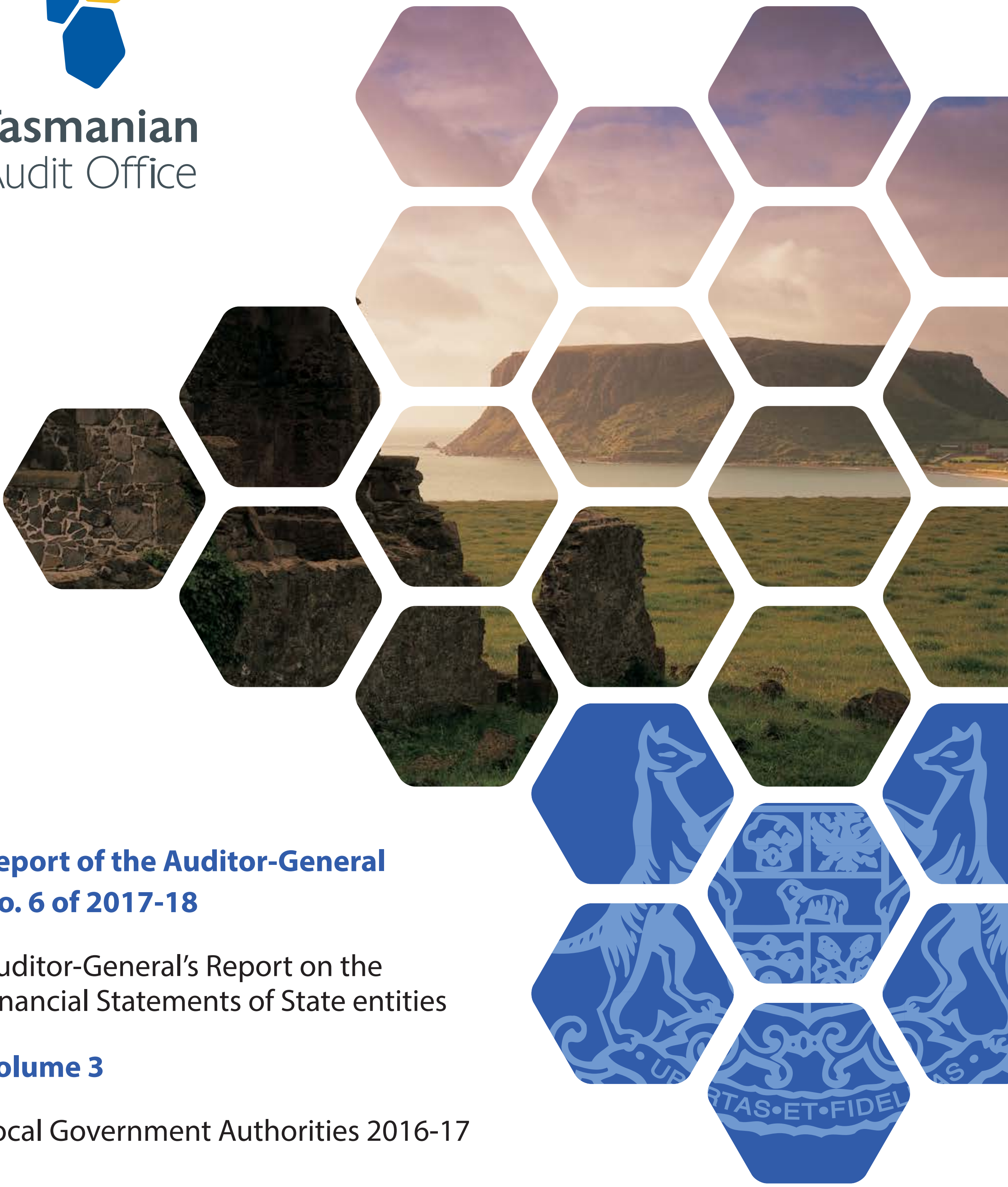
Tasmanian
Audit Office



Report of the Auditor-General
No. 6 of 2017-18

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

Volume 3

Local Government Authorities 2016-17

November 2017

Strive • Lead • Excel | To Make a Difference

THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

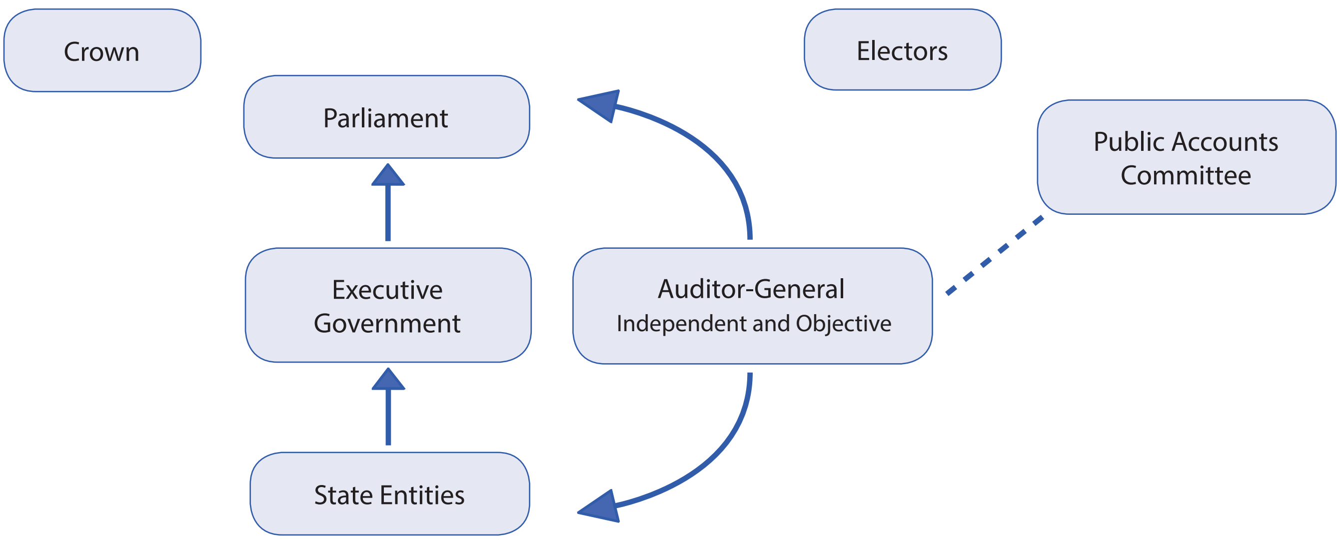
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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

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

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

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



TASMANIA

2017
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 6 of 2017-18

Volume 3

Local Government Authorities 2016-17

November 2017

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

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

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28 November 2017

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Mr Speaker

Report of the Auditor-General No. 6 of 2017-18, Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Local Government Authorities 2016-17

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the Financial Statements of State entities, Volume 3 - Local Government Authorities 2016-17.

Yours sincerely

Rod Whitehead
Auditor-General

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EXECUTIVE SUMMARY

INTRODUCTION

This Report contains the results of our audits of financial reports of entities in the local government sector, comprising the 29 councils, five subsidiaries and seven other local government entities.

Councils were created under the *Local Government Act 1993* (LGA) and provided governance, planning, service delivery, community development, asset management and local regulation to their regional areas. In some cases, councils established subsidiary or other entities as required to assist them achieve their objectives. Five subsidiary entities were separately audited in 2016-17.

Other local government entities were single or joint authorities controlled by councils and established under the LGA, Local Government Association of Tasmania (LGAT) and Northern Tasmania Development Corporation Ltd (NTD).

All entities had a 30 June year end, except for Southern Waste Strategy Authority (SWSA) which was wound up on 31 May 2017.

The reporting framework for these entities was generally prescribed by enabling legislation or rules. For the LGAT, we accepted preparation of a special purpose financial report. All other entities prepared general purpose financial reports.

GUIDE TO USING THIS REPORT

Guidance relating to the use and interpretation of financial information included in this Report can be found on our website: *www.audit.tas.gov.au.*

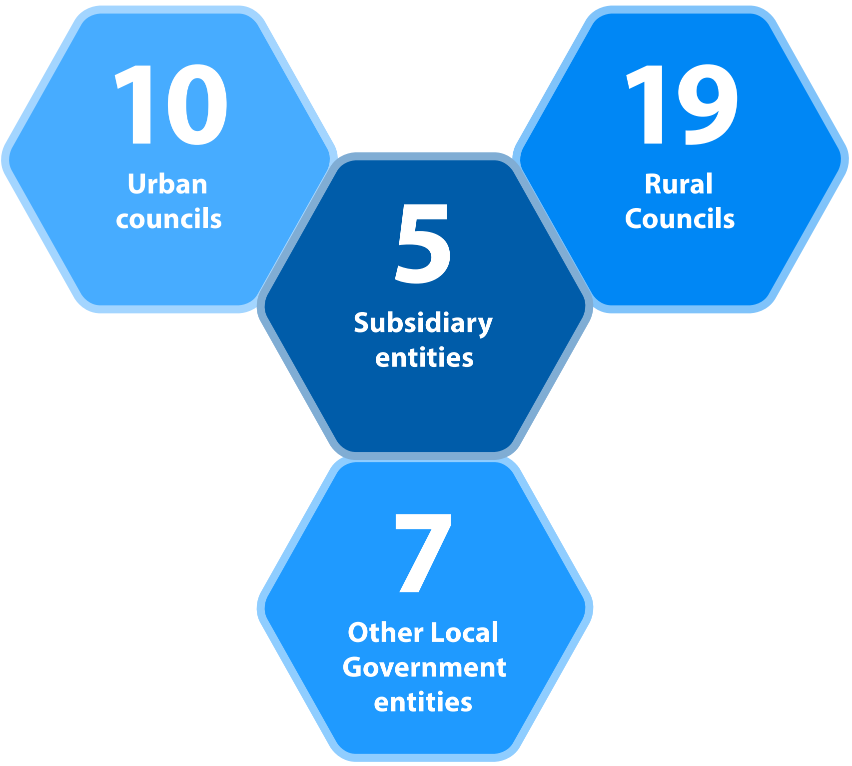
The guidance includes information on the calculation and explanation of financial ratios and performance indicators and the definition of audit finding risk ratings.

LOCAL GOVERNMENT ENTITIES COVERED IN THIS REPORT

Councils vary widely in size and location and in the broad range of community services provided. For the purposes of this Report, we grouped the 29 councils into two classifications, urban and rural as follows:

- urban, populations greater than 20 000
- rural, populations up to 20 000 at a density of <30 per square kilometre.

Separate Chapters are included for each of the 10 urban councils. The remaining 19 rural councils have been included and analysed in a summary Chapter.



DEVELOPMENTS

Three of the original four feasibility studies into reform opportunities for Local Government have been released. The Cradle Coast study is yet to be released. West Tamar and George Town Councils approached the Tasmanian Government in April 2017 to help fund a pre-feasibility study exploring a possible merger between the two councils. The funding was approved and this study commenced in 2017.
From 2016-17, the exemption to AASB 124 *Related Party Disclosures* was removed for public sector not-for-profit entities. Consequently, councils and other local government entities were required to disclose related party transactions and outstanding balances, including commitments, for the first time in the 2016-17 financial statements.
At the date of writing this Report, councils were approved for a total of $65.02m in borrowings under the Tasmanian Government's Accelerated Local Government Capital Program (ALGCP) of which $28.03m was drawn down as at 30 June 2017.

