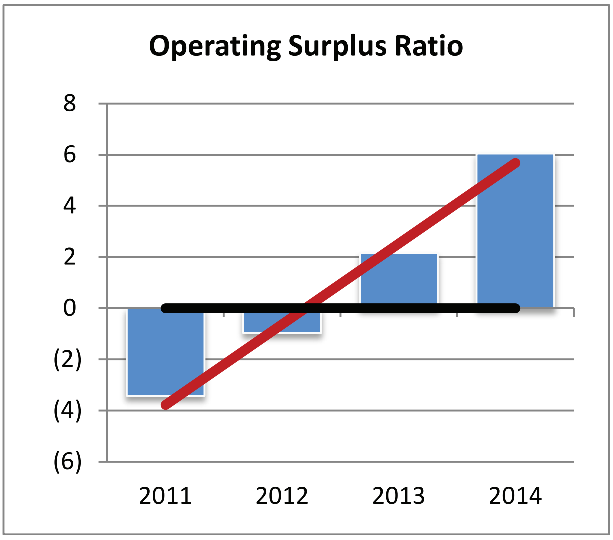
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. Council complied with all relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

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

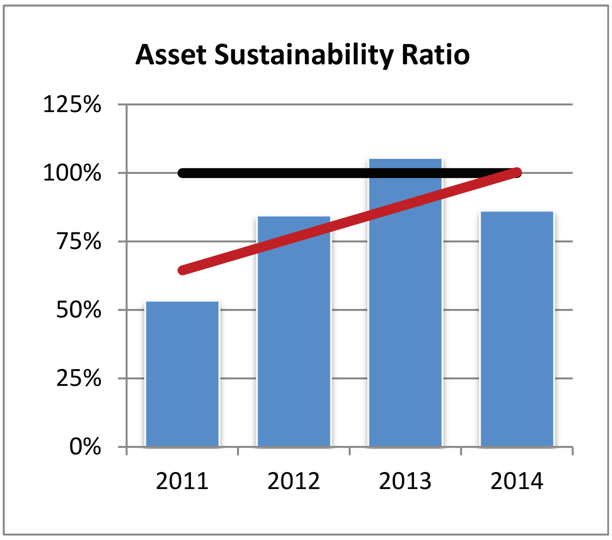
The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded a significant improvement it is Operating surplus ratio in 2013-14 principally due to:

- increased rating revenue of $3.249m, partly offset by higher rate remissions of $1.904m. These adjustments occurred due to a change in the way rates revenue was raised, moving to a capital value based approach rather than one based on AAV
- receiving a dividend from TasWater for the first time in 2013-14, $2.207m.

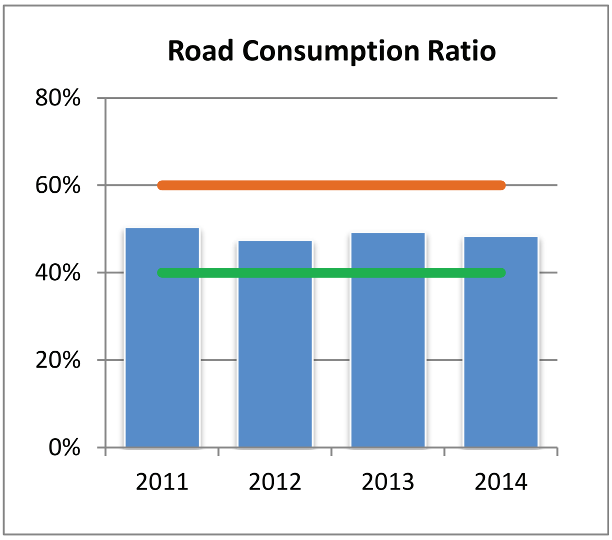
The four year average for the Operating surplus ratio for Council was 0.95, when combined with the strong result for this year, indicated a low financial sustainability risk.



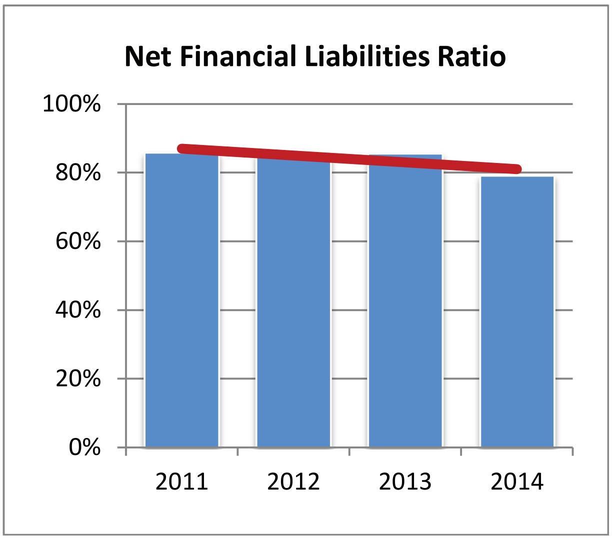
The Asset sustainability ratio was below our 100% benchmark this year, due to a slight reduction in capital works. Over the four year period, Council's average ratio improved to 82% compared to the previous four year period average of 76%. Although this indicates that Council had been under-investing in existing assets, the trend line is showing improvement.

Asset renewal funding ratio

Council's long-term financial plan included a target for a 100% Asset renewal funding ratio in 10 years. The long-term asset management plans for road and stormwater assets forecast that over the next ten years, Council will generate 97% and 102%, respectively of the funds required for optimal renewal and replacement of these assets. The Asset renewal funding ratio was 107.0% at 30 June 2014, which is above our benchmark. However, we note that Council's asset management and financial plans have not been audited.



The ratio at 30 June 2014 indicated Council had used (consumed) approximately 52% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period being 49%. This indicated Council's road assets had reached the half-way point of their life-cycle, indicating moderate financial sustainability risk.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

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

It is noted that Council had contractual commitments totalling $5.363m (2012-13, $4.754m), which were not recognised in the Statement of Financial Position, nor were they factored into the Net financial liabilities ratio above.

In addition, Council's cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $34.896m or 64.9% of total Cash and financial assets, $53.764m. Hypothetically, if the cash balance was reduced by the restricted funds the Net financial liabilities ratio would have been 19.59% at 30 June 2014, which is still better than the benchmark and hence a low risk.

Governance

A review of Council's governance arrangements indicated that it had an active audit panel (or audit committee) consisting of two Aldermen and three external members. The audit panel:

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

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

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded a positive operating result in the current year, with the average for the past four years only 0.05 below benchmark. Hence, our current assessment is that Council is at a low financial sustainability risk from an operating perspective.

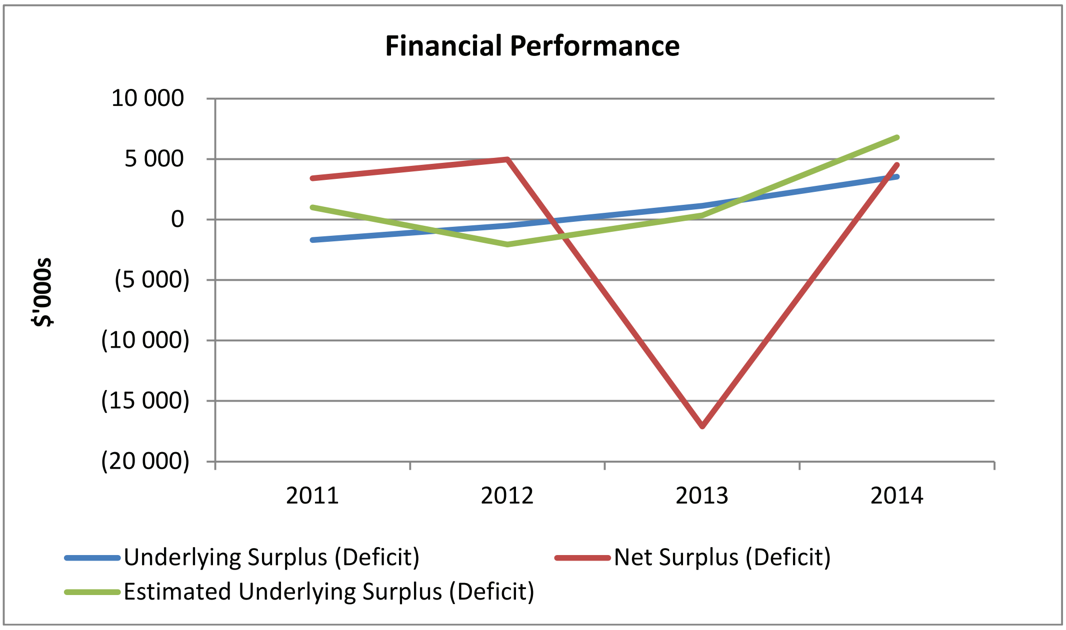
Council's Net financial liabilities ratio was positive indicating low financial sustainability risk, a strong ability to service debt and a capacity to borrow should the need arise.

Council's Asset sustainability ratio was below our 100% benchmark, while the Road consumption ratio was in the moderate risk range due to the age of Council's road network. However, Council's asset renewal funding ratio, at 107%, was above our benchmark.

Council's governance arrangements were rated as low risk because it had an effective audit committee and had long-term asset and financial management plans together with an asset management strategy.

Based on these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at moderate financial sustainability risk from an asset management perspective but low financial sustainability risk from financial operating, net financial liabilities and governance perspectives.

FINANCIAL ANALYSIS



Council's Underlying Surplus, Net Surplus and Estimated Underlying Surplus were all positive in 2013-14, occurring for the first time within the period of analysis.

This year's Underlying Surplus of $3.542m was influenced significantly by the dividend received from TasWater of $2.207m. Higher net rate revenue of $1.313m also contributed to the improved result. Rates revenue increase by $3.249m, principally due to the change in the way rates were calculated, as mentioned previously, together with greater growth in the municipality. However, to smooth out the impact of the new rates charges and make it equitable for rate payers, Council remitted an additional $1.904m of rates in 2013-14 recorded in Other expenses.

At the time the 2013-14 budget was set, Council had assumed that the first quarter payment for financial assistance grants would be prepaid, as in the previous year; however, this did not occur at the end of 2013-14. This was the principal reason why the estimated underlying result was greater than the actual result achieved.

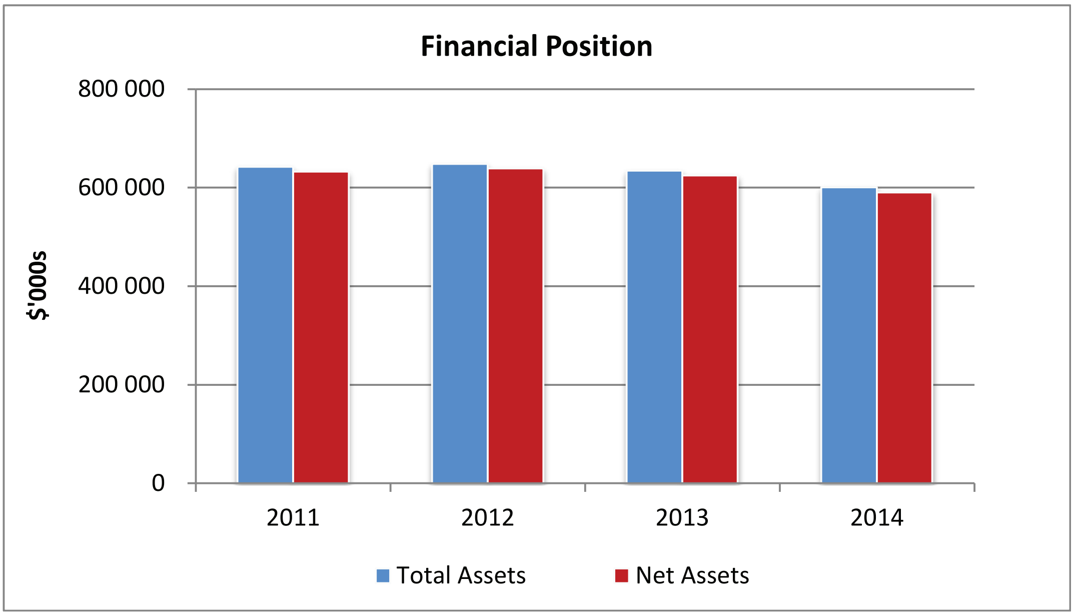
Generally, the net result was better than the underlying result, as Council does not budget for a number of capital items or non-monetary contributions received. This was true in the current year, where the Net Surplus of $4.510m was influenced by:

- contribution of non-current assets of $1.432m
- Capital grants of $0.507m
- offset by the prior year Financial assistance grant paid in advance of $1.328m.

In the prior year, the net result was a significant deficit of $17.103m, due principally to:

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

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



Council's Total Assets, Liabilities and Net Assets declined steadily since 2012 with the most significant movements recorded in the current year.

Total Assets decreased by $33.291m at 30 June 2014 due principally to the write-down of the value of the investment in TasWater, which reduced by $39.587m to $162.511m. This write-down was caused by a reduction in the value of TasWater's assets and the basis of calculating Council's investment changing to its percentage share of voting rights instead of the proportion used for dividend distribution.

This decrease in the investment in TasWater was partly offset by increased Property, plant and equipment of $3.871m and Cash and financial assets of $2.369m.

Council had a number of functional activities that provided a broad level of services to its ratepayers. However, the majority of its funding and assets related to works and infrastructure management. At 30 June 2014, Council managed $377.395m in assets, comprising mainly roads, stormwater, land and buildings. Consequently, Council's financial position was dominated by its significant infrastructure and other assets. In comparison, Council's liabilities totalled only $10.608m, mainly consisting of Payables, Employee entitlements and Borrowings.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the Financial Analysis table at the end of this Chapter focussing on per capita, per rateable property and FTE related measures. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 15.75% over the three years since 30 June 2011 and Rates per rateable property increased by 15.60% over the same period. In contrast to these movements, Operating costs per rateable property, only increased by 6.04%.

The higher increases in rates, when compared to increases in costs, assisted Council to achieve an improved Underlying Surplus in 2013-14, as discussed previously in this Chapter.

FTEs fluctuated over the four year period and increased by only two, or 0.86%, since 2011 and over the period average cost per FTE increased by 7.09%. This reflects Council's strategy to minimise costs, where possible, so as to improve its financial results.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Restated**
	$'000s	$'000s	$'000s	$'000s
Rates	43 493	43 720	40 471	38 657
Fees and charges	4 387	4 751	4 373	4 202
Grants**	6 036	5 028	4 713	4 609
Interest revenue	2 801	2 279	2 741	3 338
Other revenue	2 358	2 828	582	496
Total Revenue	**59 075**	**58 606**	**52 880**	**51 302**
Employee costs	15 056	14 835	14 449	13 625
Depreciation	10 731	10 926	10 269	11 803
Finance costs	59	53	56	63
Other expenses	26 445	29 250	26 966	26 309
Total Expenses	**52 291**	**55 064**	**51 740**	**51 800**
Underlying Surplus (Deficit)	**6 784**	**3 542**	**1 140**	**(498)**
Capital grants	0	507	2 265	87
Financial assistance grant received in advance***	0	0	1 328	1 368
Offset financial assistance grant in advance***	0	(1 328)	(1 368)	(656)
Share of interest in associate	0	357	304	159
Derecognition of assets	0	0	(35 336)	0
Contribution of non-current assets	0	1 432	14 564	4 503
Net Surplus (Deficit)	**6 784**	**4 510**	**(17 103)**	**4 963**
Other Comprehensive Income				
Fair value revaluation of non current assets	0	683	3 189	1 078
Share of revaluation of assets of associate	0	0	96	0
Current year fair value adjustment in TasWater	0	(39 587)	(69)	442
Total Other Comprehensive Income (Expense)	**0**	**(38 904)**	**3 216**	**1 520**
Comprehensive Surplus (Deficit)	**6 784**	**(34 394)**	**(13 887)**	**6 483**

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

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

*** *Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	53 764	51 395	50 548	49 331
Receivables	3 223	3 351	2 826	3 031
Inventories	135	138	139	134
Other	795	742	683	586
Total Current Assets	**57 917**	**55 626**	**54 196**	**53 082**
Payables	5 845	4 614	4 958	5 771
Borrowings	161	153	145	137
Provisions – employee benefits	3 522	3 382	3 058	2 777
Total Current Liabilities	**9 528**	**8 149**	**8 161**	**8 685**
Net Working Capital	**48 389**	**47 477**	**46 035**	**44 397**
Property, plant and equipment	377 395	373 524	389 140	386 947
Investments in associates	1 776	1 419	395	236
Investment in TasWater	162 511	202 098	202 167	201 725
Receivables	1 756	1 979	2 794	865
Total Non-Current Assets	**543 438**	**579 020**	**594 496**	**589 773**
Borrowings	542	703	856	1 001
Provisions – employee benefits	538	657	551	532
Total Non-Current Liabilities	**1 080**	**1 360**	**1 407**	**1 533**
Net Assets	**590 747**	**625 137**	**639 124**	**632 637**
Reserves	186 972	221 188	259 218	259 679
Accumulated surpluses	403 775	403 951	379 906	372 958
Total Equity	**590 747**	**625 139**	**639 124**	**632 637**

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

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	52 202	47 847	47 376	44 774
Cash flows from Government	3 700	5 044	5 408	4 967
Payments to suppliers and employees	(43 974)	(42 724)	(43 263)	(39 077)
Interest received	2 245	2 896	3 321	3 192
Investment income from TasWater	2 207	0	0	0
Finance costs	(53)	(57)	(63)	(90)
Cash from (used in) Operations	**16 327**	**13 006**	**12 779**	**13 766**
Capital grants and contributions	507	1 940	0	0
Payments for property, plant and equipment	(14 312)	(15 425)	(11 672)	(10 319)
Proceeds from sale of property, plant and equipment	0	671	247	465
Cash from (used in) Investing Activities	**(13 805)**	**(12 814)**	**(11 425)**	**(9 854)**
Repayment of borrowings	(153)	(145)	(137)	(674)
Loans advanced	0	800	0	(800)
Cash from (used in) Financing Activities	**(153)**	**655**	**(137)**	**(1 474)**
Net Increase (Decrease) in Cash	**2 369**	**847**	**1 217**	**2 438**
Cash at the beginning of the year	51 395	50 548	49 331	46 893
Cash at End of the Year	**53 764**	**51 395**	**50 548**	**49 331**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		3 542	1 140	(498)	(1 682)
Operating surplus ratio* **	> 0	6.04	2.16	(0.97)	(3.43)
Asset Management					
Asset sustainability ratio*	100%	86%	106%	84%	53%
Asset renewal funding ratio* ***	90%-100%	107%	92%	N/a	N/a
Road asset consumption ratio*	>60%	48.5%	49.4%	47.6%	50.4%
Asset investment ratio	>100%	131%	150%	99%	82%
Liquidity					
Net financial assets (liabilities) ($'000s)		46 379	45 237	43 806	42 144
Net financial liabilities ratio* ****	0%-(50%)	79.1%	85.5%	85.4%	85.9%
Operational Efficiency					
Liquidity ratio	2:1	9.49	11.48	10.46	8.86
Current ratio	1:1	6.08	6.83	6.64	6.11
Interest coverage	3:1	307.06	227.18	201.84	151.96
Self financing ratio		23.5%	24.2%	24.9%	28.0%
Own source revenue		91.4%	91.1%	91.0%	91.3%
Debt collection	30 days	24	27	24	27
Creditor turnover	30 days	24	18	22	21
Rates per capita ($)		816	762	732	705
Rates to operating revenue		74.6%	76.5%	75.4%	75.3%
Rates per rateable property ($)		1 813	1 688	1 637	1 568
Operating cost to rateable property ($)		2 281	2 155	2 191	2 151
Employee costs expensed ($'000s)		14 835	14 449	13 625	13 367
Employee costs capitalised ($'000s)		1 200	1 540	1 374	1 479
Total employee costs ($'000s)		16 035	15 989	14 999	14 846
Employee costs as a % of operating expenses		27%	28%	26%	26%
Average staff numbers (FTEs)		235	233	225	233
Average staff costs ($'000s)		68	69	67	64
Average leave balance per FTE ($'000s)		17	17	16	14

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

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

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

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

SNAPSHOT

- Council reported an Underlying Deficit of $5.565m in 2013-14, lower than the budgeted deficit of $8.737m.
- A Net Deficit of $4.606m was recorded, an improvement on the Underlying Deficit by $0.959m, mainly due to receipt of Capital funding and Contributions of non-current assets.
- Total Equity at 30 June 2014 was $678.504m.
- Over the four year period under review Council consistently reported an Underlying Deficit and a negative operating margin. This indicated that Council did not generate sufficient revenue to fulfil its operating requirements.
- Despite this, cash generated from operating activities was consistently positive, averaging $13.904m per annum over the past four years. However, Cash from operations this year was lower at $10.589m.
- Rates per capita increased by 19% over the three year period since 30 June 2011 and Rates per rateable property increased by 23% over this period.
- Operating costs per rateable property increased by 4.5%.
- FTE declined by 29 since 2011 primarily due to a restructure to operations in 2011-12 that resulted in a decrease of 30 FTEs. Average cost per FTE has remained consistent over the past three years.

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

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed satisfactorily with no other items outstanding.

Major developments during the year included:

- a new strategic asset management system, MyData, was implemented and went live on 1 July 2013
- adjustments were made to the useful lives for infrastructure assets to better reflect their actual remaining life span
- a contract dispute arose with a supplier related to contracts for the Derwent Park Stormwater Harvesting and Industrial Re-use Project. Council issued a claim for $1.498m and at the same time raised a doubtful debt for this amount and an impairment expense of $0.726m was recorded for faulty works.

Major variations between the 2013-14 and 2012-13 financial years included:

- Rates revenue increased $1.286m as a result of a rate increase
- Recurrent Grants income from the Commonwealth decreased by $3.123m because of funding received in the prior year as part of the street-light replacement project, and a reduction to funds received for child and aged care services
- Capital grants from the Commonwealth also decreased, this time by $3.657m. Funding received in 2011-12 and 2012-13 was high due to major capital projects including the King George V upgrade, Moonah Arts Centre Redevelopment, Derwent Park Stormwater Reuse and stage two of the Glenorchy Arts Sculpture Park
- Other revenue decreased by $3.398m as a result of lower investment income in the form of dividends, tax equivalents and guarantee fees received from TasWater

- lower Interest revenue, $1.012m, due to lower average cash balances
- Cash and financial assets decreased by $9.499m as investment in Property, plant and equipment was larger than cash generated from operations
- higher Property, plant and equipment, $12.519m, due to capital additions and a revaluation increment
- Investment in TasWater dropped by $38.536m due to the decrease in TasWater's net assets as a result of a revaluation of its infrastructure assets.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Council implemented changes to fixed assets in the 2013-14 financial year that included: • implementation of a new asset management system, MyData, as at 1 July 2013 • adjustment to the useful lives of stormwater assets to better reflect their current condition and expected remaining life.	We: • reviewed documentation and conducted a walkthrough of how the new asset management system operated • performed testing over the change management procedures used by Council when migrating system data, and reconciled the movements at year end to opening balances to gain assurance over these balances • audited the methodology applied to justify the changes to infrastructure useful lives. Detailed testing was undertaken to ensure the new depreciation rates had been applied correctly and we reviewed the disclosures in the financial statements to ensure compliance with AASB 108 *Accounting Policies, Change in Account Estimates and Errors*.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 2 September 2014.

KEY DEVELOPMENTS

Asset management system

Council implemented a new asset management system, MyData. The system went live on 1 July 2013, accounting for all Council infrastructure assets, and integrated with the financial system to improve the integrity and accuracy of financial records.

Stormwater and drainage assets - useful lives review

During 2013-14 Council performed a review over the useful life of its underground drainage network across the city. The review resulted in an extension of the estimated useful life for concrete reinforced pipes from a maximum 80 years to a maximum 135 years. The pipes represent approximately 70% of the total cost at valuation of stormwater and drainage assets, and the change resulted in a reduction of $1.534m to Depreciation expense for 2013-14 and future years.

Construction dispute

A contract dispute arose between Council and a contractor for the Derwent Park Stormwater Harvesting and Industrial Re-use Project. The dispute resulted from Council's view that the contractor performed poorly resulting in defective works. This was disputed by the contractor who, ultimately, refused to continue to perform their obligations under the contracts. The defective works were estimated to cost $0.726m, which were impaired.

The contractor was placed in administration on 11 April 2014 and subsequently was placed into liquidation in a creditors meeting on 16 May 2014 in which Council was one of the creditors. On 15 May 2014 Council lodged a claim for breach of contract, including recoup of cost for defective works. The claim totalled $1.498m and was also recognised as a doubtful debt given the contractor's financial situation.

KEY FINDINGS

The audit was completed satisfactorily with no significant issues outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*, tabled in December 2013.

The report included 22 recommendations with Council applying/adopting 21 of them. The remaining recommendation not applied/adopted was Recommendation 22 which recommended that councils value and recognise all land under roads.

Local Government Ministerial Orders

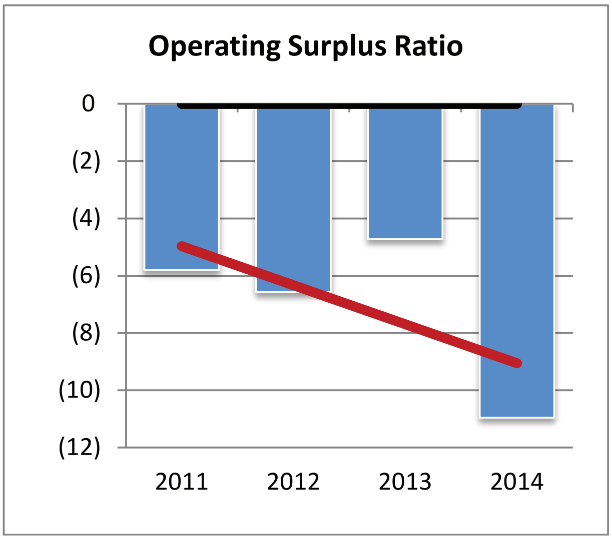
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that Council had complied with relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

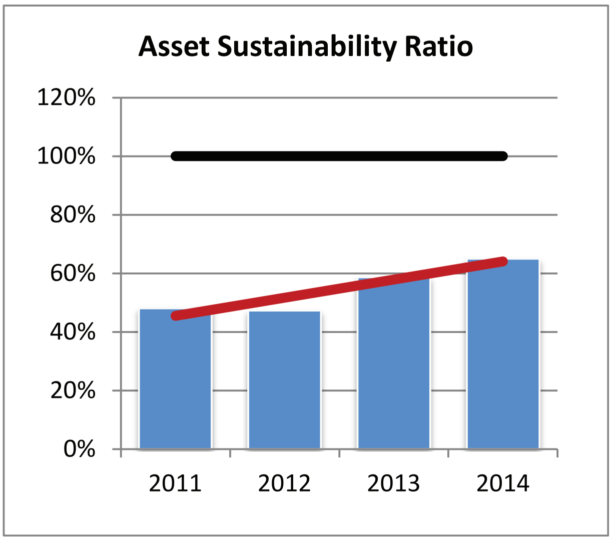
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's Operating surplus ratios (also referred to as the underlying surplus ratio) reflect operating deficits in all four years. The negative ratios indicate that Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. The average ratio for the four years was negative 7.42 and we note that Council budgeted for underlying deficits in each of the past four years and the growing average deficits is of concern.



Council's ratio was under benchmark in all four years under review. Over the period Council's average ratio was 55% which is below the 100% benchmark, indicating, subject to levels of maintenance expenditure and its long-term asset and financial management plans, Council was under-investing in existing assets.

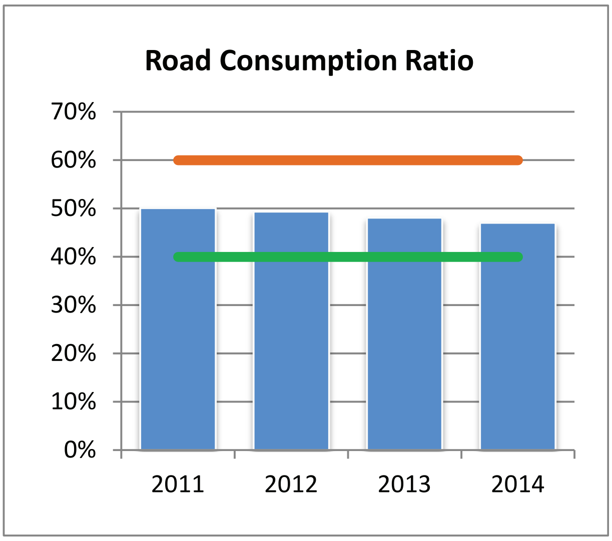
Asset renewal funding ratio

The Asset renewal funding ratios included in the Financial Analysis table at the end of this Chapter represents a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

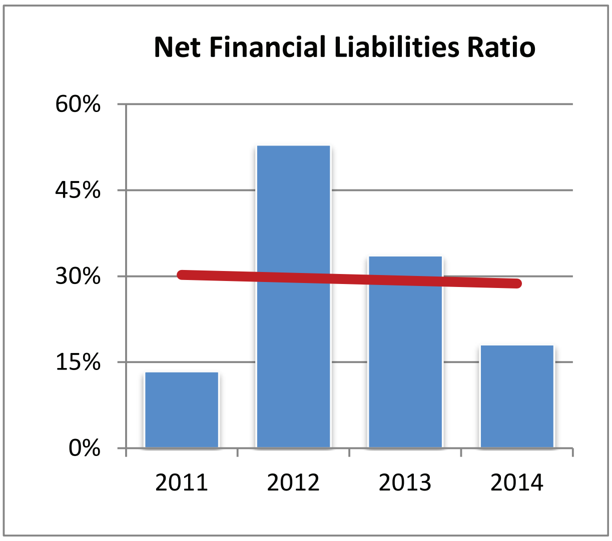
Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2023-24 and covers transport infrastructure, buildings and other land improvements and stormwater and drainage. The plan is not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, Council's asset renewal funding ratio was 100% for both 2012-13 and 2013-14. The ratio was in line with our benchmark of between 90% and 100%. The ratios were 100% for both years because Council prepared long-term financial plans based on the information in the development of ten-year forward works programs. Therefore, the funding for long-term financial plans and the projected outlays for the asset management plans were identical.

This indicates low financial sustainability risk.



The graph indicates that at 30 June 2014 Council used (consumed) approximately 53% of the service potential of its road infrastructure assets. This indicates a moderate financial sustainability risk.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk.*

Council's Net financial liabilities ratio, while decreasing from 2012, was positive with liquid assets in excess of current and non-current liabilities over the four year period under review. These positive ratios indicate a strong liquidity position, with Council able to meet its existing commitments.

It is noted, however, that Council had contractual commitments totalling $16.090m (2012-13, $22.179m) which are not recognised on the statement of financial position nor are they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided.

In addition, Council's Cash and cash equivalents are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $28.613m, of which $28.608m is internally restricted, which makes up 90.9% of the total Cash and cash equivalents balance. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position. Hypothetically if the Cash balance was reduced by the restricted funds the Net financial liabilities ratio would be -9.8% at 30 June 2014, which is still within the benchmark and a low risk.

Governance

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

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

In addition, Council had long-term asset management and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to financial sustainability

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

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

Asset sustainability ratio averaged 55%, below our benchmark of 100% indicating Council was not sufficiently investing in its existing assets although its Road consumption ratio was in the moderate risk range at around 53%. These ratios were mitigated to an extent by Council's 100% Asset renewal funding ratio, which indicated the existence of long-term plans aimed at addressing infrastructure requirements. Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate risk from operating and asset management perspectives but low financial sustainability risk from financial liabilities and governance perspectives.

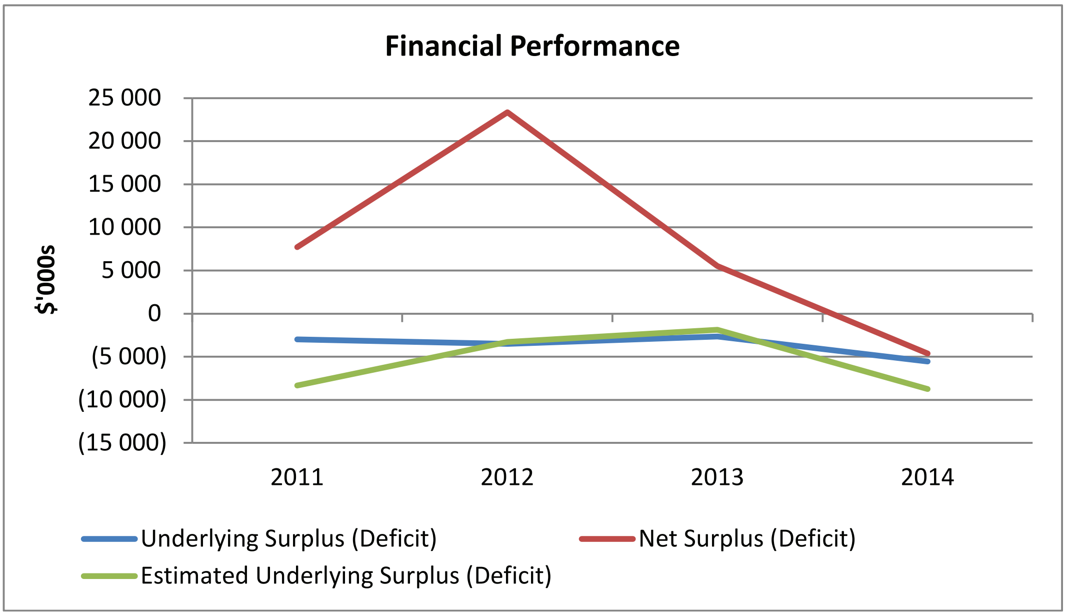
Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

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

FINANCIAL ANALYSIS



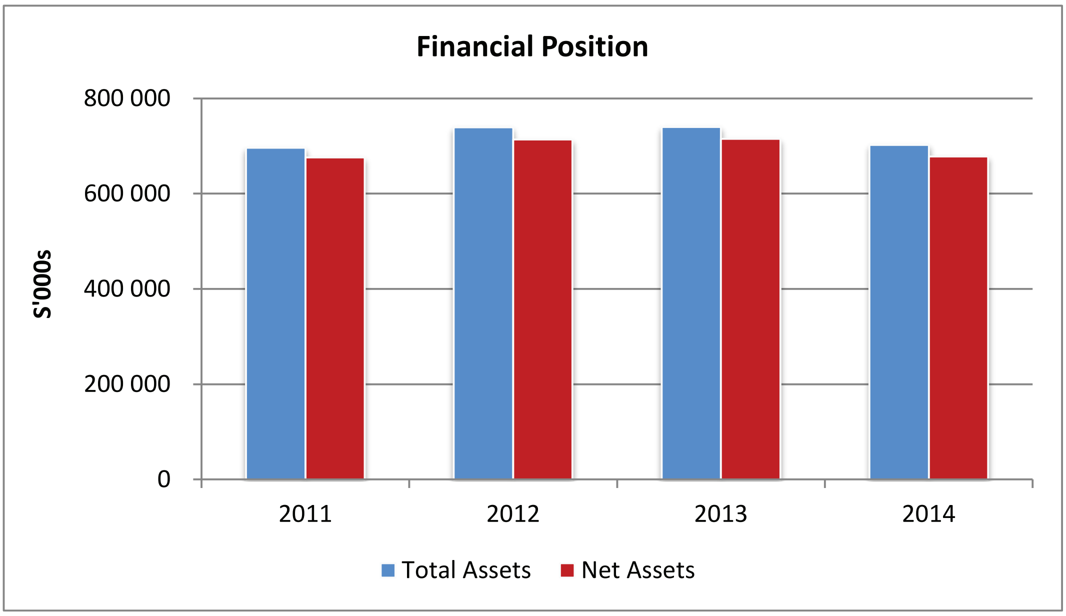
Council made an Underlying Deficit in all four years under review. This was generally consistent with Underlying budgets and indicated it may not be generating sufficient revenue to meet operating requirements.

Within the Underlying Deficit, Total Revenue decreased $5.037m from the prior period despite a 4.8% increase in Rate revenue. This was predominantly due to lower recurrent grant income of $3.123m and decreased investment income received from TasWater, $3.472m.

Despite these deficits, Council generated positive Cash flows from operations, $10.589m in 2013-14, mainly due to significant non-cash expenditure such as Depreciation. This cash was used to invest in new capital projects and on existing assets.

A Net Deficit was incurred this year, $4.606m, with Net Surpluses reported over the prior three years. The differences from the Underlying Deficit are driven by Capital grant funding received and Contributions of non-current assets. The Net Deficit incurred in 2013-14 was due to:

- less Capital grants received as funding received for major projects wound up
- an impairment of $0.726m recognised as a result of faulty contractor works performed referred to earlier
- lower contributed non-current assets.



Net Assets and Total Assets decreased by $36.825m and $37.512m respectively during the period. This was predominantly due to a reduction in the Investment in TasWater.

Council's investment in TasWater reduced by $38.536m to $159.900m as TasWater re-valued downwards its water and sewerage infrastructure with effect from 1 July 2013.

In 2013-14, Cash decreased by $9.499m mainly due to investment in Property, plant and equipment of $20.269m, which was higher than the cash generated from operations of $10.589m. Despite this reduction, Council's current ratio was 3.19, well above the benchmark of one. However, this is before taking into account internal restrictions on cash and investments of $28.608m.

Council carries out a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management. As a result Property, plant and equipment is Council's major asset class making up 71% of Total assets. During 2013-14, Property, plant and equipment increased by $12.519m to $498.908m. This was primarily as a result of $22.240m in capital works and $6.317m in revaluation increments, partially offset by the year's depreciation expense, $14.774m.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's rates per capita increased by 19% over the three year period since 30 June 2011 and Rates per rateable property increased by 23% over this period. These increases were higher than the increase in operating costs as measured by Operating costs per rateable property, which increased by 4.5%, in order to help Council reduce Underlying Deficits. Despite this, Council still recorded its largest Underlying Deficit of the past four years in 2013-14 for the reasons discussed above.

FTE declined by 29 since 2011 primarily due to a restructure to operations in 2011-12 that resulted in a decrease of 30 FTEs. Average cost per FTE has remained consistent over the past three years.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	28 079	28 134	26 848	24 843
Fees and charges	9 265	9 917	8 707	9 876
Grants**	3 240	3 273	6 396	5 462
Interest revenue	1 900	1 249	2 261	1 717
Other revenue	8 580	8 189	11 587	11 522
Total Revenue	**51 064**	**50 762**	**55 799**	**53 420**
Employee costs	18 421	19 680	19 718	18 951
Depreciation	16 322	14 774	15 462	14 747
Finance costs	547	562	556	646
Other expenses	24 511	21 311	22 697	22 586
Total Expenses	**59 801**	**56 327**	**58 433**	**56 930**
Underlying Surplus (Deficit)	**(8 737)**	**(5 565)**	**(2 634)**	**(3 510)**
Capital grants	685	841	4 498	20 966
Damages claim	0	1 498	0	0
Damages claim written off	0	(1 498)	0	0
Impairment expense	0	(726)	0	0
Financial assistance grant received in advance**	0	0	1 143	1 224
Offset financial assistance grant in advance**	0	(1 143)	(1 224)	(597)
Contributions of non-current assets	0	1 987	3 745	5 275
Net Surplus (Deficit)	**(8 052)**	**(4 606)**	**5 528**	**23 358**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	6 317	(3 839)	13 729
Current year fair value adjustment in TasWater	0	(38 536)	(38)	434
Total Comprehensive Income (Expense)	**0**	**(32 219)**	**(3 877)**	**14 163**
Comprehensive Surplus (Deficit)	**(8 052)**	**(36 825)**	**1 651**	**37 521**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficits). The Offset figure enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	31 467	40 966	52 512	24 045
Receivables	1 927	2 361	1 363	2 835
Inventories	163	158	133	147
Other	4 307	4 778	4 108	1 989
Total Current Assets	**37 864**	**48 263**	**58 116**	**29 016**
Payables	3 968	5 124	3 553	2 228
Borrowings	1 103	890	1 482	1 200
Provisions – employee benefits	4 182	4 037	3 851	4 151
Other	2 625	1 642	1 152	1 109
Total Current Liabilities	**11 878**	**11 693**	**10 038**	**8 688**
Net Working Capital	**25 986**	**36 570**	**48 078**	**20 328**
Property, plant and equipment	498 908	486 389	478 136	463 147
Investment in TasWater	159 900	198 436	198 474	198 040
Investment properties	6 231	7 327	4 970	6 487
Other	0	0	1	3
Total Non-Current Assets	**665 039**	**692 152**	**681 581**	**667 677**
Borrowings	7 068	8 171	13 224	9 266
Provisions – employee benefits	1 879	1 747	1 686	1 510
Other	3 574	3 475	1 071	1 072
Total Non-Current Liabilities	**12 521**	**13 393**	**15 981**	**11 848**
Net Assets	**678 504**	**715 329**	**713 678**	**676 157**
Reserves	296 182	334 575	377 265	304 345
Accumulated surpluses	382 322	380 754	336 413	371 812
Total Equity	**678 504**	**715 329**	**713 678**	**676 157**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	42 728	38 197	39 895	37 922
Distributions received – TasWater	5 416	8 888	8 749	8 922
Cash flows from Government	2 156	6 404	6 593	5 670
Payments to suppliers and employees	(40 531)	(39 373)	(39 176)	(41 297)
Interest received	1 249	2 261	1 717	1 558
Finance costs	(429)	(563)	(652)	(686)
Cash from (used in) Operations	**10 589**	**15 814**	**17 126**	**12 089**
Payments for property, plant and equipment	(20 269)	(26 429)	(14 156)	(12 572)
Proceeds from sale of property, plant and equipment	230	215	290	385
Cash from (used in) Investing Activities	**(20 039)**	**(26 214)**	**(13 866)**	**(12 187)**
Capital grants and contributions	841	4 498	20 966	4 714
Proceeds from borrowings	0	0	5 440	680
Repayment of borrowings	(890)	(5 644)	(1 199)	(1 370)
Cash from (used in) Financing Activities	**(49)**	**(1 146)**	**25 207**	**4 024**
Net Increase (Decrease) in Cash	**(9 499)**	**(11 546)**	**28 467**	**3 926**
Cash at the beginning of the year	40 966	52 512	24 045	20 119
Cash at End of the Year	**31 467**	**40 966**	**52 512**	**24 045**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(5 565)	(2 634)	(3 510)	(2 991)
Operating surplus ratio* **	>0	(10.96)	(4.72)	(6.57)	(5.81)
Asset Management					
Asset sustainability ratio*	100%	65%	59%	47%	48%
Asset renewal funding ratio*	90% - 100%	100%	100%	78%	91%
Road asset consumption ratio*	>60%	47.0%	48.1%	49.4%	50.0%
Asset investment ratio	>100%	137%	171%	96%	87%
Liquidity					
Net financial assets (liabilities) ($'000s)		9 186	18 744	28 265	6 881
Net financial liabilities ratio* ***	0 - (50%)	18.1%	33.6%	52.9%	13.4%
Operational Efficiency					
Liquidity ratio	2:1	3.82	5.14	7.90	5.38
Current ratio	1:1	3.19	4.13	5.79	3.34
Interest coverage	3:1	15.58	27.09	25.27	16.62
Self financing ratio		20.9%	28.3%	32.1%	23.5%
Own source revenue		93.6%	88.5%	89.8%	89.6%
Debt collection	30 days	18	24	14	31
Creditor turnover	30 days	24	25	31	5
Rates per capita ($)		618	592	554	518
Rates to operating revenue		55.4%	48.1%	46.5%	44.9%
Rates per rateable property ($)		1 349	1 281	1 189	1 096
Operating cost to rateable property ($)		2 700	2 787	2 724	2 584
Employee costs expensed ($'000s)		19 680	19 718	18 951	17 908
Employee costs capitalised ($'000s)		3 065	3 027	3 728	3 185
Total employee costs ($'000s)		22 745	22 745	22 679	21 093
Employee costs as a % of operating expenses		35%	34%	33%	33%
Average staff numbers (FTEs)		270	272	269	299
Average staff costs ($'000s)		84	84	84	71
Average leave balance per FTE ($'000s)		22	21	21	19

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

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

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

SNAPSHOT

- Council's Underlying result improved over the past three years to a surplus of $3.553m in the current year.
- Its Net result for the year, a surplus of $6.633m, was significantly influenced by;
  - a reversal of receivables written off, $2.267m
  - Capital grants, $2.054m,
  - contributions of assets, $1.102m

  offset by
  - grant advances received in the prior year, $1.362m and employee separation payments, $0.981m.
- Its Comprehensive Deficit, $74.406m, was influenced by:
  - a net decrement in the carrying value of assets, $47.027m
  - decrement in the carrying value of the investment in TasWater, $38.661m

  offset by
  - a gain in value of the defined benefit scheme liability, which reduced by $4.649m.
- At 30 June 2014, Council had Total Assets of $924.093m and its Net Assets amounted to $874.690m.
- Rates per capita increased by 21.6% over the three year period since 30 June 2011 and Rates per rateable property increased by 19.3% over this period.
- Operating costs per rateable property increased by 9.3%.
- FTE increased by 19 from 596 in 2011 to 615 in 2012. FTE remained consistent from 2012 with 614 FTE recorded in 2014.

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

We identified the need for Council to update its valuation of its investment property portfolio. Management had agreed to address our recommendation concerning a review of investment properties and will consider annual revaluation if a suitable index could be found.

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed with no other items outstanding.

Major developments for the year included:

- Property, plant and equipment decreased by $44.270m to $698.244m. This was primarily as a result of:
  - $51.951m reduction in the carrying value of buildings and roads and bridges following a revaluation
  - Depreciation $17.877m

  offset by expenditure of $25.197m on upgrading existing assets and upward revaluations of pipes and other structures totalling $4.894m
- decrement in the carrying value of TasWater, $38.661m already referred to.

Major variations in the Underlying result between the 2013-14 and 2012-13 financial years included:

- Rates and charges increased $3.707m to fund operations
- Fees and charges increased mainly due to the commencement of Trafalgar Car Park operations
- Other revenue and fees and charges increased by $1.348m due to increases in distributions from TasWater and rental from Trafalgar Car Park, $0.689m, due to higher statutory fines and car parking fees.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Capital expenditure of $25.197m on renewal and upgrade of existing assets.	We audited processes to ensure that capital expenditure was appropriately accounted for and disclosed in the financial report.
Council revalued its Buildings, Roads and bridges and Land improvements in the current year. Revaluations require estimations, judgments and complex calculations. There is a potential for material misstatement of assets and depreciation as a result of this process.	We audited the valuation reports, calculations and underlying assumptions supporting fair values of these assets.
Council has employees who are members of the City of Hobart Employees Superannuation Fund, which is a sub-fund of the Quadrant Superannuation Scheme. The value of the unfunded superannuation liability and movements recognised in the financial statements are based on an annual actuarial assessment. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.	We assessed the competence and qualifications of the actuary performing the valuation. We tested the financial statement disclosure to ensure it accurately reflected the actuarial report and tested the reasonableness of the assumptions used by the actuary. In undertaking this work, we applied the provisions of ASA 500 *Audit Evidence*.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. An unqualified audit opinion was issued on 23 September 2014.

KEY DEVELOPMENTS

Council assistance for development

In October 2011 a closed meeting of Council considered and approved numerous agreements with the Developer and Myer to assist in the redevelopment of the Myer retail site in Liverpool Street. A reference to the existence of these agreements was reported in the 2012-13 financial statements.

Council made more comprehensive financial disclosures in relation to these agreements in the notes to the 2013-14 financial statements including details of financial assistance and policy commitments. Under the same disclosure Council reported:

- $0.351m assistance to the developer of the Wellington Centre
- negotiations with the developer of Vodafone for proposed assistance linked to target employee numbers.

Periodic valuation of assets

Council performed a revaluation of selected assets in accordance with its asset management policy. The outcomes of the revaluation were a reduction in the carrying values of buildings and roads and bridges assets, $51.951m offset by revaluation of pipes and other structures totalling $4.894m.

Capital works

During 2013-14 Council expended $25.197m on assets and completed works which included:

- waste transfer station $2.659m
- North Hobart Oval playing surface, $1.648m
- vehicles and fittings $0.951m
- Council centre upgrade, $0.928m
- Argyle St Car Park, $0.671m
- Wellington Park pinnacle convenience $0.590m
- upgrade of lighting $0.516m.

Other expenditure was for upgrades of kerbs, gutters and roads in the city.

KEY FINDINGS

There were no high-risk findings identified during the course of the audit. However, there was a moderate finding in relation to valuation of investment properties which are reported at an amount of $25.038m with no change since 2009. We made two recommendations:

- Council agreed with the recommendation that it regularly review which of its properties should be classified as investment properties
- the second recommendation was that Council regularly revalue these properties. Management is reluctant to adopt this recommendation because of the costs involved but is exploring the use of relevant indices.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013. Council adopted all but two of the 22 recommendations relevant to councils. The outstanding recommendations related to fair value measurement of land under roads and disclosure of the value of capital renewal and capital new/upgrade expenditure by asset class in the financial statements.

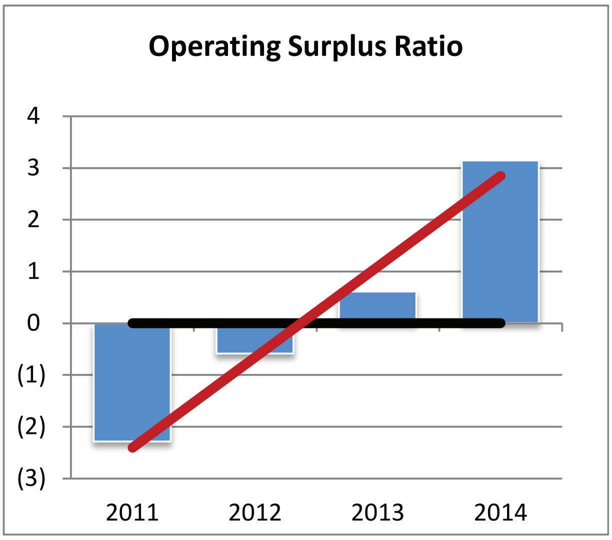
Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. Council complied with relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

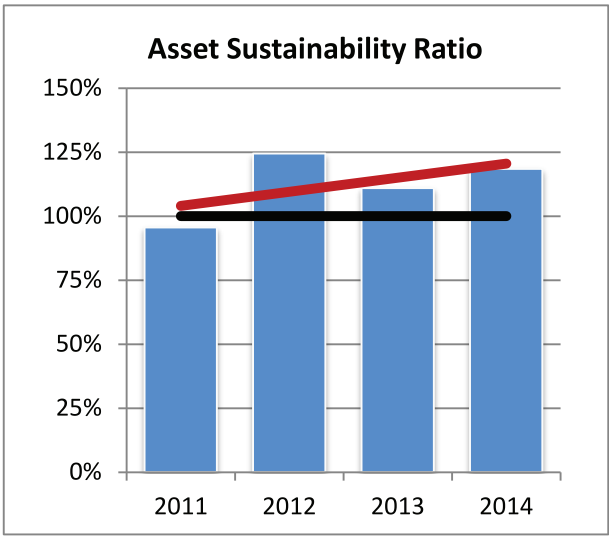
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded Underlying Deficits in the two years prior to 2012-13 and has since reported surpluses which increased to $3.553m (2013, $0.651m) in the current year. This remains consistent with Council's 20 year long term financial management plan. On average over the past four years, the ratio was positive 0.22 (negative 1.64), above our benchmark of zero resulting in our assessment that Council was at low risk. The trend line was heading in the right direction.

As noted in prior years, Council generates a high percentage of its revenue internally and is less reliant on grant funding than most other Tasmanian councils.



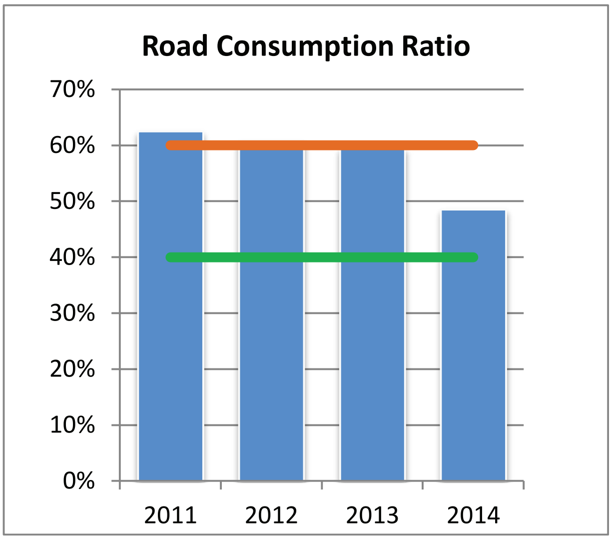
The Asset sustainability ratio was below the 100% benchmark in the first year reviewed and above in the past three years. Expenditure on existing assets was consistent with Council's asset management plan and meets the requirements of the plan.

Asset renewal funding ratio

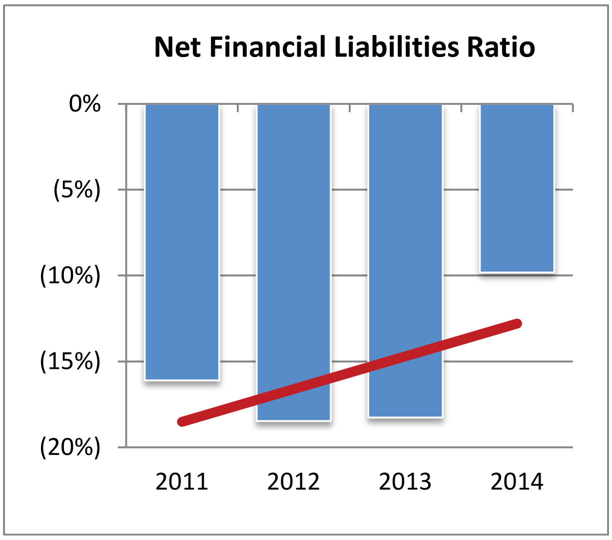
The Asset renewal funding ratios included in the Financial Analysis table at the end of this Chapter represents a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2034-35 and covers transport infrastructure, buildings and other land improvements and stormwater and drainage. The plan is not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, Council's Asset renewal funding ratio was 100% for 2012-13 and 90% for 2013-14. The ratio was in line with our benchmark of between 90% and 100%. This indicates low financial sustainability risk.



The graph indicates that at June 2014, Council had used (consumed) approximately 49% of its road assets. The change in 2014 was a result of a revaluation decrement of $15.279m offsetting the $15.791m additions, (2013 positive revaluation $5.061m, additions $5.689m). This percentage indicates Council was at moderate financial sustainability risk as this relates to its road infrastructure.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a negative Net financial liabilities ratio in each of the past four years. The ratio is calculated by dividing Net financial liabilities at balance date by operating income for the financial year. Council's negative ratios are within the benchmark of 0% to -50% and indicated a satisfactory liquidity position, with Council able to meet existing commitments and having a capacity to borrow. The trend was improving mainly due reducing Defined Benefit Superannuation Scheme (DBSS) liabilities.

It is noted, that Council had operating lease commitments of $23.690m at 30 June 2014 ($24.9824m) (principally relating to the Trafalgar Car Park lease) and capital contractual commitments of $2.615m, ($5.941m) which, together with the $7.000m contingent liability for the Myer redevelopment were not recognised on the statement of financial position nor are they factored into the Net financial liabilities ratio.

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Externally restricted funds represented $4.991m or 15% of cash and internally restricted funds represented $26.470m or 79.9% of cash. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

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

- provides oversight of the risk framework, strategic risk register and work place health and safety matters
- influences and manages an internal audit program and follows up internal audit work done
- scrutinises and recommends adopting long-term asset management and financial management plans

- reviews Council's annual financial statements, focusing on accounting policies, areas of significant accounting estimates, compliance with accounting standards and other reporting requirements, recommends signing by the General Manager prior to their submission to the Auditor-General
- liaises with the external auditors.

Conclusion as to financial sustainability

Council recorded steadily improving operating surpluses in each of the past two years. The average operating ratio for the four years was positive 0.22, above our benchmark of zero. The improving trend was consistent with Council's 20 year long-term financial management plan.

Council's Asset sustainability ratio meets our 100% benchmark and its Road consumption ratio was in the moderate risk range. Its Asset renewal funding ratio of 90% at 30 June 2014 was within our 90% to 100% benchmark.

Its Net financial liabilities ratio was negative but within the benchmark of 0% to-50% indicating low financial sustainability risk, an ability to service debt and a capacity to borrow should the need arise. The trend in this ratio was improving due to reducing DBSS liabilities.

Council's audit committee achieved a low risk rating because it has an effective audit committee and internal audit function with the committee overseeing long term asset management and financial management plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at low financial sustainability risk in all respects.

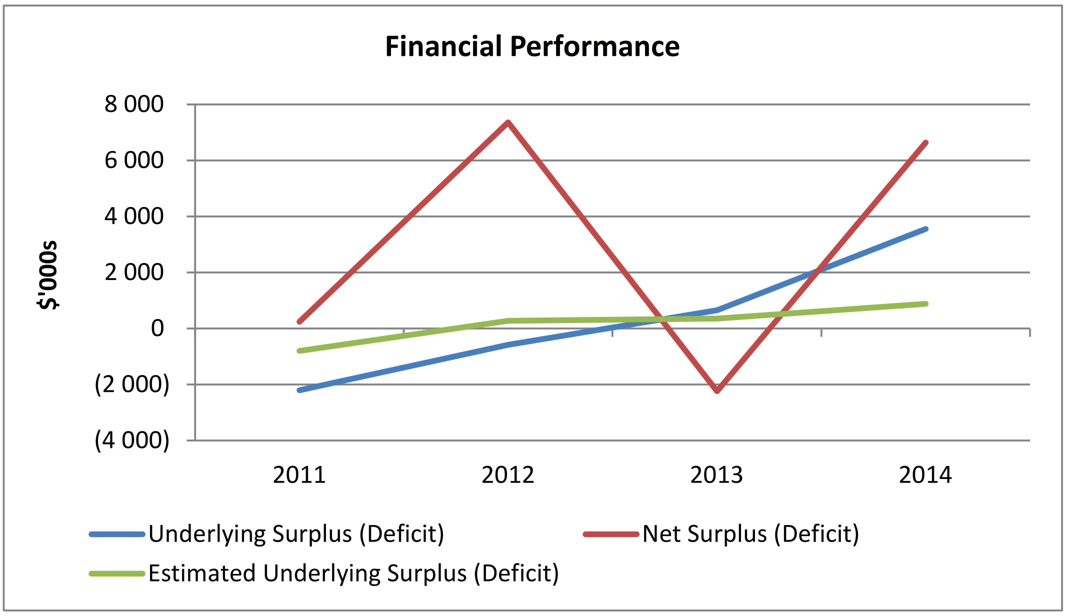
Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

Council agrees with the assessment that it is at low risk in each performance area – it has long held this view. Council will continue to implement its long term financial plan strategies in order to remain so.

FINANCIAL ANALYSIS



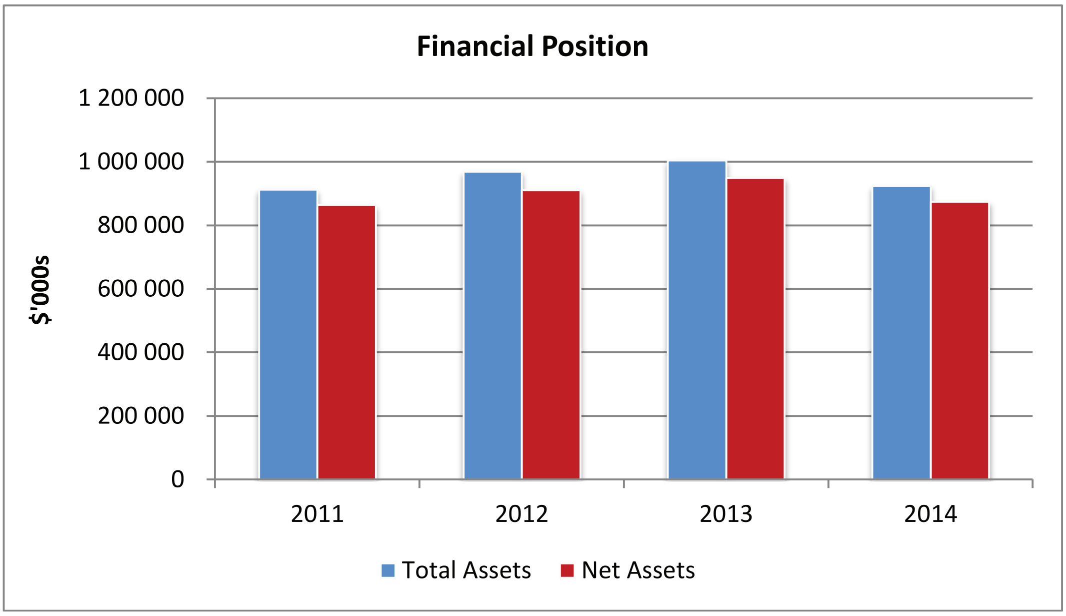
Council's Underlying Surplus this year exceeded its budgeted Underlying Surplus and shows an improving trend over the four years under review. The worse than budget difference in 2011 was mainly due to higher expenses than budget in employee benefits, $1.698m that year. This year's Underlying Surplus of $3.553m was better than budget due to stronger than expected Revenue of

$2.447m from rates, interest and other revenue items and lower expenses than budget of $0.226m. The improvement on the prior year result maintains Council's strategy of aiming for an Underlying Surplus.

Council's Net Surplus for 2013-14 of $6.633m was also influenced by some one-off events including:

- a reversal of receivables written off, $2.267m
    - in prior years Council recognised 100% of fines lodged with the Monetary Penalties Enforcement Service (MPES) and this reduced the amount of receivables. The reduction in receivables was an expense each year
    - due to the successful recovery of outstanding fines through MPES, Council revised the amount of fines written off from 100% to 25%. This resulted in a reduction in the impairment allowance of $2.267m which was recognised in Recurrent income
- Capital grants, $2.054m
- Contributions of assets, $1.102m.

On the other hand, items contributing negatively to the Net Surplus were financial assistance grants received in advance in 2013 of $1.362m and employee separation payments, $0.981m, in 2013-14. The 2012 Net Surplus of $7.350m was mainly attributed to one-off government grants for the energy efficient street light roll out, $3.375m, New Town Bay sport and recreation facilities, $2.500m, Taste Festival cooking kiosks, $1.300m, Wellesley Park Sport and recreation Facilities, $1.200m and other projects in that year.



Council carries out a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management. As a result Property, plant and equipment is Council's major asset class making up 75.5% of Total Assets.

Net Assets and Total Assets decreased by $74.406m and $80.053m respectively during the period 2012-13 to 2013-14. This was predominantly due to a reduction in the investment in TasWater together with a reduction in the carrying value in buildings, road and bridge assets.

Council's investment in TasWater reduced by $38.661m to $159.591m mainly because TasWater re-valued downwards it water and sewerage infrastructure with effect from 1 July 2013. Further information regarding this is detailed in the TasWater Chapter.

In 2013-14, Cash increased by $2.569m mainly due to higher than expected operating receipts, lower than expected payments for operating activities, lower than expected capital expenditure and loan repayment. Council's current ratio was 1.89, above the benchmark of one. However, this was before taking into account external and internal restrictions on Cash and investments of $31.461m.

Property, plant and equipment decreased by $44.270m to $698.244m. This was primarily as a result of:

- $51.951m reduction in the carrying value of buildings and roads and bridges following a revaluation
- Depreciation $17.877m

offset by

- expenditure of $25.197m on upgrading existing assets.

Total Liabilities fell $5.647m mainly due to a reduction in superannuation liability of $5.363m in 2013-14. Superannuation liability has fallen since 2011-12 due to the improvement in the value of investments since the Global Financial Crisis and additional contributions made by Council to address the shortfall identified by the Actuary in 2011.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter, focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 21.6% over the three year period since 30 June 2011 and Rates per rateable property increased by 19.3% over this period. These increases were higher than the increase in operating costs as measured by Operating costs per rateable property, which increased by 9.3%, in order to help Council reduce Underlying Deficits. Council recorded its best Underlying Surplus of the past four years in 2013-14 for the reasons discussed previously.

FTE increased by 19 from 596 in 2011 to 615 in 2012. FTE remained consistent from 2012 with 614 recorded in 2014. Average cost per FTE increased 12.6% in 2012-13 over the prior year and remained consistent since then. Under a change to AASB 119, Council was required to allocate interest income in the DBSS to finance charges instead of to employee expenses as was the case in prior years. The change in the standard had the impact of increasing employee expenses so Council also changed the 2012-13 employee and finance charges comparatives to remove an anomaly in presentation. Consequently the table showing average cost per FTE between 2011-12 and 2012-13 is not comparable as the prior year was not changed.

Cash generated from operating activities was consistently positive averaging $17.137m per annum over the past four years with a positive upward trend. Cash from operations improved by $4.848m in 2013-14 compared to the prior year mainly due to a combination of higher receipts from rates revenue, $4.235m, increased fees and charges, $2.619m and increased dividends from TasWater, $0.853m offset by lower grants revenue, $1.229m and interest received $0.417m.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	70 000	70 885	67 178	62 985
Fees and charges	30 573	30 843	29 164	26 475
Grants**	3 129	3 500	3 537	3 450
Interest revenue	820	1 350	1 788	1 762
Other revenue	5 893	6 284	4 936	5 017
Total Revenue	**110 415**	**112 862**	**106 603**	**99 689**
Employee costs	49 191	50 206	50 510	45 565
Depreciation	16 900	17 877	16 871	15 974
Finance costs	2 160	1 171	43	2 642
Other expenses	41 284	40 055	38 528	36 097
Total Expenses	**109 535**	**109 309**	**105 952**	**100 278**
Underlying Surplus (Deficit)	**880**	**3 553**	**651**	**(589)**
Net Operating Surplus (Deficit)	**880**	**3 553**	**651**	**(589)**
Capital grants	600	2 054	160	9 081
Employee separation payments	0	(981)	0	0
Adjustment to allowance for impaired fines	0	2 267	0	0
Adjustment for financial assistance grants received in advance	0	(1 362)	1 362	1 518
Offset financial assistance grant in advance**	0	0	(1 518)	(719)
Net loss on disposal of property	3 537	0	(984)	0
Transfer of grant funds	0	0	(1 644)	0
Asphalt plant closure	0	0	(930)	0
Contributions of non-current assets	0	1 102	656	18
Net Surplus (Deficit)	**5 017**	**6 633**	**(2 247)**	**7 350**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(47 027)	34 877	43 867
Current year fair value adjustment TasWater	0	(38 661)	(38)	434
Actuarial gain (loss) defined benefit superannuation plan	0	4 649	5 840	(4 938)
Total Other Comprehensive Income (Expense)	**0**	**(81 039)**	**40 679**	**39 363**
Comprehensive Surplus (Deficit)	**5 017**	**(74 406)**	**38 432**	**46 713**

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

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset enables the above table to balance with Council's own Comprehensive Income Statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	33 108	30 539	37 192	30 295
Receivables	5 217	5 041	2 655	3 109
Inventories	310	314	287	331
Assets held for sale	2 150	2 150	0	0
Other	210	70	95	22
Total Current Assets	**40 995**	**38 114**	**40 229**	**33 757**
Payables	6 343	7 829	6 222	5 204
Borrowings	1 733	1 013	774	352
Provisions – employee benefits	10 588	10 569	9 727	9 457
Other	3 073	3 184	3 086	3 336
Total Current Liabilities	**21 737**	**22 595**	**19 809**	**18 349**
Net Working Capital	**19 258**	**15 519**	**20 420**	**15 408**
Property, plant and equipment	698 244	742 514	705 653	656 586
Investment in TasWater	159 591	198 252	198 290	197 856
Investment property	25 038	25 038	24 538	24 414
Other	225	228	220	226
Total Non-Current Assets	**883 098**	**966 032**	**928 701**	**879 082**
Borrowings	14 429	13 316	11 829	7 603
Provisions – employee benefits	3 107	3 171	3 159	1 321
Superannuation liability	2 720	8 083	15 954	13 915
Other	7 410	7 885	7 515	7 700
Total Non-Current Liabilities	**27 666**	**32 455**	**38 457**	**30 539**
Net Assets	**874 690**	**949 096**	**910 664**	**863 951**
Reserves	475 402	558 911	527 949	479 184
Accumulated surpluses	399 288	390 185	382 715	384 767
Total Equity	**874 690**	**949 096**	**910 664**	**863 951**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	110 088	103 034	96 687	92 402
Distributions received - TasWater	2 949	2 096	2 119	2 096
Cash flows from Government and others	2 196	3 425	4 826	4 717
Payments to suppliers and employees	(95 199)	(93 614)	(89 311)	(85 136)
Interest received	1 408	1 825	1 985	2 123
Finance costs	(547)	(719)	(502)	(402)
Cash from (used in) Operations	**20 895**	**16 047**	**15 804**	**15 800**
Capital grants and contributions	2 054	160	9 081	1 977
Payments for property, plant and equipment	(25 197)	(25 365)	(23 278)	(28 213)
Proceeds from sale of property, plant and equipment	2 984	779	642	421
Cash from (used in) Investing Activities	**(20 159)**	**(24 426)**	**(13 555)**	**(25 815)**
Proceeds from borrowings	2 375	2 500	5 000	1 850
Repayment of borrowings	(542)	(774)	(352)	(201)
Cash from (used in) Financing Activities	**1 833**	**1 726**	**4 648**	**1 649**
Net Increase (Decrease) in Cash	**2 569**	**(6 653)**	**6 897**	**(8 366)**
Cash at the beginning of the year	30 539	37 192	30 295	38 661
Cash at End of the Year	**33 108**	**30 539**	**37 192**	**30 295**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		3 553	651	(589)	(2 202)
Operating surplus ratio* **	>0	3.15	0.61	(0.59)	(2.29)
Asset Management					
Asset sustainability ratio*	100%	118%	111%	124%	96%
Asset renewal funding ratio*	90%-100%	90%	100%	100%	100%
Road asset consumption ratio*	>60%	48.5%	59.5%	60.8%	62.5%
Building consumption ratio		64.7%	67.5%	65.6%	66.3%
Drainage consumption ratio		58.1%	58.4%	58.9%	33.9%
Parks and recreation consumption ratio		0.0%	53.1%	46.6%	47.7%
Total asset consumption ratio*		54.9%	60.6%	64.7%	59.3%
Asset investment ratio	>100%	141%	150%	146%	179%
Liquidity					
Net financial liabilities ($'000s)		(11 078)	(19 470)	(18 419)	(15 484)
Net financial liabilities ratio* ***	0%-(50%)	(9.8%)	(18.3%)	(18.5%)	(16.1%)
Operational Efficiency					
Liquidity ratio	2:1	3.29	3.11	4.12	3.96
Current ratio	1:1	1.89	1.69	2.03	1.84
Interest coverage	3:1	37.20	21.32	30.48	38.30
Self financing ratio		18.5%	15.1%	15.9%	16.4%
Own source revenue		96.9%	96.7%	96.5%	95.3%
Debt collection	30 days	18	12	10	12
Creditor turnover	30 days	11	9	7	9
Rates per capita ($)		1 408	1 334	1 251	1 158
Rates to operating revenue		62.8%	63.0%	63.2%	60.8%
Rates per rateable property ($)		2 964	2 855	2 676	2 484
Operating cost to rateable property ($)		4 571	4 502	4 261	4 180
Employee costs expensed ($'000s)		50 206	50 510	45 565	44 605
Employee costs capitalised ($'000s)		2 530	2 846	2 600	2 110
Total employee costs ($'000s)		52 736	53 356	48 165	46 715
Employee costs as a % of operating expenses		46%	48%	45%	45%
Average staff numbers (FTEs)		614	616	615	596
Average staff costs ($'000s)		86	87	77	78
Average leave balance per FTE ($'000s)		22	22	21	18

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

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

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

SNAPSHOT

- Council recorded underlying deficits in all years under review.
- Over the period under review, Council budgeted for underlying deficits. Although Council achieved better results than budget in all four years, continued budgeted deficits are not self-sustaining.
- Its Comprehensive Surplus for 2013-14 was $22.177m resulting in Net Assets at 30 June 2014 of $1.467bn.
- Rates per capita increased by 13% over the three year period since 30 June 2011 and Rates per rateable property increased by 12% over this period.
- Operating cost to rateable property increased by 13%.
- FTE increased by one since 2011 and over this period average cost per FTE increased by 17%.

Council 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.

We identified a moderate risk audit finding relating to system password parameters. This matter was reported to, and is being addressed by management.

Council adopted 19 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

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

Key developments included:

- the continuation of the Invermay flood protection enhancement project
- the possibility of a future charge from TasWater relating to the combined sewerage and stormwater system.

Major variations between 2013-14 and 2012-13 included:

- an increase in Property, plant and equipment of $47.034m, which was mainly attributable to asset revaluations of $33.009m and take-up adjustments of $17.925m
- a decrease in the fair value of Council's investment in TasWater of $34.972m
- a decrease in Other provisions of $4.824m which represented the reduction in Council's estimate of the waste centre rehabilitation liability. Of this amount, $4.648m was recorded as an infrastructure take-up adjustment
- an increase in Museum collection assets of $3.471m, which was mainly attributable to asset revaluations of $2.770m
- a decrease in Borrowings of $2.707m which represented principal repayments made during the year with no new borrowings.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of Roads and Parks assets was undertaken during 2013-14. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. We obtained appropriate representations from management and Council's engineers to address reliance placed on internal revaluation assessments.
Council recorded a provision for rehabilitation of its refuse disposal area, which is a discounted estimate of future expenditure to rehabilitate the landfill site.	We tested the calculation of the provision and verified the base data to information provided by Council's engineers.
Council recorded a material allowance for impairment for fines receivable. The calculation of the impairment amount is an estimate and based upon judgement.	We tested the impairment allowance calculations for accuracy and consistency with Council's policy.
Council has employees who are members of the City of Launceston Employees Superannuation Fund, which is a sub-fund of the Quadrant Superannuation Scheme. The value of the unfunded superannuation liability and movements recognised in the financial statements are based on an annual actuarial assessment. This valuation is based upon a number of assumptions and the use of discount rates, all of which are volatile.	We assessed the competence and qualifications of the actuary performing the valuation. We tested the financial statement disclosure to ensure it accurately reflected the actuarial report and tested the reasonableness of the assumptions used by the actuary. In undertaking this work, we applied the provisions of ASA 500 *Audit Evidence*.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Initial signed financial statements were received on 14 August 2014. Amended statements were received on 26 September 2014 and an unqualified audit report was issued on the same day.

KEY DEVELOPMENTS

Invermay flood protection enhancement project

The Invermay flood protection enhancement project was a significant, on-going, capital project during the year. The initial project budget was $39.000m funded equally by the State and Commonwealth Governments and Council. In 2010-11, the budgeted project cost was revised to $58.300m, with the State and Commonwealth Governments committing an additional $6.750m each to the project.

At 30 June 2014, Council committed, both in costs already and to be incurred, and including funds provided by the State and Commonwealth, approximately $54.703m to the project, which included an amount estimated to finalise the compulsory acquisition of properties in the flood levee area. Currently, one property settlement remains uncompleted.

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

TasWater stormwater charge

Launceston City has a combined sewerage and stormwater system, which was transferred to Ben Lomond Water (now TasWater) on 1 July 2009. TasWater is seeking to recover a fee from Council for the use of its system. In accordance with the *Urban Drainage Act 2013*, the matter has progressed to arbitration and at 30 June 2014 any obligation by Council was not able to be quantified.

KEY FINDINGS

We noted that Council's system password parameters relating to length and complexity did not match its Information Security Standards policy and could be improved to ensure they reflect best practice.

This matter was reported to and is being addressed by management. The audit was completed satisfactorily with no other key issues outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 19 out of 22 recommendations relevant to councils. Key recommendations that were not adopted included:

- the components of a road asset, which include earthworks, a pavement base and sub-base, were not separately identified, valued and depreciated
- an annual review of accounting estimates, including useful lives, depreciation methods and fair value, was undertaken by Council; however the rationale and support for any action or non-action was not formally documented or approved by the General Manager
- council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired.

We recommended Council adopt the recommendations contained in our report to ensure its asset management and financial accounting and reporting reflects best practice and is consistent with other councils that have adopted our recommendations.

Local Government Ministerial Orders

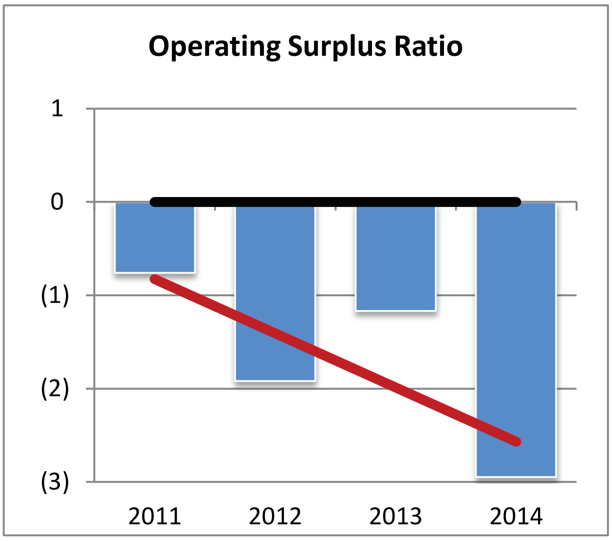
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. Council complied with all relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

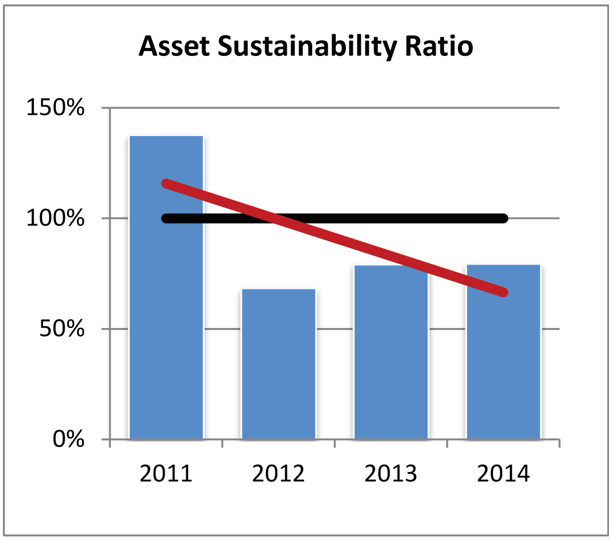
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded operating deficits in all years under review. Over the four year period, Council averaged an operating deficit of $1.516m, which indicated that Council generated insufficient revenue to fulfil its operating requirements, including depreciation charges.

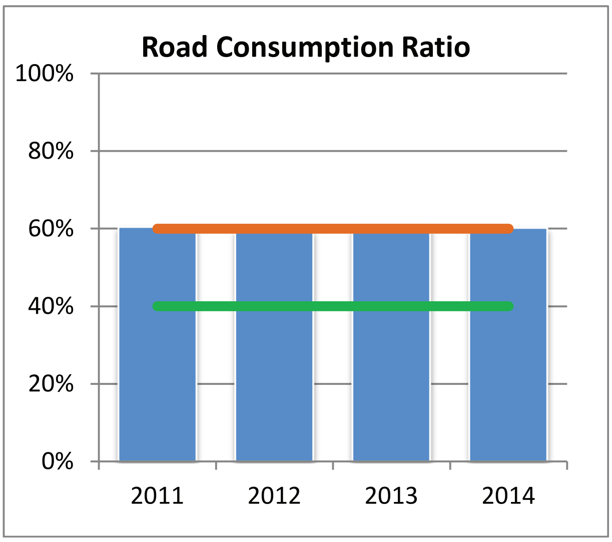
Council is addressing the deficit situation and undertaken reviews of its operations and depreciation charges incurred in prior years.



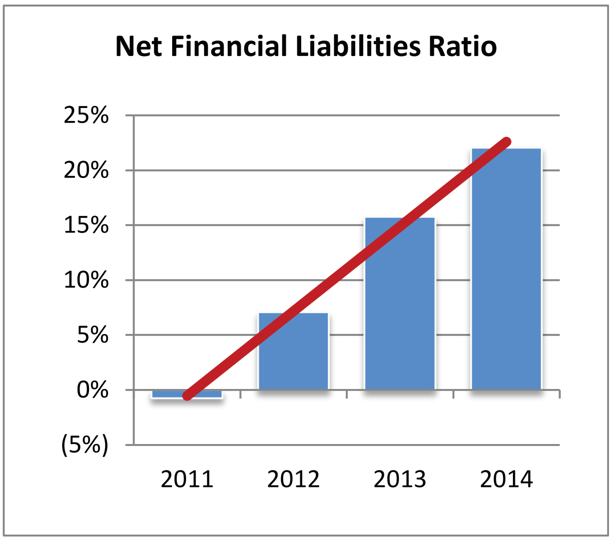
The ratio shows Council's capital expenditure on maintaining its current capacity to provide services was above benchmark in 2010-11, but well below in the other three years. The average over the period was 91%, below our 100% benchmark. The lower ratios in the past three years were partly due to the capital expenditure on new assets in those years which included the Invermay flood protection enhancement project.

Asset renewal funding ratio

Council's long-term asset management plan indicated that, based on planned asset replacement expenditure, the Asset renewal funding ratio was 100% for all four years. The ratio was in line with our benchmark of between 90% and 100%. The planned asset replacement expenditure was taken from Council's long-term financial management plan for the period 2015 to 2024. We understand it is Council's intention to undertake renewal works in line with its long-term asset management plan. Neither the long-term asset management plan nor the financial management plan is audited.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 40% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk, with Council at 30 June 2014, having sufficient capacity to continue to provide road services to its ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive ratio at 30 June 2014, with liquid assets exceeding Total Liabilities by $20.602m. The positive ratio is above our benchmark of nil to negative 50%. Council was in a sound liquidity position able to meet existing commitments.

It is noted, however, that Council had contractual commitments of $6.630m at 30 June 2014 (2012-13, $5.306m) which were not recognised on the statement of financial position nor are they factored into the Net financial liabilities ratio.

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. At 30 June 2014, restricted funds, which included grant funds brought to account as income but not fully expended, represented $26.635m or 44.7% of the total Cash and cash equivalents balance of $59.650m. Commitments and restricted funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

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

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

Council had a long-term financial management plan which covered a ten-year period from 2015 to 2024. It also had long-term asset management plans for all major assets as defined in the *Local Government (Contents of Plans and Strategies) Order 2014*. All plans were detailed, covered key elements required and both were formally adopted by Council.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded operating deficits in all four years.

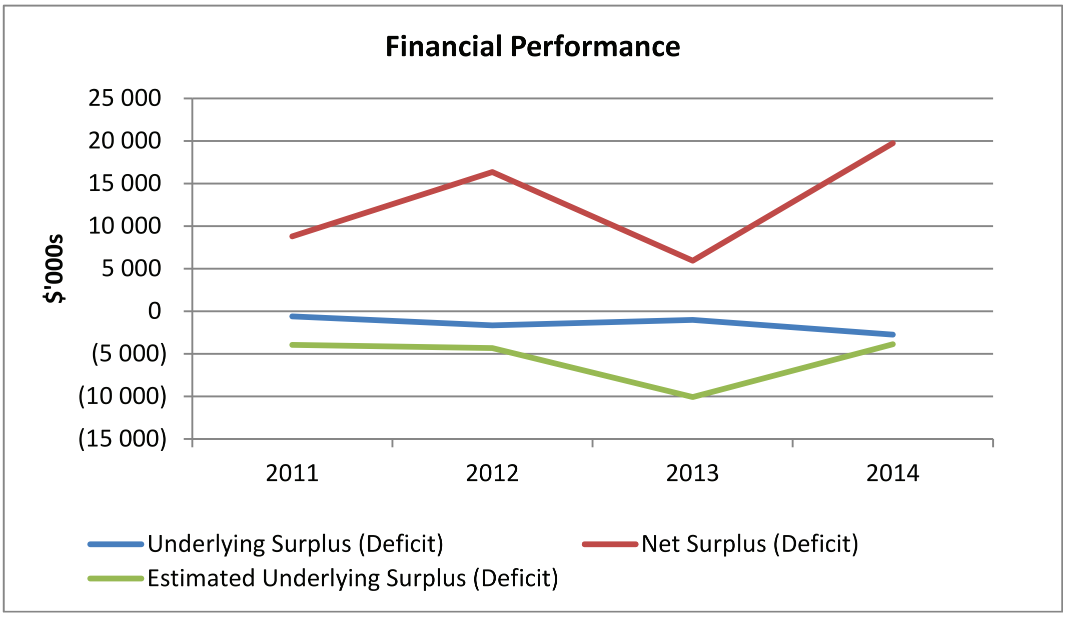
The Asset sustainability ratio indicated Council's investment in existing assets was below the 100% benchmark over the past four years. Council's Road asset consumption ratio remained steady at around 60% over the four-year period meaning this infrastructure had sufficient service potential to meet the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

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

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

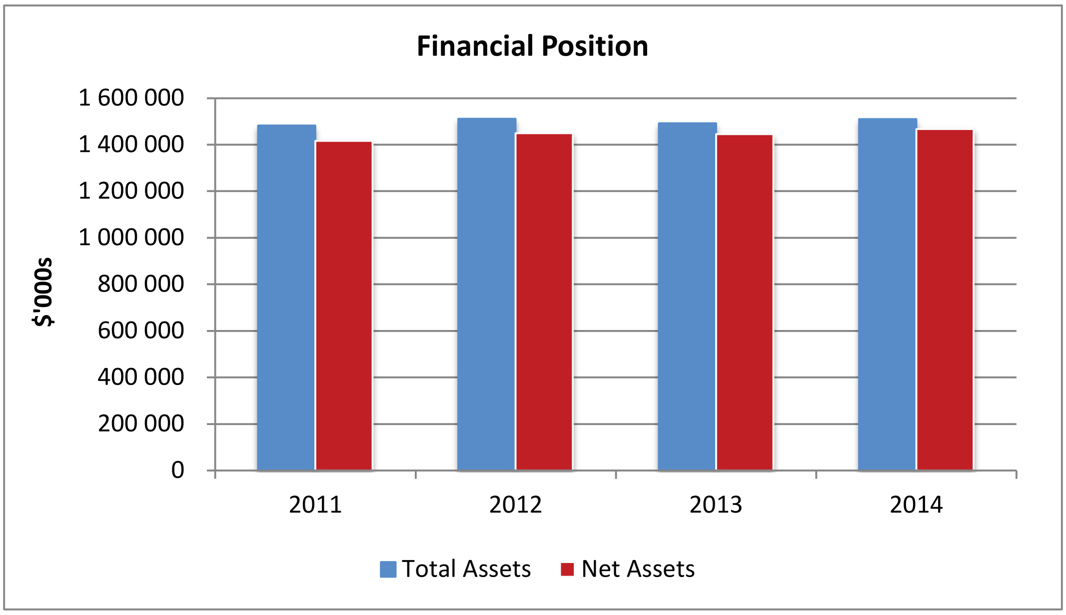
Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate sustainability risk from asset management and financial operating perspectives but low sustainability risk from governance and net financial liabilities perspectives.

FINANCIAL ANALYSIS



Council recorded Underlying Deficits in all four years under review, with the largest deficit recorded in 2013-14 of $2.755m. Over the period, Council also budgeted for Underlying Deficits, which peaked in 2012-13 at $10.073m. Council took action in that year, which included a self-initiated organisational review, to reduce its deficits and bring its budget back to surplus within four years. Council's Estimated Underlying Deficit for 2013-14 of $3.884m was a considerable improvement on the prior year, however longer term sustainability would require balanced budgets over a sustained period.

Unlike the Underlying Deficit, Council's Net Surplus is subject to greater fluctuation. The Net Surplus of $19.730m in 2013-14 included $22.573m in Infrastructure take-up adjustments. These adjustments mainly related to the recognition of previously unrecognised assets and changes to Council's waste disposal rehabilitation asset and liability.



Total Assets and Net Assets have remained fairly consistent since 30 June 2011.

In 2013-14 Council reported an increase in Net Assets of $22.177m to $1.467bn at 30 June. The increase was attributable to the Net Surplus of $19.730m, the main components of which included an asset revaluation increment of $35.779m, an actuarial gain on superannuation of $1.640m and a decrease in the fair value of Council's Investment in TasWater of $34.972m.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 13% over the three year period since 30 June 2011 and Rates per rateable property increased by 12% over this period. These increases were aimed at meeting increases in operating costs as measured by Operating cost to rateable property, which increased by 13%. The increase in rates and the increase in costs were comparable, however other revenue items increased less proportionately than other expense items which resulted in an increasing Underlying Deficit in recent periods.

FTE increased by one since 2011 and over this period average cost per FTE increased by 17%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	57 189	57 829	55 802	51 986
Fees and charges	18 332	18 838	17 407	17 774
Grants**	4 311	6 813	6 597	7 072
TasWater investment revenue	3 166	3 538	2 465	2 534
Interest revenue	2 690	2 652	3 157	3 706
Other revenue	3 369	3 774	3 534	2 765
Total Revenue	**89 057**	**93 444**	**88 962**	**85 837**
Employee costs	36 847	36 238	32 317	30 391
Depreciation	18 013	18 213	18 528	19 778
Finance costs	1 054	670	1 083	1 970
Other expenses	37 027	41 078	38 071	35 345
Total Expenses	**92 941**	**96 199**	**89 999**	**87 484**
Underlying Surplus (Deficit)	**(3 884)**	**(2 755)**	**(1 037)**	**(1 647)**
Capital grants	3 186	3 422	3 620	13 684
Financial assistance grant received in advance**	0	0	2 036	2 282
Offset financial assistance grant in advance**	0	(2 036)	(2 282)	(1 031)
Write-down of assets held for sale	0	(1 474)	0	0
Infrastructure take-up adjustments	0	22 573	3 603	3 049
Net Surplus (Deficit)	**(698)**	**19 730**	**5 940**	**16 337**
Other Comprehensive Income				
Actuarial gains (losses)	0	1 640	6 260	(6 414)
Fair value adjustment in TasWater	0	(34 972)	4 915	1 588
Asset revaluations	0	35 779	(21 741)	21 806
Total Comprehensive Income (Expense)	**0**	**2 447**	**(10 566)**	**16 980**
Comprehensive Surplus (Deficit)	**(698)**	**22 177**	**(4 626)**	**33 317**

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

** *Grants received in advance have been shown separately after the Underlying Surplus (Deficit). The Offset figures enables the above table to balance with Council's own Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	59 650	57 299	62 544	60 395
Receivables	3 918	3 827	4 648	4 711
Inventories	661	652	660	611
Other	471	425	279	409
Total Current Assets	**64 700**	**62 203**	**68 131**	**66 126**
Payables	17 940	13 854	16 754	22 206
Borrowings	2 592	2 707	2 573	2 336
Provisions – employee benefits	5 741	5 799	6 079	5 636
Other	1 167	1 456	2 026	7 529
Total Current Liabilities	**27 440**	**23 816**	**27 432**	**37 707**
Net Working Capital	**37 260**	**38 387**	**40 699**	**28 419**
Property, plant and equipment	981 770	934 736	952 664	927 567
Investment in TasWater	227 332	262 303	257 388	255 800
Museum collection	235 709	232 238	231 913	231 913
Other	258	258	258	258
Total Non-Current Assets	**1 445 069**	**1 429 535**	**1 442 223**	**1 415 538**
Borrowings	7 499	10 091	12 797	13 042
Provisions – employee benefits	1 183	837	772	782
Superannuation liability	1 850	2 550	9 560	3 623
Other	4 994	9 818	10 541	10 575
Total Non-Current Liabilities	**15 526**	**23 296**	**33 670**	**28 022**
Net Assets	**1 466 803**	**1 444 626**	**1 449 252**	**1 415 935**
Reserves	585 397	580 900	594 049	554 221
Accumulated surpluses	881 406	863 726	855 203	861 714
Total Equity	**1 466 803**	**1 444 626**	**1 449 252**	**1 415 935**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	81 849	78 528	76 456	72 776
Cash flows from Government	4 777	6 352	8 323	6 484
Payments to suppliers and employees	(72 628)	(74 370)	(69 709)	(66 445)
Interest received	2 651	2 795	3 364	3 638
Distributions from TasWater	3 538	2 465	2 533	2 107
Finance costs	(630)	(764)	(907)	(871)
Cash from (used in) Operations	**19 557**	**15 006**	**20 060**	**17 689**
Capital grants and contributions	3 422	3 620	7 933	7 753
Grants received in advance	0	0	0	5 750
Distributions from investments	407	322	323	268
Payments for property, plant and equipment	(19 047)	(21 882)	(26 670)	(39 787)
Proceeds from sale of property, plant and equipment	719	262	510	679
Cash from (used in) Investing Activities	**(14 499)**	**(17 678)**	**(17 904)**	**(25 337)**
Proceeds from borrowings	0	0	2 340	2 076
Repayment of borrowings	(2 707)	(2 573)	(2 347)	(1 779)
Cash from (used in) Financing Activities	**(2 707)**	**(2 573)**	**(7)**	**297**
Net Increase (Decrease) in Cash	**2 351**	**(5 245)**	**2 149**	**(7 351)**
Cash at the beginning of the year	57 299	62 544	60 395	67 746
Cash at End of the Year	**59 650**	**57 299**	**62 544**	**60 395**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(2 755)	(1 037)	(1 647)	(623)
Operating surplus ratio* **	>0	(2.95)	(1.17)	(1.92)	(0.76)
Asset Management					
Asset sustainability ratio*	100%	79%	79%	68%	138%
Asset renewal funding ratio*	90% - 100%	100%	100%	100%	100%
Road asset consumption ratio*	>60%	60.2%	60.4%	59.6%	60.5%
Asset investment ratio	>100%	105%	118%	135%	245%
Liquidity					
Net financial assets (liabilities) ($'000s)		20 602	14 014	6 090	(623)
Net financial liabilities ratio* ***	0 - (50%)	22.0%	15.8%	7.1%	(0.8%)
Operational Efficiency					
Liquidity ratio	2:1	3.00	3.54	3.26	2.08
Current ratio	1:1	2.36	2.61	2.48	1.75
Interest coverage	3:1	30.04	18.64	21.12	19.31
Self financing ratio		20.9%	16.9%	23.4%	21.6%
Own source revenue		92.7%	92.6%	91.8%	92.1%
Debt collection	30 days	27	28	34	37
Creditor turnover	30 days	41	28	32	28
Rates per capita ($)		863	831	774	763
Rates to operating revenue		61.9%	62.7%	60.6%	61.2%
Rates per rateable property ($)		1 876	1 824	1 716	1 678
Operating cost to rateable property ($)		3 120	2 941	2 887	2 761
Employee costs expensed ($'000s)		36 238	32 317	30 391	29 607
Employee costs capitalised ($'000s)		813	1 647	2 009	2 021
Total employee costs ($'000s)		37 051	33 964	32 400	31 628
Employee costs as a % of operating expenses		38%	36%	35%	36%
Average staff numbers (FTEs)		427	431	432	426
Average staff costs ($'000s)		87	79	75	74
Average leave balance per FTE ($'000s)		16	15	16	15

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

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

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

MEDIUM COUNCILS

BRIGHTON COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.140m in 2013-14, compared to a surplus of $0.062m the year before.
- The deficit was the first in the four years of our analysis although Council maintained a positive average Operating surplus ratio. However, the ratio is trending downwards and Council should monitor its financial performance going forward.
- Cash generated from operations totalled $1.152m this year. This was less than in previous years and was not sufficient to cover Cash used in investing activities, which led to an overall decrease in Cash and financial assets of $0.935m to $2.788m at 30 June 2014.
- As at 30 June 2014, Council's Total Assets were $180.264m and its Net Assets totalled $178.514m.
- Rates per capita increased by 12% and Rates per rateable property by 6.8% over the three-year period since 30 June 2011. At the same time, Operating cost to rateable property increased by 23%.
- FTEs declined by four (or 7%) since 2011 while average cost per FTE increased by 33%.
- Brighton Industrial and Housing Corporation (BIHC) and Microwise Australia Pty Ltd (Microwise) recorded profits of $0.011m and $0.074m respectively. These results were included in Council's Underlying Surplus.

Council was at a moderate 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.

Council adopted all of the 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report.

Council established an audit panel. However we noted that managers from other councils were appointed as independent members of the audit panel, which in our view, impinges on both the real and perceived independence of audit panel members. Council had both long-term asset management and long-term financial management plans in place, however, these did not link together. Other than these two matters, Council complied with the Local Government Ministerial Orders issued in February 2014.

The audit was completed satisfactorily with no other items outstanding.

Major developments for the year included:

- recognition of land under roads valued at $12.290m
- revaluation, subsequent componentisation and removal of residual values from road assets.

Major variations between the 2013-14 and 2012-13 financial years included:

- decreased Property, plant and equipment, $2.262m, due to a downward movement relating to asset revaluation, $18.969m, which was partly offset by the recognition of land under roads, $12.290m, and contributions, $5.421m
- lower Cash and financial assets of $0.928m due to a significant drop in cash generated from operations, which was in turn not sufficient to cover investments in Property, plant and equipment
- lower investment in TasWater of $11.295m due to the reduction in TasWater's net assets as a result of a revaluation of its infrastructure assets.

SUBSIDIARY ENTITIES

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

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of road assets was undertaken during 2013-14. Council applied a cost index to bridges and building assets to maintain the currency of their values in years between formal valuations.	We tested valuation reports, calculations and underlying assumptions supporting fair values of road assets. We confirmed the appropriateness and validity of the indices and ensured the indices were applied correctly.
In report of the Auditor-General No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* (the Report), we recommended that 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. Council recognised land under roads valued at $12.290m.	We audited the value of land under roads brought to account by: • verifying the length and classification of roads to Council's asset management system • recalculating the land area • agreeing unit values for land under roads to rates provided by the Valuer-General and ensuring that correct rates were used • ensuring mathematical accuracy of the calculations • verifying accounting treatment and disclosures in the financial statements to ensure compliance with Australian Accounting Standards.
Council consolidates the financial transactions of its two wholly owned subsidiaries.	We tested the consolidation entries and the transactions within the Consolidated group to ensure that there were no balances misstated.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 22 September 2014.

KEY DEVELOPMENTS

Land under roads

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

Residual values for roads

Council applied residual values to road pavement and road surface assets in prior years. As part of the 2013-14 revaluation, these assets were revalued using a modern equivalent asset methodology and the use of residual values was discontinued.

KEY FINDINGS

Adoption of recommendations from Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted all 22 recommendations relevant to councils.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting indicators. Council established an audit panel, however, we noted that managers from other councils were appointed as independent members of the audit panel, which in our view, impinges on both the real and perceived independence of audit panel members. This is discussed further under the Governance section later in this Chapter.

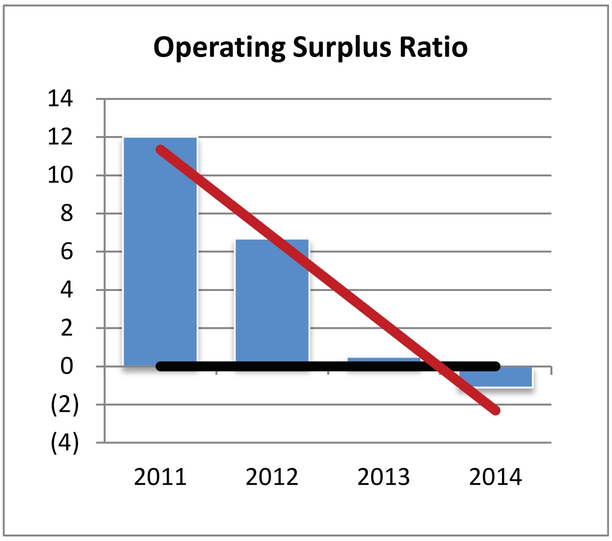
We found that while Council had a long-term strategic asset management plan, it did not link to its long-term financial management plan. As a result, Council was unable to disclose the asset renewal funding ratio in its financial report as required under *Local Government (Management Indicators) Order 2014*. However, Council disclosed the reason for not calculating the ratio and it plans to rectify this in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

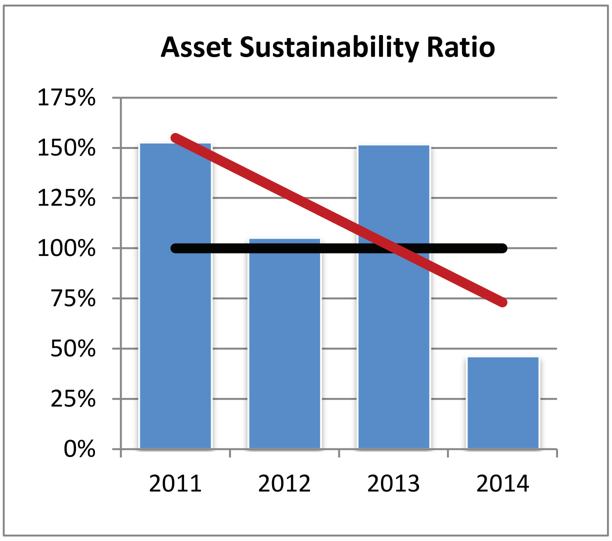
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council reported an Underlying Deficit of $0.140m in 2013-14 which resulted in a negative Operating surplus ratio of 1.11. Its average ratio of 4.52 was above our break-even benchmark, indicating that, on average over the period, it generated sufficient revenue to fulfil its operating requirements, including its depreciation charges.

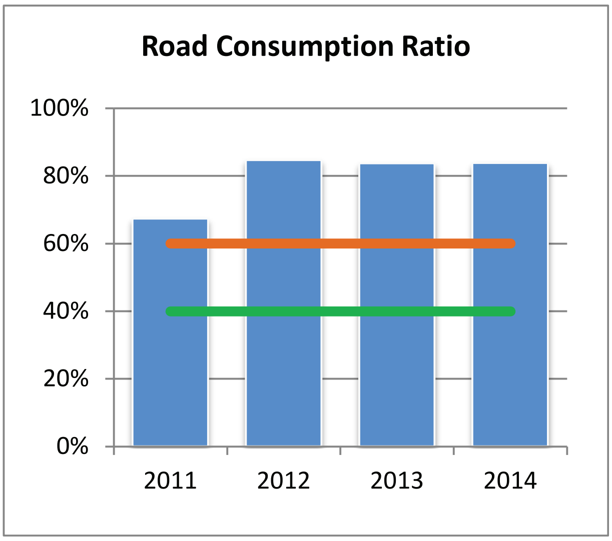
However, the ratio is trending downwards and Council should monitor its financial performance going forward. The Underlying Deficit for 2013-14 included $0.085m of profits generated by the two subsidiaries.



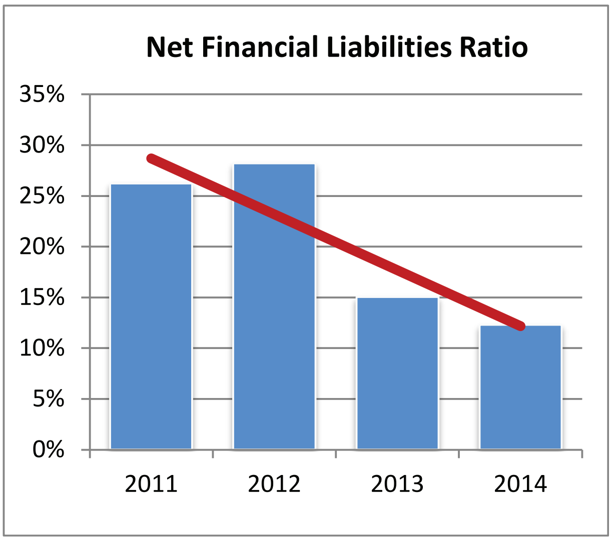
Asset sustainability ratio was below the 100% benchmark in 2013-14 for the first time over the four-year period. The drop was due to a significant decrease in renewal and upgrade expenditure in the current year. On average, Council's Asset sustainability ratio was 114%, indicating that it had invested sufficient capital in sustaining existing assets.

Asset Renewal Funding Ratio

As discussed previously Council had long-term strategic asset management and long-term financial management plans in place. However, we found that these plans did not link and as a result we were not able to calculate the Asset renewal funding ratio.



The graph indicated that at 30 June 2014 Council maintained the service potential of its road infrastructure to the point where only approximately 16% had been consumed. This indicated that Council's road assets had sufficient capacity to continue to provide services to ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded positive Net financial liabilities ratios with liquid assets well in excess of current and non-current liabilities in the four years under review. This indicated a strong liquidity position, with Council able to meet existing obligations. However, the ratio was trending downwards, a situation which needs to be monitored by Council.

It was noted that Council's Cash and cash equivalents were subject to a number of internal restrictions, mainly leave provisions that limit the amount available for discretionary use. Restricted funds represented $1.034m, which made up 37.08% of the total Cash and cash equivalents balance. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found that Council had an audit committee at 30 June 2014. However, it should be highlighted that the *Local Government (Audit Panels) Order 2014* (the Order) requires audit panel to have a minimum number of independent persons. It is our understanding that finance managers from other councils were appointed as independent members of the audit panel. While this is technically in accordance with the requirements of the Order, this arrangement, in our view, impinges on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of the council. It is important for panel members to not only be independent, but also to be perceived in that way.

As discussed previously, Council had a long-term strategic asset management plan in place, however it was found to not link to the long-term financial management plan.

Conclusion as to financial sustainability

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

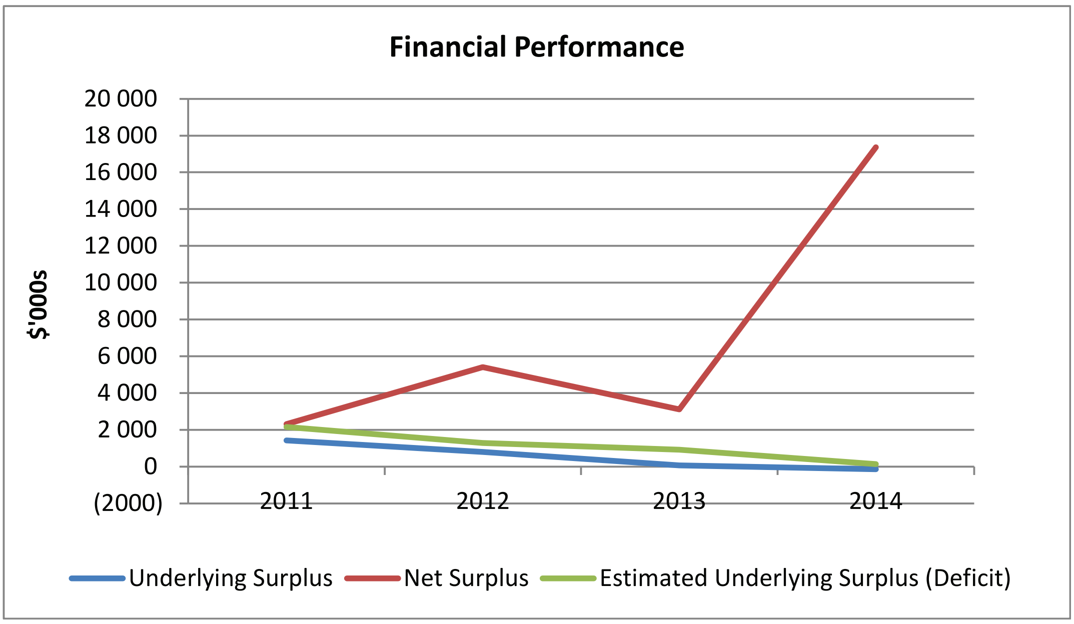
Asset sustainability ratios indicated Council's expenditure on existing assets averaged 114% over the period, which was above our 100% benchmark. Council's Road consumption ratios varied between 67% and 85% which indicated that this asset was in a sound position to continue to provide services to ratepayers.

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

From a governance perspective, Council had an audit committee, however we have concerns over its independence. Long-term asset management and financial management plans existed but were not linked.

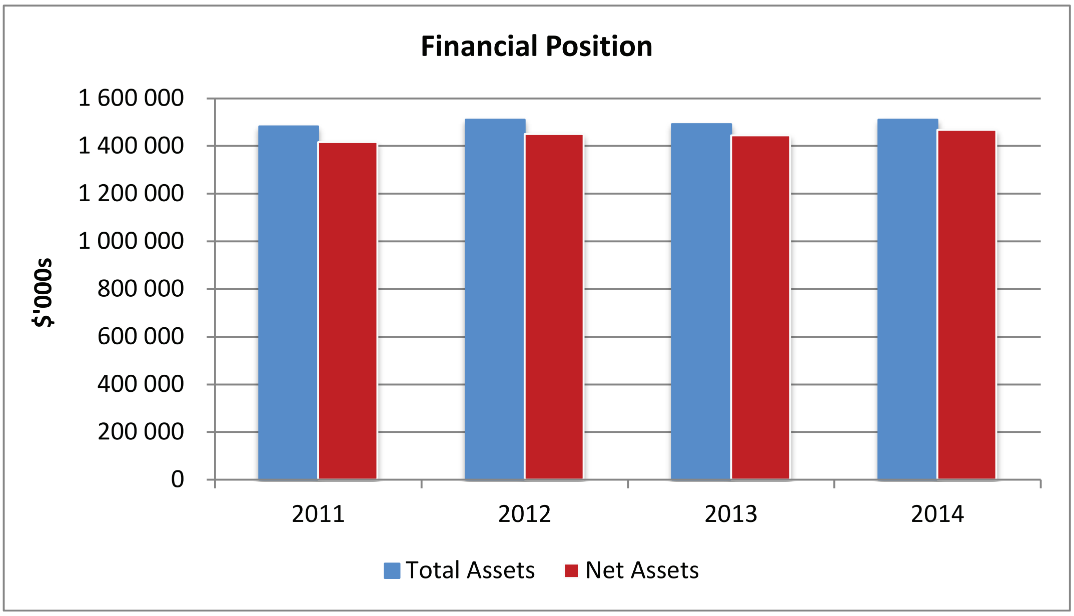
Based on this analysis, we concluded that at 30 June 2014, Council was at a low financial sustainability risk from financial operating, asset management and net financial liabilities perspectives. From a Governance perspective, we concluded that Council was at a moderate sustainability risk.

FINANCIAL ANALYSIS



Council reported an Underlying Deficit of $0.140m in 2013-14, compared to an Underlying Surplus of $0.062m in the year before. This result was impacted by a change in accounting policy to increase the asset recognition threshold, which resulted in a write off of $0.054m. Without this change the Underlying Deficit would have been $0.086m, which is still a decrease on the prior year. There had been a continuous decline in Council's financial performance over the past four years. This trend is largely attributed to operating cost growing at a slightly faster rate than property rates as discussed in the Operational Efficiency section of this Chapter.

After taking into account Capital grants and assets taken-up or contributed, Council reported a Net Surplus of $17.372m in 2013-14 and Net Surpluses were reported in each of the four years. This year's result was significantly affected by the recognition of land under roads brought to account for the first time at an amount of $12.290m.



Total Assets and Net Assets decreased by $13.557m and $12.891m respectively since 30 June 2013. This was predominantly due to a $13.557m reduction in the Investment in TasWater.

Council had a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management. Property, plant and equipment, $130.898m, accounted for 72% of Total assets at 30 June 2014.

As part of the 2013-14 revaluation of road assets, Council removed residual values previously applied to pavement and road surface components and used the modern equivalent asset methodology to determine fair value. As a result, the value of roads decreased by $19.580m. This revaluation adjustment was partly offset by revaluation increments in other classes and the recognition of land under roads for the first time in 2013-14. As a result, the value of Property, plant and equipment decreased by $2.268m to $130.898m.

Cash and financial assets decreased by $0.936m to $2.788m at 30 June 2014. The decrease in cash was the result of a drop in Cash from Operations to $1.152m during 2013-14, which was in turn not sufficient to cover investments in Property, plant and equipment

Despite the decrease in Cash and financial assets, lower Payables and reclassification of non-current assets to assets held for sale led to a slight increase in Net working capital to $2.718m and a current ratio of 2.66, which was well above the benchmark of one.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 12% over the three year period since 30 June 2011 and Rates per rateable property increased by 6.8% over this period. These increases were to meet higher operating costs as measured by Operating cost to rateable property, which increased by 23%. The higher increases in costs, when compared to the increase in rates, contributed to Council's downward trend in Underlying surpluses recorded in recent years.

FTEs declined by four (or 7%) since 2011 and over this period average cost per FTE increased by 33%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	7 340	7 356	7 088	6 872
Fees and charges	1 109	962	987	1 173
Grants**	1 720	1 673	1 581	1 876
Interest revenue	170	124	182	263
Other revenue	2 309	2 498	2 533	1 662
Total Revenue	**12 648**	**12 613**	**12 371**	**11 846**
Employee costs	3 163	3 062	2 774	2 697
Depreciation	2 894	2 921	2 800	2 400
Net loss on disposal	30	176	9	6
Other expenses	6 429	6 596	6 726	5 952
Total Expenses	**12 516**	**12 753**	**12 309**	**11 055**
Underlying Surplus (Deficit)	**132**	**(140)**	**62**	**791**
Capital grants	555	635	718	292
Financial assistance grant received in advance**	0	0	834	695
Offset Financial assistance grant in advance**	0	(834)	(695)	(419)
Contributions – non monetary assets	5 421	5 421	2 184	0
Assets taken up – Land under roads	12 290	12 290	0	4 041
Net Surplus (Deficit)	**18 398**	**17 372**	**3 103**	**5 400**
Other Comprehensive Income				
Fair value revaluation of non-current assets	(18 969)	(18 969)	(4 181)	20 396
Fair value initial adjustment in TasWater	(11 295)	(11 295)	(11)	123
Total Comprehensive Income (Expenses)	**(30 264)**	**(30 264)**	**(4 192)**	**20 519**
Comprehensive Surplus (Deficit)	**(11 866)**	**(12 892)**	**(1 089)**	**25 916**

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

*** Grants received in advance has been shown separately after net Operating Surplus. The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	2 788	3 724	4 492	4 202
Receivables	356	355	275	269
Other	1 216	275	196	260
Total Current Assets	**4 360**	**4 355**	**4 964**	**4 731**
Payables	685	1 529	680	669
Provisions – employee benefits	925	762	762	678
Other	32	53	63	117
Total Current Liabilities	**1 642**	**2 343**	**1 505**	**1 464**
Net Working Capital	**2 718**	**2 012**	**3 459**	**3 267**
Property, plant and equipment	130 898	133 166	132 790	107 220
Investment in TasWater	45 006	56 300	56 311	56 188
Total Non-Current Assets	**175 904**	**189 466**	**189 101**	**163 408**
Provisions – employee benefits	108	73	68	99
Total Non-Current Liabilities	**108**	**73**	**68**	**99**
Net Assets	**178 514**	**191 405**	**192 494**	**166 577**
Reserves	126 473	109 100	86 497	65 978
Accumulated surpluses	52 041	82 305	105 997	100 599
Total Equity	**178 514**	**191 405**	**192 494**	**166 577**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 801	9 591	9 436	9 556
Cash flows from Government	1 423	1 728	2 151	2 190
Payments to suppliers and employees	(11 210)	(9 039)	(9 376)	(9 423)
Interest received	124	182	263	312
Distributions received - TasWater	1 014	1 070	1 066	1 026
Finance costs	0	0	0	(28)
Cash from (used in) Operations	**1 152**	**3 532**	**3 540**	**3 633**
Capital grants and contributions	0	630	292	155
Payments for property, plant and equipment	(2 677)	(5 091)	(3 535)	(4 469)
Proceeds from sale of property, plant and equipment	590	161	(6)	794
Other	0	0	0	12
Cash from (used in) Investing Activities	**(2 087)**	**(4 300)**	**(3 249)**	**(3 508)**
Repayment of borrowings	0	0	0	(1 061)
Cash from (used in) Financing Activities	**0**	**0**	**0**	**(1 061)**
Net Increase (Decrease) in Cash	**(935)**	**(768)**	**290**	**(936)**
Cash at the beginning of the year	3 724	4 492	4 202	5 139
Cash at End of the Year	**2 788**	**3 724**	**4 492**	**4 202**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		132	62	791	1 419
Operating surplus ratio* **	>0	(1.11)	0.50	6.68	12.00
Asset management					
Asset sustainability ratio*	100%	46%	152%	105%	153%
Asset renewal funding ratio*	90%-100%	N/a	N/a	N/a	N/a
Road asset consumption ratio*	>60%	83.8%	83.7%	84.7%	67.4%
Asset investment ratio	>100%	92%	182%	147%	182%
Liquidity					
Net financial assets (liabilities) ($'000s)		1 549	1 856	3 341	3 099
Net financial liabilities ratio* ***	0 - (50%)	12.3%	15.0%	28.2%	26.2%
Operational Efficiency					
Liquidity ratio	2:1	6.65	2.58	6.42	5.69
Current ratio	1:1	2.66	1.86	3.30	3.23
Interest coverage****	3.1	0	0	0	128.75
Self financing ratio		9.1%	28.6%	29.9%	30.7%
Own source revenue		86.7%	87.2%	84.2%	81.6%
Debt collection	30 days	16	16	12	13
Creditor turnover	30 days	32	100	4	7
Rates per capita ($)		465	449	438	416
Rates to operating revenue		58.3%	57.3%	58.0%	54.7%
Rates per rateable property ($)		1 035	1 011	998	969
Operating cost to rateable property ($)		1 794	1 755	1 606	1 558
Employee costs expensed ($'000s)		3 062	2 774	2 697	2 491
Employee costs capitalised ($'000s)		1 005	963	887	777
Total employee costs ($'000s)		4 067	3 737	3 584	3 268
Employee costs as a % of operating expenses		24%	23%	24%	24%
Average staff numbers (FTEs)		50	50	51	54
Average staff costs ($'000s)		81	75	70	61
Average leave balance per FTE ($'000s)		21	17	16	14

** For commentary on these indicators refer to the Assessment of financial sustainability section of this chapter.*

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

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

***** Brighton Council does not have any borrowings and finance costs.*

N/a Council is currently in the process of linking its Long Term Financial Plan with its Asset Management Plan.

MICROWISE

Introduction

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

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

Audit of the 2013-14 financial statements

Signed financial statements were received on 8 August 2014 and an unqualified audit report was issued on 11 September 2014.

The audit was completed satisfactorily with no matters outstanding.

Statement of Comprehensive Income

	2013-14	2012-13
	$'000s	$'000s
Revenue	369	311
Expenditure	295	246
Profit	**74**	**65**

Statement of Financial Position

	2014	2013
	$'000s	$'000s
Assets	922	847
Liabilities	10	9
Net Assets	**912**	**838**
Brighton Council Equity	**912**	**838**

Microwise generated greater Revenue in 2013-14 due to increased interest in its Propertywise software resulting in a number of new clients, particularly interstate. In turn the expenditure associated with providing the software also increased.

Microwise had Assets of $0.922m consisting of cash, $0.817m and debtors, $0.105m. The higher debtors related to the increase in clients mentioned above.

BRIGHTON INDUSTRIAL & HOUSING CORPORATION (BIHC)

Introduction

BIHC is a company wholly owned by Council and its aim is to generate and promote economic and social development in the Brighton community.

It was formed to develop affordable residential dwellings for home buyers through strategic allocation and use of vacant Housing Tasmania land, to provide a return to Council and to add to the social and cultural amenities of the municipality.

Audit of 2013-14 financial statements

Signed financial statements were received on 8 August 2014 and an unqualified audit report was issued on 11 September 2014.

The audit was completed satisfactorily with no matters outstanding.

Statement of Comprehensive Income

	2013-14	2012-13
	$'000s	$'000s
Land – granted at no cost	50	400
Sales	45	387
Works	0	69
Total Revenue	**95**	**856**
Cost of sales land	50	400
Stage one land packages	17	179
Stage two land packages	3	0
Stage three land packages	3	0
Other external expenses	11	61
Brighton Council consultancy and costs	0	31
Total Expenses	**84**	**671**
Profit for the Year	**11**	**185**

Statement of Financial Position

	2014	2013
	$'000s	$'000s
Assets	196	185
Liabilities	0	0
Net Assets	**196**	**185**
Accumulated Profit	**196**	**185**

Revenue and expenditure significantly decreased this year as a result of a downturn in interest in the HomeShare model offered by BIHC. In 2012-13, eight properties were sold compared to only one in 2013-14.

The Assets of BIHC consist entirely of cash which increased in line with the profit for the year.

BURNIE CITY COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $1.920m for 2013-14. This was the third consecutive year of Underlying Deficits.
- The Underlying Deficit was primarily due to additional legal expenses associated with the Camdale judgement of $1.556m plus interest.
- It continued to budget for an Underlying Deficit. This was inconsistent with the need to assure long term financial sustainability.
- Comprehensive result was a surplus of $5.556m.
- Council managed Net Assets worth $359.442m at 30 June 2014.
- Its subsidiaries Burnie Airport Corporation Unit Trust (BAC) and Tas Communications Unit Trust (TCU) recorded surpluses of $0.130m and $0.150m, respectively. These results were included in Council's Underlying Deficit.
- Burnie Sports and Events Unit Trust (BSE) recorded a Net Deficit of $0.144m for 2013-14. Its operations were transferred back to Council on 1 July 2014.
- Cash from operating cash flows totalled $4.754m this year, significantly less than the four year average of $6.913m per annum, due to a reduction in cash from government and increased Payments to suppliers and employees.
- Rates per capita increased by 13% over the three year period since 30 June 2011 and Rates per rateable property increased by 14% over the same period.
- Operating cost to rateable property increased by 16%.
- FTE declined by seven, or 4%, since 2011 and over the period Average cost per FTE increased by 9%.

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

Moderate audit risk findings were identified in relation to Council's information security systems, purchasing cards and financial statement preparation.

We made recommendations in relation to:

- bank reconciliations and timely account de-activations, which were rectified by management during the year
- Council's information security systems, purchasing cards and financial statement preparation and a number of other low-rated items which were reported to, and are being addressed by management.

Council adopted 17 of 22 recommendations from our *Infrastructure Financial Accounting in Local Government* Report. Key recommendations not adopted included earthwork components of road assets not recognised and valued and the non-recognition of all land under roads at fair value.

Council complied with the relevant requirements of Local Government Ministerial Orders issued in February 2014.

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

Key developments for the year included:

- finalisation of a legal dispute over the sale of land at Camdale
- review of Council's subsidiary entities saw BSE operations transferred back to Council effective 1 July 2014. Council's original investment in BSE was $0.320m while Net Assets transferred back on wind-up amounted to $0.014m
- Council's decision to exit out of direct delivery of child care services

- agreement to transfer land to the University of Tasmania for the construction of student accommodation as part of the new education precinct at West Park. The Makers Workshop building valued at $6.250m will be de-recognised by Council, once control has passed to UTAS.

Major movements between 2013-14 and 2012-13 included:

- increased legal fees for finalisation of the Camdale land dispute, final judgement $1.556m plus interest
- recognition of newly identified building assets, $2.792m
- expensed building revaluation decrement of $5.544m
- decreased Cash, $2.570m, due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014 and significant capital payments
- increased Property, plant and equipment of $4.504m, with main items being additions, $9.089m, and net revaluation increment of $0.929m, offset by Depreciation of $7.503m
- increase in the value of Council's investment in TasWater by $4.349m.

SUBSIDIARY ENTITIES

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

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

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of buildings and parks and reserves assets was undertaken during 2013 14. 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 reviewed valuation reports, calculations and underlying assumptions supporting fair values of assets. In addition we assessed the qualifications of those persons conducting the valuations to ensure appropriate independent expertise, and assessed the extent to which management reviewed and challenged their work.
Council recorded a provision for rehabilitation of its refuse disposal area, which is a discounted estimate of future expenditure to rehabilitate the landfill site.	We tested the calculation of the provision and verified the base data to information provided by Council engineers.
Council recorded a material allowance for impairment of fines receivable. The calculation of the impairment amount was an estimate based upon judgment.	We examined Council's policy for determining the impairment allowance and tested the calculation of the impairment.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Initial signed financial statements were received on 14 August 2014, with amended statements received on 29 September 2014. An unqualified audit report was issued on 1 October 2014.

KEY DEVELOPMENTS

Finalisation of legal dispute

In our December 2013 report, No. 4 of 2013 14 *Local Government Authorities 2012-13*, we noted a contingent liability included in Council's financial statements detailing an on-going legal dispute related to the proposed sale of land at Camdale.

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

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

Following an appeal of the award of damages, final judgment was handed down on 23 December 2013 by the Supreme Court of Tasmania (Full Court), with damages awarded to Blackley Investments of $1.556m, plus interest.

Total damages and costs in an amount of $0.611m were included in Council's financial report for 2012-13. The balance was expensed during 2013-14.

Review of subsidiary entities

Following completion of a review of Council's ownership of each of its subsidiaries Council resolved to transition BSE operations back into Council effective 1 July 2014. Council's original investment in BSE was $0.320m. Net Assets transferred back to Council on wind-up on 30 June 2014 amounted to $0.014m.

Children's services

During 2013-14 Council resolved to exit out of direct delivery of childcare services and to seek expressions of interest for the sale of childcare operations.

There was no financial impact on Council for 2013-14 but significant financial impacts may occur in future years.

Transfer of land

In our December 2013 report, No. 4 of 2013 14 *Local Government Authorities 2012-13*, we noted Council negotiated a Heads of Agreement with the University of Tasmania (UTAS) to transfer land to Utas to allow for the construction of student accommodation. The land surrounds the West Park Oval and Sports Facility (West Park Precinct) and incorporates the Makers' Workshop.

The West Park Development Deed and associated Sale Agreements, Makers' Workshop Lease and Licence Agreement for operation of Council's Visitor Information Centre and Paper Making Workshop were executed by Council in June 2014.

Under the Deed and associated Sale Agreements, ownership of the Makers' Workshop will be retained by Council, with a long-term lease to UTAS. The Makers Workshop building valued at $6.250m will be de-recognised by Council on 1 July 2014, once control has passed to UTAS.

KEY FINDINGS

We made recommendations during the audit, in response to high audit risk items identified, that Council:

- review the business processes for bank reconciliation preparation and improve documentation evidencing independent review
- strengthen procedures for ensuring timely account de-activation.

These matters were reported to, and rectified by, management during the year.

In addition, moderate audit risk findings were identified in relation to Council's information security systems, purchasing cards and financial statement preparation.

Council's financial report was submitted pursuant to section 17 of the *Audit Act 2008* (the Act) within the statutory timeframe. Although we accepted the report as complete in all material respects, we advised Council of a number of disclosure deficiencies, particularly in relation to new accounting disclosures. It was recommended Council implement procedures to ensure the financial report is fully completed prior to being submitted in future.

A number of low risk items were also identified.

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

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled December 2013.

Council adopted 17 out of 22 recommendations relevant to councils. Key recommendations that were not adopted included:

- earthwork components of road assets were not recognised and valued
- Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired. Council recognised land under roads acquired since 1 July 2008, but had not taken steps to measure and recognise land acquired before this date. We believe that all land under roads should be recognised.

These matters will be followed up with Council in 2014-15.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators.

We found that Council complied with all relevant requirements.

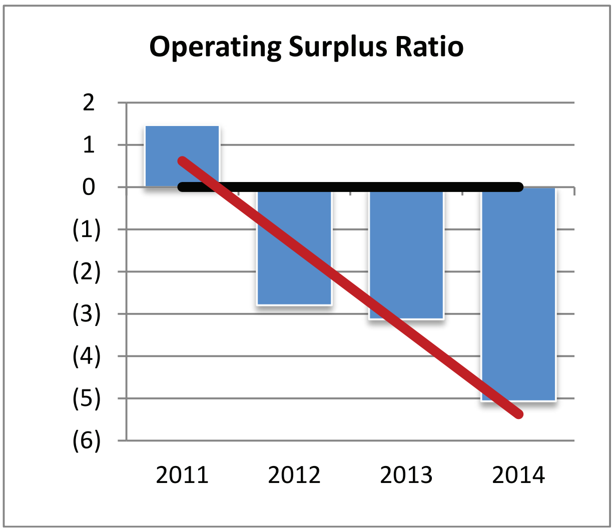
The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

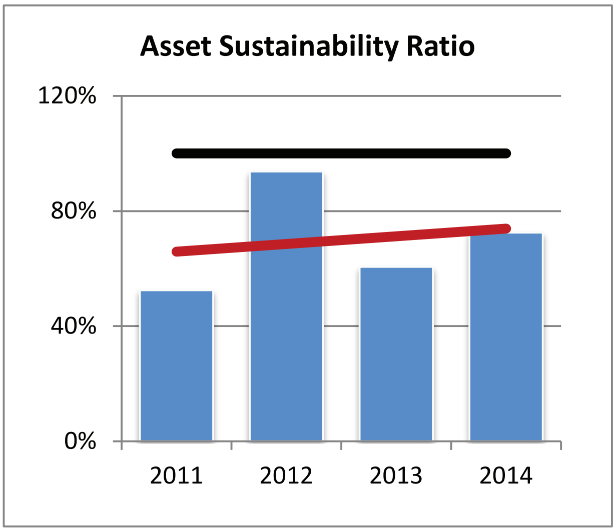
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded negative Operating surplus ratios in three of the four years under review, with an average negative ratio of 2.38. The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. The 2013-14 deficit was primarily due to additional legal expenses associated with the Camdale settlement.

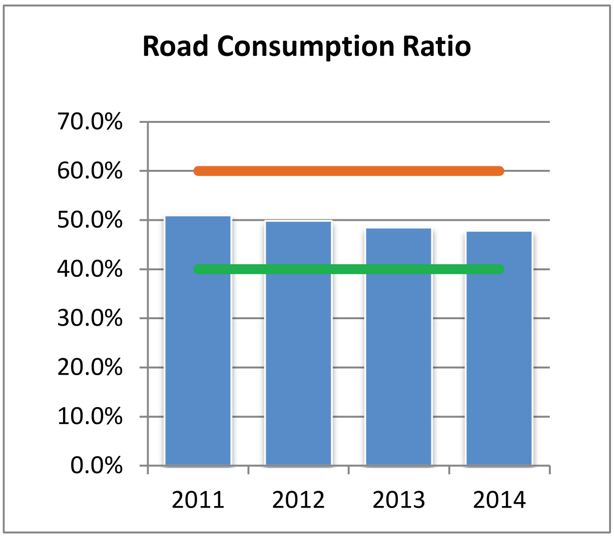
Over the four year period, Council budgeted for $4.011m in Underlying deficits and generated Underlying deficits of $3.573m. We believe that, at a minimum, Council should budget for a break-even position.



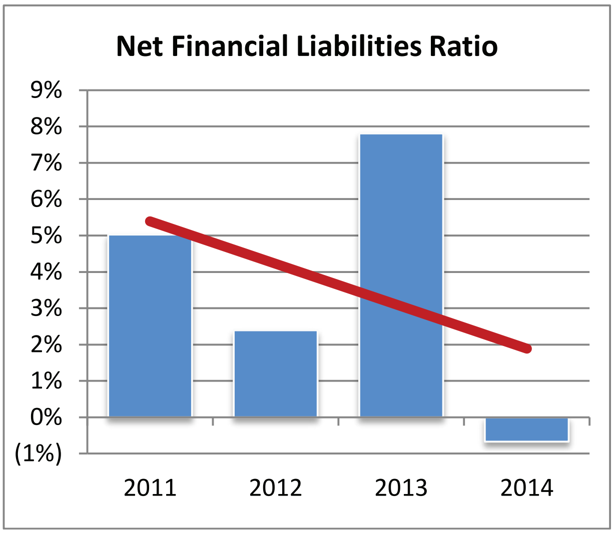
Asset sustainability ratio was below benchmark in all four years under review. Over the period, Council averaged 70%. This indicated, subject to levels of maintenance expenditure and the long term asset management plan, Council under-invested in existing assets.

Asset renewal funding ratio

The Asset renewal funding ratios included in the Financial Analysis table at the end of this Chapter represent a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.



The graph indicated that at 30 June 2014 Council had consumed approximately 48% of the service potential of its road assets. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers but were at moderate risk.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded positive Net financial liabilities ratio in three of the four years under review. At 30 June 2014 the ratio was negative but still well within our benchmark of negative 50% and indicated a strong liquidity position, with Council able to meet existing obligations.

Cash and financial assets totalled $7.712m at 30 June 2014. However, these assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $4.371m, or 56.7%, of the total Cash and financial assets balance of $7.712m and consisted of restrictions for long service leave, $1.830m and capital grants, $2.541m.

It is noted Council had contractual commitments totalling $16.993m (2012-13, $21.031m) which were not recognised in the Statement of Financial Position nor factored into the Net financial liabilities ratio. The decrease in commitments was mainly due to Council being further through a ten-year contract for the operation of the Burnie Waste Transfer Station and Resource Recovery Centre.

Commitments, capital grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it had:

- an audit committee, comprised of two elected representatives and three independent members
- an annual work plan, noting matters that its audit panel is required to consider as part of keeping Council's performance under review.

It did not have an internal audit function. Existence of an active internal audit function would enhance Council's governance arrangements.

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

Conclusion as to financial sustainability

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

Council's Asset sustainability ratio indicated, based on our 100% benchmark, it under-invested in existing assets over the period of analysis. Council's Road consumption ratio deteriorated slightly over the four year period, but its roads had sufficient capacity to continue to provide services to its ratepayers. The Asset renewal funding ratio indicated Council was planning to exceed funding requirements necessary for the replacement of existing assets.

Council's liquidity, although declining, was adequate to meet its short term commitments. It had manageable debt levels and a capacity to borrow should the need arise.

From a governance perspective, Council had an audit committee, but no internal audit function. It had long-term financial management and asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at a moderate sustainability risk from financial operating, governance and asset management perspectives, and at low risk from a net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

Council's full response is reproduced below.

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

Council agrees with the assessment of the Auditor-General's Report and appreciates the opportunity for comment. Burnie City Council's financial performance and position for 2013-14 continues to be consistent with the objectives and targets set in its Financial Management Strategy (FMS).

Council's FMS ensures that Council's finances and operations are being managed to support the community's aspirations into the future while ensuring ongoing financial sustainability. The strategy has been prepared to guide Council in its financial decision-making ensuring that the following principles are followed:-

- *the community's finances will be managed responsibly to enhance the wellbeing of residents*
- *Council will endeavour to maintain community wealth to ensure that the wealth enjoyed by today's generation may also be enjoyed by tomorrow's generation*
- *Council's financial position will be robust enough to recover from unanticipated events, and to absorb the volatility inherent in revenues and expenses*

- *resources will be allocated to those activities that generate community benefit.*

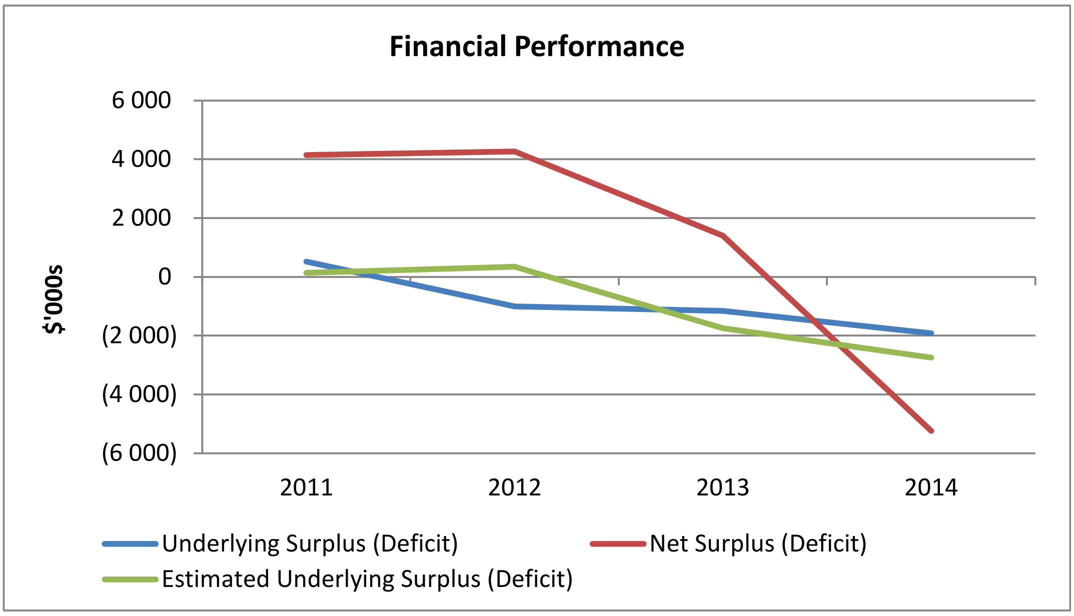
The following targets have been set in the strategy and have been determined to be an appropriate measure of financial sustainability:-

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

Council has recognised the importance of balancing rate increases with capacity for ratepayers to pay and through careful planning, has decided to smooth out the significant cost increases in the delivery of waste services by enduring deficits in the short term. Council is on track with its six-year strategy which commenced in 2012 and is expected to return to surplus in 2017. The 2013/14 operating results are consistent with the strategy and modelling undertaken by Council in its FMS.

Council is dependent on a large investment in long term infrastructure assets to deliver its service objectives and therefore adequate investment and management of those assets is critical to Council's sustainability. The indicators in this report on assets sustainability are retrospective over a four year period and do not consider the long term strategies in place by Councils to fund and manage asset renewal. Council is expected to be able to fund its asset renewal requirements over the next 10 years comfortably.

FINANCIAL ANALYSIS



Council recorded Underlying Deficits in three of the past four years. Of concern is that Council budgeted for two of these results. This is inconsistent with the need to assure long term financial sustainability. We believe, that at a minimum, Council should budget for a break-even position before capital grants and infrastructure adjustments, but inclusive of Depreciation.

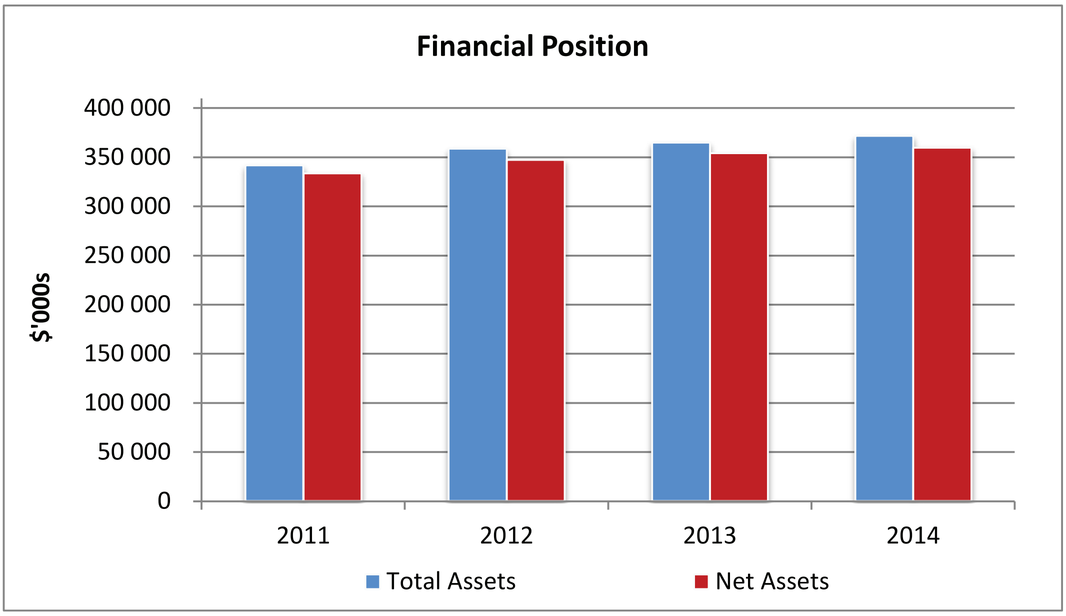
In 2013 14, Council performed slightly better than budget, but worse than the previous year, and recorded an Underlying Deficit of $1.920m, despite increased Distributions from TasWater $0.995m (2012-13, $0.342m).

The Underlying Deficit was primarily due to additional legal expenses associated with the Camdale settlement of $1.556m.

Council reported Net Surpluses in the first three years under review following capital adjustments including receipt of Capital grants, which averaged $2.893m annually.

For 2013-14 the net result deteriorated by $6.636m to a Net Deficit of $5.239m. This was mainly due to the higher Underlying Deficit and a revaluation decrement expensed for building assets, $5.517m, offset partly by Capital revenue from building assets identified and recognised for the first time, $2.792m (2012-13, $0.619m). The total revaluation decrement for buildings was $7.576m but as it exceeded Council's existing building asset revaluation reserve of $2.059m, the excess of $5.517m was expensed.

Revaluation increments of $8.505m were recorded on Council's infrastructure assets, which, when combined with the building decrement recognised through existing reserves, resulted in a net Other comprehensive income revaluation increment of $6.446m.



Council's Total Assets and Net Assets increased over the period under review. Net Assets grew by $26.075m, or 7.8%, primarily due to increased infrastructure assets, $23.217m and increased value of Council's investment in TasWater of $5.196m.

In 2014 Net Assets increased by $5.659m, or 1.6%, to $359.442m, due mainly to the combined effects of a higher value of the Investment in TasWater, $4.349m, building assets identified and recognised for the first time, $2.792m and net asset revaluation increments of $0.929m, partially offset by lower Cash, $2.570m.

The reduction in Cash was due partly to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014, combined with increased Payments for property, plant and equipment, $2.738m, and the legal expenses of $1.556m, discussed previously.

As a result of lower Cash and new borrowings of $1.000m, Council's Current ratio reduced from 2.91 to 1.82.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on rates per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 13% over the three year period since 30 June 2011 and Rates per rateable property increased by 14% over the same period. Operating cost to rateable property increased by 16%. The higher increases in costs, when compared to rate increases, resulted in Council recording increased Underlying Deficits in recent years. Legal costs of $1.658m (2012-13, $0.912m) contributed to this.

FTEs declined by seven, or 4%, since 2011 and over the period Average cost per FTE increased by 9%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	20 556	20 271	19 723	18 792
Fees and charges	8 777	11 170	11 508	12 065
Grants**	2 746	4 183	4 051	3 968
Interest revenue	0	508	610	450
Other revenue	1 995	1 737	1 218	728
Total Revenue	**34 074**	**37 869**	**37 110**	**36 003**
Employee costs	12 846	14 525	14 456	14 245
Depreciation	7 943	7 976	7 996	7 920
Finance costs	90	243	300	368
Other expenses	15 948	17 045	15 518	14 477
Total Expenses	**36 827**	**39 789**	**38 270**	**37 010**
Underlying Surplus (Deficit)	**(2 753)**	**(1 920)**	**(1 160)**	**(1 007)**
Capital grants	746	1 023	1 619	5 683
Financial assistance grant received in advance**	0	0	1 307	1 303
Offset Financial assistance grant in advance**	0	(1 307)	(1 303)	(572)
Reassessment of tip rehabilitation provision	0	0	27	(110)
Building revaluation decrement	0	(5 517)	0	0
Non-current asset recognition adjustment	0	2 792	619	0
Capital works expensed	0	(147)	(47)	(2 061)
Contributions of non-current assets	0	0	335	1 026
Write down on investment in subsidiary	0	(163)	0	0
Net Surplus (Deficit)	**(2 007)**	**(5 239)**	**1 397**	**4 262**
Other Comprehensive Income				
Fair value revaluation of non-current assets	2 755	6 446	2 082	9 588
Impairment of non-current assets	0	0	2 386	0
Fair value adjustment in TasWater	0	4 349	785	62
Total Comprehensive Income (Expense)	**2 755**	**10 795**	**5 253**	**9 650**
Comprehensive Surplus	**748**	**5 556**	**6 650**	**13 912**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	7 712	10 282	9 009	6 408
Receivables	4 109	3 626	3 098	3 499
Non-current assets held for resale	593	593	593	663
Inventories	258	273	314	316
Other	14	40	219	198
Total Current Assets	**12 686**	**14 814**	**13 233**	**11 084**
Payables	2 700	2 855	2 936	2 054
Provisions – employee benefits	2 130	1 807	1 675	1 776
Other	134	134	157	153
Provision for rehabilitation	1 736	136	391	80
Interest bearing liabilities	266	167	158	0
Total Current Liabilities	**6 966**	**5 099**	**5 317**	**4 063**
Net Working Capital	**5 720**	**9 715**	**7 916**	**7 021**
Property, plant and equipment	295 548	291 044	287 070	272 331
Investment in TasWater	63 284	58 935	58 150	58 088
Receivables	0	0	0	16
Total Non-Current Assets	**358 832**	**349 979**	**345 220**	**330 435**
Interest bearing liabilities	4 178	3 418	3 735	2 110
Provisions – employee benefits	747	725	475	274
Provision for rehabilitation	185	1 768	1 718	1 705
Total Non-Current Liabilities	**5 110**	**5 911**	**5 928**	**4 089**
Net Assets	**359 442**	**353 783**	**347 208**	**333 367**
Reserves	108 009	97 214	91 778	82 116
Accumulated surpluses	248 269	253 302	251 981	247 865
Outside equity interest	3 164	3 267	3 449	3 386
Total Equity	**359 442**	**353 783**	**347 208**	**333 367**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	33 262	33 570	33 742	31 958
Cash flows from Government	2 913	4 210	5 424	4 212
Payments to suppliers and employees	(32 710)	(31 538)	(30 069)	(30 449)
Distributions from TasWater	995	342	308	208
Interest received	521	605	451	536
Finance costs	(227)	(250)	(178)	(183)
Cash from (used in) Operations	**4 754**	**6 939**	**9 678**	**6 282**
Capital grants and contributions	1 023	1 239	5 683	3 570
Payments for investment in controlled entities	(73)	(92)	(193)	(157)
Payments for property, plant and equipment	(9 494)	(6 756)	(14 681)	(9 470)
Proceeds from sale of property, plant and equipment	361	274	327	434
Cash (used in) Investing Activities	**(8 183)**	**(5 335)**	**(8 864)**	**(5 623)**
Repayment of interest bearing liabilities	(141)	(308)	(217)	(83)
Proceeds from interest bearing liabilities	1 000	0	2 000	0
Trust funds	0	(23)	4	(228)
Cash from (used in) Financing Activities	**859**	**(331)**	**1 787**	**(311)**
Net Increase (Decrease) in Cash	**(2 570)**	**1 273**	**2 601**	**348**
Cash at the beginning of the year	10 282	9 009	6 408	6 060
Cash at End of the Year	**7 712**	**10 282**	**9 009**	**6 408**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(1 920)	(1 160)	(1 007)	514
Operating surplus ratio* **	>0	(5.07)	(3.13)	(2.80)	1.47
Asset Management					
Asset sustainability ratio*	100%	73%	61%	94%	53%
Asset renewal funding ratio*	90% - 100%	221%	96%	100%	100%
Road consumption ratio*	>60%	47.8%	48.4%	49.8%	50.9%
Asset investment ratio	>100%	119%	84%	185%	130%
Liquidity					
Net financial assets (liabilities) ($'000s)		(255)	2 898	862	1 755
Net financial liabilities ratio* ***	0% - (50%)	(0.7%)	7.8%	2.4%	5.0%
Operational Efficiency					
Liquidity ratio	2:1	2.44	4.22	3.32	4.33
Current ratio	1:1	1.82	2.91	2.49	2.73
Interest Coverage	3:1	19.94	26.76	53.37	33.33
Self financing ratio		12.6%	18.7%	26.9%	18.0%
Own source revenue		89.0%	89.1%	89.0%	89.2%
Debt collection	30 days	46	40	36	39
Creditor turnover	30 days	27	32	31	28
Rates per capita ($)		1 014	979	930	900
Rates to operating revenue		53.5%	53.1%	52.2%	51.3%
Rates per rateable property ($)		2 153	2 039	1 970	1 891
Operating cost to rateable property ($)		4 200	3 925	3 840	3 613
Employee costs expensed ($'000s)		14 525	14 456	14 245	13 352
Employee costs capitalised ($'000s)		639	596	740	1 082
Total employee costs ($'000s)		15 164	15 052	14 985	14 434
Employee costs as a % of operating expenses		37%	38%	39%	39%
Average staff numbers (FTEs)		185	187	189	192
Average staff costs ($'000s)		82	80	79	75
Average leave balance per FTE ($'000s)		16	14	11	11

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

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

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

RESULTS OF SUBSIDIARY ENTITIES

Burnie Airport Corporation Unit Trust (BAC)

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Total revenue	1 209	1 201	1 304	1 277
Total expenses	1 079	1 037	1 118	1 089
Net Surplus	**130**	**164**	**186**	**188**
Total assets	8 463	8 500	8 993	9 246
Total liabilities	1 876	1 929	2 021	2 267
Net Assets	**6 587**	**6 571**	**6 972**	**6 979**
Total Equity	**6 587**	**6 571**	**6 972**	**6 979**

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

BAC generated profits in all four years under review and returned these profits to its shareholders as dividends. Revenue fell by 0.66% on the prior year due mainly to the effect of increased depreciation following review of useful lives as part of a 2013 revaluation of land, buildings and aeronautical roads and runways. The revaluation produced a decrement that year.

An inability to sell land parcels in a subdivision held for resale also hindered financial outcomes.

There were no significant capital acquisitions in 2014 which contributed to reduced payables at year end.

Tasmanian Communications Trust (TCU)

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Total revenue	1 861	1 740	1 960	2 165
Total expenses	1 711	1 589	1 741	1 899
Net Surplus	**150**	**151**	**219**	**266**
Total assets	2 064	1 852	1 819	1 593
Total liabilities	183	120	238	231
Net Assets	**1 881**	**1 732**	**1 581**	**1 362**
Total Equity	**1 881**	**1 732**	**1 581**	**1 362**

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

TCU recorded a Net Surplus of $0.150m in 2014 compared to a surplus of $0.151m in 2013. While profitability remained flat, TCU recorded higher revenue from managed, network and support and consulting services, to entities external to Burnie City Council (BCC), partly offset by related expenses for administering services.

The majority of TCU's sales were service level agreements with BCC, other regional councils, TasWater and local private companies. Approximately 50% of its revenue was derived from external sources with the balance from BCC. TCU remains economically dependent on income from BCC.

Total Assets increased, as a result of new Property, plant and equipment additions, as obsolete information systems assets were overhauled.

Burnie Sports and Events Unit Trust (BSE)

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Total revenue	1 864	2 264	2 741	2 648
Total expenses	2 008	2 290	2 733	2 643
Net Surplus (Deficit)	**(144)**	**(26)**	**8**	**5**
Total assets	0	470	534	571
Total liabilities	0	312	350	395
Net Assets	**0**	**158**	**184**	**176**
Total Equity	**0**	**158**	**184**	**176**

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

In 2014 BSE generated revenue from a service agreement with Council of $0.565m (2013, $0.659m), bar and catering sales, room hire and sponsorships. Expenditure included maintenance of the facilities, inventory purchases, payments to sporting clubs and sponsorships.

BSE recorded a Net Deficit of $0.144m in 2014, an increase of $0.118m on the 2013 deficit, primarily due to:

- reduced sales activity at the Burnie Bowls Club, due to the closure of Greens Restaurant
- decreased local football game activity driving down corporate box and bar sales
- lower activity at the Burnie Arts and Function Centre, driving down merchandise sales and function income.

In May 2014, the Trustees resolved to wind up BSE operations. This was a result of Council reducing the funding that it would provide under the current service agreement. The viability of the subsidiary to continue operations without the funding support of Council was a major factor in the winding up and return of operations to Council.

SNAPSHOT

- Council recorded an Underlying Surplus of $0.345m in 2013-14.
- A revaluation of major infrastructure assets resulted in write-downs of $16.951m.
- Council recognised land under roads valued at $25.006m.
- Its Comprehensive result was a surplus of $11.621m, with Net Assets at 30 June 2014 of $443.335m.
- Rates per capita increased by 10% over the three year period since 30 June 2011 and Rates per rateable property increased by 11% over this period.
- Operating cost to rateable property increased by 11%.
- FTEs were constant since 2011 and over this period average cost per FTE increased by 6%.

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

We identified moderate risk audit findings in the areas of information security, bank reconciliation reviews and depreciation of road pavement assets. These matters were reported to, and are being addressed or considered by, management.

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Apart from establishment of an audit panel, Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014. Council indicated that it will establish an audit panel in 2014-15.

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

Key developments for the year included:

- revaluation of infrastructure assets and subsequent componentisation of road assets and removal of residual values
- recognition of land under roads valued at $25.006m.

Major variations between 2013-14 and 2012-13 included:

- a decrease in Cash of $0.928m due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014
- an increase in Property, plant and equipment of $7.770m, due mainly to the recognition of land under roads of $25.006m, offset by an asset revaluation decrement of $16.951m
- an increase in Council's investment in TasWater of $4.779m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of assets valued at fair value based on the depreciated replacement cost methodology was undertaken during 2013-14. This included land, roads, bridges and other infrastructure assets. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. We obtained the appropriate representations from management and engineers to address the reliance placed on internal revaluation assessments.
In the Report of the Auditor-General No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* (the Report), we recommended that 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. Council recognised land under roads valued at $25.006m for the first time in 2013-14.	We audited the value of land under roads brought to account by: • verifying the length and classification of roads to Council's asset management system • recalculating the land area • agreeing unit values for land under roads to rates provided by the Valuer-General, and ensuring that correct rates were used • ensuring mathematical accuracy of calculations • verifying accounting treatment and disclosures in the financial statements to ensure compliance with Australian Accounting Standards.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. Amended financial statements were received on 12 September 2014 and an unqualified audit report was issued on 18 September 2014.

KEY DEVELOPMENTS

Residual values for infrastructure assets

Previously, Council applied residual values to road pavement and road surface assets. In 2013-14, Council separated road pavement assets into two components, being a pavement base and a pavement sub base. It adopted a useful life of 150 years for pavement base and determined that pavement sub base is a non-depreciable asset on the basis that it was similar in nature to land.

As part of the 2013-14 revaluation, road surface assets were revalued using a modern equivalent asset methodology and the use of residual values was discontinued. Road surface assets decreased in value approximately 30%.

Land under roads

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

KEY FINDINGS

We found that Council did not depreciate road pavement sub-base assets on the basis that these were similar in nature to land. It is our view that all assets with limited useful lives should be depreciated. We also found that both the existing and proposed useful lives of 150 and 450 years respectively for road pavement base assets are in excess of an expected range. Council should document the evidence and assessment used to establish the expected useful lives and remaining useful lives for all assets assessed as having a useful life beyond the expected ranges. By not depreciating the sub-base, we estimated that depreciation expenses were understated by $193 000 (based on a useful life of 150 years). Council indicated that its engineering staff believe that the current depreciation policy reflects work practices.

Last year, we noted weaknesses in monitoring and user access management to key financial and operational systems. Since then, Council has made significant progress towards improving information security, with some recommendations yet to be fully implemented.

Our other findings related to missing evidence of bank reconciliation review and three other issues classified as low risk.

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

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

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*, tabled in December 2013.

Apart from the designation of pavement sub-base assets as non-depreciable, which as discussed previously omits the recommendation that useful lives should be assigned to all infrastructure-related assets (with the exception of land and certain earthworks with the characteristics of land) and those lives should reflect expected physical wear and tear and technological and commercial obsolescence, Council adopted 21 out of 22 recommendations relevant to councils.

Local Government Ministerial Orders

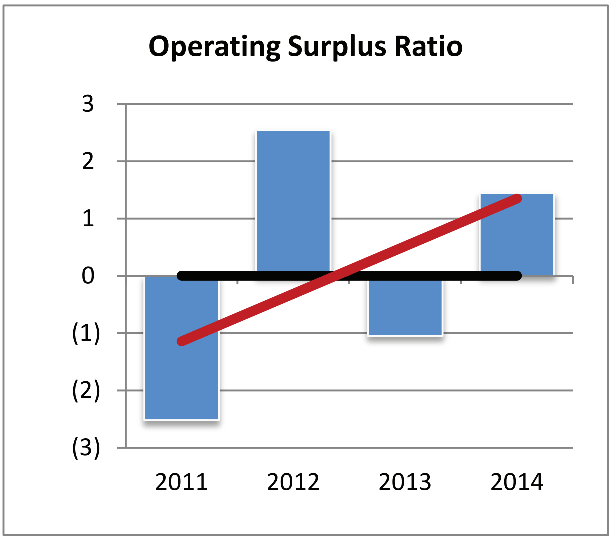
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that apart from establishment of an audit panel, Council has complied with relevant requirements. Council indicated that it will establish an audit panel in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

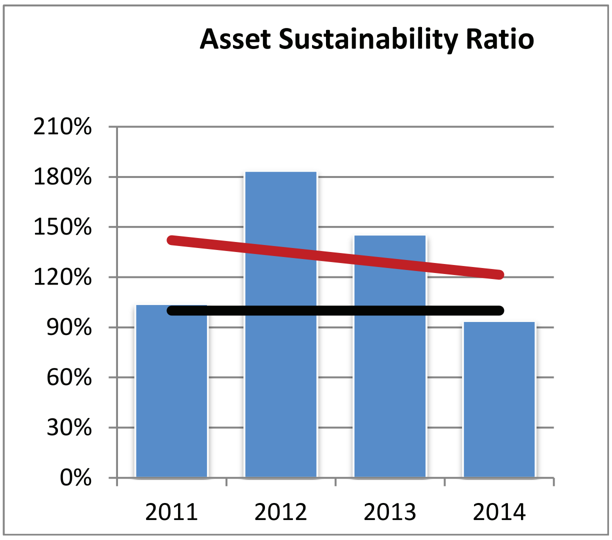
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded negative Operating surplus ratios in two of the four years under review, but an average ratio of positive 0.10. The average ratio was above our benchmark indicating Council generated sufficient revenue to fulfil its operating requirements, including its depreciation charges. The four-year trend indicates that Council's operating surplus is improving.



Council's ratio was above the benchmark in three of the years under review, but below benchmark in 2013-14. Over the period, Council's average ratio was 132%, indicating, subject to levels of maintenance expenditure, Council maintained its investment in existing assets.

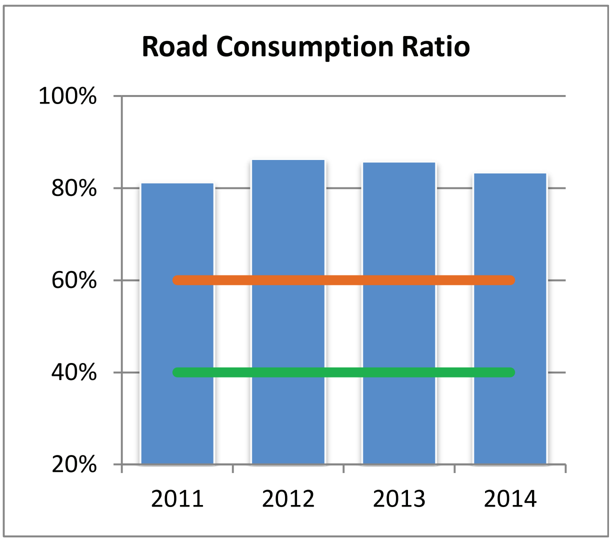
Asset renewal funding ratio

The Asset renewal funding ratios included in the Financial Analysis table at the end of this Chapter represent a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

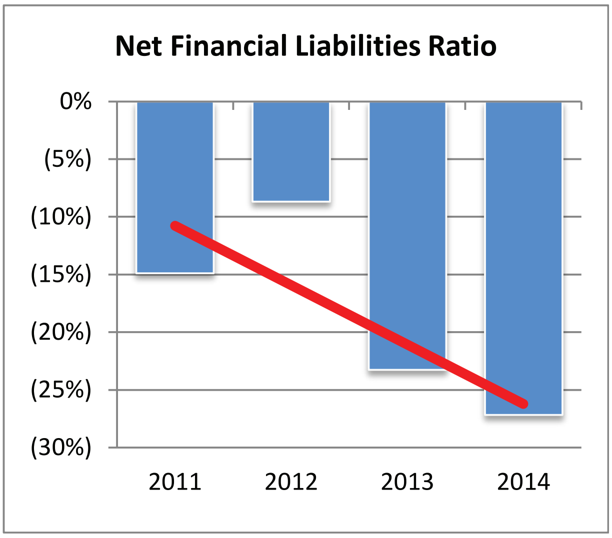
Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2032-33 and covers transport infrastructure, buildings, drainage, recreation and other infrastructure assets. The plan is not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, its asset renewal funding ratio was 100% for both 2012-13 and 2013-14. The ratio was in line with our benchmark of between 90% and 100%. The ratios were 100% for both years because Council prepared long-term financial plans based on the information used by its Engineering Services Department in the development of ten-year forward works programs. Therefore, the funding for long-term financial plans and the projected outlays for the asset management plans were identical.

No ratio was calculated for 2010-11 and 2011-12 as Council had not prepared long-term financial plans covering a ten-year period in those years.



The graph indicated that at 30 June 2014 Council had consumed approximately 17% of the service potential of its road assets. This was above our benchmark which indicated Council had sufficient capacity to continue to provide road transport services to its ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk.*

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

Council completed a number of significant capital projects over the period under review, including the Leven River Precinct redevelopment, which incorporated the Ulverstone Wharf development, Leven River Bridge and the Penguin Regional Athletics projects. This resulted in lower cash and higher loan debt, hence the downward trend.

It is noted Council had contractual commitments totalling $1.149m at 30 June 2014 (2012-13, $1.847m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio.

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds totalled $3.033m and exceeded the total Cash and cash equivalents balance of $3.020m at 30 June 2014. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position. Taking all of these factors into account, in particular the downward trend in the ratio and existing commitments, Council needs to closely monitor its Net financial liabilities position.

Governance

A review of Council's governance arrangements found Council did not have an audit committee or internal audit function. Council is planning to establish an audit panel in 2014-15.

Existence of an audit panel and active internal audit function would enhance Council's governance arrangements.

Council had long-term asset and financial management plans. These plans covered all key elements required, with their development being work-shopped by Council and formally adopted at a subsequent meeting. All Council's long-term plans are available to the public.

While the existence of an audit committee with independent members would enhance governance arrangements, Council's detailed review of key long-term plans fulfils a key function that would be performed by an audit committee.

Conclusion as to financial sustainability

From a financial operating perspective, Council's average Operating surplus ratio was above benchmark and Council recorded an Operating surplus in 2013-14.

Council's Asset sustainability ratio averaged 132%, which was above our benchmark and indicated Council maintained its investment in existing assets. The Road asset consumption ratio showed road assets had sufficient capacity to continue to provide services to ratepayers. In addition, Council's Asset renewal funding ratio met our minimum benchmark of 90%. Council's Net financial liabilities ratio was negative, but within our nil to negative 50% benchmark although it was trending downwards.

From a governance perspective, Council did not have an audit panel or internal audit function, but had long-term asset and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at a moderate sustainability risk from a governance perspective, but low sustainability risk from financial operating, net financial liabilities and asset management perspectives.

Management comments on this assessment of its financial sustainability

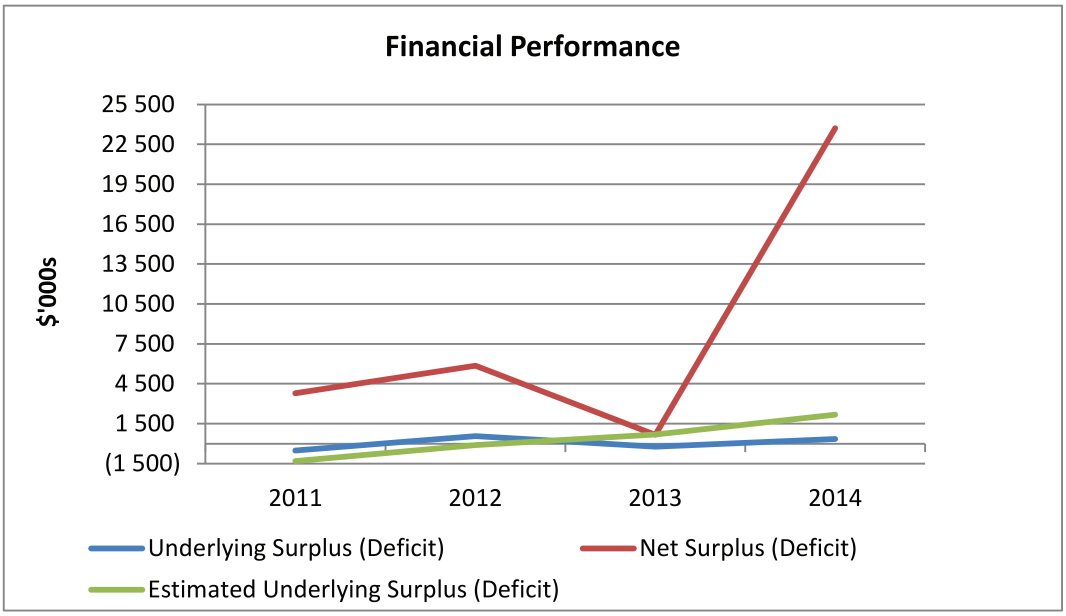
Council's full response is reproduced below.

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

Council agree in principle with the conclusions reached on its financial sustainability but has the following comments to make:

- *The Council is committed to establishing an audit panel before the end of the 2014-2015 financial year, and is well advanced in this process.*
- *Council uses debt to finance in part the construction of major new assets. Any increase in debt is offset by the establishment of the new asset. Council believes its debt levels are well below the benchmarks. In the Long Term Financial Plan the Council estimates that the net financial liabilities ratio will become positive within its ten year forecast period.*

FINANCIAL ANALYSIS

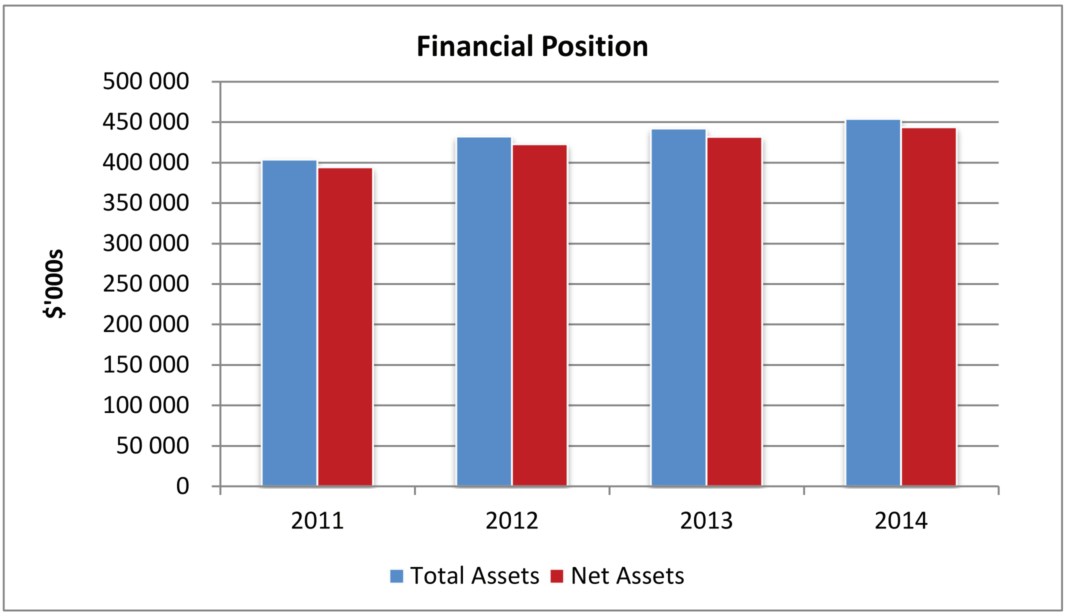


Council recorded an Underlying Surplus of $0.345m in 2013-14, compared with a deficit in 2012-13 of $0.231m. Over the four year period, Council recorded a total Underlying Surplus of $0.175m. The 2011-12 surplus of $0.574m included a gain of $0.999m relating to the sale of land in two subdivisions.

Council did not achieve the Estimated Underlying Surplus of $2.181m in 2013-14 primarily due to the following factors:

- Depreciation expenses exceeded the estimates by $0.525m. Road infrastructure assets were revalued at the end of 2012-13, after the estimates for the 2013-14 year had been prepared. The revaluation increased the value of road infrastructure assets by $7.006m, and resulted in higher depreciation amounts this year. This year's downward revaluation of road assets and the decision to extend useful lives will reduce depreciation charges in future years.
- not realising the estimated gains on property sales, budgeted at $1.522m. The actual gain from property sales was $0.001m which comprised proceeds of $0.476m less the carrying value of the land of $0.475m.

Council's Net Surplus varied over the period under review and was subject to Capital grants and Contributions and Recognition of non-current assets. The Net Surplus in 2013-14 of $23.702m was impacted by the recognition of land under roads valued at $25.006m.



Council's Total Assets and Net Assets steadily grew over the period under review. Total Assets increased by $50.160m, or 12.43%, from 2010-11 to 2013-14. The movement related primarily to asset revaluation increments and asset acquisitions.

Council's financial position improved as at 30 June 2014, with Net Assets increasing by 2.62% or $11.621m to $443.335m. The increase was a combination of newly recognised land under roads, $25.006m, and an increase in the value of Council's Investment in TasWater, $4.779m, partially offset by an asset revaluation decrement of $16.951m. As discussed in Key Developments, road surface assets were revalued in the current year using a modern equivalent asset methodology. The revaluation resulted in road assets being written down by $13.193m.

In 2013-14, Cash decreased by $0.928m and Interest bearing liabilities increased by $0.358m. As a result, Council's Current ratio decreased from 1.18 to 1.02. The reduction in Cash was due partly to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 10% over the three year period since 30 June 2011 and Rates per rateable property increased by 11% over this period. These increases were consistent with increases in operating costs as measured by Operating cost to rateable property, which increased by 11%.

FTE employees were constant since 2011 and over this period average cost per FTE increased by 6%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	13 044	13 114	12 877	12 310
Fees and charges	3 368	3 194	3 118	3 015
Grants**	4 104	4 261	4 055	4 412
Interest revenue	380	247	325	384
Other revenue	3 741	3 041	1 646	2 449
Total Revenue	**24 637**	**23 857**	**22 021**	**22 570**
Employee costs	9 004	9 180	9 167	9 145
Depreciation	5 310	5 835	5 260	5 229
Finance costs	178	256	174	411
Other expenses	7 964	8 241	7 651	7 211
Total Expenses	**22 456**	**23 512**	**22 252**	**21 996**
Underlying Surplus (Deficit)	**2 181**	**345**	**(231)**	**574**
Capital grants	1 470	1 147	825	3 556
Financial assistance grant received in advance**	0	0	2 108	2 032
Offset financial assistance grant in advance**	0	(2 108)	(2 032)	(971)
Contributions/recognition of non-current assets	0	25 006	0	674
Write-off of asset not controlled by Council	0	(688)	0	0
Net Surplus (Deficit)	**3 651**	**23 702**	**670**	**5 865**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(16 951)	7 584	22 463
Fair value adjustment TasWater	0	4 779	903	170
Share of associate revaluation increment	0	91	(138)	31
Total Comprehensive Income (Expense)	**0**	**(12 081)**	**8 349**	**22 664**
Comprehensive Surplus (Deficit)	**3 651**	**11 621**	**9 019**	**28 529**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	3 020	3 948	6 442	5 416
Receivables	1 071	1 051	957	952
Other	232	347	216	378
Total Current Assets	**4 323**	**5 346**	**7 615**	**6 746**
Payables	1 365	1 846	1 868	2 084
Interest bearing liabilities	161	138	109	126
Provisions – employee benefits	2 348	2 142	2 191	2 062
Provisions – aged persons units	147	145	137	136
Other	219	258	248	364
Total Current Liabilities	**4 240**	**4 529**	**4 553**	**4 772**
Net Working Capital	**83**	**817**	**3 062**	**1 974**
Property, plant and equipment	373 949	366 179	355 374	328 150
Investments in associates	2 611	2 235	2 009	1 743
Investment in TasWater	72 654	67 875	66 971	66 801
Other	181	199	83	118
Total Non-Current Assets	**449 395**	**436 488**	**424 437**	**396 812**
Interest bearing liabilities	3 027	2 692	2 131	2 214
Provisions – employee benefits	465	290	177	111
Provisions – aged persons units	1 893	1 938	1 845	1 900
Provisions – rehabilitation	758	671	651	395
Total Non-Current Liabilities	**6 143**	**5 591**	**4 804**	**4 620**
Net Assets	**443 335**	**431 714**	**422 695**	**394 166**
Reserves	217 723	229 835	221 832	199 224
Accumulated surpluses	225 612	201 879	200 863	194 942
Total Equity	**443 335**	**431 714**	**422 695**	**394 166**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	19 274	18 670	18 101	18 197
Cash flows from Government	2 153	4 131	5 473	3 840
Distributions from TasWater	962	0	0	0
Payments to suppliers and employees	(18 410)	(18 921)	(17 423)	(17 241)
Interest received	247	325	384	365
Finance costs	(170)	(154)	(154)	(104)
Cash from (used in) Operations	**4 056**	**4 051**	**6 381**	**5 057**
Capital grants and contributions	1 147	825	3 556	2 020
Payments for property, plant and equipment	(7 179)	(8 443)	(10 678)	(8 559)
Proceeds from sale of property, plant and equipment	690	482	1 868	1 246
Proceeds from financial assets	0	0	0	1 325
Cash from (used in) Investing Activities	**(5 342)**	**(7 136)**	**(5 254)**	**(3 968)**
Proceeds from interest bearing liabilities	500	700	25	1 000
Repayment of interest bearing liabilities	(142)	(109)	(126)	(129)
Cash from (used in) Financing Activities	**358**	**591**	**(101)**	**871**
Net Increase (Decrease) in Cash	**(928)**	**(2 494)**	**1 026**	**1 960**
Cash at the beginning of the year	3 948	6 442	5 416	3 456
Cash at End of the Year	**3 020**	**3 948**	**6 442**	**5 416**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		345	(231)	574	(513)
Operating surplus ratio* **	>0	1.45	(1.05)	2.54	(2.52)
Asset Management					
Asset sustainability ratio*	100%	94%	145%	184%	104%
Asset renewal funding ratio*	90% – 100%	100%	100%	N/a	N/a
Roads consumption ratio*	>60%	83.4%	85.8%	86.4%	81.3%
Asset investment ratio	>100%	123%	161%	204%	170%
Liquidity					
Net financial assets (liabilities) ($'000s)		(6 292)	(5 121)	(1 958)	(3 024)
Net financial liabilities ratio* ***	0% – (50%)	(26.4%)	(23.3%)	(8.7%)	(14.9%)
Operational Efficiency					
Liquidity ratio	2:1	2.34	2.23	3.33	2.47
Current ratio	1:1	1.02	1.18	1.67	1.41
Interest coverage	3:1	22.86	25.31	40.44	47.63
Self financing ratio		17.0%	18.4%	28.3%	24.9%
Own source revenue		82.1%	81.6%	80.5%	81.2%
Debt collection	30 days	21	18	18	16
Creditor turnover	30 days	22	37	32	41
Rates per capita ($)		587	576	565	532
Rates to operating revenue		55.0%	58.5%	54.5%	56.9%
Rates per rateable property ($)		1 234	1 211	1 170	1 109
Operating cost to rateable property ($)		2 212	2 093	2 091	1 998
Employee costs expensed ($'000s)		9 180	9 167	9 145	8 490
Employee costs capitalised ($'000s)		756	865	916	884
Total employee costs ($'000s)		9 936	10 032	10 061	9 374
Employee costs as a % of operating expenses		39%	41%	42%	41%
Average staff numbers (FTEs)		141	141	141	141
Average staff costs ($'000s)		70	71	71	66
Average leave balance per FTE ($'000s)		20	17	17	15

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

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

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

DERWENT VALLEY COUNCIL

SNAPSHOT

- Council generated an Underlying Surplus of $1.021m in 2013-14. This was significantly better than in previous years because of higher grants (some of which remained unspent at 30 June 2014) and returns from TasWater.
- Council's Comprehensive result for 2013-14 was a deficit of $4.033m mainly due to a reduction in the value of its investment in TasWater.
- Net Assets were $93.068m, which included Property, plant and equipment, $75.775m, and Council's share in TasWater, $19.968m.
- Cash from Operations was $1.449m in 2013-14, which was significantly lower than the average over the last three years to 30 June 2013, $2.600m. This was mainly due to advance payments of financial assistance grants in those three years, with no prepayment received in 2013-14.
- Rates per capita increased by 13% over the three year period since 30 June 2011 and Rates per rateable property increased by 9% over this period.
- Operating cost to rateable property increased by 6%.
- FTEs increased by four (or 9%) since 2011 and over this period average cost per FTE increased by 6%.