FINDINGS FROM FINANCIAL AUDITS

Audits of local government entities were completed satisfactorily, except for two audits that were not finalised at the time of writing this Report. A number of matters were identified during the course of the audits and depending on the significance of the matters, they were either discussed and cleared with management (generally low risk issues) or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

93

Audit matters raised this year

56

Audit matters raised in prior periods assessed as unresolved

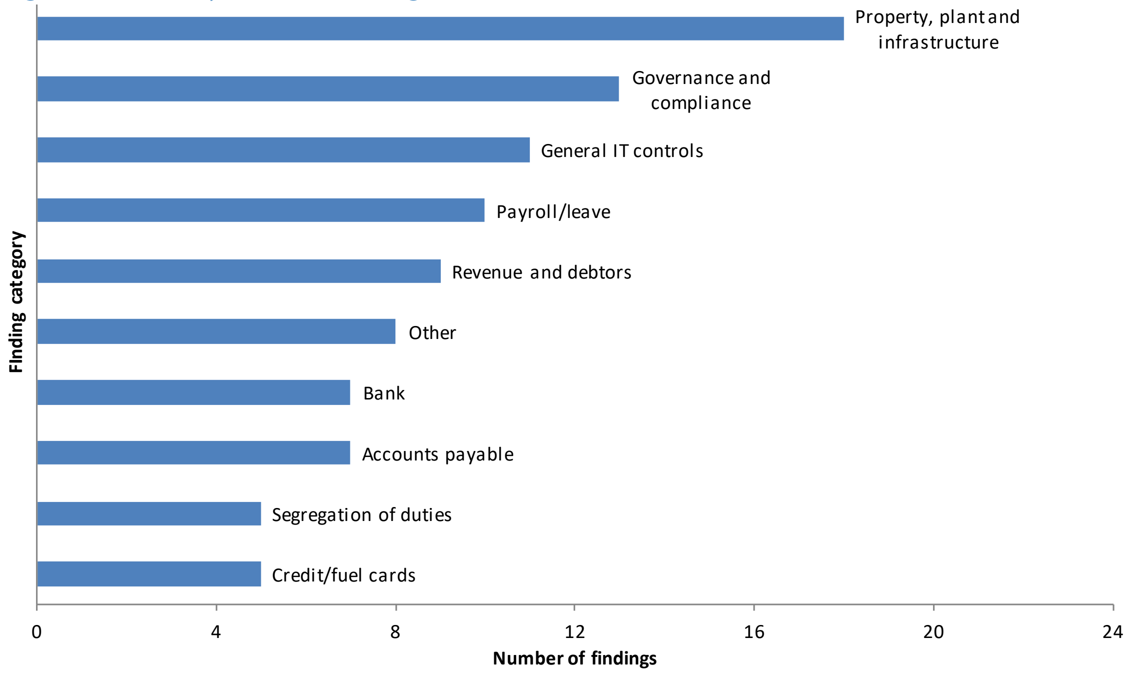
13 High Risk Findings

42 Moderate Risk Findings

38 Low Risk Findings

The areas where findings were most commonly raised were Property, plant and infrastructure, governance and compliance and information system controls, as illustrated in Figure 1 below.

Figure 1: Current year audit findings



SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

Local government entities were required to submit their financial statements to the Auditor-General within 45 days after the end of each financial year.

90%

Financial statements submitted on time and accepted

Section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day financial reports were received and accepted.

81%

Audits completed on time

Central Highlands and West Coast Councils submitted one day late on 15 August 2017. Glenorchy City and Latrobe Councils submitted financial statements within the statutory deadline, but the statements were not accepted as materially complete under section 17 of the Audit Act.

Of the 39 audits completed, six were not finalised within the legislative deadline. Flinders Council, was not finalised by the legislative deadline due to late resolution of an adjustment for a prior period land recognition and Northern Midlands Council was finalised one day past the legislative deadline due to staffing availability at council. Clarence City, Kingborough, Sorell and Tasman Councils were not finalised by the legislative deadline due to the late identification of an accounting issue relating to Copping Refuse Disposal Joint Authority, trading as Southern Waste Solutions (SWS). SWS is owned by the four councils and its results were included in the financial statements of the councils using the equity method of accounting whereby the investment in SWS was recognised at cost and adjusted thereafter for the change in each respective council's share of SWS's net assets.

At the date of this Report, the audits of SWS and its subsidiary C Cell Pty Ltd as Trustee for C Cell Unit Trust were still in progress pending the finalisation of note disclosures in the financial statements relating to a government grant received.

Refer to Appendix A for a detailed list of each entities timeliness of reporting.

Certification of submitted financial reports

Section 17 of the Audit Act, required State entities to submit financial statements to the Auditor-General within 45 days after the end of the financial year. Previously, we required State entities to submit statements certified by the accountable authority. For councils, the responsible authority under the LGA is the General Manager.

From 2016-17, we changed the process for submission of financial statements whereby statements submitted within 45 days only needed to be certified by the Chief Financial Officer (or equivalent). This allowed audits to be completed and clearance provided to councils and audit panels, if relevant, prior to certification by the General Manager.

In 2016-17, 26 of the 41 local government entities chose to submit management certified financial statements.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

39
Unmodified audit opinions issued on financial statements

1
Other matter paragraph

The audits of 29 councils, four subsidiaries and six other local government entities were completed satisfactorily and unmodified audit reports were issued in all cases. At the date of this Report, the audits of SWS and it's subsidiary C Cell Pty Ltd as Trustee for C Cell Unit Trust were still in progress.

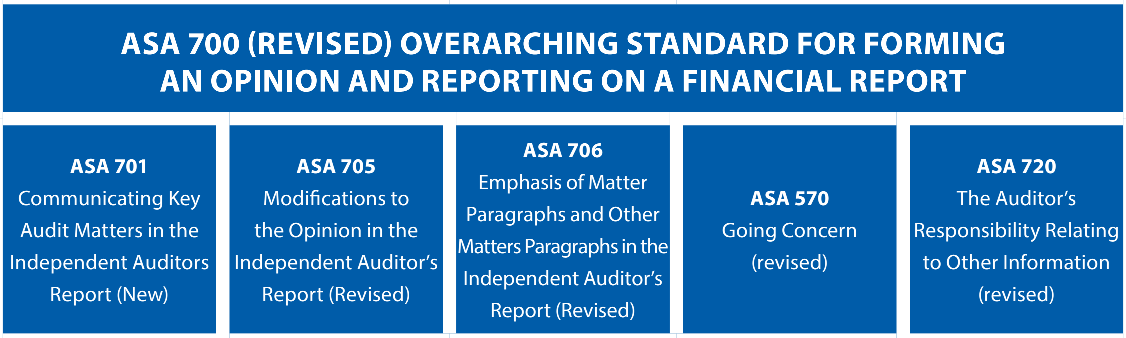
Other matter paragraph

The audit opinion for West Coast Council was unmodified, but contained an 'other matter' paragraph. We included an 'other matter' paragraph to highlight the non-disclosure of a significant business activity undertaken for part of 2016-17, as we believed it was important to inform the users of the financial report. The disclosure was not made on the basis that West Coast Council disagreed with the findings of the Tasmanian Economic Regulator who determined in 2015-16 that a significant business activity existed. Including an 'other matter' paragraph did not modify our audit opinion. Based on the advice provided by West Coast Council that it has now ceased these activities, subject to audit examination, it is likely the 'other matter' paragraph will not be required in future years. Refer to the Audit Summary - Rural Councils Chapter later in this Report for further details.

Changes to audit opinions

Changes to the content of the auditor's report for the 2016-17 reporting period were implemented to reflect changes to Australian Auditing Standards (ASA).

Figure 2: Australian auditing standards revision for auditors report



For the year ended 30 June 2017, we reviewed and amended the layout and content of the auditor's report. Key changes were:

- the opinion paragraph presented at the start of the auditor's report followed by the basis of opinion
- increased detail of auditor's responsibilities
- the audit coverage of other information
- explicit commentary on management's responsibilities in relation to going concern.

We have taken a staged approach to the implementation of the new auditing standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. We intend to issue audit reports which include key audit matters for Local Government entities from 2018-19.

Although the 2016-17 audit reports did not communicate key audit matters, the most prevalent key areas considered during the audits of councils were valuation of infrastructure assets and fees and charges and other revenue.

Valuation of infrastructure assets

Property, plant and equipment included material long-life infrastructure assets, such as roads, bridges and stormwater. The fair values of these assets were based on depreciated replacement cost. There was inherent subjectivity involved in making judgements in relation to assumptions used to estimate unit rates and useful lives. The useful lives of assets and consequent depreciation policies had a significant impact on financial results.

Audit procedures completed included:

- reconciling movements and closing balances to asset registers
- evaluating the valuation methodology used and work performed by management's expert, including testing of underlying data
- assessing key assumptions used
- assessing the competence of management's expert in accordance with ASA
- reviewing depreciation calculations, including assessment of asset lives
- examining the treatment of new capital works completed
- assessing the adequacy of disclosures in the financial report.

Fees and charges and other revenue

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

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

- examining and documenting processes involved in rendering and recording sales
- performing substantive testing over selected transactions
- conducting analytical comparisons of revenue to prior years and budgeted amounts.

SECTOR ANALYSIS

This Chapter contains our financial analysis of Tasmanian councils subject to audit.

AGGREGATED FINANCIAL REPORT

The financial information in Table 1 represents aggregated information for all 29 councils, including subsidiaries but excluding other local government entities. Transactions between councils have not been identified or eliminated in our aggregation of the financial reports. The financial results are presented based on the urban and rural classifications outlined in the Executive Summary Chapter in this Report.

Table 1: Aggregated financial results

Classification	Underlying surplus (deficit)	Net surplus (deficit)	Net assets 2017	Net assets 2016
	$'000s	$'000s	$'000s	$'000s
Urban	11 249	214 008	7 594 554	7 281 544
Rural	5 172	61 459	3 034 624	2 918 286
Total	**16 421**	**275 467**	**10 629 178**	**10 199 830**

Councils generated an overall Net surplus of $275.47m in 2016-17. This result was a significant decrease of $707.98m from the 2015-16 Net surplus of $983.45m mainly due to recognition of land under roads of $918.56m in 2015-16 compared with $153.31m in 2016-17.

Launceston City and West Tamar Councils both recognised land under roads acquired prior to 1 July 2008 during the current year. In 2015-16 four councils recognised all land under roads, regardless of when acquired, and a further seven councils, that had previously only recognised land under roads acquired post 1 July 2008, recognised land under roads previously held.

The Australian Government provides Financial Assistance Grants to councils each year which are untied, allowing councils to spend the grants according to local priorities. In a normal financial year, four instalments of about $17.00m to $18.00m per quarter for the State might be expected, however, in recent years some payments have been made in advance. Payments in 2016-17 included advance payments of $36.77m being half of the 2017-18 allocations. In accordance with AASB 1004 *Contributions*, councils recognised advance payments as income when they received the funds. These arrangements significantly distorted financial results of councils. The advance payments have been removed from the calculation of the 2016-17 underlying result and will be included in the 2017-18 calculation. They are still included in the Net surplus balance.

Net assets across the sector increased from $10.20bn to $10.63bn with urban councils holding 71.5%.

UNDERLYING RESULT

$16.42m	$11.77m	$7.43m	($1.21m)
2016-17	2015-16	2014-15	2013-14
▲ 40%	▲ 58%	▲ 712%	▲ 84%

▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no change from prior year*

For the purpose of calculating a council's Underlying surplus or deficit (underlying result), we have relied on the definition of Underlying surplus or deficit in the *Local Government (Management Indicators) Order 2014,* as follows:

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

We worked with the Department of Premier and Cabinet's (DPAC) Local Government Division (LGD) and provided further guidance to councils to ensure consistent calculation of underlying results. The Underlying surpluses or deficits reported in this Report agree to the management indicator disclosed in council financial statements in all cases for 2016-17.

The intent of the underlying result was to show the outcome of a council's normal or usual day-to-day operations. It was intended to remove extraneous factors that could create volatility and therefore make it difficult for users to understand the outcome of a council's normal operations.

The updated guidance provided greater clarity on the term "recurrent" and 'income of a capital nature' and provided examples of exclusions.

The term 'recurrent' was a commonly used term by government entities to refer to transactions for all purposes except those of a capital nature. Whilst the term 'recurrent' generally referred to items occurring or appearing repeatedly or periodically, for the purposes of determining underlying result, it included operational transactions that may occur once or infrequently such as changes to existing decommissioning, rehabilitation, restoration or similar provisions or financial support, subsidies, grants and programs to organisations, businesses or industry. Recurrent transactions included gain or loss on disposal of assets, unless there was an unusual reason for the disposal, such as a natural disaster.