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

We noted that weaknesses in the management of credit cards, which were reported to Council last year, remained unresolved and Council did not have long-term asset and long-term financial management plans in place. Council indicated that it was in the process of establishing a long-term asset management plan in 2014-15.

Council adopted 16 out of 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report.

Regarding compliance with relevant requirements of Local Government Ministerial Orders issued in February 2014, we noted that Council was yet to establish an audit panel and develop long-term asset and financial management plans. Council indicated that it was in the process of establishing a long-term asset management plan in 2014-15.

We noted that Council was yet to establish an audit panel and develop long-term asset and financial management plans. Council indicated that it was in the process of establishing a long-term asset management plan in 2014-15.

The audit was completed satisfactorily with no other items outstanding.

During the year, Council sold the Willow Court Oval. Gain from the sale, $0.535m, contributed largely to the increased Net Surplus for the year, $0.593m. Apart from this, Council's operations remained generally consistent between 2013-14 and 2012-13.

KEY AREAS OF AUDIT ATTENTION

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

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

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and subsequently re-signed with an unqualified audit report issued on 26 September 2014.

KEY DEVELOPMENTS

Willow Court

Council sold the Willow Court Oval in 2013-14 for $0.944m and made a gain on the sale of $0.535m. The proceeds were set aside for works at the Willow Court site.

KEY FINDINGS

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013. Council adopted 16 out of 22 recommendations relevant to councils.

The remaining key recommendations not adopted are as follows:

- Recommendation 7 – Council did not recognise land under roads
- Recommendation 15 – Council did not undertake an annual review of accounting estimates
- Recommendation 16 – Council did not undertake an annual review of the currency and accuracy of asset registers
- Recommendation 17 – Council did not disclose the value of capital renewal and capital new expenditure by asset class in the annual financial statements
- Recommendation 19 – Council management did not provide sufficiently reliable, precise and detailed documentation to support assessments and decisions which impact infrastructure asset values in the financial statements
- Recommendation 21 – Council did not have a long-term asset or financial plan.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting management indicators.

We noted that Council was yet to establish an audit panel and develop long-term asset and financial management plans. Council indicated that it was in the process of establishing a long-term asset management plan in 2014-15.

Credit cards administration

Council did not address matters relating to the administration of credit cards identified during our 2012-13 audit. We reminded Council of those matters and increased the associated audit risk to high. Our recommendations included:

- all credit card expenditure should be supported by adequate documentation
- a reconciliation of purchases from transaction statements to supporting documentation and certification of expenditure by the cardholder be undertaken
- a review of the above reconciliation should be performed by a person independent from the cardholder.

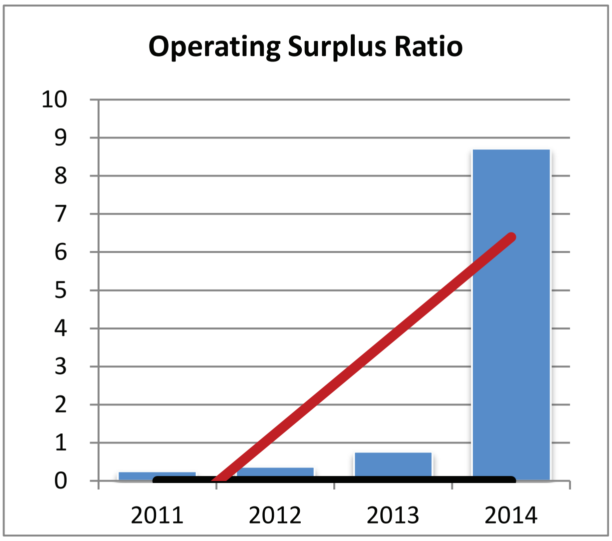
Council responded that cardholders will be informed of their obligations, including compliance with Council's policy on the use of credit cards.

The audit was completed satisfactorily with no other matters outstanding.

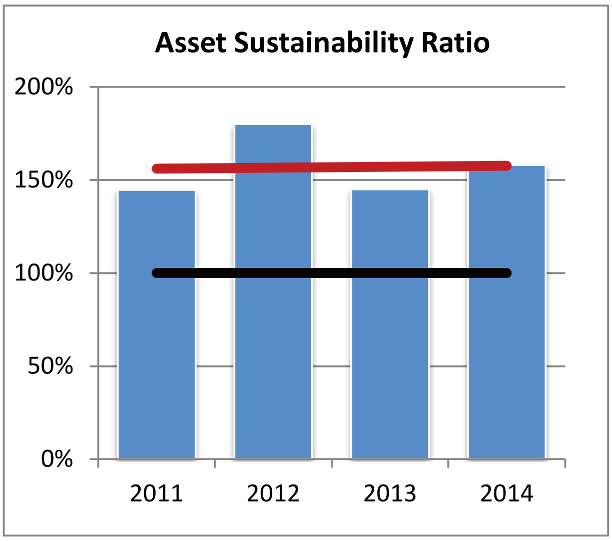
ASSESSMENT OF FINANCIAL SUSTAINABILITY

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

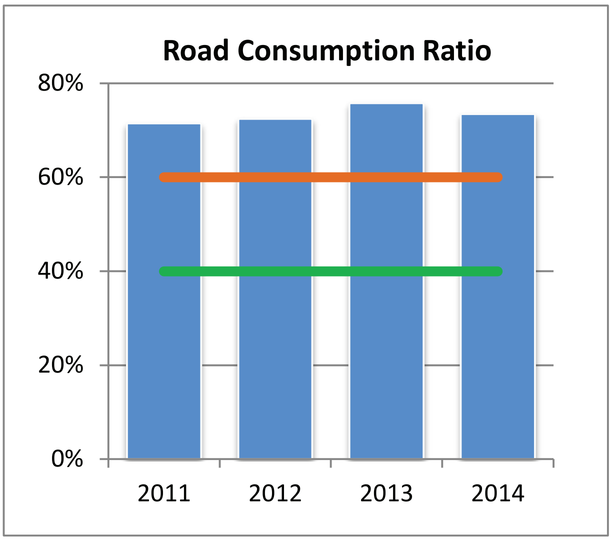
The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk. We were not able to compute an Asset renewal funding ratio because Council had no long-term asset management or financial management plans at the time of writing this Chapter.



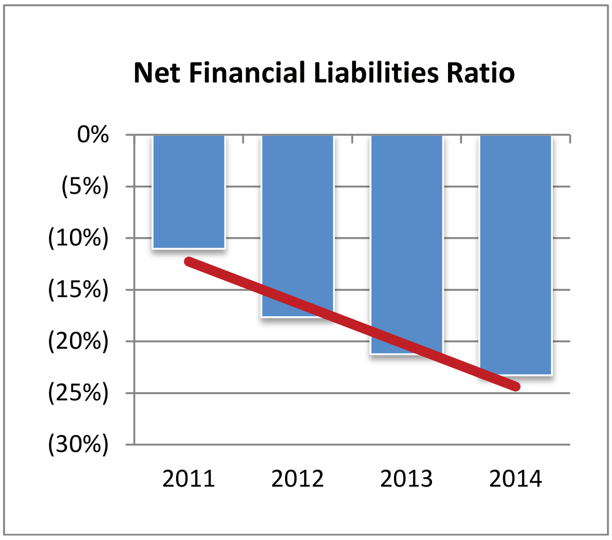
Council recorded operating surpluses since 2010-11. It operated close to a break-even position in the first three years of the period under review, with Operating surplus ratio averaging at 0.46. The significantly higher surplus in 2013-14 increased the average ratio to 2.53. Additional revenues coupled with only a moderate increase in expenditure contributed to the improved result this year. Overall, the ratio indicated that Council was generating sufficient revenue to fulfil its operating requirements, including depreciation.



Asset sustainability remained within the acceptable range, indicating that subject to sufficient maintenance expenditure, Council was adequately investing in existing assets. It was noted that Council did not have a long-term asset management plan.



The ratio at 30 June 2014 indicated that Council had used (consumed) approximately 26% of the service potential of its road assets which is a low risk rating. In recent years, Council has initiated considerable development and investment in infrastructure including roads.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

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

It was noted that Council's cash and financial assets were subject to a number of internal and external restrictions that limited the amount available for discretionary use. Restricted funds represented $1.720m which was in excess of the total Cash and cash equivalents and Financial assets of $1.373m. Restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Hypothetically if the Cash balance was reduced by the restricted funds the Net financial liabilities ratio would be -36.33% at 30 June 2014, which is still within the low-risk range.

Governance

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

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

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

Conclusion as to financial sustainability

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

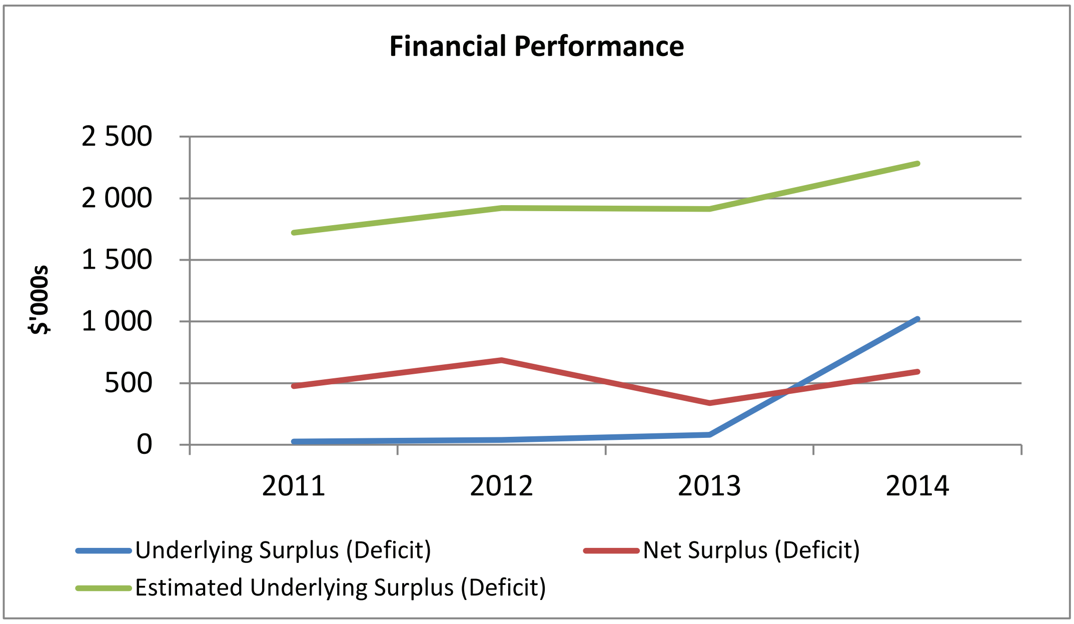
Council's Asset sustainability ratio indicated that Council, based on our 100% benchmark, invested adequately in existing assets over the past four years. At 30 June 2014 Council's Road consumption ratio was in the low risk range indicating its road assets were well placed to continue providing services to ratepayers.

Council's Net financial liabilities ratio was negative but within our 0% to (50%) range indicating at 30 June 2014 it was in a position to meet short-term commitments and had capacity to increase borrowings should the need arise.

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

Based on these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at high sustainability risk from a governance perspective, but low risk from a financial operating, net financial liabilities and asset management perspectives.

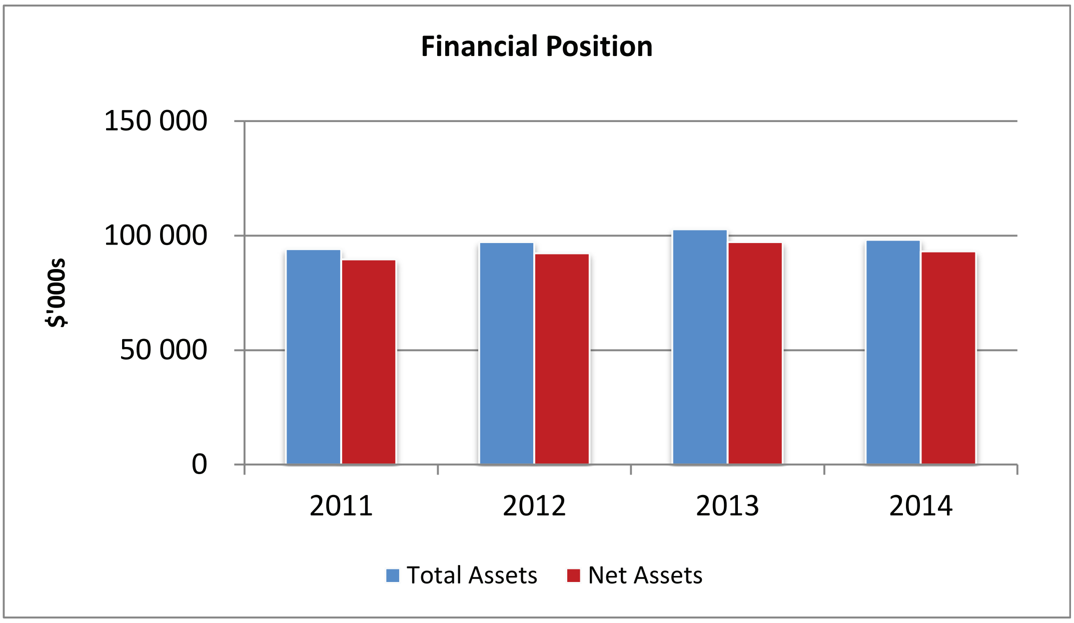
FINANCIAL ANALYSIS



Council recorded Underlying Surpluses in each of the four years. In 2013-14, its Underlying Surplus was $1.021m. This was in contrast to almost break-even positions of the previous three years. The significant increase in the 2013-14 result was driven by increased Grants, $0.544m (some of which remained unspent at 30 June 2014) and investment revenue received from TasWater in the form of dividends, income tax equivalents and guarantee fee of $0.276m. Overall, Total Revenue increased by 11.98% to $11.720m while Total Expenses grew only by 3.01% to $10.699m.

After taking into consideration the timing difference relating to financial assistance grants and Gain on the sale of Willow Court Oval, Council's Net Surplus was $0.593m. The actual result was below budget in all years under review, because Council does not budget for Depreciation.

Total Comprehensive Expense was $4.626m and reflected a revaluation decrement of $4.952m relating to Council's Investment in TasWater.



Total Assets decreased by $4.712m to $98.103m at 30 June 2014. This decrease was predominantly the result of a revaluation decrement of Council's Investment in TasWater, $4.952m.

Council's Net Assets, $93.068m at 30 June 2014, consisted mainly of Property, plant and equipment, $75.775m and Investment in TasWater, $19.967m. Council had cash and cash investments totalling $1.373m at 30 June 2014 (2013, $2.670m) and Borrowings of $2.739m ($2.715m). The decrease in cash and cash investments of $1.297m was due to lower Cash from Operations.

Cash from Operations was $1.449m in 2013-14, which was significantly lower than the average over the last three years to 30 June 2013, $2.600m. This was mainly due to advance payments of financial assistance grants in those three years, with no prepayment received in 2013-14.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 13% over the three year period since 30 June 2011 and Rates per rateable property increased by 9% over this period. Increases in operating costs as measured by Operating cost to rateable property were 6%. The higher increases in rates, when compared to the increases in costs, contributed to Council recording higher Underlying and Net Surpluses in recent years.

FTEs increase by four (or 9%) since 2011 and over this period average cost per FTE increased by 6%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	5 732	5 715	5 605	5 284
Fees and charges	1 328	1 300	1 245	1 305
Grants**	3 252	3 791	3 247	3 177
Interest revenue	105	112	127	160
Other revenue	471	802	242	528
Total Revenue	**10 888**	**11 720**	**10 466**	**10 454**
Employee costs	3 595	3 483	3 392	3 290
Depreciation	0	2 183	2 156	2 038
Other expenses	4 807	4 863	4 684	4 952
Finance costs	204	170	154	135
Total Expenses	**8 606**	**10 699**	**10 386**	**10 415**
Underlying Surplus (Deficit)	**2 282**	**1 021**	**80**	**39**
Capital grants	0	70	179	137
Financial assistance grant received in advance**	0	0	1 033	955
Offset financial assistance grant in advance**	0	(1 033)	(955)	(444)
Gain on sale of Willow Court Oval	0	535	0	0
Net Surplus (Deficit)	**2 282**	**593**	**337**	**687**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	326	4 470	1 937
Current year fair value adjustment in TasWater	0	(4 952)	(5)	55
Total Comprehensive Income (Expense)	**0**	**(4 626)**	**4 465**	**1 992**
Comprehensive Surplus (Deficit)	**2 282**	**(4 033)**	**4 802**	**2 679**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	573	370	2	415
Financial assets	800	2 300	2 150	2 305
Receivables	930	818	899	702
Other	35	60	71	63
Total Current Assets	**2 338**	**3 548**	**3 122**	**3 485**
Payables	510	852	382	650
Borrowings	196	176	144	115
Provisions – employee benefits	1 604	1 648	1 742	1 564
Other	109	384	282	228
Total Current Liabilities	**2 419**	**3 060**	**2 550**	**2 557**
Net Working Capital	**(81)**	**488**	**572**	**928**
Property, plant and equipment	75 775	74 326	69 131	65 747
Investment in TasWater	19 968	24 920	24 925	24 870
Other	22	21	22	20
Total Non-Current Assets	**95 765**	**99 267**	**94 078**	**90 637**
Borrowings	2 543	2 539	2 215	1 858
Provisions – employee benefits	73	115	136	87
Total Non-Current Liabilities	**2 616**	**2 654**	**2 351**	**1 945**
Net Assets	**93 068**	**97 101**	**92 299**	**89 620**
Reserves	52 197	56 441	52 016	49 848
Accumulated surpluses	40 871	40 660	40 283	39 772
Total Equity	**93 068**	**97 101**	**92 299**	**89 620**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 428	7 260	6 834	7 082
Distributions received – TasWater	276	0	8	0
Cash flows from Government	3 036	3 561	4 057	3 370
Payments to suppliers and employees	(9 231)	(7 775)	(8 400)	(8 259)
Interest received	107	125	160	167
Finance costs	(167)	(152)	(128)	(101)
Cash from (used in) Operations	**1 449**	**3 019**	**2 531**	**2 259**
Capital grants and contributions	0	0	10	427
Payments for property, plant and equipment	(3 714)	(3 126)	(3 669)	(3 018)
Proceeds from sale of property, plant and equipment	944	268	175	453
Proceeds/(Payments) for financial assets	1 500	(150)	155	(301)
Cash from (used in) Investing Activities	**(1 270)**	**(3 008)**	**(3 329)**	**(2 439)**
Proceeds from borrowings	200	500	500	500
Repayment of borrowings	(176)	(143)	(115)	(89)
Cash from (used in) Financing Activities	**24**	**357**	**385**	**411**
Net Increase (Decrease) in Cash	**203**	**368**	**(413)**	**231**
Cash at the beginning of the year	370	2	415	184
Cash at End of the Year	**573**	**370**	**2**	**415**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		1 021	80	39	25
Operating surplus ratio* **	>0	8.71	0.76	0.37	0.26
Asset Management					
Asset sustainability ratio*	100%	158%	145%	180%	145%
Asset renewal funding ratio*	90% - 100%	N/a	N/a	N/a	N/a
Road consumption ratio*	>60%	73.4%	75.7%	72.4%	71.4%
Asset investment ratio	>100%	170%	145%	180%	153%
Liquidity					
Net financial assets (liabilities) ($'000s)		(2 732)	(2 226)	(1 850)	(1 080)
Net financial liabilities ratio* ***	0 - (50%)	(23.3%)	(21.3%)	(17.7%)	(11.1%)
Operating Efficiency					
Liquidity ratio*	2:1	1.84	0.84	1.12	1.12
Current ratio	1:1	0.97	1.16	1.22	1.36
Interest coverage	3:1	7.68	18.86	18.77	21.37
Self financing ratio*		12.4%	28.8%	24.2%	23.1%
Own source revenue*		67.7%	69.0%	69.6%	69.3%
Debt collection	30 days	48	44	50	41
Creditor turnover	30 days	22	41	17	32
Rates per capita ($)		578	563	531	511
Rates to operating revenue		48.8%	53.6%	50.5%	51.8%
Rates per rateable property ($)		1 111	1 111	1 058	1 021
Operating cost to rateable property ($)		2 080	2 058	2 086	1 966
Employee costs expensed ($'000s)		3 483	3 392	3 290	3 009
Employee costs capitalised ($'000s)		44	54	198	43
Total employee costs ($'000s)		3 527	3 446	3 488	3 052
Employee costs as a % of operating expenses		33%	33%	32%	31%
Average staff numbers (FTEs)		50	51	48	46
Average staff costs ($'000s)		71	68	73	66
Average leave balance per FTE ($'000s)		34	35	39	36

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

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

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

DEVONPORT CITY COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $1.085m in 2013-14 an improvement on the previous two years' deficits and better than budget.
- Its Comprehensive result was a surplus of $4.341m which resulted in Total Equity at 30 June 2014 of $452.243m.
- Council's Total Assets were $477.681m at 30 June 2014, consisting predominantly of Property, plant and equipment, $379.596m, and investment in TasWater, $83.560m.
- Rates per capita and per rateable property increased by 17% and 15%, respectively, over the three years since 30 June 2011 while Operating cost to rateable property increased by 9%.
- Since 30 June 2011 Council's FTE declined by three and Average employee costs per FTE increased by 4%.

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

Moderate audit risk findings were identified in relation to Council's documentation of financial delegations, payroll segregation of duties, information security management policy and currency of its disaster recovery plan. During the audit, we also became aware of shortcomings in Council's tendering and procurement processes. These matters are being addressed by management.

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed satisfactorily with no other items outstanding.

Key developments in the year included completion and opening of Council's Splash Devonport Aquatic and Leisure Centre in January 2014 and implementation of further strategic decisions for the Living City Project (LCP).

Major variations between the 2013-14 and 2012-13 included:

- increased Rates revenue of $1.064m
- decreased Cash, $3.814m, due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014 and significant capital payments
- increased Property, plant and equipment, $2.120m, with main items being additions, including contributions of $19.557m, offset by disposals of $3.571m, revaluation decrements of $4.956m and depreciation of $8.910m
- higher Council investment in TasWater of $5.686m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A revaluation of stormwater infrastructure assets was undertaken and recognised at 30 June 2014. The valuation was undertaken by Council's City Infrastructure Department.	We tested the valuation reports, calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014 and an unqualified audit report was issued on 28 August 2014.

KEY DEVELOPMENTS

Indoor aquatic centre

Following extensive consultation and planning over a number of years, Council's Splash Devonport Aquatic and Leisure Centre opened to the public in January 2014. In addition to Council's financial contribution, the $13.960m project was supported by both State and Federal government grants. Payments of $11.290m were made for construction during 2013-14.

Living City Project (LCP)

In March 2013 Council announced its LCP as a strategic approach to building a sustainable regional City and maximising opportunities for the City and greater region. The Living City Master Plan was launched in August 2014.

Council held strategic land and buildings for the LCP totalling $11.875m at 30 June 2014.

Major decisions implemented during the year included:

- purchase of the building currently leased by Harris Scarfe for $4.200m, partially funded by a loan of $2.000m
- demolition of the old Police Station in Oldaker Street
- commitment from the State Government to transfer ownership of the Devonport Magistrates Court and LINC to the Council. The Master Plan includes the relocation of these buildings.

Devonport Maritime and Heritage Authority

In October 2010 Council established the Devonport Maritime and Heritage Authority (MHA) as a single Authority under section 29 of the *Local Government Act 1993* to perform all tasks necessary for the management and operation of the Devonport Maritime Museum and associated heritage initiatives. The financial transactions of the MHA were consolidated into Council's financial report.

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

Operations increased during 2013-14 following completion of the redevelopment of the Bass Strait Maritime Centre in 2012-13. MHA recorded a Net Deficit of $0.546m for 2013-14 (2012-13, $0.420m) which was funded by Council.

In June 2014 Council resolved to wind up the MHA and establish a Maritime and Heritage Special Committee. Council will continue to account for the activities of the Bass Strait Maritime Centre as part of its operations.

KEY FINDINGS

Moderate audit risk findings were identified in relation to Council's documentation of financial delegations, payroll segregation of duties, information security management policy and currency of Council's disaster recovery plan. One other low-risk finding was reported.

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

Additionally during the audit, we became aware of shortcomings in Council's tendering and procurement processes. Council has undertaken to rectify the deficiencies and we will follow up progress during next year's audit.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 21 of the 22 of the recommendations relevant to councils. Council did not adopt the recommended capital renewal and upgrade table disclosure but have agreed to include this disclosure in future years.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators.

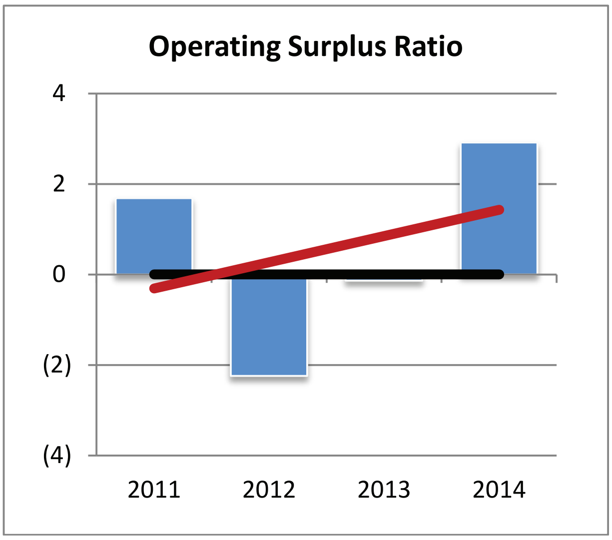
Council complied with all relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

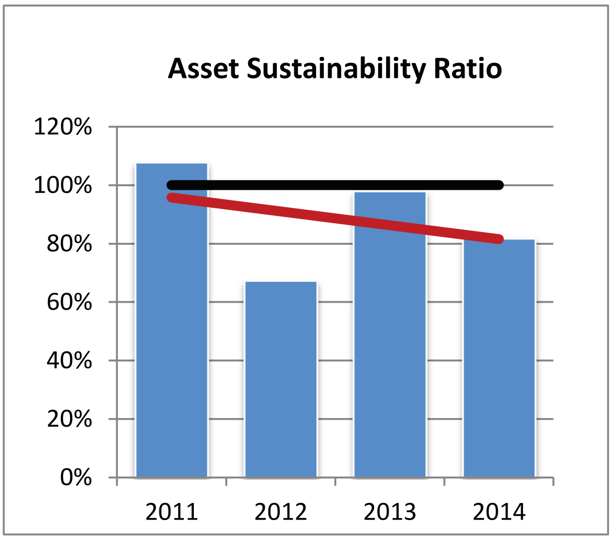
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's Operating surplus ratio reflected its return to an Underlying surplus in 2013-14 following deficits recorded in the past two years. On average over the four year period, Council recorded a positive ratio of 0.56, which indicated sufficient revenue was generated to fulfil operating requirements, including depreciation charges.



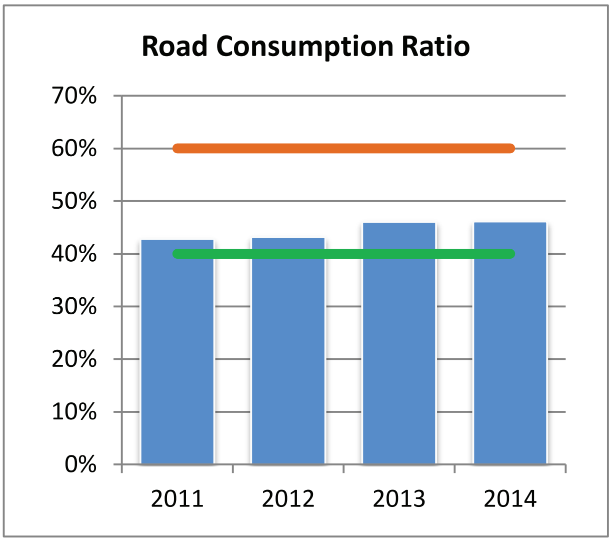
The Asset sustainability ratio was above benchmark in one of the four years under review and was close to achieving the benchmark in 2012-13. Lower ratios were recorded in the last three years as Council concentrated on the construction of significant new assets including the Spreyton cycleway, Splash Devonport Aquatic and Leisure Centre, offsite storage facility for the Devonport Regional Gallery and purchased land and buildings as part of LCP. Over the four year period, Council's average ratio was 89%, slightly below the benchmark, indicating, subject to levels of maintenance expenditure and the long term asset management plan, Council generally maintained its investment in existing assets.

Asset renewal funding ratio

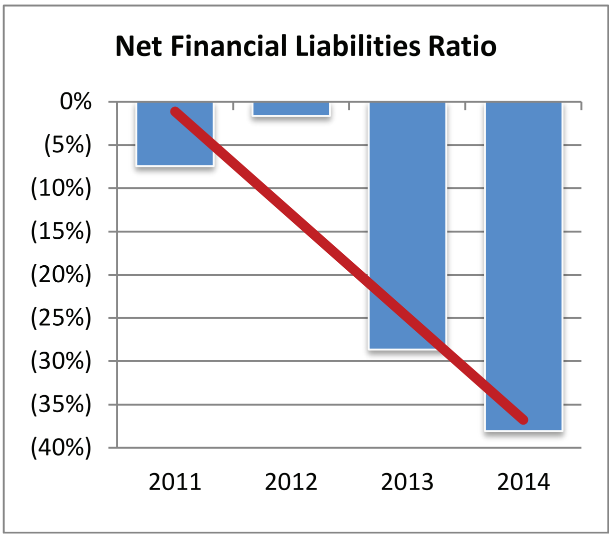
The Asset renewal funding ratio included in the financial analysis table at the end of this Chapter presents a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

Council's long-term asset management plan indicated an Asset renewal funding ratio of 120% at 30 June 2014, based on planned asset replacement expenditure noted in the long-term financial management plan. This was above the benchmark range of 90% - 100%, indicating Council's proposed investment in asset renewal was more than adequate.

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



The graph indicated that at 30 June 2014 Council had used (consumed) approximately 54% of the service potential of its road assets. At that point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers. However, the ratio was at the low end of our 'moderate' risk range.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council's negative ratio at 30 June 2014 was due to Total Liabilities exceeding liquid assets by $14.159m, which represented 38.1% of Council's operating revenue. The ratio of negative 38.1% was within our benchmark of negative 50% and indicated Council was in a reasonable liquidity position and able to meet existing commitments.

The significant decline in 2012-13 was due to Council borrowing $4.000m for the construction of the aquatic centre and $7.600m for property purchases as part of LCP. In 2013-14 a further $2.000m was borrowed for LCP.

It is noted that Council had contractual commitments totalling $1.039m, with the two major commitments being insurance and roadworks.

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limited the amount available for discretionary use. Restricted funds, including commitments, represented $3.901m or 37.8% of the total Cash and cash equivalents balance of $10.312m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position. Hypothetically, if the cash balance was reduced by the restricted funds the Net financial liabilities ratio would have been negative 48.6% at 30 June 2014, which is approaching our moderate risk benchmark. Council maintains a long-term financial management plan covering a 10 year period to aid cash management and debt levels. It borrowed a mixture of interest only and principal and interest loans over varying terms to assist in the management of debt.

Governance

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

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

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

Council had long-term asset and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to financial sustainability

From a financial operating perspective, Council's 2013-14 result was a return to an Underlying Surplus position following two years of Underlying Deficits. Council averaged a positive return over the four years under review.

Council's Asset sustainability ratios indicated, based on our 100% benchmark, that it under-invested in existing assets over the period of the analysis although not significantly, with an average ratio of 89%. Road consumption ratio was in the moderate risk range, with road assets being 54% consumed at 30 June 2014. The Asset renewal funding ratio indicated Council was planning to fund future asset renewal requirements.

Council's liquidity, although decreasing, was adequate to meet its short-term commitments and it had a manageable debt level.

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

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate financial sustainability risk from asset management and governance perspectives and low financial sustainability risk from financial operating and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

Council's full response is reproduced below.

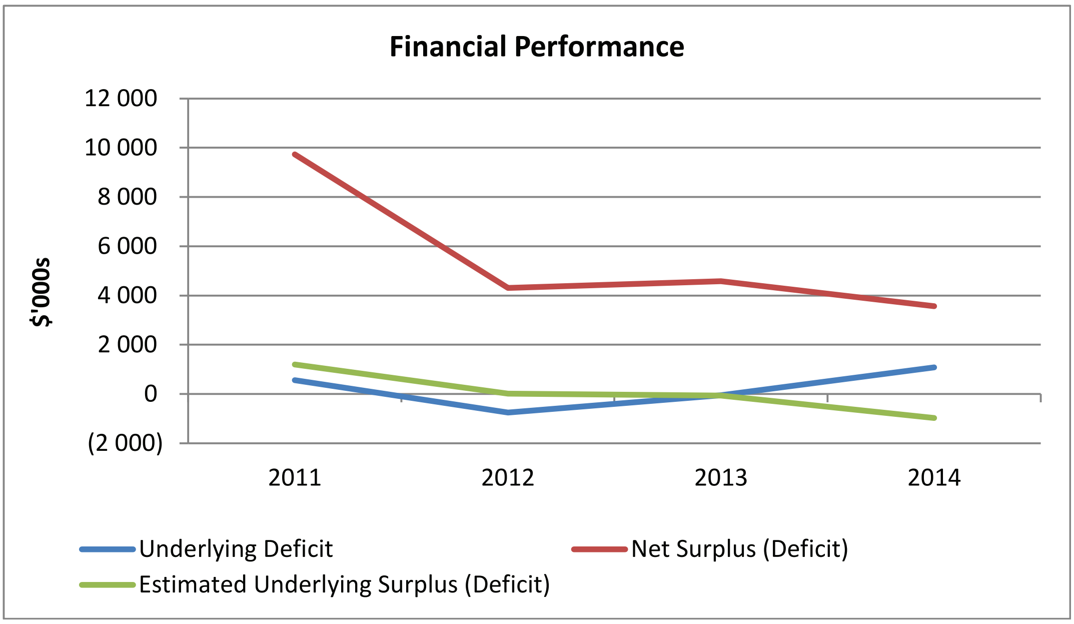
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council welcomes the improved financial operating sustainability rating as a result of recording an Underlying Surplus for the financial year. This result included the additional services provided to the community via the Indoor Aquatic and Leisure Centre, increased operations at the Bass Strait Maritime Centre and Julie Burgess vessel and progression of the Living City project. Council recognises the achievement of an Underlying Surplus as a key performance measure and will continue to focus on achieving a positive result.

Council's financial sustainability from an asset management and net financial liabilities perspective will continue to be managed through Council's long term financial planning and asset management processes. Council is aiming to comply with all relevant recommendations contained in the Infrastructure Financial Accounting in Local Government report in the next financial year.

Council is working towards implementing an internal audit function.

FINANCIAL ANALYSIS



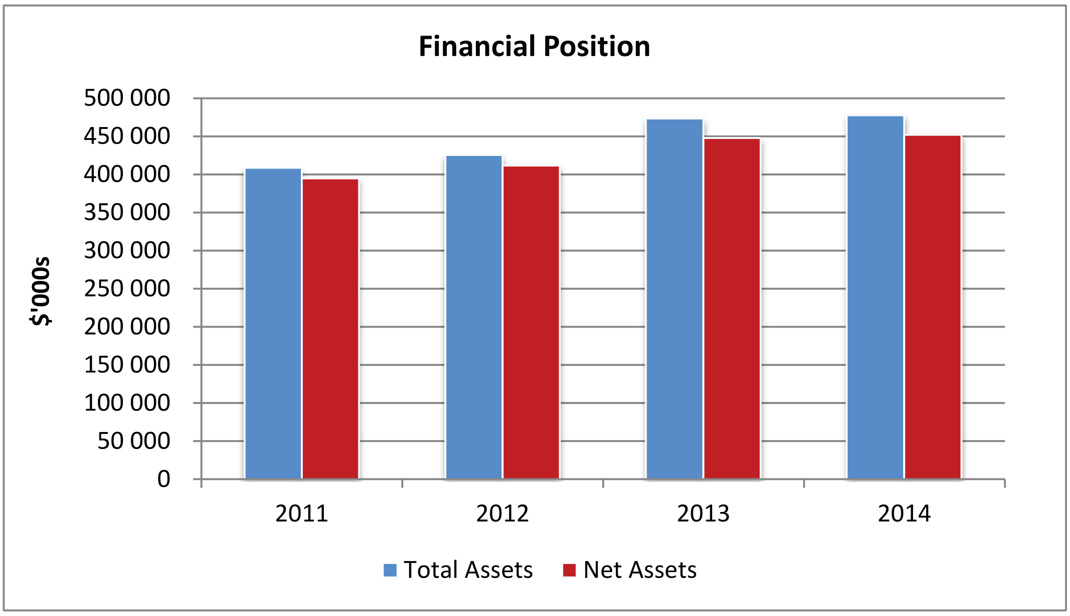
Council recorded an Underlying Surplus of $1.085m for 2013-14, its best result in the period under review. The improvement in the result was mainly due to increased Rates revenue of $1.064m, due to a combination of rate and property value increases, and increased property rentals of $0.516m, included in Fees and charges. Property rentals included commercial lease returns on LCP strategic purchases. Increased rentals offset higher Finance costs of $0.394m incurred as a result of Council's recent growth in debt.

In the past two years, Council's Underlying result was better than the Estimated Underlying Deficit. Of concern, was that Council budgeted for an Underlying Deficit for 2013-14. We believe at a minimum Council should budget for a break-even position before capital grants and infrastructure adjustments, but inclusive of depreciation and routine replacement of assets.

Council reported Net Surpluses in all years following receipt of Capital grants, which averaged $5.215m annually, and Contributions of non-current assets, averaging $1.168m. Capital grants over recent years included significant funding for major new infrastructure projects such as the Splash Devonport Aquatic and Leisure Centre.

Despite Capital grants increasing by $1.458m in 2013-14, the Net Surplus decreased by $1.024m. The 2013-14 result included a number of one-off capital-related transactions. These included:

- infrastructure donations, traffic lights and roundabouts, transferred to the Department of State Growth following construction, $0.813m
- write-down and demolition of the former Police Station building to clear the site for future development as part of LCP totalling $0.981m
- write-off of buildings and infrastructure constructed on Council land but not owned by Council of $1.961m. As Council did not have ownership or control of these assets they were removed from its asset registers.



At 30 June 2014 Council's Total Assets and Net Assets both recorded their highest balances in the four year period. Total Assets increased by $4.198m, or 0.89%, which represented a slower rate of growth compared to the prior year increase of $47.668m, or 11.19%.

Council's investment in TasWater increased by $5.686m. Property, plant and equipment increased by $2.120m and comprised additions, $17.859m and subdivision contributions, $1.698m, less disposals, $3.571m, including write-downs noted previously, net revaluation decrements, $4.956m, and depreciation, $8.910m. Major additions for 2013-14 were the Splash Devonport Aquatic and Leisure Centre, $11.290m, (2012-13, $6.487m), and LCP land and buildings, $4.200m ($5.107m).

Offsetting the increase in assets was reduced Cash and financial assets of $3.814m, and higher interest bearing liabilities of $0.835m. The decline in cash was the result of payments associated with LCP and the aquatic centre. Increased Interest bearing liabilities were needed to fund the LCP.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 17% over the three year period since 30 June 2011 and Rates per rateable property increased by 15% over the same period. Operating cost to rateable property increased by 9%. The higher increases in rate revenue, when compared to the increases in costs, resulted in improved Underlying results.

FTEs declined by three, or 2%, since 2011 and over the period Average cost per FTE increased by 4%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	25 838	26 084	25 020	23 836
Fees and charges	5 314	5 120	4 602	4 750
Grants**	1 170	2 261	2 240	2 482
Interest revenue	593	485	787	755
Other revenue	2 056	3 238	2 889	1 958
Total Revenue	**34 971**	**37 188**	**35 538**	**33 781**
Employee costs	12 682	12 035	12 190	12 055
Depreciation	9 028	8 910	8 736	8 027
Finance costs	1 103	1 104	710	544
Other expenses	13 129	14 054	13 949	13 912
Total Expenses	**35 942**	**36 103**	**35 585**	**34 538**
Underlying Surplus (Deficit)	**(971)**	**1 085**	**(47)**	**(757)**
Capital grants	4 784	5 414	3 956	4 139
Financial assistance grant received in advance**	0	0	999	1 069
Offset financial assistance grant in advance**	0	(999)	(1 069)	(477)
Contributions of non-current assets	250	1 815	745	327
Infrastructure donations	0	(813)	0	0
Building derecognition and demolition	0	(2 942)	0	0
Net Surplus (Deficit)	**4 063**	**3 560**	**4 584**	**4 301**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(4 956)	30 784	12 384
Share of associate revaluation increment	0	51	(164)	37
Fair value adjustment TasWater	0	5 686	1 036	83
Total Other Comprehensive Income (Expense)	**0**	**781**	**31 656**	**12 504**
Comprehensive Surplus (Deficit)	**4 063**	**4 341**	**36 240**	**16 805**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	10 312	14 126	11 720	9 608
Receivables	967	1 279	1 875	1 755
Other	91	91	105	65
Total Current Assets	**11 370**	**15 496**	**13 700**	**11 428**
Payables	2 556	3 406	2 639	2 500
Interest bearing liabilities	928	1 165	948	845
Provisions – employee benefits	2 112	2 252	2 080	2 107
Other	252	304	376	435
Total Current Liabilities	**5 848**	**7 127**	**6 043**	**5 887**
Net Working Capital	**5 522**	**8 369**	**7 657**	**5 541**
Property, plant and equipment	379 596	377 476	332 906	318 226
Investments in associates	3 081	2 637	2 371	2 056
Investment in TasWater	83 560	77 874	76 838	76 755
Receivables	74	0	0	223
Total Non-Current Assets	**466 311**	**457 987**	**412 115**	**397 260**
Interest bearing liabilities	19 092	18 020	7 585	7 533
Provisions – employee benefits	498	434	525	411
Total Non-Current Liabilities	**19 590**	**18 454**	**8 110**	**7 944**
Net Assets	**452 243**	**447 902**	**411 662**	**394 857**
Reserves	265 775	264 994	233 338	220 834
Accumulated surpluses	186 468	182 908	178 324	174 023
Total Equity	**452 243**	**447 902**	**411 662**	**394 857**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	34 255	32 826	31 171	30 300
Cash flows from Government	1 262	2 170	3 074	3 012
Distributions from TasWater	1 731	1 405	884	891
Payments to suppliers and employees	(28 241)	(25 812)	(25 652)	(26 097)
Interest received	486	798	742	930
Finance costs	(1 028)	(626)	(548)	(374)
Cash from (used in) Operations	**8 465**	**10 761**	**9 671**	**8 662**
Capital grants and contributions	5 414	3 956	3 673	7 350
Distributions from Dulverton	193	151	76	110
Payments for property, plant and equipment	(19 029)	(23 441)	(13 229)	(22 733)
Proceeds from sale of property, plant and equipment	308	327	1 766	522
Cash from (used in) Investing Activities	**(13 114)**	**(19 007)**	**(7 714)**	**(14 751)**
Proceeds from interest bearing liabilities	2 000	11 600	1 000	3 500
Repayment of interest bearing liabilities	(1 165)	(948)	(845)	(672)
Cash from (used in) financing activities	**835**	**10 652**	**155**	**2 828**
Net Increase (Decrease) in Cash	**(3 814)**	**2 406**	**2 112**	**(3 261)**
Cash at the beginning of the year	14 126	11 720	9 608	12 869
Cash at End of the Year	**10 312**	**14 126**	**11 720**	**9 608**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		1 085	(47)	(757)	560
Operating surplus ratio*	>0	2.92	(0.13)	(2.24)	1.69
Asset Management					
Asset sustainability ratio*	>100%	82%	98%	67%	108%
Asset renewal funding ratio*	90% - 100%	120%	162%	96%	97%
Roads consumption ratio*	>60%	46.1%	46.1%	43.2%	42.9%
Liquidity					
Net financial assets (liabilities) ($'000s)		(14 159)	(10 176)	(558)	(2 468)
Net financial liabilities ratio* **	0 - (50%)	(38.1%)	(28.6%)	(1.7%)	(7.5%)
Operational Efficiency					
Liquidity ratio	2:1	3.02	3.16	3.43	3.01
Current ratio	1:1	1.94	2.17	2.27	1.94
Interest coverage	3:1	7.23	16.19	16.65	22.16
Asset investment ratio	>100%	214%	240%	156%	311%
Self financing ratio		22.8%	30.3%	28.6%	26.2%
Own source revenue		93.9%	93.7%	92.7%	91.0%
Debt collection	30 days	11	16	24	24
Creditor turnover	30 days	25	29	32	19
Rates per capita ($)		1 018	973	929	871
Rates to operating revenue		70.1%	70.4%	70.6%	67.3%
Rates per rateable property ($)		2 174	2 091	2 004	1 882
Operating cost to rateable property ($)		3 009	2 975	2 903	2 752
Employee costs expensed ($'000s)		12 035	12 190	12 055	11 702
Employee costs capitalised ($'000s)		483	575	566	577
Total employee costs ($'000s)		12 518	12 765	12 621	12 279
Employee costs as a % of operating expenses		33%	34%	35%	36%
Average staff numbers (FTEs)		163	167	167	166
Average staff costs ($'000s)		77	76	76	74
Average leave balance per FTE ($'000s)		16	16	16	15

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

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

HUON VALLEY COUNCIL

SNAPSHOT

- Council's Underlying Surplus was $0.646m in 2013-14. The Underlying result was fairly consistent with the previous three years.
- Our operational efficiency analyses showed that Rates increases were sufficient to cover the growth in Employee and Other costs.
- Cash generated from operations totalled $2.441m this year, which was considerably lower than in previous years.
- Council recorded a Net Deficit for the year, $2.718m. The deficit was largely a result of the transfer of the Esperance Multi-Purpose Health Centre's assets to a not-for-profit organisation for no consideration.
- As at 30 June 2014, Council's Total Assets were $217.703m and its Net Assets amounted to $214.403m.
- Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 19% over this period.
- Operating cost to rateable property decreased by 2%.
- FTEs increase by five (or 4%) since 2011 and over this period average cost per FTE decreased by 1%.

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

We identified two moderate risk audit findings related to inadequate monitoring controls over the use of corporate credit cards and bank reconciliations.

Council adopted 20 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed satisfactorily with no other matters outstanding.

A key development during the year was the transfer of ownership and management of the Esperance Multi-Purpose Health Centre (EMPHC) to Huon Eldercare from 1 July 2013. This resulted in a write-off of the building and contents of $1.740m as well as a reduction to funding and operating costs.

Major variations between the 2013-14 and 2012-13 financial years included:

- decreased Grants of $0.879m and Other revenue of $0.975m primarily due to no longer receiving revenue for the EMPHC
- lower Employee costs, $1.260m, as employee expenditure related to the EMPHC was no longer being paid by Council
- reduced Other expenses of $2.391m mainly due to no longer operating the EMPHC and decreased materials and contracts expenditure with less works being performed
- lower Cash held, $3.126m, as investment in Property, plant and equipment was larger than Cash generated from operations and Capital grants received
- lower investment in TasWater by $7.429m due to the decrease in TasWater's net assets as a result of a revaluation of its infrastructure assets.

KEY AREAS OF AUDIT ATTENTION

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

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 9 September 2014.

KEY DEVELOPMENTS

Esperance Multi-Purpose Health Centre (EMPHC)

Huon Eldercare Inc., a not-for-profit incorporated association, took over the running and ownership of the EMPHC on 1 July 2013. Land, buildings and equipment were transferred to Huon Eldercare Inc. for no consideration. The transfer led to a write-off of those assets, $1.740m, and an overall reduction in Council's revenues and expenses relating to EMPHC.

KEY FINDINGS

During the 2013-14 audit we identified two moderate-risk audit findings related to inadequate monitoring controls over the use of corporate credit cards and bank reconciliations. These matters were reported to, and were being addressed by, management. The audit was completed satisfactorily with no other significant items outstanding.

Adoption of recommendations from Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 19 out of 22 recommendations relevant to councils. The key recommendations Council were yet to adopt included:

- recognition of land under roads
- disclosures in the financial statements of capital renewal and new capital expenditure by asset class and
- documenting management assessments and decisions that impact the financial statements.

Council indicated that it would address these matters in the next financial year.

Local Government Ministerial Orders

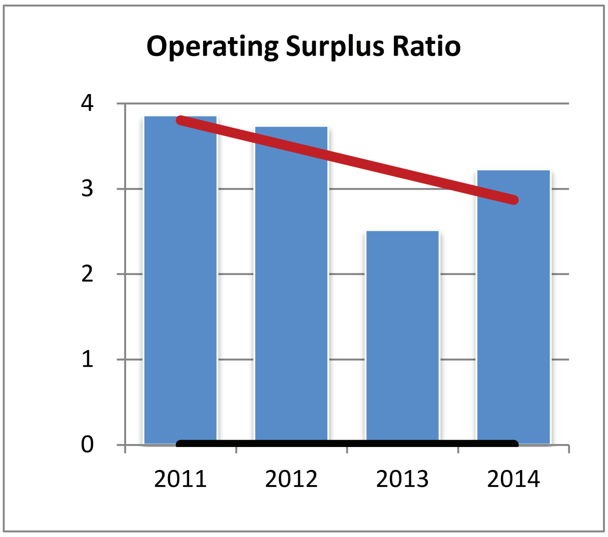
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting management indicators. We found that Council complied with relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

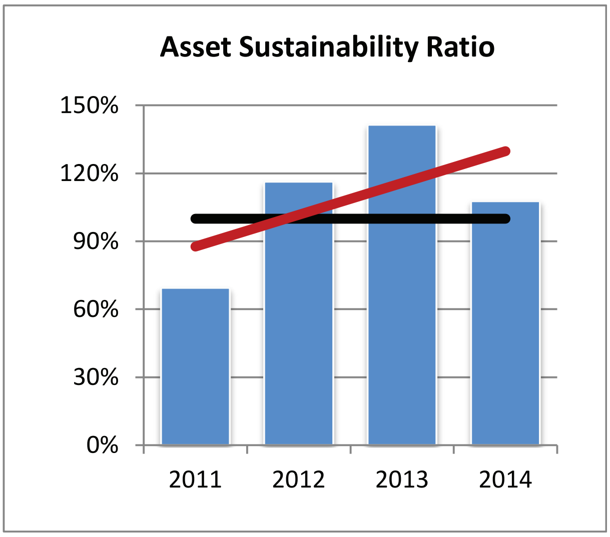
Management indicators

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

The following four graphs and the discussion on the Asset renewal funding ratio summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded an average Operating surplus ratio of 3.34 over the past four years, which indicated that it generated sufficient revenue to fulfil its operating requirements, including its deprecation charges.



Over the four year period, Council's average ratio was 108.83%, which was above the benchmark indicating that Council maintained its investment in existing assets. The results exceeded the benchmark in the last three years which was a direct result of Council's long-term asset management strategy to match capital expenditure on Property, plant and equipment to its depreciation charges.

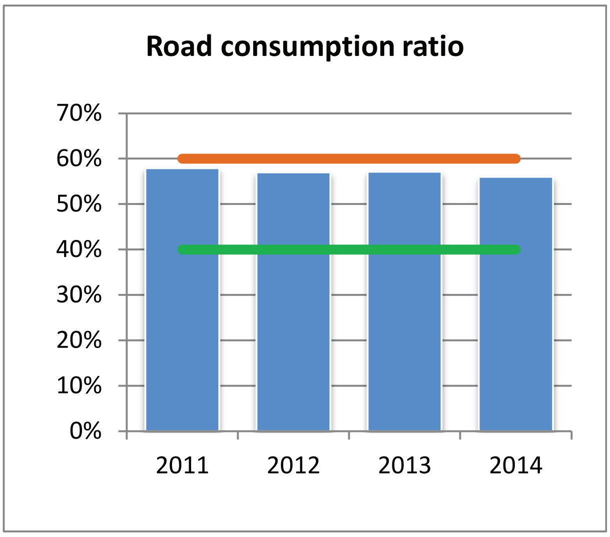
Asset renewal funding ratio

The Asset renewal funding ratios included in the financial analysis table at the end of this Chapter present a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

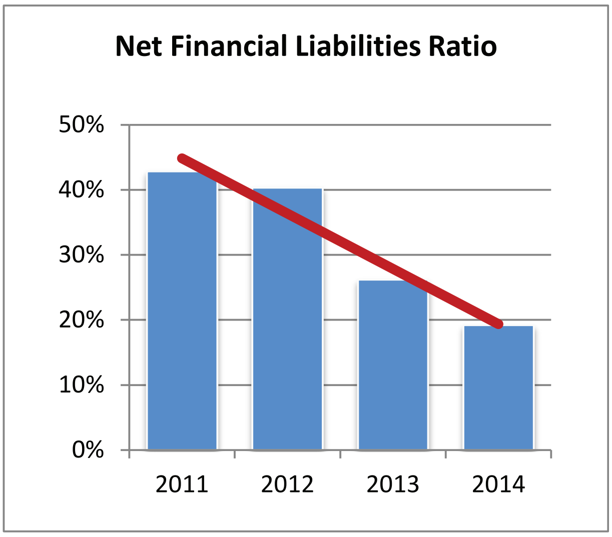
Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2023-24 and covered transport infrastructure, buildings and other land improvements, stormwater and drainage and other structures. The plan was not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, Council's Asset renewal funding ratio was 100% each year under review. The ratio was in line with our benchmark of between 90% and 100%. The ratios were 100% because Council prepared long-term financial plans based on the information in the development of ten-year forward works programs. Therefore, the funding for long-term financial plans and the projected outlays for the asset management plans were identical.

This indicates low financial sustainability risk.



The graph indicates that at 30 June 2014 Council used (consumed) approximately 43% of the service potential of its road assets. This indicates moderate financial sustainability risk.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded positive Net financial liabilities ratios with liquid assets in excess of Total Liabilities over the four year period under review. These positive ratios indicated a strong liquidity position, with Council able to meet its existing commitments. The downward trend was caused predominantly by lower cash, which decreased by $2.822m between 2010-11 and 2013-14 as a result of a more stringent approach to the capital works program.

It is noted that Council's cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

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

- comprised of an independent chairperson, an independent member and two councillors
- taking an oversight role of Council's financial statements.

In addition, Council had long-term asset management and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to financial sustainability

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

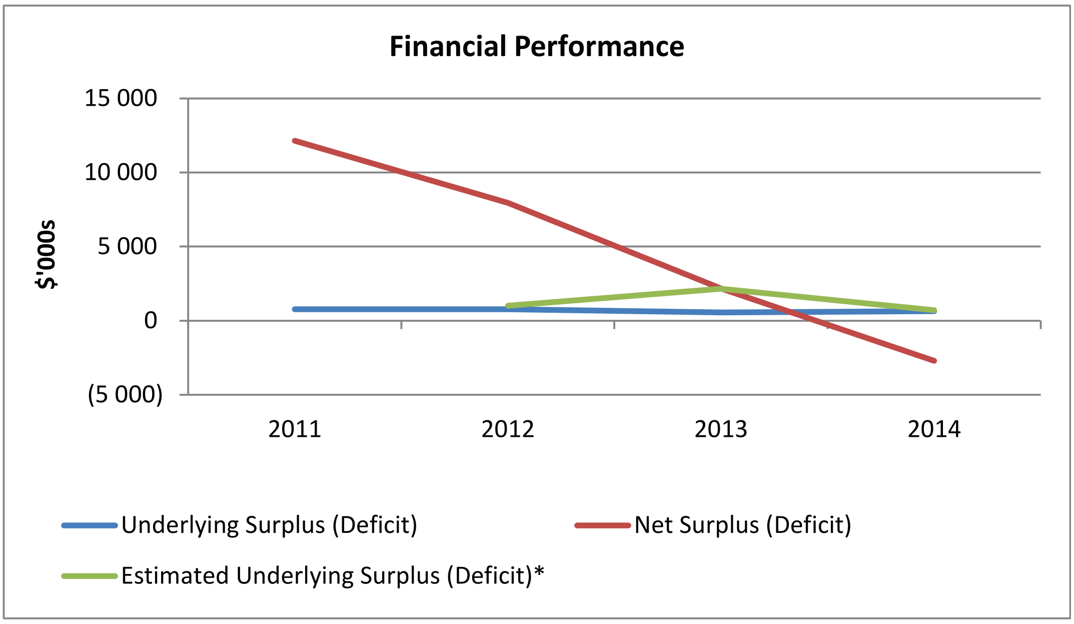
Asset management ratios indicate Council maintained its investment in existing assets over the four year period under review, and its Road consumption ratio was in the moderate financial sustainability range. Council's Asset renewal funding ratio achieved our benchmark.

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

From a governance perspective, Council had established an audit panel and long-term financial management and asset management plans.

Based on these ratios and governance arrangements, we concluded at 30 June 2014 that Council was at low risk from financial operating, asset management, net financial liabilities and governance perspectives.

FINANCIAL ANALYSIS



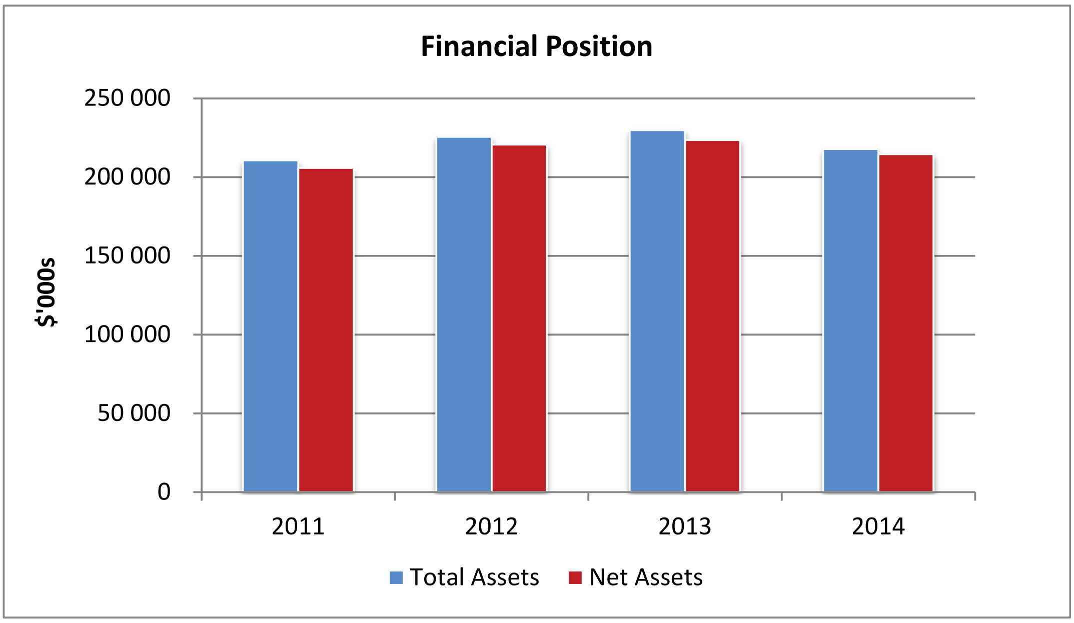
** Budget data not available for all four years.*

Council recorded an Underlying Surplus of $0.646m in 2013-14. The Underlying result was fairly consistent with the previous three years.

During 2013-14 both Total Revenue and Total Expenses decreased, by $1.942m and $2.036m respectively. This was primarily due to Council no longer operating the EMPHC as a result of its transfer to Huon Eldercare Inc. Previously, Council received annual funding of $1.200m towards the cost of running EMPHC.

Net Surplus was a deficit of $2.718m in 2013-14 due to the timing of financial assistance grants and asset write-offs. The write-offs, $2.399m, included EMPHC's assets, $1.740m, as well as the written-down value of roads, bridges and footpaths replaced during the year. The fluctuations in the net result and its continuous decline were largely due to:

- no infrastructure assets recognised for the first time this year. This source of income totalled $1.254m in 2012-13 and $4.750m in 2011-12 and arose as part of Council developing its long-term asset management plan and identification of assets which were previously not accounted for
- asset write-offs already referred to which did not arise in the previous three years
- the cumulative net effect of the timing of Commonwealth financial assistance grants with the impact in 2013-14 being negative $1.436m.



Council's Total Assets were $217.703m at 30 June 2014. This was $11.944m less than at the same time last year primarily due to a revaluation decrement of its Investment in TasWater, $7.429m, and decreased Cash of $3.126m. The reduction in Cash was mainly due to the investment in Property, plant and equipment, $7.906m, being higher than the Cash generated from operations, $2.441m, and Capital grants received $1.974m. Despite the lower cash balance, $3.570m, at 30 June 2014, Council's current ratio was still 2.28, which was well above the benchmark of one.

Net Assets decreased by $9.027m to $214.403m in line with the Comprehensive Deficit.

Council had a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 19% over this period. These increases combined with the management of costs as measured by Operating cost to rateable property, which decreased by 2%, resulted in Council being able to continue to record Underlying surpluses.

FTEs increase by five (or 4%) since 2011 and over this period average cost per FTE decreased by 1%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	9 591	10 181	9 862	9 049
Fees and charges	2 232	2 408	2 534	2 299
Grants**	1 942	3 434	4 313	4 409
Interest revenue	451	264	545	591
Other revenue	4 098	3 721	4 696	4 470
Total Revenue	**18 314**	**20 008**	**21 950**	**20 818**
Employee costs	9 043	8 864	10 124	9 371
Depreciation	4 151	5 967	4 352	3 931
Other expenses	6 069	4 531	6 922	6 738
Total Expenses	**19 263**	**19 362**	**21 398**	**20 040**
Underlying Surplus (Deficit)	**(949)**	**646**	**552**	**778**
Capital grants	1 666	471	1 279	1 730
Financial assistance grant received in advance**	0	0	1 436	1 415
Offset financial assistance grant in advance**	0	(1 436)	(1 415)	(734)
Infrastructure asset take-up	0	0	1 254	4 750
Asset write offs	0	(2 399)	(934)	0
Net Surplus (Deficit)	**717**	**(2 718)**	**2 172**	**7 939**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	1 120	721	6 718
Fair value adjustment in TasWater	0	(7 429)	(7)	85
Total Other Comprehensive Income (Expense)	**0**	**(6 309)**	**714**	**6 803**
Comprehensive Surplus (Deficit)	**717**	**(9 027)**	**2 886**	**14 742**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	3 570	6 696	6 828	6 392
Financial assets	2 758	2 700	3 950	5 000
Receivables	812	2 568	2 583	1 940
Inventories	59	48	108	28
Other assets	30	32	274	33
Total Current Assets	**7 229**	**12 044**	**13 743**	**13 393**
Payables	1 512	4 258	3 011	3 027
Provisions – employee benefits	1 608	1 364	1 241	891
Provisions – other	53	349	479	409
Total Current Liabilities	**3 173**	**5 971**	**4 731**	**4 327**
Net Working Capital	**4 056**	**6 073**	**9 012**	**9 066**
Property, plant and equipment	178 889	178 011	171 265	158 428
Capital Works in Progress	250	828	1 732	0
Investment in TasWater	31 335	38 764	38 772	38 687
Total Non-Current Assets	**210 474**	**217 603**	**211 769**	**197 115**
Provisions – employee benefits	77	196	187	329
Provisions – other	50	50	50	50
Total Non-Current Liabilities	**127**	**246**	**237**	**379**
Net Assets	**214 403**	**223 430**	**220 544**	**205 802**
Reserves	114 644	115 053	110 509	103 536
Accumulated surpluses	99 759	108 377	110 035	102 266
Total Equity	**214 403**	**223 430**	**220 544**	**205 802**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	17 966	16 934	14 181	14 512
Distributions received - TasWater	495	844	924	871
Cash flows from Government	744	1 565	5 090	4 581
Payments to suppliers and employees	(17 028)	(16 345)	(16 061)	(15 822)
Interest received	264	545	591	581
Cash from (used in) Operations	**2 441**	**3 543**	**4 725**	**4 723**
Capital grants and contributions	1 974	4 047	1 730	965
Payments for property, plant and equipment	(7 906)	(9 326)	(7 225)	(4 617)
Payments for investments	(58)	1 250	1 050	(2 251)
Proceeds from sale of investments	0	0	0	240
Proceeds from sale of property, plant and equipment	437	356	156	144
Cash from (used in) Investing Activities	**(5 553)**	**(3 673)**	**(4 289)**	**(5 519)**
Trust funds and deposits	(14)	(2)	0	0
Cash from (used in) Financing Activities	**(14)**	**(2)**	**0**	**0**
Net Increase (Decrease) in Cash	**(3 126)**	**(132)**	**436**	**(796)**
Cash at the beginning of the year	6 696	6 828	6 392	7 188
Cash at End of the Year	**3 570**	**6 696**	**6 828**	**6 392**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		646	552	778	778
Operating surplus ratio* **	>0	3.23	2.51	3.74	3.86
Asset Management					
Asset sustainability ratio*	100%	108%	142%	116%	69%
Asset renewal funding ratio*	90% – 100%	100%	100%	100%	100%
Road asset consumption ratio*	>60%	56.0%	57.1%	57.0%	57.9%
Asset investment ratio	>100%	132%	214%	184%	113%
Liquidity					
Net financial assets (liabilities) ($'000s)		3 840	5 747	8 393	8 626
Net financial liabilities ratio* ***	0% – (50%)	19.2%	26.2%	40.3%	42.8%
Operational Efficiency					
Liquidity ratio	2:1	2.90	2.18	3.13	2.75
Current ratio	1:1	2.28	2.02	2.90	3.10
Interest coverage	3:1	0	0	0	0
Self financing ratio		12.2%	16.1%	22.7%	23.4%
Own source revenue		82.8%	80.4%	78.8%	77.3%
Debt collection	30 days	15	24	30	16
Creditor turnover	30 days	25	46	23	13
Rates per capita ($)		630	616	571	542
Rates to operating revenue		50.9%	44.9%	43.5%	41.4%
Rates per rateable property ($)		989	968	879	830
Operating cost to rateable property ($)		1 881	2 100	1 946	1 929
Employee costs expensed ($'000s)		8 864	10 124	9 371	8 735
Employee costs capitalised ($'000s)		593	663	703	488
Total employee costs ($'000s)		9 457	10 787	10 074	9 223
Employee costs as a % of operating expenses		46%	47%	47%	45%
Average staff numbers (FTEs)		131	133	134	126
Average staff costs ($'000s)		72	81	75	73
Average leave balance per FTE ($'000s)		13	12	11	10

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

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

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

KINGBOROUGH COUNCIL

SNAPSHOT

- Council's Underlying result improved this year to a surplus of $0.163m, a significant improvement on both the prior year deficit of $2.725m and the budgeted deficit of $2.222m.
- It recorded a Net Surplus of $0.996m this year, influenced by capital grants. This result would have been higher if Council had received financial assistance grants in advance at the end of 30 June 2014, as it had in previous financial years.
- As at 30 June 2014, Council's Total Assets were $580.826m and its Net Assets amounted to $573.470m.
- Rates per capita increased by 15.45% over the three year period since 30 June 2011 and Rates per rateable property increased by 13.50% over this period. However, Operating cost to rateable property increased by only 1.99%, which enabled Council to report an Underlying Surplus in 2013-14.
- FTEs increased by only 1.38% since 2011, with average staff costs per FTE increasing by 20.07%.

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

During the audit, we identified that capital work in progress (WIP) balances continued to increase and that a review of WIP projects identified several projects had been part of WIP for a number of years, and are yet to be capitalised. Management acknowledged this issue and had resolved to review WIP balances during 2014-15.

Audit also noted that Council were yet to adopt the following recommendations from our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*:

- Council should recognise re-sheeting of unsealed roads as capital expenditure
- Council should identify separate components of road assets and separately value and depreciate such asset components over their respective useful lives.

Council advised that they are in the process of addressing these matters with completion expected by 30 June 2015.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed with no other items outstanding.

Major developments in the year included the establishment of an internal audit function, with activities anticipated to commence in the second half of 2015.

The only significant variation in the financial results from 2012-13 to 2013-14 related to the reduction in the investment in TasWater of $21.871m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Significant capital works were budgeted for the financial year, at $7.749m, in addition to carried-forward projects of $2.372m. Consistent with the prior year, capital works focussed on renewal or replacement, with reduced spending on new works. Approximately half of the capital expenditure was due to be spent on roads/footpaths.	We tested capital expenditure to ensure it was capital in nature and was appropriately capitalised. Asset additions and work-in-progress were also audited and reconciliations tested. Furthermore, material contracts were reviewed to ensure Council complied with tender requirements, where applicable.
Council recognised a provision for tip remediation to provide for the rehabilitation of the landfill site.	We: • tested the valuation of the provision and discussed identified issues with Council's staff and consultants • ensured compliance with applicable accounting standards, in particular AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.
This was the third year of operation of Kingborough Waste Services (KWS), which was created to operate the Barretta Waste Transfer Station. KWS is a private company, wholly owned by Council, which manages the entire site.	Including KWS's results in Council's financial statements provides for the option for dispensation, at the Auditor-General's discretion, of a separate audit of KWS. The option for dispensation will continue to apply as long as: • the transactions of KWS can be audited as part of the audit of Council's financial statements • adequate disclosure of the transactions of KWS appear in Council's financial statements • KWS remains immaterial to Council. Audit procedures were undertaken to confirm transactions and disclosures of KWS.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 1 September 2014.

KEY DEVELOPMENTS

Establishment of an internal audit function

Council's audit panel, at a meeting on 5 September 2014, endorsed the introduction of an internal audit function at Council. The panel is now in the process of reviewing possible internal audit activities to be undertaken, with activity expected to commence in the second half of 2014-15.

KEY FINDINGS

During the audit, we identified that capital WIP balances continued to increase despite some items being capitalised during the year. Furthermore, a review of WIP projects identified several projects have been part of WIP for a number of years, and are yet to be capitalised. Management acknowledged this issue and had resolved to address WIP balances during 2014-15.

A small number of minor issues, relating to one-off instances of invoice approval outside of delegation and goods purchased without a purchase order, were identified during the year and were adequately addressed by management.

The audit was completed satisfactorily with no other issues outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

We recommended Council:

- recognise re-sheeting of unsealed roads as capital expenditure
- identify separate components of road assets and separately value and depreciate such asset components over their respective useful lives.

Council identified that it has recently appointed a new staff member, who will assist in introducing componentisation into Council's asset systems. As part of this process, Council will also look to introduce capitalisation and depreciation of resheeting costs as these relate to unsealed roads. These tasks are expected to be completed by 30 June 2015.

Apart from these two matters, Council complied with 20 out of 22 recommendations relevant to councils.

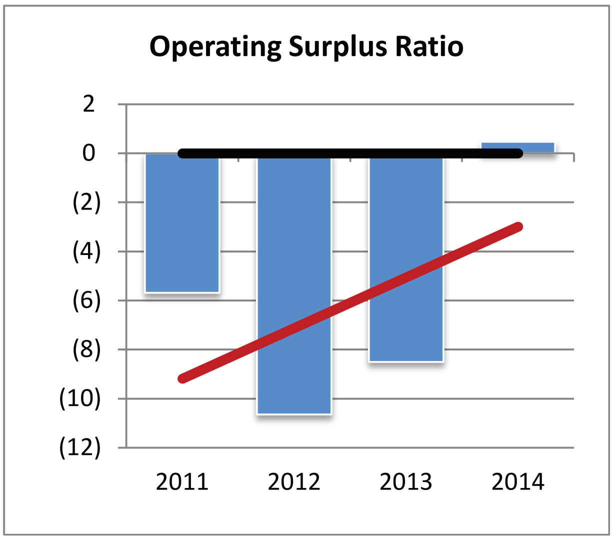
Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that Council complied with all relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

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

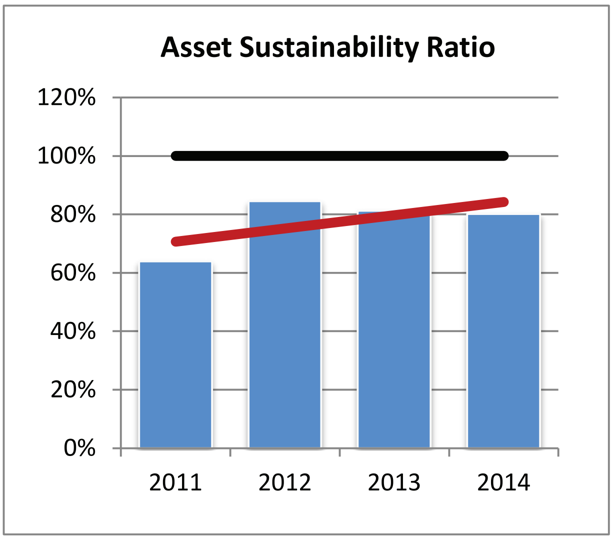
The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's Operating surplus ratio reflects operating deficits recorded in the first three years of the analysis, with a small surplus achieved in 2013-14. The results for the past four years have seen an improvement in the trend line and the current year result is a significant improvement on the negative ratios noted in 2012 and 2013. The negative ratio noted in 2012 was impacted by higher contract payments and rates remissions. Despite the improvement this year, it is disappointing that Council continues to budget for operating deficits.

The average operating ratio over the four year period, was a negative 6.09, while the ratio at the end of the 2013-14 year was positive 0.48.

Despite the positive ratio in the current year, the negative average ratio indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

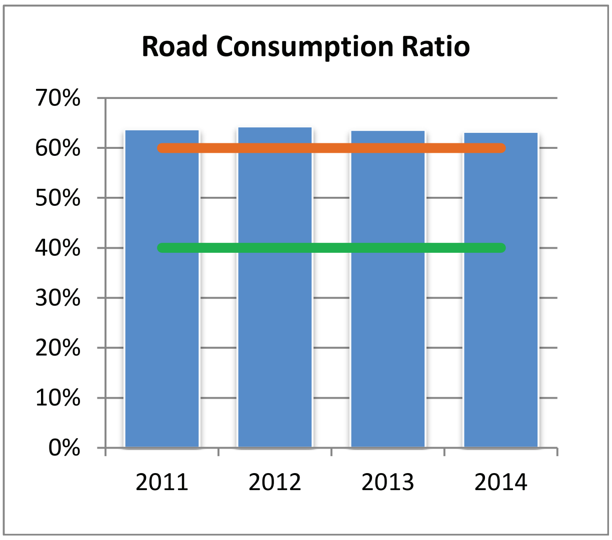


It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.

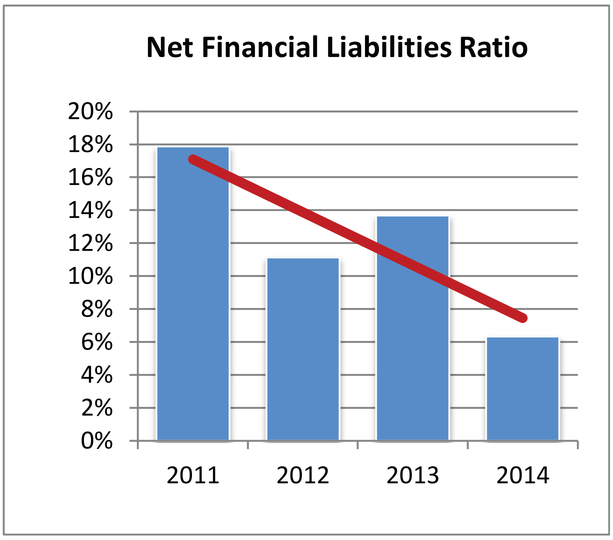
The Asset sustainability ratio was below the 100% benchmark in all four years under review although the trend line has risen each year, with the current year ratio being 80%. However, the average ratio of 77% over the four year period indicates to us that Council was under-investing in existing assets.

Asset renewal funding ratio

Based upon Council's long-term asset management plan and long term financial management plan, the Asset renewal funding ratio was 89% at 30 June 2014, just below our benchmark of 90% to 100%. This ratio was determined by comparing planned asset replacement expenditure with future asset replacement expenditure actually required. The long-term asset management plan and long term financial management plan were obtained from Council but were not audited.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 36% of the service potential of its road infrastructure assets, which is the same result as the prior year. While the ratio represents low risk, Council should continue to monitor the condition of its assets and maintain up to date valuations that will provide an accurate reflection of the service potential of its roads.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities ratio with liquid assets in excess of its Total Liabilities in each year under review. The ratio declined over the four-year period mainly due to holding less liquid assets, with funds being used to fund capital works. The falling ratio indicated that Council's capacity to meet its financial obligations weakened but, at 30 June 2014, the ratio was still better than our benchmark of not greater than -50%.

Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $7.569m or 90.7% of the total cash and cash equivalents balance of $8.343m. Hypothetically, if the cash balance was reduced by the restricted funds the Net financial liabilities ratio would be negative 15.89% at 30 June 2014, which is still within the benchmark and a low risk.

Governance

A review of Council's governance arrangements indicated that it has an active audit panel with membership consisting of two aldermen and three external members, one of which is the chair. The audit panel:

- scrutinises and recommends adopting asset management and financial management plans
- reviews Council's annual financial statements, focusing on accounting policies, areas of significant accounting estimates, compliance with accounting standards and other reporting requirements, and recommends signing by the General Manager prior to their submission to the Auditor-General
- liaises with the external auditors
- has recently endorsed the commencement of an internal audit function and has commenced reviewing possible internal audit activities for the coming year.

Council's asset management and financial management plans, which cover periods of 20 and ten years respectively, were both given low risk ratings as they were detailed and covered all key elements required.

Conclusion as to financial sustainability

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

From a financial operating perspective, Council's operating surplus was below our benchmark in three of the four years of the analysis averaging negative 6.09. We acknowledge that this average ratio is improving, as shown by the trend line, and that, based on Council's long-term financial plan, the improving trend is expected to continue. Hence, based on our benchmark, Council is currently at moderate risk from a financial operating perspective.

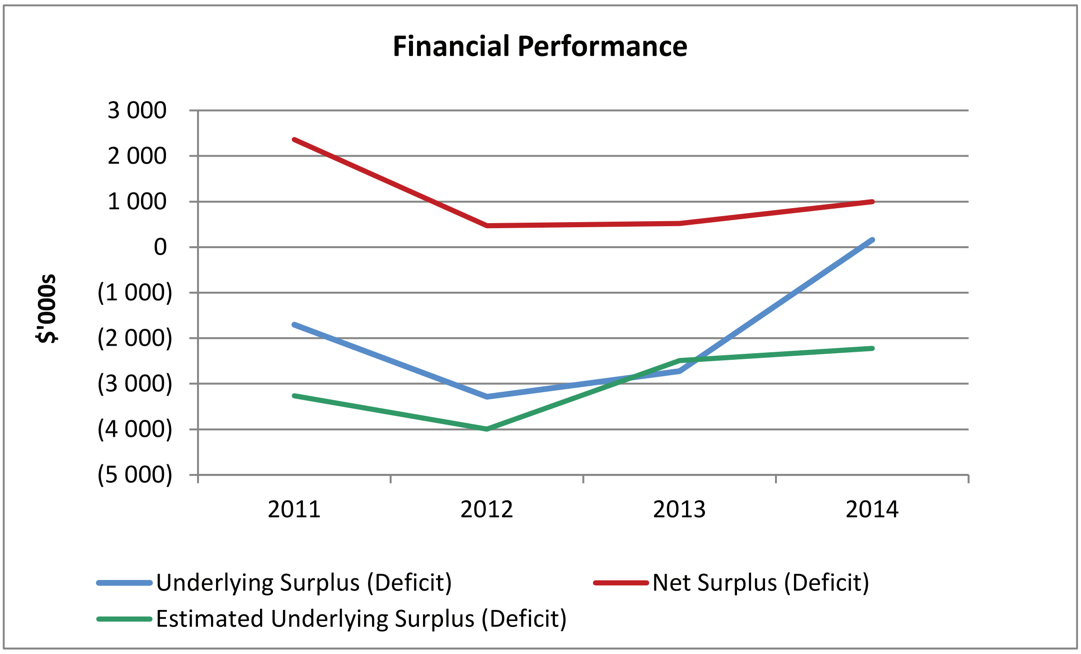
Council's Net financial liabilities ratio was strong, due to its large balance of cash and investments on hand. Council had capacity to service debt as well as borrow should the need arise.

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

Council has an active audit panel and has in place an asset management plan and financial management plans, which have been reviewed and endorsed by the panel. The panel also reviews the financial statements and with Council's endorsement, the panel has recently introduced an internal audit function.

Based on these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at moderate financial sustainability risk from financial operating and asset management perspectives, but a low financial sustainability risk from governance and net financial liabilities perspectives.

FINANCIAL ANALYSIS



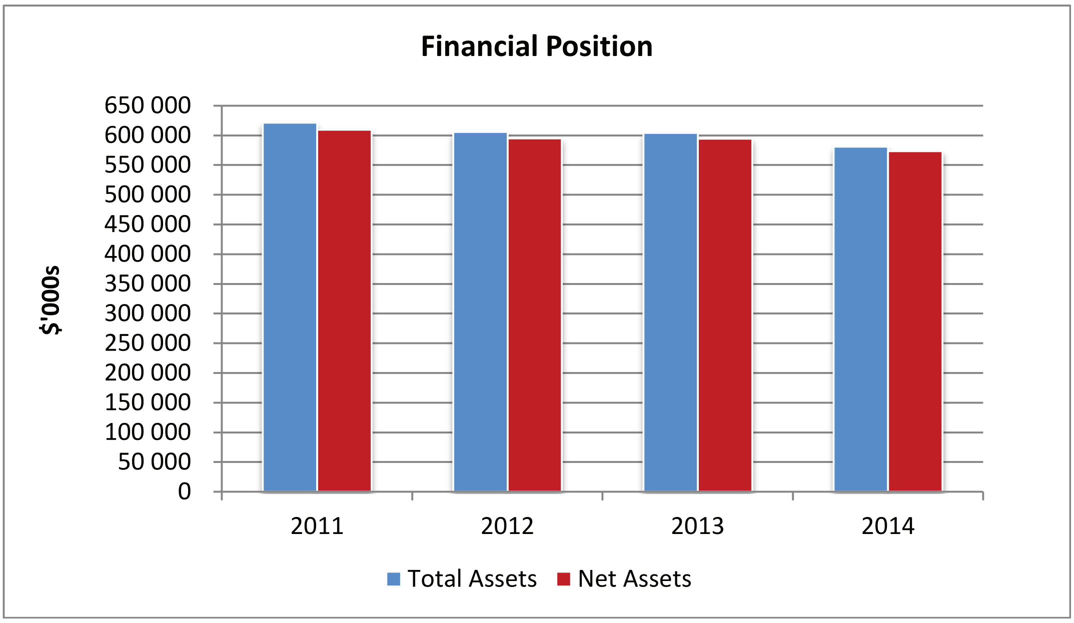
During 2014 Council recorded an Underlying Surplus of $0.163m, an improvement of $2.888m over the deficit of $2.725m in the prior year. This improved result was attributable to:

- increased Rate revenue of $1.096m
- higher fees and charges of $0.354m
- increased Other revenue of $0.797m, the main component being an increase in dividend revenue of $0.477m
- lower employee costs of $0.303m
- reduced other expenses of $0.563m, due principally to a reduction of contract payments of $0.543m.

Council performed better than its Estimated Underlying Result in each year of the analysis, except for 2013, however, in that year, the Underlying Surplus was within 10% of the budgeted figure. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.

There was a variance of $0.833m between the Underlying result and the Net result in the current year, significantly less than the other years of the analysis. This was principally due to the impact of not receiving any financial assistance grants in advance at the end of the 2014 financial year and a reduction of Capital grants of $0.969m.

Generally, the Estimated Underlying Result is expected to be below the Net Result, as Council does not budget for a number of capital items or non-monetary contributions received. Over the four-year period of review, the Net Result was positive mainly due to these sources of income and, in 2013 due to a downward revision to the amount of the Barretta Tip Rehabilitation provision by $1.362m.



Council's Total Assets, Liabilities and Net Assets remained fairly static over the period under review, with decreases noted in the current year.

Total Assets decreased by $23.170m at 30 June 2014 due principally to a reduction in the Investment in TasWater of $21.871m. The write-down of the investment was caused by a reduction in the value of TasWater's assets, and a change in policy where the value of shares in the new company is now based upon equity voting proportions, not distribution proportions. This reduction in the TasWater investment was also the principal reason for Net Assets decreasing by $21.104m, to $573.470m.

Other significant asset movements included:

- a reduction in Cash and financial assets of $3.688m, due principally to funds being used capital expenditure
- an increase in Property, plant and equipment $2.810m, with asset additions exceeding disposals and depreciation charges.

Council has a number of functional activities that provide a broad level of services to its ratepayers. However, the majority of its funding and assets relate to works and infrastructure management. At 30 June 2014, Council managed $479.760m in assets, comprising mainly roads, stormwater, land, buildings and bridges. Consequently, Council's financial position is dominated by its significant infrastructure and other assets. In comparison, Council's Liabilities totalled only $7.356m, which related to payables, trust funds and deposits, employee entitlements and the Barretta remediation provision.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 15.45% over the three year period since 30 June 2011 and Rates per rateable property increased by 13.50% over this period. In contrast to these movements, Operating cost to rateable property, only increased by 1.99%.

The higher increases in rates, when compared to the increases in costs, have enabled Council to obtain an underlying surplus 2013-14, the only year a surplus has been achieved in the period of analysis. This confirms the improved result obtained by Council as discussed previously in this Chapter.

FTE increased by only two (or 1.38%) since 2011 and over this period average cost per FTE increased by 20.07%. However, average staff costs did decrease in the current year, also highlighting that Council has been looking to reduce costs where possible.

FINANCIAL RESULTS OF SUBSIDIARY ENTITY

Kingborough Waste Services Pty Ltd (KWS)

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

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

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

KWS Financial Results

	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s
Total revenue	1 558	1 478	1 420
Total expenditure	1 525	1 534	1 333
Profit/(Loss)	**33**	**(56)**	**87**
	2014	**2013**	**2012**
	$'000s	$'000s	$'000s
Total assets	572	591	558
Total liabilities	508	560	470
Net Assets	**64**	**31**	**88**
Includes financial transactions with Council.			

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

Expenditure consisted mainly of charges for the disposal of waste at the Copping refuse site, wages of KWS employees, freight, plant hire, Council fees for corporate support and use of its equipment and other expenses such as the independent directors' remuneration of $13 000 per year.