Income of a capital nature included amounts received that did not form part of operating business activities and were in connection with Non-financial assets. Examples included capital roads to recovery funding, reimbursements of costs under the Natural Disaster Relief and Recovery Arrangements (NDRRA), gains or losses from one-off disposal of surplus assets or discontinued operations.

Other items, although not capital in nature, that would usually be excluded from underlying result included Australian Government Financial Assistance Grants received in advance, clearly identifiable, clean-up costs after a natural disaster which were claimable under insurance or NDRRA and payments or provisions in relation to a redundancy program.

Figure 3: Underlying surplus (deficit)

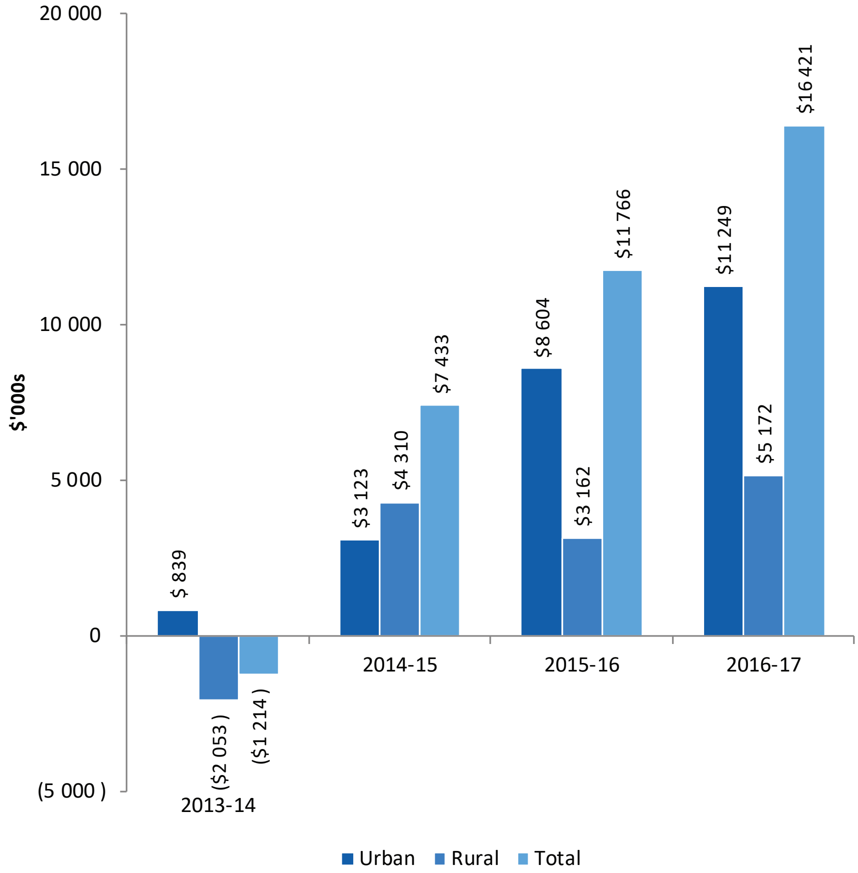


Figure 3 shows a continued improvement in underlying results over the last four years.

The 10 urban councils accounted for $11.25m or 68.5% of the sector's total Underlying surplus for 2016-17 of $16.42m.

The surplus increased by 39.6% primarily due to containment of expenditure relative to increased revenue activity. Total revenue increased by 2.5% (2015-16, 2.8%) primarily driven by increased total rates revenue of $16.99m ($15.13m), whilst total expenses only increased by 1.9% (2.2%).

In 2016-17, six councils recorded Underlying deficits totalling $5.06m compared to 12 in 2015-16. Individual results ranged from an Underlying surplus of $4.80m for Clarence City Council to an Underlying deficit of $1.13m for Flinders Council.

Kingborough, Burnie City and Flinders Councils recorded Underlying deficits in all of the last four years. A further nine councils recorded an average over the last four years of less than break-even, although each had at least one Underlying surplus result during this period.

Further analysis of councils' Underlying surplus ratio (also known as the Operating surplus ratio) is included in the Financial sustainability section later in this Chapter.

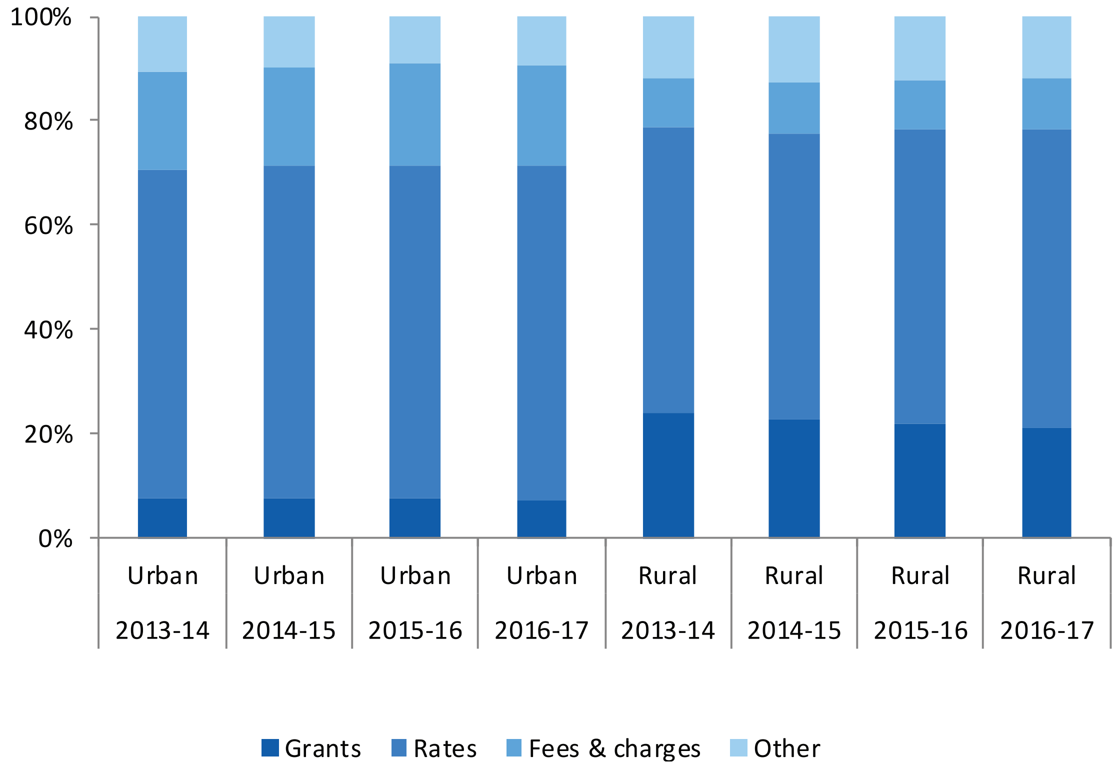
REVENUE

$763.57m	$473.77m	$88.70m
Operating revenue	Total rate revenue	Operating grants
▲ 2.5%	▲ 3.7%	▼ 2.5%

Councils recorded $763.57m Operating revenue in 2016-17 which was an increase of $18.61m from 2015-16.

Councils' own source revenues represented operating revenue other than recurrent grants. In general terms, urban councils with larger populations had the ability to generate higher levels of own source revenue. Smaller rural councils, with lower population levels, relied more heavily on grant funding. Figure 4 showed urban grant funding in 2016-17 of 7.2% of total revenue (2015-16, 7.7%) compared with 21.3% (22.1%) for rural councils.

Figure 4: Revenue source



The most significant contributor to own source revenue was rates, which in 2016-17 made up 64.3% (2015-16, 63.7%) of urban council revenue and 57.2% (56.1%) of rural council revenue. Flinders and King Island Councils had significantly below average total rate revenue at 35.9% and 33.6% of total operating revenue, respectively. Urban councils generated a further 19.2% (19.5%) of revenue from fees and charges compared to the 9.5% (9.4%) generated by rural councils.

The LGAT published a Council Cost Index (CCI) for each year, which could be used by councils to assist in setting rates. The CCI was a composition of wage price index, road and bridge construction index and consumer price index for Hobart and provided an aggregated picture of cost movements at the State level.

The 2017 CCI indicated an average rate increase across the State of at least 1.5% was likely necessary in 2016-17 to maintain current levels of service and assumed other revenue sources also increased in line with costs. The mix of construction and non-construction activity varied from council to council. Similarly, there were parts of Tasmania where construction costs increased faster than the State average. Such factors were all of relevance at the local level when councils determined the level of rate increase necessary to provide services and meet council's spending profile.

Over the past four years, total rate revenue increased by 15.5% for urban councils and 16.5% for rural councils. This represented an average annual increase of 3.9% and 4.1%, respectively. Total rate revenue increases were impacted by changes in annual rate charges set by councils as well as movements in the number of rateable properties and rateable valuations.

Figure 5 shows the cumulative increase in council total rate revenue compared with the cumulative CCI index. It does not account for movements in the number of rateable properties or rateable valuations.

Figure 5: Cumulative total rate revenue increase

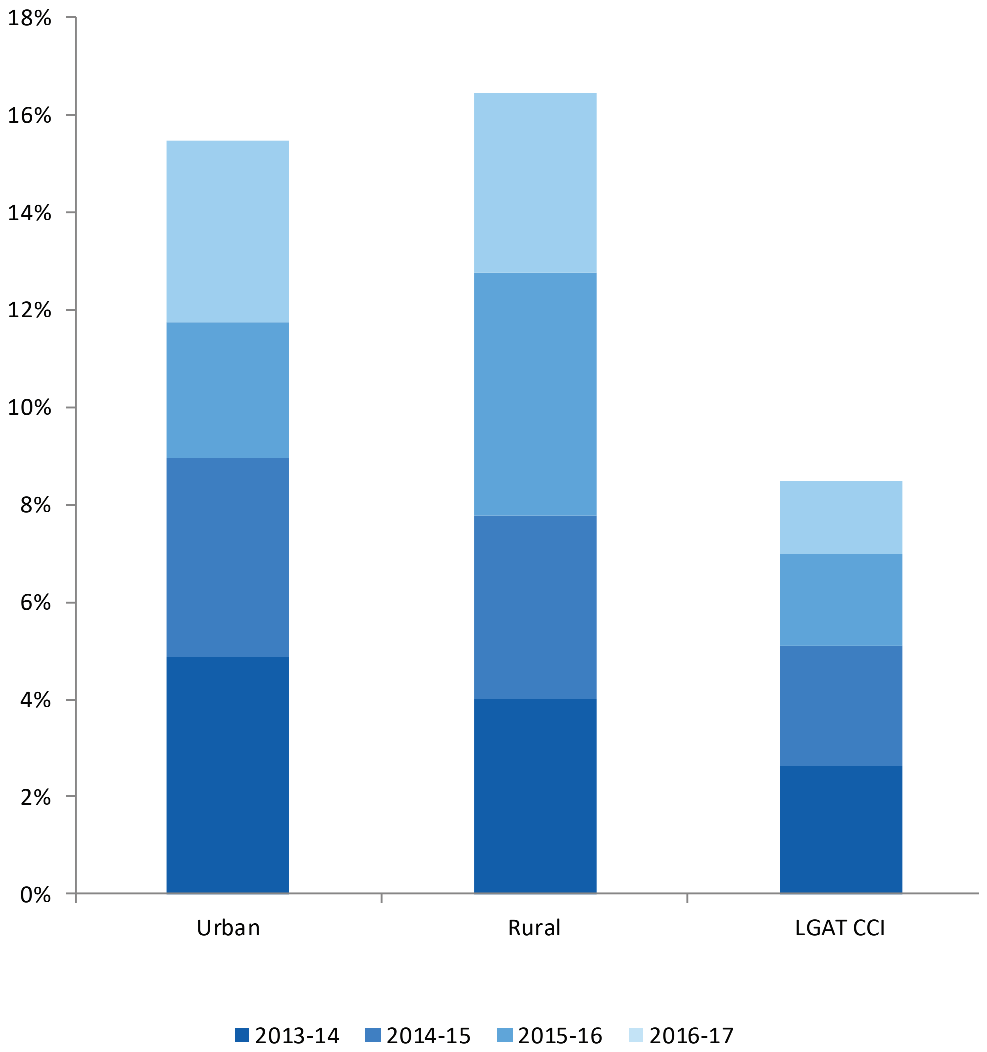
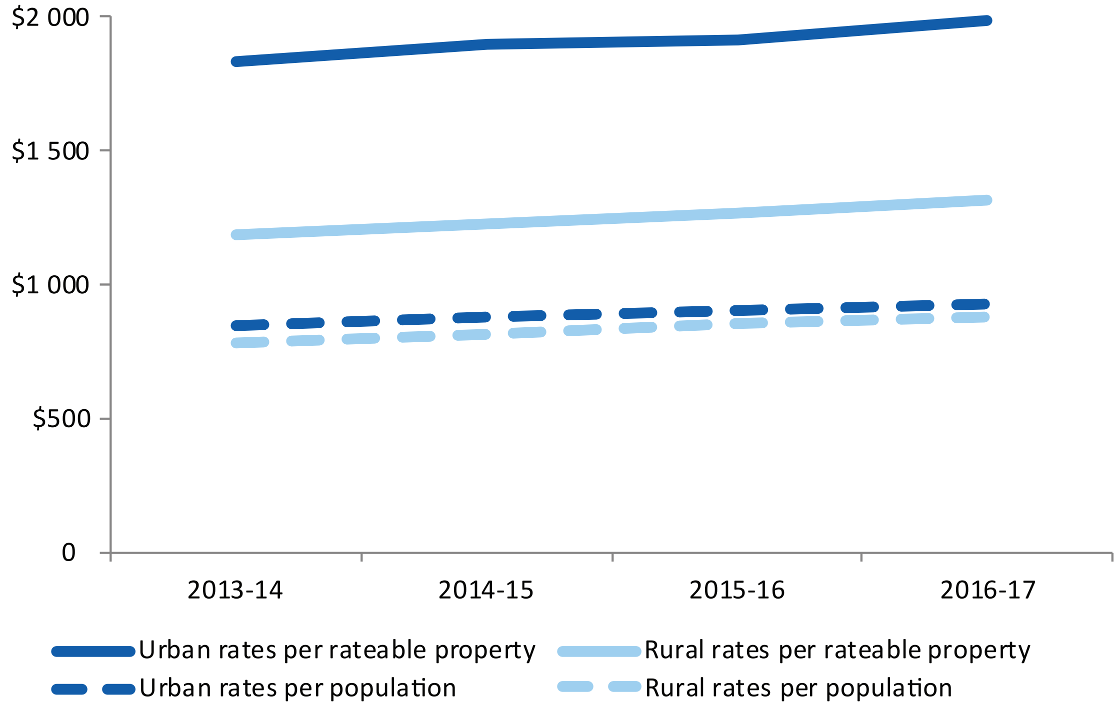


Figure 6 shows total rate revenue compared to rateable properties and population. Both these measures show fairly even rises in total rate revenue for both urban and rural councils over the last four years, with urban rates in both cases above rural rates.

Figure 6: Total rate revenue



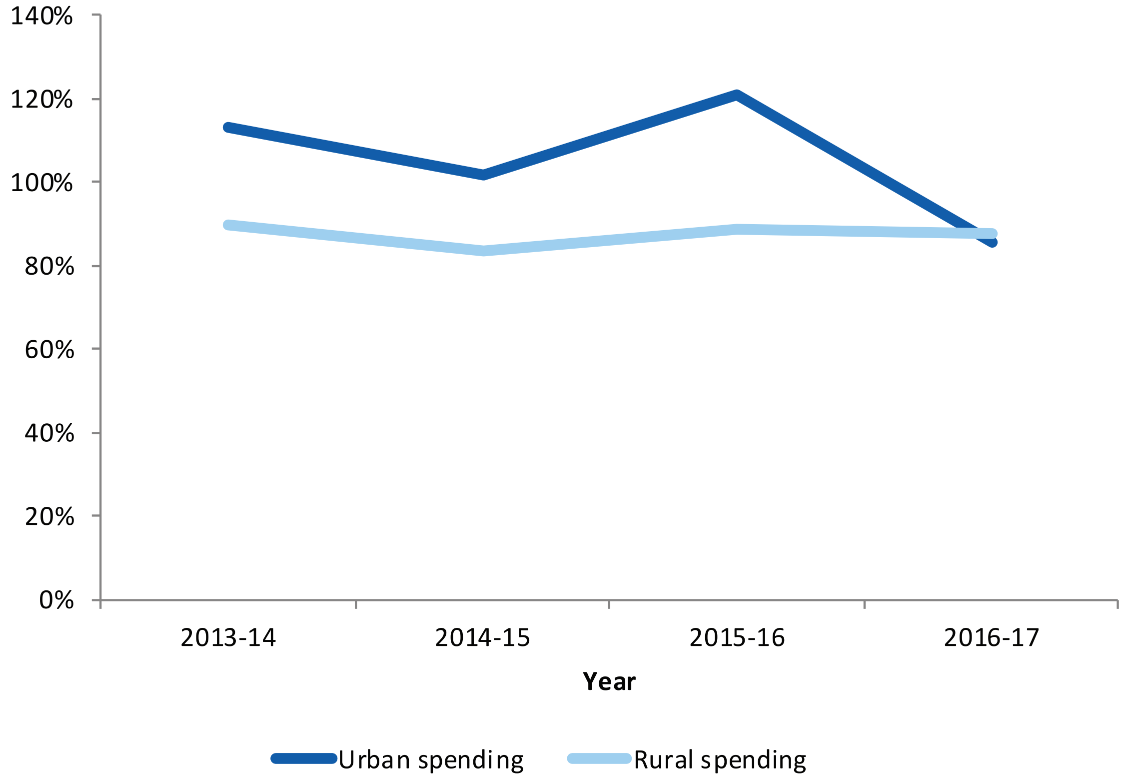
CAPITAL INVESTMENT

$941.53m	$976.89m	$35.36m
Total capital spend last four years	Total budgeted capital spend last four years	Total spending gap last four years

In total, councils spent 3.6% below original capital budgets over the last four years.

As highlighted in Figure 7, actual capital spend to budget for rural councils was fairly consistent in the last four years, at an average of 87.3%. In comparison, urban councils' actual spend was, on average, 105.2% of budget, offsetting part of the rural spending gap.

Figure 7: Capital spending to budget



Changed priorities and circumstances meant that often councils amended capital budgets during the year which resulted in less than a full correlation between projects planned in initial budgets and final spending. Receipt of specific purpose funding, announcement of new funding programs and natural disasters, such as fire and flood events, all changed capital spending allocations. Unspent renewal spending was usually carried over to the following year.

Urban councils experienced more volatility between years, from 85.6% in 2016-17 to 120.7% in 2015-16, as they were more likely to spend on large, unplanned projects when funding became available. Due to their size and funding base, they had greater capacity to amend budgets to include new projects as need or opportunity arose.

A number of councils had unbudgeted capital expenditure in 2016-17 to replace infrastructure, predominantly bridges, damaged in the floods of June 2016. A percentage of these costs were claimable under the NDRRA program. Work on these projects was ongoing into 2017-18.

Capital investment funding source

$941.53m

Total capital spend last four years

$169.17m

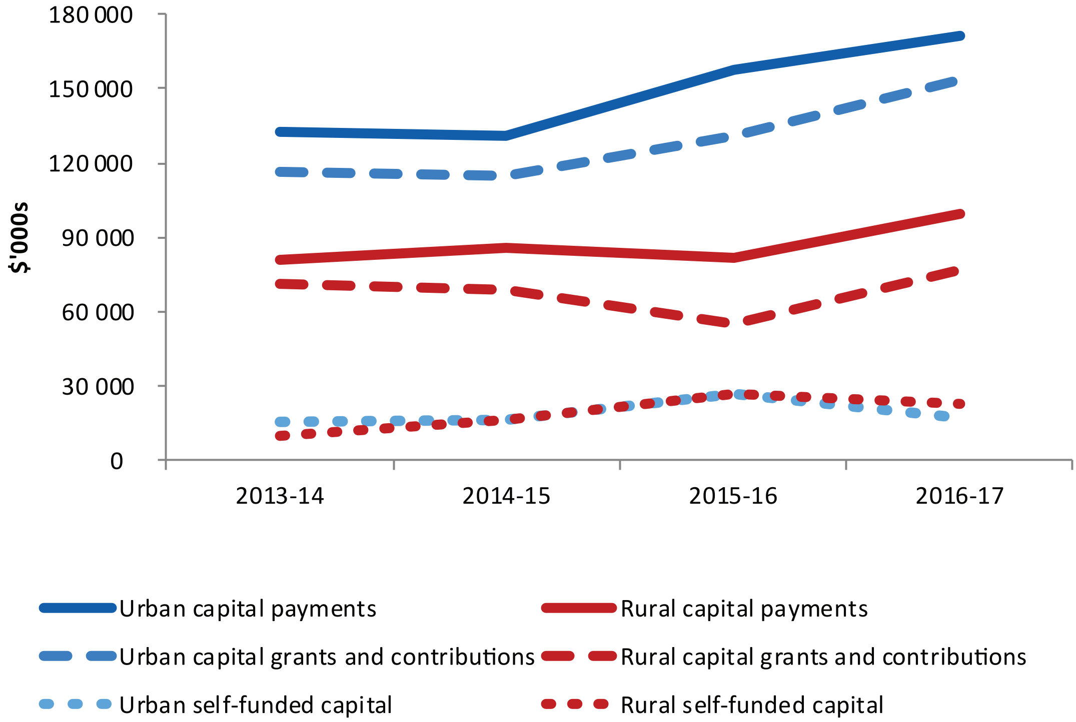
Total capital grants last four years

$772.37m

Total self-funded last four years

Over the last four years, 82.0% of councils' capital spending was self-funded with the balance from capital grants. Capital grants represented Tasmanian or Australian Government grants for new and upgraded assets and asset replacements. These included grants under the Roads to Recovery (RTR) Program, funding for improving public spaces, leisure and recreation facilities, bridge and street renewal, road safety, memorials and other purposes.

Figure 8: Capital investment funding source



Capital grants increased in 2015-16 due mainly to increased funding under the RTR program. The current RTR program commenced in 2014-15 and continues to 2018-19 with total funds of $104.40m allocated to Tasmania, $41.32m urban and $63.08m rural. Capital funding received over the first three years to 30 June 2017 was $11.15m, $32.72m and $27.31m, respectively. The receipt of funding varied largely due to timing of projects and an Australian Government initiative that allowed for double funding in 2015-16.

Other notable specific purpose funding for councils in 2015-16 and 2016-17 included:

- Burnie City Council, Burnie Aquatic Centre, $4.40m in 2015-16
- Clarence City Council, Kangaroo Bay Foreshore Infrastructure Project, $2.10m in 2015-16
- Devonport City Council, Living City, $1.50m in 2015-16
- Launceston City Council, flood mitigation, $5.75m in 2015-16
- Launceston City Council, Kings Meadows Flood Alleviation, $1.00m in each of 2015-16 and 2016-17
- Hobart City Council, Centenary of Anzac Walkway, $1.82m in 2015-16 and $2.73m in 2016-17
- Central Coast Council, Dial Regional Sports Complex, $1.06m in 2016-17
- Dorset Council, North East Mountain Bike Project, $1.14m in 2015-16 and $0.31m in 2016-17.

It is expected that capital grants will vary year to year depending upon applications made by councils and budget priorities of governments.

Despite decreased capital funding of $7.45m in 2016-17, urban spending increased by $13.24m.