The higher revenue this year reflects the increased usage of the site and reduction in expenditure was because entity was effective in monitoring and controlling its costs.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	21 645	21 828	20 732	19 771
Fees and charges	3 186	3 344	2 990	3 018
Grants**	3 734	3 893	3 963	3 663
Interest revenue	500	437	621	827
Other revenue	3 481	4 550	3 753	3 583
Total Revenue	**32 546**	**34 052**	**32 059**	**30 862**
Employee costs	12 639	11 882	12 185	11 077
Depreciation	6 752	6 938	6 967	6 724
Other expenses	15 377	15 069	15 632	16 347
Total Expenses	**34 768**	**33 889**	**34 784**	**34 148**
Underlying Surplus (Deficit)	**(2 222)**	**163**	**(2 725)**	**(3 286)**
Capital grants	387	429	1 398	923
Financial assistance grant received in advance**	0	0	1 017	988
Offset financial assistance grant in advance**	0	(1 017)	(988)	(476)
Net contributions non-current assets	110	1 272	1 185	2 323
Contributions to community assets	0	0	(806)	0
Share of investment in associate	0	149	76	0
Adjustment to provision for Baretta Tip Rehabilitation	0	0	1 362	0
Net Surplus (Deficit)	**(1 725)**	**996**	**519**	**472**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(167)	(1 022)	(19 250)
Fair value adjustment in TasWater	0	(21 871)	247	0
Total Other Comprehensive Income (Expense)	**0**	**(22 038)**	**(775)**	**(19 250)**
Comprehensive Surplus (Deficit)	**(1 725)**	**(21 043)**	**(256)**	**(18 778)**

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

*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	8 343	12 031	13 164	15 440
Receivables	1 172	1 779	1 294	1 418
Other	19	15	17	18
Total Current Assets	**9 533**	**13 825**	**14 475**	**16 876**
Payables	1 344	2 043	1 766	2 435
Provisions – employee benefits	1 746	1 682	1 481	1 361
Provision rehabilitation tip	1 360	1 446	885	885
Other	2 376	2 788	2 274	2 266
Total Current Liabilities	**6 825**	**7 959**	**6 406**	**6 947**
Net Working Capital	**2 708**	**5 866**	**8 069**	**9 929**
Property, plant and equipment	479 760	476 950	478 690	491 761
Investments in associates	740	591	255	255
Intangible and other assets	41	7	20	37
Investment in TasWater	90 752	112 623	112 376	112 376
Total Non-Current Assets	**571 293**	**590 171**	**591 341**	**604 429**
Provisions – employee benefits	531	616	495	442
Provision rehabilitation tip	0	847	4 116	4 116
Total Non-Current Liabilities	**531**	**1 463**	**4 611**	**4 558**
Net Assets	**573 470**	**594 574**	**594 799**	**609 800**
Reserves	323 987	349 696	353 764	369 167
Accumulated surpluses	249 483	244 878	241 035	240 633
Total Equity	**573 470**	**594 574**	**594 799**	**609 800**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	28 340	25 964	25 593	24 407
Cash flows from Government	2 876	3 992	4 175	3 410
Payments to suppliers and employees	(29 011)	(27 556)	(27 883)	(23 475)
Interest received	437	621	827	1 092
Finance costs	0	0	0	(19)
Investment revenue from TasWater	1 869	1 008	1 213	1 157
Cash from Operations	**4 511**	**4 029**	**3 925**	**6 572**
Capital grants and contributions	429	1 398	923	2 995
Payments for property, plant and equipment	(8 863)	(6 910)	(7 003)	(11 571)
Proceeds from sale of property, plant and equipment	217	610	214	2 371
Investment in Copping Waste Joint Authority	0	(260)	0	0
Cash used in Investing Activities	**(8 217)**	**(5 162)**	**(5 866)**	**(6 205)**
Repayments (advances) for community organisations	20	0	(335)	13
Repayment of borrowings	0	0	0	(150)
Cash used in Financing Activities	**20**	**0**	**(335)**	**(137)**
Net (Decrease) Increase in Cash	**(3 688)**	**(1 133)**	**(2 276)**	**230**
Cash at the beginning of the year	12 031	13 164	15 440	15 210
Cash at End of the Year	**8 343**	**12 031**	**13 164**	**15 440**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		163	(2 725)	(3 286)	(1 702)
Operating surplus ratio* **	>0	0.48	(8.50)	(10.65)	(5.69)
Asset Management					
Asset sustainability ratio**	100%	80%	81%	84%	64%
Asset renewal funding ratio**	90% - 100%	89%	92%	97%	100%
Road asset consumption ratio**	> 60%	63.2%	63.6%	64.3%	63.7%
Liquidity					
Net financial assets (liabilities) ($'000s)		2 159	4 388	3 441	5 353
Net financial liabilities ratio** ***	0% - (50%)	6.3%	13.7%	11.1%	17.9%
Operational Efficiency					
Liquidity ratio	2:1	2.56	2.86	3.58	3.59
Current ratio	1:1	1.40	1.74	2.26	2.43
Interest coverage	3:1	0	0	0	344.89
Self financing ratio		13.2%	12.6%	12.7%	22.0%
Own source revenue		89.0%	87.6%	88.1%	88.7%
Debt collection	30 days	17	27	20	24
Creditor turnover	30 days	20	33	28	34
Rates per capita ($)		620	593	570	537
Rates to operating revenue		64.1%	64.7%	64.1%	61.2%
Rates per rateable property ($)		1 291	1 243	1 228	1 138
Operating cost to rateable property ($)		2 005	2 086	2 122	1 966
Employee costs expensed ($'000s)		11 882	12 185	11 077	9 850
Employee costs capitalised ($'000s)		351	238	270	200
Total employee costs ($'000s)		12 233	12 423	11 347	10 050
Employee costs as a % of operating expenses		35%	35%	32%	31%
Average staff numbers (FTEs)		178	175	165	176
Average staff costs ($'000s)		69	71	69	57
Average leave balance per FTE ($'000s)		13	13	12	10

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

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

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

MEANDER VALLEY COUNCIL

SNAPSHOT

- Council recorded Underlying Surpluses in each of the four years under review and consistently exceeded budget forecasts.
- The 2013-14 Underlying Surplus was $0.672m.
- A Comprehensive Deficit of $44.224m, which included a net fair value revaluation decrement of non-current assets of $36.047m, resulted in Net Equity at 30 June 2014 of $234.787m.
- Over the four year period, cash generated from operations was at its lowest level in 2013-14 at $3.763m. This was lower than the four-year average of $5.716m. The decrease was in line with the drop in financial assistance grants received in this year.
- Rates per capita increased by 7% over the three years since 30 June 2011 and Rates per rateable property increased by 4% over the same period.
- Operating cost to rateable property increased by 8%.
- FTEs increased by three, or 4%, since 2011 and over this time average cost per FTE rose by 11%.

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

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

The audit was completed satisfactorily with no significant items outstanding.

Major variations between 2013-14 and 2012-13 included:

- Property, plant and equipment decreased by $35.850m, primarily due to revaluation decrements of $36.047m
- a drop in the value of the investment in TasWater by $7.185m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
In 2013-14, Council undertook revaluations of Buildings, Roads and Stormwater assets. Revaluations require considerable estimations and judgments. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested the calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of the valuers to ensure appropriate expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 12 August 2014 and an unqualified audit report was issued on 24 September 2014.

KEY DEVELOPMENTS

Residual values for infrastructure assets

Previously, Council applied residual values to road pavement and road surface assets. As part of the 2013-14 revaluation, the use of residual values was discontinued. Useful lives were also extended.

Road revaluation

Council recorded a revaluation decrement of $35.697m on its road infrastructure assets. The decrement was the result of decreased unit rates, particularly for road bases, determined from internal and externally provided costing information and reassessment of some aspects of the replacement methodology.

KEY FINDINGS

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 21 out of 22 recommendations relevant to councils. Council had not recognised land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when it was acquired.

Local Government Ministerial Orders

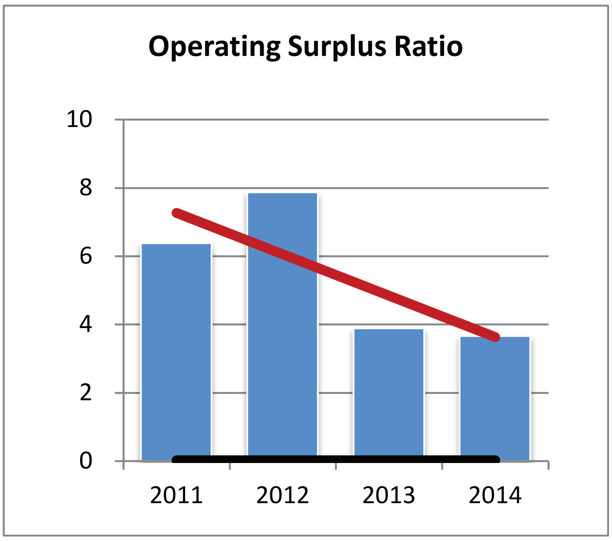
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial management indicators. We found that Council complied with relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

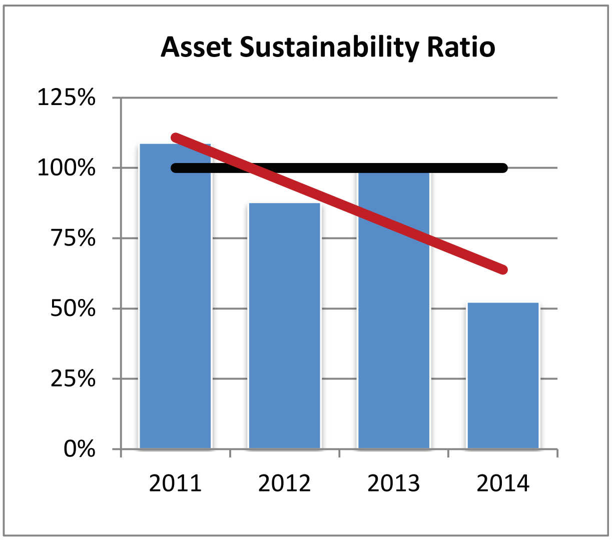
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



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



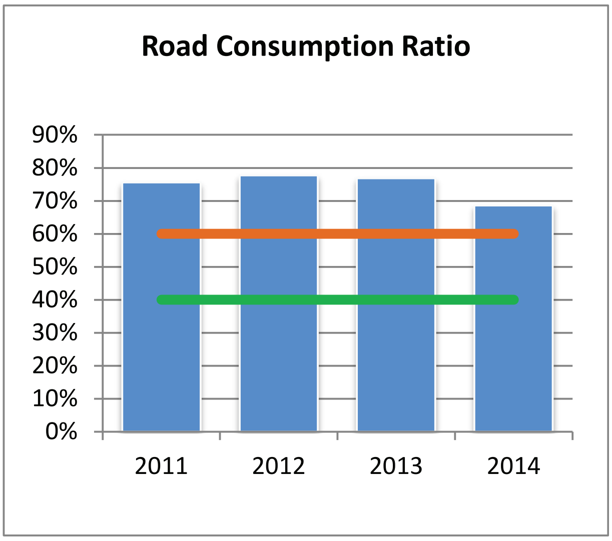
Asset sustainability ratios were above the 100% benchmark in two of the four years under review. Over the four year period, Council's average ratio of 87% was below benchmark and showed a downward trend. The ratio indicated, subject to levels of maintenance expenditure and its long-term asset management plan, Council had been slightly under-investing in its existing assets, a situation it needed to monitor.

Asset renewal funding ratio

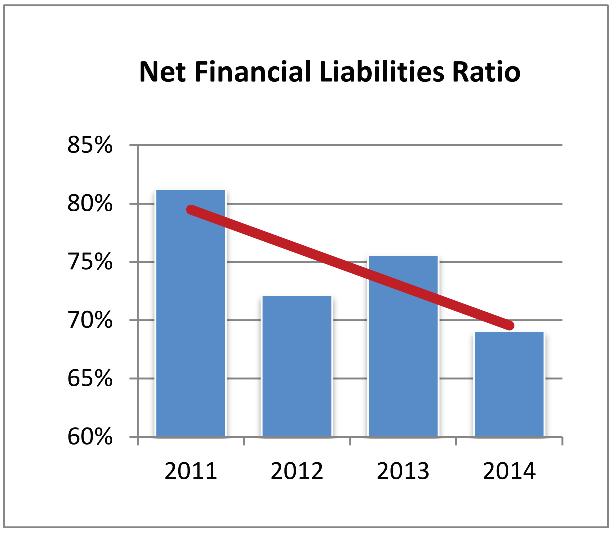
The Asset renewal funding ratios included in the financial analysis table at the end of this Chapter represented a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

Council's current long-term asset management plan forecast planned and required renewal expenditure to 2023-24 and covered transport infrastructure, buildings, drainage, recreation and other infrastructure assets. The plan was not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, Council's Asset renewal funding ratio was above 100% in all four years under review.



The graph indicated at 30 June 2014 Council had consumed approximately 31% of the service potential of its road assets. As a result, at 30 June 2014 Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

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

It is noted that Council had contractual commitments totalling $0.042m (2012-13, $0.387m) which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Commitments need to be taken into consideration when assessing Council's overall liquidity position.

Governance

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

- comprised of an independent chairperson and two Councillors
- taking an oversight role of Council's financial statements.

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

Council had long-term asset and financial management plans. These plans were regularly reviewed, covered all key elements and were formally adopted by Council.

Conclusion as to financial sustainability

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

Council's Asset sustainability ratio indicated, based on our 100% benchmark, it substantially maintained its investment in existing assets, with an average ratio of 87%, but will need to monitor its investment. The Road consumption ratio showed road infrastructure assets had sufficient capacity to continue to provide services to ratepayers. The Asset renewal funding ratio indicated Council was planning to fund necessary replacement of existing assets.

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

From a governance perspective, Council had established an audit panel, although it does not have an internal audit function. However, it did have long-term financial management and asset management plans.

Based on these ratios and governance arrangements we have concluded that at 30 June 2014, Council was at moderate risk from governance and asset management perspectives but low financial sustainability risk from financial operating and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

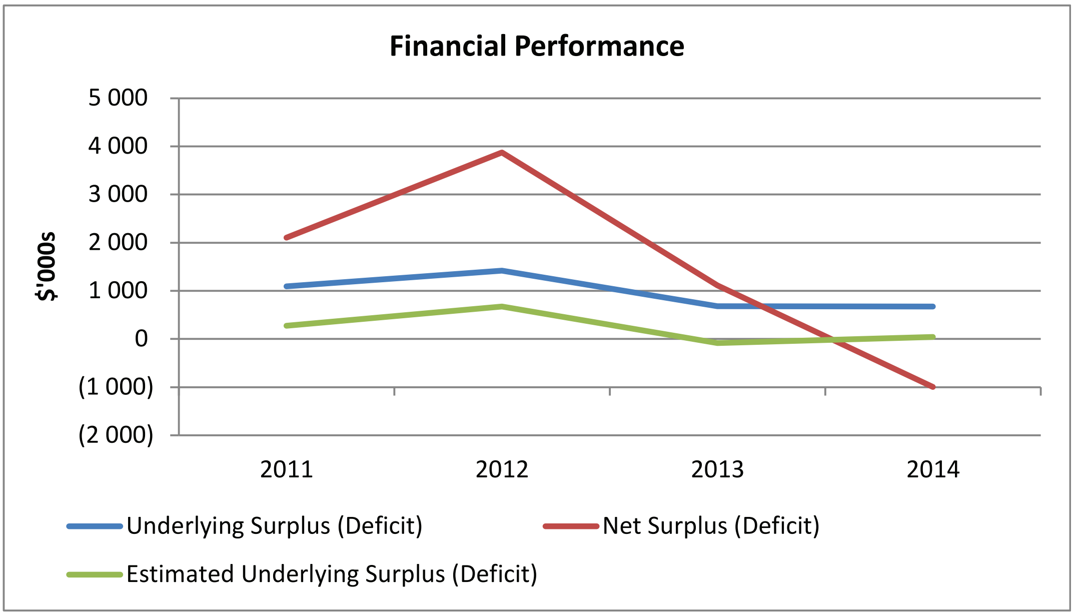
The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Council is pleased to receive a low financial sustainability risk rating. This reflects a stable financial position where finances are managed in line with the established long term financial plan and financial management strategy.

Council has undertaken a great deal of work on asset management and finance in 2013-14 to adopt the recommendations of the Report No.5 of 2013-14, Infrastructure Financial Accounting in Local Government and the recent changes made to the Local Government Act 1993. Council manages infrastructure assets that have very long useful lives, over 100 years in a number of instances. While the asset sustainability ratio provides a reference point it only looks at one year in isolation. The timing of asset renewal expenditure fluctuates from year to year. Council will manage its asset renewals in line with its asset management plans and will renew assets when they fall due.

The audit panel has recently been implemented; Council will monitor the benefits and advice of the panel before reviewing the need for any additional internal audit functions.

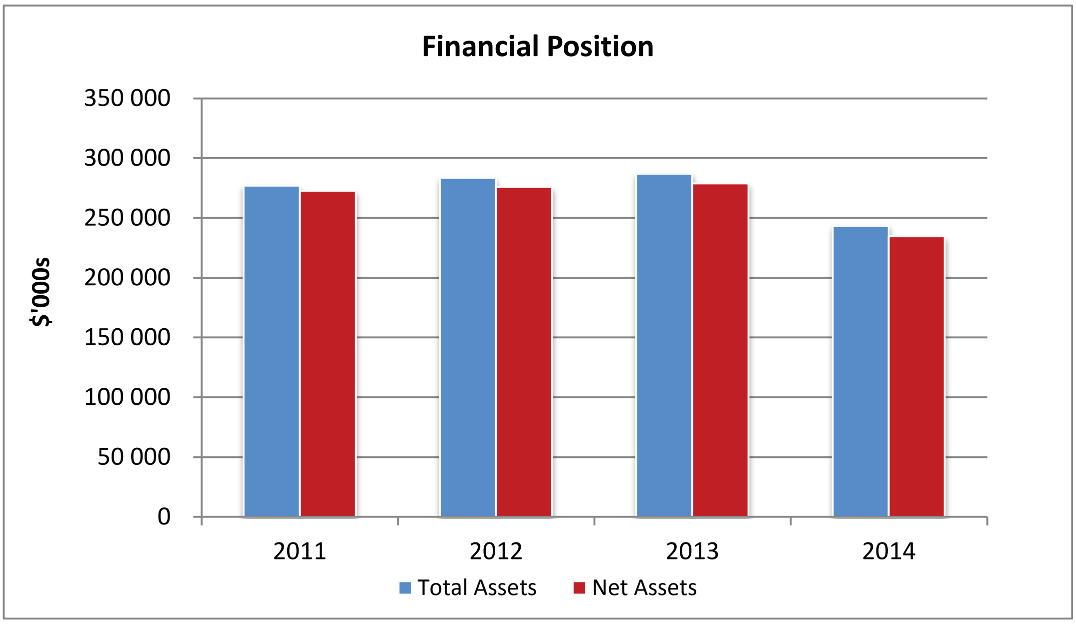
FINANCIAL ANALYSIS



Council recorded Underlying Surpluses in each of the four years under review. It also produced results better than budget.

The Underlying Surplus in 2013-14, $0.672m, was consistent with the prior year and was $0.628m higher than the Estimated Underlying Surplus. The improvement on estimate was mainly due to increased revenue from Fees and charges, $0.192m, Other revenue, $0.187m, and grants, $0.129m.

Net Surpluses fluctuated over the period under review with the 2011-12 result being affected by additional financial assistance grants and contributed subdivision assets. The 2013-14 Net Surplus was negatively impacted because financial assistance grants were not paid in advance.



Council's Total Assets and Net Assets steadily increased to 30 June 2013 but decreased by $44.224m, or 15.85%, in 2013-14. The decrease was primarily due to a $35.850m drop in Property, plant and equipment and a $7.185m decline in the Investment in TasWater. Property, plant and equipment decreased primarily due to a revaluation decrement of $36.047m. The revaluation decrement primarily related to roads and was the result of decreased unit rates, particularly for road bases, determined from internal and externally provided costing information and because some upgrade work was assessed as no longer being necessary. Useful lives were also extended during the revaluation.

Total Assets decreased by $43.657m primarily due to the same factors affecting Net Assets.

Over the four year period, cash generated from operations was at its lowest level in 2013-14 at $3.763m. This was lower than the four year average of $5.716m. The decrease was in line with the drop in financial assistance grants received this year.

Council recorded a revaluation decrement of $35.697m on its road infrastructure assets. The decrement was the result of decreased unit rates, particularly for road bases, determined from internal and externally provided costing information and re-assessment of some aspects of the replacement methodology.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis table at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 7% over the three years since 30 June 2011 and Rates per rateable property increased by 4% over the same period. These increases were offset by higher operating costs as measured by Operating cost to rateable property, which rose by 8%.

FTEs increased by three, or 4%, since 2011 and over the period Average cost per FTE increased by 11%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and curernt information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	9 739	9 801	9 517	9 443
Fees and charges	1 052	1 244	1 103	1 216
Grants**	4 769	4 898	4 651	4 826
Interest revenue	1 131	1 237	1 384	1 436
Other revenue	950	1 147	949	1 088
Total Revenue	**17 641**	**18 327**	**17 604**	**18 009**
Employee costs	5 764	5 787	5 473	5 376
Depreciation	5 042	4 804	4 708	4 852
Unwinding of tip provision	50	67	163	39
Finance costs	211	211	212	0
Other expenses	6 530	6 786	6 364	6 324
Total Expenses	**17 597**	**17 655**	**16 920**	**16 591**
Underlying Surplus (Deficit)	**44**	**672**	**684**	**1 418**
Capital grants	231	144	255	114
Financial assistance grant received in advance**	0	0	2 066	2 010
Offset financial assistance grant in advance**	(2 066)	(2 066)	(2 010)	(991)
Reassessment of tip rehabilitation provision	0	(131)	(429)	132
Contributions non-current assets	250	389	177	1 188
Contributions non-monetary assets	0	0	372	0
Net Surplus (Deficit)	**(1 541)**	**(992)**	**1 115**	**3 871**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(36 047)	916	(1 195)
Fair value adjustment TasWater	0	(7 185)	1 004	311
Total Other Comprehensive Income (Expense)	**0**	**(43 232)**	**1 920**	**(884)**
Comprehensive Surplus (Deficit)	**(1 541)**	**(44 224)**	**3 035**	**2 987**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	7 098	5 458	8 711	8 349
Receivables	1 073	876	806	626
Inventories	81	90	90	90
Financial assets	13 177	15 102	11 150	9 050
Other	167	267	148	222
Total Current Assets	**21 596**	**21 793**	**20 905**	**18 337**
Payables	865	685	765	853
Provisions – employee benefits	1 153	1 052	959	957
Other	437	386	449	416
Total Current Liabilities	**2 455**	**2 123**	**2 173**	**2 226**
Net Working Capital	**19 141**	**19 670**	**18 732**	**16 111**
Receivables	5 148	5 573	5 637	1 798
Property, plant and equipment	170 349	206 199	204 538	204 701
Financial assets	0	0	2	2
Investment in TasWater	46 388	53 573	52 569	52 258
Total Non-Current Assets	**221 885**	**265 345**	**262 746**	**258 759**
Provisions – rehabilitation	2 329	2 131	1 538	1 631
Provisions – employee benefits	310	273	364	250
Borrowings	3 600	3 600	3 600	0
Total Non-Current Liabilities	**6 239**	**6 004**	**5 502**	**1 881**
Net Assets	**234 787**	**279 011**	**275 976**	**272 989**
Reserves	70 915	114 147	112 227	113 111
Accumulated surpluses	163 872	164 864	163 749	159 878
Total Equity	**234 787**	**279 011**	**275 976**	**272 989**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	12 108	11 854	11 872	11 685
Cash flows from Government	2 832	4 707	5 845	4 623
Payments to suppliers and employees	(13 147)	(13 235)	(12 244)	(11 419)
Interest received	1 226	1 333	1 211	1 071
Distributions received – TasWater	744	567	616	615
Cash from (used in) Operations	**3 763**	**5 226**	**7 300**	**6 575**
Capital grants and contributions	144	255	114	685
(Payments)/proceeds for financial assets	1 925	(3 952)	(2 100)	1 250
Payments for property, plant and equipment	(4 801)	(5 105)	(5 292)	(5 878)
Proceeds from sale of property, plant and equipment	72	133	118	122
Cash from (used in) Investing Activities	**(2 660)**	**(8 669)**	**(7 160)**	**(3 821)**
Loan borrowings	0	0	3 600	0
Westbury estate loan repayments	537	190	222	0
Loan to aged care facility operator	0	0	(3 600)	0
Cash from (used in) Financing Activities	**537**	**190**	**222**	**0**
Net Increase (Decrease) in Cash	**1 640**	**(3 253)**	**362**	**2 754**
Cash at the beginning of the year	5 458	8 711	8 349	5 595
Cash at End of the Year	**7 098**	**5 458**	**8 711**	**8 349**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		672	684	1 418	1 094
Operating surplus ratio* **	>0	3.67	3.89	7.87	6.39
Asset Management					
Asset sustainability ratio*	100%	52%	100%	88%	109%
Asset renewal funding ratio* ***	90% - 100%	100%	100%	100%	101%
Road asset consumption ratio*	>60%	68.6%	76.8%	77.6%	75.5%
Asset investment ratio	>100%	100%	108%	109%	126%
Liquidity					
Net financial assets (liabilities) ($'000s)		12 654	13 309	12 992	13 918
Net financial liabilities ratio* ***	0% - (50%)	69.0%	75.6%	72.1%	81.2%
Operational Efficiency					
Liquidity ratio	2:1	16.40	20.01	17.02	14.20
Current ratio	1:1	8.80	10.27	9.62	8.24
Self financing ratio		20.5%	29.7%	40.5%	38.4%
Own source revenue		73.3%	73.6%	73.2%	73.3%
Debt collection	30 days	35	30	28	22
Creditor turnover	30 days	27	22	24	26
Rates per capita ($)		502	485	481	467
Rates to operating revenue		53.5%	54.1%	52.4%	53.6%
Rates per rateable property ($)		1 013	987	988	970
Operating cost to rateable property ($)		1 824	1 755	1 736	1 693
Employee costs expensed ($'000s)		5 787	5 473	5 376	5 002
Employee costs capitalised ($'000s)		359	442	378	332
Total employee costs ($'000s)		6 146	5 915	5 754	5 334
Employee costs as a % of operating expenses		33%	32%	32%	31%
Average staff numbers (FTEs)		77	76	75	74
Average staff costs ($'000s)		80	78	77	72
Average leave balance per FTE ($'000s)		19	17	18	16

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

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

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

SNAPSHOT

- Council reported an Underlying Surplus of $0.070m, an improvement on the prior year Deficit of $0.083m. A significant contributor to the surplus was higher dividends received from Taswater which totalled $0.467m this year (2013, $0.004m). Without the dividend, the underlying result would have been a Deficit of $0.397m ($0.087m).
- Council reported a Comprehensive Deficit of $4.790m resulting in Total Equity at 30 June 2014 of $258.899m.
- Over the four year period under review, Council's underlying result was consistently below its underlying budget. The variance was mainly attributable to Council not adequately budgeting for losses on disposal of assets, which over the period averaged $1.060m per annum.
- Cash from operating cash flows totalled $2.838m this year, significantly less than the four year average of $4.864m per annum. The reduction was primarily due to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014.
- Rates per capita and per rateable property increased by 24% and 20% respectively over the three years since 30 June 2011 while Operating cost to rateable property only increased by 3%. The increase in Rates was primarily due to development, CPI increases and an effort to return to operating surplus results for long term sustainability.
- Since 30 June 2011 Council's FTE declined by seven and average employee costs per FTE increased by 11%. It was noted that Council was in the process of filling most of these positions at year end.

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

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

We identified moderate risk audit findings relating to the need to update Council's bank account signatories and its journal authorisation process. These matters were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

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

Major variations between 2013-14 and 2012-13 included:

- a decrease in the investment in TasWater of $6.273m
- an increase in Property, plant and equipment of $3.111m, due mainly to the revaluation increment of $2.561m and additions totalling $6.915m offset by Depreciation of $4.639m and Disposals of $1.161m

- a decrease in Cash of $2.810m due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of land and stormwater assets was undertaken by independent valuers effective 1 July 2013. Council applied an index to buildings, road and bridge assets to update the valuations to 1 July 2013. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. Furthermore, in accordance with Auditing Standard ASA 500 *Audit Evidence*, we obtained an understanding of the work performed by, and assessed the competence, capabilities and objectivity of, the independent valuer engaged by Council to perform the valuation. We tested the validity of the indices and ensured the indices were correctly applied.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 20 August 2014, six days after the legislative deadline of 14 August 2014. Amended statements were received on 1 October 2014 and an unqualified audit report was issued on 3 October 2014.

KEY DEVELOPMENTS

Establishment of an audit committee

Council established an audit committee comprised of two councillors in October 2013. Two independent members were appointed in December 2013 and the committee held its first meeting in March 2014.

KEY FINDINGS

A moderate audit risk finding was identified in relation to the authorisation of general journals. It was noted that a system limitation enables users to both raise and authorise their own journals.

Our other findings included three issues classified as low risk.

In addition to current year findings, we followed up prior year recommendations relating to information security. Although Council had made significant progress to address the issues raised in 2012-13, further recommendations were made in relation to user access and application monitoring.

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

The audit was completed satisfactorily with no other items outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 21 out of 22 recommendations relevant to councils. However, it did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired. We believe that all land under roads should be recognised (in accordance with recommendation 22 of the Report) and this matter will be followed up with Council in 2014-15.

Local Government Ministerial Orders

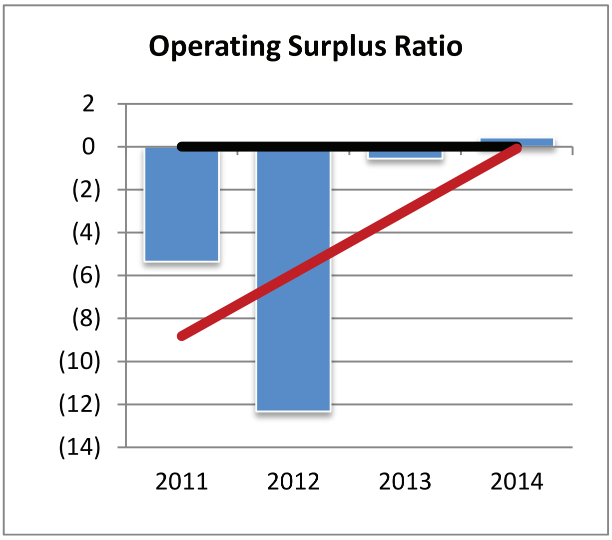
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that Council complied with all relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

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

The following four graphs, and the discussion about the asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.

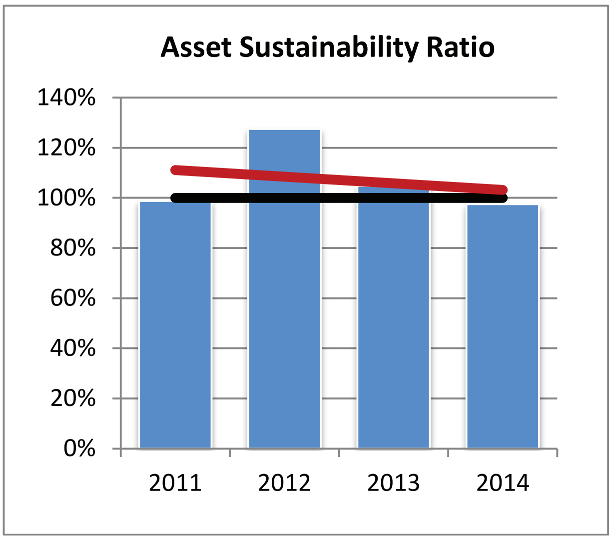


Council's Operating surplus ratio reflects deficits recorded in the past three years, with a surplus recorded in 2013-14. On average over the four-year period the ratio was negative 4.28 indicating Council did not generate sufficient revenue to fulfil its operating requirements, including its Depreciation charges. However, the improvements in 2012-13 and 2013-14 were encouraging although a significant contributor was dividends received of $0.467m, without which Council would again have recorded an Underlying Deficit.

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

The surplus in 2013-14 was partly due to:

- increased rate and other revenue driven by the general rate increase and
- higher returns from TasWater.



Asset sustainability ratios were above the 100% benchmark in two of the four years under review. Over the four year period, Council's average ratio was 107%, indicating it maintained its investment in existing assets at levels in excess of its annual Depreciation charges. However, as mentioned previously, the magnitude of infrastructure asset write-offs may indicate that assets are being depreciated at too low a rate.

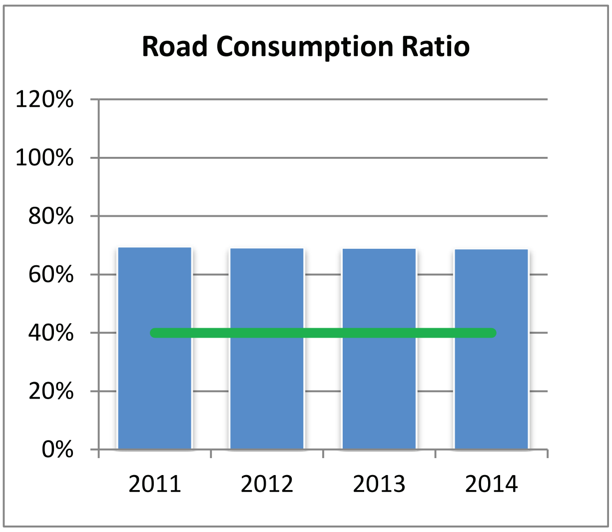
Asset renewal funding ratio

The Asset renewal funding ratios included in the financial analysis at the end of this Chapter represent a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

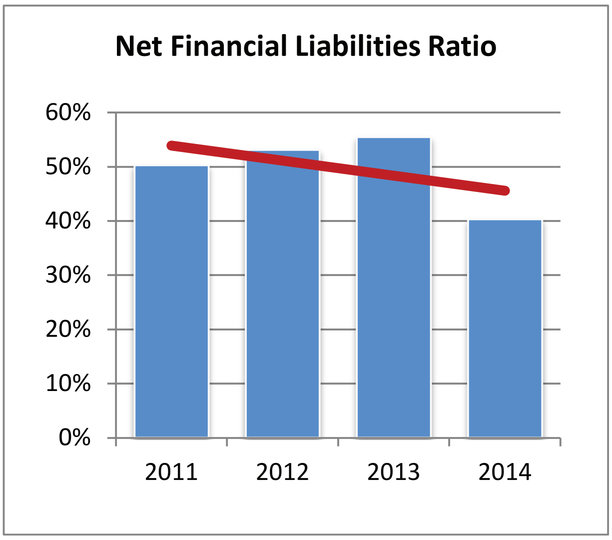
Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2012-22 and covers transport infrastructure, buildings, drainage, recreation and other infrastructure assets. The plan is not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, Council's Asset renewal funding ratio was 96% for 2011-12, 96% for 2012-13 and 117% for 2013-14. The ratio was in line with our benchmark of between 90% and 100%.

No ratio was calculated for 2010-11 as Council had not prepared long-term financial plans covering a ten-year period in that year.



The ratio at 30 June 2014 indicated Council had used (consumed) approximately 31% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period of 69%. This indicated Council's road assets had sufficient capacity to continue to provide services to ratepayers. However, as mentioned previously, the magnitude of infrastructure asset write-offs, which included roads assets, may indicate that these assets are depreciated at too low a rate. This could negatively impact the consumption ratio.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

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

It is noted, that Council had contractual commitments totalling $2.874m (2012-13, $3.763m) which were not recognised on the Statement of Financial Position nor were they factored into the Net financial liabilities ratio.

In addition, Council's cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds, which included grants received, which had not yet been applied to the purpose for which they were provided, represented $4.979m or 66.47% of the total cash and cash equivalents balance of $7.491m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found Council did have an audit committee but it did not have an internal audit function. Therefore in accordance with the requirements of the *Local Government (Audit Panels) Order 2014 (S.R. 2014, No. 34)* Council took action to establish an audit panel for 2013-14.

Existence of an internal audit function would enhance Council's governance arrangements.

Council had long-term asset and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded deficits from 2011 to 2013 and recorded a surplus in 2013-14.

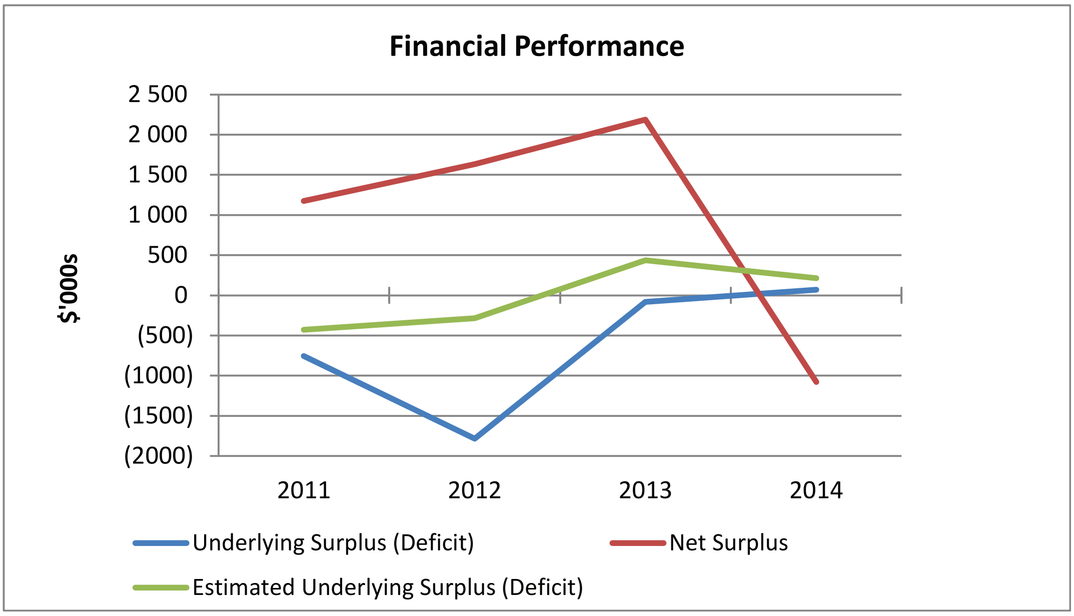
Asset sustainability ratios indicated Council's expenditure on existing assets averaged 107% over the period, which was above our 100% benchmark. Council's Road asset consumption ratios remained relatively unchanged over the four year period, and exceeded our 60% benchmark indicating its road assets had sufficient capacity to continue to provide services to its ratepayers. In addition, its Asset renewal funding ratios indicate Council is able to fund its future road and drainage capital works requirements.

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

Council has an audit committee, a long-term financial management plan and an asset management strategy.

Based on these ratios and governance arrangements we have concluded that at 30 June 2014, Council was at moderate sustainability risk from governance and financial operating perspectives but low risk from asset management and net financial liabilities perspectives.

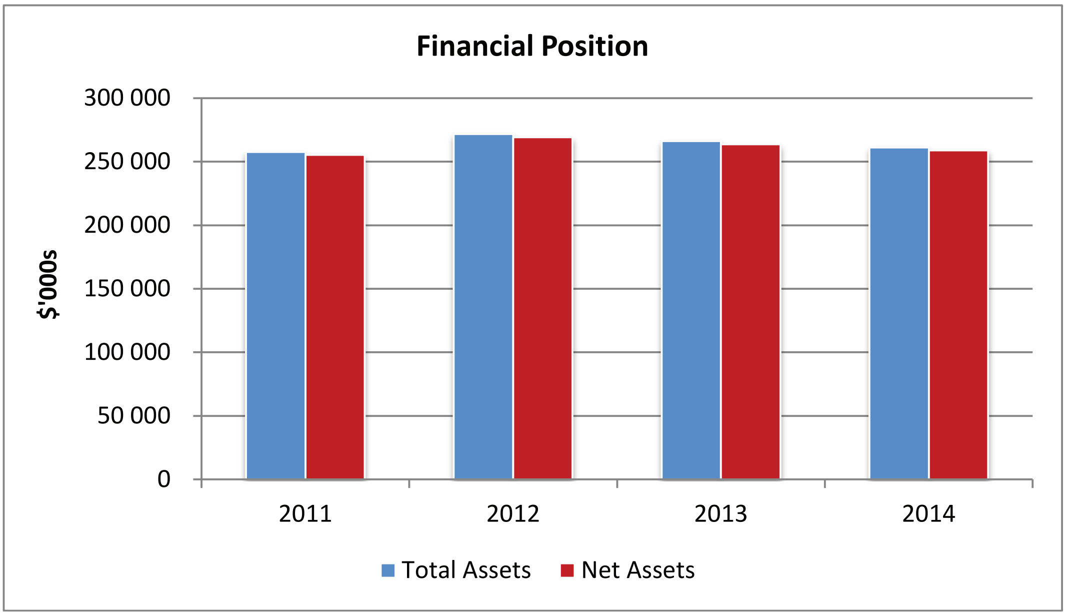
FINANCIAL ANALYSIS



The Underlying Surplus (Deficit) improved over the period under review, with Council recording a surplus in 2013-14 of $0.070m. The improved result was due to a combination of an increase in rating income of $0.461m and higher other revenue relating to increased dividend revenue from TasWater compared to the previous year.

Over the period under review, Council's underlying result was consistently below its underlying budget. The variance was mainly attributable to Council not adequately budgeting for losses on the disposal of assets, which over the period averaged $1.060m per annum. The most significant impact was in 2011-12 when losses on disposal of assets amounted to $1.808m and Council's Underlying Deficit was $1.783m.

Council's Net Surplus (Deficit) varied over the period under review and was subject to Capital grants, financial assistance grants received in advance and contributions of non-current assets. The significant decrease in 2013-14 was mainly due to lower Capital grants of $1.050m and the impact of financial assistance grants prepaid in June 2013 of $1.937m. Council received Roads to Recovery funding of $0.909m in 2012-13 which represented the final payment under the current program.



Council's Total Assets and Net Assets increased significantly in 2011-12 and have steadily declined since then. The increase in 2011-12 was mainly due to an asset revaluation increment of $11.808m. Likewise, the decrease in 2012-13 was mainly due to an asset revaluation decrement of $8.552m. In 2013-14 Net Assets decreased by $4.790m, primarily due to a decrease in the investment in TasWater of $6.273m offset by asset revaluation increments of $2.561m.

Cash and financial assets decreased by $2.810m in 2013-14 primarily due to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014. Another factor that contributed to the decrease was the receipt of significant Capital grants in 2012-13 which were expended in 2013-14.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council generated cash from operating cash flows of $2.838m this year, compared with an average over the past four years of $4.864m per annum. The significant reduction this year was primarily due to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014.

Rates per capita and per rateable property increased by 24% and 20% respectively over the three years since 30 June 2011. However, Operating cost to rateable property only increased by 3% despite the high costs incurred on asset write offs. Without these costs, Operating cost to rateable property increased by 1%. The increase in Rates per capita and per rateable property was primarily due to development, CPI increases and an effort to return to operating surplus results for long term sustainability.

Since 30 June 2011 Council's FTE declined by seven and average employee costs per FTE increased by 11%. It was noted that Council was in the process of filling most of these positions at year end.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	8 923	8 861	8 400	7 556
Fees and charges	1 393	1 538	1 389	1 383
Grants**	4 136	4 147	4 037	4 292
Interest revenue	466	485	539	583
Other revenue	636	988	696	643
Total Revenue	**15 554**	**16 019**	**15 061**	**14 457**
Employee costs	4 706	4 408	4 319	4 324
Depreciation	4 747	4 639	4 456	4 649
Loss on disposal of assets	433	943	930	1 808
Other expenses	5 453	5 959	5 439	5 459
Total Expenses	**15 339**	**15 949**	**15 144**	**16 240**
Underlying Surplus (Deficit)	**215**	**70**	**(83)**	**(1 783)**
Capital grants	137	134	1 184	1 568
Financial assistance grant received in advance**	0	0	1 937	1 863
Offset financial assistance grant in advance**	(1 937)	(1 937)	(1 863)	(919)
Contributions non-current assets	350	655	1 011	906
Net Surplus (Deficit)	**(1 235)**	**(1 078)**	**2 186**	**1 635**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	2 561	(8 552)	11 808
Fair value adjustment in TasWater	0	(6 273)	843	261
Total Other Comprehensive Income (Expense)	**0**	**(3 712)**	**(7 709)**	**12 069**
Comprehensive Surplus (Deficit)	**(1 235)**	**(4 790)**	**(5 523)**	**13 704**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	7 491	10 301	9 545	1 998
Financial assets*	0	0	0	6 756
Receivables	1 235	661	634	555
Inventories	32	65	15	25
Assets held for sale	305	0	0	0
Total Current Assets	**9 063**	**11 027**	**10 194**	**9 334**
Payables	993	1 191	1 108	829
Provisions – employee benefits	983	1 043	977	1 034
Total Current Liabilities	**1 976**	**2 234**	**2 085**	**1 863**
Net Working Capital	**7 087**	**8 793**	**8 109**	**7 471**
Property, plant and equipment	213 406	210 295	217 387	204 509
Investment in TasWater	38 707	44 981	44 138	43 877
Total Non-Current Assets	**252 113**	**255 276**	**261 525**	**248 386**
Provisions – employee benefits	301	380	422	349
Total Non-Current Liabilities	**301**	**380**	**422**	**349**
Net Assets	**258 899**	**263 689**	**269 212**	**255 508**
Reserves	122 165	125 878	133 586	121 517
Accumulated surpluses	136 734	137 811	135 626	133 991
Total Equity	**258 899**	**263 689**	**269 212**	**255 508**

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

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 341	11 555	10 303	10 205
Cash flows from Government	2 158	4 923	5 276	4 010
Payments to suppliers and employees	(11 590)	(10 741)	(10 523)	(10 523)
Interest received	462	573	628	589
Distributions received – TasWater	467	4	159	178
Cash from (used in) Operations	**2 838**	**6 314**	**5 843**	**4 459**
Capital grants and contributions	134	276	1 568	975
Payments for property, plant and equipment	(6 000)	(6 123)	(6 979)	(5 083)
Purchase of financial assets – investments	0	0	0	(1 396)
Proceeds from sale of property, plant and equipment	218	289	359	151
Cash from (used in) Investing Activities	**(5 648)**	**(5 558)**	**(5 052)**	**(5 353)**
Net Increase (Decrease) in Cash	**(2 810)**	**756**	**791**	**(894)**
Cash at the beginning of the year	10 301	9 545	1 998	2 892
Add transfer from non-current investments	0	0	6 756	0
Cash at End of the Year	**7 491**	**10 301**	**9 545**	**1 998**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		70	(83)	(1 783)	(755)
Operating surplus ratio* **	>0	0.44	(0.55)	(12.33)	(5.35)
Asset Management					
Asset sustainability ratio*	100%	98%	105%	128%	99%
Asset renewal funding ratio* ***	90% - 100%	117%	96%	96%	N/a
Road asset consumption ratio*	>60%	69.0%	69.2%	69.3%	69.7%
Asset investment ratio	>100%	129%	137%	150%	115%
Liquidity					
Net financial assets (liabilities) ($'000s)		6 449	8 348	7 672	7 097
Net financial liabilities ratio* ****	0% - (50%)	40.3%	55.4%	53.1%	50.3%
Operational Efficiency					
Liquidity ratio	2:1	8.79	9.20	9.19	3.08
Current ratio	1:1	4.59	4.94	4.89	5.01
Self financing ratio		17.7%	41.9%	40.4%	31.6%
Own source revenue		74.1%	73.2%	70.3%	72.0%
Debt collection	30 days	41	25	22	17
Creditor turnover	30 days	18	24	19	14
Rates per capita ($)		695	659	596	562
Rates to operating revenue		55.3%	55.8%	52.3%	50.3%
Rates per rateable property ($)		1 320	1 251	1 136	1 098
Operating cost to rateable property ($)		2 376	2 256	2 441	2 297
Employee costs expensed ($'000s)		4 408	4 319	4 324	4 429
Employee costs capitalised ($'000s)		198	312	309	233
Total employee costs ($'000s)		4 606	4 631	4 633	4 662
Employee costs as a % of operating expenses		28%	29%	27%	30%
Average staff numbers (FTEs)		57	64	65	64
Average staff costs ($'000s)		81	72	71	73
Average leave balance per FTE ($'000s)		23	22	22	22

* *For commentary on these indicators refer to the Assessment of financial sustainability section of this chapter.*

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

*** *Information not obtained or unavailable to calculate prior year ratio.*

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

SORELL COUNCIL

SNAPSHOT

- Council reported an Underlying Surplus of $1.670m, an improvement on the previous year and better than budget. This was the fourth year a positive Underlying result was recorded.
- It reported a Net Surplus of $1.633m in 2013-14. This was $0.469m lower compared to last year mainly due to the timing of the financial assistance grant and impairment expense.
- Net Assets totalled $215.856m at 30 June 2014.
- Council's Total Assets were $221.761m at 30 June 2014, consisting of predominantly Property, plant and equipment, $190.453m, and Investment in TasWater, $23.962m.
- Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 17% over this period.
- Operating cost to rateable property increased by 9%.
- FTE declined by five (or 6%) since 2011 and over this period average cost per FTE increased by 23%.

Council 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.

We identified audit findings that included non-compliance with local government Ministerial Orders and control issues around bank signatories and journal transactions. These were reported to management who are addressing these matters.

Council adopted 13 out of 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report and has plans in place to comply with the remaining recommendations in 2014-15.

Council established an audit panel however there are concerns about the independence of the panel which includes finance managers from other Councils. A long-term asset management plan for major asset classes was developed. However, the quality of the information in the plan was not sufficient to prepare and disclose required financial sustainability ratios. This will be rectified in 2014-15.

The audit was completed satisfactorily with no other items outstanding.

Major developments for the year included:

- Council completed the construction of its new council chambers. The total cost for the project was $5.280m
- Council continued to restructure its operation, resulting in redundancy costs of $0.336m
- Council received an insurance claim of $0.975m for the Dunalley Hall destroyed in the January 2013 bushfires
- Council was in the process of implementing a new finance and asset management system. Existing systems were impaired by $0.636m.

Major variations between 2013-14 and 2012-13 included:

- a reduction in the investment in TasWater, $5.573m
- lower Cash held, $2.847m
- increased Property, plant and equipment, $8.149m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Due to Council's small size and the scale of its operations, a weakness exists in the design of internal control caused by a lack of adequate segregation of duties. This weakness has the potential to result in a material misstatement in Council's 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 consisted predominantly of substantive procedures.
Council applied a cost index to land, roads, bridges, kerbs, channels, footpaths and storm water assets to maintain the currency of their value in years between formal valuations.	We confirmed the appropriateness and validity of the indices and ensured the indices were applied correctly.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit opinion was issued on 20 September 2014.

KEY DEVELOPMENTS

New council chambers

Council moved into new offices on 27 September 2013. The total cost of the project was $5.280m. Council had financial investments of $3.109m at 30 June 2012 which were realised during the previous year to ensure it had sufficient funds for this construction.

New finance and asset management system

Council introduced new finance and asset management systems from 1 July 2014. Existing systems were written-down, which resulted in an impairment loss of $0.636m.

Southern Tasmanian bushfires

The Sorell municipality experienced severe bushfires in January 2013. Council incurred additional costs for clean-up, running of evacuation centres and remittance of planning, building and plumbing fees for the reconstruction of any building destroyed in the fires. The total cost was estimated at $0.603m, of which $0.430m was reimbursed by Government under the Tasmanian Relief and Recovery Arrangements. Council also received an insurance claim of $0.975m for damage to the Dunalley hall.

Restructure

Restructuring of Council's operations to date resulted in a reduction of staff by 8.9 FTEs between 2012-13 and 2013-14 at a cost of $0.366m.

KEY FINDINGS

Several audit findings were reported to Council during 2013-14. A high risk finding related to bank accounts having signatories who were no longer Council's employees. Moderate risk findings included a lack of dual authorisation of electronic funds transfers, no independent reviews of general journals and no independent reviews over payroll master file changes. We also noted that a number of policies were out of date and had not been reviewed in accordance with review requirements.

These matters were reported to management. Management has already implemented our recommendations relating to the high-risk and majority of the moderate-risk findings. The remaining findings were in the process of being addressed at the time of preparing this Chapter.

Adoption of recommendations - Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 13 out of 22 recommendations relevant to councils. Council was yet to develop policies around revaluation of assets, recognition and treatment of earthworks and unsealed roads and annual review of useful lives and other key estimates.

Council was working towards adopting the remaining recommendations with plans in place including:

- Council engaged independent contractors to perform condition assessment of the municipality's entire road network during the first half of 2014-15
- revaluation of infrastructure assets
- recognition of land under roads.

Local Government Ministerial Orders

Part 1 of this volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial management indicators. We found that Council had not complied with all relevant requirements.

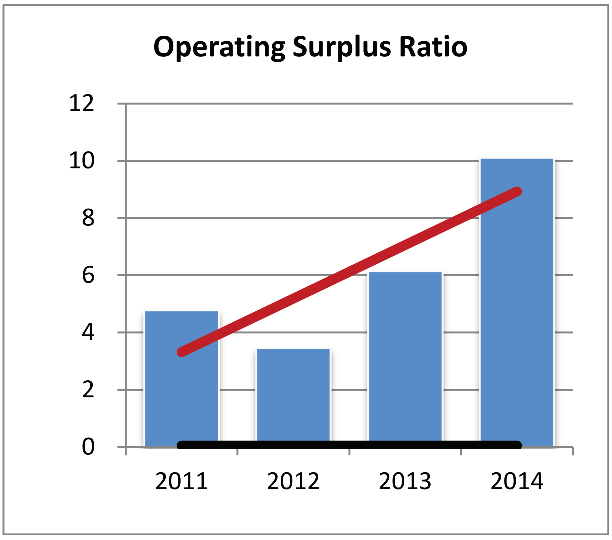
The audit was completed satisfactorily with no other items outstanding.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

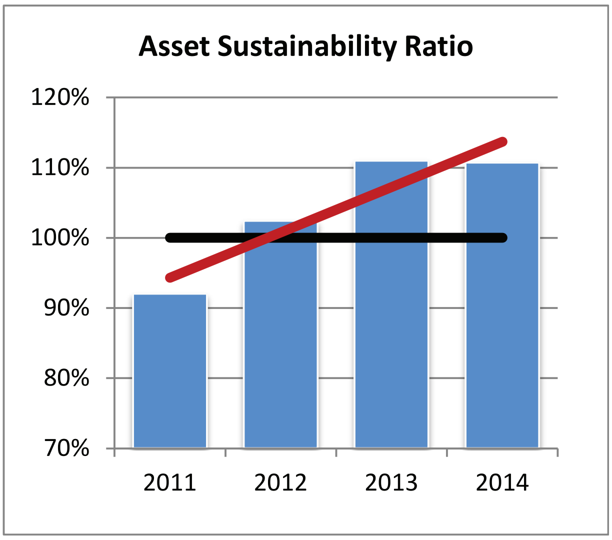
Management indicators

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

The following four graphs, and the discussion about the asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each graph the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded operating surpluses in the four years under review, with an Operating surplus ratio of 10.11 in 2013-14. This indicates that Council was generating sufficient revenue to fulfil its operating requirements, including depreciation.



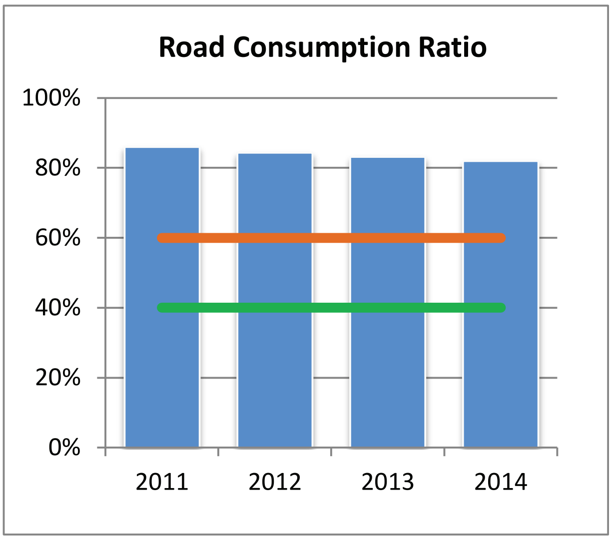
Asset sustainability ratio was above the benchmark of 100% for three of the four years under review. Council averaged 104% over that period. This indicated, subject to levels of maintenance expenditure and the existence of a long term asset management plan, Council was maintaining its investment in existing assets at levels in excess of its annual depreciation charges.

Asset renewal funding ratio

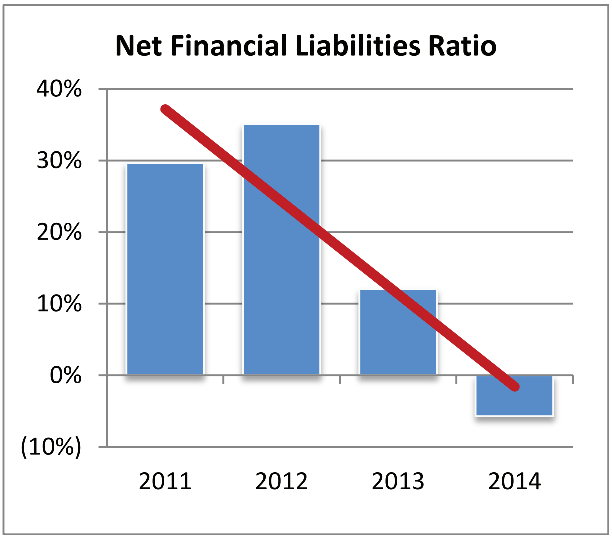
Council does not have a long term asset management plan that provides information accurate enough to calculate the Asset renewal funding ratio. The plan forecasts planned and required expenditure to 2032-33 and covers transport infrastructure, storm water and buildings.

It does have a long term financial management plan 2011-2021 (LTFMP), which incorporates year-on-year asset management funding. The plan was endorsed by Council in its special meeting for the annual plan and budget estimates 2012-2013.

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



The graph indicates that, at 30 June 2014, Council had consumed 18% of the service potential of its road assets. This was above our benchmark which indicated Council had sufficient capacity to continue to provide road transport services to ratepayers. In recent years, the municipality has experienced considerable development and investment in infrastructure including roads.



* *Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk.*

Council recorded positive Net financial liabilities positions, with liquid assets in excess of Total Liabilities in the first three years under review. However, in 2014 it recorded a negative Net financial liabilities ratio. Realisation and investment of its Financial assets into Property, plant and equipment resulted in a drop in the ratio. Despite this, the ratio is well within benchmark and Council still has the ability to meet its existing short-term commitments and could borrow should the need arise.

Council's Cash and cash equivalents are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $2.207m or 52.8% of the total Cash and cash equivalents balance of $4.177m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found that it did not have an audit committee or internal audit function at 30 June 2014. However, we noted that Council resolved in June 2014 to establish an audit panel. The *Local Government (Audit Panels) Order 2014* (the Order) requires audit panels to have a minimum number of independent persons. It is our understanding that finance managers from other councils were appointed as independent members of the audit panel. While this is technically in accordance with the requirements of the Order, this arrangement, in our view, impinges on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of a council. It is important for panel members to not only be independent, but also to be perceived in that way.

Council had long-term asset and financial management plans. These plans were implemented in 2013-14 and will be reviewed in 2014-15 to improve the quality of the information provided.

Conclusion as to financial sustainability

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

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

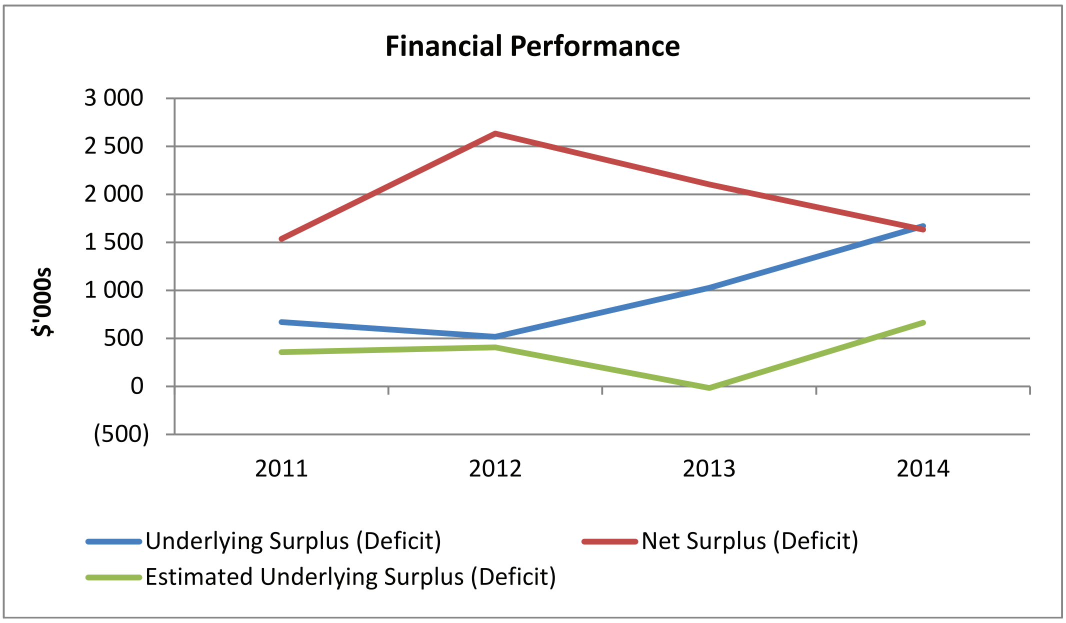
Council's road consumption ratio was strong; consistently well into the low risk range.

Its Net financial liabilities ratio dropped below zero for the first time this year. However, it was still within the benchmark. Council has the ability to service short-term debt and could borrow should the need arise.

From a governance perspective, Council has an audit committee, although the independence of the composition of the committee is questioned. A long-term asset management plan and a long-term financial management plan is in place.

Based upon these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at low financial sustainability risk from financial operating, asset management and net financial liabilities perspectives and at high financial sustainability risk from a governance perspective.

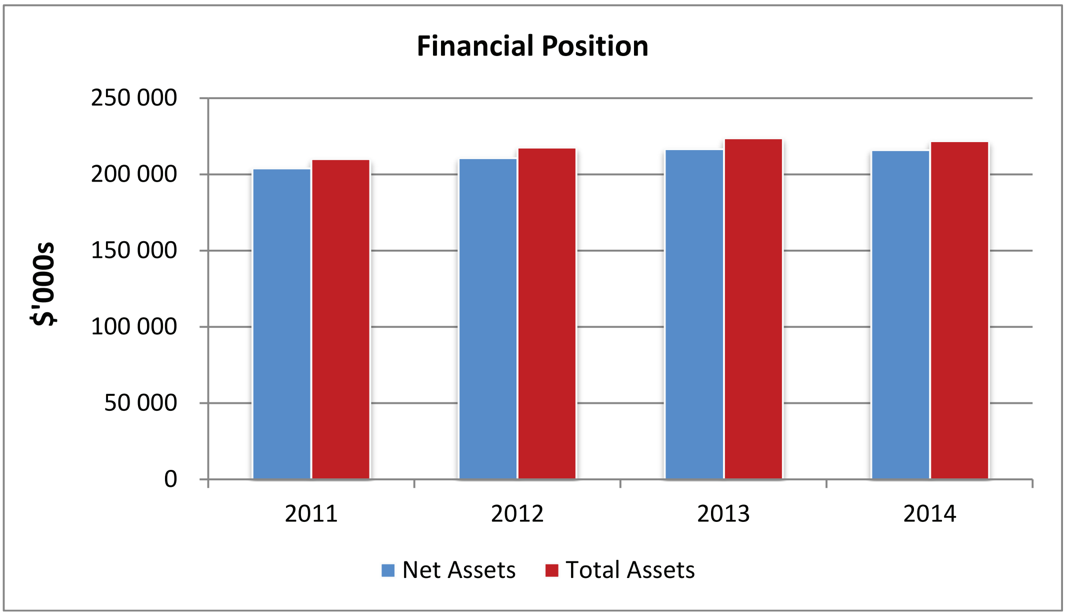
FINANCIAL ANALYSIS



Council achieved Underlying Surpluses in all four years under review. In 2013-14 the Underlying Surplus increased by $0.643m to $1.670m as a result of higher Total Revenue, $16.511m, predominantly driven by an increase in Rates, $0.550m. Total Expenses were $14.841m in 2013-14. This was $0.860m lower than in 2012-13, when Total Expenses reached $15.701m because of the January 2013 bushfires.

The current year Net Surplus was $0.037m lower than the Underlying Surplus mainly due to the financial assistance grant no longer being received in advance and the impairment expense recognised for the finance and asset management systems offset by the Insurance recovery on the Dunalley Hall.

Council consistently achieved above-budget results over the four years under review. In the current year, Council's Underlying Surplus was $1.006m above budget primarily due to operating grants received that were not budgeted for.



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

Total Assets decreased by $1.925m to $221.716m at 30 June 2014. The major movements this year were:

- a reduction in the investment in TasWater, $5.573m,
- an increase in capital expenditure which led to a decrease in cash held, $2.847m,
- increased Property, plant and equipment, $8.149m, mainly made up of capital additions of $9.117m, a revaluation increment, $3.295m, partially offset by this year's Depreciation expense, $3.924m,
- decreased Receivables, $1.394m.

Despite the lower Cash and cash equivalents, Council maintained a current ratio of 1.80, which was above the benchmark of one.

Net Assets decreased by $0.647m to $215.856m at 30 June 2014. The decrease was in line with Comprehensive Deficit for the year.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 17% over this period. These increases were met by increases in operating costs as measured by Operating cost to rateable property, which increased by 9%. The higher increases in rates, when compared to the increases in costs, resulted in Council recording higher underlying surpluses in recent years.

FTE declined by five (or 6%) since 2011 and over this period average cost per FTE increased by 23%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	10 815	10 949	10 399	9 835
Fees and charges	930	980	889	976
Grants**	1 895	3 180	3 634	2 538
Interest revenue	493	304	568	735
Other revenue	766	1 098	1 238	803
Total Revenue	**14 899**	**16 511**	**16 728**	**14 887**
Employee costs	5 591	5 533	5 673	5 302
Depreciation	4 049	3 924	3 891	4 054
Interest expense	222	234	223	232
Other expenses	4 373	5 150	5 914	4 784
Total Expenses	**14 235**	**14 841**	**15 701**	**14 372**
Underlying Surplus (Deficit)	**664**	**1 670**	**1 027**	**515**
Redundancy costs	0	(336)	0	0
Fair value adjustments for investment property	0	0	0	80
Impairment Expense	0	(636)	0	(88)
Capital grants	1 290	973	952	668
Financial assistance grant received in advance**	0	0	1 341	1 344
Offset financial assistance grant in advance**	0	(1 341)	(1 344)	(509)
Contributions of non-current assets	0	328	126	623
Insurance recovery - Dunalley hall	0	975	0	0
Net Surplus (Deficit)	**1 954**	**1 633**	**2 102**	**2 633**
Other Comprehensive Income				
Impairment of investments	0	0	0	(43)
Fair value revaluation of non-current assets	0	3 295	3 748	4 246
Fair value adjustment in TasWater	0	(5 575)	(6)	65
Total Comprehensive Income (Expense)	**0**	**(2 280)**	**3 742**	**4 268**
Comprehensive Surplus (Deficit)	**1 954**	**(647)**	**5 844**	**6 901**

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

** *Grants received in advance have been shown separately after Underlying Result. The Offset figure allows the above table to balance with Council's own Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	4 177	7 024	8 207	6 266
Financial assets	0	0	3 109	3 153
Receivables	742	2 136	797	865
Asset held for Sale	0	432	0	0
Other	272	214	425	299
Total Current Assets	**5 191**	**9 806**	**12 538**	**10 583**
Payables	1 417	2 064	1 570	1 944
Borrowings	349	432	467	420
Provisions – employee benefits	871	1 147	993	770
Trust funds and deposits	245	173	145	207
Total Current Liabilities	**2 882**	**3 816**	**3 175**	**3 341**
Net Working Capital	**2 309**	**5 990**	**9 363**	**7 242**
Property, plant and equipment	190 453	182 304	173 473	168 365
Assets held for sale	0	0	432	0
Investments in associates	873	711	198	136
Investment in TasWater	23 962	29 535	29 541	29 476
Investment properties	1 127	1 127	1 127	1 047
Other	110	158	191	244
Total Non-Current Assets	**216 525**	**213 835**	**204 962**	**199 268**
Borrowings	2 876	3 260	3 695	2 661
Provisions – employee benefits	102	62	21	124
Total Non-Current Liabilities	**2 978**	**3 322**	**3 716**	**2 785**
Net Assets	**215 856**	**216 503**	**210 609**	**203 725**
Reserves	148 592	151 451	147 709	144 570
Accumulated surpluses	67 264	65 052	62 900	59 155
Total Equity	**215 856**	**216 503**	**210 609**	**203 725**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	15 277	12 264	11 908	11 308
Cash flows from Government	1 619	3 432	3 375	2 651
Payments to suppliers and employees	(12 594)	(11 816)	(10 966)	(10 406)
Interest received	302	605	704	770
Finance costs	(198)	(271)	(201)	(224)
Investment revenue from TasWater	512	506	505	506
Cash from (used in) Operations	**4 918**	**4 720**	**5 325**	**4 605**
Headworks Southern Water	0	0	0	234
Payments for property, plant and equipment	(9 741)	(9 016)	(5 154)	(4 453)
Equity injection Southern Waste Solutions	0	(312)	0	0
Investment water rights	0	(23)	0	0
Proceeds from sale of investments	0	3 109	0	2 000
Proceeds from sale of property, plant and equipment	968	114	119	223
Cash from (used in) Investing Activities	**(8 773)**	**(6 128)**	**(5 035)**	**(1 996)**
Trust funds and deposits	72	28	(62)	0
Proceeds from borrowings	0	(18)	1 515	24
Capital grants and contributions	1 403	670	618	708
Repayment of borrowings	(467)	(456)	(420)	(396)
Cash from (used in) Financing Activities	**1 008**	**224**	**1 651**	**336**
Net Increase (Decrease) in Cash	**(2 847)**	**(1 184)**	**1 941**	**2 945**
Cash at the beginning of the year	7 024	8 207	6 266	3 321
Cash at End of the Year	**4 177**	**7 023**	**8 207**	**6 266**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		1 670	1 027	515	669
Operating surplus ratio* ****	>0	10.11	6.14	3.46	4.78
Asset Management					
Asset sustainability ratio*	100%	111%	111%	102%	92%
Asset renewal funding ratio* **	90%-100%	N/a	N/a	N/a	N/a
Road asset consumption ratio*	>60%	82.0%	83.2%	84.4%	86.0%
Asset investment ratio	>100%	248%	232%	127%	118%
Liquidity					
Net financial assets (liabilities) ($'000s)		(941)	2 454	5 222	4 158
Net financial liabilities ratio* ***	0%-(50%)	(5.7%)	12.1%	35.1%	29.7%
Operational Efficiency					
Liquidity ratio	2:1	2.45	3.99	6.16	4.48
Current ratio	1:1	1.80	2.57	3.95	3.17
Interest coverage	3:1	23.84	16.42	25.49	19.56
Self financing ratio		29.8%	28.2%	35.8%	32.9%
Own source revenue		82.6%	81.7%	87.9%	89.1%
Debt collection	30 days	23	69	27	31
Creditor turnover	30 days	31	34	41	50
Rates per capita ($)		809	773	737	697
Rates to operating revenue		66.3%	62.2%	66.1%	65.5%
Rates per rateable property ($)		1 271	1 206	1 152	1 088
Operating cost to rateable property ($)		1 723	1 821	1 684	1 580
Employee costs expensed ($'000s)		5 533	5 673	5 302	4 871
Employee costs capitalised ($'000s)		448	444	293	302
Total employee costs ($'000s)		5 981	6 117	5 595	5 173
Employee costs as a % of operating expenses		37%	36%	37%	37%
Average staff numbers (FTEs)		76	82	82	81
Average staff costs ($'000s)		79	75	68	64
Average leave balance per FTE ($'000s)		13	15	12	11

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

*** Information not obtained or unavailable to calculate prior year ratio.*

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

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

WARATAH-WYNYARD COUNCIL

SNAPSHOT

- In 2013-14 Council recorded an Underlying Deficit of $1.658m, considerably worse than the budgeted Underlying Deficit of $0.203m.
- Underlying Deficits were recorded in all four years under review and Council budgeted for deficits in each of these years. This is inconsistent with the need to assure long-term financial sustainability.
- At 30 June 2014 Council's Net Assets amounted to $181.406m.
- Council's Rates per capita increased by 22.4% over the three years since 30 June 2011 and Rates per rateable property increased by 22.3%. Operating cost to rateable property also increased, by 23.2%.
- FTE increased by only one, or 1.2%, since 2011 with average cost per FTE increasing by 14.5%.

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

We identified moderate risk audit findings in the areas of information technology, bank reconciliation reviews and property leases. These matters were reported to, and were being addressed by, management.

Council adopted 20 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report.

Apart from the establishment of an audit panel, Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014. Council indicated it would establish an audit panel in 2014-15.

The audit was completed satisfactorily with no other matters outstanding.

Key developments for the year included:

- revaluation of infrastructure assets, roads and bridges
- de-recognition of assets of $1.669m which included land and buildings deemed no longer controlled by Council.

Major variations between 2013-14 and 2012-13 included:

- recognition of assets for the first time, $0.408m, which predominantly consisted of the bridge substructure at Philospher Falls, $0.366m
- higher Other revenue of $0.508m, primarily due to increased distributions from TasWater of $0.543m.

RESOURCE SHARING ARRANGEMENTS

Council entered into a resource sharing agreement with Circular Head Council in December 2008 to jointly employ a General Manager. In late 2013, following the resignation of the shared General Manager, it was decided each council would revert to employing its own General Manager and Corporate Services Manager.

The arrangement was expanded to include further shared employees as positions became available or opportunities were identified. During 2013-14, Council extended the Agreement to 30 November 2018.

The resource sharing arrangement was entered into by Council with the aim of enabling continual improvement in areas such as asset management, risk and human resources which support its future strategic objectives, to ensure Council continues to attract and keep quality staff, provide succession planning and extend service provision. The arrangement helped Council to progress asset management planning, address business risks and improve human resource practices.

A Resource Sharing Committee consisting of three councillors from each Council was established to identify opportunities to improve services and manage the resource sharing arrangements.

At 30 June 2014 there were 12 (2013, 15) shared positions of which five full time equivalents were employed by Council and seven employed by Circular Head Council.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of roads and bridges was undertaken during 2013-14 based on the depreciated replacement cost methodology. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. We obtained the appropriate representations from management and engineers to address the reliance placed on internal revaluation assessments.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and re-signed on 26 September 2014 with an unqualified audit report issued on the same date.

KEY DEVELOPMENTS

Revaluation of roads and bridges

As part of its 2013-14 revaluation, Council revalued its road and bridge infrastructure assets using a depreciated replacement cost methodology. This resulted in revaluation increments of roads, $5.011m, and bridges, $1.212m.

De-recognition of assets

In 2013-14 Council reviewed whether it controlled assets constructed on its land and their recognition in its financial statements. Council deemed it no longer controlled a number of assets, which resulted in de-recognition of the following land and buildings:

- Boat Harbour Surf Club land and buildings $0.735m
- Wynyard Recreation Ground clubrooms $0.330m
- Bridge superstructures – Riverwalk $0.250m
- Wynyard wharf building $0.102m
- Somerset Recreation Ground building $0.102m
- Other $0.150m.

KEY FINDINGS

A number of moderate-risk audit findings were made, as follows:

- Bank reconciliations should have signatures as evidence of preparation and review.
- Management should consider implementing stronger controls over the IT environment including:
    - enforcing password best practice to a minimum of eight characters, complexity enabled, last five passwords retained and account lock-out after three invalid attempts
    - implementing policies relating to the IT environment
    - exploring options for detecting IT security breaches.

- In the area of property leases, Council should:
    - implement an overarching policy and process for leasing councils assets for nominal values
    - develop a schedule to record all properties under lease agreements, including those under historical arrangements
    - document lease agreements for those leased assets under historical or informal arrangements and appoint a responsible officer to provide stewardship over the leasing agreements and associated document management.

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

The audit was completed satisfactorily with no other items outstanding.

Adoption of Recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 20 out of 22 recommendations relevant to councils. Key recommendations that were not adopted included:

- The components of a road asset, which include earthworks, a pavement base and sub-base, were not separately identified, valued and depreciated.
- Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired.

We recommended Council adopt the recommendations contained in our report to ensure its asset management and financial accounting and reporting reflects best practice and is consistent with other councils that have adopted our recommendations.

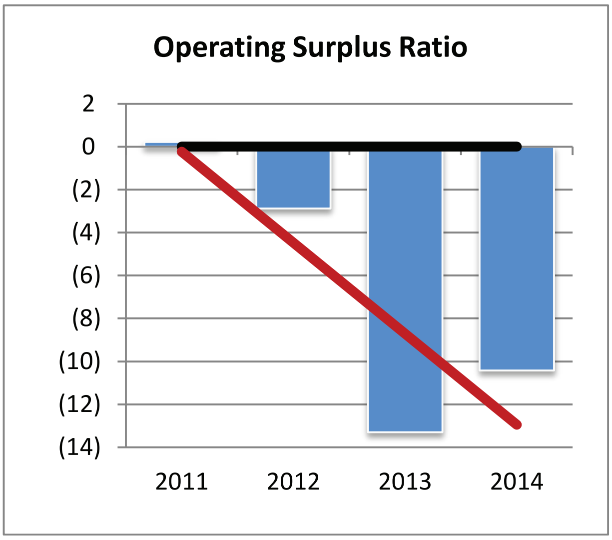
Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. Council complied with all relevant requirements and indicated it would establish an audit panel in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

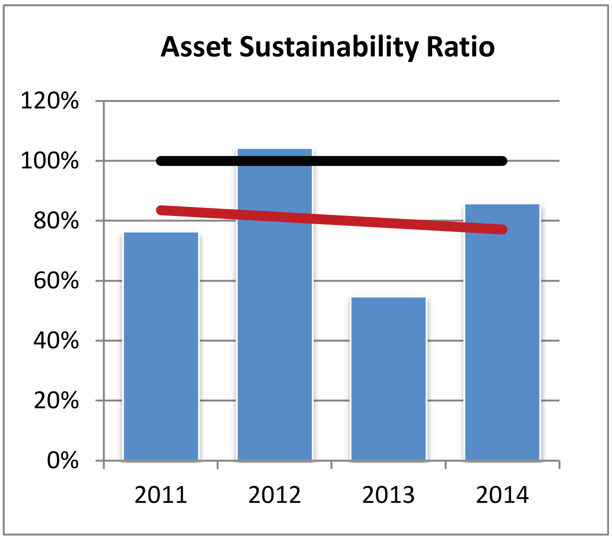
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's downward-trending Operating surplus ratio reflected deficits recorded in three of the past four years. Over the last four years, Council recorded an average negative ratio of 6.6. This indicated it did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

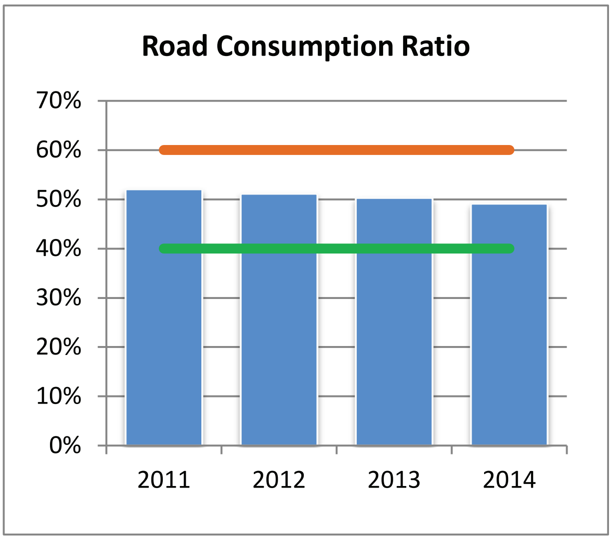
It is of concern that Council budgeted for deficits in each of the four years totalling $1.938m. We believe that, as a minimum, Council should budget for a break-even position.



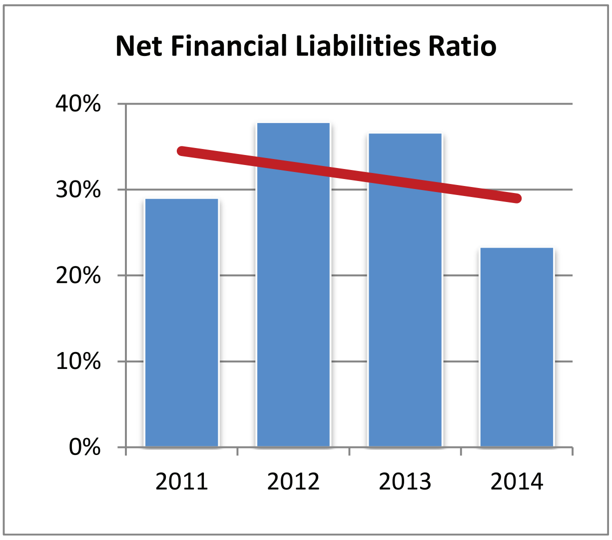
Asset sustainability ratios were below the 100% benchmark in three of the four-years under review. Over the four year period, Council's average ratio was 80% indicating, subject to levels of maintenance expenditure and its long-term asset and financial management plans, Council under-invested in its existing assets.

Asset renewal funding ratio

Council's long-term asset management plan and its long-term financial management plan indicated the Asset renewal funding ratio at 30 June 2014 was 94% (2013, 81%), based on planned asset replacement expenditure. The ratio was above our benchmark of 90% to 100% which indicated Council planned adequately to renew its assets.



The ratio at 30 June 2014 indicated Council had consumed approximately 51% of the service potential of its road infrastructure assets. Overall, at this point in time, while Council's road assets had sufficient capacity to continue to provide services to ratepayers, they were in the moderate-risk age range.



* *Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities ratio at 30 June 2014, with liquid assets well in excess of Total Liabilities. The positive ratio indicated a strong liquidity position, with Council able to meet its current commitments.

Council had contractual commitments totalling $1.171m (2012-13, $1.072m) which were not recognised in its Statement of Financial Position nor were they factored into the Net financial liabilities ratio.

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

Governance

A review of Council's governance arrangements indicated it did not have an audit committee or an internal audit function. Council's governance could be strengthened if it established an audit committee with both internal and external members.

Council had a long-term asset management plan and a financial strategy plan. The long-term asset management plan was detailed, regularly reviewed, covered all key elements required and was formally adopted by Council. The plan forecasts intended and required renewal expenditure to 2029-30 covering transport infrastructure, stormwater, buildings and recreation assets. The financial strategy plan was yet to be formally approved and covers the years 2013-17.

Conclusion as to financial sustainability

From a financial operating perspective Council generated an underlying deficit in three of the four years under review. Over the last four years, the average Operating surplus ratio was negative 6.6, with Council budgeting for underlying deficits.

Council's average Asset sustainability ratio of 80% was below our 100% benchmark, and indicated it under-invested in renewing its existing assets. Council's Road consumption ratio indicated its roads had sufficient capacity to continue to provide services to its ratepayers. The ratio deteriorated slightly over the four years but remained in the moderate risk range. Asset renewal funding ratio of 94% indicated Council is planning to adequately fund future asset replacement expenditure.

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

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

Based on these ratios and governance arrangements we concluded that, at 30 June 2014, Council was at high sustainability risk from financial operating, governance and asset management perspectives and low sustainability risk from net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

Waratah-Wynyard Council welcomes the Auditor-General's report on the financial performance and sustainability of Council and acknowledges an ongoing concern with the underlying deficit position.

While we note the Auditor-General's disappointment that Council budgeted for an Underlying Deficit of $0.203m, we do not agree with the Auditor-General's exclusion of Roads to Recovery funding of $0.395m from the operational budget. Inclusion of these funds provided for a budgeted surplus of $0.190m in 2013-14 and for a budgeted surplus of $0.395m in 2014-15.

In Council's view the Roads to Recovery program is provided in acknowledgement of the difficulties many councils have in funding maintenance and renewal of existing assets. Local governments are entitled to consider the funding as ongoing, in the short to medium term, and to include it in their revenue sources to fund maintenance and depreciation. Should future federal governments remove the funding, Council would reassess its levels of service and either impose a greater rates burden on residents or appropriately lower the standard of services provided by road-related assets.

Recent rate increases in particular reflect the application of full cost recovery pricing principles to waste management and drainage charges. Over the past five years rates have increased by 30.6% compared to costs of 23.0% in order to recover these costs increases.

The 2013-14 underlying deficit has seen a significant overspend on legal expenses of around $0.350m associated with a number of specific personnel and planning matters that are not ongoing. The other areas that cause *concern to Council are the appropriateness of our overhead recovery allocations, the reliability of cost allocations between operational and capital works, depreciation and loss on disposal of assets.*

As examples, materials costs in the 2013-14 financial statement contains a $0.060m over-recovery of overheads and $0.200m of losses should have been treated as de-recognition of assets that were duplicated on the asset register.

However, Depreciation costs were $0.208m over budget, and this has been a regular occurrence in recent years ($0.391m and $0.584m) due to a failure to adequately assess the impact of asset revaluations on depreciation expense. Similarly, loses on disposal in 2013-14 were $0.636m ($0.457m and $0.229m in previous years). It is also expected based on the current asset renewal program that there will be ongoing significant losses on disposal in the immediate future, in particular with respect to drainage assets where there are significant under-capacity assets that need to be upgraded in the Somerset area.

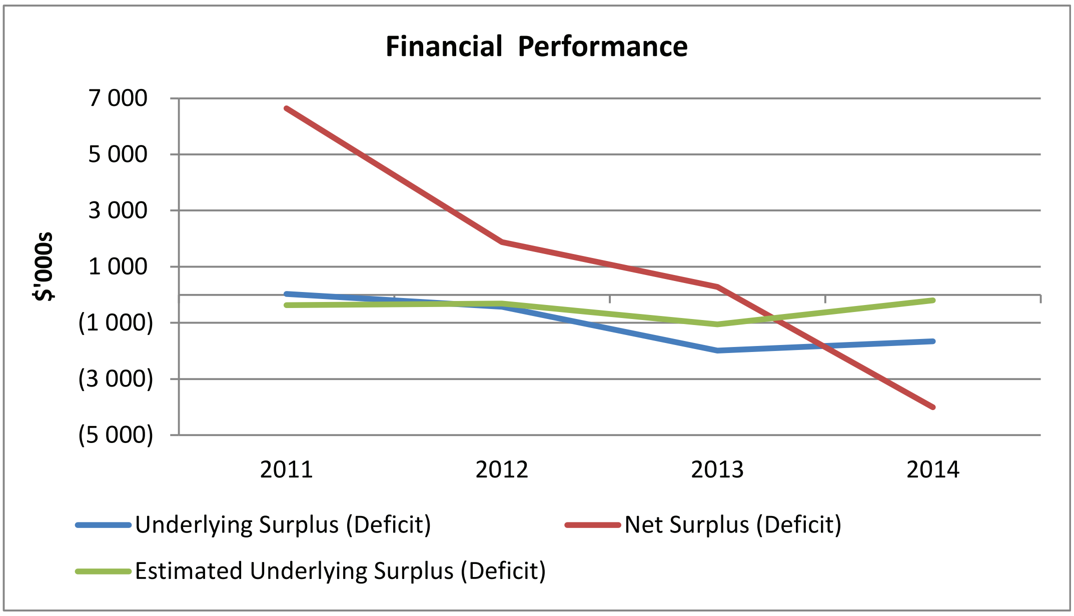
Council is currently investigating the extent of these issues in order to develop an appropriate financing model to spread the financial impact over a number of years and avoid further rates 'shocks' in what are currently difficult economic times for our community.

Council is also concerned as to the appropriateness of the current depreciation levels to our future asset renewal demands.

Council notes the qualifying statement "subject to levels of maintenance expenditure and its long term asset and financial management plans" made by the Auditor-General in relation to the Asset sustainability ratio, but does not agree with the implicit underlying assumption that Council under-invests in its existing assets. Council funds those asset renewals identified through the technical assessment. In the longer term we believe it is more appropriate for the Auditor-General to form a view on asset sustainability based upon an independent verification of asset management plans and Council's compliance with that program.

While Council is aware of the need to stabilise its long term operating position, given it has a relatively healthy cash balance, and currently generates an excess cash surplus from depreciation over its renewal needs, it is not of a view that it is appropriate to reactively raise rates until it has a better understanding of its long-term requirements and intergenerational fairness.

FINANCIAL ANALYSIS

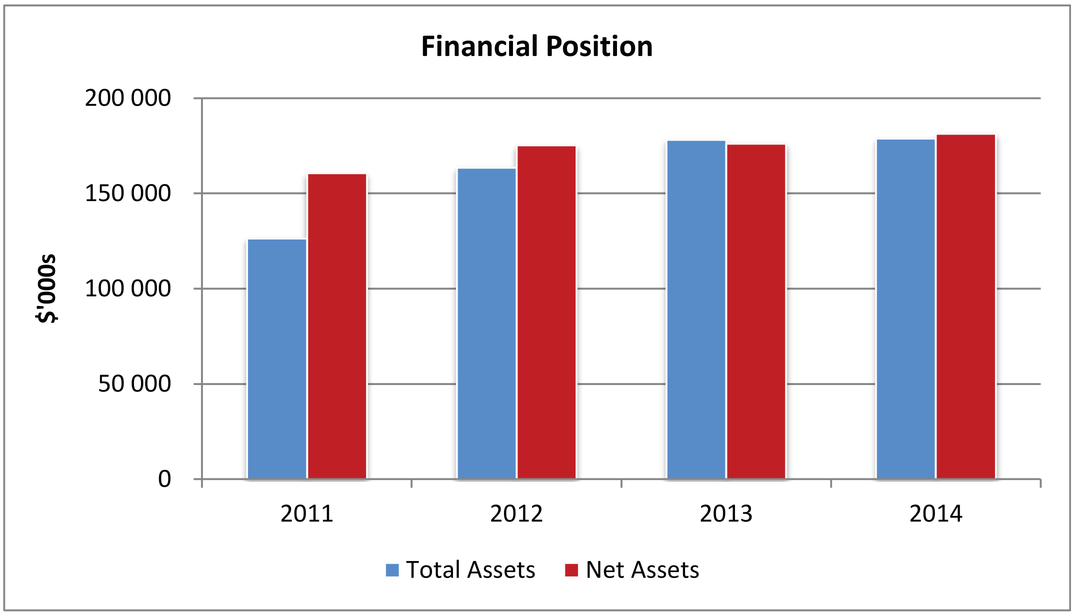


Council recorded Underlying Deficits in three of the four years under review and, disappointingly, it budgeted for these deficit results. In 2013-14 Council budgeted for an Underlying Deficit of $0.203m, which was lower than previous years. This is inconsistent with the need to assure long-term financial sustainability. We believe that at a minimum Council should budget for a break-even position.

In 2013-14, Council recorded an Underlying Deficit of $1.658m, $0.332m lower than the $1.990m deficit in the previous year. The lower Underlying Deficit in 2013-14 was primarily due to higher Other revenue of $0.508m, primarily due to increased distributions from TasWater, $0.543m, offset by lower reimbursements and contributions of $0.060m.

The Underlying Deficit was $1.455m higher than the budgeted deficit of $0.203m mainly because Depreciation and Materials and contracts expenses were higher than originally estimated.

Council recorded a Net Deficit of $4.004m in 2013-14. This was significantly worse than the Net Surplus of $0.283m in 2012-13 because of the combined effects of the cessation of Financial assistance grants in advance, $1.573m, lower Capital grants, $0.536m, net de-recognition of assets, $1.261m and a drop in Contribution of non-current assets, $1.248m.



Council's Total Assets and Net Assets grew steadily over the period under review. Total Assets increased by $20.519m, or 12.5%, from 2010-11 to 2013-14, primarily due to increased Property, plant and equipment from $116.349m at 30 June 2011 to $133.667m at 30 June 2014. This was due to asset revaluation increments, $37.228m, and increased value of Council's investment in TasWater, $3.859m.

At 30 June 2014, Net Assets increased by $5.319m to $181.406m from 2013. This increase was mainly attributable to the revaluations of roads, $5.011m, and bridges, $1.212m, higher value of the investment in TasWater, $3.100m, partly offset by a $2.045m fall in Cash and financial assets.

Council's Cash and financial assets at 30 June 2014 was $5.344m compared to $7.389m the prior year. This decline was mainly because payments for Property, plant and equipment, $3.871m, exceeded Cash from operations of $1.273m. This resulted in the Self-financing ratio dropping from 12.8% to 4.3%. However, over the four year period, Council generated positive operating cash flows of $10.913m.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis table at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 22.4% over the three years since 30 June 2011 and Rates per rateable property increased by 22.3% over the same period. These were outweighed by increases in operating costs as measured by Operating cost to rateable property, which rose by 23.2%. The lower rate of increase in rates contributed to Council's higher underlying deficits in recent years.

FTE increased by only one, or 1.2%, since 2011 and over this period Average cost per FTE increased by 14.5%. Average staff costs increased slightly in the current year by 4.4% due mainly to an EBA increase of 3.95%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	9 543	9 614	9 122	8 771
Fees and charges	1 807	1 665	1 706	1 838
Grants**	3 269	3 237	3 149	3 249
Interest revenue	376	338	439	499
Other revenue	1 028	1 060	552	649
Total Revenue	**16 023**	**15 914**	**14 968**	**15 006**
Employee costs	5 342	5 452	5 293	4 868
Depreciation	3 872	4 080	3 964	3 692
Finance costs	0	0	1	7
Other expenses	7 012	8 040	7 700	6 871
Total Expenses	**16 226**	**17 572**	**16 958**	**15 438**
Underlying Surplus (Deficit)	**(203)**	**(1 658)**	**(1 990)**	**(432)**
Capital grants	395	395	931	1 211
Financial assistance grant received in advance**	0	0	1 573	1 572
Offset financial assistance grant in advance**	0	(1 573)	(1 572)	(763)
Recognition of assets	0	408	0	0
Derecognition of assets	0	(1 669)	0	(40)
Contributions non-current assets	0	93	1 341	329
Net Surplus (Deficit)	**192**	**(4 004)**	**283**	**1 877**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	6 223	0	12 654
Fair value adjustment TasWater	0	3 100	533	42
Total Other Comprehensive Income (Expense)	**0**	**9 323**	**533**	**12 696**
Comprehensive Surplus (Deficit)	**192**	**5 319**	**816**	**14 573**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	5 344	7 389	8 066	6 375
Receivables	998	845	464	539
Other	859	811	767	747
Total Current Assets	**7 201**	**9 045**	**9 297**	**7 661**
Payables	810	859	1 139	719
Borrowings	5	5	42	131
Provisions – employee benefits	1 286	1 277	1 107	1 090
Other	130	188	172	327
Total Current Liabilities	**2 231**	**2 329**	**2 460**	**2 267**
Net Working Capital	**4 970**	**6 716**	**6 837**	**5 394**
Property, plant and equipment	133 667	129 715	129 275	116 349
Investment in TasWater	43 162	40 063	39 529	39 487
Other	7	11	15	21
Total Non-Current Assets	**176 836**	**169 789**	**168 819**	**155 857**
Borrowings	11	17	22	64
Provisions – employee benefits	208	228	206	266
Provisions – gravel pit rehabilitation	181	173	157	223
Total Non-Current Liabilities	**400**	**418**	**385**	**553**
Net Assets	**181 406**	**176 087**	**175 271**	**160 698**
Accumulated surpluses	120 049	124 055	124 199	122 253
Reserves	61 357	52 032	51 072	38 445
Total Equity	**181 406**	**176 087**	**175 271**	**160 698**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	11 879	11 353	11 716	11 075
Cash flows from Government	1 664	3 150	4 058	3 150
Payments to suppliers and employees	(13 161)	(13 006)	(11 765)	(11 536)
Interest received	306	418	486	471
Distributions from TasWater	585	42	27	26
Finance costs	0	(1)	(7)	(17)
Cash from (used in) Operations	**1 273**	**1 956**	**4 515**	**3 169**
Capital grants and contributions	395	930	1 211	525
Payments for property, plant and equipment	(3 871)	(3 782)	(4 082)	(3 287)
Proceeds from sale of property, plant and equipment	163	261	178	351
Cash from (used in) Investing Activities	**(3 313)**	**(2 591)**	**(2 693)**	**(2 411)**
Repayment of borrowings	(5)	(42)	(131)	(206)
Cash from (used in) Financing Activities	**(5)**	**(42)**	**(131)**	**(206)**
Net Increase (Decrease) in Cash	**(2 045)**	**(677)**	**1 691**	**552**
Cash at the beginning of the year	7 389	8 066	6 375	5 823
Cash at End of the Year	**5 344**	**7 389**	**8 066**	**6 375**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus/(deficit) ($'000s)		(1 658)	(1 990)	(432)	32
Operating surplus ratio* **	>0	(10.42)	(13)	(3)	0
Asset Management					
Asset sustainability ratio*	100%	86%	55%	104%	76%
Asset renewal funding ratio*	90% - 100%	94%	81%	82%	N/a
Road asset consumption ratio*	> 60%	49.1%	50.2%	51.1%	52.0%
Asset investment ratio	>100%	105%	95%	111%	114%
Liquidity					
Net financial assets (liabilities) ($'000s)		3 711	5 487	5 685	4 094
Net financial liabilities ratio* ***	0 - (50%)	23.3%	36.7%	37.9%	29.0%
Operational Efficiency					
Liquidity ratio	2:1	9.03	7.83	6.30	5.98
Current ratio	1:1	3.23	3.88	3.78	3.38
Interest coverage	3:1	N/a	1 955.00	644.00	185.41
Self financing ratio		8.0%	13.1%	30.1%	22.5%
Own source revenue		79.7%	79.0%	78.3%	78.0%
Debt collection	30 days	32	28	16	20
Creditor turnover	30 days	22	26	37	26
Rates per capita ($)		673	638	612	550
Rates to operating revenue		60.4%	60.9%	58.4%	55.0%
Rates per rateable property ($)		1 280	1 216	1 170	1 047
Operating cost to rateable property ($)		2 339	2 260	2 060	1 899
Employee costs expensed ($'000s)		5 452	5 293	4 868	4 784
Employee costs capitalised ($'000s)		453	332	293	362
Total employee costs ($'000s)		5 905	5 625	5 161	5 146
Employee costs as a % of operating expenses		31%	31%	32%	34%
Staff numbers (FTEs)		83	83	81	82
Average staff costs ($'000s)		71	68	64	62
Average leave balance per FTE ($'000s)		18	18	16	16

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

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

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

SNAPSHOT

- Council has consistently recorded Underlying Surpluses. All Surpluses exceeded budgeted results. The Underlying Surplus declined in the current year to $0.625m.
- Council recorded a Comprehensive Surplus of $10.558m, with Net Assets at 30 June 2014 of $273.423m.
- Revaluation of major infrastructure assets resulted in net revaluation increments of $18.384m.
- Operating cash flows totalled $5.183m this year, slightly less than the four-year average of $6.363m per annum.
- Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 14% over the same period.
- Operating cost to rateable property increased by 15% over this period.
- FTEs increased by three (or 3%) since 2011 and over this period average cost per FTE increased by 19%.

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

Council adopted 20 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

We noted deficiencies in the areas of information security and purchase order processes. These matters have been reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Key developments included continued capital improvements at Windsor Park and a number of changes in accounting policies around road infrastructure accounting following Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*.

Major variations noted between 2013-14 and 2012-13 included:

- reduction in TasWater investment, $8.646m
- road revaluation increment, $20.593m
- stormwater revaluation decrement, $2.209m
- reduction of $0.762m in returns from TasWater
- increased Employee costs, $0.576m arising from a 3.5% Enterprise Bargaining Agreement (EBA) wage increase and additional employees
- write-off of the Windsor Park Cricket Club building, $0.323m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of Roads and Drainage infrastructure assets was undertaken in 2013-14. Revaluations require estimations, judgments and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate independent expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 17 September 2014.

KEY DEVELOPMENTS

Residual values for infrastructure assets

Based on the recommendations from Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government,* Council removed the use of residual values in recording road assets as part of a full revaluation effective 1 July 2013. Previously Council applied a 20% residual to sealed road pavement assets and a 50% residual value to gravel road pavements. Useful lives were also extended. This change increased Depreciation by $0.259m in 2013-14.

Gravel re-sheeting

Council changed its approach towards gravel re-sheeting from expensing to capitalising these costs.

A new road wearing surface component with a useful life of three years was created to record these costs.

Earthworks

Earthworks and formation costs were not previously included in the calculation of the roads value but expensed as incurred. As part of the current valuation, a value was calculated for these components and totalled $22.644m. Road earthworks are considered as having the characteristics of land and are treated as non-depreciable assets.

Windsor Park

Recent developments at Windsor Park included:

- last vacant area in Windsor Community Precinct was leased to Regional Imaging, supporting Council's vision for a "one stop shop" for a wide range of health and allied health services
- more light towers were constructed to improve sporting grounds
- Riverside Cricket Clubrooms were demolished in preparation for inclusion within the new Multi-Purpose Community Complex, which resulted in a write-off expense of $0.323m
- Council awarded the contract for the construction of the Multi-Purpose Community Complex at Windsor Community Precinct for $2.700m.

KEY FINDINGS

Information security and purchasing documentation

Information security (IS) is critical to maintaining data integrity and the reliability of key financial and operational systems from accidental or deliberate threats and vulnerabilities. When reviewing the Information Technology (IT) framework it was recommended that Council consider implementing an overarching IT/IS governance framework and develop formal documented processes for user management. Council acknowledged these identified areas for improvement and has undertaken corrective action.

One other moderate risk recommendation was made in relation to purchasing documentation. This was also addressed by management.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 20 out of 22 recommendations relevant to councils. A key recommendation not adopted was Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired.

Local Government Ministerial Orders

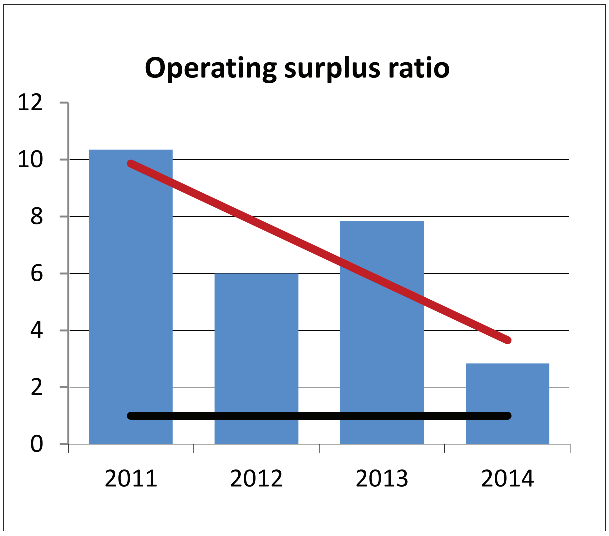
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that Council complied with relevant requirements. Council indicated that it will establish an audit panel in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

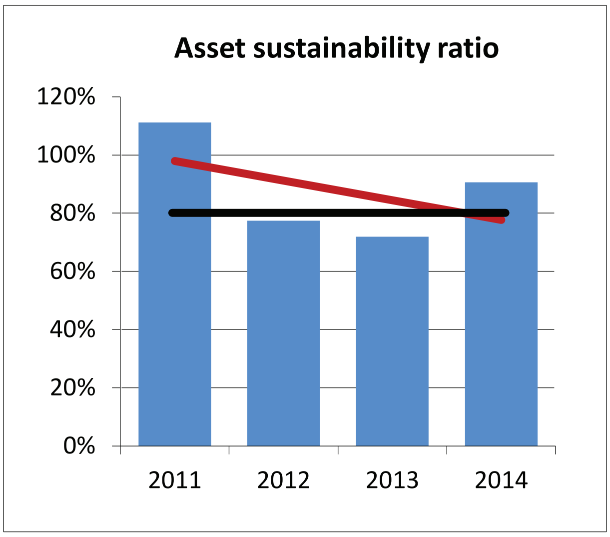
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded positive Operating surplus ratios over the four-year period under review. Overall, Council's average ratio was 6.76, which is well above our benchmark indicating it generated sufficient revenue to fulfil its operating requirements, including its depreciation charges.



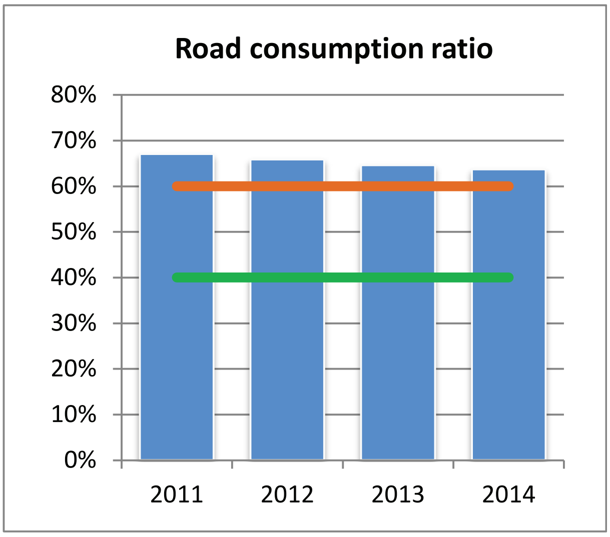
Asset sustainability ratios were below benchmark in two of the four years under review, with an average ratio over the four years of 88%. This indicates, subject to levels of maintenance expenditure and the long-term asset management plan, Council had not maintained its investment in existing assets.

Asset renewal funding ratio

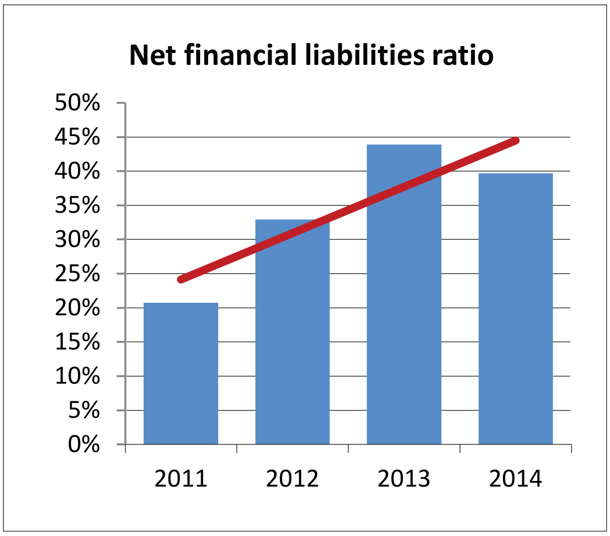
The Asset renewal funding ratio included in the financial analysis table at the end of this Chapter represent a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2023-24 and lists Property, plant and equipment on a statement line basis. The plan is not subject to audit.

Council's long-term asset management plan indicated that, based on planned asset replacement expenditure, its asset renewal funding ratio was 100% at 30 June 2014 (2013, 100%). The ratio was in line with our benchmark of between 90% and 100%.



The graph indicated that at 30 June 2014 Council had consumed approximately 36% of the service potential of its road assets. This was above our benchmark which indicated Council's roads had sufficient capacity to continue to provide services to its ratepayers.



* *Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of Total Liabilities in each year under review. These positive ratios indicate a strong liquidity position, with Council able to meet future commitments.

It is noted, however, that Council has contractual commitments totalling $5.130m (2013-13, $3.000m) which are not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio.

In addition, Council's Cash was subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds, including commitments, totalled $5.130m or 43.3% of Cash, $11.853m at 30 June 2014. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position. Taking all of these factors into account, Council has been maintaining a healthy net financial liabilities position. However, hypothetically if the Cash balance was reduced by the restricted funds the Net financial liabilities ratio would be 16.4% at 30 June 2014, which is still well above the benchmark and a low risk.

Governance

A review of Council's governance arrangements indicated Council established an audit panel, with the panel:

- comprised of an independent chairperson and two councillors
- taking an oversight role of Council's financial statements.

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

Council had long-term asset and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to financial sustainability

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

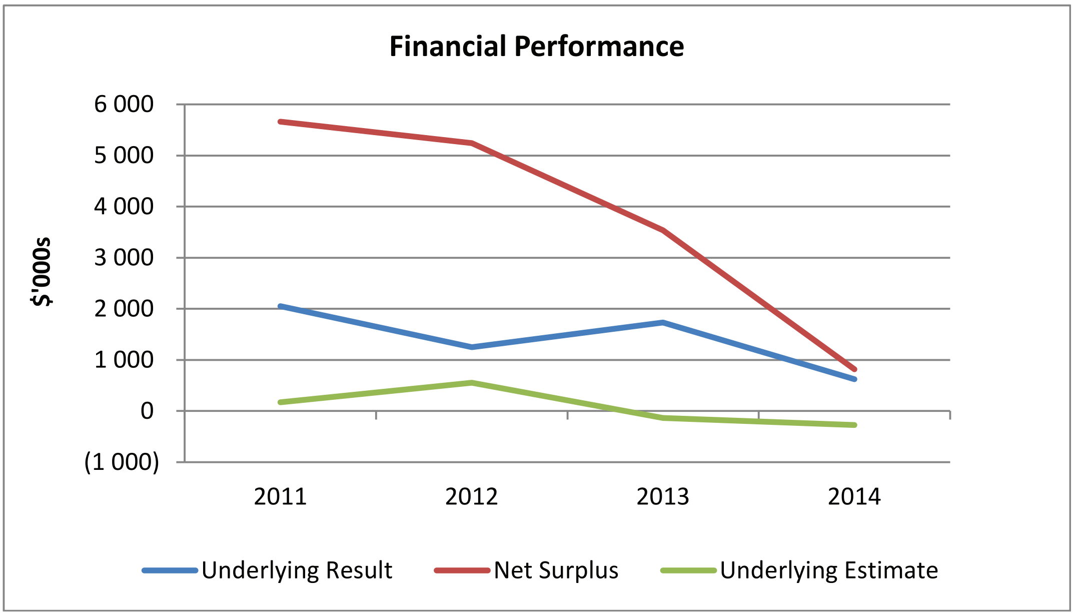
Council's Asset sustainability ratio indicates, based on our 100% benchmark, it has not been adequately investing in existing assets. However, Council's Road consumption ratio indicated it had sufficient capacity to service its ratepayers. Asset renewal funding ratio is consistent with our benchmark and indicates there is no funding gap between planned and required future asset replacement expenditure.

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

From a governance perspective, Council had established an audit panel, although it does not have an internal audit function. However, it had long-term asset and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate sustainability risk from governance and asset management perspectives, but low sustainability risk from financial operating and net financial liabilities perspectives.

FINANCIAL ANALYSIS



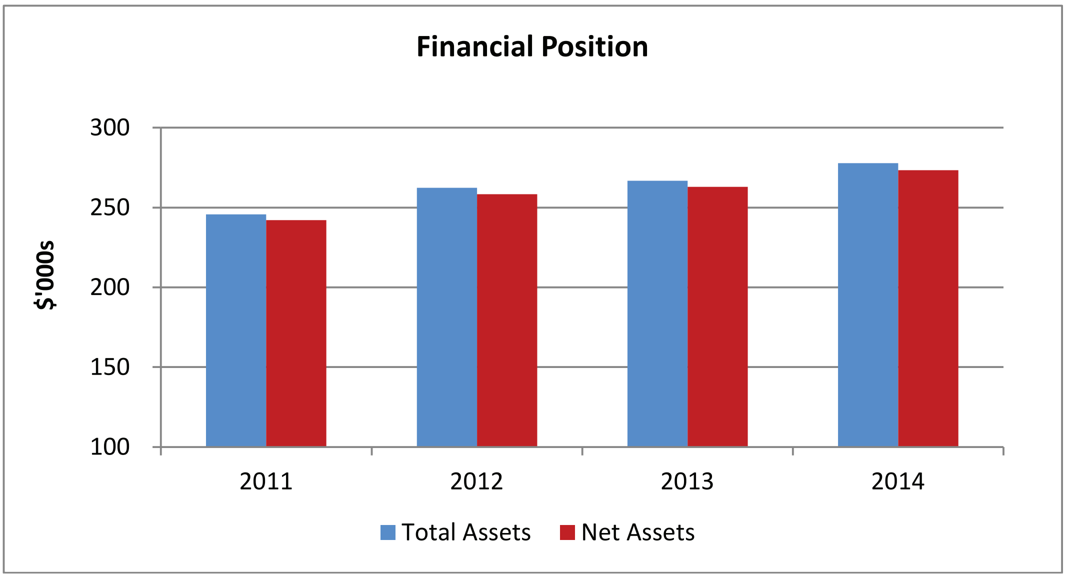
Council recorded Underlying Surpluses in all four years under review. The surpluses have consistently exceeded budgeted results.

Council produced an Underlying Surplus of $0.625m in 2013-14, a decline of $1.107m from the prior year surplus of $1.732m. The lower result primarily related to:

- reduced returns from TasWater, $1.368m a decrease of $0.762m from 2012-13, included in Other revenue
- increased Employee costs, $0.576m arising from a 3.5% EBA wage increase and an additional three full time equivalent employees

- higher Other expenses, $0.595m, mainly caused by a loss on disposal of $0.538m compared to a prior year gain of $0.040m. Included in the loss on disposal was the $0.323m write-off of the Windsor Park Cricket Club building.

These factors were offset by higher rates of $0.654m which was consistent with growth of 183 in rateable properties and a rate increase of 3.6%.



Council's Total Assets and Net Assets increased over the period under review. Net Assets increased by $31.328m, or 12.9%, primarily due to increased infrastructure assets, $33.704m offset by a reduction of $7.097m in Council's investment in TasWater.

Council's financial position improved as at 30 June 2014, with Net Assets increasing by 4.0% or $10.558m to $273.423m. Main components of this increase in net assets were:

- Council's investment in TasWater decreased by $8.646m
- Property, plant and equipment increased by $20.213m. The increase in Property, plant and equipment was driven by road revaluation increments of $20.593m, which included recognition of earthworks, $22.644m, as discussed earlier in Key Developments. The road revaluation increment was partially reduced by a stormwater infrastructure net decrement of $2.209m.

Council's major capital additions this year were road and stormwater infrastructure renewals and upgrades.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on cash flows from operating activities, Rates per capita and per rateable property and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed furhter in the Local Government Operational Efficiency Chapter in Part 1 of this Volume.

Council generated operating cash flows of $5.183m this year. Operating cash flows averaged $6.363m per annum over the past four years. The reduction this year was predominantly due to $1.112m less Cash flows from government, mainly due to the effect of the removal in 2013-14 of the advance payment of federal assistance grant funding, and decreased distributions from TasWater, $1.368m (2013, $2.130m).

Council's Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 14% over this period. Operating cost to rateable property increased by 15%. The consistency between these ratios resulted in Council maintaining positive Underlying results over the period.

FTEs increased by three (or 3%) since 2011 and over this period Average staff cost per FTE increased by 19%.

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	14 862	14 877	14 223	13 427
Fees and charges	2 328	2 480	2 406	2 218
Grants**	1 190	2 580	2 434	2 473
Interest revenue	461	543	585	585
Other revenue	1 538	1 550	2 430	2 080
Total Revenue	**20 379**	**22 030**	**22 078**	**20 783**
Employee costs	7 550	7 698	7 122	6 858
Depreciation	5 099	5 210	5 322	5 073
Other expenses	8 005	8 497	7 902	7 605
Total Expenses	**20 654**	**21 405**	**20 346**	**19 536**
Underlying Surplus (Deficit)	**(275)**	**625**	**1 732**	**1 247**
Capital grants	350	463	363	374
Financial assistance grant received in advance**	0	0	1 251	1 243
Offset financial assistance grant in advance**	0	(1 251)	(1243)	(656)
Contributions of non-current assets	0	983	1 431	3 031
Net Surplus	**75**	**820**	**3 534**	**5 239**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	18 384	(261)	10 707
Fair value adjustment in TasWater	0	(8 646)	1 184	367
Total Comprehensive Income Items	**0**	**9 738**	**923**	**11 074**
Comprehensive Surplus	**75**	**10 558**	**4 457**	**16 313**

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

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	11 853	12 640	10 009	7 044
Receivables	1 179	943	729	593
Inventories	177	251	263	221
Other	316	285	154	170
Total Current Assets	**13 525**	**14 119**	**11 155**	**8 028**
Payables	1 686	1 288	1 280	933
Interest bearing liabilities	110	194	220	261
Provisions – employee benefits	1 931	1 866	1 678	1 460
Other	32	55	95	70
Total Current Liabilities	**3 759**	**3 403**	**3 273**	**2 724**
Net Working Capital	**9 766**	**10 716**	**7 882**	**5 304**
Property, plant and equipment	209 531	189 318	189 018	175 827
Investment in TasWater	54 529	63 175	61 993	61 626
Other	128	143	134	149
Total Non-Current Assets	**264 188**	**252 636**	**251 145**	**237 602**
Interest bearing liabilities	117	227	420	641
Provisions – employee benefits	386	242	185	159
Other	28	18	14	11
Total Non-Current Liabilities	**531**	**487**	**619**	**811**
Net Assets	**273 423**	**262 865**	**258 408**	**242 095**
Reserves	110 952	101 214	100 291	89 218
Accumulated surpluses	162 471	161 651	158 117	152 877
Total Equity	**273 423**	**262 865**	**258 408**	**242 095**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	18 490	17 650	16 886	16 901
Cash flows from Government	1 331	2 443	3 063	2 638
Payments to suppliers and employees	(16 524)	(15 870)	(14 891)	(15 987)
Interest received	541	581	572	709
Finance costs	(23)	(35)	(49)	(66)
Distributions received – TasWater	1 368	2 130	1 829	1 765
Cash from (used in) Operations	**5 183**	**6 899**	**7 410**	**5 960**
Capital grants and contributions	463	363	374	861
Payments for property, plant and equipment	(6 465)	(4 731)	(4 875)	(14 842)
Proceeds from sale of property, plant and equipment	222	320	305	447
Loans repaid by debtors	4	0	12	6
Loan receivable advances	0	0	0	(165)
Cash from (used in) Investing Activities	**(5 776)**	**(4 048)**	**(4 184)**	**(13 693)**
Proceeds from borrowings	0	0	0	100
Repayment of borrowings	(194)	(220)	(261)	(312)
Cash from (used in) Financing Activities	**(194)**	**(220)**	**(261)**	**(212)**
Net Increase (Decrease) in Cash	**(787)**	**2 631**	**2 965**	**(7 945)**
Cash at the beginning of the year	12 640	10 009	7 044	14 989
Cash at End of the Year	**11 853**	**12 640**	**10 009**	**7 044**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		625	1 732	1 247	2 050
Operating surplus ratio* **	>0	2.84	7.84	6.00	10.35
Asset Management					
Asset sustainability ratio*	>100%	91%	72%	77%	111%
Asset renewal funding ratio*	90% - 100%	100%	100%	104%	104%
Road asset consumption ratio*	>60%	63.7%	64.6%	65.9%	67.0%
Liquidity					
Net financial assets (liabilities) ($'000s)		8 742	9 693	6 846	4 102
Net financial liabilities ratio* ***	0% - (50%)	39.7%	43.9%	32.9%	20.7%
Operational Efficiency					
Liquidity ratio	2:1	7.13	8.84	6.73	6.04
Current ratio	1:1	3.60	4.15	3.41	2.95
Interest coverage		224.35	196.11	150.22	89.30
Asset investment ratio	>100%	121%	91%	96%	322%
Self financing ratio		23.5%	31.2%	35.7%	30.1%
Own source revenue		88.3%	89.0%	88.1%	86.8%
Debt collection	30 days	25	21	17	15
Creditor turnover	30 days	41	37	37	11
Rates per capita ($)		646	622	589	558
Rates to operating revenue		67.5%	64.4%	64.6%	63.3%
Rates per rateable property ($)		1 317	1 279	1 227	1 159
Operating cost to rateable property ($)		1 894	1 830	1 785	1 641
Employee costs expensed ($'000s)		7 698	7 122	6 858	6 276
Employee costs capitalised ($'000s)		249	196	248	240
Total employee costs ($'000s)		7 947	7 318	7 106	6 516
Employee costs as a % of operating expenses		36%	35%	35%	35%
Average staff numbers (FTEs)		95	92	91	92
Average staff costs ($'000s)		84	80	78	71
Average leave balance per FTE ($'000s)		24	23	20	18

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

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

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

BREAK O'DAY COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus in 2013-14 for the first time over the four years under review. The Underlying Surplus of $0.078m improved from the 2012-13 deficit of $1.524m primarily due to increased rates income, higher dividend returns from TasWater and several operating grants that were not fully expended.
- Council budgeted for a deficit in all four years under review, however the deficits are trending downwards with a deficit of $0.214m estimated in 2013-14.
- A revaluation of major transport infrastructure assets resulted in an increment of $4.213m.
- Its Comprehensive result was a deficit of $1.015m, predominantly due to a write-down in the value of its investment in TasWater, $5.143m.
- Rates per capita increased by 20% over the three year period since 30 June 2011 and Rates per rateable property increased by 17% over the same period.
- Operating cost to rateable property increased by 8%.

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

We identified moderate risk audit findings in the areas of recognition of land under roads and valuation of drainage assets. These matters were reported to, and are being addressed or considered by, management.

Council adopted 19 out of 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report.

Apart from establishment of an audit panel and completion of its long-term asset management plan and municipal management plan, Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014. Council indicated that it will establish an audit panel in 2014-15 and its long term asset management plan and municipal management plan are also expected to be adopted in 2014-15.

The audit was completed satisfactorily with no other items outstanding.

Major developments in the year included planning activities in relation to Council's Municipal Management Plan and regional tourism and infrastructure works.

Major variations between 2013-14 and 2012-13 included:

- special purpose grants of $0.460m were received to fund regional tourism initiatives, the majority of which was used to engage consultants. The majority of the expenditure related to these activities will occur in 2014-15
- dividends of $0.387m were received from Council's investment in TasWater in 2013-14, while changes in asset valuations and Council ownership interests in the corporation led to a downward fair value adjustment of $5.141m
- substantial decrease in materials and services expense of $0.598m in comparison to 2012-13, due to consulting fees incurred in that period related to major planning initiatives
- borrowings taken out during the year of $3.000m, in addition to $1.300m during 2012-13, to finance major infrastructure works
- comprehensive valuations of road and bridge assets were undertaken, resulting in an overall revaluation increment of $4.212m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A revaluation of Council transport infrastructure was undertaken during 2013-2014 using an independent valuer. Revaluations required estimation, judgment and complex calculations. There was a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014. An unqualified audit report was issued on 26 September 2014.

KEY DEVELOPMENTS

Major developments in the year included:

- Council continued its major planning activities in relation to its strategic focus and future priorities in its Municipal Management Plan. It is anticipated that the plan will be formally adopted by Council following the October 2014 elections
- on-going infrastructure works, particularly in relation to Council's bridge replacement program. There was a significant amount of works in progress at year end in relation to bridges, drainage and road upgrade works
- rates were increased by 6.43%, following a municipal revaluation, generating an additional $0.440m in revenue. However, due to community concerns this was subsequently offset by rate remissions to rural ratepayers of $0.322m.

KEY FINDINGS

During the audit we noted drainage assets were not revalued or indexed since a valuation performed in June 2012. Management intend to complete a full revaluation of these assets during 2014-15 once several major drainage projects are completed.

This audit finding, along with other low risk findings were reported to, and are being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

Adoption of recommendations from Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 19 out of 22 recommendations relevant to councils, with the exceptions of:

- recognition of land under roads
- documentation in Council minutes of annual reviews of asset revaluations
- reporting of the Asset renewal funding ratio in its financial statements.

Council will review these exceptions during 2014-15.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial management indicators. We found that, apart from establishment of an audit panel and completion of its long-term asset management plan and municipal management plan, Council complied with relevant requirements.

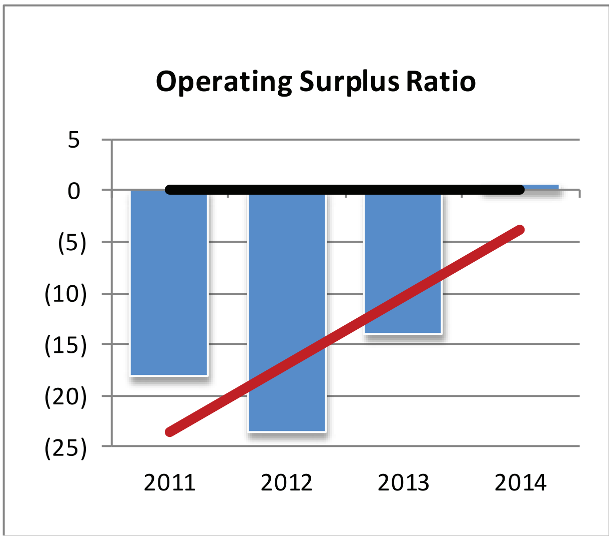
Council indicated that it will establish an audit panel in 2014-15 in a resource-sharing model in conjunction with other regional councils which expected to be adopted in 2014-15. In addition, Council is nearing completion of its long-term asset management plan and municipal management plan which are expected to be adopted in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

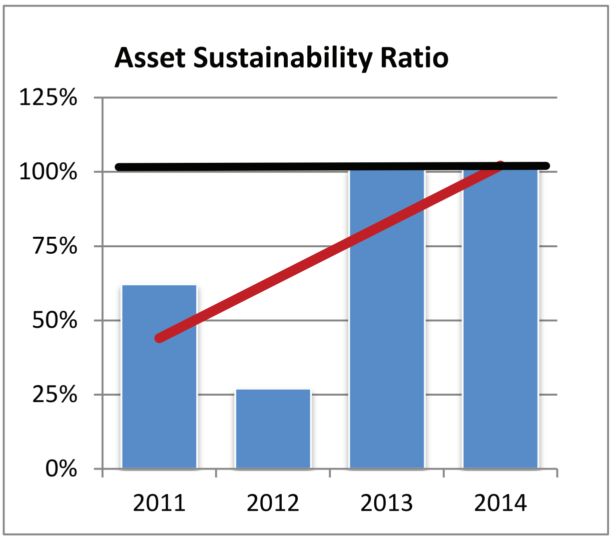
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded a small operating surplus in 2013-14, following operating deficits in each of the past three years. The current year's result was assisted by increased rates income, higher dividend returns from TasWater and several operating grants that were not fully expended. However it still indicates a positive trend emerging in improved operating results over recent years.

The higher Underlying Deficit in 2012 was predominantly due to increased materials and services costs and contract payments, mainly associated with the remediation of flood damage.

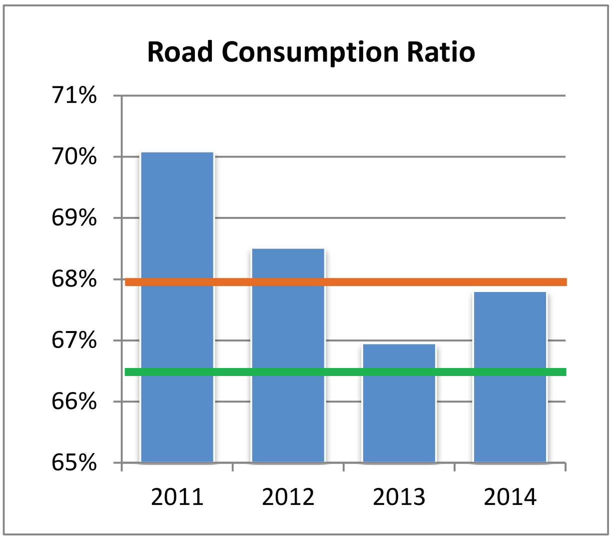


Over the period, Council's average ratio was 73%, indicating, subject to levels of maintenance expenditure, Council failed to maintain its investment in existing assets. However, the ratio was above the benchmark in the past two years, indicating an improvement.

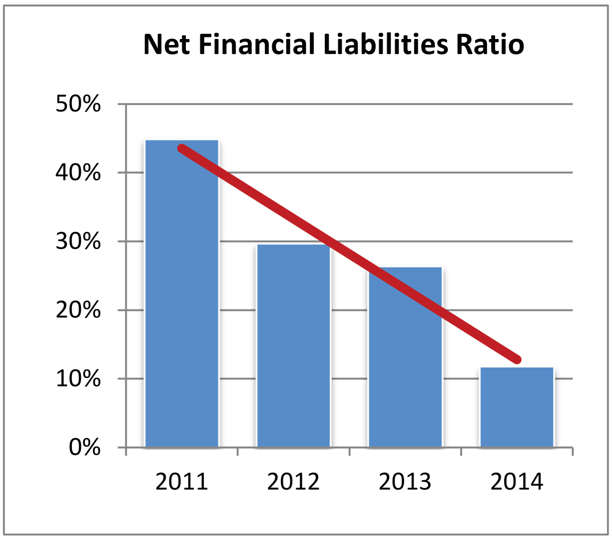
The 2012 result was adversely impacted by the major flood events experienced in the municipality during that year which absorbed much of Council's resources in emergency remediation work that would otherwise have been put into capital works.

Asset renewal funding ratio

Council is yet to complete its long-term asset plans, and therefore we were unable to compute an Asset renewal funding ratio.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 33% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period being 67%. Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded positive Net financial liabilities ratios in all years under review which means that its financial assets exceeded its Total Liabilities. This indicates that Council was in a strong liquidity position, able to meet existing commitments with a capacity to borrow further should the need arise.

However, Council had contractual commitments of $1.924m (2013, $2.756m), which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio. Similarly, Council received grants during the year which have not yet been applied to the purpose for which they were provided, totalling $1.084m ($0.802m).

In addition, Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $0.690m, 10.2%, of the total Cash and financial assets balance.

Hypothetically if the Cash balance was reduced by the restricted funds the Net financial liabilities ratio would be 6.2% at 30 June 2014, which is still within the benchmark and a low risk.

Governance

A review of Council's governance arrangements found Council did not have an audit committee or internal audit function. Existence of an audit committee and active internal audit function would enhance Council's governance arrangements. Council is taking action to establish an audit panel, which is expected to occur in 2014-15.

Council is nearing completion of its long-term asset management plan and municipal management plan which are expected to be adopted in 2014-15.

Conclusion as to financial sustainability

Taken together these ratios indicate a gradual improvement when considering Council's financial sustainability. From a financial operating perspective, Council's Underlying Surplus met the benchmark in 2013-14, after being below in the previous three years. However, excluding the impact of unexpended special purpose grants, Council would have recorded an Underlying Deficit.

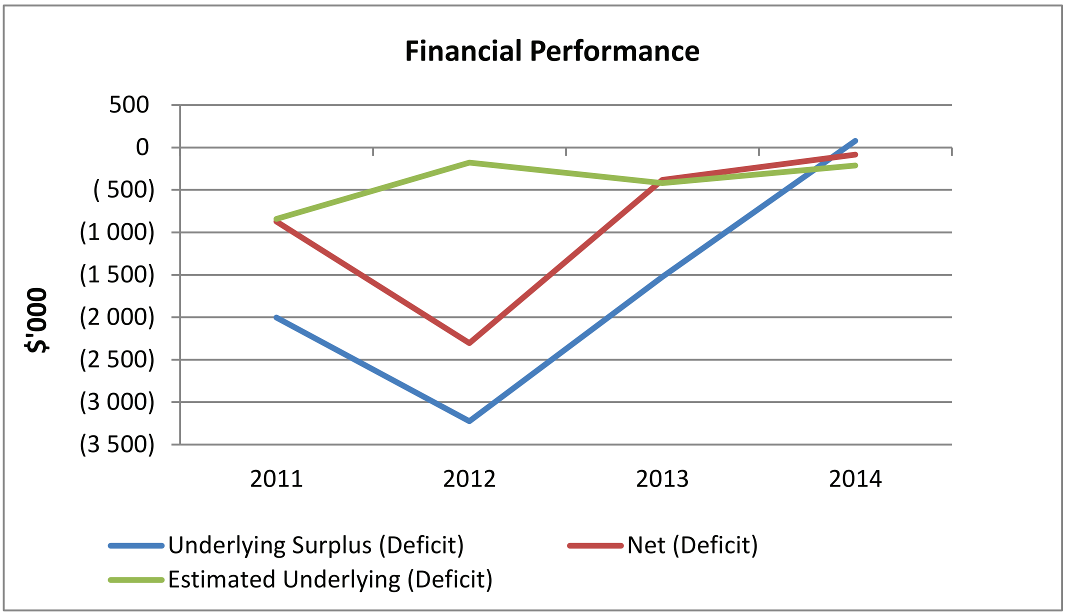
Council's liquidity is strong, and is generating positive operating cash flows indicating it is in a sound position to meet its short-term commitments. It took a strategic decision during 2013 to borrow to invest in infrastructure and should have a capacity to borrow further should the need arise.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, that the previous years' underinvestment in existing assets over the period of the analysis was reversed in 2012-13 and 2013-14, albeit with the assistance of Borrowings. Furthermore, Council's Road consumption ratio shows low risk, indicating that its road assets continue to provide service capacity to its ratepayers.

Council's governance arrangements have improved with the adoption of its long-term financial management plan. It is nearing completion of its long-term asset management plan and does not have an audit committee. Council needs to continue to focus on these governance aspects.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at high risk from a financial operating and governance perspective, moderate risk from an asset management perspective, and low risk from a net financial liability perspective.

FINANCIAL ANALYSIS



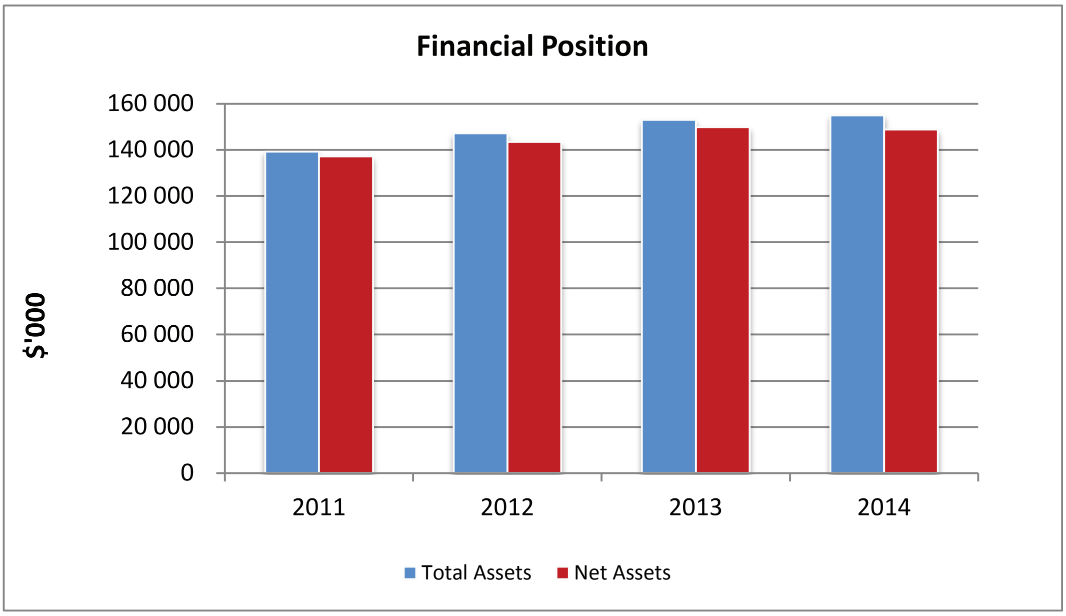
Council achieved a small Underlying Surplus in 2013-14 and an Underlying Deficit in the previous three years under review. Council significantly improved its result from an Underlying Deficit of $1.524m in 2012-13 to an Underlying Surplus of $0.078m this year. The improved result is primarily due to:

- increased rates income, $0.440m
- higher dividend returns from TasWater, $0.387m
- special purpose grants of $0.460m received to fund regional tourism initiatives, the majority of which were not fully expended at balance date
- savings of approximately $0.572m in professional and consulting fees incurred in 2012-13 related to major planning initiatives.

Council reported a Net Deficit of $0.085m after accounting for capital grants of $1.161m, and Commonwealth financial assistance grants, $1.324m paid in advance.

The 2013-14 result was in excess of Council's Estimated Underlying Deficit primarily due to lower Employee costs resulting from capitalisation of employee time spent on major infrastructure projects.

Over the four year period of review, the underlying result has fluctuated significantly. This was most notable in 2011-12, due to several one-off items relating to flood emergency remediation works and employee redundancies.



Council's Total Assets and Net Assets increased steadily over the period under review by $15.706m and $11.651m respectively. This was mainly attributable to higher values relating to infrastructure assets, partly offset by write-downs in the value of Council investment in TasWater and higher Borrowings.

Council's financial position declined marginally at 30 June 2014 compared to 12 months earlier, with Net Assets decreasing by 0.68% or $1.015m to $148.698m. This was attributable to a write-down of $5.143m in the Investment in TasWater, partially offset by an asset revaluation increment of $4.213m.

In 2013-14, Cash and financial assets increased by $1.348m, Receivables were up by $0.248m and Borrowings increased by $2.962m (the current portion of which was $0.131m). As a result, Council's Current ratio increased from 3.44 to 4.23. The increase in cash reflects the use of debt funding to fund asset replacement. Receivables included an accumulation of outstanding rates owing from forestry properties owned by a major timber firm (in Administration). The sale of forestry assets by the administrator was completed subsequent to year end and enabled Council to recover in full the outstanding amount due.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Operating cash flow was $1.748m in 2013-14, a positive result when compared with the average over the four years of 1.391m. Operating cash flows improved significantly in the past two years. Receipts from customers increased by 19% over the period under review, but Payments to suppliers and employees decreased by 9%.

The improved cash flows have also impacted on Council's liquidity and current ratios, which both indicate a strong capacity to meet short-term commitments.

Council's Rates per capita increased by 20% over the three year period since 30 June 2011 and Rates per rateable property increased by 17% over the same period. These increases were above the increase in operating costs as measured by Operating cost to rateable property, which increased by 8%. This was primarily due to a decrease in operating costs in 2013-14.

FTEs dropped significantly from 2011, with Council restructuring its operations during 2011-12. The average was higher in 2011-12 due to the reduction in Staff numbers combined with additional overtime in relation to disaster work and higher termination and redundancy payments.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	7 331	7 322	6 882	6 604
Fees and charges	779	640	666	695
Grants**	3 128	3 250	2 619	5 529
Interest revenue	320	313	325	369
Other revenue	796	749	390	527
Total Revenue	**12 354**	**12 274**	**10 882**	**13 724**
Employee costs	4 018	3 770	3 614	4 599
Depreciation	3 322	3 398	3 361	3 370
Finance costs	87	81	28	4
Other expenses	5 141	4 947	5 403	8 975
Total Expenses	**12 568**	**12 196**	**12 406**	**16 948**
Underlying Surplus (Deficit)	**(214)**	**78**	**(1 524)**	**(3 224)**
Capital grants	568	1 161	1 033	294
Financial assistance grant received in advance**	0	0	1 324	1 216
Offset financial assistance grant in advance**	(1 324)	(1 324)	(1 216)	(591)
Net Surplus (Deficit)	**(970)**	**(85)**	**(383)**	**(2 305)**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	4 213	5 976	8 460
Fair value adjustment TasWater	0	(5 143)	701	217
Total Comprehensive Income	**0**	**(930)**	**6 677**	**8 677**
Total Comprehensive Surplus (Deficit)	**(970)**	**(1 015)**	**6 294**	**6 372**

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

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	6 764	5 416	4 460	5 570
Receivables	902	654	3 298	1 569
Inventories	141	110	48	77
Other	83	34	314	70
Total Current Assets	**7 890**	**6 214**	**8 120**	**7 286**
Payables	1 134	1 153	2 834	878
Borrowings	131	38	0	0
Provisions – employee benefits	467	509	488	654
Other	132	107	222	414
Total Current Liabilities	**1 864**	**1 807**	**3 544**	**1 946**
Net Working Capital	**6 026**	**4 407**	**4 576**	**5 340**
Property, plant and equipment	114 770	109 298	102 287	95 443
Investment in TasWater	32 257	37 400	36 699	36 482
Total Non-Current Assets	**147 027**	**146 698**	**138 986**	**131 925**
Borrowings	4 131	1 262	0	0
Provisions – employee benefits	136	46	63	138
Provisions – rehabilitation	88	84	80	80
Total Non-Current Liabilities	**4 355**	**1 392**	**143**	**218**
Net Assets	**148 698**	**149 713**	**143 419**	**137 047**
Reserves	132 982	133 649	126 757	118 093
Accumulated surpluses	15 716	16 064	16 662	18 954
Total Equity	**148 698**	**149 713**	**143 419**	**137 047**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 298	8 427	7 605	6 975
Cash flows from Government	1 938	5 276	5 231	2 950
Payments to suppliers and employees	(9 122)	(11 246)	(12 750)	(10 017)
Interest received	314	304	369	433
Distributions - TasWater	387	4	133	122
Finance costs	(67)	0	0	0
Cash from (used in) Operations	**1 748**	**2 765**	**588**	**463**
Capital grants and contributions	1 195	1 328	30	1 068
Payments for property, plant and equipment	(4 714)	(4 474)	(1 733)	(3 015)
Proceeds from sale of property, plant and equipment	157	37	5	177
Cash from (used in) Investing Activities	**(3 362)**	**(3 109)**	**(1 698)**	**(1 770)**
Proceeds from borrowings	3 000	1 300	0	0
Repayment of borrowings	(38)	0	0	0
Cash from (used in) Financing Activities	**2 962**	**1 300**	**0**	**0**
Net Increase (Decrease) in Cash	**1 348**	**956**	**(1 110)**	**(1 307)**
Cash at the beginning of the year	5 416	4 460	5 570	6 877
Cash at End of the Year	**6 764**	**5 416**	**4 460**	**5 570**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying deficit ($'000s)		78	(1 524)	(3 224)	(2 004)
Operating surplus ratio* **	>1.0	0.64	(14)	(23)	(18)
Asset Management					
Asset sustainability ratio*	>100%	102%	101%	27%	62%
Asset renewal funding ratio* ***	90% - 100%	N/a	N/a	N/a	N/a
Road asset consumption ratio*	>60	67.3%	66.5%	68.0%	69.6%
Asset investment ratio	>100%	138.7%	133.1%	51.4%	92.6%
Liquidity					
Net financial assets (liabilities) ($'000s)		1 447	2 871	4 071	4 975
Net financial liabilities ratio* ****	0% - (50%)	11.8%	26.4%	29.7%	44.9%
Operational Efficiency					
Liquidity ratio	2:1	5.55	4.68	2.54	5.53
Current ratio	1:1	4.23	3.44	2.29	3.74
Interest coverage	3:1	19.32	34.14	21.00	0
Self financing ratio		14.2%	25.4%	4.3%	4.2%
Own source revenue		73.5%	75.9%	59.7%	67.8%
Debt collection	30 days	41	32	25	31
Creditor turnover	30 days	38	40	33	35
Rates per capita ($)		1 139	1 056	1 014	946
Rates to operating revenue		59.7%	63.2%	48.1%	55.6%
Rates per rateable property ($)		1 152	1 084	1 041	986
Operating cost to rateable property ($)		1 919	1 955	2 672	2 095
Employee costs expensed ($'000s)		3 770	3 614	4 599	4 468
Employee costs capitalised ($'000s)		260	170	159	172
Total employee costs ($'000s)		4 030	3 784	4 758	4 640
Employee costs as a % of operating expenses		31%	29%	27%	34%
Staff numbers (FTEs)		52	52	51	61
Average staff costs ($'000s)		78	73	93	76
Average leave balance per FTE ($'000s)		12	11	11	13

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

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

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

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

CENTRAL HIGHLANDS COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.849m in 2013-14, an improvement on the prior year.
- Council's Net result for the year was a deficit of $1.396m, higher than the prior year due to not receiving the financial assistance grants in advance in 2014.
- The Comprehensive deficit, $2.170m, was influenced by a decrement in the carrying value of TasWater, $1.449m, offset by an increase in the carrying value of Property, plant and equipment, $0.775m.
- Its Net Working Capital declined over the period under review from $7.218m in 2013 to $4.825m in 2014.
- At 30 June 2014, Council had Net Assets of $139.662m with its most significant asset being Property, plant and equipment, $127.267m, and largest liability, total employee benefits, $0.692m.
- Rates per capita increased by 13.7% over the three year period since 30 June 2011 and Rates per rateable property increased by 7.7% over this period.
- Operating cost to rateable property decreased by 4.8%.
- FTEs increased by eight (or 27.1%) since 2011 and over this period average cost per FTE decreased by 9.2%.

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

Audit findings included the need for Council to address matters associated with authorisation of payments and excessive leave balances. These matters have been reported to, and are being addressed by, management.

Council adopted all 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014, however there are concerns about the independence of the audit panel which includes finance managers from other councils.

The audit was completed satisfactorily with no other items outstanding.

Major variations between 2013-14 and 2012-13 included:

- a decrease in Cash and cash equivalent of $2.435m due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014
- higher Property, plant and equipment of $1.807m, due mainly to an increase in the carrying value of assets, $0.775m and an increase in work in progress, $0.752m
- a decrease in the investment in TasWater of $1.549m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Council applied a revaluation index to roads and bridges to maintain the currency of valuations between full revaluations.	We tested the validity of the indices and ensured the indices were correctly applied.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014, and an unqualified audit report was issued on 24 September 2014.

KEY DEVELOPMENTS

In order to comply with the recommendations of the *Infrastructure Financial Accounting in Local Government* Report, Council removed residual values from road assets and useful lives of road formation and earthworks has been extended. A full revaluation and review of road assets will be undertaken by independent engineers in 2014-15.

KEY FINDINGS

During the audit, following audit findings were identified and reported to management:

- failure to authorise payments in accordance with Council policy
- excessive leave balances.

These matters are being addressed by management.

The audit was completed satisfactorily with no other items outstanding.

Adoption of recommendations from Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*, tabled in December 2013. Council adopted all 22 recommendations.

Local Government Ministerial Orders

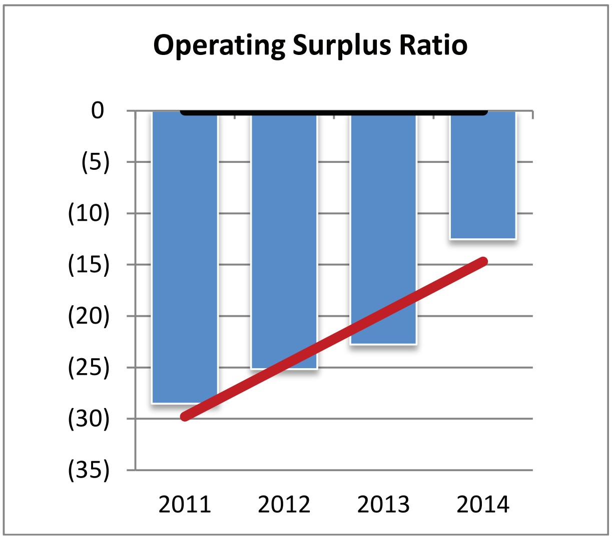
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting indicators. A review of Council's governance arrangements found that Council did not have an internal audit function at 30 June 2014. However, we noted that the Council resolved in June 2014 to establish an audit panel. The *Local Government (Audit Panels) Order 2014* (the Order) requires audit panel to have a minimum number of independent persons. It is our understanding that finance managers from other councils were appointed as independent members of the audit panel. While this is technically in accordance with the requirements of the Order, this arrangement, in our view, impinges on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of the council. It is important for panel members to not only be independent, but also to be perceived in that way.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

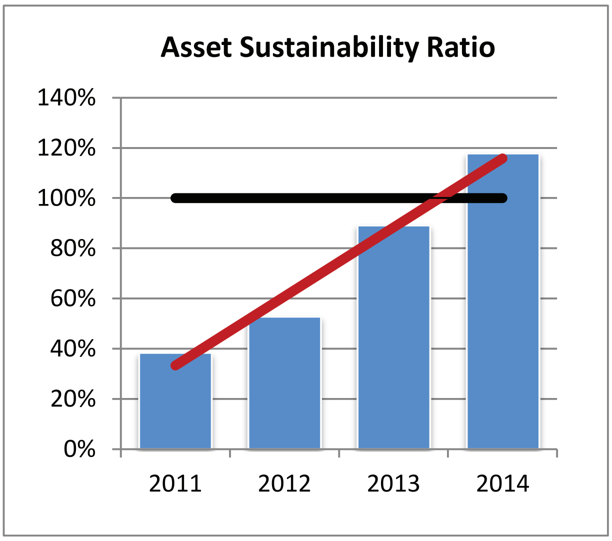
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's Operating surplus ratio reflects operating deficits in all four year under review. The results for the past four years have seen an improvement in the trend line.

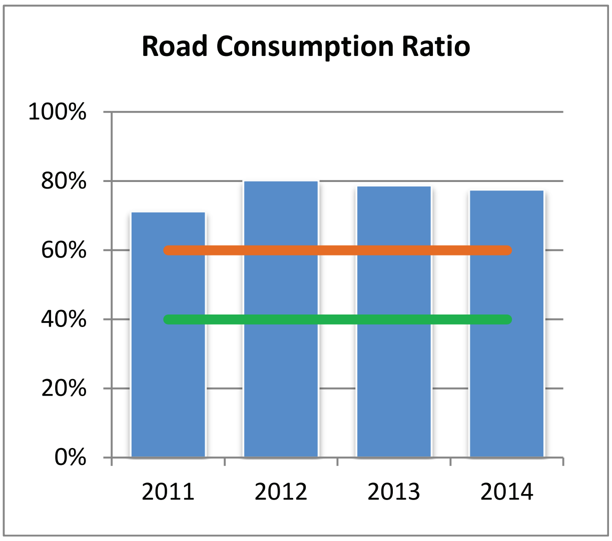
The negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including depreciation charges. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.



Council's ratio was below the benchmark in three of the four years under review, but above benchmark in 2013-14. However, the average ratio of 64% over the four year period indicated that Council was, subject to adequate maintenance expenditure, under-investing in existing assets.

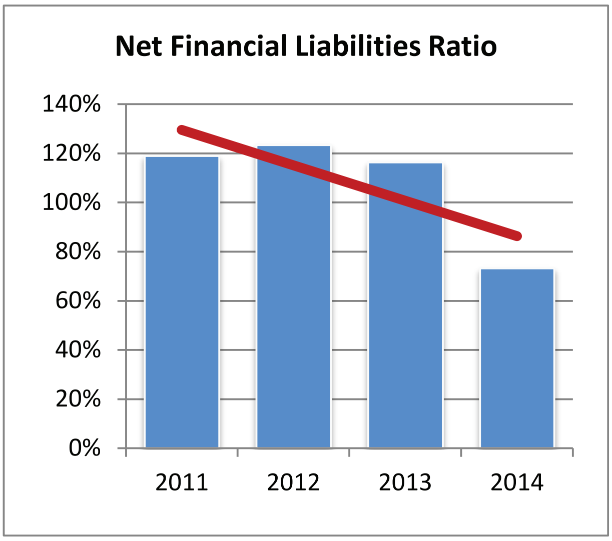
Asset renewal funding ratio

Council's long-term asset and financial management plans indicated the Asset renewal funding ratio was 100%, within our benchmark of 90%-100%, at 30 June 2014 for transport infrastructure. This is based on planned asset replacement expenditure and asset replacement expenditure actually required. This ratio indicates Council's funding levels are sufficient to continue to provide existing service in the next ten years. We understand it is Council's intention to undertake renewal works in line with this long-term asset management plan. The plan has not been audited.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 22% of the service potential of its road infrastructure assets. This was reasonably consistent over the four year period and indicates low financial sustainability risk. Roads represents Council most significant asset.

Council's long-term asset management plan indicates that Council intends on increasing its investment in existing road assets.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities position with liquid assets well in excess of Total Liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, and an ability to meet its existing obligations. Council's Total Liabilities mainly consisted of Payables and employee provisions.

Council had contractual commitments of $0.683m (2013, $0.930m), which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio.

In addition, Council's Cash and cash equivalents were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represent $0.730m, 20% of the total Cash and cash equivalents balance of $3.644m. Total unrestricted Cash and cash equivalents for Council in 2013-14 was $2.914m.

Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it had an audit committee. From 2012-13, an external consultant with accounting experience was engaged to:

- assist the audit committee as it related to Council's financial sustainability
- provide accounting software training
- support the audit committee in recommending the financial statements to the General Manager for signature.

In 2012-13, Council approved and implemented a long-term financial plan and a long-term asset management plan.

Council's governance arrangements have improved. However, these could be strengthened if its audit committee was supported by an internal audit function.

At 30th June 2014 we noted that the Council resolved to change the audit committee to an audit panel. 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 were appointed as independent members of the audit panel. While this is technically in accordance with the requirements the Order, this arrangement, in our view, impinges on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of the council. It is important for panel members to not only be independent, but also to be perceived in that way.

Conclusion as to financial sustainability

Taken together, these ratios provide differing messages as to Council's financial sustainability. It incurred operating deficits in each of the past four year period indicating high financial sustainability risk.

However, its Net financial liabilities ratio was strong, due to its large cash and investment balances and no borrowings. Council has the capacity to service debt and could borrow should the need arise. What needs to be borne in mind, however, is that Council's cash resources are declining as is its cash generated from operations. We noted that:

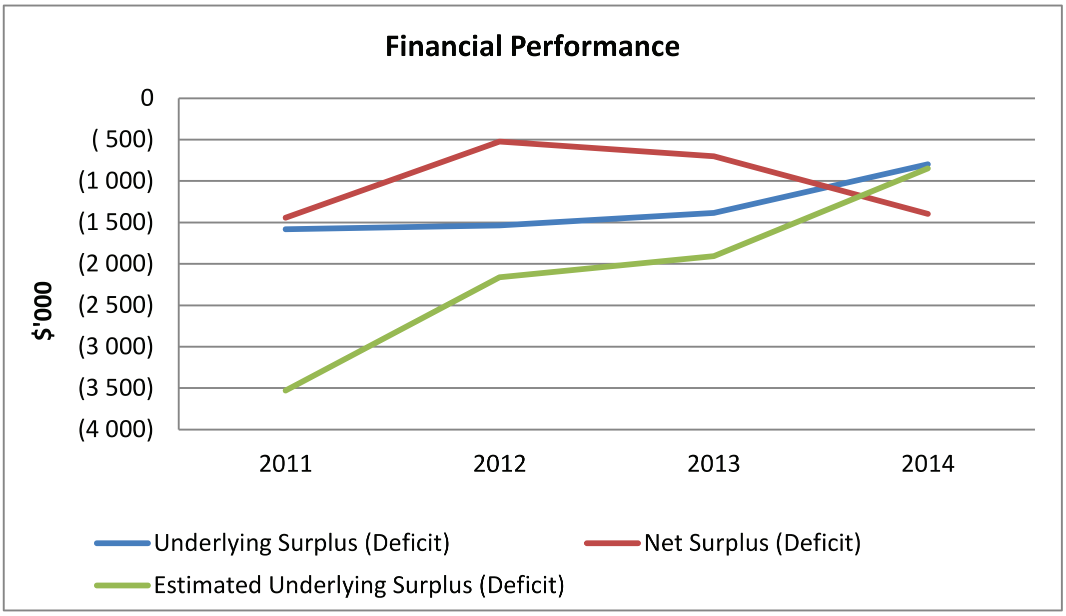
- cash generated from operations in 2013-14 totalled $0.649m but averaged $1.555m per annum over the past four years
- cash spent on fixed assets totalled $3.863m this year and averaged $2.354m per annum over the past four years
- cash on hand and in investments at 30 June 2014 was $5.363m with the average year-end balance over this four year period being $7.183m.

Council's Asset sustainability ratio improved over the past four years as investments in infrastructure grew and now exceeds benchmark although the average over the four year period under review was below benchmark. Its Road consumption ratio remained in the low risk range and its long-term asset management plan indicates that Council has sufficient funding to adequately invest in its infrastructure.

Council has an audit committee in place and implemented long-term asset management and financial plans.

Based on these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at high financial sustainability risk from a financial operating perspective, moderate risk from governance and asset management perspectives and low risk from a net financial liabilities perspective.

FINANCIAL ANALYSIS



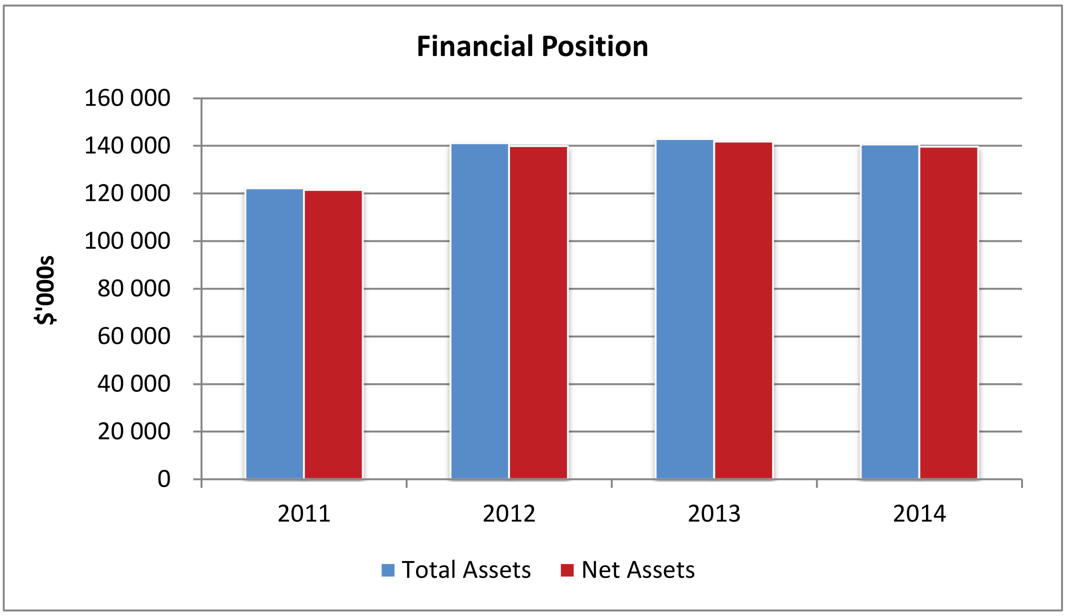
While Council incurred Underlying Deficits and Net Deficits each year, it lowered its Underlying Deficit over the four years under review and budgeted to do so.

Council recorded an Underlying Deficit of $0.849m in 2013-14, an improvement of $0.537m from 2012-13, mainly due to a combination of higher rates revenue and lower depreciation expenses. The actual Underlying Deficit was $1.056m better than the budgeted deficit of $1.905m due mainly to the following:

- materials and services expenses were $0.929m less than estimate
- depreciation expense was $0.414m less than estimate.

Council's Comprehensive result varied over the period under review and was subject to Capital grants and contributions and recognition of non-current assets. The Comprehensive Deficit in 2013-14 of $2.170m was highly impacted by the fair value adjustment of the Investment in TasWater.

Council has a number of functional activities that provide a broad level of services to its ratepayers. However, the majority of its funding and assets relate to works and infrastructure management. At 30 June 2014 infrastructure assets mainly consisted of roads, bridges and drainage assets.



Council's Total Assets and Net Assets remained relatively consistent during the period under review, except for a major increase in 2012, which was the result of an asset revaluation.

Net Assets decreased by $2.170m to $139.662m at 30 June 2014 due principally to downward movement in the TasWater investment of $1.550m, Cash and cash equivalent, $2.435m, offset by an increase in Property, plant and equipment of $1.807m.

Cash and financial assets totalled $5.363m, being the highest current asset.

In 2013-14, Cash decreased by $2.435m. The reduction in Cash was due partly to:

- the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014
- higher investment in fixed assets this year.

Net Working Capital decreased significantly in 2014, $4.825m compared to $7.218m in 2013, mainly due to lower Cash and cash equivalents arising from higher capital works and purchase of plant and equipment.

Total Employee benefits were consistent with the prior year.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE.

Council's Rates per capita increased by 13.7% over the three year period since 30 June 2011 and Rates per rateable property increased by 7.7% over this period. At the same time, Operating cost to rateable property decreased by 4.8%. The higher increases in rates, when compared to the movements in costs, resulted in Council recording lower underlying deficits in recent years.

FTE increased by eight (or 27.1%) since 2011 and over this period average cost per FTE decreased by 9.2%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	3 045	3 049	2 975	2 803
Fees and charges	254	259	249	258
Grants**	2 325	2 364	2 201	2 268
Interest revenue	280	262	309	392
Other revenue	464	385	356	379
Total Revenue	**6 368**	**6 319**	**6 090**	**6 100**
Employee costs	1 758	1 809	1 809	1 713
Depreciation	3 180	2 766	2 933	3 026
Other expenses	3 335	2 593	2 734	2 895
Total Expenses	**8 273**	**7 168**	**7 476**	**7 634**
Underlying Surplus (Deficit)	**(1 905)**	**(849)**	**(1 386)**	**(1 534)**
Capital grants	308	509	578	528
Financial assistance grant received in advance**	0	0	1 056	948
Offset financial assistance grant in advance**	0	(1 056)	(948)	(467)
Net Surplus (Deficit)	**(1 597)**	**(1 396)**	**(700)**	**(525)**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	775	2 578	18 932
Fair value adjustment in TasWater	0	(1 549)	(2)	20
Total Other Comprehensive Income (Expense)	**0**	**(774)**	**2 576**	**18 952**
Comprehensive Surplus (Deficit)	**(1 597)**	**(2 170)**	**1 876**	**18 427**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalent	3 644	6 079	8 481	6 882
Financial assets	1 719	1 926	0	0
Receivables	282	235	266	453
Inventories	14	10	17	17
Other	41	49	74	102
Total Current Assets	**5 700**	**8 299**	**8 838**	**7 454**
Payables	293	515	549	195
Finance lease	0	13	20	0
Provisions – employee benefits	582	553	626	514
Total Current Liabilities	**875**	**1 081**	**1 195**	**709**
Net Working Capital	**4 825**	**7 218**	**7 643**	**6 745**
Property, plant and equipment	127 267	125 460	123 108	105 610
Investment in TasWater	7 680	9 230	9 231	9 211
Total Non-Current Assets	**134 947**	**134 690**	**132 339**	**114 821**
Provisions – employee benefits	110	76	26	37
Total Non-Current Liabilities	**110**	**76**	**26**	**37**
Net Assets	**139 662**	**141 832**	**139 956**	**121 529**
Reserves	113 746	115 741	113 139	93 600
Accumulated surpluses	25 916	26 091	26 817	27 929
Total Equity	**139 662**	**141 832**	**139 956**	**121 529**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 821	3 891	4 055	3 577
Cash flows from Government	1 308	2 298	2 713	1 922
Payments to suppliers and employees	(4 844)	(4 829)	(4 489)	(4 576)
Interest received	272	310	366	320
Dividends received	102	0	3	0
Cash from (used in) Operations	**659**	**1 670**	**2 648**	**1 243**
Capital grants and contributions	458	578	527	121
Payments for property, plant and equipment	(3 863)	(2 786)	(1 642)	(1 124)
Proceeds from sale of property, plant and equipment	117	68	66	119
Cash from (used in) Investing Activities	**(3 288)**	**(2 140)**	**(1 049)**	**(884)**
Payment for financial assets	207	(1 926)	0	0
Repayment of leases	(13)	(6)	0	0
Cash from (used in) Financing Activities	**194**	**(1 932)**	**0**	**0**
Net Increase (Decrease) in Cash	**(2 435)**	**(2 402)**	**1 599**	**359**
Cash at the beginning of the year	6 079	8 481	6 882	6 523
Cash at End of the Year	**3 644**	**6 079**	**8 481**	**6 882**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(798)	(1 386)	(1 534)	(1 582)
Operating surplus ratio* **	>0	(12.53)	(22.76)	(25.15)	(28.54)
Asset Management					
Asset sustainability ratio*	100%	118%	89%	53%	38%
Asset renewal funding ratio*	90% - 100%	100%	100%	N/a	N/a
Road asset consumption ratio*	>60%	77.5%	78.7%	80.1%	71.2%
Asset investment ratio	>100%	140%	95%	54%	39%
Liquidity					
Net financial assets (liabilities) ($'000s)		4 660	7 083	7 526	6 589
Net financial liabilities ratio* ***	0 - (50%)	73.2%	116.3%	123.4%	118.8%
Operational Efficiency					
Liquidity ratio	2:1	19.27	15.61	15.37	37.62
Current ratio	1:1	6.51	7.68	7.40	10.51
Self financing ratio		10.3%	27.4%	43.4%	22.4%
Own source revenue		62.9%	63.9%	62.8%	64.7%
Debt collection	30 days	31	27	32	55
Creditor turnover	30 days	17	32	44	13
Rates per capita ($)		1 295	1 261	1 189	1 139
Rates to operating revenue		47.9%	48.9%	46.0%	48.3%
Rates per rateable property ($)		786	808	763	729
Operating cost to rateable property ($)		1 847	2 030	2 078	1 940
Employee costs expensed ($'000s)		1 809	1 809	1 713	1 583
Employee costs capitalised ($'000s)		127	109	115	94
Total employee costs ($'000s)		1 936	1 918	1 828	1 677
Employee costs as a % of operating expenses		25%	24%	22%	22%
Average staff numbers (FTEs)		36	36	29	28
Average staff costs ($'000s)		54	54	63	60
Average leave balance per FTE ($'000s)		19	18	23	20

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

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

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

CIRCULAR HEAD COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $1.438m in 2013-14 which was higher than the budgeted Underlying Deficit of $0.611m. It recorded Underlying Deficits in each of the last four years and its operating ratio is headed in the wrong direction.
- Council budgeted for Underlying Deficits in each of the past four years.
- Revaluation of road infrastructure assets as at 1 July 2013 resulted in an increment of $9.021m.
- A change in accounting policy resulted in resheeting costs on unsealed roads being capitalised and depreciated for the first time in 2013-14.
- Its Comprehensive Surplus was $7.622m, with Net Assets at 30 June 2014 of $164.425m.
- Cash from operating cash flows totalled $0.701m this year, significantly less than the four year average of $2.337m per annum, despite the increased rates revenue.
- In 2013-14 Council realised the last of its collateralised debt obligation (CDO) investments for $0.843m, which included a $0.051m gain on fair value. Since 2007 when it invested $4.500m in CDOs, Council incurred impairment losses of $3.708m on these securities. These losses form the basis of a class action that Council is a part of, to recover capital losses and related expenses.
- Rates per capita increased by 12% over the three year period since 30 June 2011 and Rates per rateable property increased by 9% over this period.
- Operating cost to rateable property increased by 26%.
- FTEs declined by one (or 2%) since 2011 and over this period average cost per FTE increased by 12%.

Council 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.

We noted deficiencies in Council's information security systems, user access management and authorisation of disbursements. These matters were reported to, and are being addressed by, management.

Council adopted 19 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council failed to implement two important requirements in Local Government Ministerial Orders issued in February 2014:

- it has not appointed an audit panel
- it has not prepared a strategic financial management plan.

Council indicated that it will establish an audit panel in 2014-15. Its strategic financial management plan is being developed.

The audit was completed satisfactory with no other matters outstanding.

Key developments for the year included:

- renewal of the resource-sharing arrangement with Waratah-Wynyard Council to November 2018
- Council settling its last collateral debt obligation, which realised $0.843m.

Major variations between 2013-14 and 2012-13 included:

- higher Depreciation costs of $1.052m, primarily due to new costs for unsealed road pavements and surfaces, $0.298m, and approximately $0.670m from a review of sealed road useful lives

- a decrease in Cash of $3.424m due partly to the prepayment of financial assistance grants in June 2013
- increased Property, plant and equipment of $10.030m, due mainly to a road asset revaluation increment of $9.021m
- an increase in Council's investment in TasWater of $1.755m.

Resource sharing arrangements

Council entered into a resource-sharing agreement in December 2008 with Waratah-Wynyard Council to fund the services of a General Manager. The arrangement was expanded to include further shared employees as positions became available or opportunities were identified. During 2013-14, Council renewed the present agreement to 30 November 2018.

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

A Resource Sharing Committee consisting of three councillors from each council was established to identify opportunities to improve services and manage the resource-sharing arrangements.

At 30 June 2014 there were 12 (2012, 15) shared positions of which seven full time equivalents were employed by Council and five employed by Waratah-Wynyard Council. In late 2013, following the resignation of the shared General Manager, it was decided each council would revert to employing its own General Manager and Corporate Services Manager.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Council implemented a new asset management system "Conquest". During 2013-14, the majority of road asset information was input into the new system. This resulted in a detailed review of asset data. In addition, Council undertook a full revaluation of its road infrastructure assets.	We tested asset replacement rates applied to the updated road asset information system and confirmed the appropriateness of the new rates with Council's engineering staff. We also tested the revaluation and expertise and independence of persons doing this work.
In Report of the Auditor-General No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* (the Report), we recommended councils: • recognise resheeting of unsealed roads as capital expenditure • consider capitalisation and depreciation of unsealed road resheeting as a network asset. Council adopted this recommendation in 2013-14 and commenced capitalisation of resheeting.	We audited the capitalisation of resheeting costs incurred in 2013-14 and associated depreciation. In addition, we verified accounting treatment and disclosures in the financial statements to ensure compliance with Australian Accounting Standards.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 29 September 2014.

KEY DEVELOPMENTS

Resource sharing arrangements

Council's resource-sharing agreement with Waratah-Wynyard Council was extended to 30 November 2018.

Road infrastructure revaluation

Council's engineering staff performed a comprehensive revaluation of road infrastructure assets at 1 July 2013. The outcome of the revaluation was a revaluation increment of $9.021m.

Accounting for unsealed roads

In prior years, Council expensed all unsealed road resheeting costs. It applied a 'renewal approach', in which it considered annual resheeting costs maintained the service potential of the unsealed road network at a uniform level. The approach was not considered 'best practice', but was accepted as the impact on the financial statements was considered immaterial.

Our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* recommended councils:

- recognise resheeting of unsealed roads as capital expenditure
- consider capitalisation and depreciation of unsealed road resheeting as a network asset.

Council adopted this recommendation in 2013-14 and capitalised resheeting costs on unsealed road surfaces of $0.713m, with associated depreciation expenses of $0.194m recognised as an expense.

In addition, Council commenced depreciating unsealed road pavements. A useful life of 150 years was applied and resulted in a depreciation expense of approximately $0.169m.

Collateral Debt Obligation (CDO)

In 2013-14 Council realised its last CDO for $0.843m. This included a $0.051m gain on the fair value of the security. However, since 2007 when it invested $4.500m in CDOs, Council incurred impairment losses of $3.708m on these securities. These losses form the basis of a class action that Council is a part of, to recover capital losses and related expenses.

KEY FINDINGS

A review of Council's IT environment found:

- there was no policy that covers access to IT infrastructure
- system password parameters meet best practice with the exception of system lockout on failed password attempts. Council has no system lockout
- password parameters are not documented in a policy
- there was no formalised documentation authorising the IT Officer to set up new employees or the level of access the new employee would require
- no monitoring is performed of system event logs.

In addition, a review of general IT controls revealed Council did not have a specific IT Disaster Recovery Plan, a general Disaster Recovery Plan or a Business Continuity Plan in place at 30 June 2014. Council has indicated draft plans have now been prepared and will be reviewed by us during the 2014-15 audit.

We also found instances where general journals were not reviewed by an appropriate officer.

There were also a number of low-risk findings related to the bank reconciliation process, termination of employees, credit card policies and back-up data security.

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

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

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 19 out of 22 recommendations relevant to councils. Key recommendations that were not adopted are discussed below.

Land under roads

Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads,* regardless of when the land was acquired. Council initially recognised land under roads of $6.425m. It was agreed the recognition of land under roads would be deferred until 2014-15 due to concerns land values provided specific rates based on land usage and there was doubt over the accuracy of averaging the rates.

Earthworks

Components of road assets were not separately identified. Roads are major infrastructure assets that consists of a number of components, such as formation or earthworks, the road pavement and seal. Council does not recognise road earthworks as assets. Road earthworks should be recognised as assets in accordance with the requirements for the recognition of an item of Property, plant and equipment in Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and as recommended by our Infrastructure Report.

We recommended Council adopt the recommendations contained in our report to ensure its asset management and financial accounting and reporting reflect best practice and are consistent with other councils that have adopted these recommendations.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that, apart from failure to establish an audit panel and preparation of a strategic financial management plan, Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

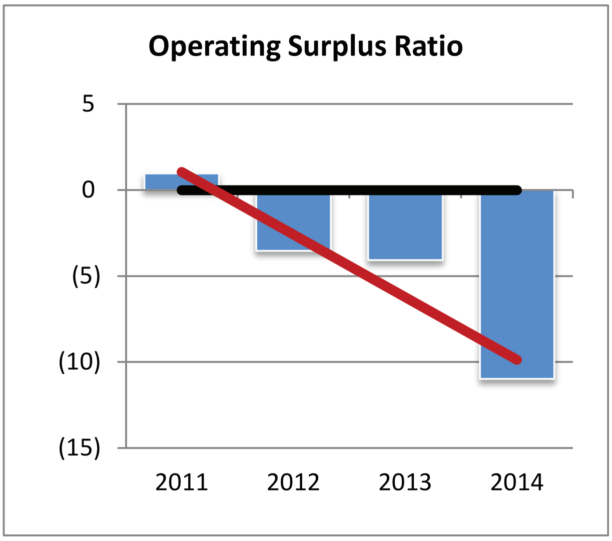
Council indicated that it will establish an audit panel in 2014-15. Its strategic financial management plan is being developed.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

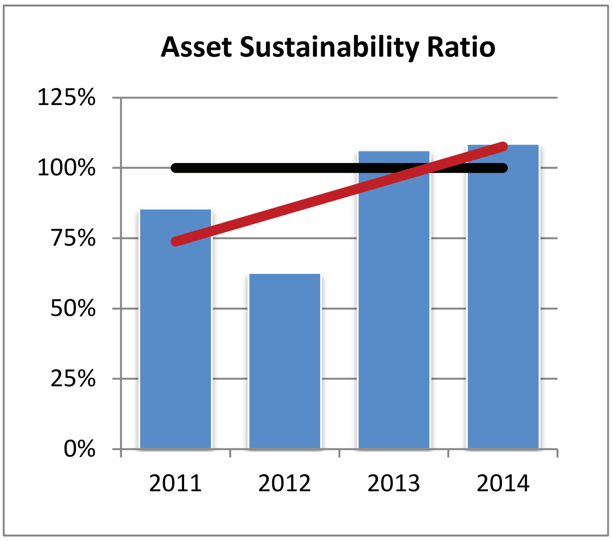
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's Operating surplus ratio reflects underlying deficits recorded in the past three years. Its average ratio of negative 4.41 was below our benchmark indicating it did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

It is of concern that the ratio is trending downwards. The deficit results are primarily attributable to increased depreciation charges which have not been fully incorporated into Council's budget. The significant increase in 2014 was due to an Underlying Deficit of $1.438m, which is explained in the Financial Analysis section of this Chapter.