Rural capital grant funding increased by $9.94m in 2015-16 however spending decreased from the prior year by $4.24m. This was reversed in 2016-17 with capital grant funding decreased by $3.40m and spending increased by $17.95m, which suggested a timing lag in spending of funds received in 2015-16.

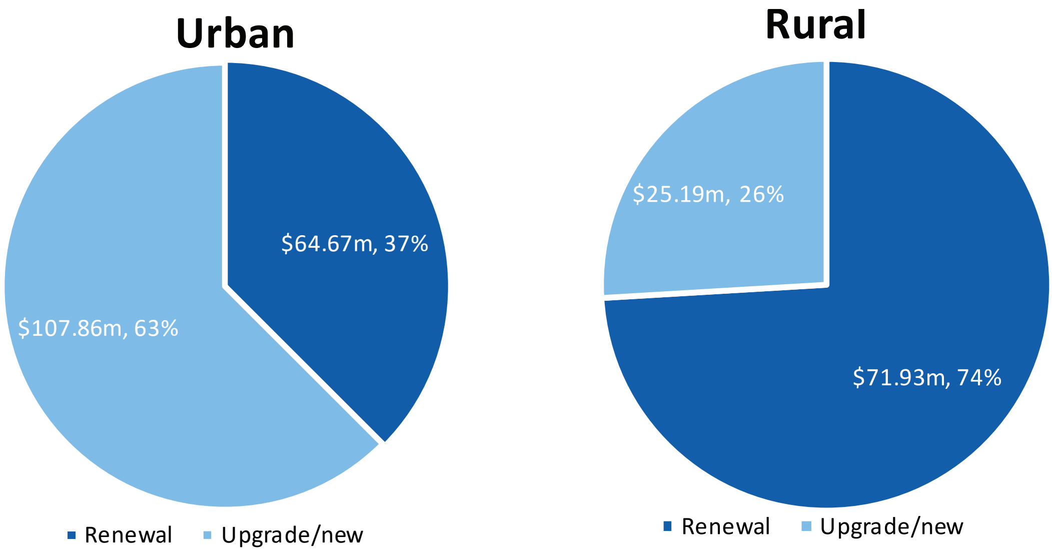
Capital investment allocation

As illustrated in Figure 9, urban councils spent a greater proportion on new and upgraded assets compared with renewal and replacements in 2016-17.

Urban councils tended to have larger new projects for facilities expected of major regional cities, such as civic buildings and recreation and leisure facilities. Although these projects attracted capital funding for initial construction, they will need to be depreciated and maintained into the future, impacting on future underlying results, and may ultimately require renewal or replacement.

Rural councils generally had longer road networks to maintain and renew than urban councils and therefore more of their annual capital spending was allocated to renewal of existing assets as shown in Figure 9.

Figure 9 – Capital investment allocation 2016-17



Urban councils spent 37.1% of total capital spending on renewal of existing assets in 2016-17, compared to 74.1% renewal spending by rural councils. The balance of funds spent was for new or upgraded assets. Devonport City, Hobart City and Launceston City Councils new spending totalled $70.98m in 2016-17, accounting for 65.5% of urban new capital spending and overall 53.6% of all urban capital spending. Major projects from these three councils, in addition to ongoing infrastructure renewals, included Devonport's Living City project, Hobart's Transforming Hobart capital works program, Launceston's City Heart project, Launceston Waste Centre stage 3 construction, CH Smith site redevelopment and street lighting replacement.

Incentivising Local Government capital works

In September 2016, as part of the Northern Economic Stimulus Package, the Tasmanian Government announced that councils in the North and North-West would be offered finance at no cost to accelerate existing planned five-year capital spend, by bringing forward planned capital works. The Tasmanian Government will fund the interest incurred by councils in the period between when they draw down borrowings and the time at which they had otherwise planned to fund the projects themselves. A funding pool of $60.00m was initially allocated with this increased to $120.00m in June 2017 when the package was extended Statewide. The initial stage generated $49.10m in borrowing applications from councils, of which $28.03m was drawn down as at 30 June 2017. A further $15.92m had been approved since the initial round. The remaining approved $36.99m will be drawn down as required and used to accelerate capital spending.

CASH AND FINANCIAL ASSETS

$423.75m	$313.02m	$102.45m
Cash	Working capital	Interest-bearing liabilities

At 30 June 2017, councils held cash and financial assets of $423.75m, (2016, $380.19m) and $102.45m in interest-bearing liabilities ($82.50m). Five councils had no debt at 30 June 2017. The low level of debt in comparison to cash held contributed to a strong working capital of $313.02m ($284.56m). Advance payment of $36.77m of Australian Government Financial Assistance Grants for 2017-18 in June 2017 contributed to cash held at balance date. Excluding these payments, overall cash held would have been $386.99m.

Management of working capital

Working capital, expressed as a ratio, represented total current assets divided by total current liabilities. A ratio of one or more was considered effective and provided an indication that a council could meet its short-term commitments from existing current assets.

Devonport City and Glamorgan Spring Bay Councils were the only councils to hold current liabilities in excess of current assets at 30 June 2017. Devonport City Council's low ratio was principally due to the reclassification of borrowings to current as at 30 June 2017, as the current borrowing facility is to be renegotiated at the start of each year.

A comparison of the average working capital ratio for Tasmanian urban and rural councils to similar size councils in Victoria[1] is shown in Figure 10.

Figure 10: Working capital ratio

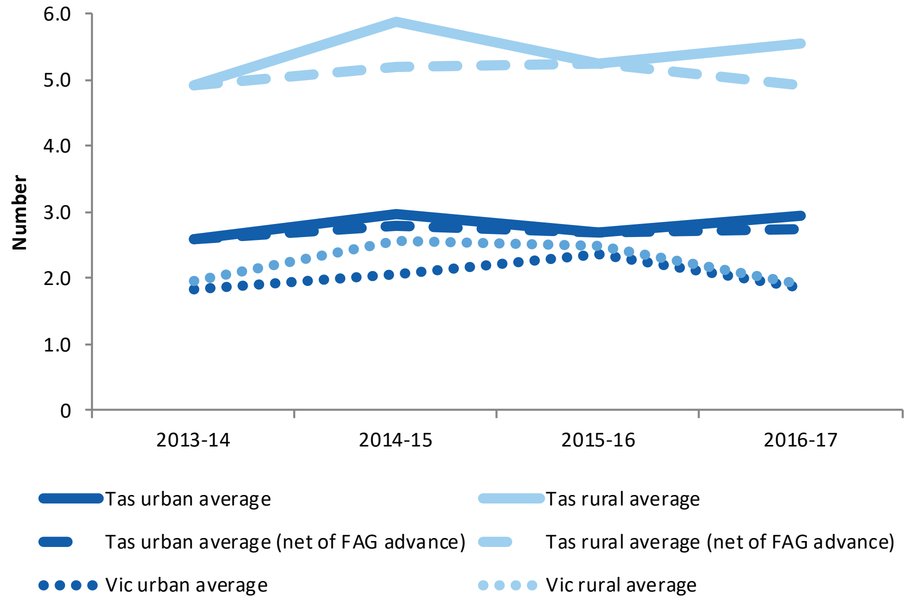
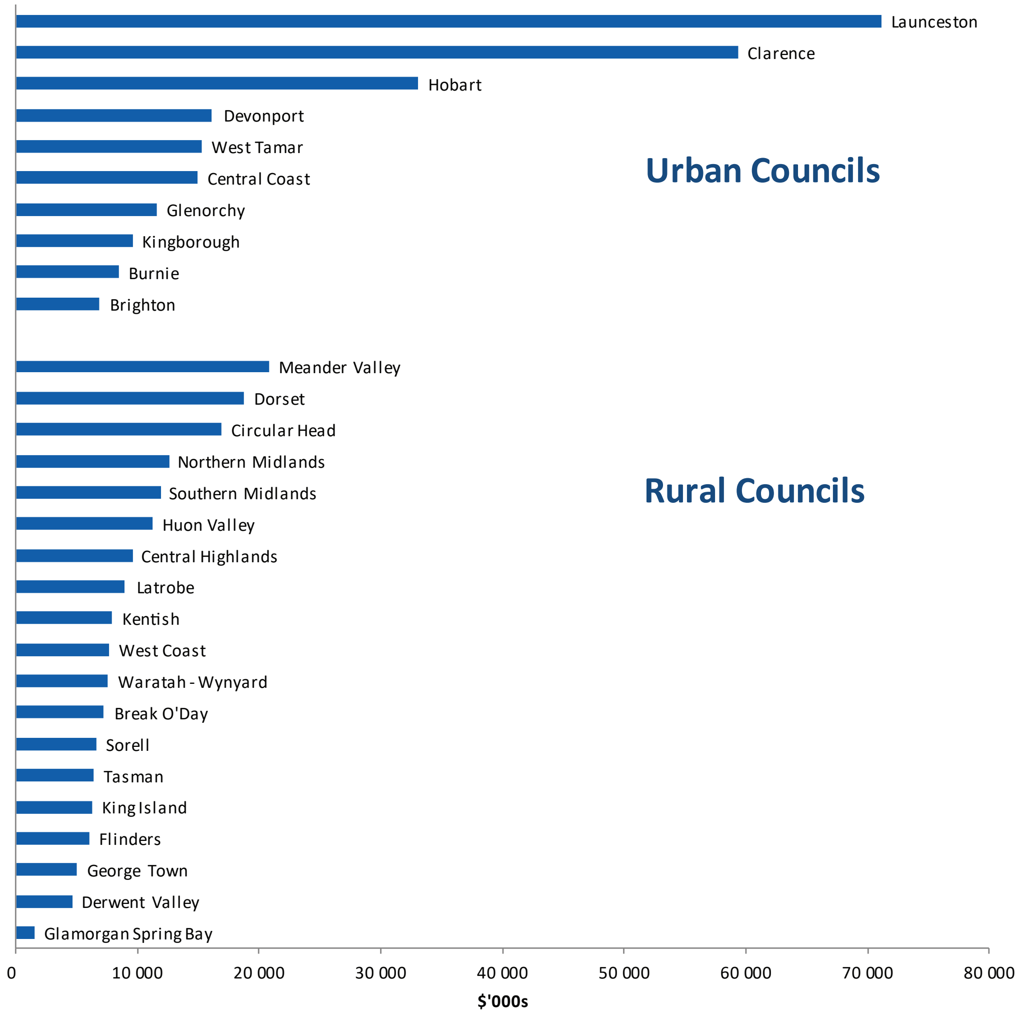


Figure 10 shows, on average, Tasmanian councils were in a strong working capital position compared to Victorian councils. Tasmanian rural councils had a significantly higher working capital position than Tasmanian urban councils and both Victorian sectors over the last four years.

1. Victorian information based on data from Victorian Auditor-General's Report Local Government: 2015-16 Audit Snapshot, November 2016, Appendix D.

Figure 11 shows the bank and investment balances held by each Tasmanian council at 30 June 2017.

Figure 11: Cash and financial assets held 30 June 2017



The 10 urban councils held $246.15m, 58.1%, of cash and financial assets at 30 June 2017 and $62.92m, 61.4%, of total borrowings. The 19 rural councils held the remaining $177.60m, 41.9%, of cash and financial assets and total borrowings of $39.53m, 38.6%.

Management of cash for asset renewal

Councils had responsibility to maintain and renew assets for future generations. Obligations in relation to this are shown by the asset renewal funding ratio included in the Financial sustainability section later in this Chapter.

Table 2 shows a comparison of future planned expenditure from long-term financial management plans to cash held at 30 June 2017.

Table 2: Cash held to projected capital outlay

	Urban	Rural
Planned future renewal spending	$1 569m	$418m
Cash held	$246m	$178m
Current cash holdings as a % of projected future capital outlay	15.7%	42.6%

Urban councils were holding enough cash at 30 June 2017 to fund 15.7% of future planned capital spending, whilst rural councils were holding significantly more at 42.6%. The significant cash balances held by rural councils were further illustrated by the Net financial liabilities ratio (total liabilities less liquid assets divided by operating revenue expressed as a percentage). Most councils had positive percentages meaning liquid assets exceeded total liabilities. Further analysis of council's Net financial liabilities ratio is included in the Financial sustainability section later in this Chapter.