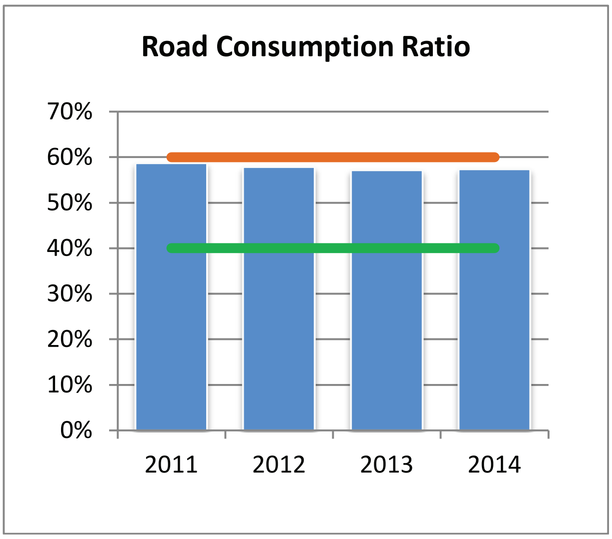


Asset sustainability ratio was below the 100% benchmark in two of the four years under review. Over the four year period, Council's average ratio was 91%, indicating subject to levels of maintenance expenditure and the long-term asset management plan, based on our 100% benchmark Council was under-investing in existing assets although not significantly.

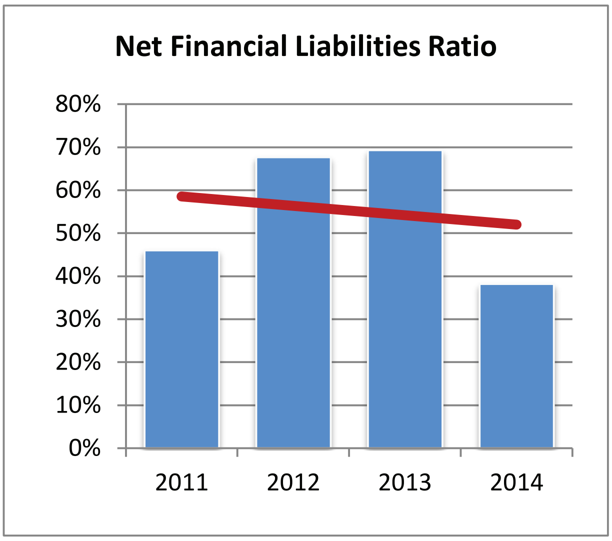
Asset renewal funding ratio

Council did not calculate an Asset renewal funding ratio at 30 June 2014. It has long-term asset management plans, which forecast expenditure requirements to 2029-30. Its strategic financial management plan is currently being developed, with information presently only forecast to 2016-17.

Consequently, it was considered prudent to defer the calculation and disclosure of this ratio until all information was prepared and reviewed.



The graph indicated that at 30 June 2014 Council had consumed approximately 43% of the service potential of its road assets. This was within our benchmark which indicated Council had sufficient capacity to continue to provide road transport services to its ratepayers.



Council recorded positive Net financial liabilities ratios with liquid assets well in excess of Total Liabilities in each year under review. The positive ratios indicate a strong liquidity position, with Council able to meet its commitments and having capacity to borrow.

It is noted that Council has contractual commitments totalling $0.456m (2012-13, $0.660m) which are not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio. At 30 June 2014, Council did not have any unrestricted cash.

** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Governance

A review of Council's governance arrangements indicated it does not have an audit committee, but has a Risk Committee. We found this Committee met irregularly during the financial year. Council does not have an active internal audit function.

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

Council has long-term asset management plans covering a 20 year period to 2028-29. The plans cover transport, stormwater, solid waste, recreation and building assets. The plans are not subject to audit. Its strategic financial management plan is currently being developed, with information presently only forecast to 2016-17.

Conclusion as to financial sustainability

Our assessment of these ratios is that they provide mixed messages. On the one hand, operating financial results are trending downwards while investments in infrastructure is reasonable and liquidity is strong. In summary we note:

- from a financial operating perspective, Council's Operating surplus ratio was negative in the last three years and trending downwards. This was due to Council's Underlying Deficits which averaged $0.578m for the period under review
- Asset sustainability ratio indicates Council, based on our 100% benchmark, under-invested in existing assets although not significantly. However, the Road asset consumption ratio indicated that there was sufficient capacity to continue to provide services to its ratepayers. Council did not calculate and Asset renewal funding ratio, as its strategic financial management plan is currently being developed
- Council's liquidity position was strong with it able to meet all short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise
- from a governance perspective, Council did not have an audit committee, although it does have a risk committee, or an internal audit function, but had long-term asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at high risk from a governance perspective, moderate risk from asset management and financial operating perspectives and at low risk from a net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

Council's full response is reproduced below.

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

The release of changes to the Local Government Act and Ministerial Orders issued earlier in 2014 has increased the timeliness upon which Council is implementing its improvement processes. Whilst Council's Strategic Plan, financial plan, asset management plans and audit committee were being progressed prior, the urgency has increased. In saying this however, Council does not want these improvements to be tokenistic.

There are many pieces to the puzzle of strategic planning, long term financial planning, asset management planning, risk and audit panels. They are inter-twined and impact on each other.

The biggest question was "Where do we start?"

Jeff Roorda was engaged some time ago to mentor Council staff through an improvement process. The first few items that resources were directed to were service areas and levels – working out what we do and documenting it; and depreciation.

Council is wary of the fact that the last four years have produced deficit budgets. Primarily the largest change during this time has been depreciation. The release of the "Infrastructure Financial Accounting in Local Government" report by the Tasmanian Audit Office set benchmarks for various parts of infrastructure management. Twenty-three recommendations were made and Council has complied with 18 of those. Through the continuous requirement to revalue Infrastructure assets, there generally comes the issue of increased depreciation.

Depreciation is impacted by a number of levers that can be used to calculate a final figure. Useful life, like for like replacement or modern equivalent replacement can be used during revaluations, which has a large bearing on the amount of depreciation recorded in Council's financial statements. In some instances, incorrect or non-considered valuation methods impact on depreciation, therefore impact on the bottom line of a Council.

Resources are being utilised currently in this area to provide some future policy direction in terms of revaluations. This will inform the 2015-16 budget and the first year of a ten-year financial plan.

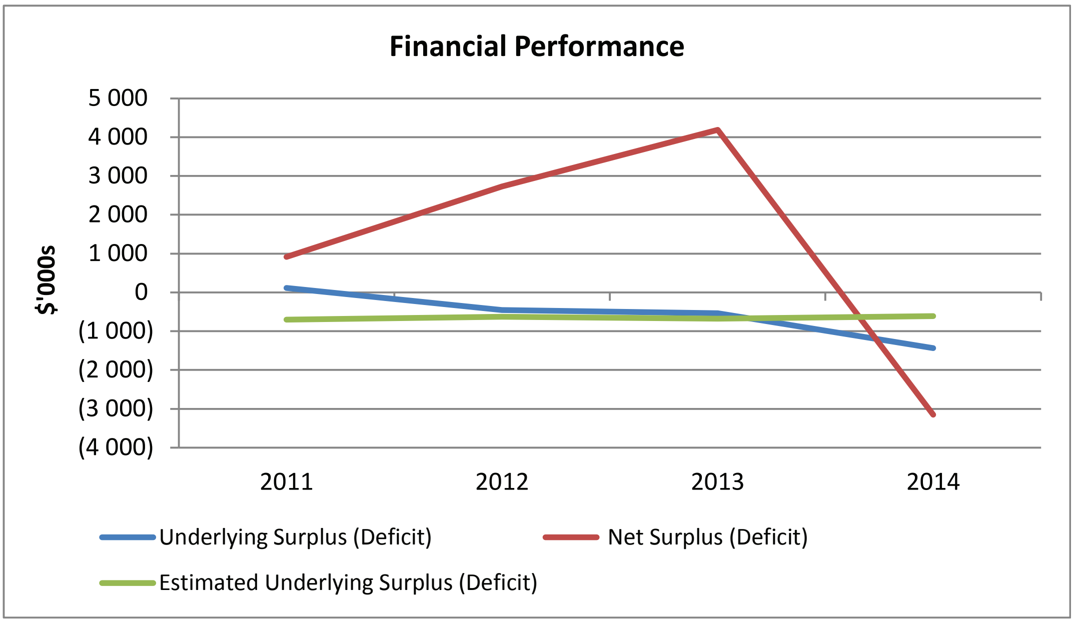
The Circular Head Council runs a lean workforce and the scope of services it's involved in has been kept close to core business for Local Government. Memorandum of Understandings with Business Groups, the Tourism Industry and Education sectors leverage off their expertise and provide value for money, efficient use of resources and good outcomes for the community.

The resource-sharing arrangement between Waratah Wynyard and Circular Head Council has been extended a further five years until 2018. This arrangement affords each Council the ability to utilise specific skills sets otherwise not affordable by each Council in their own right. Human Resources, Workplace Health and Safety, Risk Management, Geographic Information Systems (GIS), Information Technology, Media and Communications and Weed Control to name a few are some of the shared roles between both Councils.

Overall, the snapshot provided in the report by the Audit Office is quite negative. The main focus of the report is on areas of non-compliance which paints Council in a negative light.

Large amounts of resources have been dedicated to developing a relevant Strategic Plan, a workable ten-year financial plan (including capital works, revaluations and depreciation) as well as an integrated framework around risk and internal audit functions. This takes time; and to engage the community along the way will take even longer. This is not just a box ticking exercise.

FINANCIAL ANALYSIS



Council recorded an Underlying Deficit of $1.438m in 2013-14, which was $0.901m, or 167.8%, higher than the $0.537m deficit in the preceding year. Over the four year period, Council averaged an Underlying Deficit of $0.578m.

It is disappointing that Council continued to budget for underlying deficits in the four years under review. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break even basis.

The significant increase in the 2013-14 deficit was primarily due to:

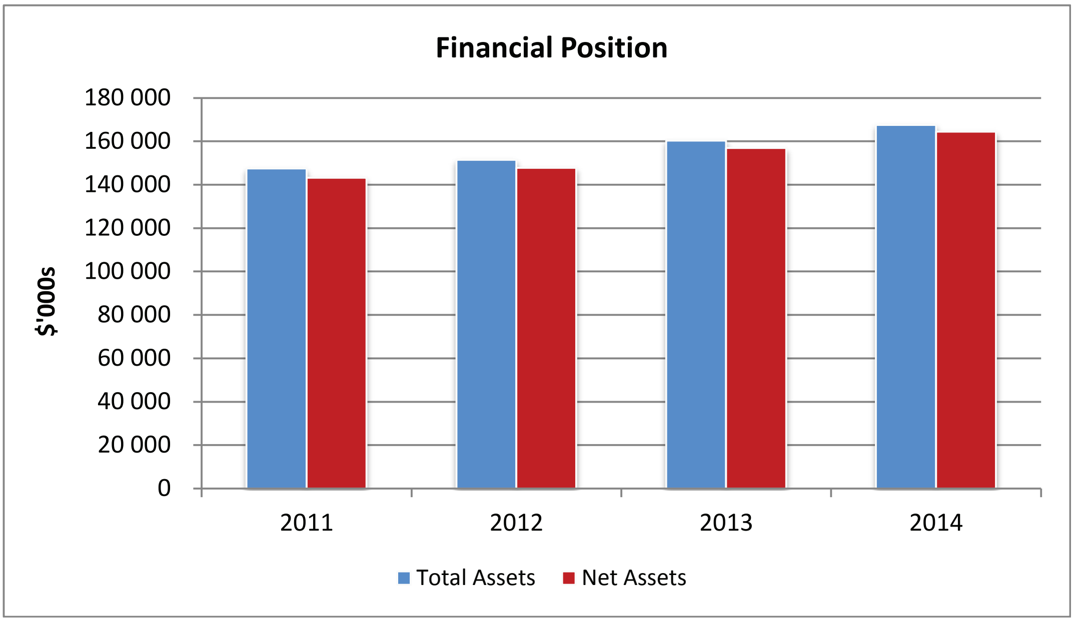
- increased payroll costs of $0.360m arising from changes in the resource-sharing arrangements in late 2013, with Council no longer sharing the General and Corporate Service Management roles with Waratah-Wynyard Council
- higher Depreciation expenses of $1.052m related to new depreciation for both unsealed road pavements, $0.179m and unsealed roads surfaces, $0.119m, and approximately $0.670m from a review of sealed road useful lives.

The expenditure increases were partly offset by a change in accounting policy whereby unsealed road resheeting expenditure was capitalised in 2013-14, $0.713m.

The 2013-14 Net Deficit was primarily due to:

- the $0.901m increase in the Underlying Deficit
- financial assistance grant funding not being paid in advance for 2014-15
- costs of $1.204m incurred on the Harcus River Road Project to install underground power. The project was funded by the former Department of Economic Development, Tourism and the Arts with a grant of $1.500m in 2011-12. Council undertook the work as a contractor, with the power infrastructure remaining the property of the Department.

The significant increase in the 2012-13 Net Surplus was primarily due to the recognition of $2.760m in assets and the reversal of impairment on collateral debt obligations, $0.697m.



Council's Total Assets and Net Assets steadily grew over the period under review, with Total Assets increasing by $20.096m, or 13.6%. The movement related primarily to land, road infrastructure and stormwater asset revaluations.

Council's financial position improved as at 30 June 2014, with Net Assets increasing by 4.9% or $7.622m to $164.425m. The increase was a combination of higher value of Council's Investment in TasWater, $1.755m, road assets revaluation increments, $9.021m, offset by the Net Deficit of $3.154m.

In 2013-14, Cash decreased by $3.484m, with $5.590m used to fund the acquisition of Property, plant and equipment and $0.404m to repay debt. The reduction in Cash was also affected by the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014. Cash inflows from operating and capital grants provided $0.701m and $0.793m, respectively. Cash was also assisted by the redemption of the final CDO, which realised $0.843m.

As a result of the cash balance, Council's current ratio decreased from 5.47 to 3.77, which remains a strong liquid position.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on cash flows from operating activities, rates per capita and per rateable property and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council generated Cash from operating cash flows of $0.701m this year. Operating cash flows averaged $2.337m per annum over the past four years meaning there was a significant decline in 2013-14. This was due to the $1.550m reduction in Cash flows from government in the last 12 months. This reduction is the effect of the Federal Assistance Grant funding which was not provided in advance in 2013-14.

Council's Rates per capita increased by 12% over the three year period since 30 June 2011 and Rates per rateable property increased by 9% over this period. These increases were needed to meet higher operating costs as measured by Operating cost to rateable property, which increased by 26%. The higher increases in costs, when compared to the increases in rates, resulted in Council recording higher underlying deficits in recent years.

FTEs declined by one (or 2%) since 2011 and over this period average cost per FTE increased by 12%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	6 899	6 967	6 781	6 554
Fees and charges	1 729	1 566	1 658	1 697
Grants**	3 118	2 882	2 955	2 919
Interest revenue	400	323	487	587
Other revenue	1 240	1 358	1 250	1 065
Total Revenue	**13 386**	**13 096**	**13 131**	**12 822**
Employee costs	4 799	4 599	4 239	4 024
Depreciation	3 491	4 240	3 188	3 130
Finance costs	83	87	104	131
Other expenses	5 624	5 608	6 137	5 990
Total Expenses	**13 997**	**14 534**	**13 668**	**13 275**
Underlying Surplus (Deficit)	**(611)**	**(1 438)**	**(537)**	**(453)**
Capital grants	509	793	1 144	1 267
Harcus River Road power project	0	(1 204)	0	1 500
Financial assistance grant received in advance**	0	0	1 356	1 235
Offset financial assistance grant in advance**	0	(1 356)	(1 235)	(633)
Impairment on investments	0	51	697	(185)
Recognition of assets	0	0	2 760	0
Net Surplus (Deficit)	**(102)**	**(3 154)**	**4 185**	**2 731**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	9 021	4 527	1 843
Fair value adjustment in TasWater	0	1 755	300	24
Total Other Comprehensive Income (Expense)	**0**	**10 776**	**4 827**	**1 867**
Comprehensive Surplus (Deficit)	**(102)**	**7 622**	**9 012**	**4 598**

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

** *Grants received in advance have been shown separately after the Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive Income Statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash	7 049	10 533	11 338	8 951
Financial assets	0	793	96	281
Receivables	1 001	1 285	841	633
Inventories	143	192	152	182
Other	66	79	48	67
Total Current Assets	**8 259**	**12 882**	**12 475**	**10 114**
Payables	958	1 183	903	1 200
Borrowings	365	409	384	361
Provisions – employee benefits	868	764	705	653
Total Current Liabilities	**2 191**	**2 356**	**1 992**	**2 214**
Net Working Capital	**6 068**	**10 526**	**10 483**	**7 900**
Property, plant and equipment	134 951	124 921	116 705	115 078
Investment in TasWater	24 269	22 515	22 215	22 191
Total Non-Current Assets	**159 220**	**147 436**	**138 920**	**137 269**
Borrowings	676	1 037	1 450	1 834
Provisions – employee benefits	187	122	162	142
Total Non-Current Liabilities	**863**	**1 159**	**1 612**	**1 976**
Net Assets	**164 425**	**156 803**	**147 791**	**143 193**
Reserves	71 476	60 700	55 873	53 980
Accumulated surpluses	92 949	96 103	91 918	89 213
Total Equity	**164 425**	**156 803**	**147 791**	**143 193**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	10 621	9 753	9 445	9 156
Cash flows from Government	1 526	3 076	3 521	2 681
Payments to suppliers and employees	(12 380)	(11 157)	(11 069)	(10 054)
Distributions received – TasWater	700	844	531	520
Interest received	323	487	587	590
Finance costs	(89)	(105)	(132)	(28)
Cash from (used in) Operations	**701**	**2 898**	**2 883**	**2 865**
Capital grants and contributions	793	1 144	2 767	347
Redemption of Financial Assets	843	0	0	500
Payments for property, plant and equipment	(5 590)	(4 560)	(2 967)	(3 704)
Proceeds from sale of property, plant and equipment	173	101	65	319
Cash from (used in) Investing Activities	**(3 781)**	**(3 315)**	**(135)**	**(2 538)**
Proceeds from borrowings	0	0	0	1 800
Repayment of borrowings	(404)	(388)	(361)	(100)
Cash from (used in) Financing Activities	**(404)**	**(388)**	**(361)**	**1 700**
Net Increase (Decrease) in Cash	**(3 484)**	**(805)**	**2 387**	**2 027**
Cash at the beginning of the year	10 533	11 338	8 951	6 924
Cash at End of the Year	**7 049**	**10 533**	**11 338**	**8 951**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(1 438)	(537)	(453)	118
Operating surplus ratio* **	> 0	(10.98)	(4.09)	(3.53)	0.96
Asset Management					
Asset sustainability ratio*	100%	108%	106%	63%	85%
Asset renewal funding ratio* ***	90% - 100%	N/a	134%	N/a	N/a
Road asset consumption ratio*	> 60%	57.4%	57.1%	57.8%	58.7%
Asset investment ratio	>100%	132%	143%	95%	144%
Liquidity					
Net financial assets (liabilities) ($'000s)		4 996	9 096	8 671	5 675
Net financial liabilities ratio* ****	0% - (50%)	38.1%	69.3%	67.6%	46.0%
Operational Efficiency					
Liquidity ratio	2:1	6.08	7.42	9.46	6.14
Current ratio	1:1	3.77	5.47	6.26	4.57
Interest coverage	3:1	6.88	26.60	20.84	101.32
Self financing ratio		5.4%	22.1%	22.5%	23.2%
Own source revenue		78.0%	77.5%	77.2%	78.3%
Debt collection	30 days	43	56	37	29
Creditor turnover	30 days	28	38	34	30
Rates per capita ($)		841	817	793	753
Rates to operating revenue		53.2%	51.6%	51.1%	50.4%
Rates per rateable property ($)		1 422	1 390	1 370	1 302
Operating cost to rateable property ($)		2 967	2 802	2 775	2 558
Employee costs expensed ($'000s)		4 599	4 239	4 024	3 958
Employee costs capitalised ($'000s)		56	110	195	124
Total employee costs ($'000s)		4 655	4 349	4 219	4 082
Employee costs as a % of operating expenses		32%	31%	30%	32%
Average staff numbers (FTEs)		57	55	52	56
Average staff costs ($'000s)		82	79	81	73
Average leave balance per FTE ($'000s)		18	16	17	14

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

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

*** *Information not obtained or unavailable to calculate prior year ratio.*

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

DORSET COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.512m in 2013-14. It recorded Underlying Deficits in two of the four years under review.
- It continued to budget for Underlying Deficits with an estimated deficit in 2013-14 of $0.334m.
- Its Comprehensive result was a surplus of $5.625m resulting in Net Assets at 30 June 2014 of $183.340m.
- A revaluation of major infrastructure assets resulted in increments of $8.534m, which contributed to higher Net Assets.
- Rates per capita increased by 12% over the three year period since 30 June 2011 and Rates per rateable property increased by 7% over this period.
- Operating cost to rateable property increased by 12%.
- FTEs were consistent with 2011 and over this period average cost per FTE increased by 4%.

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

We identified moderate risk audit findings in the areas of creditor master file changes and general journal reviews. These matters were reported to, and are being addressed by, management.

Council adopted 16 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Apart from establishment of an audit panel and the development of a long-term asset management plan for buildings, Council complied with relevant requirements of the Local Government Ministerial Orders issued in February 2014. Subsequent to 30 June 2014, Council developed a draft asset management plan for buildings. Council indicated that the plan will be approved and an audit panel established in 2015.

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

Key developments for the year included the revaluation of infrastructure assets and subsequent removal of residual values for road pavements and surfaces.

Major variations between 2013-14 and 2012-13 included:

- higher Cash and financial assets of $2.016m due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014
- an increase in Property, plant and equipment of $10.514m, due mainly to an asset revaluation increment of $8.534m
- a decrease in Council's investment in TasWater of $2.419m.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of road and storm water infrastructure assets was undertaken effective 1 July 2013. Council applied an index to road, bridge and storm water assets to update the valuations to 30 June 2014. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. We tested the validity of the indices and ensured the indices were correctly applied. We obtained the appropriate representations from management and engineers to address the reliance placed on internal revaluation assessments.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

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

KEY DEVELOPMENTS

Residual values for infrastructure assets

Previously, Council applied residual values to road pavement and surface assets. In 2013-14, it removed the residuals and increased asset lives. Overall, the impact on depreciation was minimal. We supported the change in approach which is consistent with our *Infrastructure Financial Accounting in Local Government* Report referred to later in this Chapter.

KEY FINDINGS

A review of controls surrounding accounts payable revealed a lack of authorisation or review of changes to the creditors' master-file.

Our other findings related to missing evidence of general journal review and five other issues classified as low risk.

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

The audit was completed satisfactorily with no other items outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government*, tabled in December 2013.

Council adopted 16 out of 22 recommendations relevant to councils. Key recommendations that were not adopted included:

- the components of a road asset, which include a base and sub-base, were not separately identified, valued and depreciated
- an annual review of accounting estimates, including useful lives, depreciation methods and fair value, was undertaken by Council; however, the rationale and support for any action or non-action was not formally documented or approved by the General Manager
- road and stormwater assets were not derecognised when the asset was replaced or renewed
- Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired.

We recommended Council adopt the recommendations contained in our report to ensure its asset management and financial accounting and reporting reflects best practice and is consistent with other councils that have adopted our recommendations.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that apart from establishment of an audit panel and the development of a long-term asset management plan for buildings, Council complied with relevant requirements. Council indicated that it would establish an audit panel in March 2015.

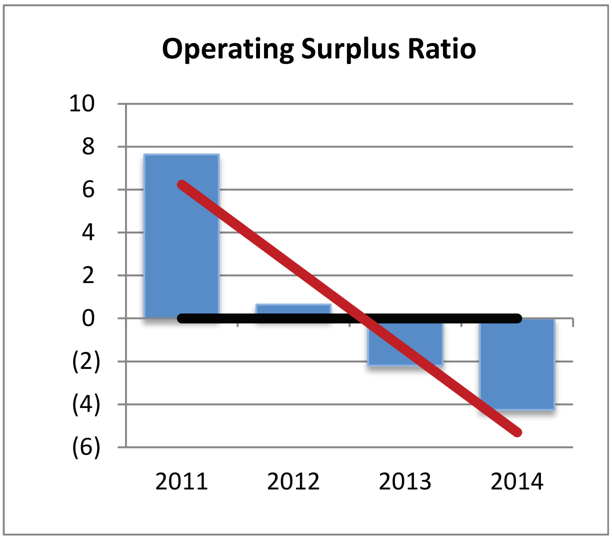
Subsequent to 30 June 2014, Council developed a draft asset management plan for buildings. Council indicated that the plan will be approved in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

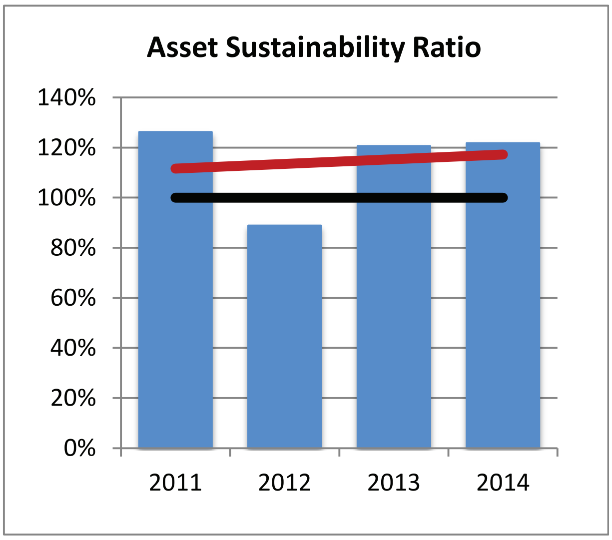
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded positive Operating surplus ratios in 2010-11 and 2011-12, but negative ratios in 2012-13 and 2013-14. Over the four year period, Council averaged a positive ratio of 0.46, which indicates it generated, on average over this period, sufficient revenue to fulfil its operating requirements, including its depreciation charges. However, and as highlighted later in this Chapter, the four-year figures indicate a downward trend. Also of concern is that Council budgeted to operate at a deficit in 2013-14.

It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.

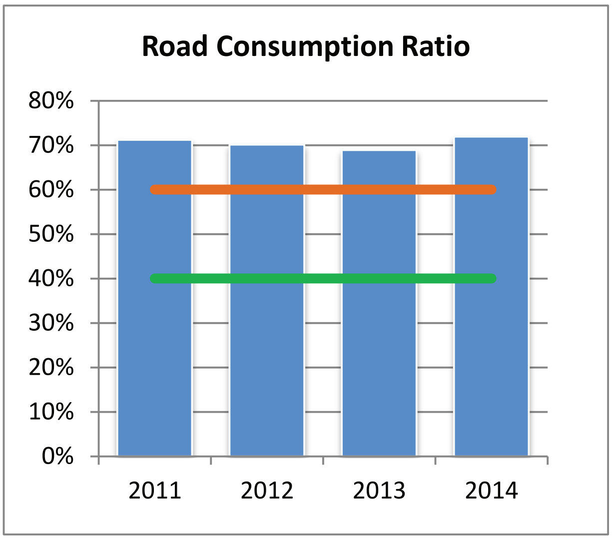


Council's ratio was above benchmark in three of the four years under review and the average ratio was 114%, indicating, subject to levels of maintenance expenditure and the long-term asset management plan, it maintained its investment in existing assets.

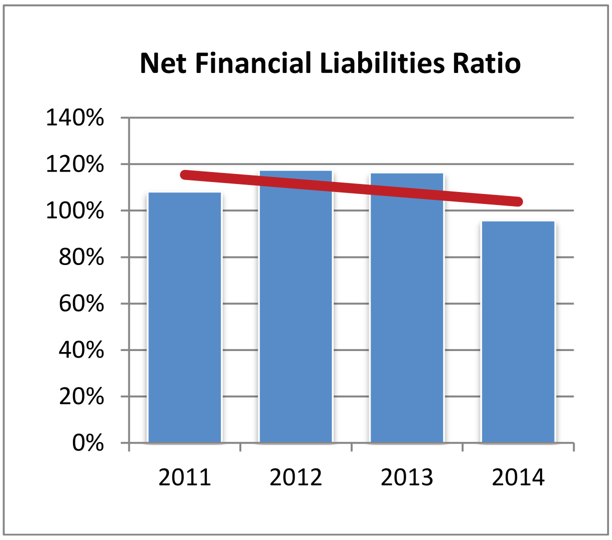
Asset renewal funding ratio

Council's current long-term asset management plans forecast planned and required renewal expenditure to 2031-32 and cover roads, bridges and stormwater. The plans are not subject to audit.

The plans indicated that, based on planned asset replacement expenditure, Council's asset renewal funding ratio was 122% at 30 June 2014 (2012-13, 72%). The improvement was due to Council's action to address a funding shortfall relating to road infrastructure. It decided to fully fund required renewal expenditure for roads and allocated an additional $0.800m per annum towards road expenditure.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 28% of the service potential of its road infrastructure assets. This was above our benchmark which indicated Council had sufficient capacity to continue to provide road transport services to its ratepayers. The high ratio was positively impacted upon by recent revaluations of road assets.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities ratio, with liquid assets greater than Total Liabilities in each year under review. This indicated a strong liquidity position, with Council able to meet existing obligations.

It is noted that Council had capital and contractual commitments totalling $4.633m (2013, $1.480m), of which $3.468m ($1.220m) were payable within 12 months of balance date. These commitments are not recognised on the statement of financial position nor are they factored into the Net financial liabilities ratio.

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

Governance

A review of governance arrangements found Council did not have an audit committee in place. However, Council indicated that it will establish an audit panel in March 2015.

Council had long-term asset management plans for bridges, roads and stormwater assets and a long-term financial management plan. These plans covered all key elements required, with their development being workshopped by Council and formally adopted at a subsequent meeting. All Council's long-term plans are available to the public. Council had no asset management plan for buildings at 30 June 2014.

While the existence of an audit committee with independent members would enhance Council's governance arrangements, its detailed review of key long-term plans fulfils a key function that would be performed by an audit committee.

Conclusion as to financial sustainability

From a financial operating perspective, Council's Operating surplus ratio was below benchmark in two of the four years under review. The average over the period was positive but declining.

Council's Asset sustainability ratio averaged 114%, which was above our 100% benchmark and indicated Council maintained its investment in existing assets. The Road consumption ratio showed road assets had sufficient capacity to continue to provide services to ratepayers. In addition, the 2014 Asset renewal funding ratio of 122% met our minimum benchmark of 90%.

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

From a governance perspective, Council did not have an audit panel or internal audit function, but had long-term asset and financial management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate sustainability risk from a governance perspective but low sustainability risk from financial operating, net financial liabilities, and asset management perspectives.

Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

Council agrees with the conclusions of the Auditor-General, however notes that the negative Operating surplus ratios recognised in 2012-13 and 2013-14 are attributable to significant increases in Council's depreciation expense.

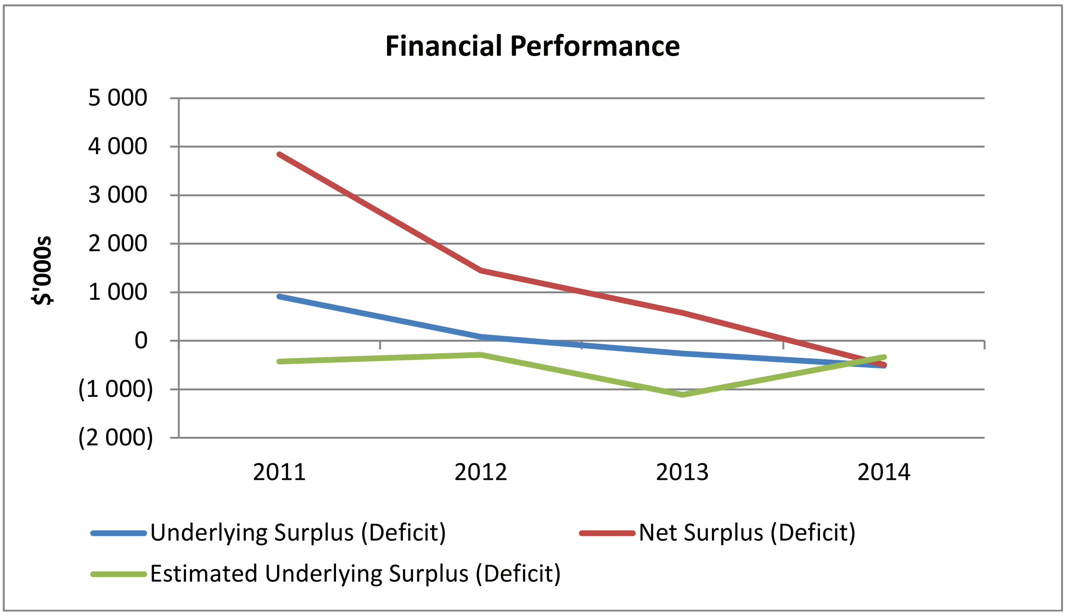
Council has been actively investing in road infrastructure since its first Road Asset Management Plan was implemented in August 2012 as evidenced by Council's asset sustainability and asset renewal ratios. Council's depreciation expense in regard to roads comprised at least $2.0 million of this balance over the three-year period.

Council anticipates that this investment, as well as work completed on other asset management plans, will reduce Council's future depreciation expenditure and accordingly improve Council's operating surplus ratio for future financial years.

In respect to the governance arrangements of Council, Dorset agrees that it is at a moderate sustainability risk from a governance perspective. Council has substantially met its obligations under the Ministerial Orders on financial and asset management and has a clear pathway to ensure areas of non-compliance are addressed. Council has included measures within its strategic and annual plans to ensure that effective internal audit and financial reporting measures are in place and are regularly reported to Council. Further it is Council's intention to establish an audit committee in accordance with the Local Government (Audit Panels) Order by March 2015.

Council has included the development of a building asset management plan as part of its Annual Plan for 2014-15. In addition to the review of the bridge and road plans, the building asset management plan will be formally adopted by Council in 2014-15 financial year.

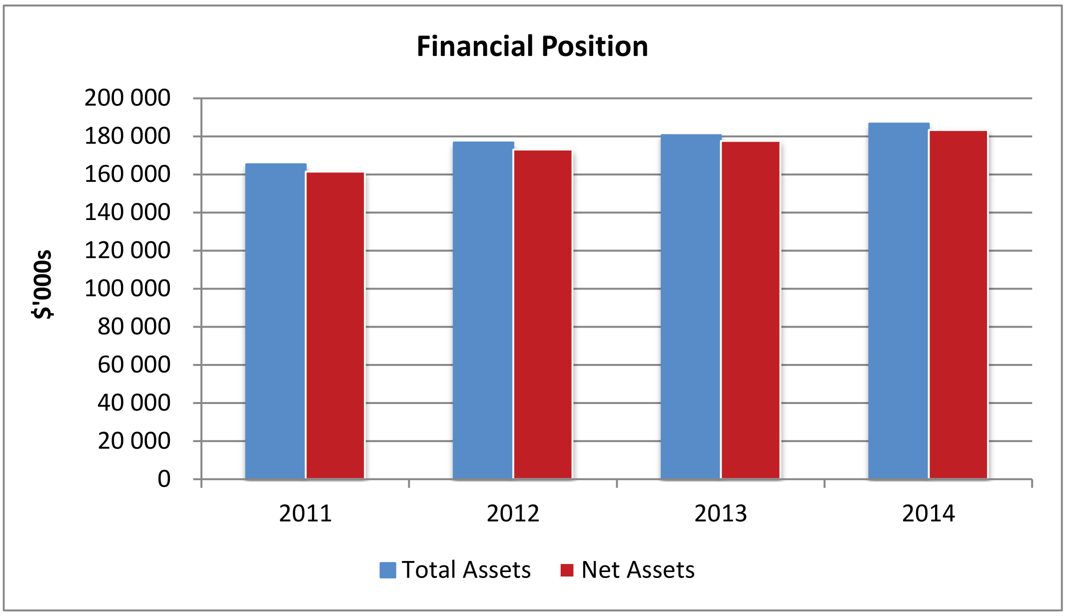
FINANCIAL ANALYSIS



Council recorded an Underlying Deficit of $0.512m in 2013-14 (2012-13, $0.264m), compared with an Estimated Underlying Deficit of $0.334m. The four-year figures indicate a downward trend for both Net and Underlying results. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis.

The higher Underlying Deficit in 2013-14 was mainly due to increased Depreciation of $0.314m as a result of last year's revaluation of road assets.

Council's Net Surplus varied over the period mainly due to fluctuations in Capital grants, prepaid financial assistance grants and Contributions for non-current assets.



Council's Total Assets and Net Assets steadily grew over the period under review. Total Assets increased by $21.438m, or 12.96%, from 2010-11 to 2013-14. The movement related primarily to an increase in the value of Property, plant and equipment of $25.214m due to revaluation increments and asset additions, offset by a decrease in the Investment in TasWater of $1.959m.

Its financial position improved as at 30 June 2014, with Net Assets increasing by 3.17% or $5.625m to $183.340m. The increase was primarily attributable to an asset revaluation increment of $8.534m, partially offset by a decrease in Council's Investment in TasWater of $2.419m.

In 2013-14, Cash and cash equivalents decreased by $2.016m. As a result, Council's current ratio dropped from 11.42 to 7.33, well above conventional benchmarks. The reduction in Cash and cash equivalents was due partly to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014.

Over the four-year period, cash generated from operations was at its lowest level in 2013-14 at $2.550m, which was in line with the drop in financial assistance grants received in this year.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted upon by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 12% over the three-year period since 30 June 2011 and Rates per rateable property increased by 7% over this period. These increases were met with increases in operating costs as measured by Operating cost to rateable property, which increased by 12%. Revenue items other than rates decreased over the three year period. This decrease contributed to Council recording higher underlying deficits in recent years.

FTEs did not change over this period, while the average cost per FTE increased by 4%.

Management comments on this assessment of its operational efficiency

The Council's full response is reproduced below.

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

Council agrees with the conclusions of the Auditor-General, however notes that the above trends are due to a decrease in Council's population base and minimal growth in the number of rateable properties over the three-year period. This is in contrast to Council's cost base, which has increased by inflation or greater in each year over the period. These factors have offset operational savings which Council has identified and implemented in the 2013-14 and previous financial years.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	6 076	6 097	6 004	5 822
Fees and charges	899	858	885	882
Grants**	3 855	3 963	3 796	4 076
Interest revenue	480	607	774	938
Other revenue	283	522	573	489
Total Revenue	**11 593**	**12 047**	**12 032**	**12 207**
Employee costs	3 551	3 566	3 675	3 992
Depreciation	3 213	3 922	3 608	3 584
Finance costs	16	16	17	21
Other expenses	5 147	5 055	4 996	4 530
Total Expenses	**11 927**	**12 559**	**12 296**	**12 127**
Underlying Surplus (Deficit)	**(334)**	**(512)**	**(264)**	**80**
Capital grants	636	666	728	595
Financial assistance grant received in advance**	0	0	1 633	1 522
Offset financial assistance grant in advance**	(1 633)	(1 633)	(1 522)	(752)
Contributions non-current assets	888	989	0	0
Net Surplus (Deficit)	**(443)**	**(490)**	**575**	**1 445**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	8 534	3 730	9 950
Fair value adjustment in TasWater	0	(2 419)	351	108
Total Other Comprehensive Income (Expense)	**0**	**6 115**	**4 081**	**10 058**
Comprehensive Surplus (Deficit)	**(443)**	**5 625**	**4 656**	**11 503**

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

An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	344	1 963	3 563	15 912
Financial assets*	13 989	14 386	13 826	0
Receivables	687	670	682	825
Inventories	93	116	103	105
Other	199	182	253	204
Total Current Assets	**15 312**	**17 317**	**18 427**	**17 046**
Payables	980	361	331	308
Borrowings	28	27	25	95
Provisions – employee benefits	907	1 033	1 003	947
Provisions – tip rehabilitation	20	10	546	560
Trust and deposits	154	85	327	326
Total Current Liabilities	**2 089**	**1 516**	**2 232**	**2 236**
Net Working Capital	**13 223**	**15 801**	**16 195**	**14 810**
Property, plant and equipment	155 203	144 689	139 994	129 989
Investment in TasWater	16 282	18 701	18 349	18 241
Investment pine plantation	8	3	2	91
Total Non-Current Assets	**171 493**	**163 393**	**158 345**	**148 321**
Borrowings	175	203	230	255
Provisions – employee benefits	181	86	61	57
Provisions – tip rehabilitation	1 020	1 190	1 190	1 263
Total Non-Current Liabilities	**1 376**	**1 479**	**1 481**	**1 575**
Net Assets	**183 340**	**177 715**	**173 059**	**161 556**
Reserves	77 100	70 985	66 904	104 708
Accumulated surpluses	106 240	106 730	106 155	56 848
Total Equity	**183 340**	**177 715**	**173 059**	**161 556**

* *Financial assets were separately identified from Cash and cash equivalents in 2012.*

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 636	7 724	7 985	7 607
Cash flows from Government	2 466	3 907	4 743	3 815
Distributions received - TasWater	196	2	67	104
Payments to suppliers and employees	(8 320)	(9 075)	(8 871)	(8 663)
Interest received	588	884	849	938
Finance costs	(16)	(17)	(21)	(27)
Cash from (used in) Operations	**2 550**	**3 425**	**4 752**	**3 774**
Capital grants and contributions	1 655	728	595	1 197
Payments for property, plant and equipment	(6 366)	(5 389)	(4 065)	(4 591)
Proceeds from sale of property, plant and equipment	172	221	291	175
Cash from (used in) Investing Activities	**(4 539)**	**(4 440)**	**(3 179)**	**(3 219)**
Proceeds from the redemption of financial assets	397	0	0	0
Repayment of borrowings	(27)	(25)	(96)	(89)
Investments in new or existing financial assets	0	(560)	0	0
Cash from (used in) Financing Activities	**370**	**(585)**	**(96)**	**(89)**
Net Increase (Decrease) in Cash	**(1 619)**	**(1 600)**	**1 477**	**466**
Cash at the beginning of the year	1 963	3 563	15 912	15 446
Transfer to financial assets	0	0	(13 826)	0
Cash at End of the Year	**344**	**1 963**	**3 563**	**15 912**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(512)	(264)	80	911
Operating surplus ratio* **	>0	(4.25)	(2.19)	0.66	7.64
Asset Management					
Asset sustainability ratio*	100%	122%	121%	89%	126%
Asset renewal funding ratio* ***	90% – 100%	122%	72%	59%	N/a
Road asset consumption ratio*	>60%	72.0%	68.9%	70.1%	71.2%
Asset investment ratio	>100%	162%	149%	113%	143%
Liquidity					
Net financial assets (liabilities) ($'000s)		11 555	14 024	14 358	12 926
Net Financial Liabilities Ratio* ****	0% – (50%)	95.9%	116.6%	117.6%	108.4%
Operational Efficiency					
Liquidity ratio	2:1	14.65	35.98	26.46	22.96
Current ratio	1:1	7.33	11.42	8.26	7.62
Interest coverage	3:1	158.38	200.47	225.29	138.78
Self financing ratio		21.2%	28.5%	38.9%	31.6%
Own source revenue		67.1%	68.5%	66.6%	68.3%
Debt collection	30 days	36	30	34	41
Creditor turnover	30 days	28	10	12	12
Rates per capita ($)		852	839	819	761
Rates to operating revenue		50.6%	49.9%	47.7%	46.9%
Rates per rateable property ($)		1 171	1 161	1 133	1 093
Operating cost to rateable property ($)		2 412	2 378	2 361	2 150
Employee costs expensed ($'000s)		3 566	3 675	3 992	3 935
Employee costs capitalised ($'000s)		933	934	370	340
Total employee costs ($'000s)		4 499	4 609	4 362	4 275
Employee costs as a % of operating expenses		28%	30%	33%	36%
Average staff numbers (FTEs)		57	60	60	57
Average staff costs ($'000s)		79	77	73	76
Average leave balance per FTE ($'000s)		19	19	18	18

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

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

**** Information not obtained or unavailable to calculate prior year ratio.*

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

FLINDERS COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $1.883m compared to 2012-13, $0.459m. This was the fourth year of consecutive deficits.
- It budgeted for an Underlying Deficit of $1.795m.
- The Net result was a deficit of only $0.035m whereas the Comprehensive result was a deficit of $36.399m, caused almost entirely by a downward revaluation of infrastructure assets of $36.052m.
- At 30 June 2014, Council had Net Assets of $52.447m with its most significant asset being Property, plant and equipment, $41.982m.
- Cash generated from operations was negative $0.191m caused almost entirely by the timing of financial assistance grants from the Commonwealth.
- Rates per capita increased by 22.4% over the three year period since 30 June 2011 and Rates per rateable property increased by 5.8% over this period. However, Operating cost to rateable property increased by 12.7%.
- FTEs increased by one since 2011 and over this period average cost per FTE increased by 12.7%.

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

It adopted 20 out of 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report and complied with relevant requirements of Local Government Ministerial Orders issued in February 2014 including the establishment of an audit panel.

The audit was completed satisfactorily with no other matters outstanding.

Key developments for the year included:

- Council performed a revaluation of its road infrastructure based on current replacement costs. This resulted in a decrement of $37.047m
- as part of this revaluation, Council identified assets which were previously unaccounted for and valued them at $2.040m.

Major variations between 2013-14 and 2012-13 financial years were:

- lower Cash of $0.879m due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014
- a decrease in Property, plant and equipment of $35.018m, mainly relating to the revaluation decrement of road assets of $37.047m
- Contributions and found assets, $2.040m
- a decrease in the investment in TasWater of $0.312m following the merger of the water entities.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Due to Council's small size and scale of its operations, a weakness exists in the design of internal control caused by a lack of adequate segregation of duties. This weakness has the potential to result in a material misstatement in Council's 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 consisted predominantly of substantive procedures.
A full revaluation of assets valued at fair value based on the depreciated replacement cost methodology was undertaken during 2013-14, which included roads and bridges. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of revalued assets. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 29 September 2014.

KEY DEVELOPMENTS

Revaluation of road assets

Council undertook a revaluation of its road infrastructure assets during 2013-14. The comprehensive revaluation was performed by in-house staff and staff from Brighton Council with engineering expertise. Asset values were calculated as at 1 July 2013 and then indexed to ensure that they reflected the fair value at the end of the annual reporting period. The assets were valued using the modern equivalent method, with replacement cost and useful lives updated to reflect recent experience. As a result, the net effect was a decrease in the value of road assets of $36.363m, which reversed the revaluation increment recorded in 2011-12.

Assets recognised for the first time

During the year, Council identified assets which were previously unaccounted for, including:

- Stormwater - $0.343m
- Leasehold improvements - $0.985m
- Footpaths and cycle ways - $0.507m
- Roads - $0.174m.

Transfers between asset classes

As part of its revaluation in 2013-14, Council transferred the following assets between different classes:

- selected drainage infrastructure assets, $0.716m, were transferred to bridges, because the bridges class was deemed to be more representative of the type of assets
- buildings valued at $1.110m were transferred to leasehold improvements because these were found to be on Crown land.

KEY FINDINGS

The audit was completed satisfactorily with no key items outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Apart from the basis for determining the useful lives of assets and developing a policy in relation to accounting for earthworks, Council adopted 20 out of 22 recommendations relevant to councils.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders issued in February 2014 relating to audit panels, strategic planning and reporting indicators.

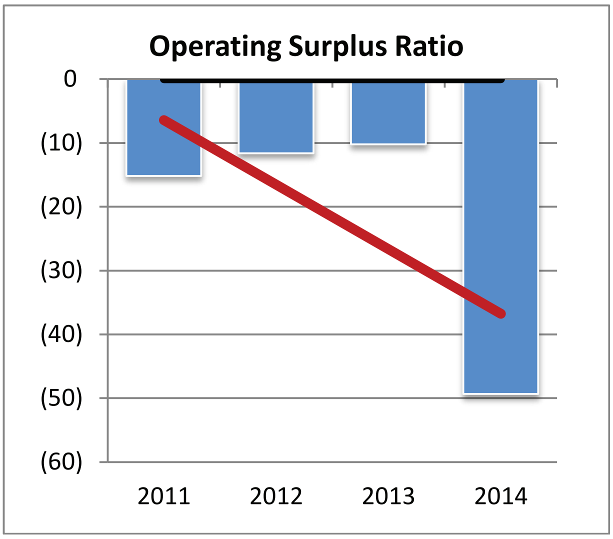
Council had long-term asset management and financial management plans. It also had an Audit and Finance Committee, which had five members one of which was a community representative. However, the Local Government (Audit Panels) Order 2014 requires that if the panel has four or five members, at least two must be independent persons.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

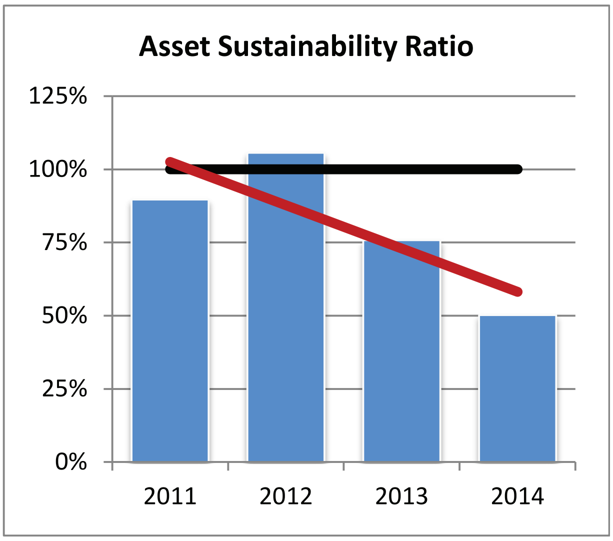
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council's Operating surplus ratio reflected underlying deficits recorded in each of the past four years and the large deficit this year caused an overall downward trend despite improvements in the first three years. Negative ratios indicated Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. Council's Operating surplus ratio averaged a negative 21.61% over the last four years.

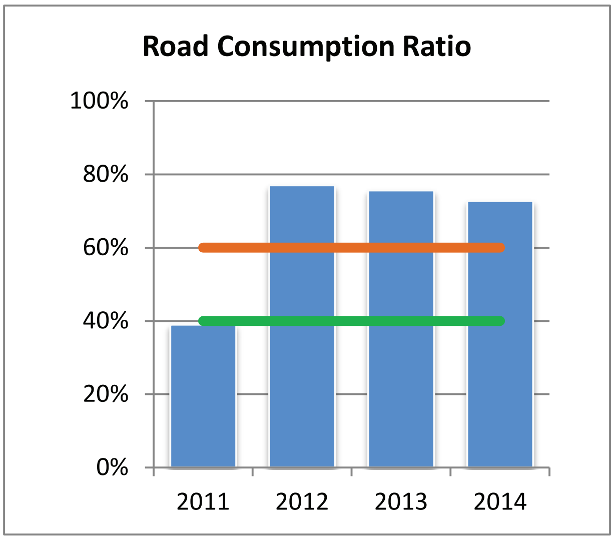


Asset sustainability ratios were below the benchmark in three of the four years under review. Over the four year period, Council's average ratio was 81% indicating it did not, subject to adequate levels of maintenance, maintain its investment in existing assets. The ratio exceeded the benchmark in 2012 primarily due to higher expenditure on buildings and infrastructure assets in that year. The reduction in 2013 was mainly due to higher depreciation charges due to the revaluation of infrastructure assets at 30 June 2012.

Asset renewal funding ratio

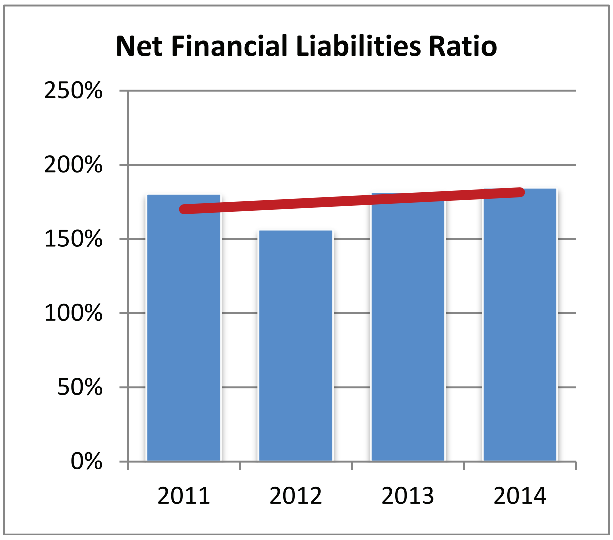
Council's long-term Transport Asset Management Plan and long-term financial management plan indicated an asset renewal funding ratio of 100% in both 2012-13 and 2013-14 based on planned asset replacement expenditure and planned available funding. This means that funding for long-term financial plans and the projected outlays for the asset management plans were identical.

The ratio was in line with our benchmark of between 90% and 100%.



The graph indicated that at 30 June 2014 Council had used (consumed) approximately 27% of its road assets indicating that, at that point in time; the remaining service potential to ratepayers was relatively high.

The improved ratio from 2011-12 was due to Council revaluing its road infrastructure at 30 June 2012.



* *Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk.*

Council recorded a positive Net financial liabilities ratio with liquid assets greater than Total Liabilities in each year under review. This indicates a strong liquidity position, whereby Council was able to meet all existing commitments. Council had no borrowings in the period under review. Its liabilities were payables, trust funds, deposits and provisions.

It was noted that Council's Cash and cash equivalents were subject to a number or internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $0.453m of the total Cash and investments of $7.588m.

Unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated that it has an Audit and Finance Committee and long-term asset management and financial management plans.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded an operating deficit in each of the four years under review.

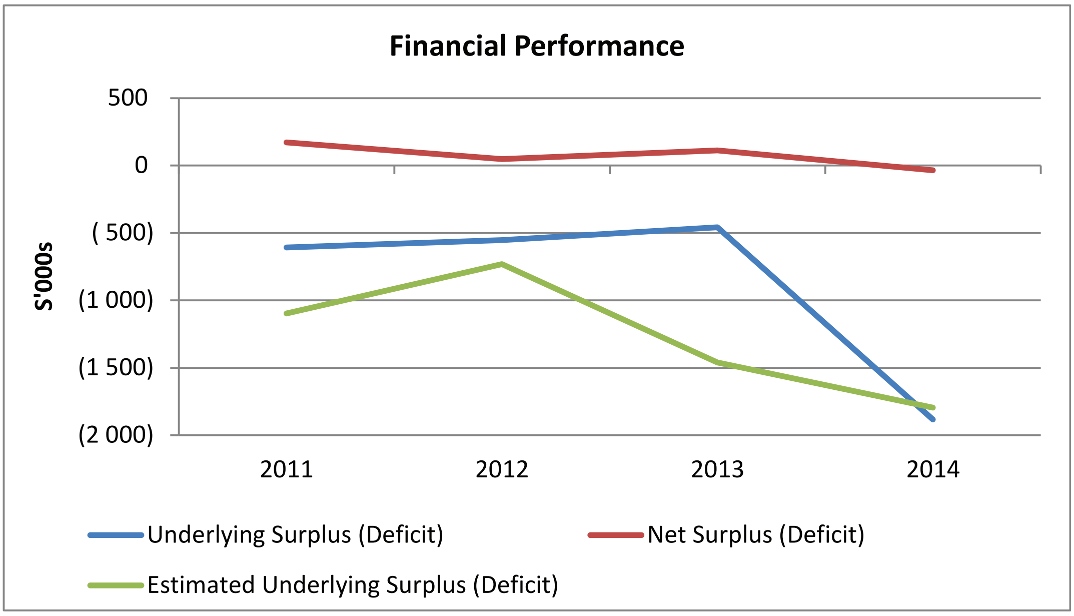
Asset sustainability ratios indicated that Council based on our 100% benchmark, underinvested in existing assets in three of the four years under review. Despite this, Council's Road consumption ratio indicates a low risk to the service potential of road assets and its Asset renewal funding ratio was within the benchmark of 90-100%.

The Net financial liabilities ratio was positive and Council had no debt indicating that at 30 June 2014, it was in a position to meet short-term obligations and had capacity to borrow should the need arise.

Council has long-term asset management and financial management plans. It has also established an Audit and Finance Committee, but this committee does not review the annual financial report.

Based on these ratios and governance arrangements, we have concluded that at 30 June 2014, Council was at high risk from a financial operating perspective and low risk from asset management and governance perspectives, and net financial liabilities perspective.

FINANCIAL ANALYSIS



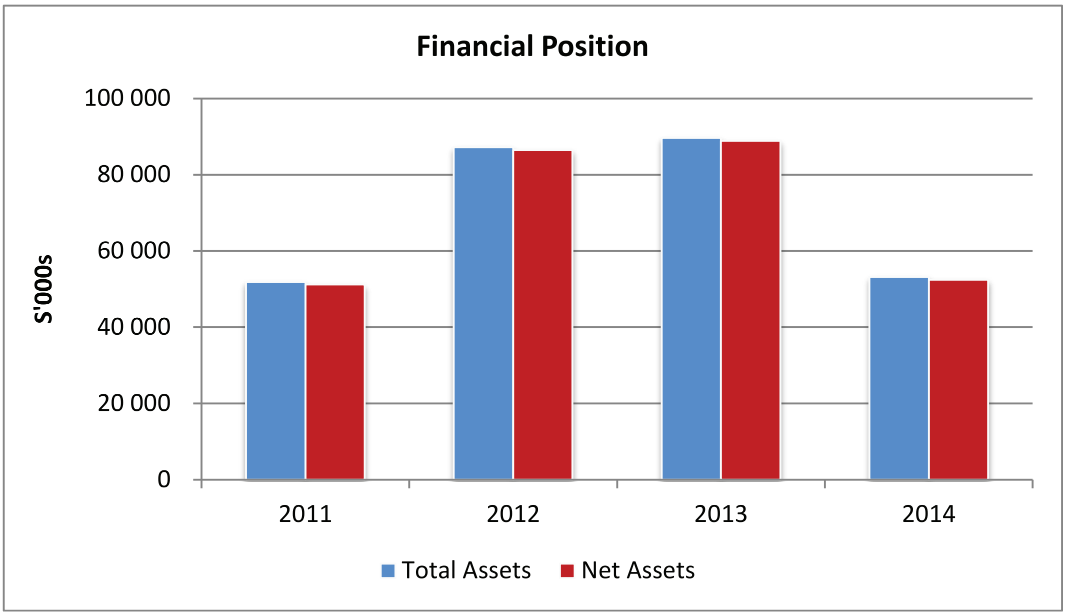
Council recorded an Underlying Deficit of $1.883m in 2013-14. This was the fourth consecutive year of underlying deficits. The unfavourable performance was largely due to operating cost growing at a faster rate than property rates. Over the past four years, average Rates per rateable property went up by 5.51% while Operating cost to rateable property increased by 12.69%. This position is unsustainable and needs to be addressed by Council.

This year's underlying result was $1.424m worse than the Underlying Deficit of $0.459m reported last year. The higher deficit was due to a combination of reduced grants and Fees and charges revenue and higher Employee costs and other expenses mainly relating to materials and supplies expenses.

Higher Employee costs in 2013-14 were mainly due to increased wages and salaries expenses as a result of a new enterprise agreement which resulted in allowances being rolled into wages, a salary increment of 2% effective October 2013 and a one-off bonus paid to employees. Also, during the year, one parental leave absence required coverage and two employees returned from parental leave on a job-share arrangement.

Council's Underlying Deficit was higher than its Estimated Underlying Deficit. The variance was mainly due to Council under-budgeting for Employee benefits which were partly offset by over-budgeting for depreciation.

Council recorded net surplus's in three of the four years under review mainly as a result of Capital grants.



Council's Total Assets and Net Assets fluctuated over the four year period. In 2011-12, Net Assets increased significantly due to a net revaluation increment of road infrastructure of $35.665m. As outlined earlier in this Chapter, this reversed in 2013-14 when Council recognised a downward revaluation of $36.052m.

Total Liabilities remained around the same level over the four year period and a small balance when compared to Total Assets.

Council's Total Liabilities are manageable and it is debt free.

Cash and cash equivalents totalled $7.588m at 30 June 2014.

In 2013-14, Cash decreased by $0.879m. The reduction in cash was partly due to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014.

Net Working Capital decreased in 2014, $7.406m, compared to $8.465m in 2013 mainly due to lower Cash and cash equivalents and Financial assets.

OPERATIONAL EFFICIENCY

In this section we comment on the measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures, measures relating to FTE and liquidity. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 22.4% over the three year period since 30 June 2011 as population decreated while Rates per rateable property increased by 5.8% over this period. Over the same period, operating costs as measured by Operating cost to rateable property, increased by 14.5%. The lower increases in Rates per rateable property, when compared to the increases in costs per rateable property, resulted in Council recording higher underlying deficits in recent years.

FTEs increased by one since 2011 and over this period average cost per FTE increased by 12.7%. The increase in average costs was primarily due to a combination of three enterprise agreements, long term employees being paid out and positions being filled internally which were previously contracted.

Council's Liquidity ratio was above benchmark in all four years. The decrease in 2013 and 2014 was primarily due to less Cash and cash equivalents and Receivables at 30 June.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	1 303	1 306	1 247	1 221
Fees and charges	1 114	741	870	901
Grants**	694	1 373	1 951	2 220
Interest revenue	295	277	316	388
Gain on disposal of assets	26	0	13	0
Other revenue	74	117	78	32
Total Revenue	**3 506**	**3 814**	**4 475**	**4 762**
Employee costs	1 661	1 822	1 568	1 496
Depreciation	1 753	1 437	1 798	1 446
Loss on disposal of assets	0	695	0	222
Other expenses	1 887	1 743	1 568	2 152
Total Expenses	**5 301**	**5 697**	**4 934**	**5 316**
Underlying Surplus (Deficit)	**(1 795)**	**(1 883)**	**(459)**	**(554)**
Capital grants	0	157	853	269
Financial assistance grant received in advance**	0	0	349	630
Offset financial assistance grant received in advance**	0	(349)	(630)	(298)
Contributions - Non monetary assets	0	2 040	0	0
Net Surplus (Deficit)	**(1 795)**	**(35)**	**113**	**47**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(36 052)	2 249	35 776
Current year fair value adjustment TasWater	0	(312)	66	21
Total Other Comprehensive Income (Expense)	**0**	**(36 364)**	**2 315**	**35 797**
Comprehensive Surplus (Deficit)	**(1 795)**	**(36 399)**	**2 428**	**35 844**

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

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Statement of Comprehensive Income.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	2 155	3 034	3 577	1 777
Financial assets	5 433	5 672	4 213	6 057
Receivables	209	159	370	115
Inventories	43	40	90	89
Other	84	59	57	65
Total Current Assets	**7 924**	**8 964**	**8 307**	**8 103**
Payables	194	302	217	200
Provisions – employee benefits	195	173	268	151
Other	129	24	24	159
Total Current Liabilities	**518**	**499**	**509**	**510**
Net Working Capital	**7 406**	**8 465**	**7 798**	**7 593**
Property, plant and equipment	41 982	77 000	75 270	40 262
Investment in TasWater	3 226	3 538	3 472	3 451
Other	68	76	84	93
Total Non-Current Assets	**45 276**	**80 614**	**78 826**	**43 806**
Provisions – employee benefits	127	55	32	33
Provisions – Quarry pit reinstatement	108	99	129	190
Other	0	78	43	0
Total Non-Current Liabilities	**235**	**232**	**204**	**223**
Net Assets	**52 447**	**88 847**	**86 419**	**51 175**
Reserves	12 876	49 239	46 923	12 153
Accumulated surpluses	39 571	39 608	39 496	39 022
Total Equity	**52 447**	**88 847**	**86 419**	**51 175**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	1 301	1 239	1 222	2 084
Cash flows from Government	1 034	1 670	2 267	1 666
Statutory fees and fines	45	33	0	0
User charges and other fines	694	916	0	0
Other Receipts	75	275	1 191	0
Net GST refund/payment	93	91	0	0
Payments to suppliers and employees	(3 752)	(3 241)	(3 916)	(3 349)
Interest received	277	316	378	395
Distributions from TasWater	42	23	32	29
Cash from (used in) Operations	**(191)**	**1 322**	**1 174**	**825**
Capital grants and contributions	162	853	269	332
Trust Funds and deposits	27	0	(5)	0
Proceeds from financial assets	0	0	1 821	646
Purchase of financial assets	240	(1 460)	0	0
Payments for property, plant and equipment	(1 136)	(1 362)	(1 527)	(1 274)
Proceeds from sale of property, plant and equipment	19	104	68	71
Cash from (used in) Investing Activities	**(688)**	**(1 865)**	**626**	**(225)**
Net Increase (Decrease) in Cash	**(879)**	**(543)**	**1 800**	**600**
Cash at the beginning of the year	3 034	3 577	1 777	1 177
Cash at End of the Year	**2 155**	**3 034**	**3 577**	**1 777**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus deficit ($'000s)		(1 883)	(459)	(554)	(607)
Operating surplus ratio* **	>0	(49.37)	(10.26)	(11.63)	(15.19)
Asset Management					
Asset sustainability ratio*	100%	50%	76%	106%	90%
Asset renewal funding ratio* ***	90%-100%	100.0%	100.0%	N/a	N/a
Road asset consumption ratio*	>60%	72.7%	75.6%	77.0%	39.0%
Asset Investment ratio	>100%	79%	78%	106%	90%
Liquidity					
Net financial assets (liabilities) ($000s)		7 044	8 134	7 447	7 216
Net financial liabilities ratio* ****		184.7%	181.8%	156.4%	180.6%
Operational Efficiency					
Liquidity ratio	2:1	10.35	12.13	11.44	10.84
Current ratio	1:1	10.52	12.26	11.65	11.05
Interest coverage	3:1	0	0	0	0
Self financing ratio		(5.0%)	29.5%	24.6%	20.6%
Own source revenue		64.0%	56.4%	53.4%	59.8%
Debt collection	30 days	37	27	64	22
Creditor turnover	30 days	44	57	41	42
Rates per capita ($)		1 666	1 547	1 509	1 361
Rates to operating revenue		34.2%	27.9%	25.6%	28.6%
Rates per rateable property ($)		1 082	1 074	1 050	1 022
Operating cost to rateable property ($)		4 720	4 250	4 571	4 121
Employee costs expensed ($'000s)		1 603	1 568	1 496	1 381
Employee costs capitalised ($'000s)		139	77	105	62
Total employee costs ($'000s)		1 742	1 645	1 601	1 443
Employee costs as a % of operating expenses		32%	32%	28%	30%
Average staff numbers (FTEs)		21	20	19	20
Average staff costs ($'000s)		83	80	84	73
Average leave balance per FTE ($'000s)		15	11	16	9

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

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

**** New ratio in 2011-12. Information not obtained or available to calculate prior years ratios.*

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

GEORGE TOWN COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $0.226m in 2013-14. It recorded underlying surpluses in three of the four years under review.
- Revaluations and indexation of major infrastructure assets resulted in the value of those assets being $6.399m higher.
- Its Comprehensive result was a surplus of $3.316m, with Net Assets at 30 June 2014 of $120.806m. Cash generated from operations totalled $1.844m this year, which was $0.482m less than the four year average of $2.326m.
- Rates per capita and per rateable property increased by 23% and 19% respectively over the past three years whereas Operating cost to rateable property increased by only 1%.
- Average FTEs increased by one since 2011 while average staff costs increased by 17% in the three years since 30 June 2011.

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

We identified moderate risk audit findings in the areas of business continuity planning, electronic funds transfer and compliance with internal corporate credit card procedures. These matters were reported to, and are being addressed or considered by, management.

Council adopted 19 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014.

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

Major variations between 2013-14 and 2012-13 included:

- an increase in Property, plant and equipment of $7.893m, due mainly to an asset revaluation increment of $6.399m
- a decrease in the investment in TasWater of $2.839m
- a decrease in Cash and financial assets of $0.699m due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014
- a decrease in Assets held for sale of $0.609m due to the reassessment of properties as no longer being held for sale.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of bridge assets was undertaken effective 30 June 2014. Council applied an index to road and drainage assets to update the valuations to 30 June 2014. Revaluations require estimation, judgment and involve complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We: • tested valuation reports, calculations and underlying assumptions supporting fair values of assets • tested the validity of the indices and ensured they were correctly applied • obtained appropriate representations from management and engineers to address the reliance placed on internal revaluation assessments.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2014. Amended financial statements were received on 24 September 2014 and an unqualified audit report was issued on 25 September 2014.

KEY DEVELOPMENTS

There were no key developments in 2013-14.

KEY FINDINGS

We noted that Council did not have a business continuity plan and recommended that such a plan, which should include disaster recovery and restoration procedures, be developed. We also recommended changes to Council's electronic funds transfer system to improve controls over the administration function and transfer limits. Our other findings related to non-compliance with internal corporate credit card procedures, including missing evidence of credit card statement authorisation, and one other issue classified as low risk.

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

The audit was completed satisfactorily with no other items outstanding,

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 19 out of 22 recommendations relevant to councils. Key recommendations that were not adopted included:

- the components of a road asset, which include earthworks, pavement base and sub-base, were not separately identified, valued and depreciated
- Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired.

Local Government Ministerial Orders

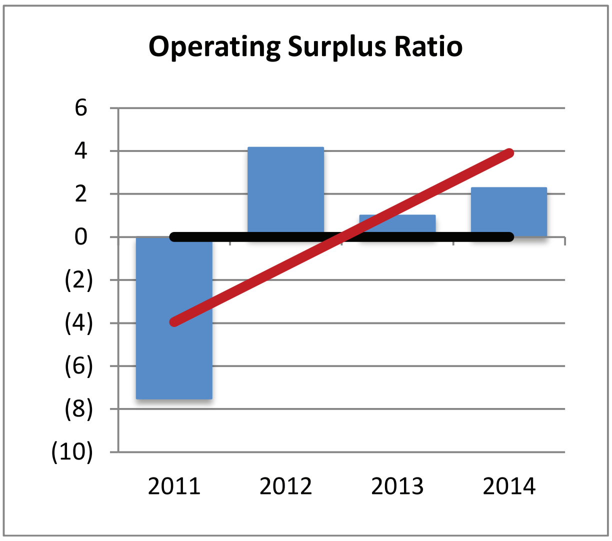
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that Council complied with relevant requirements.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

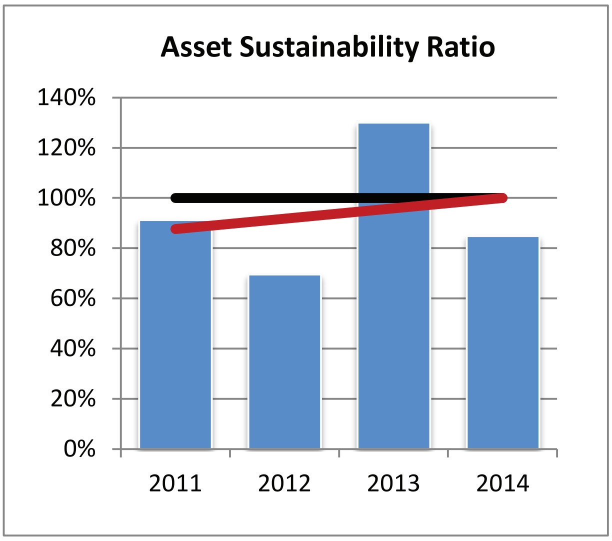
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded positive Operating surplus ratios in three of the four years under review. Its average ratio of 0.15 was slightly above our benchmark indicating it generated sufficient revenue to fulfil its operating requirements, including its depreciation charges. The average ratio was significantly impacted upon by an Underlying Deficit of $0.651m in 2010-11 caused by higher maintenance and operating costs and lower revenue from rates. Council took action in 2011-12 to reduce costs and increased the general rate by 8%.



Asset sustainability ratio was below the 100% benchmark in three of the four years under review. Over the four-year period, Council's average ratio was 94%, indicating that, subject to levels of maintenance expenditure, it was close to maintaining necessary investment in existing assets. The lower ratio in 2013-14 was due to the higher investment in capital expenditure on new assets in proportion to total capital expenditure.

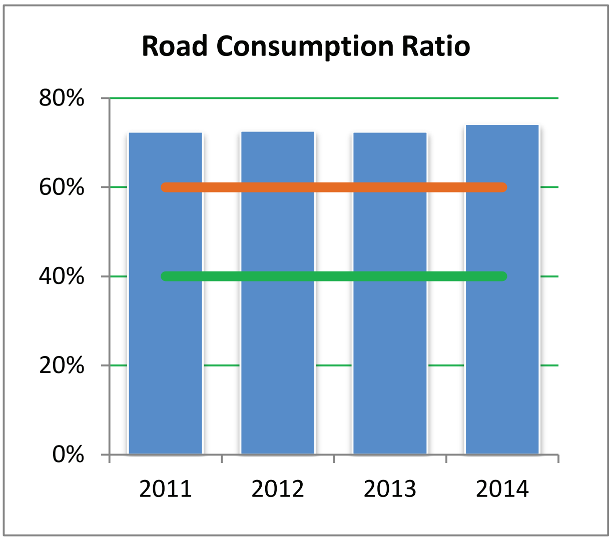
Asset renewal funding ratio

The Asset renewal funding ratios included in the Financial Analysis table at the end of this Chapter represent a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to each asset class required to be included in its long-term strategic asset management plan.

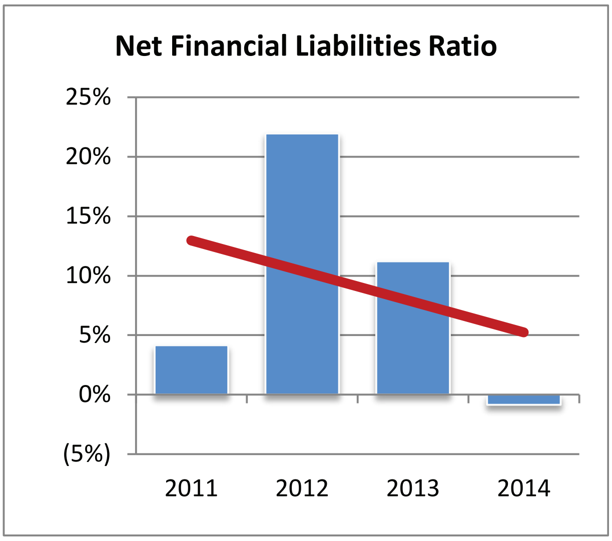
Council's current long-term asset management plan forecasts planned and required renewal expenditure to 2021-22 and covers transport infrastructure, land, buildings, drainage, recreation and plant and equipment. The plan is not subject to audit.

The long-term asset management plan indicated that, based on planned asset replacement expenditure, its Asset renewal funding ratio was 141% for 2014 (2013, 136%). This was above our benchmark of between 90% and 100%, which indicated that Council is adequately budgeting for future asset renewals.

No ratio was calculated for 2010-11 and 2011-12 as Council had not prepared long-term financial plans covering a ten-year period in those years.



The ratio at 30 June 2014 indicated Council had used (consumed) approximately 26% of the service potential of its road infrastructure assets. This was consistent with the average ratio over the four year period of 27% and indicated Council's road assets had sufficient capacity to continue to provide services to ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk.*

Council recorded a negative Net financial liabilities ratio at 30 June 2014 with liabilities slightly greater than liquid assets. The negative ratio was well within our benchmark of nil to negative 50%. However, the downward trend indicates that Council will need to monitor its financial position.

It was noted that Council had capital and contractual commitments at 30 June 2014 totalling $2.143m (2013, $1.914m), of which $1.756m ($1.502m) were payable within 12 months of that date. These commitments were not recognised on the Statement of Financial Position nor are they factored into the Net financial liabilities ratio.

In addition, Council's Cash and financial assets were subject to a number of internal and external restrictions that limit the amount available for discretionary use. Restricted funds represented $1.915m or 51% of the total Cash and financial assets balance of $3.753m. Commitments and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

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

- comprised of an independent chairperson and two councillors
- taking an oversight role of Council's financial statements.

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

Council had long-term asset and financial management plans. These plans were regularly reviewed, covered all key elements required and were formally adopted by Council.

Conclusion as to financial sustainability

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

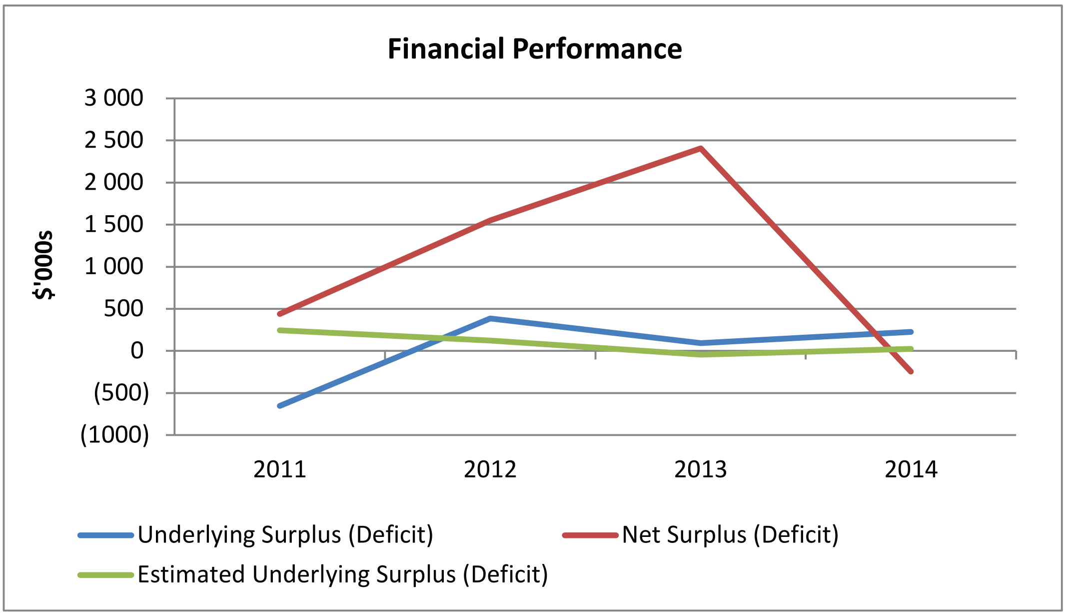
Its Asset sustainability ratio averaged 94%, which was slightly below our benchmark and indicated Council was close to maintaining necessary investment in existing assets. The Road consumption ratio showed road assets had sufficient capacity to continue to provide services to ratepayers. In addition, Council's Asset renewal funding ratio met our minimum benchmark of 90%.

Council's Net financial liabilities ratio was negative, but within our nil to negative 50% benchmark.

From a governance perspective, Council had established an audit panel, although it does not have an internal audit function. However, it did have long-term financial management and asset management plans.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate sustainability risk from financial operating, governance and asset management perspectives, but low sustainability risk from a net financial liabilities perspective.

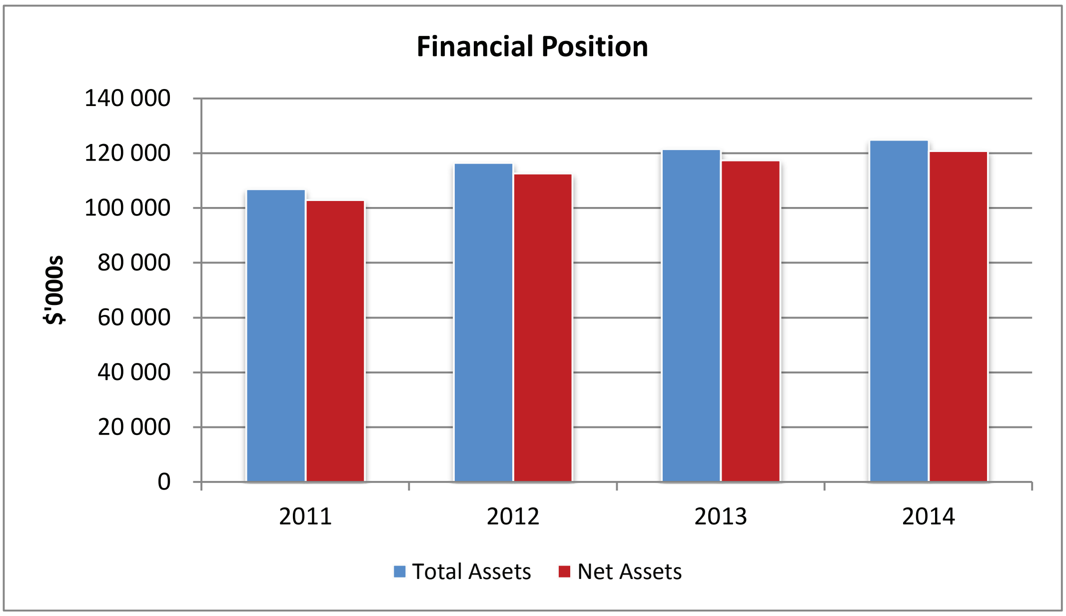
FINANCIAL ANALYSIS



Council recorded an Underlying Surplus of $0.226m in 2013-14, compared with a surplus in 2012-13 of $0.094m. Its underlying result was fairly consistent over the past three years. As mentioned previously, the Underlying Deficit of $0.651m in 2010-11 was mainly due to higher maintenance and operating costs and lower revenue from rates compared with the subsequent three years. Council took action in 2011-12 to reduce costs, particularly the number of contractors and consultants engaged, and increased the general rate by 8%.

Council's Estimated Underlying Surplus was near break-even in all four years, which was consistent with the need to assure long-term financial sustainability. Its actual Underlying result slightly exceeded its estimate in the past three years. Council's result in 2010-11 was significantly below its estimate due to employee costs and operating expenses exceeding budget.

Council's Net Surplus (Deficit) varied over the period under review and was subject to Capital grants, financial assistance grants received in advance, contributions of non-current assets and insurance recoveries. The Net Surplus peaked in 2012-13 at $2.405m due mainly to the recognition of $1.766m of donated land and previously unrecognised road assets. In comparison, the Fair value of assets received free of charge was only $0.071m in 2013-14. Combined with the impact of the financial assistance grants prepaid in June 2013 of $0.876m and lower Capital grants of $0.183m, the Net Deficit in 2013-14 of $0.244m was a considerable decrease on the prior year.



Council's Total Assets and Net Assets increased steadily over the period under review. Total Assets increased by $17.998m (16.83%) from 2010-11 to 2013-14. The movement related primarily to asset revaluation increments and asset acquisitions.

Council's financial position improved as at 30 June 2014, with Net Assets increasing by 2.82% or $3.316m to $120.806m. The increase was primarily attributable to an asset revaluation increment of $6.399m, partially offset by a decrease in Council's Investment in TasWater of $2.839m.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

In 2013-14, Cash and financial assets decreased by $0.699m. As a result, Council's Current ratio decreased from 3.60 to 2.35. The reduction in cash was due partly to the prepayment of financial assistance grants in June 2013, with no prepayment received in June 2014. Another factor that contributed to the decrease in Current ratio was reclassification of Assets held for sale, valued at $0.609m back to Property, plant and equipment.

Cash generated from operations totalled $1.844m this year, which was $0.482m less than the four year average of $2.326m.

Rates per capita and per rateable property increased by 23% and 19% respectively over the past three years whereas Operating cost to rateable property increased by only 1%. This appears consistent with the decision to increase and control costs post June 2011.

Average FTEs increased by one since 2011 while average staff costs increased by 17% in the three years since 30 June 2011.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	6 979	7 021	6 672	6 425
Fees and charges	398	452	440	517
Grants**	1 766	1 766	1 683	1 690
Interest revenue	94	129	170	234
Other revenue	564	557	512	412
Total Revenue	**9 801**	**9 925**	**9 477**	**9 278**
Employee costs	3 498	3 620	3 482	3 152
Depreciation	2 206	2 128	2 087	2 047
Finance costs	125	123	130	179
Other expenses	3 947	3 828	3 684	3 514
Total Expenses	**9 776**	**9 699**	**9 383**	**8 892**
Underlying Surplus (Deficit)	**25**	**226**	**94**	**386**
Capital grants	393	335	518	691
Financial assistance grant received in advance**	0	0	876	849
Offset financial assistance grant in advance**	(876)	(876)	(849)	(415)
Contribution - Non-current assets	0	71	1 766	0
Insurance recovery - Hillwood Football Club building	0	0	0	38
Net Surplus (Deficit)	**(458)**	**(244)**	**2 405**	**1 549**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	6 399	2 046	7 987
Fair value adjustment in TasWater	0	(2 839)	407	126
Total Other Comprehensive Income	**0**	**3 560**	**2 453**	**8 113**
Comprehensive Surplus (Deficit)	**(458)**	**3 316**	**4 858**	**9 662**

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

An adjustment has been made to reflect the impact of grants received in advance as this was excluded from Council's budget.

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	3 753	4 452	5 710	4 063
Receivables	281	644	265	254
Assets held for sale	100	709	707	704
Other	64	46	41	48
Total Current Assets	**4 198**	**5 851**	**6 723**	**5 069**
Payables	814	482	384	624
Borrowings	74	132	159	54
Provisions – employee benefits	521	613	458	447
Other	377	397	384	181
Total Current Liabilities	**1 786**	**1 624**	**1 385**	**1 306**
Net Working Capital	**2 412**	**4 227**	**5 338**	**3 763**
Property, plant and equipment	101 835	93 942	88 523	80 660
Investment in TasWater	18 893	21 732	21 325	21 199
Total Non-Current Assets	**120 728**	**115 674**	**109 848**	**101 859**
Borrowings	2 166	2 232	2 363	2 522
Provisions – employee benefits	168	179	191	130
Total Non-Current Liabilities	**2 334**	**2 411**	**2 554**	**2 652**
Net Assets	**120 806**	**117 490**	**112 632**	**102 970**
Reserves	69 759	67 748	66 339	56 793
Accumulated surpluses	51 047	49 742	46 293	46 177
Total Equity	**120 806**	**117 490**	**112 632**	**102 970**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	8 472	7 691	7 907	8 257
Cash flows from Government	890	1 711	2 124	1 643
Payments to suppliers and employees	(7 784)	(7 315)	(7 326)	(7 769)
Interest received	129	170	234	182
Finance costs	(123)	(130)	(179)	(173)
Distributions from TasWater	260	83	176	173
Cash from (used in) Operations	**1 844**	**2 210**	**2 936**	**2 313**
Capital grants and contributions	334	518	691	625
Payments for property, plant and equipment	(2 963)	(4 013)	(1 934)	(2 199)
Proceeds from sale of property, plant and equipment	209	185	8	0
Cash from (used in) Investing Activities	**(2 420)**	**(3 310)**	**(1 235)**	**(1 574)**
Repayment of borrowings	(123)	(158)	(54)	(51)
Cash from (used in) Financing Activities	**(123)**	**(158)**	**(54)**	**(51)**
Net Increase (Decrease) in Cash	**(699)**	**(1 258)**	**1 647**	**688**
Cash at the beginning of the year	4 452	5 710	4 063	3 375
Cash at End of the Year	**3 753**	**4 452**	**5 710**	**4 063**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		226	94	386	(651)
Operating surplus ratio* **	>0	2.28	0.99	4.16	(7.51)
Asset Management					
Asset sustainability ratio*	100%	85%	130%	70%	91%
Asset renewal funding ratio* ***	90%-100%	141%	136%	N/a	N/a
Road asset consumption ratio*	>60%	74.2%	72.5%	72.7%	72.4%
Asset investment ratio	>100%	139%	192%	94%	118%
Liquidity					
Net financial assets (liabilities) ($'000s)		(86)	1 061	2 036	359
Net financial liabilities ratio* ****	0% - (50%)	(0.9%)	11.2%	21.9%	4.1%
Operational Efficiency					
Liquidity ratio	2:1	0	5.04	6.45	5.03
Current ratio	1:1	2.35	3.60	4.85	3.88
Interest coverage		13.99	16.00	15.40	12.37
Self financing ratio		18.6%	23.3%	31.6%	26.7%
Own source revenue		82.2%	82.2%	81.8%	81.1%
Debt collection	30 days	14	33	14	15
Creditor turnover	30 days	12	13	14	13
Rates per capita ($)		1,028	983	930	834
Rates to operating revenue		70.7%	70.4%	69.2%	66.3%
Rates per rateable property ($)		1 581	1 515	1 469	1 330
Operating cost to rateable property ($)		2 183	2 130	2 033	2 157
Employee costs expensed ($'000s)		3 620	3 482	3 152	3 027
Employee costs capitalised ($'000s)		325	467	390	293
Total employee costs ($'000s)		3 945	3 949	3 542	3 320
Employee costs as a % of operating expenses		37%	37%	35%	32%
Average staff numbers (FTEs)		45	47	45	44
Average staff costs ($'000s)		88	84	80	75
Average leave balance per FTE ($'000s)		15	17	15	13

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

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

*** *Information not obtained or unavailable to calculate prior year ratio.*

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

GLAMORGAN SPRING BAY COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus for the year of $0.218m, a significant improvement on the Underlying Deficit of $0.717m reported last year.
- Council's Net result for the year was a surplus of $0.692m.
- Its Net Working Capital declined over the period under review from $1.534m at 30 June 2011 to $0.456m at 30 June 2014.
- At 30 June 2014, Council had Net Assets of $105.424m with its most significant asset being Property, plant and equipment, $76.179m, and largest liability, total borrowings, $1.987m.
- Rates per capita increased by 13.7% since 30 June 2011 and Rates per rateable property increased by 12.8% over this period.
- Operating costs per rateably property increased by 25.9% since 30 June 2011.
- FTEs increased by six (or 13.4%) since 2011 and over this period average cost per FTE increased by 2.3%.

We concluded that at 30 June 2014, Council was at moderate risk from asset management and governance perspectives, but low risk from net financial liabilities and financial operating perspectives.

We identified moderate risk findings in the following areas:

- monitoring and user access management as it related to Council's general ledger
- unavailability of financial records of council committee accounts
- non-compliance with financial delegations
- a number of internal controls weaknesses.

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

Council adopted 21 out of 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report.

Council complied with relevant requirements of Local Government Ministerial Orders from February 2014 except that:

- Council did not have an audit committee or internal audit function at 30 June 2014. We noted that the Council resolved in June 2014 to establish an audit panel. However, for the reasons outlined later in this Chapter, membership of the proposed panel is not compliant with the requirements of the Order
- it did not endorse a long-term financial strategy. We were advised that Council expected to have it endorsed by the end of 2014 and the strategy will cover the period from 2013-14 to 2022-23, inclusive.

The audit was completed satisfactorily with no other items outstanding.

Major developments this year included:

- purchasing the former call centre located at 9 Melbourne Street, Triabunna and renovating it into new council chambers at a cost of $0.951m. Council has been operating from the new premises since 5 May 2014
- contracting of the May Shaw Health Centre to provide medical practice management, nursing staff and reception services at Bicheno General Practice effective from 1 July 2013.

Major variations between the 2013-14 and 2012-13 financial years included:

- contribution received - non–monetary assets, $0.486m, relating to the recognition of Bresnehans Road as Council's asset

- dividends from Taswater totalling $0.413m. This was in line with budget, with nil received in previous years
- indexation of Council's infrastructure assets as at 30 June 2014 resulting in a revaluation increment, $1.733m
- spending $0.061m on upgrade of Bresnehans Road due to complaints made by local residents about poor road conditions. Bresnehans Road was previously owned by Gunns Limited and used as a logging track. It is now controlled, not owned, by Council following the voluntary administration of Gunns Limited in September 2012
- new borrowings of $0.500m from TASCORP were taken out by Council during 2013-14 to fund a cash shortfall due to the purchase and renovation of the former call centre for the new council chambers in Triabunna
- lower net loss on disposal of property, infrastructure, plant and equipment of $0.355m, mainly due to the write-off of replaced roads, bridges and footpaths, $0.318m
- a decrease of $7.274m in the investment in TasWater, due mainly to significant impairment by TasWater of its infrastructure assets resulting in a lower share of the investment by Council.

KEY AREAS OF AUDIT ATTENTION

Description of Area	Audit Approach
Council undertook a revaluation of infrastructure assets by indexation as at 30 June 2014 by an external contractor. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We performed tests on revaluation of Council's roads, bridges, footpath, kerbs and stormwater and drainage assets as at 30 June 2014 conducted by the external contractor.
A 'cloud' based accounting system, Xero, has been applied by Council since 1 July 2012. Risks arising from the implementation exist in the areas of data security, user access management and business continuity processes.	We tested the system focussing on data security, application monitoring, user access management, IT business continuity processes as well as review of Council's service level agreement with the 'cloud based' application supplier.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. Updated financial statements were received on 26 September 2014. An unqualified audit report was issued on 29 September 2014.

KEY DEVELOPMENTS

New council chambers

Council considered that its Council chambers in Vicary Street at Triabunna were of a very poor standard as an operational office building. The former call centre located at 9 Melbourne Street, Triabunna was purchased and renovated into new council chambers at a total cost of $0.951m and were commissioned on 1 May 2014. Council office staff are now comfortably accommodated in one centralised building and not spread inefficiently across different buildings and locations. New loans of $0.500m from TASCORP were taken out during 2013-14 to fund a cash shortfall due to costs associated with the new chambers.

Council will seek expressions of interest for the future use of the old chambers in Vicary Street, Triabunna and Noyes Street, Swansea. Both of these buildings are regarded as being in prime locations in their respective towns with regards to future development opportunities and have the potential to deliver much needed economic stimulus for these communities.

May Shaw Health Centre contracted to provide management practice at Bicheno General Practice

May Shaw Health Centre (MSHC) was contracted to provide medical practice management, nursing staff and reception services at Bicheno General Practice effective from 1 July 2013.

Under the agreement between Council and MSHC, MSHC provides:

- practice management services
- at least one day reception
- relief nursing and may provide permanent nursing to cover a current vacancy.

The costs associated with MSHC contracted services were covered by Council charging 25% of practice income generated by medical practitioners. The contractual arrangement with MSHC saw improved administration of medical services at Bicheno General Practice. Council generated a net operating surplus of $0.036m from the Health and Medical Centres in Bicheno and Triabunna in 2013-14, which was an improvement of $0.281m compared with the $0.245m deficit reported last year.

KEY FINDINGS

No high risk findings were identified during the audit. However, six moderate-risk and four low-risk audit findings were brought to Council's attention this year.

Moderate risk findings identified and brought to the Council's attention included:

- testing of 10 Council committee accounts noted accountable persons of three Council committee accounts were not able to be contacted nor were there any financial reports or bank statements to substantiate the 30 June 2014 balances available. In addition, none of the financial reports received for the remaining seven council committee accounts was signed by an accountable person. Details are provided in the following table extracted from Council's financial report:

Committee	Opening Balance 1 Jul 2013	Revenue 2013-14	Expenditure 2013-14	Closing Balance 30 June 2014
	$	$	$	$
Bicheno War Memorial	8 689	3 566	2 752	9 503
Cranbrook Hall	1 215	3	24	1 194
Coles Bay Hall	6 829	0	0	6 829
Coles Bay Hall - Invest	7 464	0	0	7 464
Orford Hall	6 244	1 439	194	7 488
Buckland Hall	4 202	2 189	2 706	3 686
Triabunna Hall	2 823	12 473	13 377	1 919
Triabunna Hall - Investment	11 000	512	11 512	0
Bicheno and District Health Centre	16 895	34 228	29 038	22 085
Bicheno and District Health Centre - Investment	34 234	11 381	10 000	35 615
	99 594	**65 792**	**69 603**	**95 783**

While the amounts involved are within our materiality assessments, because cash is involved, accountability arrangements are simply not acceptable and Council needs to address this

- not recognising the value of land under roads at fair value in accordance with Australian Accounting Standard 051 *Land Under Roads*
- improvements are needed to reconciliations between additions to non-current assets recorded in the Xero accounting system and disclosures in the notes to the financial statements
- some payments selected for testing had not been approved by employees with appropriate delegation
- lack of independent review of payroll reports
- weaknesses in monitoring and user access management to the Xero accounting system

These matters were raised with management and are being addressed.

Our audit approach includes the need to follow up matters reported in prior years and to assess the extent to which they have been addressed. We noted that a number of findings raised in prior years were still outstanding. Those matters were re-reported are also being addressed.

The audit was completed satisfactorily with no other items outstanding.

Adoption of Recommendations from Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Other than not recognising the value of land under roads at fair value, at a minimum, for land acquired after 1 July 2008, Council adopted all other recommendations relevant to councils. Council indicated that it will endeavour to recognise land under roads in the future.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial management indicators.

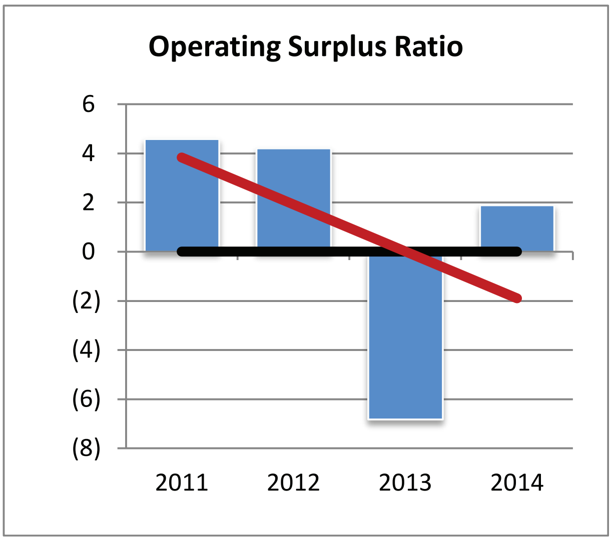
Council did not have an audit committee or internal audit function at 30 June 2014. However, we noted that the Council resolved in June 2014 to establish an audit panel. *The Local Government (Audit Panels) Order 2014* (the Order) requires audit panels to have a minimum number of independent persons. It is our understanding that finance managers from other councils will be appointed as independent members of the audit panel after the local government elections in October 2014. While this is technically in accordance with the requirements of the Order, this arrangement, in our view, impinges on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of the council. It is important for panel members to not only be independent, but also to be perceived in that way.

Council did not have an endorsed long-term financial strategy as at 30 June 2014. We were advised that Council expected to have it endorsed by the end of 2014 and the strategy will cover the period from 2013-14 to 2022-23, inclusive.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



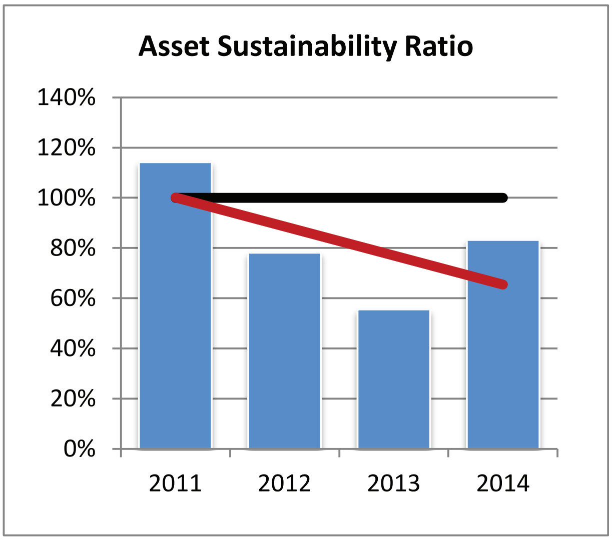
Council' Operating surplus ratio was above benchmark of zero in all years under review with the exception 2013. The negative ratio in 2013 was mainly due to additional expenses incurred in that year such as:

- valuation costs associated with revaluation of Council's infrastructure assets at 30 June 2013
- a net loss of $0.245m incurred relating to running medical centres in Triabunna and Bicheno which came under Council's management from July 2012
- a net loss of $0.166m incurred at visitor information centres mainly due to setup and staffing costs. Improvements are expected by Council over the next few years as business picks up
- feasibility study on marine infrastructure for which funding was received in 2011-12
- higher depreciation.

The ratio returned to above benchmark in 2013-14 indicating Council generated sufficient revenue to fulfil its operation requirements, including depreciation charges. Over the four years reviewed, the ratio averaged 0.97.

The positive revenue in 2013-14 benefited from dividends received of $0.413m (2012-13, nil) and a small surplus from running medical centres of $0.036m ($0.245m deficit). Without these revenue sources, Council would have recorded a deficit of $0.231m which was still better than the underlying deficit of $0.717m in 2012-13 and budgeted underlying deficit of $0.385 in 2013-14.

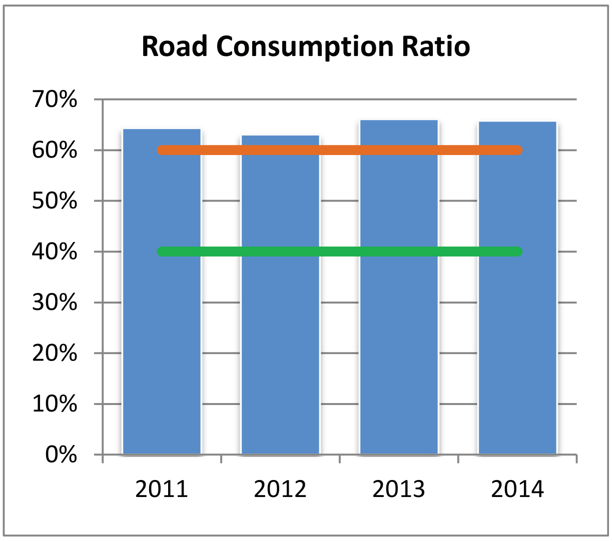
Of concern is that Council budgeted for Underlying deficits in each of the four years under review.



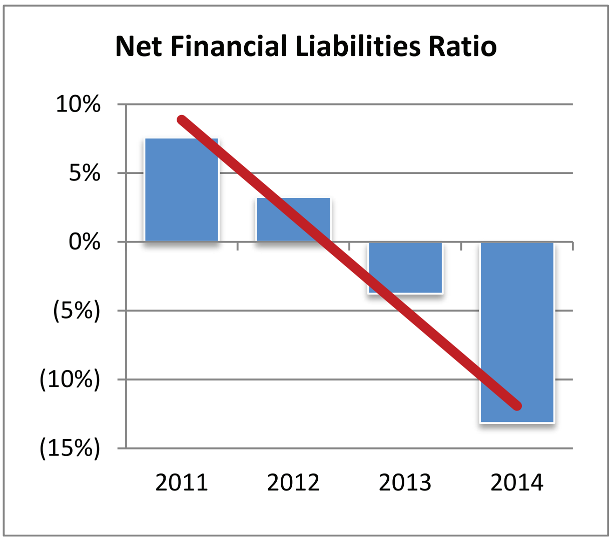
Asset sustainability ratio was below benchmark in three of the four years under review. Over the four-years period, Council's average ratio was 83%, and below the bench mark, indicating that, subject to levels of maintenance expenditure and the existence of a long term asset management plan, it did not adequately maintain its investment in existing assets.

Asset renewal funding ratio

Council's long-term asset management plan for roads, footpaths, kerbs and gutter was endorsed after the end of 2013-14. As a result the ratio is not available.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 34% of the service potential of roads which means that, on average these assets had sufficient capacity to continue to provide service to ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council's Net financial liabilities ratio dropped to be negative in 2013 following the take-up of loans of $1.200m from the TASCORP for the Triabunna marina development in 2012-13 and $0.500m to fund cash shortfall due to costs associated with the new council chambers in Triabunna in 2013-14. The loans are required to be fully paid in 10 years with principal repayments and interest charges to be made bi-annually.

A negative Net financial liabilities ratio was due to total liabilities exceeding liquid assets by $1.508m as at 30 June 2014, which represents 13.2% of operating revenue. The negative ratio was within our benchmark of negative 50%. However, the downward trend, even before the 2013 loan referred to, requires attention by Council.

It was noted that Council's Cash and cash equivalents are subject to a number of internal restrictions, mainly leave provisions that limit the amount available for discretionary use. Restricted funds represent $0.947m of the total Cash and cash equivalents balance of $1.869m. Unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

Audit panel

A review of Council's governance arrangements found that Council did not have an audit committee or internal audit function at 30 June 2014. However, we noted that the Council resolved in June 2014 to establish an audit panel.

However, for the reasons outlined earlier in this chapter, membership of the proposed panel is not compliant with the requirements of the Order.

Financial management plans and strategies and asset management plans

Council endorsed its long-term financial plan on 22 October 2013 and long-term asset management plan for roads, footpaths, kerbs and gutter on 26 August 2014. The long-term asset management plan covers the period from 2013-14 to 2032-33, inclusive. The long-term financial plan covers the period from 2010-11 to 2022-23, inclusive.

Council has not endorsed a long-term financial strategy. We were advised that Council expected to have it endorsed by the end of 2014 and the strategy will cover the period from 2013-14 to 2022-23, inclusive.

By 30 June 2014 Council had complied with some of the Ministerial Orders.

Conclusion as to financial sustainability

From a financial operating perspective, over the four-year period under review, Council consistently recorded underlying surpluses with the exception for 2012-13. Of concern is that Council budgeted for underlying deficits each year.

The Asset sustainability ratio indicated Council maintained existing assets at an average ratio of 83% over the period, below our 100% benchmark. However, the Road consumption ratio indicated that Council's roads had sufficient capacity to provide service to ratepayers.

Council's Net financial liabilities ratio dropped to negative 13.2% in 2013-14, within our benchmark of negative 50%.

Council endorsed its long-term financial plan in 2013-14 and its long-term asset management plan in August 2014 which was not subject to audit. Council has still to appoint an audit panel in line with the Ministerial Orders.

Based on these ratios and governance arrangements, we concluded that at 30 June 2014, Council was at moderate risk from asset management and governance perspectives, but a low risk from a net financial liabilities and financial operating perspectives.

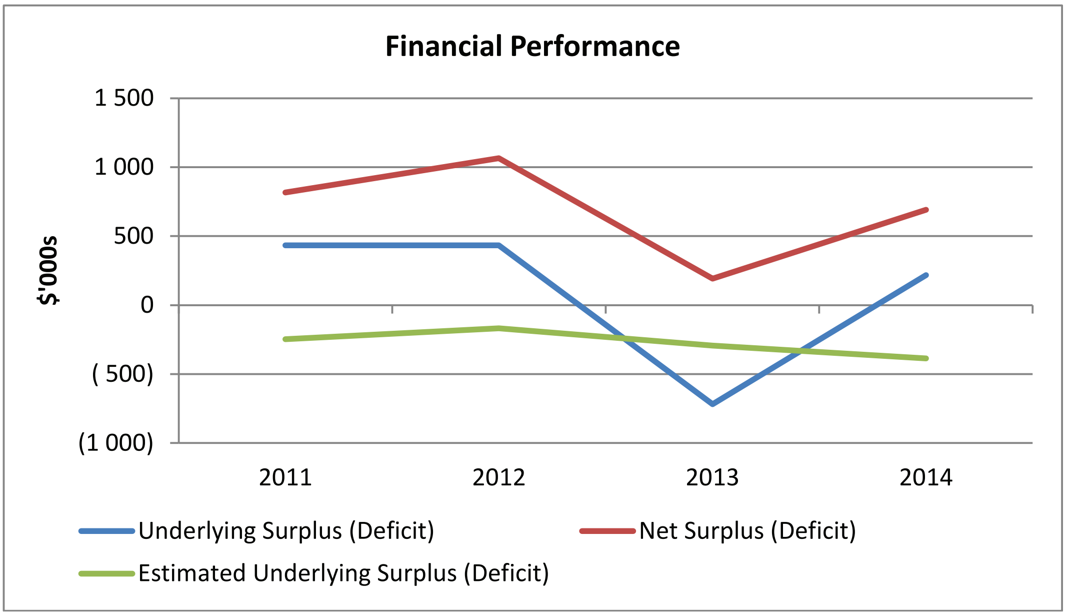
Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

Council is happy to see a return to surplus in the year ended 30 June 2014 and expects a further surplus at financial year end June 2015.

FINANCIAL ANALYSIS

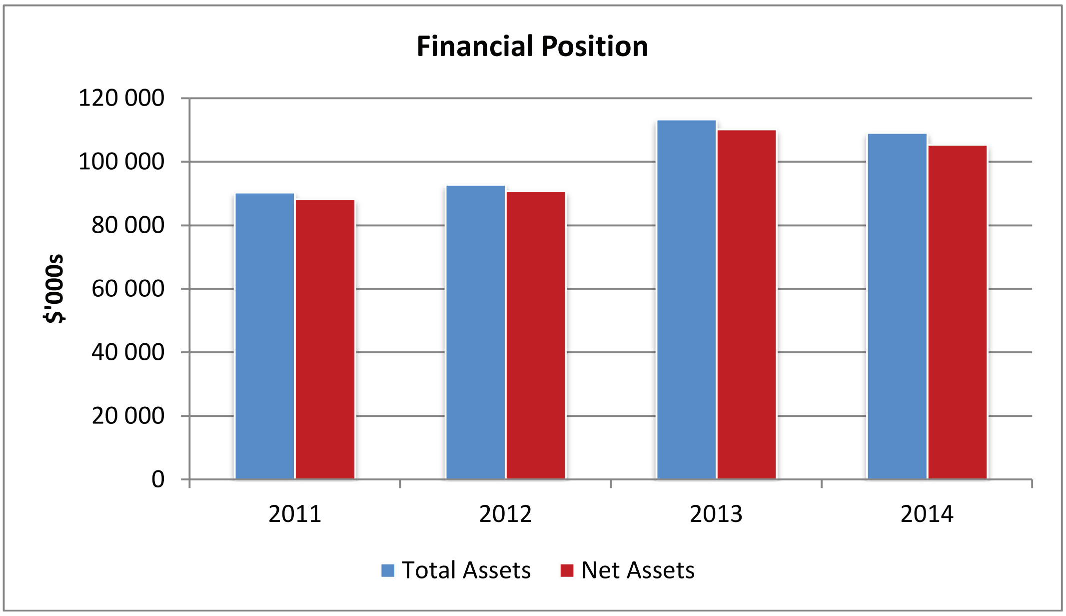


Council recorded underlying surpluses in each of the four years under review with the exception of 2013. The Underlying Deficit in 2013 was mainly due to additional expenses incurred referred to previously when discussing the Operating surplus ratio.

Over the four year period under review, Council's Underlying result was consistently better than its Underlying budgeted result with the exception for 2012-13. The higher than budgeted Underlying Deficit in 2012-13 was mainly attributable to:

- higher than budged Depreciation, $0.235m
- a loss on operating the medical centres of $0.245m, when it was budgeted to break even.

Council received dividends of $0.413m from TasWater in 2013-14. Without the dividends, Council would have made an Underlying Deficit of $0.195m in 2013-14.



Council's Total Assets and Net Assets increased over the four years under review. Net Assets increased by $17.153m, or 19.4%, primarily due to an increase in the value of infrastructure assets and surpluses generated through Council's operations over the period.

In 2013-14 Council reported a decrease in Net Assets of $4.848m to $105.424m at 30 June 2014. The decrease was largely due to a decrease of $7.274m in the value of Council's Investment in TasWater, partly offset by an upward revaluation of infrastructures assets as at 30 June 2014, $1.733m, and a Net Surplus $0.692m.

Council has a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management. Infrastructure assets consisted of roads, bridges, marine facilities, stormwater and drainage assets which represented 74.6% of total Property, plant and equipment and 53.9% of total Net Assets.

Cash from operations excluding Dividends received was $1.222m as at 30 June 2014, which was significantly lower than the average over the three years to 30 June 2013, $2.130m. Similarly, there was also a drop in Net working capital, from a three year average to 2013 of $1.376 to $0.456m this year. This was mainly due to advance payments of financial assistance grants in each of the three years ended 30 June 2013, with no prepayment in June 2014.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 13.7% over the three year period since 30 June 2011, for two reasons:

- an increase in Rates
- a decrease in population.

Council's Rates per rateable property increased by 12.8% over this period for the similar reasons. Council adopted flat rating of residential properties in 2012-13.

Operating cost to rateable property increased by 25.9% since 30 June 2011. This was mainly due to higher operating expenses and a slight decrease in the number of rateable properties. Higher operating expenses over the four years under review were mainly due to:

- increased medical expenses caused by:
  - providing and/or contracting administration services for the health and medical centres in Bicheno and Triabunna
  - payments to doctors - new arrangements with doctors working at medical centres in Triabunna and Bicheno since July 2002 whereby doctor got paid for 75% of total earnings
  - medical income now reported on a gross basis with medical expenses taken out
- Natural Resource Management continues to receive grants that added to operating expenses as well as income.

Higher Employee costs in 2012-13 were mainly due to temporary staff employed that year to undertake one-off projects funded by Natural Resource Management grants. Employee costs in 2013-14 retuned to a level that was consistent with 2011-12.

FTEs increased by six (or 13.4%) since 2011 and over this period average cost per FTE increased by 2.3%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	6 361	6 323	6 079	5 845
Fees and charges	1 363	1 167	1 141	1 214
Grants**	1 601	1 967	2 086	2 209
Other revenue	666	1 461	1 093	852
Interest revenue	120	130	99	160
Dividends	413	413	0	0
Total Revenue	**10 524**	**11 461**	**10 498**	**10 280**
Employee costs	3 612	3 287	3 498	3 229
Depreciation	2 054	1 952	2 045	1 959
Other expenses	5 165	5 926	5 624	4 638
Finance costs	78	78	48	21
Total Expenses	**10 909**	**11 243**	**11 215**	**9 847**
Underlying Surplus (Deficit)	**(385)**	**218**	**(717)**	**433**
Capital grants	485	658	607	322
Contribution - non-monetary assets	0	486	260	0
Financial assistance grant received in advance**	0	0	670	627
Offset financial assistance grant in advance**	0	(670)	(627)	(317)
Net Surplus (Deficit)	**100**	**692**	**193**	**1 065**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	1 733	19 333	1 385
Fair value adjustment in TasWater	0	(7 274)	(8)	83
Total Comprehensive Income (Expense)	**0**	**(5 541)**	**19 325**	**1 468**
Comprehensive Surplus	**100**	**(4 849)**	**19 518**	**2 533**

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

*** Grants received in advance has been shown separately after Underlying Surplus (Deficit). The Offset figures enables the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	1 869	1 884	1 924	1 618
Receivables	346	398	373	291
Investments	0	411	11	910
Other	146	110	227	211
Total Current Assets	**2 361**	**2 803**	**2 535**	**3 030**
Payables	1 073	612	624	828
Borrowings	326	198	55	67
Provisions – employee benefits	506	513	467	441
Other	0	130	144	160
Total Current Liabilities	**1 905**	**1 453**	**1 290**	**1 496**
Net Working Capital	**456**	**1 350**	**1 245**	**1 534**
Property, plant and equipment	76 179	72 673	52 346	49 527
Investment in TasWater	30 567	37 841	37 849	37 766
Receivables	40	44	47	51
Total Non-Current Assets	**106 786**	**110 558**	**90 242**	**87 344**
Borrowings	1 661	1 407	424	464
Provisions – employee benefits	157	229	259	143
Total Non-Current Liabilities	**1 818**	**1 636**	**683**	**607**
Net Assets	**105 424**	**110 272**	**90 804**	**88 271**
Reserves	42 557	48 029	28 655	27 242
Accumulated surpluses	62 867	62 243	62 149	61 029
Total Equity	**105 424**	**110 272**	**90 804**	**88 271**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 467	8 885	7 832	7 225
Cash flows from Government	1 427	2 129	2 595	1 962
Payments to suppliers and employees	(9 727)	(9 465)	(8 135)	(7 004)
Interest received	133	96	176	188
Finance costs	(78)	(37)	(27)	(30)
Distributions from TasWater	413	0	0	0
Cash from (used in) Operations	**1 635**	**1 608**	**2 441**	**2 341**
Capital grants and contributions	658	607	322	378
Investments realised/(made)	411	(400)	899	175
Payments for property, plant and equipment	(3 135)	(3 005)	(3 438)	(2 571)
Proceeds from sale of property, plant and equipment	31	24	130	62
Cash from (used in) Investing Activities	**(2 035)**	**(2 774)**	**(2 087)**	**(1 956)**
Proceeds from borrowings	500	1 200	0	0
Repayment of borrowings	(115)	(74)	(48)	(49)
Cash from (used in) Financing Activities	**385**	**1 126**	**(48)**	**(49)**
Net Increase (Decrease) in Cash	**(15)**	**(40)**	**306**	**336**
Cash at the beginning of the year	1 884	1 924	1 618	1 282
Cash at End of the Year	**1 869**	**1 884**	**1 924**	**1 618**

Financial Analysis

	Bnch Mark	2013-14	2012-13	2011-12	2010-11
Financial Ratios					
Profitability					
Underlying surplus (deficit) ($'000s)		218	(717)	433	433
Operating surplus ratio* ****	>0	1.90	(6.83)	4.21	4.59
Asset Management					
Asset sustainability ratio*	100%	83%	56%	78%	114%
Asset renewal funding ratio**	90% - 100%	N/a	N/a	N/a	N/a
Roads consumption ratio*	>60%	65.8%	66.1%	63.1%	64.3%
Asset investment ratio	>100%	161%	147%	175%	161%
Liquidity					
Net financial liabilities ($'000s)		(1 508)	(396)	335	716
Net financial liabilities ratio* ***	0% - (50%)	(13.2%)	(3.8%)	3.3%	7.6%
Operational Efficiency					
Liquidity ratio	2:1	1.58	3.32	3.40	3.15
Current ratio	1:1	1.24	1.93	1.97	2.03
Interest coverage	3:1	19.96	42.46	89.41	77.03
Self financing ratio		14.3%	15.3%	23.7%	24.8%
Own source revenue		82.8%	80.1%	78.5%	80.0%
Debt collection	30 days	17	20	19	16
Creditor turnover	30 days	35	16	22	22
Rates per capita ($)		1 425	1 372	1 326	1 254
Rates to operating revenue		55.2%	57.9%	56.9%	59.9%
Rates per rateable property ($)		1 145	1 084	1 052	1 016
Operating cost to rateable property ($)		2 037	2 000	1 773	1 618
Employee costs expensed ($'000s)		3 287	3 498	3 229	2 962
Employee costs capitalised ($'000s)		346	257	221	170
Total employee costs ($'000s)		3 633	3 755	3 450	3 132
Employee costs as a % of operating expenses		29%	31%	33%	33%
Average staff numbers (FTEs)		54	56	52	48
Average staff costs ($'000s)		67	67	66	66
Average leave balance per FTE ($'000s)		12	13	14	12

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

** *Information not available to calculate ratio.*

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

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

KENTISH COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $0.354m in 2013-14, better than its estimated Underlying Surplus, $0.062m.
- Over the period under review, Council's Underlying result was consistently better than that estimated.
- Its Comprehensive result was a surplus of $16.006m, increasing Total Equity at 30 June 2014 to $114.405m.
- Rates per capita increased by 9% since 30 June 2011 and Rates per rateable property increased by 11% over this period.
- Operating cost to rateable property decreased by 5% over this period. This ratio was impacted upon by flood damage expenditure. Excluding flood damage expenditure, Operating cost to rateable property would have increased by 4% over the period.
- FTE increased by three, or 11%, since 2011 and over this period average cost per FTE increased by 8%.

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

We were not able to calculate the Asset renewal funding ratio as Council's long-term asset management plan did not provide sufficient information on future infrastructure costs.

A moderate audit risk finding was identified in relation to the documentation of review of monthly bank reconciliations with one other low-risk finding reported. These matters were reported to, and are being addressed by, management.

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report issued in December 2013.

Council has not complied with all relevant requirements of the Local Government Ministerial Orders because it did not, at 30 June 2014, have in place the following:

- a financial management strategy
- a long-term strategic asset management plan
- an audit panel.

Council adopted an audit panel charter in May 2014 and was in the process of appointing an independent Chairperson.

Council indicated that it was in the process of approving an asset management plan for transport assets and developing asset management plans for buildings, stormwater, parks and reserves and updating its long-term financial management plan to incorporate financial information from its asset management plans.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments during the year.

Major variations between 2013-14 and 2012-13 included:

- lower Cash of $1.161m mainly due to the cessation of the advance payment of financial assistance grants this year
- increased Property, plant and equipment by $15.805m, primarily due to a revaluation increment of $15.897m on transport infrastructure assets
- higher Depreciation of $0.465m, predominantly roads, due to combined impacts of the revaluation, removal of residual values and capitalisation of unsealed road re-sheeting.

RESOURCE SHARING ARRANGEMENTS

Council entered into a strategic alliance agreement in 2008 with Latrobe Council. In March 2010, the councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal three-year resource-sharing arrangement was entered into with an intention of extending it to include other employees, as positions became available or opportunities were identified. The resource-sharing arrangement was formally extended for another three-year period commencing 1 January 2013.

A Municipal Alliance Committee, consisting of two councillors from each Council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. Sub-committees were also appointed to investigate and report on opportunities in respect of sharing of plant and equipment, information technology and communications.

As local government looks at ways and means of providing cost-effective practices, resource sharing is one of the strategies that can be used to ensure councils continue to attract and keep quality staff, provide succession planning and extend service provision that might not be viable on an individual council basis.

At 30 June 2014, Kentish and Latrobe Councils had seven regular (2013, six) shared positions.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A revaluation of transport infrastructure assets was brought to account at 1 July 2013. The valuation was undertaken by Council management based on replacement costs and market information. In addition, bridges were revalued by an external contractor.	We tested the valuation reports, calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit report was issued on 29 September 2014.

KEY DEVELOPMENTS

There were no key developments during the year.

KEY FINDINGS

A moderate audit risk finding was identified in relation to Council's documentation of the review of monthly bank reconciliations. One other low-risk finding was reported.

Also noted is that Council made progress in addressing Information Security (IS) systems matters reported in 2012-13. Council indicated that it would continue to enhance IS system controls with the support of external consultants.

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

The audit was completed satisfactorily with no other items outstanding.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 21 of the 22 recommendations relevant to councils. A key recommendation not adopted was that it did not recognise the value of all land under roads at fair value, regardless of when the land was acquired. We believe that all land under roads should be recognised and this matter will be followed up with Council in 2014-15.

Based on the recommendations from the Report, Council made a number of changes to the way it accounted for its assets. It ceased using residual values in recording road assets, effective 1 July 2013. Previously Council applied a 40% residual value to both pavement and seal assets for sealed roads, a 35% residual value to pavement on unsealed roads and a 40% residual value on kerb and channel assets. Instead, road pavements were separated into a new "Sub-Base" asset component and depreciated over 200 years. Road seals, were recognised as a separate asset component group and depreciated over the same useful life as base assets, ranging from 70 to 110 years.

Council also moved from expensing to capitalising unsealed road re-sheeting costs. This change resulted in increased depreciation expense in 2013-14.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial management indicators. We found that Council had not complied with relevant requirements of the Orders in respect of having in place as at 30 June 2014:

- a financial management strategy
- a long-term strategic asset management plan
- an audit panel.

Council adopted an audit panel charter in May 2014 and was in the process of appointing an independent Chairperson.

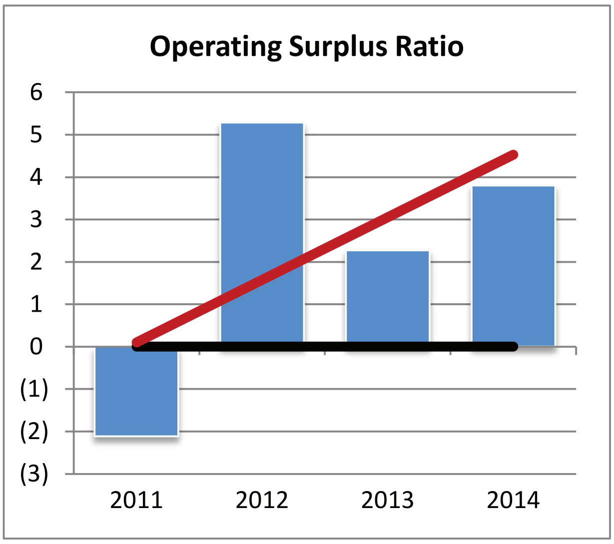
Council indicated that it was in the process of approving an asset management plan for transport assets and developing asset management plans for buildings, stormwater, parks and reserves and updating its long-term financial management plan to incorporate financial information from the asset management plans.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

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

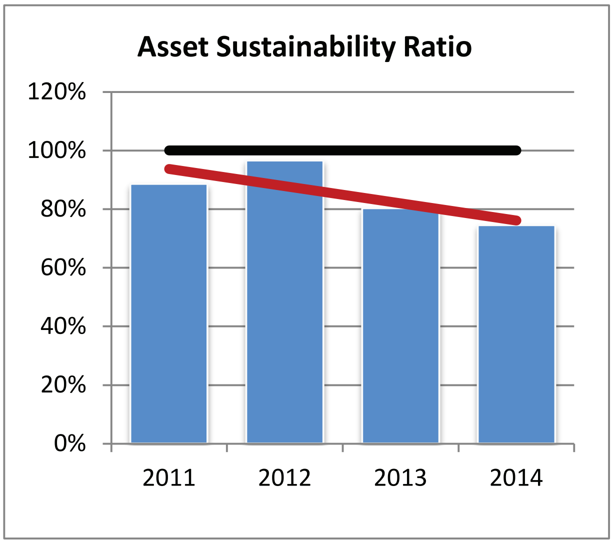
The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.

However, for reasons outlined below, we were not able to assess the Asset renewal funding ratio.



Council recorded underlying surpluses in three of the four years under review resulting in positive Operating surplus ratios. The negative ratio in 2010-11 was caused by flood damage expenses exceeding funding from the Tasmanian Relief and Recovery Arrangements Program, due to a combination of timing of reimbursements and self-funding thresholds applied.

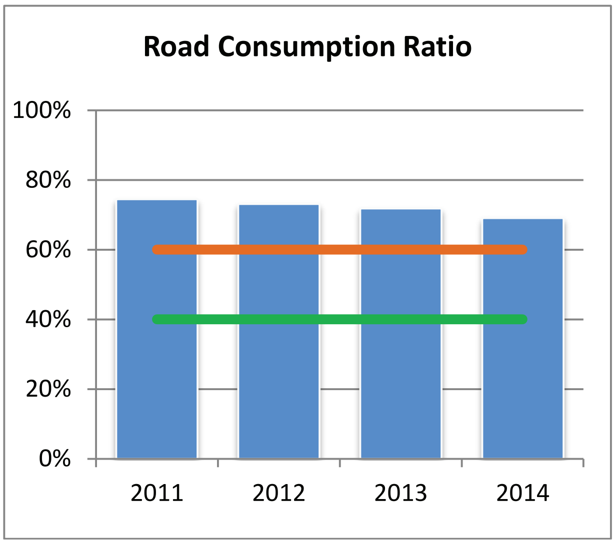
On average over the four-year period, Council recorded a positive ratio of 2.31, which indicated sufficient revenue was generated to fulfil operating requirements, including depreciation charges.



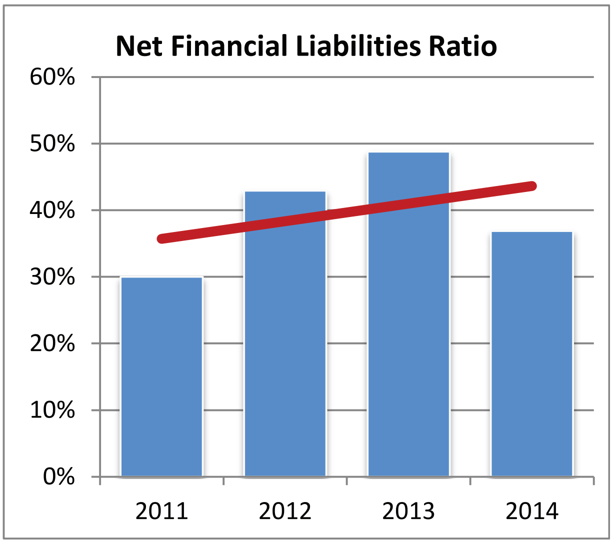
The Asset sustainability ratio was below benchmark in all years under review and averaged 85%. This indicated, subject to levels of maintenance expenditure and Council's long-term asset management plans, it may be under-investing in existing assets.

Asset renewal funding ratio

We were not able to compute an Asset renewal funding ratio as Council's long-term asset management plan did not provide sufficient information on future infrastructure costs. The asset management plan is expected to be updated during 2014-15 based on data obtained from Council's valuers.



The graph indicated that at 30 June 2014 Council had used (consumed) approximately 31% of the service potential of its road assets. At that point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of Total Liabilities in each year under review. The positive ratios indicate a strong liquidity position, with Council able to meet existing commitments.

Council had contractual commitments totalling $0.906m (2012-13, $1.210m) which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio.

In addition, Council's cash and cash equivalents were subject to a number of internal and external restrictions that limited the amount available for discretionary use. Restricted funds, including contractual commitments, represented $1.041m, or 20.2%, of the total Cash and cash equivalents balance of $5.156m. Commitments, unspent grants and restrictions on funds need to be taken into consideration when assessing the overall liquidity position.

Hypothetically, if the Cash balance was reduced by the restricted funds the Net financial liabilities ratio would have been 25.7% at 30 June 2014, which was still well within our benchmark and low risk.

Governance

A review of Council's governance arrangements indicated it did not have an audit committee or an internal audit function. However, Council adopted an audit panel charter in May 2014 and was in the process of appointing an independent Chairperson.

Council's approved transport asset management plan contained risk management information and outlined a road hierarchy. However, it did not have sufficient detail regarding asset replacement forecasts. Council indicated that an updated transport asset management plan would be approved in 2014-15. Asset management plans for buildings, stormwater and parks and reserves were also in development.

Council's financial management plan had historically been a projection of the budget over a 4 to 5 year period. Council indicated that it was developing a long-term financial management plan which would also incorporate data from the asset management plans.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded surpluses in three of the past four years with the Operating surplus ratio trending upwards. The average Operating surplus ratio was positive 2.31 over the period.

Council's Asset sustainability ratio indicated, based on our 100% benchmark, it may have under-invested in existing assets over the period of the analysis, with an average ratio of 85%. However, the road consumption ratio indicated Council's was in the low risk range, with road infrastructure assets only 31% consumed.

Council's liquidity position was strong with it able to meet its short-term commitments. It had a manageable debt level with capacity to borrow should the need arise.

From a governance perspective, Council did not have an audit committee or an internal audit function, but adopted an audit panel charter in May 2014 and was in the process of appointing an independent Chairperson.

Council had adopted road asset management and financial plans. However, both required additional financial data. The plans were being reviewed and expected to be adopted in 2014-15.

Based on these ratios and governance arrangements we concluded that at 30 June 2014 Council was at high sustainability risk from a governance perspective, moderate risk from an asset management perspective, but low risk from financial operating and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

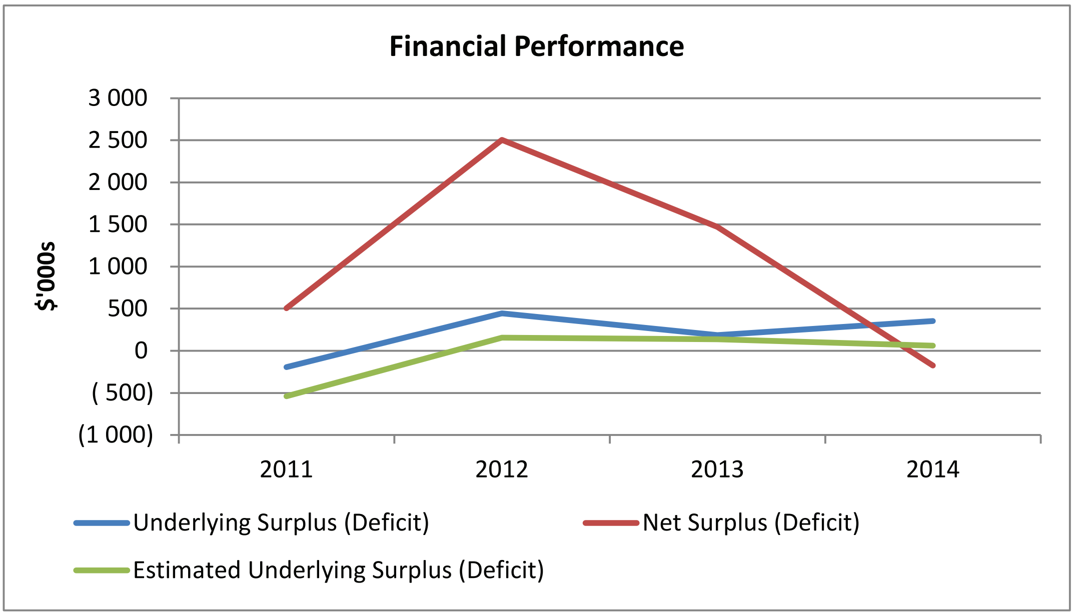
Council calculates its 2013-14 underlying surplus as $0.730m. The difference between Council's figure and the $0.354m reported above mainly relates to the treatment of Roads to Recovery grants of $0.375m that council classifies as recurrent income in accordance with the Local Government (Management Indicators) Order 2014, Regulation 3 as it is not income received specifically for new or upgraded assets.

Regarding adoption of the recommendations of Report No. 5 of 2013-14 Infrastructure Financial Accounting in Local Government Management, Council considers the recommendation regarding the recognition of land under roads as the lowest priority of the 22 recommendations. The value of land under council roads is not considered to be an important factor in asset management or in the decisions made by Council or its stakeholders about the allocation of resources.

Management expects to implement this recommendation but only once higher priority actions such as compliance with the new asset management and financial management requirements of the Local Government Act are complete.

Council is working with Latrobe Council to appoint a common independent chairperson for its audit panel and expects to appoint a chairperson by 30 June 2015.

FINANCIAL ANALYSIS



Council recorded an Underlying Surplus in three of the four years under review and averaged a surplus of $0.198m.

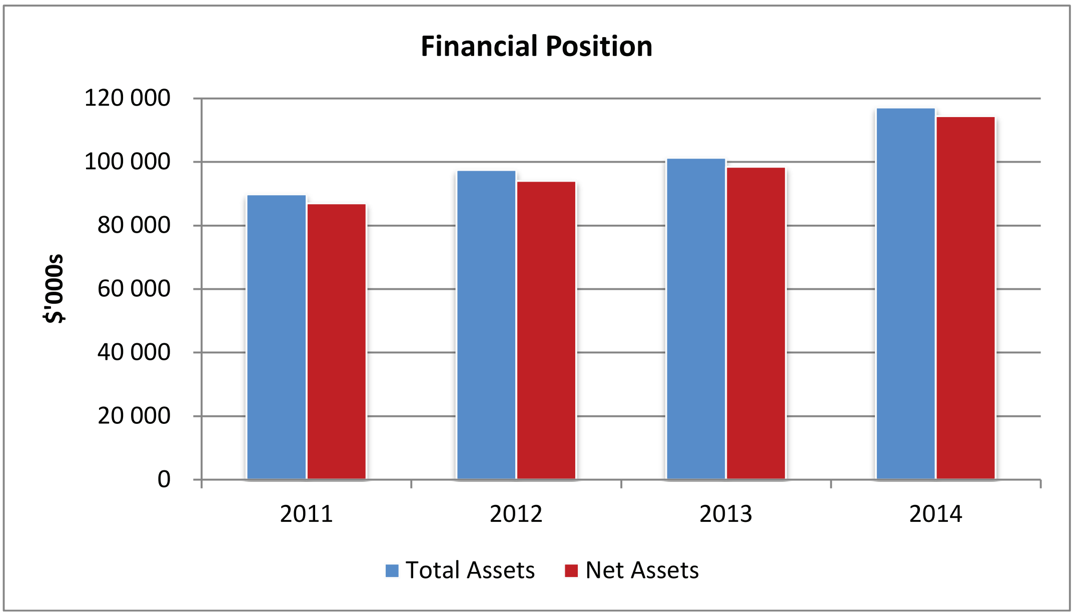
Over the four year period under review, Council's Underlying result was better than its Estimated Underlying Result.

Council incurred expenditure of $0.809m in 2013-14 in relation to damages caused by high rainfall and floods in July and August 2013. An amount of $0.593m, recognised as Other revenue, was recoverable from the Department of Premier and Cabinet (DPAC) under the Tasmanian Relief and Recovery Arrangements. At 30 June 2014 this amount was not yet paid and was included in Receivables, contributing to the increase in that balance.

The 2013-14 Net Surplus was lower than previous years due to the cessation of the payment of financial assistance grants in advance and a drop in the level of Capital grants.

Council's Underlying results in 2010-11, 2011-12 and 2013-14 were significantly influenced by the timing of expenditure and reimbursements for floods damage, as illustrated in the following table. Over the four years under review, Council had been eligible for funding of $2.160m and expended a total of $2.942m mainly because of minimum self-expenditure thresholds applied before disaster funding was approved. Expenditure consisted of recurrent, $2.567m, and capital, $0.375m.

	2013-14	2012-13	2011-12	2010-11	Total
	$'000s	$'000s	$'000s	$'000s	$'000s
Flood damage reimbursements received/ receivable	593	0	314	1 253	2 160
Flood damage expenses	809	0	153	1 605	2 567
Net Revenue (Expenses)	**(216)**	**0**	**161**	**(352)**	**(407)**
Underlying Surplus (Deficit)	**354**	**188**	**444**	**(194)**	**792**
Underlying Surplus Without Flood Impact	**570**	**188**	**283**	**158**	**1 199**
Flood damage capital expenditure	0	0	294	81	375



Council's Total Assets and Net Assets increased over the four years under review. Net Assets increased by $27.427m, or 31.5%, primarily due to increased infrastructure assets and surpluses generated through Council's operations.

Council's financial position improved as at 30 June 2014, with Net Assets increasing by $16.006m, or 16.3%, to $114.405m. A revaluation increment of $15.897m on Councils transport infrastructure assets was the main cause of this increase.

Cash and financial assets dropped by $1.161m to $5.156m at 30 June 2014. This was caused mainly by a drop in cash from operations. While Council generated operating cash flows of $0.913m this year, this was well below the average $2.508m over the previous three years. The reduction this year was predominantly due to $1.248m less Cash flows from Government, due to the cessation in 2013-14 of the advance payment of Federal assistance grant funding.

Despite the lower Cash and financial assets at 30 June 2014, Council maintained a current ratio of 6.09, which was well above the benchmark of one.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis table at the end of this Chapter focussing on rates per capita and per rateable property and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume. Rates per capita increased by 9% over the three years since 30 June 2011 and Rates per rateable property increased by 11% over the same period.

Operating cost to rateable property decreased by 5% over this period. Our analysis showed that Operating cost to rateable property were impacted upon by the flood damage expenses incurred by Council, particularly in 2010-11. Excluding flood damage expenditure, Operating cost to rateable property would have increased by 4% over the period.

FTE increased by three, or 11%, since 2011 and over this period Average cost per FTE increased by 8%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	4 548	4 660	4 470	4 317
Fees and charges	243	362	351	337
Grants**	2 619	2 692	2 609	2 644
Interest revenue	169	235	253	280
Other revenue	554	1 265	580	817
Distributions - Water corporation	88	88	0	0
Total Revenue	**8 221**	**9 302**	**8 263**	**8 395**
Employee costs	2 418	2 331	2 202	2 033
Depreciation	2 262	2 659	2 194	2 035
Finance costs	108	107	112	117
Other expenses	3 371	3 851	3 567	3 766
Total Expenses	**8 159**	**8 948**	**8 075**	**7 951**
Underlying Surplus (Deficit)	**62**	**354**	**188**	**444**
Capital grants	666	767	1 245	1 161
Financial assistance grant received in advance**	0	0	1 294	1 257
Offset financial assistance grant in advance**	(1 294)	(1 294)	(1 257)	(615)
Capital contributions received for new or upgraded assets	0	0	0	256
Net Surplus	**(566)**	**(173)**	**1 470**	**2 503**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	15 897	2 838	4 514
Share of associate revaluation increment	0	(32)	0	7
Current year fair value adjustment TasWater	0	314	83	6
Total Other Comprehensive Income (Expense)	**0**	**16 179**	**2 921**	**4 527**
Comprehensive Surplus	**(566)**	**16 006**	**4 391**	**7 030**

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

*** Grants received in advance have been shown separately after the Underlying Surplus (Deficit). The offset figures allows the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	5 156	6 317	6 554	4 422
Receivables	997	533	471	1 115
Other	627	192	206	211
Total Current Assets	**6 780**	**7 042**	**7 231**	**5 748**
Payables	575	661	1 234	551
Borrowings	79	74	70	70
Provisions – employee benefits	326	285	244	258
Other	134	111	112	108
Total Current Liabilities	**1 114**	**1 131**	**1 660**	**987**
Net Working Capital	**5 666**	**5 911**	**5 571**	**4 761**
Property, plant and equipment	103 227	87 422	83 528	77 417
Investments in associates	514	462	462	401
Investment in water corporation	6 604	6 290	6 207	6 201
Total Non-Current Assets	**110 345**	**94 174**	**90 197**	**84 019**
Borrowings	1 490	1 570	1 644	1 714
Provisions – employee benefits	116	116	116	88
Total Non-Current Liabilities	**1 606**	**1 686**	**1 760**	**1 802**
Net Assets	**114 405**	**98 399**	**94 008**	**86 978**
Reserves	85 318	69 139	68 585	64 058
Accumulated surpluses	29 087	29 260	25 423	22 920
Total Equity	**114 405**	**98 399**	**94 008**	**86 978**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 862	5 923	6 680	5 924
Cash flows from Government	1 398	2 646	3 286	2 753
Payments to suppliers and employees	(6 559)	(6 293)	(6 425)	(7 414)
Interest received	232	277	260	280
Finance costs	(108)	(112)	(117)	(143)
Distribution from TasWater	88	0	0	0
Cash from (used in) Operations	**913**	**2 441**	**3 684**	**1 400**
Capital grants and contributions	767	1 245	1 161	658
Contributions - Capital	0	0	81	0
Payments for property, plant and equipment	(2 815)	(3 886)	(2 906)	(2 379)
Proceeds from sale of property, plant and equipment	30	62	173	198
Demolition costs	0	(15)	0	0
Cash from (used in) Investing Activities	**(2 018)**	**(2 594)**	**(1 491)**	**(1 523)**
Repayment of borrowings	(75)	(70)	(70)	(64)
Decrease in bonds and deposits (net)	19	(14)	9	0
Cash from (used in) Financing Activities	**(56)**	**(84)**	**(61)**	**(64)**
Net Increase (Decrease) in Cash	**(1161)**	**(237)**	**2 132**	**(187)**
Cash at the beginning of the year	6 317	6 554	4 422	4 609
Cash at End of the Year	**5 156**	**6 317**	**6 554**	**4 422**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		354	188	444	(194)
Operating surplus ratio* **	>0	3.81	2.28	5.29	(2.12)
Asset Management					
Asset sustainability ratio*	100%	74%	80%	97%	89%
Asset renewal funding ratio* ***	90% - 100%	N/a	N/a	N/a	N/a
Road asset consumption ratio*	>60%	69.0%	71.8%	73.1%	74.4%
Asset investment ratio	>100%	106%	177%	143%	123%
Liquidity					
Net financial assets (liabilities) ($'000s)		3 433	4 033	3 605	2 748
Net financial liabilities ratio* ****	0 - (50%)	36.9%	48.8%	42.9%	30.0%
Operational Efficiency					
Liquidity ratio	2:1	7.81	8.10	4.96	7.60
Current ratio	1:1	6.09	6.23	4.36	5.82
Interest coverage	3:1	7.45	20.79	30.49	8.79
Self financing ratio		9.8%	29.5%	43.9%	15.3%
Own source revenue		71.6%	68.4%	68.5%	70.4%
Debt collection	30 days	72	38	29	23
Creditor turnover	30 days	27	31	66	26
Rates per capita ($)		717	702	684	661
Rates to operating revenue		50.1%	54.1%	51.4%	45.4%
Rates per rateable property ($)		1 301	1 255	1 216	1 172
Operating cost to rateable property ($)		2 497	2 268	2 239	2 637
Employee costs expensed ($'000s)		2 331	2 202	2 033	1 992
Employee costs capitalised ($'000s)		66	66	55	0
Total employee costs ($'000s)		2 397	2 268	2 088	1 992
Employee costs as a % of operating expenses		26%	27%	26%	21%
Average staff numbers (FTEs)		32	33	31	29
Average staff costs ($'000s)		75	70	68	69
Average leave balance per FTE ($'000s)		14	12	12	12

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

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

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

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

KING ISLAND COUNCIL

SNAPSHOT

- Council reported an Underlying Deficit of $0.176m, which was an improvement on last year's Underlying Deficit of $0.980m. The improved result was predominantly due to lower Employee costs, Depreciation and materials and services costs.
- Its Net Deficit was $0.686m, compared to a Net Deficit of $0.097m reported last year. The higher deficit was due to lower Capital grants received this year.
- As at 30 June 2014, Council's Total Assets were $71.138m and its Net Assets amounted to $68.936m.
- Rates per capita and Rates per rateable property both increased by 11% over the three years since 30 June 2011.
- Operating cost to rateable property increased by 6% over this period.
- FTEs declined by three since 2011. Average cost per FTE has remained consistent over the past four years.

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

We identified low and moderate-risk audit findings related to infrastructure accounting, and re-raised two high-risk findings in the area of segregation of duties identified in previous audits.

Council adopted 15 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report.

Apart from establishment of an audit panel and implementation of long-term asset and financial management plans, Council complied with the relevant requirements of the Local Government Ministerial Orders issued in February 2014. Council indicated that these two outstanding matters will be addressed in 2014-15.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments to report.

Major variations between 2013-14 and 2012-13 included:

- lower Fees and charges revenue of $0.970m predominantly due to lower private works, $1.018m (2012-13, $1.961m)
- lower Employee costs, $0.471m, and Other expenses, $0.616m, largely as a result of the decline in private works
- decreased Capital grants of $0.521m due to a lower Roads to Recovery grant, by $0.432m, and a one-off grant of $0.088m in 2012-13
- lower Cash and financial assets of $0.487m partly due to higher payments for Property, plant and equipment of $2.050m ($1.407m)
- decreased Reserves of $1.342m, mainly due to restricted funds transferred to accumulated surplus account of $1.321m, more than offsetting the Net Deficit and resulting in higher Accumulated surpluses of $0.654m at 30 June 2014.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A full revaluation of bridge and drainage assets valued at fair value was undertaken during 2013-14. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We tested valuation reports, calculations and underlying assumptions supporting fair values of assets. We obtained the appropriate representations from management and engineers to address the reliance placed on internal revaluation assessments.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014. An unqualified audit report was issued on 22 September 2014.

KEY DEVELOPMENTS

There were no key developments in 2013-14.

KEY FINDINGS

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

The Report included 22 recommendations of which Council adopted 15. The remaining key recommendations not adopted were as follows:

- Recommendation 3 – Council did not eliminate residual values from sealed and unsealed roads
- Recommendation 4 – Council did not review useful lives of assets
- Recommendation 7 – Council did not value land under roads
- Recommendation 12 – Council did not derecognise assets that had been replaced or renewed
- Recommendation 14 – Council had not implemented formal policies in regards to revaluation, earthworks and unsealed roads
- Recommendations 17 and 18 – Council had not documented management assessments and decisions which impacted on the financial statements.

Council did not have the resources or systems in place to implement these recommendations. However, it will review current processes when implementing new asset management processes and systems. These matters will be followed up with Council in 2014-15.

Local Government Orders

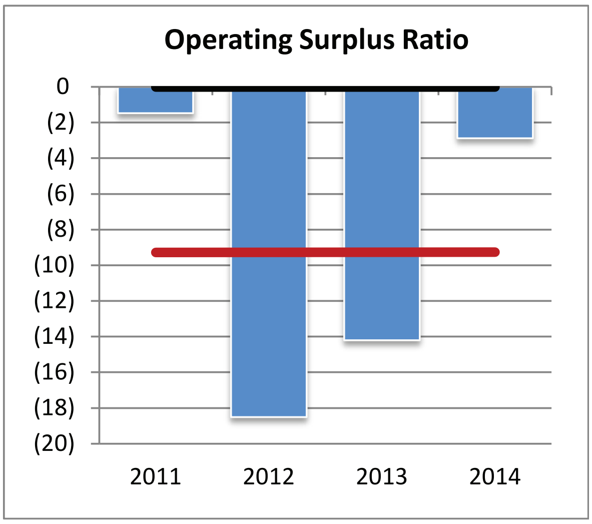
Part I of this Volume includes a summary of the requirements of Ministerial Order related to audit panels, strategic planning and financial management indicators. We found that Council was yet to establish an audit panel and develop long-term asset and financial management plans. Council indicated it will address these in 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

Management indicators

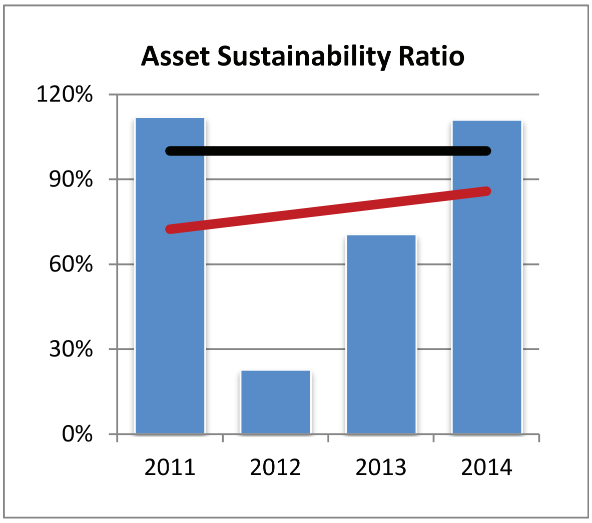
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and the discussion about Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each graph the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.

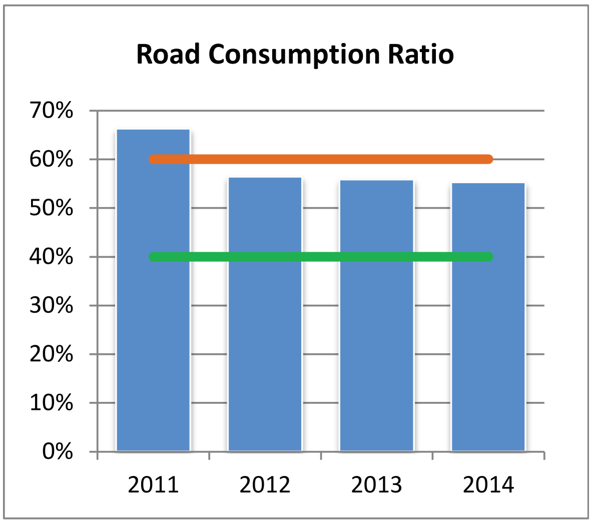


Council's Operating surplus ratios reflected operating deficits in all four years under review; however, the deficits reduced in each of the last two years. Negative ratios indicated that Council did not generate sufficient revenue to fulfil operating requirements, including its depreciation charges. Council's Operating surplus ratios averaged a negative 9.3 over the last four years.

Of concern is that Council budgeted to operate at a deficit in 2013-14. It is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis. This is a situation that will need to be remedied by Council.



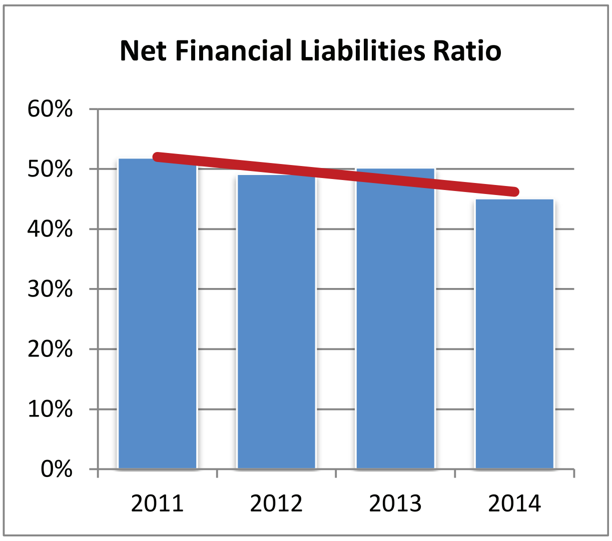
Asset sustainability ratio was below 100% in two of the four years under review and averaged 79% over that period. This indicated, subject to levels of maintenance expenditure and the existence of a long-term asset management plan, that Council was under-investing in its existing assets.



The graph indicates that at 30 June 2014, Council had used (consumed) approximately 45% of the service potential of its road infrastructure assets. This indicated a moderate financial sustainability risk. Over the four-year period the ratio averaged 58%, which was approaching the low risk range.

Asset renewal funding ratio

No ratio was calculated as Council had not prepared long-term asset and financial management plans as at 30 June 2014.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities position with liquid assets in excess of Total Liabilities in each year under review. Positive ratios indicated a strong liquidity position, with Council able to meet short-term commitments and to borrow should the need arise.

Council's Cash and financial assets are subject to a number of internal and external restrictions that limit the amount available for discretionary use. At 30 June 2014, Council held $4.588m in cash and term deposits. Reserves and restricted funds totalled $3.435m and Council had contractual commitments totalling $0.024m. Commitments and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found it did not have an audit committee or internal audit function. In accordance with the requirements of the *Local Government (Audit Panels) Order 2014 (S.R. 2014, No. 34)* Council was taking action to establish an audit panel, which was expected to occur in 2014-15.

Existence of an audit committee and active internal audit function would enhance Council's governance arrangements.

Council did not have long-term asset and financial management plans.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded deficits in each of the past four years with improved results in the last two years after a large deficit reported in 2011-12. Council's Operating surplus ratios averaged a negative 9.3 over the last four years.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 79% over the period, below our 100% benchmark. Its Road consumption ratio was at 55% in 2014, slightly below the low risk benchmark of 60%.

Council's Net financial liabilities ratios were positive indicating its liquidity was strong and it had the capacity to borrow should the need arise. However, the majority of its cash was restricted, being required to be used for specific purposes or because of internally imposed restrictions.

As at 30 June 2014 Council did not have an audit committee nor long-term financial and asset management plans. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that, at 30 June 2014, Council was at high sustainability risk from a governance perspective, moderate risk from financial operating and asset management perspectives, but low risk from a net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

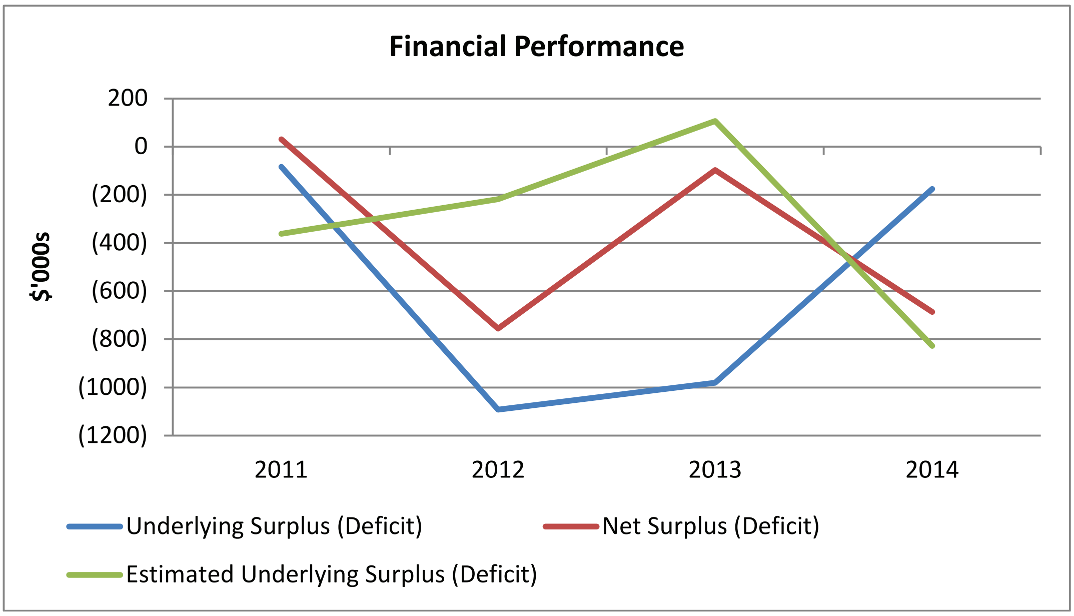
Council has seen additional improvement for 2013-14. In the coming years Council is expecting increased growth for King Island.

2013-14 saw Council's operating surplus ratio decrease considerably from 2012-13 and continues the trend for the past two years.

Council's high depreciation costs will be addressed in Council's asset management plans and long-term financial plans in the coming financial year 2014-15. Both of these plans will be in place by the legislative requirement date of 30 June 2015.

While Council believes that the cost and resources involved with implementing an audit committee are onerous for King Island, Council will comply by the 30 June 2015 deadline. The implementation of these plans and committee will address Council's high governance risk.

FINANCIAL ANALYSIS

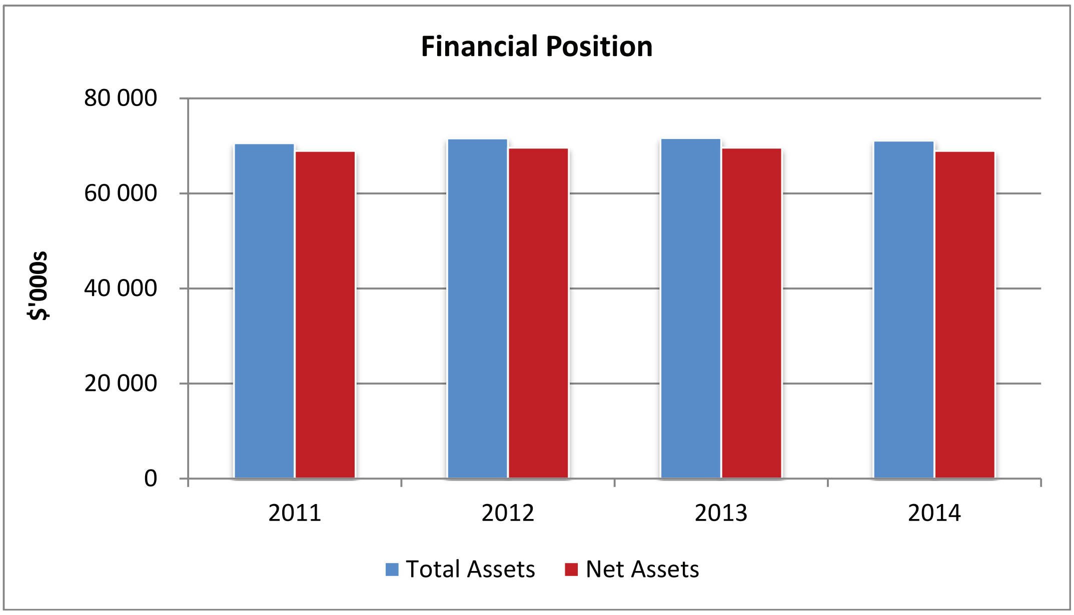


Council improved its underlying result in 2013-14 and performed better than budget. It reported an Underlying Deficit of $0.176m for 2013-14, which was an improvement of $0.804m on last year's Underlying Deficit of $0.980m. The improvement was attributed to lower Other expenses of $1.023m due primarily to less contractors, consultants and materials expenses during the year due to a reduced road maintenance program in 2013-14.

Total Revenue and Total Expenses were lower this year predominantly due to a large amount of private works in 2012-13.

The Underlying Deficit was $0.651m better than the budgeted deficit of $0.827m. The main reason for the difference was that Council under-budgeted for Grants by $0.990m, partially offset by over-budgeting Employee costs by $0.148m.

Net Deficit was $0.686m. This included Capital grants of $0.225m which were more than offset by the financial assistance grant of $0.735m received in advance in the prior year, carried over into this year.



Council's Net Assets remained relatively constant over the four years under review.

Council reported a decrease in Net Assets of $0.688m, to $68.936m at 30 June 2014, primarily a result of less Cash and financial assets, $0.420m, due to Council requiring funds to pay employee entitlements at 30 June 2013.

Council had a number of functional activities that provided a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management, comprised largely of roads and the aerodrome.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita and Rates per rateable property both increased by 11% over the three years since 30 June 2011. These increases were higher than the increase in operating costs as measured by Operating cost to rateable property, which went up by 6%, helping Council reduce its underlying deficits. Despite this, Council continued to record underlying deficits.

FTEs declined by three since 2011. Average cost per FTE remained consistent over the past four years.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	1 917	1 896	1 876	1 749
Fees and charges	1 526	1 440	2 410	1 685
Grants**	1 304	2 294	2 121	2 079
Interest revenue	151	178	196	187
Other revenue	330	292	293	197
Total Revenue	**5 228**	**6 100**	**6 896**	**5 897**
Employee costs	2 177	2 029	2 500	2 395
Depreciation	1 876	1 814	1 910	1 758
Other expenses	1 950	2 388	3 411	2 784
Interest expense	52	45	55	52
Total Expenses	**6 055**	**6 276**	**7 876**	**6 989**
Underlying Surplus (Deficit)	**(827)**	**(176)**	**(980)**	**(1 092)**
Capital grants	225	225	746	0
Financial assistance grants received in advance**	0	0	735	646
Offset financial assistance grant in advance**	0	(735)	(646)	(310)
Found assets	0	0	48	0
Net Surplus (Deficit)	**(602)**	**(686)**	**(97)**	**(756)**
Other Comprehensive Income				
Fair value adjustment on available for sale assets	0	126	62	5
Fair value adjustment in investment in TasWater	0	(129)	3	1 412
Total Comprehensive Income (Expense)	**0**	**(3)**	**65**	**1 417**
Comprehensive Surplus (Deficit)	**(602)**	**(689)**	**(32)**	**661**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	948	1 368	1 565	419
Receivables	365	393	488	508
Investments	3 640	3 707	2 795	2 507
Inventories	318	399	144	157
Other	46	70	35	0
Total Current Assets	**5 317**	**5 937**	**5 027**	**3 591**
Payables	441	468	237	223
Borrowings	207	167	157	138
Other	492	333	317	301
Provisions – employee benefits	341	395	399	345
Total Current Liabilities	**1 481**	**1 363**	**1 110**	**1 007**
Net Working Capital	**3 836**	**4 574**	**3 917**	**2 584**
Property, plant and equipment	61 060	61 056	62 004	62 421
Investment in TasWater	4 761	4 635	4 573	4 568
Total Non-Current Assets	**65 821**	**65 691**	**66 577**	**66 989**
Borrowings	655	587	754	555
Provisions – employee benefits	61	50	78	24
Other	5	4	6	0
Total Non-Current Liabilities	**721**	**641**	**838**	**579**
Net Assets	**68 936**	**69 624**	**69 656**	**68 994**
Reserves	45 944	47 286	46 052	43 918
Accumulated surpluses	22 992	22 338	23 604	25 076
Total Equity	**68 936**	**69 624**	**69 656**	**68 994**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	3 661	4 957	3 596	3 281
Cash flows from Government	1 582	2 210	2 595	2 286
Payments to suppliers and employees	(4 350)	(5 896)	(5 066)	(4 684)
Interest received	178	196	150	189
Distributions from TasWater	97	67	44	51
Proceeds from investments	0	0	0	94
Finance costs	(45)	(54)	(52)	(58)
Cash from (used in) Operations	**1 123**	**1 480**	**1 267**	**1 159**
Payments for property, plant and equipment	(2 050)	(1 407)	(634)	(1 788)
Proceeds from sale of property, plant and equipment	125	89	605	96
Cash from (used in) Investing Activities	**(1 925)**	**(1 318)**	**(29)**	**(1 692)**
Capital grants repaid	0	0	0	(170)
Capital grants (inclusive of GST)	226	746	0	269
Payments from trust funds	(18)	(36)	(21)	(6)
Investments in/(drawdowns from) term deposits	66	(912)	(289)	0
Repayment of borrowings	(167)	(157)	218	(108)
Proceeds from borrowings	275	0	0	0
Cash from (used in) Financing Activities	**382**	**(359)**	**(92)**	**(15)**
Net Increase (Decrease) in Cash	**(420)**	**(197)**	**1 146**	**(548)**
Cash at the beginning of the year	1 368	1 565	419	967
Cash at End of the Year	**948**	**1 368**	**1 565**	**419**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(176)	(980)	(1092)	(84)
Operating surplus ratio* ****	>0	(2.89)	(14.21)	(18.52)	(1.47)
Asset Management					
Asset sustainability ratio*	100%	111%	71%	23%	112%
Asset renewal funding ratio* **	90% - 100%	N/a	N/a	N/a	N/a
Road asset consumption ratio*	>60%	55.2%	55.8%	56.4%	66.3%
Asset investment ratio	>100%	113%	74%	36%	141%
Liability Management					
Net financial assets (liabilities) ($'000s)		2 751	3 464	2 900	2 958
Net financial liabilities ratio* ***	0 - (50%)	45.1%	50.2%	49.2%	51.9%
Operational Efficiency					
Liquidity ratio	2:1	5.48	5.99	6.86	5.19
Current ratio	1:1	3.59	4.36	4.53	3.57
Interest coverage	3:1	23.96	26.41	23.37	18.98
Self financing ratio		18.4%	21.5%	21.5%	20.3%
Own source revenue		62.4%	69.2%	64.7%	61.9%
Debt collection	30 days	40	33	52	57
Creditor turnover	30 days	38	28	21	16
Rates per capita ($)		1 115	1 173	1 068	1 001
Rates to operating revenue		31.1%	27.2%	29.7%	29.1%
Rates per rateable property ($)		1 150	1 147	1 118	1 034
Operating cost to rateable property ($)		3 779	4 781	4 435	3 568
Employee costs expensed ($'000s)		2 029	2 500	2 395	2 117
Employee costs capitalised ($'000s)		111	173	96	213
Total employee costs ($'000s)		2 140	2 673	2 491	2 330
Employee costs as a % of operating expenses		33%	32%	35%	37%
Average staff numbers (FTEs)		30	34	34	33
Average staff costs ($'000s)		71	79	73	70
Average leave balance per FTE ($'000s)		13	13	14	11

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

** *Information not available to calculate ratio.*

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

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

SNAPSHOT

- In 2013–14, Council recorded an Underlying Surplus of $1.060m.
- Underlying Surpluses were recorded in each of the four years under review, with an annual average of $0.665m.
- Comprehensive Surplus was $4.510m, with Total Equity at 30 June 2014 of $169.086m.
- Rates per capita and Rates per rateable property increased by 8.9% and 9.5%, respectively, in the three years since 30 June 2011.
- Operating cost to rateable property increased by 6.5% over the same period.
- FTE increased by one since 2011, with Average staff cost per FTE 14.8% higher over the same period.

Council was at a 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.

Council failed to meet the legislative requirement by submitting its financial statements late.

Council adopted 21 out of 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report.

Council had not complied with all relevant requirements of Local Government Ministerial Orders as at 30 June 2014. It did not have:

- a financial management strategy
- a long-term strategic asset management plan for stormwater and buildings
- an audit panel.

Council had adopted an audit panel charter in May 2014 and was in the process of appointing an independent chairperson. It was in the process of approving a draft asset management plan for stormwater assets and developing an asset management plan for buildings and an updated long-term financial management plan which will incorporate the data from its asset management plans.

Moderate audit risk findings were identified in relation to evidencing of Council's monthly bank reconciliation review and the need to develop a policy for working capital requirements for its caravan park. These matters were reported to, and were being addressed by, management.

The audit was completed satisfactorily with no other items outstanding.

There were no key developments for the year.

Major variations between 2013–14 and 2012–13 included:

- increased Property, plant and equipment of $3.621m, due mainly to:
  - recognition of the Axeman's Hall of Fame building, $1.280m, following the resignation of the Board of Axeman's Hall of Fame, effective from the close of business 19 July 2013
  - acquisition of subdivisions at no cost, $1.603m
  - capital additions, $3.578m, partially offset by a net revaluation decrement of infrastructure assets, $1.265m, and Depreciation expense, $2.503m
- increased Fees and charges of $0.502m, mainly due to recognition of caravan park revenue of $0.417m, including initial take-up of surplus working capital held by the committee upon renewal of the Caravan Park Management Agreement.

RESOURCE SHARING ARRANGEMENTS

Council entered into a strategic alliance agreement in 2008 with Kentish Council. In March 2010, the councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal three-year resource-sharing arrangement was entered into with the intention of extending it to include other employees, as positions became available or opportunities were identified. The resource-sharing arrangement was formally extended for another three-year period commencing 1 January 2013.

A Municipal Alliance Committee, consisting of two councillors from each council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. Sub-committees were also appointed to investigate and report on opportunities in respect of sharing of plant and equipment, information technology and communications.

As local government looks at ways and means of providing cost-effective practises, resource sharing is one of the strategies that can be used to ensure councils continue to attract and keep quality staff, provide succession planning and extend service provision that might not be viable on an individual council basis.

At 30 June 2014, Latrobe and Kentish Councils had seven regular (2013, six) shared positions.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
A revaluation of roads, footpaths and car parks infrastructure assets was brought to account at 1 July 2013. The valuation was undertaken by Council management based on replacement costs and market information. In addition, bridges were revalued by an external contractor and storm water was revalued by Council using indexation as at 30 June 2014.	We tested the valuation reports, calculations and underlying assumptions supporting fair values of assets. We also assessed the qualifications of those persons conducting the valuations to ensure appropriate expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 19 September 2014, which was significantly after the statutory deadline of 14 August 2014. An unqualified audit report was issued on 31 October 2014.

KEY DEVELOPMENTS

There were no key developments for the year.

KEY FINDINGS

Moderate audit risk findings were identified in relation to Council's:

- evidencing of monthly bank reconciliation reviews
- need to develop a policy for working capital requirements for its caravan park.

One other low-risk finding was reported.

Also noted is that Council made progress in addressing Information Security (IS) system matters reported in 2012-13. Council indicated it would continue to enhance IS system controls with the support of external consultants.

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

The audit was completed satisfactorily with no other items outstanding.

Submission of financial statements

Section 17 (1) of the *Audit Act 2008*, requires financial statements to be submitted to the Auditor-General within 45 days of the end of each financial year. Council failed to comply with this requirement and submitted its financial statements 36 days late.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted 21 out of 22 recommendations relevant to councils. A key recommendation not adopted was that it did not recognise the value of all land under roads at fair value, regardless of when the land was acquired. Council had recognised land under roads acquired since 1 July 2008, but had not taken steps to measure and recognise land acquired before this date consistent with our recommendation. This matter will be followed up with Council in 2014-15.

Based on the recommendations in our Report, Council ceased the use of residual values for depreciation of road assets, effective 1 July 2013. Previously, Council applied a 27% residual value to road pavement assets and a 14% residual value to road seal assets.

Road pavements were separated into a new asset component "Sub-Base" and depreciated over 200 years. Road seals were recognised as a separate asset component group and depreciated over the same useful life as base assets, ranging from 70 to 110 years.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial management indicators. We found that Council had not complied with relevant requirements of the Orders in respect of having in place as at 30 June 2014:

- a financial management strategy
- a long-term strategic asset management plan for stormwater and buildings
- an audit panel.

Council adopted an audit panel charter in May 2014 and was in the process of appointing an independent chairperson.

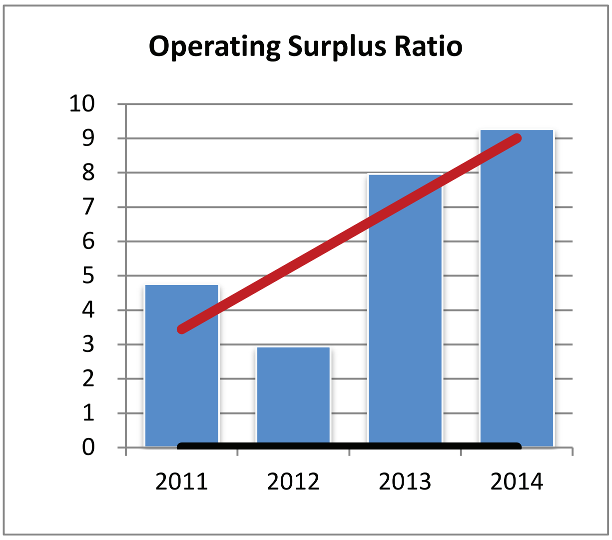
Council indicated that it was in the process of approving an asset management plan for stormwater assets and developing an asset management plan for buildings as well as updating its long-term financial management plan to incorporate data from the asset management plans.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

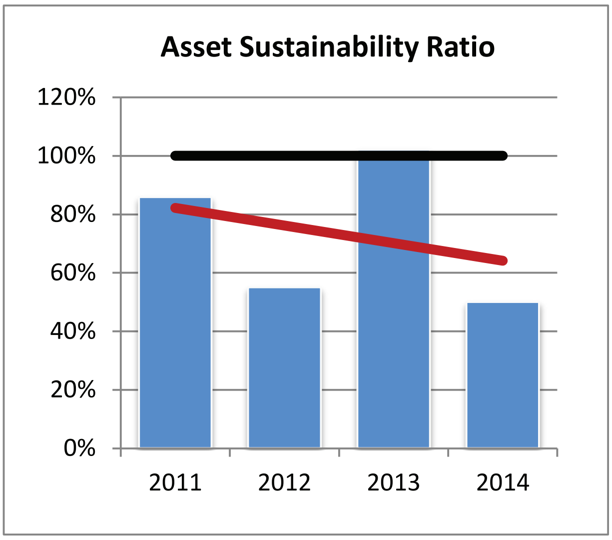
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded positive Operating surplus ratios in all four years under review. On average over the period, Council recorded a positive ratio of 6.23, which indicated sufficient revenue was generated to fulfil operating requirements, including depreciation charges. Contributing factors to the improved results in the most recent two years were high dividends from TasWater.



Asset sustainability ratio was below our benchmark in the three of the four years under review. Council averaged a ratio of 73% over the period. This indicated, subject to levels of maintenance expenditure and its long-term asset management plans, Council may be under-investing in existing assets.

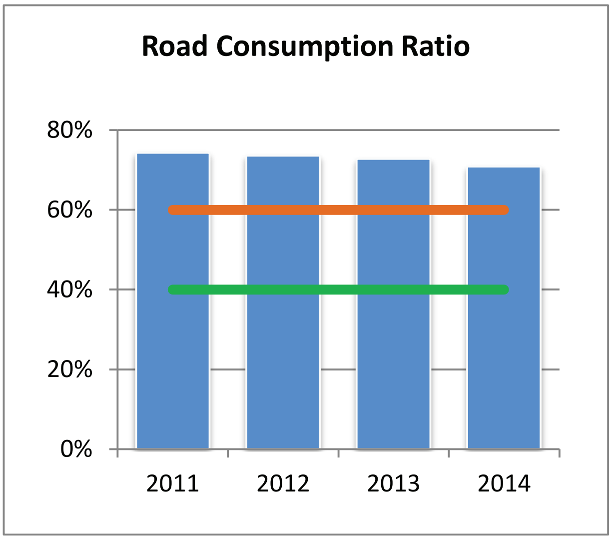
Asset renewal funding ratio

The Asset renewal funding ratios included in the financial analysis table at the end of this Chapter represent a total of all asset class ratios disclosed in Council's financial statements. An Asset renewal funding ratio was calculated by Council in relation to transport assets and parks and reserves.

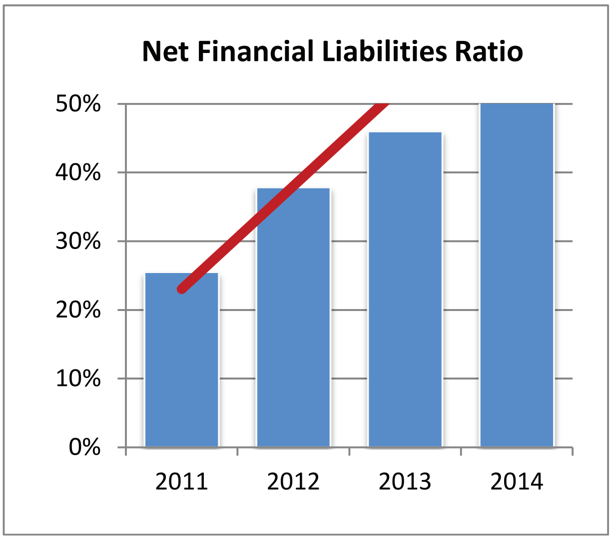
Council's current long-term asset management plans forecast planned and required renewal expenditure for:

- transport asset services, updated in December 2011 and extended to 2030-31
- parks and reserves – land improvements from 2010-11 to 2019-20.