FINANCIAL SUSTAINABILITY

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

The ratios used to assess financial sustainability were selected because they provided a set of inter-related indicators. These ratios also facilitated comparative assessment between councils and can be used to assess both short and long-term financial sustainability. The various ratios and observations reported below are only indicators of performance or financial position. They should not be considered in isolation. We noted also that other financial sustainability ratios exist which may have relevance but which we have not included.

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

- Underlying surplus ratio
- Road asset sustainability ratio
- Road asset renewal funding ratio
- Road asset consumption ratio
- Net financial liabilities ratio.

On the following pages we apply these ratios to the financial position and performance of councils over a 10-year period. Where we were able to assess the Asset renewal funding ratio, this was based on unaudited long-term asset and financial management plans.

Underlying surplus ratio

TOver the 10-year period under review, the average urban Underlying surplus ratio reached its highest level this year at 2.3%. The average rural Underlying surplus ratio exceeded the benchmark this year, for the third time in the 10-year period under review.

Both ratios hit their lowest points of negative 3.7% and negative 5.3%, respectively, in 2009-10 which was attributed to the water and sewerage reforms, effective 1 July 2009. Consequently, a number of councils required priority dividends to overcome lost income. There was a significant improvement in both ratios in 2010-11.

As noted earlier in this Chapter, the number of councils that returned break-even or better results steadily improved, from 11 in 2007-08 to 23 in 2016-17.

Fourteen councils recorded an average Underlying surplus ratio for the 10-year period less than break-even as shown in Figure 13.

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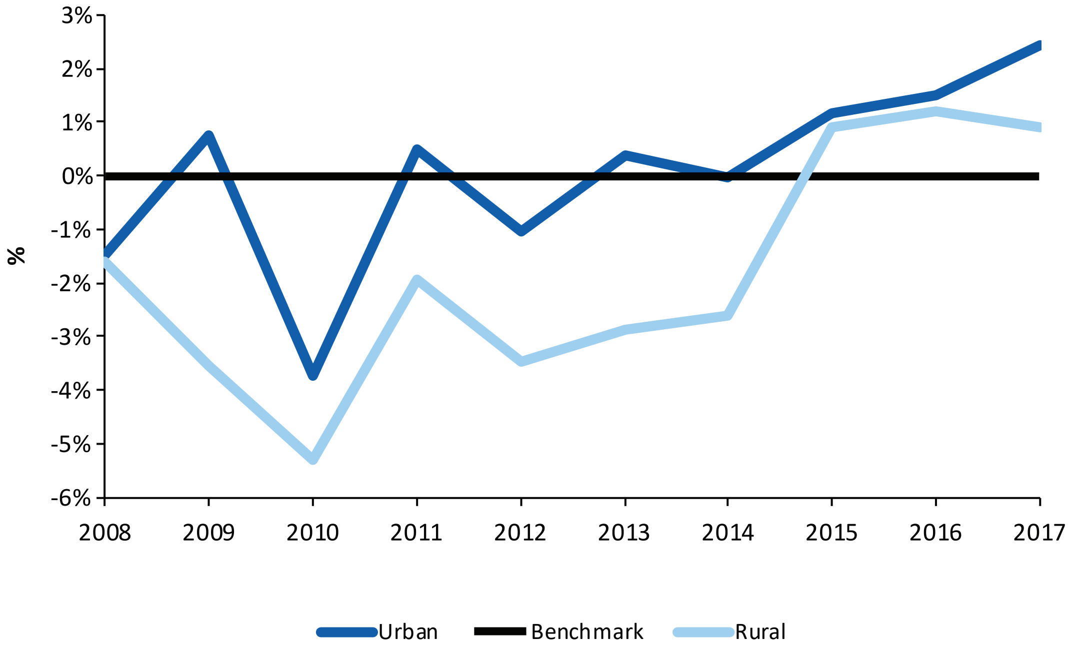
Figure 12: Underlying surplus ratio



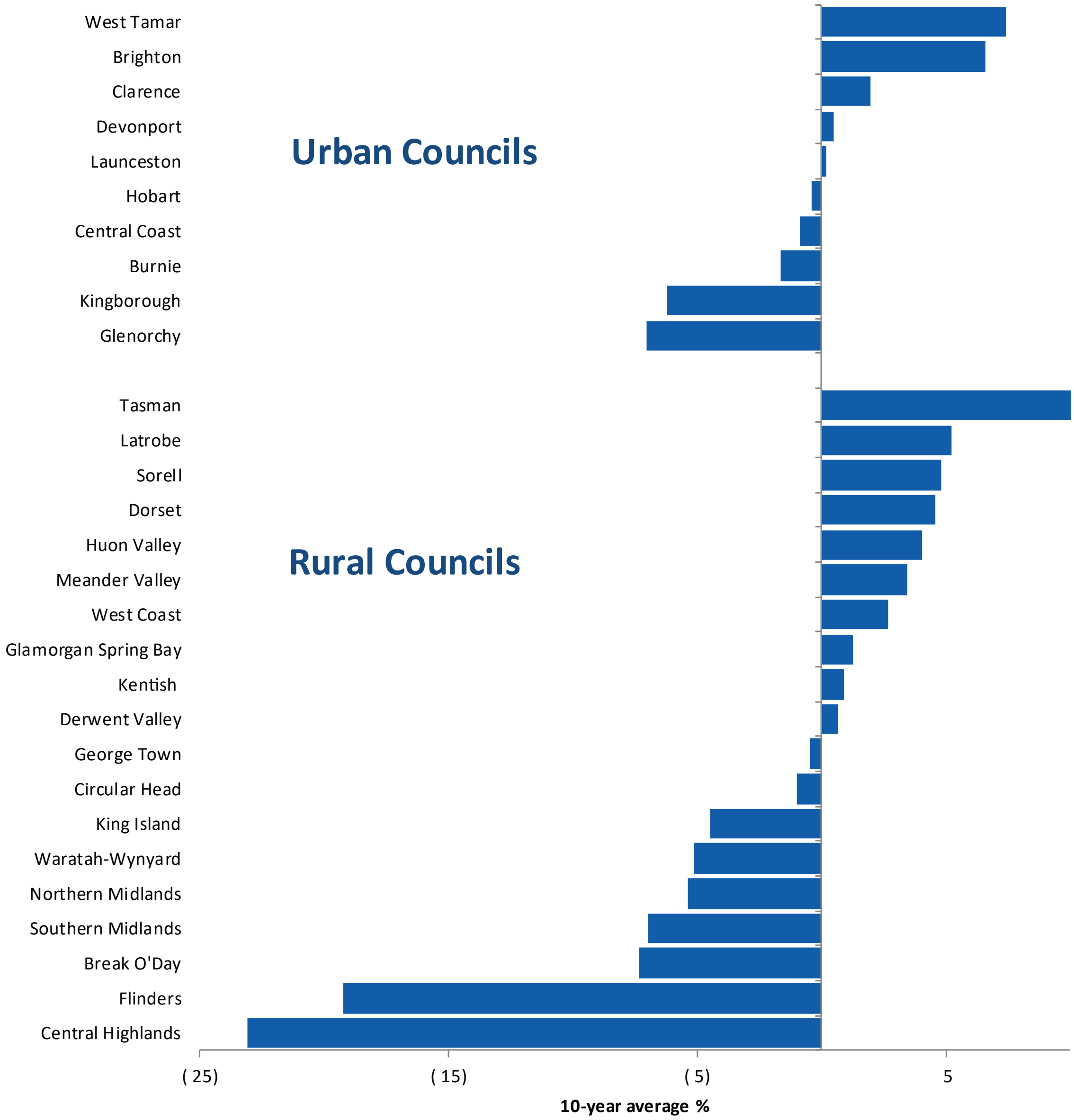
Over the 10-year period under review, the average urban Underlying surplus ratio reached its highest level this year at 2.3%. The average rural Underlying surplus ratio exceeded the benchmark this year, for the third time in the 10-year period under review.

Both ratios hit their lowest points of negative 3.7% and negative 5.3%, respectively, in 2009-10 which was attributed to the water and sewerage reforms, effective 1 July 2009. Consequently, a number of councils required priority dividends to overcome lost income. There was a significant improvement in both ratios in 2010-11.

As noted earlier in this Chapter, the number of councils that returned break-even or better results steadily improved, from 11 in 2007-08 to 23 in 2016-17.

Fourteen councils recorded an average Underlying surplus ratio for the 10-year period less than break-even as shown in Figure 13.

Figure 13: 10-year Average Underlying surplus ratio



Notable items from those that recorded 10-year average Underlying deficits included:

- Kingborough and Flinders Councils recorded Underlying deficits in all 10 years
- Glenorchy City Council achieved an Underlying surplus in 2016-17 following nine years of Underlying deficits
- King Island and Northern Midlands Councils recorded Underlying deficits for nine out of the 10 years, including 2016-17
- Break O'Day Council, recorded Underlying deficits for seven out of the 10 years and returned an Underlying surplus in 2016-17
- Central Highlands Council recorded Underlying deficits for eight out of the 10 years, but achieved Underlying surpluses in 2015-16 and 2016-17
- Southern Midlands and Waratah-Wynyard Councils recorded Underlying deficits for eight out of the 10 years but achieved Underlying surpluses in 2016-17
- although George Town Council only recorded a low 10-year average Underlying deficit, large deficits were recorded in 2015-16 and 2016-17.

Road asset sustainability ratio

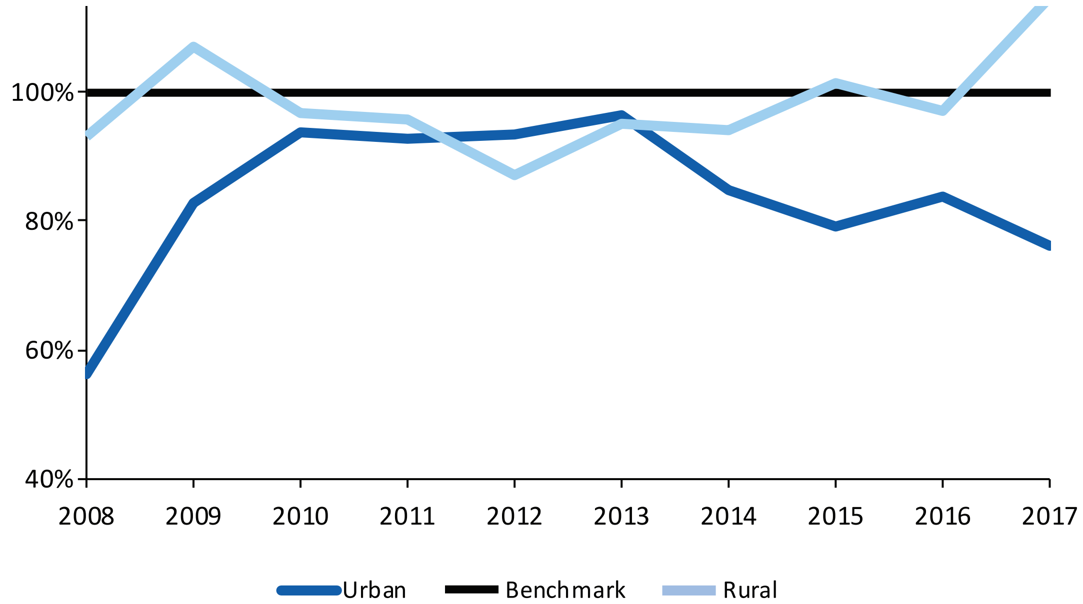
This ratio showed the extent to which councils were maintaining operating capacity through renewal of their existing asset base. Our review of asset sustainability was based only on road infrastructure primarily due to these assets representing in excess of 50% of total infrastructure assets held by councils. The generally accepted benchmark for this ratio, subject to appropriate levels of maintenance expenditure and the existence of approved long-term asset management plans, was 100%.