Based on asset replacement expenditure in these plans, we calculated an Asset renewal funding ratio of 106% at 30 June 2014, (2013, 106%) for these asset classes, which was above our benchmark of between 90% and 100%.



The graph indicated that at 30 June 2014 Council had used (consumed) approximately 29% of the service potential of its road assets. At that point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.



* *Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded positive Net financial liabilities ratios, with liquid assets in excess of Total Liabilities for all four years under review. The positive ratios indicated a strong liquidity position, with Council able to meet existing commitments.

At 30 June 2014, Council had contractual commitments of $4.387m (2013, $3.993m) which were not recognised in the Statement of Financial Position nor were they factored into the Net financial liabilities ratio.

Hypothetically if the Cash balance was reduced by the restricted funds the Net financial liabilities ratio would have been negative 3.8% at 30 June 2014, which was still within our benchmark and a low risk.

Governance

A review of Council's governance arrangements indicated it did not have an audit committee or an internal audit function. However, Council adopted an audit panel charter in May 2014 and was in the process of appointing an independent chairperson.

Council's long-term asset management plan for transport infrastructure was reviewed in December 2011 and covered 2011-12 to 2030-31. The asset management plan for parks and reserves – land improvements covered 2010-11 to 2019-20. These plans were both given low risk ratings as they were detailed, regularly reviewed, covered all key elements required and were formally adopted by Council.

Council was in the process of approving its asset management plan for stormwater and was working on developing an asset management plan for buildings.

A long-term financial management plan was adopted by Council in 2005-06 and was reviewed and extended to 2016-17 in 2012-13. Council indicated that it was looking to further expand the long-term financial management plan to incorporate data from asset management plans.

Conclusion as to financial sustainability

From a financial operating perspective, Council's continuing operating surpluses indicated it was generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicated based on our 100% benchmark, it under-invested in existing assets over the period of the analysis, with an average ratio of 73%. However, the Road consumption ratio indicated Council's road consumption was in the low risk range, with road infrastructure assets only being 29% consumed. The Asset renewal funding ratio indicated Council was planning to fund necessary replacement of transport assets and parks and reserves over the life of its asset management plans.

Council's liquidity position was strong with it able to meet all its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

From a governance perspective, Council did not have an audit committee or an internal audit function, but had adopted an audit panel charter in May 2014 and was in the process of appointing an independent chairperson.

Council had long-term asset management plans for transport assets and parks and reserves and was taking appropriate action regarding other asset classes.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at a high risk from a governance perspective, moderate risk from an asset management perspective but low financial sustainability risk from financial operating and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

The Council's full response is reproduced below.

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

Council calculates its underlying surplus as $1.26m. The difference between Council's figure and the $1.060m reported above mainly relates to the treatment of Roads to Recovery grants of $0.213m that council classifies as recurrent income in accordance with the Local Government (Management Indicators) Order 2014, Regulation 3 as it is not income received specifically for new or upgraded assets. The Latrobe Council calculated average annual underlying surplus for the past four years is $0.869m.

Regarding adoption of the recommendations of Report No. 5 of 2013-14 Infrastructure Financial Accounting in Local Government Management, Council considers the recommendation regarding the recognition of land under roads as the lowest priority of the 22 recommendations. The value of land under council roads is not considered to be an important factor in asset management or in the decisions made by Council or its stakeholders about the allocation of resources.

Management expects to implement this recommendation but only once higher priority actions such as compliance with the new asset management and financial management requirements of the Local Government Act are complete.

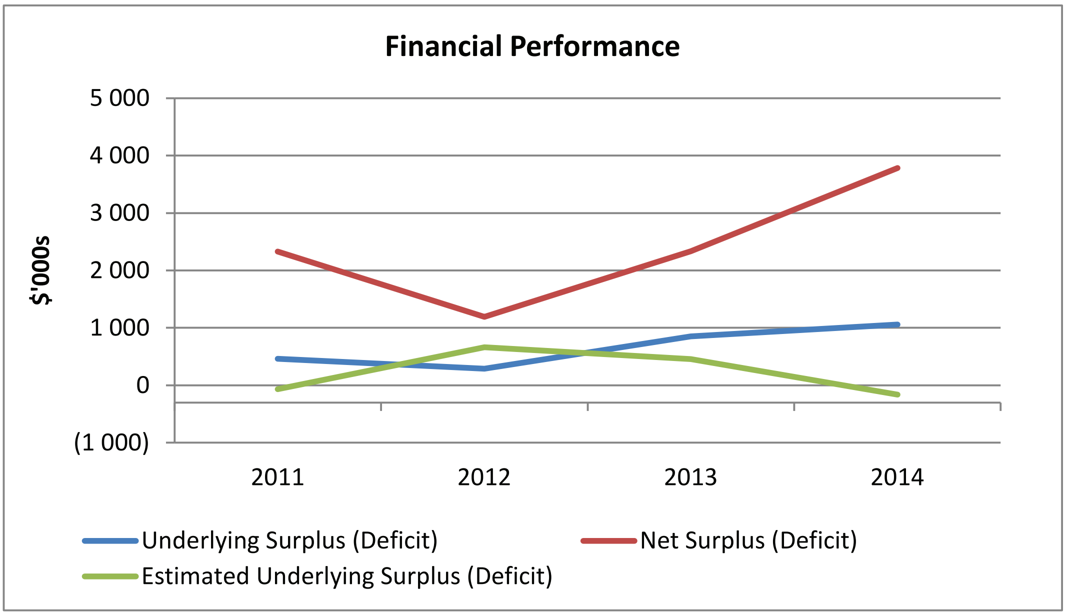
Discussion regarding the Operating surplus ratio above refers to Council receiving "high dividends from Taswater". Management notes that the dividends of $0.662m in 2013-14 were lower than the surplus achieved by council from water and sewerage operations prior to the transfer of water and sewerage operations from Council on 1 July 2009.

Management estimates that its buildings and stormwater asset management plans are approximately 80% complete and expects to adopt these plans by 30 June 2015.

Council's 2014-15 budget approved in June 2014 includes projections to 2017-18 and Council's long term financial plan and financial management strategy in accordance with Section 70A of the Local Government Act are expected to be adopted by 30 June 2015.

Council is working with Kentish Council to appoint a common independent chairperson for its audit panel and expects to appoint a chairperson by 30 June 2015.

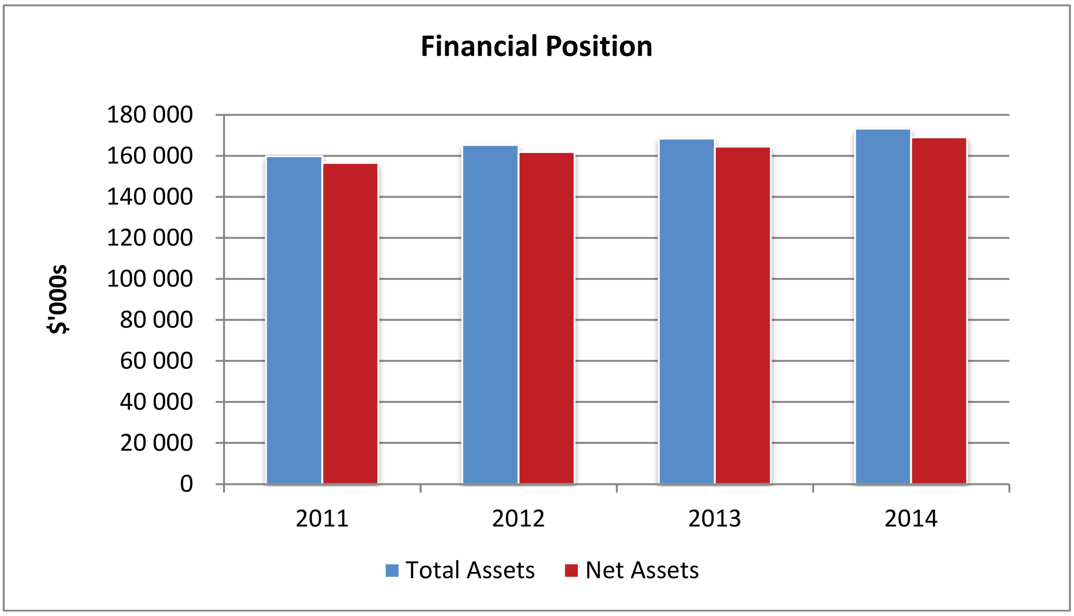
FINANCIAL ANALYSIS



Council recorded an Underlying Surplus in each of the four years under review, with the results exceeding budget in most years.

Council's financial performance improved in 2013-14, with an Underlying Surplus of $1.060m. The higher surplus was primarily due to additional net caravan park income of $0.126m. Council renewed the agreement in place with the caravan park management committee and began to show income and expenditure on a gross basis within Council's financial statements. This included an initial take-up of surplus working capital held by the committee.

Council's Net Surplus of $3.783m for 2013-14 included recognition of subdivision assets of $1.603m and $1.280m for the Axeman's Hall of Fame building. The Board managing the Axeman's Hall of Fame resigned effective close of business on 19 July 2013.



Council's Total Assets and Net Assets grew steadily over the period under review. This was primarily driven by net surpluses and revaluation increments.

Total Assets increased by $4.865m to $173.233m at 30 June 2014. Major movements included:

- increased value of Investment in TasWater, $2.034m
- higher Property, plant and equipment, $3.621m, due mainly to the transfer of the Axeman's Hall of Fame building, $1.280m, subdivisions assets, $1.603m, and capital additions, $3.578m. These were partly offset by a net revaluation decrement of infrastructure assets, $1.265m, and depreciation expense, $2.503m.

Capital expenditure contributed to lower Cash and cash equivalents, $0.652m. Despite this, Council maintained a current ratio of 3.44, which was well above the benchmark of one.

Net Assets increased by $4.510m to $169.086m at 30 June 2014, consistent with higher Total Assets.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis table at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Rates per capita and Rates per rateable property increased by 8.9% and 9.5%, respectively, over the three years since 30 June 2011. Operating cost to rateable property increased by 6.5% over the same period. The higher increases in rates, when compared to the increases in costs, helped Council achieve higher Underlying Surpluses in recent years.

FTE declined by one, or 4%, since 2011 and over this period Average cost per FTE increased by 14.8%.

Council's creditor turnover ratio at 30 June 2014 was 47 days, above our benchmark of 30 days. The ratio was impacted upon by material capital creditor balances outstanding at year end.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	6 190	6 223	5 979	5 765
Fees and charges	1 309	1 841	1 339	1 442
Grants**	1 176	1 413	1 598	1 480
Interest revenue	266	364	404	408
Other revenue	1 264	1 602	1 372	729
Total Revenue	**10 205**	**11 443**	**10 692**	**9 824**
Employee costs	3 031	3 213	2 983	2 811
Depreciation	2 887	2 503	2 436	2 484
Finance costs	22	22	23	25
Other expenses	4 427	4 645	4 399	4 216
Total Expenses	**10 367**	**10 383**	**9 841**	**9 536**
Underlying Surplus (Deficit)	**(162)**	**1 060**	**851**	**288**
Capital grants	2 192	443	325	171
Financial assistance grant received in advance**	0	0	711	734
Offset financial assistance grant in advance**	(711)	(711)	(734)	(391)
Contributions for non-current assets - other	130	44	29	165
Contributions of non-current assets - infrastructure	735	2 883	791	208
Profit on sale of land	0	64	363	16
Net Surplus (Deficit)	**2 184**	**3 783**	**2 336**	**1 191**
Other Comprehensive Income				
Fair value revaluation of non-current assets - Council	4 034	(1 265)	0	3 988
Fair value revaluation of non-current assets - Associates	0	(42)	10	15
Fair value adjustment TasWater	292	2 034	361	29
Total Other Comprehensive Income (Expense)	**4 326**	**727**	**371**	**4 032**
Comprehensive Surplus	**6 510**	**4 510**	**2 707**	**5 223**

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

*** Grants received in advance have been shown separately after Underlying Surplus. The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	7 839	8 491	6 840	5 429
Receivables	252	220	265	275
Inventories	34	26	25	22
Other	840	1 081	1 277	1 411
Total Current Assets	**8 965**	**9 818**	**8 407**	**7 137**
Payables	1 368	903	835	705
Borrowings	24	23	21	20
Provisions – employee benefits	825	794	657	631
Other	390	423	389	431
Total Current Liabilities	**2 607**	**2 143**	**1 902**	**1 787**
Net Working Capital	**6 358**	**7 675**	**6 505**	**5 350**
Property, plant and equipment	134 373	130 752	129 387	125 280
Investments in associates	683	614	532	521
Investment in TasWater	29 184	27 150	26 789	26 760
Receivables	28	34	140	186
Total Non-Current Assets	**164 268**	**158 550**	**156 848**	**152 747**
Borrowings	302	326	349	370
Provisions – employee benefits	78	88	69	42
Provisions – rehabilitation	626	656	656	656
Other	534	579	410	383
Total Non-Current Liabilities	**1 540**	**1 649**	**1 484**	**1 451**
Net Assets	**169 086**	**164 576**	**161 869**	**156 646**
Reserves	90 228	89 501	89 130	85 098
Accumulated surpluses	78 858	75 075	72 739	71 548
Total Equity	**169 086**	**164 576**	**161 869**	**156 646**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	9 402	8 469	8 041	7 847
Cash flows from Government	702	1 575	1 896	1 563
Payments to suppliers and employees	(8 783)	(7 652)	(7 255)	(7 171)
Interest received	379	411	372	313
Distributions received – TasWater	670	634	399	402
Finance costs	(22)	(23)	(25)	(27)
Cash from (used in) Operations	**2 348**	**3 414**	**3 428**	**2 927**
Capital grants and contributions	543	325	171	690
Capital contributions – cash	44	29	165	197
Elderly persons unit donor fees	60	309	117	124
Community loans	6	14	24	13
Payments for property, plant and equipment	(4 065)	(3 187)	(2 639)	(2 770)
Proceeds from sale of property, plant and equipment	435	768	165	196
Cash from (used in) Investing Activities	**(2 977)**	**(1 742)**	**(1 997)**	**(1 550)**
Repayment of borrowings	(23)	(21)	(20)	(41)
Cash from (used in) Financing Activities	**(23)**	**(21)**	**(20)**	**(41)**
Net Increase (Decrease) in Cash	**(652)**	**1 651**	**1 411**	**1 336**
Cash at the beginning of the year	8 491	6 840	5 429	4 093
Cash at End of the Year	**7 839**	**8 491**	**6 840**	**5 429**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		1 060	851	288	460
Operating surplus ratio* **	>0	9.26	7.96	2.93	4.75
Asset Management					
Asset sustainability ratio*	100%	50%	102%	55%	86%
Asset renewal funding ratio*	90% - 100%	106%	106%	106%	77%
Road asset consumption ratio*	>60%	70.9%	72.8%	73.6%	74.3%
Asset investment ratio	>100%	162%	131%	106%	110%
Liquidity					
Net financial assets (liabilities) ($'000s)		8 331	4 919	3 719	2 466
Net financial liabilities ratio* ***	0% - (50%)	72.8%	46.0%	37.9%	25.5%
Operational Efficiency					
Liquidity ratio	2:1	4.54	6.46	5.71	4.93
Current ratio	1:1	3.44	4.58	4.42	3.99
Interest coverage	3:1	105.73	147.43	136.12	107.41
Self financing ratio		20.5%	31.9%	34.9%	30.3%
Own source revenue		87.7%	85.1%	84.9%	83.3%
Debt collection	30 days	11	11	13	15
Creditor turnover	30 days	47	33	34	30
Rates per capita ($)		584	568	565	536
Rates to operating revenue		54.4%	55.9%	58.7%	55.5%
Rates per rateable property ($)		1 070	1 044	1 030	977
Operating cost to rateable property ($)		1 785	1 718	1 704	1 676
Employee costs expensed ($'000s)		3 213	2 983	2 811	2 714
Employee costs capitalised ($'000s)		228	252	225	181
Total employee costs ($'000s)		3 441	3 235	3 036	2 895
Employee costs as a % of operating expenses		31%	30%	29%	29%
Average staff numbers (FTEs)		46	45	45	45
Average staff costs ($'000s)		74	73	67	65
Average leave balance per FTE ($'000s)		19	20	16	15

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

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

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

SOUTHERN MIDLANDS COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.193m. This was the fourth consecutive year of underlying deficits and would have been higher had Council not received a dividend from TasWater of $0.152m (nil in 2012-13). This position is unsustainable and needs to be addressed by Council.
- It continued to budget for underlying deficits. This is inconsistent with the need to assure long-term financial sustainability.
- After accounting for Capital grants and timing differences relating to financial assistance grants, it recorded a Net Deficit of $1.296m.
- Council's Comprehensive result was a deficit of $2.097m, mainly caused by a decrease in the value of its investment in TasWater, $2.171m.
- Its Net Assets totalled $99.096m at 30 June 2014.
- Council's subsidiaries Heritage Building Solutions Pty Ltd (HBS) and Heritage Education and Skills Centre Pty Ltd (HESC) recorded losses of $0.002m and $0.050m respectively. Both entities recorded negative Net Assets, $0.032m and $0.025m respectively. These results were included in Council's financial statements.
- Rates per capita increased by 15.02% over the three year period since 30 June 2011 and Rates per rateable property increased by 14.93% over this period.
- Operating cost to rateable property increased by 9.30%.
- FTEs increased by seven (or 14.36%) since 2011 and over this period average cost per FTE increased by 3.27%.

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

We made a number of recommendations following the audit of accounting systems and procedures at the Callington Mill. These matters were reported to, and are being addressed by, management.

Council adopted 18 of the 22 recommendations from our *Infrastructure Financial Accounting in Local Government* Report.

Apart from asset management plans, Council complied with relevant requirements of Local Government Ministerial Orders issued in February 2014. Council anticipates adoption of the long-term asset management plan in 2014-15.

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

Key developments for the year included:

- componentisation and subsequent revaluation of building assets
- revaluation of stormwater infrastructure assets.

Major variations between 2013-14 and 2012-13 financial years included:

- an increase in Property, plant and equipment of $0.760m, due mainly to an asset revaluation increment of $1.370m, additions of $2.508m offset by depreciation of $2.746m
- a decrease in Cash due partly to the prepayment of financial assistance grants in June 2013, with no prepayment in June 2014. This was the primary reason why cash flows generated from operations this year totalled only $1.331m compared to a four year average of $2.089m
- a decrease in Council's investment in TasWater of $2.171m.

SUBSIDIARY ENTITIES

Council had a controlling interest in two wholly-owned companies. The financial statements of these companies have been consolidated into Council's financial statement and the financial information reported in this Chapter is the consolidated position. The estimated income statement information included in our financial analysis relates only to Council and excludes the subsidiaries.

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

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Due to Council's small size and scale of its operations, a weakness exists in the design of internal control caused by a lack of adequate segregation of duties. This weakness has the potential to result in a material misstatement in Council's 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 consisted predominantly of substantive procedures.
A full revaluation of building and stormwater assets was undertaken during 2013-14. Revaluations require estimation, judgment and complex calculations. There is a risk of material misstatement of assets and depreciation as a result of this process.	We reviewed valuation reports, calculations and underlying assumptions supporting fair values of assets. In addition, we assessed the qualifications of those persons conducting the valuations to ensure appropriate independent expertise and assessed the extent to which management reviewed and challenged their work.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

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

KEY DEVELOPMENTS

Componentisation and revaluation of building assets

Council improved the way it values building assets by segmenting buildings into components and then depreciating each component based on its individual useful life, rather than the life of the whole building. As a result, the replacement value of building increased by $6.114m, offset by higher accumulated depreciation of $5.389m. The net revaluation increment was $0.735m.

KEY FINDINGS

We made a number of recommendations following the audit of accounting systems and procedures at the Callington Mill. We also reported a number of low-risk findings related to other revenue, budget preparation and infrastructure matters.

Council has progressively addressed findings raised in prior years, but a number of matters remained outstanding:

- management of information security user access and application monitoring, including the development and implementation of formal policies
- completeness of documentation supporting accounting entries and evidence of review.

We recommended that Council considers these recommendations.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled December 2013.

Council adopted 18 out of 22 recommendations relevant to councils. Key recommendations that were not adopted included:

- Council did not recognise road earthworks as assets
- Council did not recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired. We noted Council's decision to defer recognition of its land under roads until a fair value can be measured more reliably. We concur with Council's decision and will monitor progress towards recognition of land under roads during the course of the next audit.

We recommended that Council adopts the recommendations contained in our report to ensure its asset management and financial accounting and reporting reflects best practice and is consistent with other councils that have adopted our recommendations.

Local Government Ministerial Orders

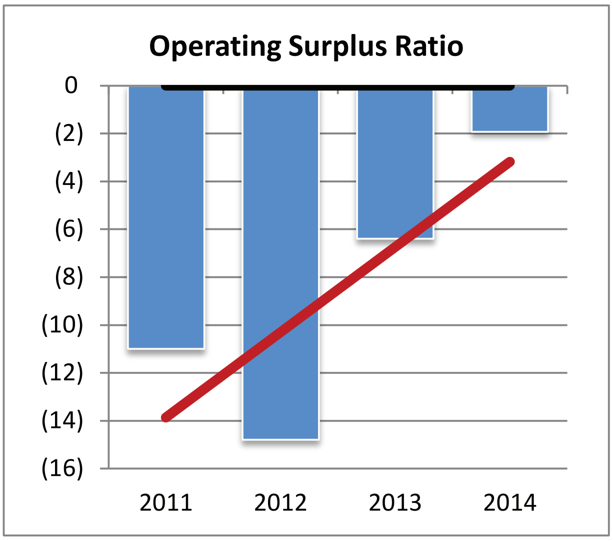
Part I of this Volume includes a summary of the requirements of Ministerial Orders relating to audit panels, strategic planning and reporting financial sustainability indicators. We found that Council had not finalised a long-term asset management plan, but this will be formally adopted in 2014-15.

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

ASSESSMENT OF FINANCIAL SUSTAINABILITY

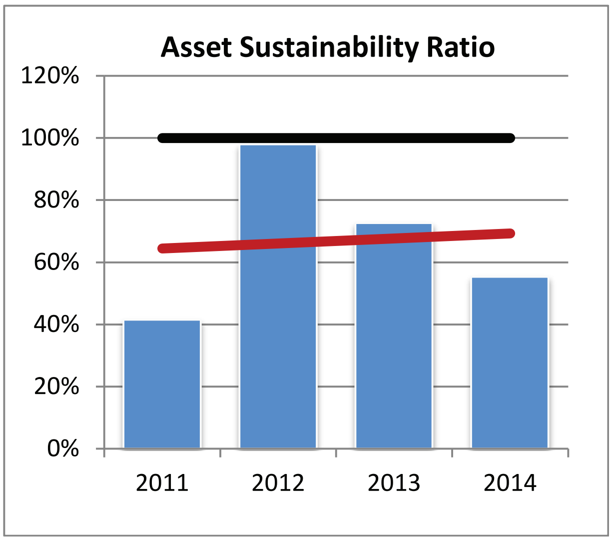
Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

The following four graphs, and discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



Council recorded negative Operating surplus ratios in all four years, with an average ratio of negative 8.53. The negative ratios indicated that Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

Over the four-year period, Council budgeted for $5.941m in underlying deficits and generated underlying deficits of $2.970m. We believe that, at a minimum, Council should budget for a break-even position. The four-year trend indicates that Council's operating deficits are decreasing.

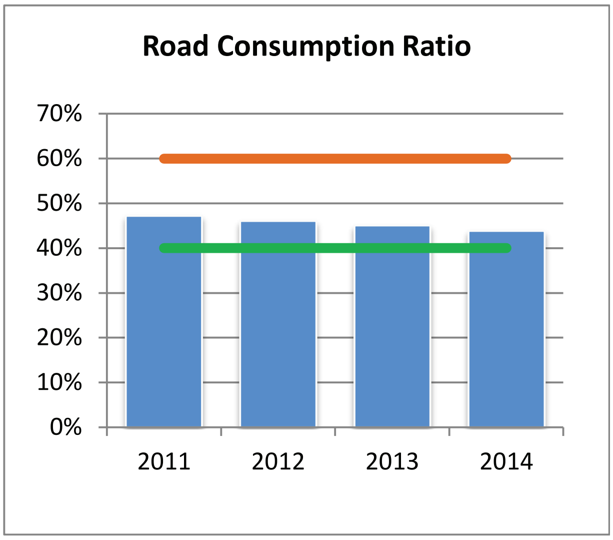


Asset sustainability ratios were below benchmark in all four years under review. Over the period, Council's average ratio was 67%, indicating, subject to levels of maintenance expenditure and the existence of an effective long-term asset management plan, Council had under-invested in existing assets.

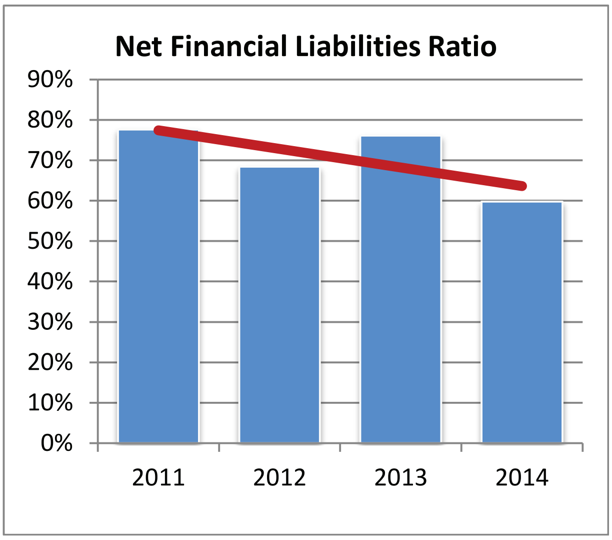
Asset renewal funding ratio

Council's current long-term financial management plan forecasts planned and required renewal expenditure to 2023 and covers transport infrastructure, stormwater drainage and building and property assets. This plan was not subject to audit.

Council's long-term financial management plan indicated that, based on planned asset replacement expenditure, its Asset renewal funding ratio was 143% at 30 June 2014. The ratio was above our benchmark of between 90% and 100%. Council's long-term financial management plan used forecast depreciation expense as the basis for future planned renewal expenditure. The existing plan will be revised upon completion of Council's long-term asset management plan.



The graph indicated that at 30 June 2014 Council had consumed approximately 56% of the service potential of its road assets. Overall, at this point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers, but was at a moderate risk rating.



* *Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities ratio, with liquid assets well in excess of Total Liabilities in each year under review. These positive ratios indicate a strong liquidity position, with Council able to meet future commitments.

Cash and financial assets totalled $8.183m at 30 June 2014. However, these assets were subject to a number of internal and external restrictions that limited the amount available for discretionary use. Restricted funds represented $0.229m, or 2.8%, of the total Cash and financial assets balance at 30 June 2014. Restrictions on cash need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements indicated it had an audit committee, consisting of two elected representatives and one independent member. The Committee:

- liaised with the external auditors
- reviewed the annual financial statements prior to their submission to the General Manager for signature
- maintained an annual work plan, noting matters that its audit panel is required to consider as part of keeping Council's performance under review.

However, Council did not have an internal audit function. Existence of an active internal audit function would enhance Council's governance arrangements.

A review of Council's long-term financial and asset management plans found it:

- had a long-term financial management plan, reviewed on an annual basis, formally adopted by Council
- was in the process of finalising a long-term asset management plan.

The content of plans and strategies were not subject to audit.

Conclusion as to financial sustainability

From a financial operating perspective, Council's Underlying Deficit was below benchmark in all four years under review.

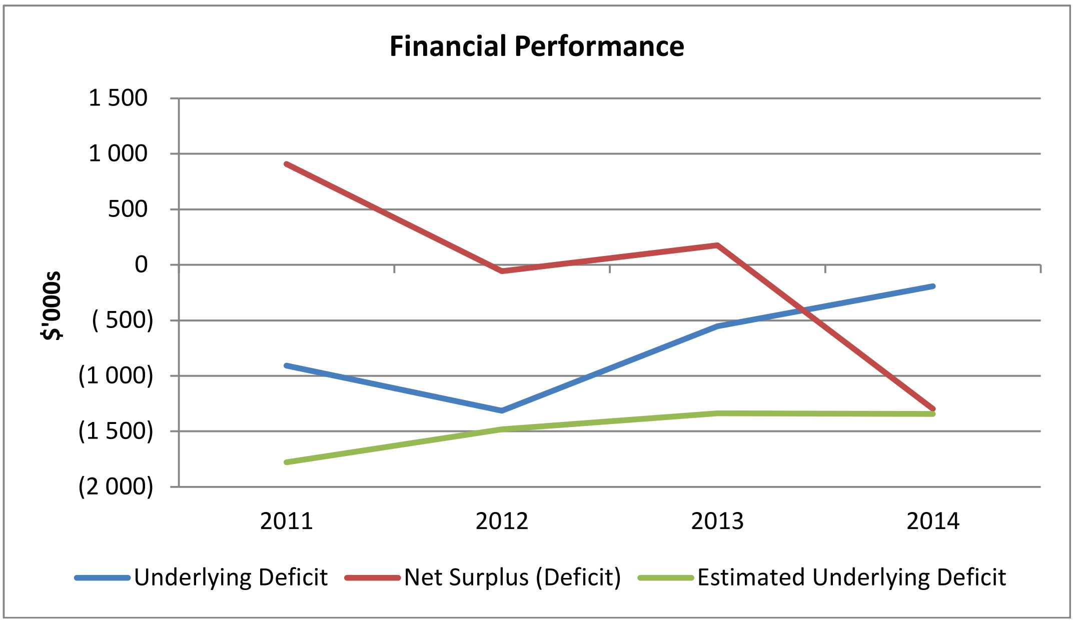
Council's Asset sustainability ratio averaged 67%, which was below our benchmark and indicated it has not been adequately investing in existing assets over the period of the analysis. The Road consumption ratio showed road assets had sufficient capacity to continue to provide services to ratepayers but was at a moderate risk rating. Council's Asset renewal funding ratio met our minimum benchmark of 90%.

Council's liquidity position was strong with it able to meet all its short-term commitments. It had a manageable debt level with capacity to borrow further should the need arise.

From a governance perspective, Council had an audit committee, but no internal audit function. It had a long-term financial management plan, but not a long-term asset management plan.

Based on these ratios and governance arrangements we concluded that at 30 June 2014, Council was at moderate sustainability risk from financial operating, asset management and governance perspectives, but low sustainability risk from a net financial liabilities perspective.

FINANCIAL ANALYSIS

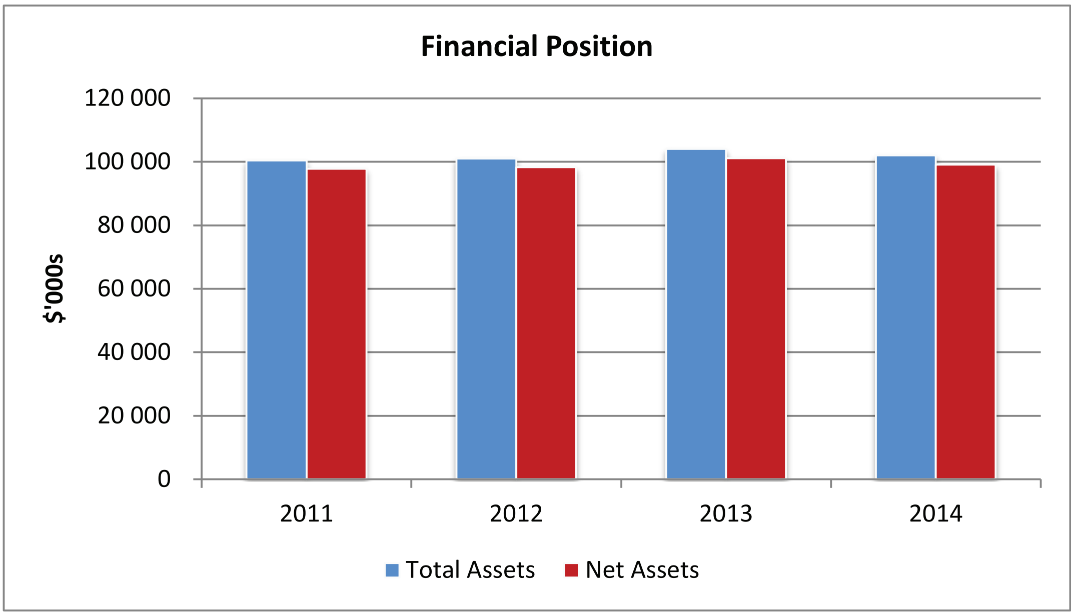


Council recorded an Underlying Deficit of $0.193m in 2013-14. This was the fourth consecutive year of Underlying Deficits and would have been higher had Council not received a dividend from TasWater of $0.152m (nil in 2012-13). The unfavourable performance was despite a significant increase in Total Revenue of 21.55% over the last four years, compared to an 11.61% increase in Total Expenses. Similarly, average Rates per rateable property went up by 14.93% while Operating cost to rateable property increased by 9.30%. This indicated that Council's revenue base may not be sufficient to cover operating costs. This position is unsustainable and needs to be addressed by Council.

However, the trend in Council's Underlying Deficits improved over the period and reflected Council's efforts to operate at a break-even capacity. Despite this trend, Council continued to budget for Underlying Deficits, $1.344m in 2013-14. This was inconsistent with the need to assure long-term financial sustainability. We believe that at a minimum Council should budget for a break-even position before capital grants and infrastructure adjustments but inclusive of depreciation.

In 2013-14, Council performed better than estimate due to investment returns from TasWater, $0.152m, and increased Grants revenue.

After taking into consideration Capital grants and timing differences relating to financial assistance grants, Council reported a Net Deficit of $1.296m in 2013-14.



Council's Total Assets increased by $1.550m from 2011 to 2014. The movement related primarily to asset revaluation increments and changes in the value of Council's investment in TasWater.

Council's financial position declined slightly as Net Assets decreased by 2.1% to $99.096m at 30 June 2014. The decline was a combination of a lower value of Council's Investment in TasWater, $2.171m, offset by asset revaluation increments relating to building and stormwater assets, $1.370m and Council's Net Deficit.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 14.93% over the three year period since 30 June 2011 and Rates per rateable property increased by 15.02% over the same period. Over this period Operating cost to rateable property increased by 9.30%.

FTEs increased by seven (or 14.36%) since 2011 and over this period average cost per FTE increased by 3.27%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	4 192	4 245	4 029	3 811
Fees and charges	699	814	866	783
Grants**	3 571	3 902	3 095	3 140
Interest revenue	260	244	265	361
Other revenue	271	840	395	797
Total Revenue	**8 993**	**10 045**	**8 650**	**8 892**
Employee costs	3 703	3 686	3 358	3 377
Depreciation	3 120	2 746	2 655	3 114
Finance costs	58	58	57	64
Other expenses	3 456	3 748	3 133	3 652
Total Expenses	**10 337**	**10 238**	**9 203**	**10 207**
Underlying Surplus (Deficit)	**(1 344)**	**(193)**	**(553)**	**(1 315)**
Capital grants	606	480	605	519
Financial assistance grant received in advance**	0	0	1 583	1 459
Offset financial assistance grant in advance**	0	(1 583)	(1 459)	(720)
Net Surplus (Deficit)	**(738)**	**(1 296)**	**176**	**(57)**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	1 370	2 661	522
Fair value adjustment TasWater	0	(2 171)	(3)	30
Total Comprehensive Income (Expense)	**0**	**(801)**	**2 658**	**552**
Comprehensive Surplus (Deficit)	**(738)**	**(2 097)**	**2 834**	**495**

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

** *Grants received in advance have been shown separately after Underlying Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	8 183	8 782	8 081	8 281
Receivables	758	641	691	750
Inventories	167	280	330	246
Total Current Assets	**9 108**	**9 703**	**9 102**	**9 277**
Payables	669	618	657	568
Interest bearing liabilities	98	93	115	102
Provisions – employee benefits	1 186	1 122	987	1 009
Total Current Liabilities	**1 953**	**1 833**	**1 759**	**1 679**
Net Working Capital	**7 155**	**7 870**	**7 343**	**7 598**
Property, plant and equipment	81 245	80 485	78 098	77 383
Investment in TasWater	11 674	13 844	13 847	13 817
Total Non-Current Assets	**92 919**	**94 329**	**91 945**	**91 200**
Interest bearing liabilities	797	895	838	804
Provisions – employee benefits	181	111	91	130
Total Non-Current Liabilities	**978**	**1 006**	**929**	**934**
Net Assets	**99 096**	**101 193**	**98 359**	**97 864**
Accumulated surpluses	40 592	41 888	41 712	41 677
Reserves	58 504	59 305	56 647	56 187
Total Equity	**99 096**	**101 193**	**98 359**	**97 864**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	6 072	5 821	5 614	5 172
Cash flows from Government	2 319	3 219	3 879	3 035
Distributions received - TasWater	152	0	5	0
Payments to suppliers and employees	(7 398)	(6 913)	(7 284)	(6 309)
Interest received	244	265	361	350
Finance costs	(58)	(57)	(64)	(69)
Cash from (used in) Operations	**1 331**	**2 335**	**2 511**	**2 179**
Capital grants and contributions	480	605	519	1 784
Payments for property, plant and equipment	(2 484)	(2 505)	(3 697)	(4 224)
Proceeds from sale of property, plant and equipment	167	231	420	179
Cash from (used in) Investing Activities	**(1 837)**	**(1 669)**	**(2 758)**	**(2 261)**
Proceeds from interest bearing liabilities	0	150	150	0
Repayment of interest bearing liabilities	(93)	(115)	(103)	(94)
Cash from (used in) Financing Activities	**(93)**	**35**	**47**	**(94)**
Net Increase (Decrease) in Cash	**(599)**	**701**	**(200)**	**(176)**
Cash at the beginning of the year	8 782	8 081	8 281	8 457
Cash at End of the Year	**8 183**	**8 782**	**8 081**	**8 281**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying deficit ($'000s)		(193)	(553)	(1 315)	(909)
Operating surplus ratio* **	>0	(1.92)	(6.39)	(14.79)	(11.00)
Asset Management					
Asset sustainability ratio*	100%	55%	73%	98%	42%
Asset renewal funding ratio* ***	90% - 100%	143%	149%	N/a	N/a
Roads consumption ratio*	>60%	43.9%	45.0%	46.0%	47.2%
Asset investment ratio	>100%	90%	94%	119%	133%
Liquidity					
Net financial assets (liabilities) ($'000s)		6 010	6 584	6 084	6 418
Net financial liabilities ratio* ****	0% - (50%)	59.8%	76.1%	68.4%	77.7%
Operational Efficiency					
Liquidity ratio	2:1	11.66	13.25	11.36	13.48
Current ratio	1:1	4.66	5.29	5.17	5.53
Interest coverage	3:1	21.95	39.96	38.23	30.58
Self financing ratio		13.3%	27.0%	28.2%	26.4%
Own source revenue		61.2%	64.2%	64.7%	63.7%
Debt collection	30 days	55	48	55	63
Creditor turnover	30 days	35	35	30	26
Rates per capita ($)		677	639	609	589
Rates to operating revenue		42.3%	46.6%	42.9%	43.8%
Rates per rateable property ($)		1 189	1 121	1 081	1 035
Operating cost to rateable property ($)		2 869	2 600	2 896	2 625
Employee costs expensed ($'000s)		3 686	3 358	3 377	2 908
Employee costs capitalised ($'000s)		176	151	155	362
Total employee costs ($'000s)		3 862	3 509	3 532	3 270
Employee costs as a % of operating expenses		36%	36%	33%	32%
Average staff numbers (FTEs)		54	54	47	47
Average staff costs ($'000s)		72	65	76	70
Average leave balance per FTE ($'000s)		25	23	23	24

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

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

*** *Information unavailable to calculate ratio for Southern Midlands until 2012-13.*

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

RESULTS OF SUBSIDIARY ENTITIES

Council setup both Heritage Building Solutions Pty Ltd (HBS) and Heritage Education and Skills Centre Pty Ltd (HESC) in 2010-11. It invested $0.200m in the companies based on a strategic objective of developing its heritage base to generate employment and business growth and because of its large stock of heritage assets requiring conservation and restoration work. Both companies are small proprietary companies and are not reporting entities. They are consolidated into Council's financial statements.

Heritage Building Solutions Pty Ltd

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Total revenue	3	20	11	0
Total expenses	8	25	24	2
Net Surplus (Deficit)	**(5)**	**(5)**	**(13)**	**(2)**
Total assets	38	42	44	50
Total liabilities	63	62	59	52
Net Assets	**(25)**	**(20)**	**(15)**	**(2)**
Total Equity	**(25)**	**(20)**	**(15)**	**(2)**

HBS provides professional heritage conservation and restoration services to property owners. It specialises in heritage and special restorations, additions and renovations, including stonemasonry.

The above transactions, including inter-company balances and transactions, were recorded by HBS for the year ended 30 June 2014. HBS generated deficits in all four years and as a result its equity deficit increased to $0.025m at 30 June 2014.

Heritage Education and Skills Centre Pty Ltd

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Total revenue	781	511	833	938
Total expenses	782	570	864	879
Net Surplus (Deficit)	**(1)**	**(59)**	**(31)**	**59**
Total assets	285	296	385	473
Total liabilities	317	327	357	414
Net Assets	**(32)**	**(31)**	**28**	**59**
Total Equity	**(32)**	**(31)**	**28**	**59**

HESC provides education and training in all aspects of traditional heritage building skills.

The above transactions, including inter-company balances and transactions, were recorded by HESC for the year ended 30 June 2014. HESC generated deficits in the last two years and its equity deficit increased to $0.032m at 30 June 2014.

TASMAN COUNCIL

SNAPSHOT

- Council recorded an Underlying Surplus of $1.034m in 2013-14. It reported Underlying Surpluses in each of the previous three years.
- Council recognised land under roads valued at $2.531m for the first time.
- Its Comprehensive result was a surplus of $1.911m, with Net Assets at 30 June 2014 of $49.043m.
- Cash from operations before dividends received was $1.600m for 2013-14. This was consistent with the four-year average of $1.587m.
- Rates per capita increased by 16% over the three year period since 30 June 2011 and Rates per rateable property increased by 11% over the same period.
- Operating cost to rateable property increased by 19%.
- FTEs remained constant since 2011 and over this period average cost per FTE increased by 3%.

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

We identified moderate-risk audit weaknesses in segregation of duties, monitoring and user access management of Council's general ledger as well as the absence of a secondary review of bank reconciliations. These matters were reported to, and are being dealt with by, management.

The audit was completed satisfactorily with no other items outstanding.

Council adopted all 22 recommendations relevant to councils from our *Infrastructure Financial Accounting in Local Government* Report (the Report) issued in December 2013.

A review of Council's governance arrangements found that Council had an audit panel but no internal audit function at 30 June 2014. However, the Local Government (Audit Panels) Order 2014 (the Order) requires audit panels to have a minimum number of independent persons. We have expressed some concern over the composition of the panel as it relates to perceived independence of members. Subject to our views regarding membership of the audit panel, Council complied with all relevant requirements of the Local Government Ministerial Orders issued in February 2014.

Key developments for the year included:

- revaluation of infrastructure assets and removal of residual values
- recognition of land under roads valued at $2.531m.

Other than the recognition of land under roads there were no major variations between 2013-14 and 2012-13.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Council applied a revaluation index to road, bridges and storm water infrastructure assets to maintain the currency of valuation between full revaluations.	We audited the validity of the indices and ensured they were correctly applied.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

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

KEY DEVELOPMENTS

Residual values for infrastructure assets

Council applied residual values to road pavement and road surface assets in prior years. In 2013-14, these were removed for the surface and pavement base. In addition, unit rates were changed to reflect a modern equivalent asset valuation.

Council applied indexation to the valuation of infrastructure assets as at 30 June 2014 resulting in a revaluation decrement, $0.920m.

Land under roads

In compliance with the recommendations of the Report, Council recognised land under roads for the first time in 2013-14, $2.531m.

Audit panel

A review of Council's governance arrangements found that Council had an audit panel but no internal audit function at 30 June 2014. However, the Order requires audit panels to have a minimum number of independent persons. It is our understanding that finance managers from other councils were appointed as independent members of the audit panel. While this is technically in accordance with the requirements of the Order, this arrangement, in our view, impinges upon 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.

KEY FINDINGS

No high-risk audit findings were identified during the audit. However, there were a number of moderate-risk audit findings brought to Council's attention in 2013-14 which included:

- no secondary review of bank reconciliations
- lack of segregation of duties and monitoring controls within Xero payroll system
- lack of segregation of duties of Systems Administrator within Xero accounting system
- weaknesses in monitoring and user access management to Xero accounting system.

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

The audit was completed satisfactorily with no other items outstanding.

Adoption of recommendations from Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes a commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

Council adopted all 22 recommendations relevant to councils.

Local Government Ministerial Orders

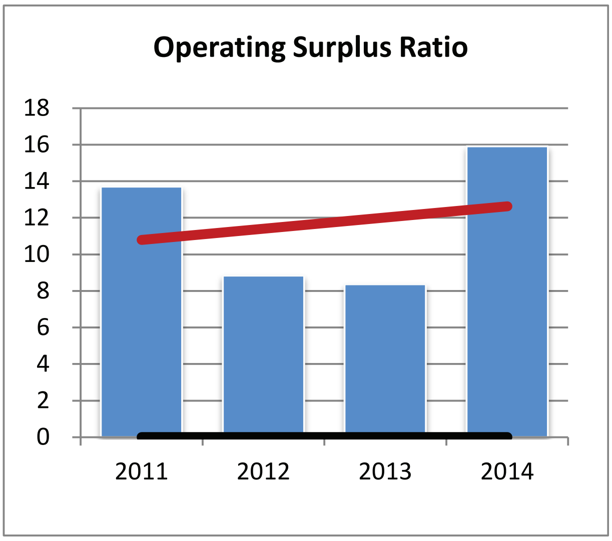
Part I of this Volume includes a summary of Ministerial Orders requirements relating to audit panels, strategic planning and reporting indicators.

Subject to our views regarding membership of the audit panel referred to earlier, Council complied with all relevant requirements.

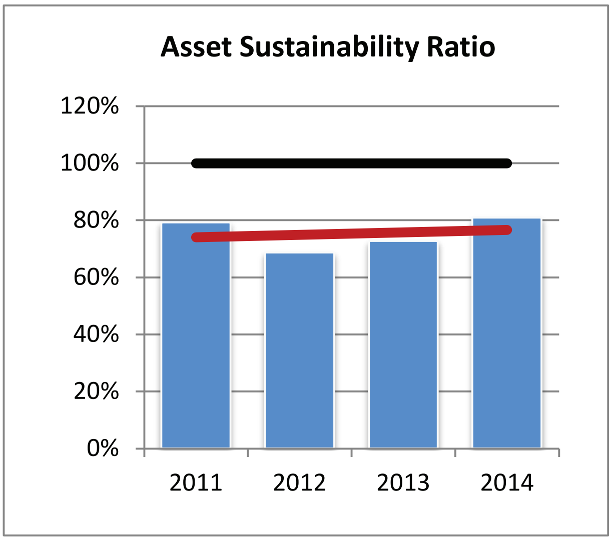
ASSESSMENT OF FINANCIAL SUSTAINABILITY

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

The following four graphs, and discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



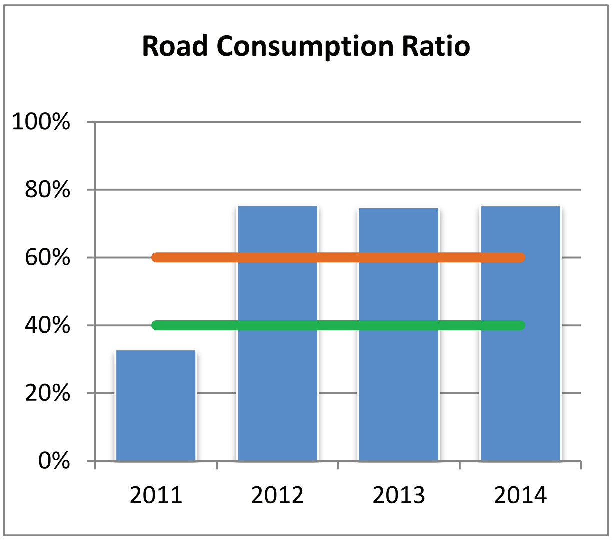
Council recorded a positive Operating surplus ratio in each of the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its depreciation charges.



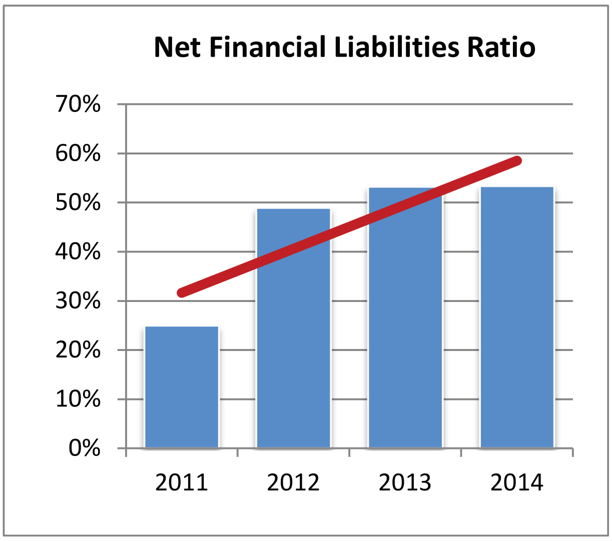
Asset sustainability ratio was below benchmark in all four years and averaged 75% over the period, which indicates that Council was, subject to levels of maintenance expenditure, under-investing in existing assets.

Asset renewal funding ratio

Council's long-term asset management and financial management plans indicated the Asset renewal funding ratio was 100%, within our 90% - 100% benchmark, at 30 June 2014 for road, infrastructure and stormwater assets. Council's long-term asset management and financial management plans cover the periods 2014 to 2033 and 2014 to 2023, respectively. The long-term asset management plan details all renewal works required to maintain services to ratepayers. However, these plans have not been audited.



The graph indicates that at 30 June 2014 Council had used (consumed) approximately 25% of its road assets indicating that, at that point in time, its roads had the capacity to continue to provide services to its ratepayers. Council undertook an index-based revaluation of its roads assets in 2013-14 and 2012-13.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council's Net financial liabilities ratio improved over the four-year period, with the positive ratio at 30 June 2014 indicating liquid assets well in excess of Total Liabilities. Council was in a strong liquidity position able to meet its current commitments. The improvements were due to growing cash and receivables balances relative to total liabilities. Council's total liabilities consisted of payables, employee provisions and borrowings.

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

Governance

A review of governance arrangements indicated that Council:

- established an audit panel (or committee) but had no internal audit function in place – refer to our earlier assessment of these arrangements
- had a long-term financial management plan covering the period 2014 to 2023
- had a long-term asset management plan covering the period 2014 to 2033.

Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surpluses indicated it was generating sufficient revenue to meet operating requirements.

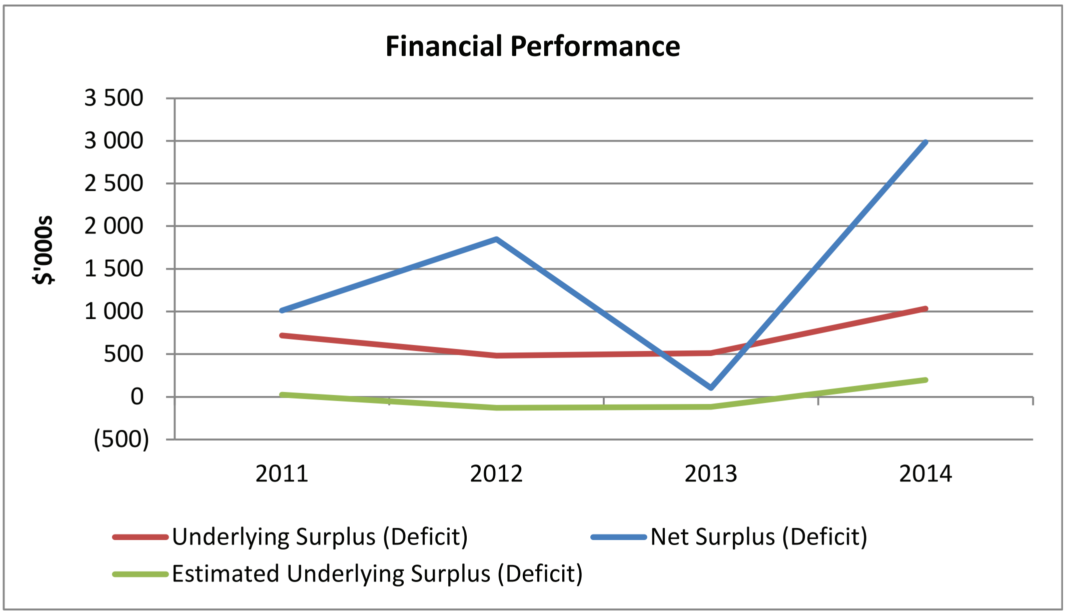
Council's Asset sustainability ratio indicated, based on our 100% benchmark, that it under-invested in existing assets over the last four years. Council's Road consumption ratio remained constant in 2013-14 and within the low risk range. The Asset renewal funding ratio was within our 90% to 100% range.

Net financial liabilities ratio was positive at 30 June 2014 demonstrating Council had the capacity to service short-term debt and could borrow should the need arise.

From a governance perspective, Council has an audit panel but no internal audit function. Also the independence of the composition of the audit panel was questioned.

Based on these ratios and governance arrangements, we concluded that at 30 June 2014 Council was at a moderate financial sustainability risk from asset management and governance perspectives and low risk from financial operating and net financial liabilities perspectives.

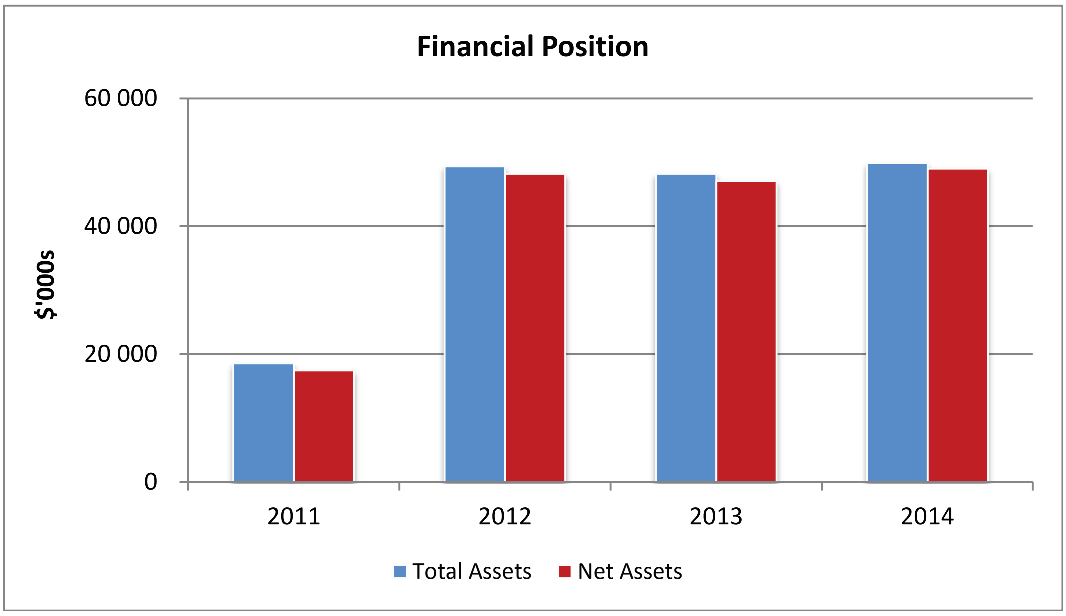
FINANCIAL ANALYSIS



Council generated an Underlying Surplus of $1.034m in 2013-14, which was better than the Estimated Underlying Surplus of $0.197m mainly due to $1.176m fees and charges received compared to the $0.145m estimated. Council generated an Underlying Surplus in all four years under review.

Over the period under review, Council's Underlying Surplus was consistently above its Estimated Underlying Surplus (Deficit). This was mainly attributed to Council budgeting for lower fees and charges, higher employee expenses and lower grant revenue. Average staff costs increased over the four year period of review.

Council made a Net Surplus of $2.986m in 2013-14 which was $2.884m more than 2012-13. This was predominantly due to the initial asset recognition of land under roads of $2.531m.



Council's Total Assets and Net Assets increased significantly in 2012, by $31.549m or 180%, due to a revaluation of its road assets but remained reasonably consistent thereafter.

The fair value of Council's Investment in TasWater was $0.768m as at 30 June 2014, less than the prior year by $0.923m mainly due to a reduction by TasWater of the value of its assets.

Infrastructure consisred of roads, bridges and stormwater and drainage assets which represented 85.8% of total Property, plant and equipment and 74.8% of Net Assets.

Cash from operations prior to dividends was $1.600m as at 30 June 2014. This was consistent with the four-year average of $1.587m.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTEs. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 16% over the three years since 30 June 2011 and Rates per rateable property increased by 11% over the same time. These increases were more than offset by increases in operating costs as measured by Operating cost to rateable property, which increased by 19%. Despite this, Council still managed to improve its Underlying Surplus, predominantly due to the greater than expected income from Fees and charges mentioned previously.

Since 2011 FTEs remained constant while average staff costs increased by 3%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	3 867	3 997	3 788	3 686
Fees and charges	145	1 176	919	390
Grants**	1 297	991	992	945
Interest revenue	37	154	161	194
Other revenue	137	177	272	231
Total Revenue	**5 483**	**6 495**	**6 132**	**5 446**
Employee costs	1 147	1 199	1 074	1 135
Depreciation	1 331	1 224	1 105	1 197
Other expenses	2 738	3 007	3 392	2 578
Finance costs	70	31	48	54
Total Expenses	**5 286**	**5 461**	**5 619**	**4 964**
Underlying Surplus (Deficit)	**197**	**1 034**	**513**	**482**
Capital grants	0	347	117	571
Contributions - non-monetary assets	0	0	0	513
Initial asset recognition	0	2 531	0	0
Net write off of property, infrastructure, plant and equipment	0	(413)	(539)	0
Financial assistance grant received in advance**	0	0	513	502
Offset financial assistance grant in advance**	0	(513)	(502)	(219)
Net Surplus (Deficit)	**197**	**2 986**	**102**	**1 849**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(920)	(1 366)	28 893
Fair value adjustment TasWater	0	(155)	1	2
Total Comprehensive Income (Expense)	**0**	**(1 075)**	**(1 365)**	**28 895**
Comprehensive Surplus (Deficit)	**197**	**1 911**	**(1 263)**	**30 744**

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

*** Grants received in advance have been shown separately after Underlying Surplus (Deficit). The offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	3 472	3 603	3 057	1 973
Receivables	572	511	523	219
Other financial assets	250	250	250	250
Inventory	7	16	6	0
Total Current Assets	**4 301**	**4 380**	**3 836**	**2 442**
Payables	188	268	267	181
Borrowings	68	244	84	89
Provisions – employee benefits	134	95	74	69
Total Current Liabilities	**390**	**607**	**425**	**339**
Net Working Capital	**3 911**	**3 773**	**3 411**	**2 103**
Property, plant and equipment	44 482	42 677	44 553	15 215
Investments in associates	296	237	66	39
Investment in TasWater	768	923	922	920
Investment in Bendigo Bank	20	0	0	0
Intangible assets	5	15	29	15
Total Non-Current Assets	**45 571**	**43 852**	**45 570**	**16 189**
Borrowings	360	427	670	743
Provisions – employee benefits	70	48	47	20
Other	9	18	26	35
Total Non-Current Liabilities	**439**	**493**	**743**	**798**
Net Assets	**49 043**	**47 132**	**48 238**	**17 494**
Reserves	33 542	34 617	35 982	7 087
Accumulated surpluses	15 501	12 515	12 256	10 407
Total Equity	**49 043**	**47 132**	**48 238**	**17 494**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	5 215	5 097	4 272	4 408
Distributions received - TasWater	6	0	0	0
Cash flows from Government	478	1 003	1 228	888
Payments to suppliers and employees	(4 216)	(4 751)	(3 886)	(3 901)
Interest received	154	175	174	199
Finance costs	(31)	(48)	(54)	(55)
Cash from (used in) Operations	**1 606**	**1 476**	**1 734**	**1 539**
Capital grants and contributions	347	117	571	145
Payment for other financial assets	(20)	0	0	(250)
Payments for property, plant and equipment	(1 828)	(969)	(1 143)	(853)
Proceeds from sale of property, plant and equipment	7	5	0	9
Cash from (used in) Investing Activities	**(1 494)**	**(847)**	**(572)**	**(949)**
Repayment of borrowings	(243)	(83)	(78)	(294)
Cash from (used in) Financing Activities	**(243)**	**(83)**	**(78)**	**(294)**
Net Increase (Decrease) in Cash	**(131)**	**546**	**1 084**	**296**
Cash at the beginning of the year	3 603	3 057	1 973	1 677
Cash at End of the Year	**3 472**	**3 603**	**3 057**	**1 973**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus deficit ($'000s)		1 034	513	482	718
Operating surplus ratio* **	>0	15.92	8.37	8.85	13.72
Asset Management					
Asset sustainability ratio*	100%	81%	73%	69%	79%
Asset renewal funding ratio* ****	90% - 100%	100%	100%	100%	N/a
Road asset consumption ratio*	> 60%	75.3%	74.8%	75.4%	32.9%
Asset investment ratio	>100%	149%	88%	95%	87%
Liquidity					
Net financial assets (liabilities) ($000's)		3 465	3 264	2 662	1 305
Net financial liabilities ratio* ***	0% - (50%)	53.3%	53.2%	48.9%	24.9%
Operational Efficiency					
Liquidity ratio	2:1	15.80	8.04	10.20	8.12
Current ratio	1:1	11.03	7.22	9.03	7.20
Interest coverage	3:1	50.81	29.75	31.11	26.98
Self financing ratio		24.7%	24.1%	31.8%	29.4%
Own source revenue		84.7%	83.8%	82.6%	83.0%
Debt collection	30 days	22	19	39	20
Creditor turnover	30 days	14	22	26	21
Rates per capita ($)		1 691	1 552	1 509	1 461
Rates to operating revenue		61.5%	61.8%	67.7%	67.9%
Rates per rateable property ($)		1 179	1 119	1 096	1 058
Operating cost to rateable property ($)		1 620	1 674	1 492	1 362
Employee costs expensed ($'000s)		1 199	1 074	1 135	1 176
Employee costs capitalised ($'000s)		25	4	27	40
Total employee costs ($'000s)		1 224	1 078	1 162	1 216
Employee costs as a % of operating expenses		22%	19%	23%	26%
Average staff numbers (FTEs)		19	19	20	19
Average staff costs ($'000s)		66	58	59	64
Average leave balance per FTE ($'000s)		11	8	6	5

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

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

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

**** *New ratio included in 2010-11, information not obtained or available to calculate prior year ratios.*

WEST COAST COUNCIL

SNAPSHOT

- Council recorded an Underlying Deficit of $0.929m in 2013-14, compared to an Underlying Surplus of $0.168m reported the year before.
- This deficit was the first in the four years of our analysis and resulted in an average operating surplus ratio of 0.96 over this period which is slightly less than our benchmark of one.
- In 2013-14, average Rates per rateable property went up by 1.3% while Operating cost to rateable property increased by 14.4%. On average over the past three years, Rates per rateable property increased by 20.9%, while operating cost grew 31.1% over the same period.
- Cash generated from operations totalled $1.217m this year, the lowest in the past four years over which period this averaged $2.683m.
- Council's Net Working Capital dropped to $1.971m which, while still positive, was low compared to an average of $3.443m over the four-year period.
- As at 30 June 2014, Council's Total Assets were $108.170m and its Net Assets totalled $104.862m.

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

Council adopted 19 out of 22 recommendations relevant to councils from the *Infrastructure Financial Accounting in Local Government* Report.

Council did not comply with the Local Government Ministerial Orders that were issued in February 2014 requiring the establishment of an audit panel and implementation of long-term asset and financial management plans. Council indicated that these will be established in 2014-15.

The audit was completed satisfactorily with no other items outstanding.

A key development during the year was the closure of Mt Lyell Mine and the impact of this on the West Coast community through job losses. The State Government issued a capital grant of $0.400m, in addition to Council contributing $0.581m, to provide relief by way of employing temporary staff to work on Council's capital and maintenance projects during the year and into 2014-15.

Major variations between 2013-14 and 2012-13 included:

- higher Employee costs, $0.418m, mainly due to wage increments and higher FTEs
- increased Other expenses, $0.975m, primarily due to higher materials and contracts, $0.645m, and an increase in the loss on disposal of Property, plant and equipment, $0.207m
- higher investment in TasWater, up $1.922m
- lower Cash of $2.077m due to a significant drop in cash generated from operations but no change in Council's capital investment program.

KEY AREAS OF AUDIT ATTENTION

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

Description of Area	Audit Approach
Due to Council's small size and scale of its operations, a weakness exists in the design of internal control caused by a lack of adequate segregation of duties. This weakness has the potential to result in a material misstatement in Council's 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 consisted of predominantly of substantive procedures.
Council applies a cost index to its infrastructure assets to maintain the currency of their value in years between formal valuations.	We confirmed the appropriateness and validity of the indices and ensured the indices were applied correctly.

AUDIT OF THE 2013-14 FINANCIAL STATEMENTS

Signed financial statements were received on 14 August 2014 and an unqualified audit opinion was issued on 27 September 2014.

KEY DEVELOPMENT

Mines Assistance Program (MAP)

Council and the State Government contributed $0.581m and $0.400m respectively under the MAP aimed at assisting the community after the Mt Lyell mine closure. These funds were used to temporarily hire employees who had lost their jobs as a result of the mine closure, to work on Council's capital and maintenance projects during the year and into 2014-15.

KEY FINDINGS

There were no key findings from the audit.

Adoption of recommendations from our Infrastructure Financial Accounting in Local Government Report

Part I of this Volume includes commentary on progress by councils in adopting the recommendations made in our Report No. 5 of 2013-14 *Infrastructure Financial Accounting in Local Government* tabled in December 2013.

The Report included 22 recommendations with Council adopting 19 of them. The remaining three recommendations not adopted were:

- Recommendation 4 – Council was not annually reviewing useful lives of assets
- Recommendation 7 – Council did not recognise land under roads
- Recommendation 12 – Council did not write off and recognise replaced or renewed road and stormwater assets in full due to the system making an automatic adjustment that is later corrected through the revaluation process.

These matters will be followed up with Council in 2014-15.

Local Government Ministerial Orders

Part I of this Volume includes a summary of the requirements of Ministerial Orders issued in February 2014 relating to audit panels, strategic planning and reporting indicators. We noted that

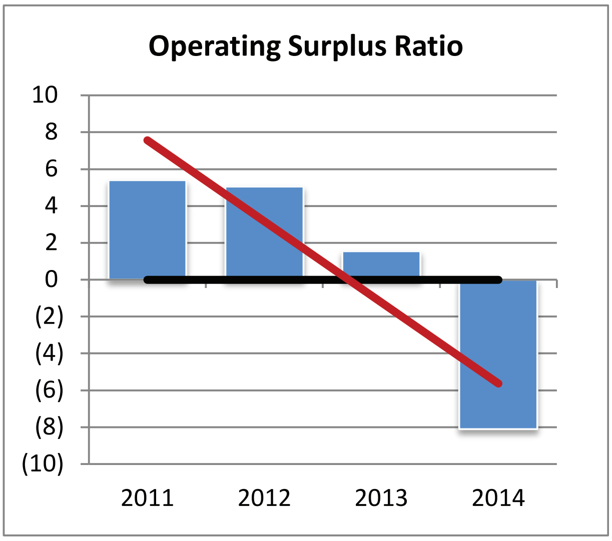
Council was yet to establish an audit panel and develop long-term asset and financial management plans. Council indicated that it will rectify these matters during 2014-15.

ASSESSMENT OF FINANCIAL SUSTAINABILITY

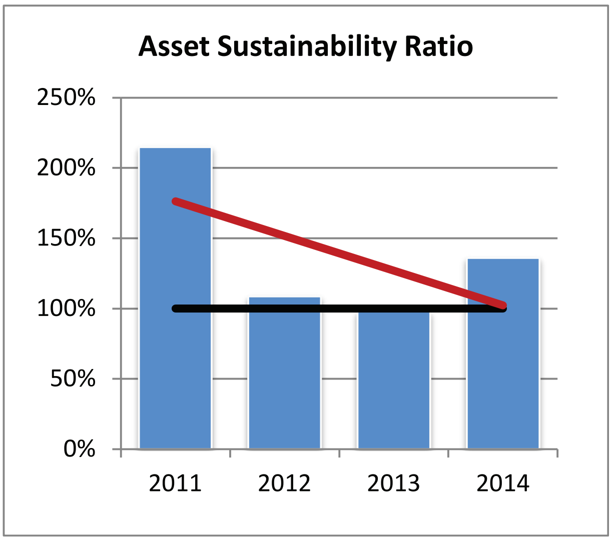
Management indicators

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

The following four graphs, and the discussion about the Asset renewal funding ratio, summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. For the Road consumption ratio, results above the orange line indicate a low risk rating, while those below the green line represent a high risk.



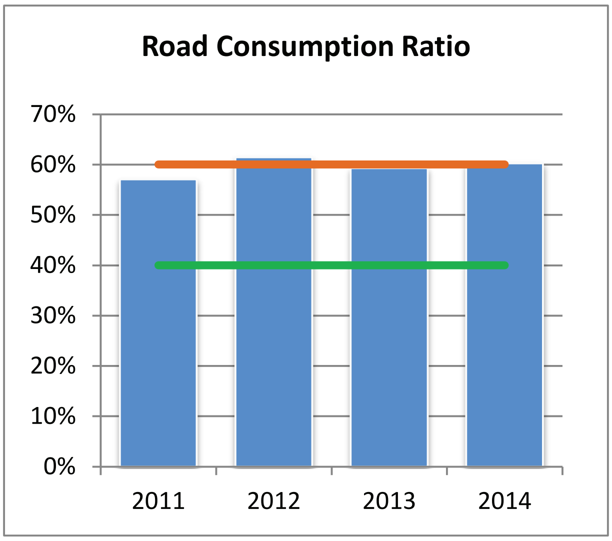
Council reported an Underlying Deficit of $0.929m in 2013-14 which resulted in a negative Operating surplus ratio of 8.12%. The negative result was predominantly due to operating costs, mainly salaries and wages, growing at a faster pace than property rates, which are Council's main sources of income. While this was the first Underlying Deficit in the past four years, its size and the declining trend meant that, on average, Council achieved an Operating surplus ratio of 0.96. This was slightly below our benchmark and Council needs to closely monitor its financial performance to ensure that it generates sufficient revenue to fulfil its operating requirements, including its depreciation charges.



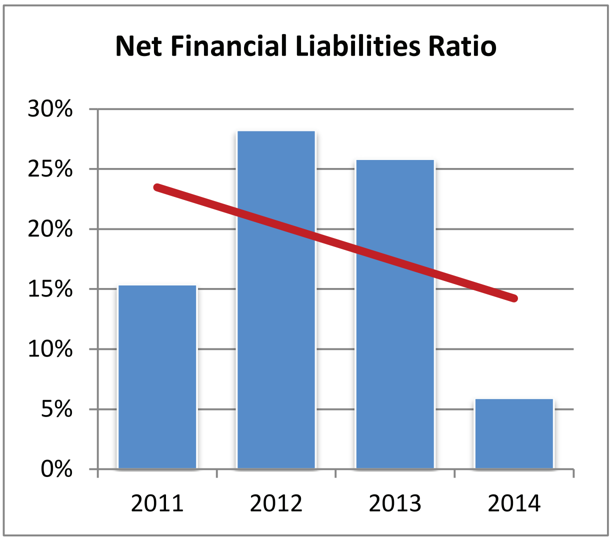
Asset sustainability ratio was above or just below the benchmark of 100% for all years under review. Council averaged 139% over that period, indicating it maintained its investment in existing assets at levels in excess of its annual depreciation charges. Council needs to ensure that its level of investment in physical assets is sustainable in the wake of declining financial performance and Cash.

Asset renewal funding ratio

No ratio was calculated as Council had not prepared long-term asset and financial management plans as at 30 June 2014.



The graph indicates that, on average over the period, Council had used (consumed) 40% of the service potential of its road infrastructure assets. This was within the acceptable moderate risk range.



** Our benchmarks are – 0 to -50 = low risk, -50 to -90 = moderate risk and >-90 = high risk*

Council recorded a positive Net financial liabilities position with liquid assets in excess of Total Liabilities in each year under review. Positive ratios indicate a solid liquidity position, with Council able to meet existing commitments. However, the downward trend indicates that Council will need to monitor its financial position.

As at 30 June 2014, Council held $3.222m in Cash and financial assets (2013, $5.299m).

Council's Cash and financial assets were subject to a number of internal restrictions, mainly leave provisions, which limit the amount available for discretionary use. Unspent grants and restrictions on funds need to be taken into consideration when assessing Council's overall liquidity position.

Governance

A review of Council's governance arrangements found that, despite the requirements of the *Local Government (Audit Panels) Order 2014 (S.R. 2014, No. 34),* it did not have an audit committee or internal audit function. We understand that Council will address this requirement in 2014-15.

Existence of an audit committee and active internal audit function would enhance Council's governance arrangements.

Council does not have operational long-term asset or financial management plan; these will be addressed in 2014-15.

Conclusion as to financial sustainability

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

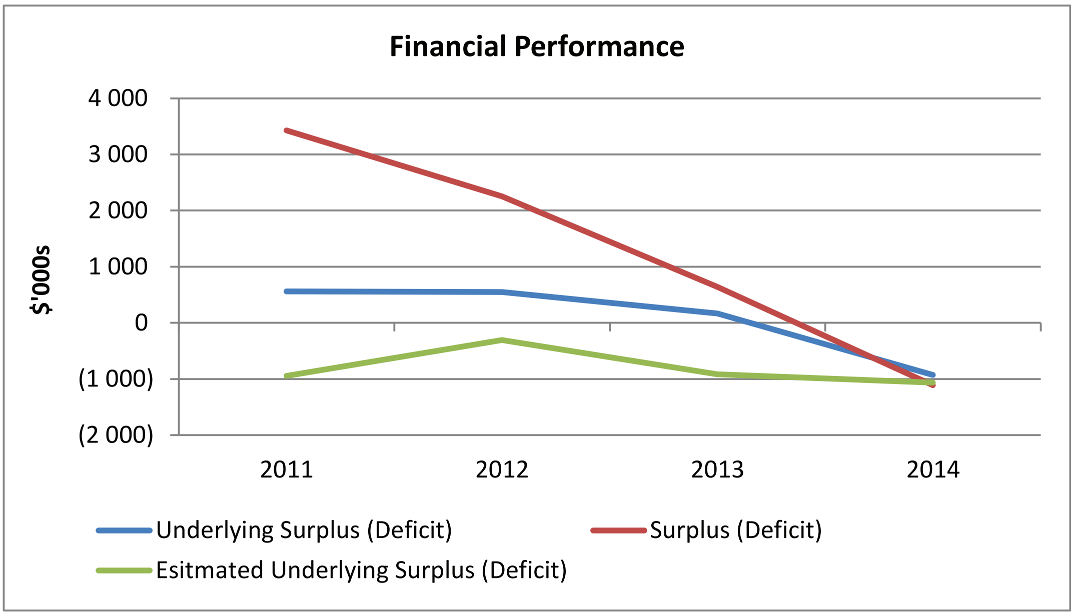
Asset sustainability ratios indicated Council's expenditure on existing assets averaged 139% over the period, well above our 100% benchmark. Its Road consumption ratio was at 60% in 2014, on par with the benchmark, which indicates Council's roads have sufficient capacity to continue to provide services to its ratepayers and therefore was at low risk.

Council's Net financial liabilities ratio is positive, indicating its liquidity was solid and it had capacity to borrow should the need arise. However, the ratio was trending downwards.

As at 30 June 2014 Council did not have an audit panel or current long-term financial or asset management plans. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that, at 30 June 2014, Council was at high sustainability risk from a governance perspective, but low risk from financial operating, asset management and net financial liabilities perspectives. Nevertheless, because of the downward trends, Council needs to closely monitor its financial performance and position.

FINANCIAL ANALYSIS



Council's financial performance continued to decline. In 2013-14, it reported an Underlying Deficit of $0.929m, compared to an Underlying Surplus of $0.168m reported the year before. The deterioration in Council's performance was largely due to operating costs growing at a faster rate than property rates. In 2013-14, average Rates per rateable property went up by 1.3% while Operating cost to rateable property increased by 14.4%. On average over the past four years, Rates per rateable property increased by 20.9%, while operating cost grew 31%.

Total Expenses increased by $1.585m to $12.371m in 2013-14. This increase was predominantly driven by higher Employee costs, $0.418m, and increased cost of materials and contracts, $0.645m (included within Other expenses)

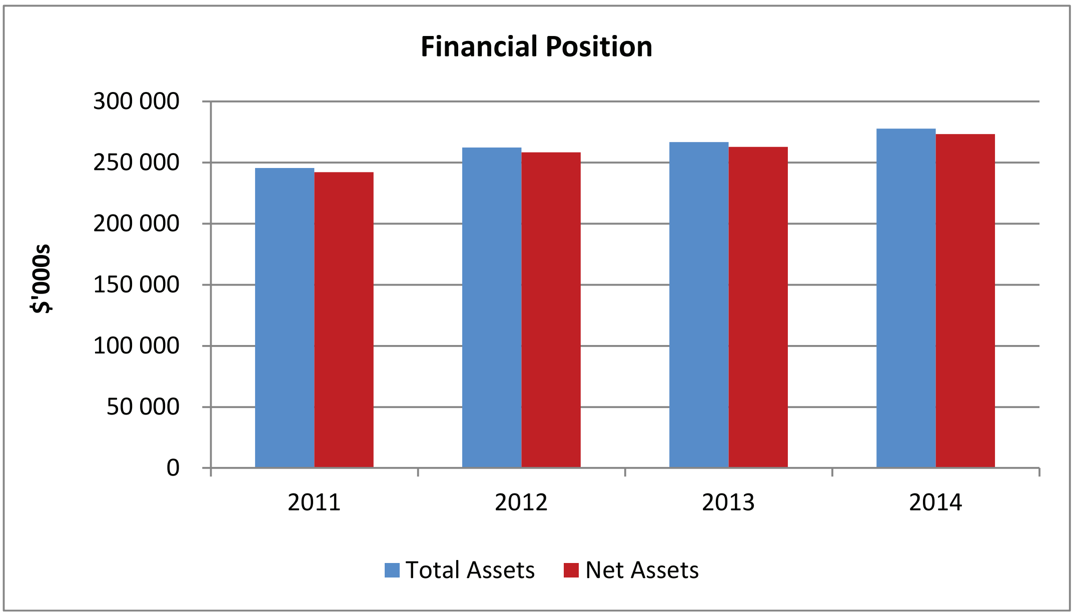
Total Revenue, $11.442m, increased marginally and remained relatively consistent when compared to previous years. Employee costs went up for two reasons:

- employment of an additional five FTEs which, at an average cost of $64,000 per employee cost approximately $0.320m and
- salary increases of 2%, which resulted in approximately $0.098m higher salaries.

Increased maintenance activities under the MAP were the main contributing factor to the increase in both Employee costs and materials and contracts. As discussed previously, the MAP was funded jointly by the State Government and Council.

Despite the Underlying Deficit, Council continued to perform above budget. However, it was noted that Council had significantly under-budgeted for operating grants in each of the years under review, largely contributing to the above-budget trend.

Overall, Council reported a Net Deficit of $1.112m after accounting for Capital grants, $0.711m, and adjusting for financial assistance grant, $0.941m, received in advance last year.



Council's Total Assets were $108.170m at 30 June 2014. This was $0.885m more than at the same time last year due to revaluation increments of Council's infrastructure assets, $1.225m, and Investment in TasWater, $1.922m, offset by a decrease in Cash and financial assets, $2.077m. This reduction in Cash and financial assets was due to the large Underlying Deficit discussed previously, which led to a significant decrease in Cash from operations as well as Council maintaining investing activities at a level similar to last year. Despite the lower cash balance, $3.222m, at 30 June 2014, Council's current ratio was 1.95, which was well above the benchmark of one.

Net Assets increased by $0.701m to $104.862m at 30 June 2014 in line with the Comprehensive Surplus.

Council has a number of functional activities that provide a broad level of services to its ratepayers, with the majority of its funding and assets relating to works and infrastructure management, with the latest additions being capital works to roads and bridges situated around the municipality.

OPERATIONAL EFFICIENCY

In this section we comment on measures reported in the financial analysis section in the tables at the end of this Chapter focussing on per capita and per rateable property measures and on measures relating to FTE. It must be highlighted that movements in rates measures do not only represent rate increases as rates revenue is impacted by other factors. These observations are discussed further in the Local Government Operational Efficiency Chapter in Part I of this Volume.

Council's Rates per capita increased by 26% over the three year period since 30 June 2011 and Rates per rateable property increased by 21% over this period. These increases were not sufficient to cover higher operating costs as measured by Operating cost to rateable property, which increased by 31%, and thus resulted a downward trend in the results, with an Underlying Deficit being recorded in 2013-14.

FTEs increased by 11 over the three year period and Average staff costs increased by 16%.

CHAPTER APPENDICES

Comparative figures in the following tables may have been restated due to more accurate and current information being available.

Statement of Comprehensive Income

	2013-14 Estimate*	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$'000s	$'000s	$'000s	$'000s
Rates	6 444	6 406	6 301	6 160
Fees and charges	869	1 142	993	1 130
Grants**	1 318	2 190	2 184	2 307
Other revenue	1 184	1 199	1 186	871
Interest revenue	193	505	290	451
Total Revenue	**10 008**	**11 442**	**10 954**	**10 919**
Employee costs	4 000	4 277	3 859	3 619
Depreciation	2 672	2 928	2 727	2 633
Other expenses	4 326	5 090	4 115	4 023
Finance costs	76	76	85	94
Total Expenses	**11 074**	**12 371**	**10 786**	**10 369**
Underlying Surplus (Deficit)	**(1 066)**	**(929)**	**168**	**550**
Capital grants	182	711	505	789
Financial assistance grant received in advance**	0	0	941	975
Offset financial assistance grant in advance**	0	(941)	(975)	(499)
Land and buildings transferred by Crown	0	47	0	97
Transfer from Westhaven Homes	0	0	0	340
Net Surplus (Deficit)	**(884)**	**(1 112)**	**639**	**2 252**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	(109)	(25)	(548)
Fair value adjustment in TasWater	0	1 922	342	27
Total Comprehensive Income (Expense)	**0**	**1 813**	**317**	**(521)**
Comprehensive Surplus (Deficit)	**(884)**	**701**	**956**	**1 731**

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

*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit). The Offset figures enable the above table to balance with Council's own Comprehensive income statement.*

Statement of Financial Position

	2014	2013	2012	2011
	$'000s	$'000s	$'000s	$'000s
Cash and financial assets	3 222	5 299	5 721	4 166
Receivables	765	656	393	614
Inventories	35	69	35	42
Other	16	41	54	169
Total Current Assets	**4 038**	**6 065**	**6 203**	**4 991**
Payables	1 402	1 102	874	951
Borrowings	142	132	124	115
Provisions – employee benefits	375	444	479	437
Other	148	228	264	309
Total Current Liabilities	**2 067**	**1 906**	**1 741**	**1 812**
Net Working Capital	**1 971**	**4 159**	**4 462**	**3 179**
Property, plant and equipment	76 484	75 476	74 611	74 281
Investment in TasWater	27 648	25 726	25 383	25 356
Other	0	18	36	54
Total Non-Current Assets	**104 132**	**101 220**	**100 030**	**99 691**
Borrowings	878	1 020	1 153	1 277
Provisions – employee benefits	363	198	135	93
Total Non-Current Liabilities	**1 241**	**1 218**	**1 288**	**1 370**
Net Assets	**104 862**	**104 161**	**103 204**	**101 500**
Reserves	62 149	63 261	62 622	60 370
Accumulated surpluses	42 713	40 900	40 582	41 130
Total Equity	**104 862**	**104 161**	**103 204**	**101 500**

Statement of Cash Flows

	2013-14	2012-13	2011-12	2010-11
	$'000s	$'000s	$'000s	$'000s
Receipts from customers	7 857	7 518	7 840	7 029
Cash flows from Government	1 270	2 187	2 815	2 468
Payments to suppliers and employees	(8 993)	(7 782)	(7 646)	(7 375)
Interest received	489	296	448	332
Finance costs	(79)	(87)	(96)	(103)
Distributions - TasWater	673	683	429	560
Cash from (used in) Operations	**1 217**	**2 815**	**3 790**	**2 911**
Capital grants and contributions	909	317	977	2 199
Payments for property, plant and equipment	(4 092)	(3 586)	(3 110)	(6 618)
Proceeds from sale of property, plant and equipment	23	155	13	252
Cash from (used in) Investing Activities	**(3 160)**	**(3 114)**	**(2 120)**	**(4 167)**
Repayment of borrowings	(133)	(124)	(115)	(108)
Cash from (used in) Financing Activities	**(133)**	**(124)**	**(115)**	**(108)**
Net Increase (Decrease)in Cash	**(2 076)**	**(423)**	**1 555**	**(1 364)**
Cash at the beginning of the year	5 298	5 721	4 166	5 530
Cash at End of the Year	**3 222**	**5 298**	**5 721**	**4 166**

Financial Analysis

	Bench Mark	2013-14	2012-13	2011-12	2010-11
Profitability					
Underlying surplus (deficit) ($'000s)		(1 112)	639	2 252	3 425
Operating surplus ratio* ****	>0	(8.12)	1.53	5.04	5.39
Asset Management					
Asset sustainability ratio*	100%	136%	98%	109%	215%
Asset renewal funding ratio* **	90% - 100%	N/a	N/a	N/a	N/a
Road asset consumption ratio*	>60%	60.3%	59.3%	61.5%	57.1%
Asset investment ratio	>100%	140%	134%	118%	277%
Liquidity					
Net financial assets (liabilities) ($'000s)		679	2 831	3 085	1 598
Net financial liabilities ratio***	(0%-50%)	5.9%	25.8%	28.3%	15.4%
Operational Efficiency					
Liquidity ratio	2:1	2.36	4.07	4.84	3.48
Current ratio	1:1	1.95	3.18	3.56	2.75
Interest coverage	3:1	14.41	31.36	38.48	27.26
Self financing ratio		10.6%	25.7%	34.7%	28.0%
Own source revenue		80.9%	80.1%	78.9%	77.8%
Debt collection	30 days	37	33	20	35
Creditor turnover	30 days	57	54	47	33
Rates per capita ($)		1 361	1 315	1 260	1 085
Rates to operating revenue		56.0%	57.5%	56.4%	52.9%
Rates per rateable property ($)		1 395	1 378	1 322	1 154
Operating cost to rateable property ($)		2 677	2 340	2 204	2 043
Employee costs expensed ($'000s)		4 277	3 859	3 619	3 196
Employee costs capitalised ($'000s)		518	158	225	224
Total employee costs ($'000s)		4 795	4 017	3 844	3 420
Employee costs as a % of operating expenses		35%	36%	35%	33%
Average staff numbers (FTEs)		68	63	59	57
Average staff costs ($'000s)		71	64	66	61
Average leave balance per FTE ($'000s)		11	10	10	9

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

*** Information not obtained or unavailable to calculate prior year ratio.*

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

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

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 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 ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information Average leave per FTE ($'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