The benchmark was based on a council expending the equivalent of its annual depreciation expense on asset renewals within the year. However, it was acknowledged that this was unlikely to occur every year or evenly over time. It was also acknowledged this ratio had imperfections which are better addressed by the Asset renewal funding ratio discussed later in this Chapter.

Figure 14 shows the Road asset sustainability ratio on an average basis for urban and rural councils over the last 10 years.

Urban councils expended, on average, 83.9% of their depreciation expense to maintain existing non-current assets, rural councils, 98.2% over the 10-year period. As noted earlier in the Capital investment section of this Chapter, rural councils had generally spent more on renewal of existing assets than urban councils. Rural councils also had a more consistent spending pattern with annual averages that ranged between 87.2% in 2011-12 to a high of 114.6% in 2016-17. Urban councils were more volatile and ranged from 56.0% in 2007-08 to 96.4%. in 2012-13.

Figure 14: Road asset sustainability ratio



In most cases councils failed to meet the benchmark, with only 11 having an Asset sustainability ratio on average equal to or above 100% over the 10-year period. However, a further four councils averaged above 90% and only four below 70% including the lowest, Glenorchy City Council at 61.4%.

Road asset renewal funding ratio

Our review of asset renewal funding was based only on road infrastructure primarily due to these assets representing in excess of 50% of total infrastructure assets held by councils. This ratio measured councils' capacity to fund future asset replacement requirements. An inability to fund future requirements will result in revenue, expenditure or debt consequences or a reduction in service levels.

The measure relied on the existence of long-term financial and long-term asset management plans. The ratio measured planned asset replacement expenditure against planned asset replacement requirements. To maintain operating capacity, we would expect a council to fund 90% of its planned asset requirements. Identification of shortfalls enabled councils to develop strategies to address future asset replacement requirements in full. Over the last two years, all councils that had long-term asset management plans demonstrated ratios equal to or better than our 90% benchmark.

Since we commenced reporting this ratio, the number of councils without asset management plans decreased from 19 in 2011 to one in 2017 as shown in Table 3. King Island Council remained the only council at 30 June 2017 without a long-term asset management plan for road infrastructure.

Table 3: Road asset renewal funding ratio

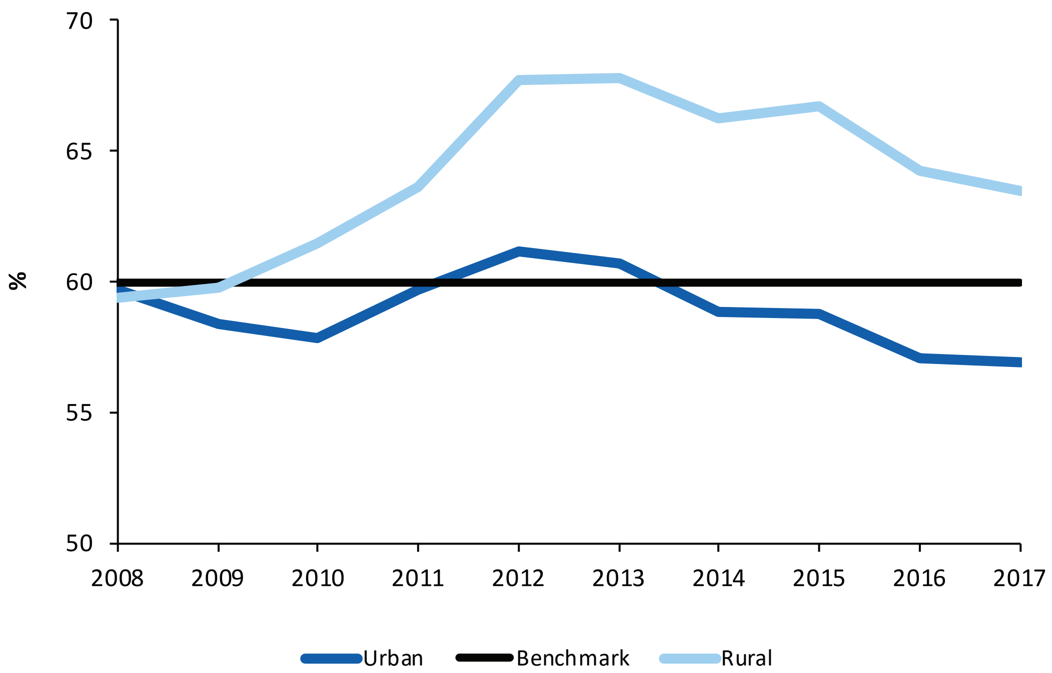
Range	2011	2012	2013	2014	2015	2016	2017
> = 90	9	11	20	21	23	27	28
< 90	1	3	2	2	2	0	0
No asset management plan	19	15	7	6	4	2	1

Road asset consumption ratio

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

Figure 15 shows the Road asset consumption ratio on an average basis for urban and rural councils over the last 10 years. A ratio above 60% represented low financial sustainability risk whilst a ratio less than 40% represented high risk.

Figure 15: Road asset consumption ratio



The urban Road asset consumption ratio improved from 59.7% in 2007-08 to 61.1% in 2011-12 but declined over recent years to 56.9% in 2016-17, with a 10-year average of 58.9%.

The rural Road asset consumption ratio improved from 59.4% in 2007-08 to 67.8% in 2012-13 but declined over recent years to 63.0% in 2016-17, with a 10-year average of 64.0%.

Changes over the 10-year period included:

- higher capital expenditure on road assets

- councils, as part of regular revaluations, reviewed and extended the useful lives of road asset components
- greater use of financial and asset management plans.

The ratio indicated, on an average basis, councils had sufficient service capacity remaining in road infrastructure assets, with rural councils in a stronger position than urban.

On average over the 10-year period, based on our benchmark, 17 councils had low asset management risk with the remaining 12 at moderate risk.

Net financial liabilities ratio

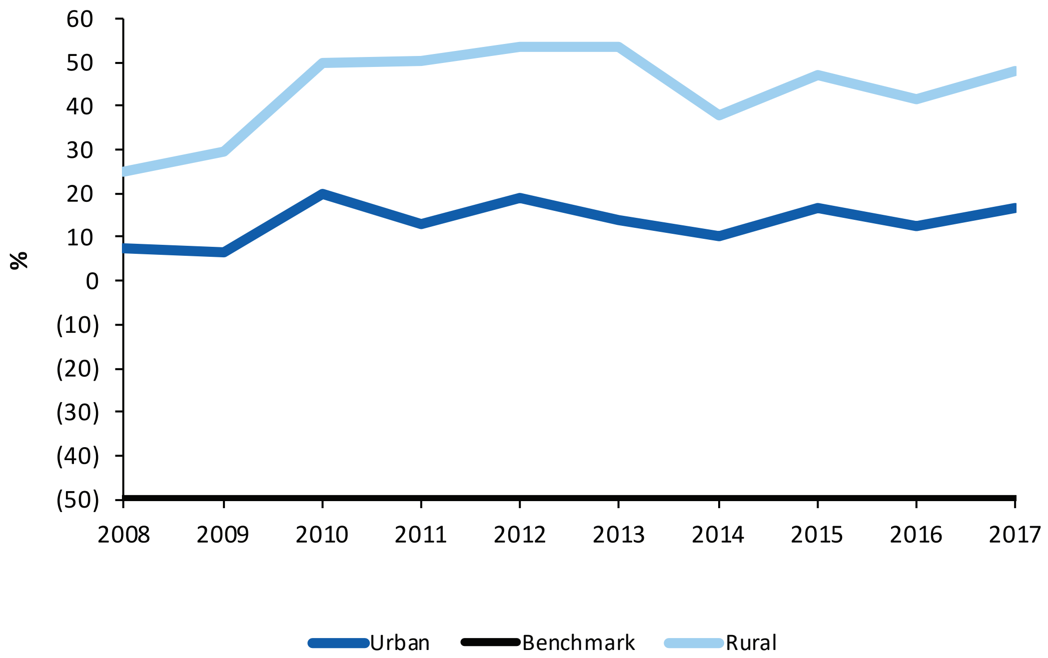
This ratio indicated the net financial obligations of councils compared to operating revenue in any one year; specifically, the extent to which net financial liabilities (liquid assets less total liabilities) could be met by operating revenue.

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

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

Figure 16 shows the Net financial liabilities ratio on an average basis for urban and rural councils in each of the past 10 years.

Figure 16: Net financial liabilities ratio



The average Net financial liabilities ratio was positive each year. This was because, on an aggregated basis, total liquid assets exceeded total liabilities.

The ratio improved for both urban and rural councils in 2009-10 when many councils transferred borrowings to the water and sewerage corporations. As noted earlier in this Chapter, rural councils had maintained a much stronger net cash position than urban councils.

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

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

BRIGHTON COUNCIL

INTRODUCTION

Population
16 610 people

Geographic Size
171 square kilometres

Employees
54 Full Time Equivalents
at 30 June 2017

Rateable Properties
7 698

Road Length
184 kilometres

Infrastructure Assets:
Roads, bridges, drainage
$95.42m

KEY RESULTS AND DEVELOPMENTS

Unless otherwise stated, this Chapter reports Brighton Council's financial information on a consolidated basis.

Brighton Council's Underlying surplus was $0.01m in 2016-17, which was marginally better than last year's Underlying Deficit of $0.07m.

Brighton Council reported a Net surplus of $3.43m in 2016-17 (2015-16, $0.28m) which included:

- increased capital grants of $0.82m, which included $0.53m from the Department of State Growth (State Growth) yet to be completely expended on the reconstruction of the Cove Hill Road Bridge
- higher contributions of non-monetary assets of $0.64m, largely related to more subdivision contributions.

Working capital was a surplus of $6.32m at 30 June 2017 (2016, $3.43m). Cash and term deposits of $6.85m held ($3.84m) included $0.79m of advance financial assistance grants. The increase from prior year was driven by higher grants received.

Brighton Council spent $2.45m on payments for Property, infrastructure, plant and equipment in 2016-17 ($3.88m). Of this, $1.40m ($2.66m) was spent on infrastructure. Council's original capital budget was $4.29m.

Brighton Industrial and Housing Corporation (BIHC) and Microwise Australia Pty Ltd (Microwise) recorded profits of $0.18m and $0.24m, respectively. These results were consolidated in Brighton Council's Underlying surplus.

AUDIT FINDINGS

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

OPERATING ENVIRONMENT

Subsidiary entities

Brighton Council had a controlling interest in two entities.

Brighton Industrial and Housing Corporation (BIHC)

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

BIHC generated $0.52m (2015-16, $0.60m) in revenue and incurred expenditure of $0.34m ($0.34m) for the purpose of sale and acquisition of land.

Microwise

Microwise was a 100% owned incorporated entity of Brighton Council formed for the purpose of managing intellectual property contained in the PropertyWise software product, to create and develop software and provide software maintenance.

Microwise generated $0.59m (2015-16, $0.41m) in revenue, of which $0.43m ($0.35m) related to licence fees. Expenditure of $0.36m ($0.32m) was incurred.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 4 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 4: Brighton Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	8 364	●	8 060	●	7 837	▲	7 356	▲
Grants	1 547	▼	1 713	●	1 789	▲	1 226	▼
Expense								
Employee benefits	3 312	●	3 204	▼	2 940	●	3 062	▼
Materials and services	5 595	●	5 330	▼	5 026	●	4 803	▼
Depreciation	3 149	▼	2 982	●	2 955	●	2 921	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	10	▲	(75)	▼	518	▲	(586)	▼
Financial assistance grants in advance	792	▲	(799)	▼	799	▲	(387)	▼
Capital and other excluded items	2 623	▲	1 159	▼	2 977	▼	18 346	▲
Net surplus (deficit)	3 425	▲	285	▼	4 294	▼	17 373	▲
Financial position[1]								
Cash and deposits	6 848	▲	3 838	▼	5 008	▲	2 788	▼
Property, plant and equipment	129 597	●	127 514	●	131 824	●	130 648	●
TasWater investment	46 442	●	46 139	●	45 367	●	45 006	●
Employee provisions	(1 231)	●	(1 148)	▼	(1 001)	●	(1 033)	▼
Net assets	183 157	●	177 200	●	181 960	●	178 514	▼
Key financial ratios								
Underlying surplus ratio	0.1%	▲	(0.5%)	▼	3.8%	▲	(4.8%)	▼
Own source revenue	89.2%	●	87.7%	●	86.8%	●	89.9%	▲
Net financial liabilities ratio[2]	37.9%	▲	15.0%	▼	25.7%	▲	12.7%	●
Asset consumption ratio - roads	65.0%	●	66.0%	▼	77.0%	●	81.0%	●
Asset renewal funding ratio - roads	100.0%	●	100.0%	▼	145.0%	▲	N/A	●
Asset sustainability ratio	52.0%	▼	85.0%	▼	96.0%	▲	70.0%	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

N/A. No asset management plan so unable to calculate ratio.

Table 5 provides a snapshot of key subsidiary financial results for 2016-17.

Table 5 Brighton Council subsidiary financial snapshot

	Revenue		Expenses		Net profit (loss)		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
BIHC	515	▼	336	●	179	▼	922	▲
Microwise	592	▲	356	▼	236	▲	1 407	▲

BURNIE CITY COUNCIL

OVERVIEW

Population
19 304 people

Geographic Size
611 square kilometres

Employees
132 Full Time Equivalents
at 30 June 2017

Rateable Properties
9 734

Road Length
343 kilometres

Infrastructure Assets:
Roads, bridges, drainage
$177.01m

KEY RESULTS AND DEVELOPMENTS

Unless otherwise stated, this Chapter reports Burnie City Council's financial information on a consolidated basis.

Burnie City Council's Underlying deficit was $0.94m in 2016-17, down from last year's $0.39m deficit. The 2016-17 Underlying deficit was predominantly due to disposal of remaining former aquatic centre assets of $0.95m that were replaced by the upgraded and refurbished aquatic centre.

Burnie City Council reported a Net deficit of $1.43m in 2016-17 (2015-16, $27.56m Net surplus). The Net surplus in the prior year included initial recognition of land under roads of $24.34m.

Working capital was a surplus of $6.12m at 30 June 2017 (2016, $5.39m). Cash and term deposits of $8.44m held ($9.74m) included $1.14m of advance financial assistance grants and $0.70m specific purpose grants, not yet expended in accordance with relevant conditions.

Burnie City Council spent $12.97m on payments for Property, plant and equipment during 2016-17 ($17.82m), $3.18m on renewal and $9.37m on new or upgrades of existing assets compared to a capital budget of $13.49m. Of this, $4.09m ($3.18m) was spent on roads.

Burnie City Council completed its stormwater improvement program during the year, with expenditure on non-council owned assets of $3.64m recorded as a capital expense item, excluded from the Underlying deficit in 2016-17.

Burnie City Council completed its exit from childcare services during 2016-17 with the transfer of the Autism Specific Early Learning Centre which resulted in a de-recognition of assets of $1.70m.

Subsidiaries contributed $0.30m ($0.26m) to Burnie City Council's consolidated result and managed Net assets of $8.87m ($8.72m).

AUDIT FINDINGS

In performing our audit we identified one high risk finding in internal control related to bank reconciliation review procedures, recommended council update its process for impairment of receivables and suggested policy improvements for general computer controls and fuel and credit card processes.

OPERATING ENVIRONMENT

Stormwater improvement project

During 2011-12 Burnie City Council received a $4.25m grant from the Australian Government to deliver a stormwater improvement program across the city. The improvement program allowed Burnie City Council to rectify unsuitable connections at no cost to the property owners. The project was completed in 2016-17 with total project costs of $5.86m, which included $3.64m incurred in 2016-17.

Childcare services

During 2014-15, Burnie City Council made a decision to exit from the provision of child care services. Burnie City Council sold part of its childcare operations in January 2015 and transferred the remaining Autism Specific Early Learning Centre to a private provider during October 2016. The derecognition of assets resulted in a $1.70m capital expense being recorded.

Subsidiary entities

Burnie City Council had a controlling interest in two entities.

Burnie Airport Corporation Unit Trust

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

Burnie Airport Corporation Unit Trust incurred expenditure of $0.37m for runway surface enrichment spray treatment repair works in 2016-17. Net profit for the year was $3 000 compared to a profit of $0.14m in the prior year.

Tasmanian Communications Unit Trust

Tasmanian Communications Unit Trust was an IT integrator for commercial and local government entities. In addition, it provided internet services, application service hosting and service desk services to its clients.

The majority of Tasmanian Communications Unit Trust's sales were through service level agreements with Burnie City Council, other regional councils, TasWater, University of Tasmania and local private companies. Approximately 46.7% of its revenue was derived from external sources with the balance from Burnie City Council.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 6 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 6: Burnie City Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	22 563	●	21 877	●	20 830	●	20 271	●
Grants	2 829	▼	3 675	▼	4 137	●	4 183	●
Expense								
Employee benefits	11 886	▲	12 879	▲	13 831	●	14 525	●
Materials and services	14 675	●	15 219	●	14 942	▲	17 045	▼
Depreciation	8 363	●	8 030	●	8 248	●	7 976	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	(944)	▼	(390)	▼	(345)	▲	(1 920)	▼
Financial assistance grants in advance	1 143	▲	(1 243)	▼	1 243	▲	(1 307)	▼
Capital and other excluded items	(1 625)	▼	29 196	▲	(3 542)	▼	(2 012)	▼
Net surplus (deficit)	(1 426)	▼	27 563	▲	(2 644)	▲	(5 239)	▼
Financial position[1]								
Cash and deposits	8 439	▼	9 744	▼	13 521	▲	7 712	▼
Property, plant and equipment	326 296	●	327 310	▲	291 322	●	295 548	●
TasWater investment	65 304	●	64 878	●	63 792	●	63 284	▲
Employee provisions	(2 878)	●	(2 919)	●	(2 835)	●	(2 877)	▼
Borrowings	(3 106)	▲	(3 623)	▲	(4 177)	●	(4 178)	▼
Net assets	394 362	●	393 418	▲	360 491	●	359 442	●
Key financial ratios								
Underlying surplus ratio	(2.7%)	▼	(1.1%)	▼	(0.9%)	▲	(5.1%)	▼
Own source revenue	92.0%	●	89.8%	●	88.8%	●	89.0%	●
Net financial liabilities ratio[2]	5.8%	▲	1.3%	▼	12.4%	▲	(0.7%)	▼
Asset consumption ratio - roads	45.8%	●	46.2%	●	47.0%	●	47.8%	●
Asset renewal funding ratio - roads	142.7%	▲	127.9%	●	129.0%	▲	N/A	●
Asset sustainability ratio	40.0%	▼	63.2%	▲	53.7%	▼	83.6%	▲

Indicator ▲ improvement from prior year ▼deterioration from prior year ●no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

N/A. No asset management plan so unable to calculate ratio.

Table 7 provides a snapshot of key subsidiary financial results for 2016-17.

Table 7: Burnie City Council subsidiary financial snapshot

	Revenue		Expenses		Net profit (loss)		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Burnie Airport Corporation Unit Trust	1 423	●	1 420	▼	3	▼	6 540	●
Tas Communications Unit Trust	1 956	●	1 660	▲	296	▲	2 328	▲

Indicator ▲ *improvement from prior year* ▼ *deterioration from prior year* ● *no material change from prior year*

CENTRAL COAST COUNCIL

INTRODUCTION

Population
21 850 people

Geographic Size
933 square kilometres

Employees
148 Full Time Equivalents
at 30 June 2017

Rateable Properties
10 823

Road Length
658 kilometres

Infrastructure Assets:
Roads, bridges, drainage
$290.56m

KEY RESULTS AND DEVELOPMENTS

Central Coast Council's Underlying surplus was $1.43m in 2016-17, up from $0.81m the previous year. The increase in Underlying surplus was predominantly due to a 4.0% rise in total rates revenue of $0.56m.

Overall, Central Coast Council reported a Net surplus of $7.36m in 2016-17 (2015-16, $0.23m), which included $3.19m in capital grants and NDRRA reimbursements of $0.85m.

Working capital was $11.66m at 30 June 2017 (2016, $2.68m). Cash of $14.88m ($6.65m) included $7.73m from new loans drawn down and $1.97m of financial assistance grants received in advance.

Central Coast Council spent $11.77m on payments for Property, plant and equipment in 2016-17 ($7.55m) with $7.77m on renewal and $4.00m on new or upgrades of assets compared to an original capital budget of $15.03m. Of this, $4.68m ($3.92m) was spent on roads and bridges and $3.34m ($0.41m) on the Dial Regional Sports Complex development.

Central Coast Council received $0.85m from NDRAA for remediation works following flooding that occurred across the municipality in June 2016. Operating and capital expenditure incurred during the year totalled $1.35m.

Central Coast Council was successful in gaining approval for $7.73m of loan funding under the ALGCP, which was fully drawn down in April 2017. Of this amount, $6.50m was allocated to the Dial Regional Sports Complex project.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we made recommendations relating to Council's IT framework and work-in-progress processes.

OPERATING ENVIRONMENT

Major capital projects

Central Coast Council commenced construction of two sports ovals, and associated facilities at the Dial Regional Sports Complex. The project also included master planning of the existing Penguin Recreation Ground to identify possible uses once the Penguin Football and Cricket Clubs relocate to the Dial Regional Sports Complex. The project is expected to cost $10.50m and is due to be completed in March 2018.

Natural disaster event

Central Coast Council experienced significant damage across the municipality during major flooding in June 2016, followed by further rain in October 2016, which exacerbated the original damage in some areas. Repairs required included landslip restoration, embankment and road rehabilitation works, replacement of two bridges, bridge abutment works and repairs to sporting infrastructure. Drainage improvement works were also undertaken to guard against future damage.

Operating expenses incurred in 2016-17 totalled $0.23m (2015-16, $0.39m) and capital additions $1.12m (nil). NDRRA claims of $0.85m were approved during 2016-17 and an insurance recovery of $0.14m was received.

Remediation works are ongoing and expected to be completed during 2017-18. Further claims for funding will be made for NDRRA as work is completed.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 8 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 8: Central Coast Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	14 543	●	13 983	●	13 618	●	13 114	●
Grants	3 915	●	4 009	●	4 003	▲	2 153	▼
Expense								
Employee benefits	9 957	●	10 024	▼	9 537	●	9 180	●
Materials and services	8 232	●	8 129	●	8 043	●	8 241	▼
Depreciation	6 197	●	6 155	▼	5 824	●	5 835	▼
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	1 428	▲	809	▼	1 298	▲	346	▼
Financial assistance grants in advance	1 973	▲	(1 974)	▼	1 974	▲	0	▲
Capital and other excluded items	3 958	▲	1 397	▼	1 649	▼	23 356	▲
Net surplus (deficit)	7 359	▲	232	▼	4 921	▼	23 702	▲
Financial position[1]								
Cash and deposits	14 879	▲	6 651	▼	7 143	▲	3 020	▼
Property, plant and equipment	428 043	●	418 809	▲	394 566	▲	373 949	▼
TasWater investment	74 973	●	74 484	●	73 237	●	72 654	▲
Employee provisions	(3 137)	▼	(2 883)	●	(2 830)	●	(2 814)	▼
Borrowings	(10 600)	▼	(3 061)	●	(3 047)	●	(3 188)	●
Net assets	513 575	●	498 100	▲	469 365	▲	443 335	▼
Key financial ratios								
Underlying surplus ratio	5.4%	▲	3.2%	▼	5.2%	▲	1.5%	▼
Own source revenue	85.2%	●	84.3%	●	84.0%	●	82.1%	●
Net financial liabilities ratio	(13.5%)	●	(14.0%)	▼	(9.3%)	▲	(27.2%)	▼
Asset consumption ratio - roads	83.3%	●	83.2%	●	82.7%	●	83.4%	●
Asset renewal funding ratio - roads	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	126.0%	▲	100.0%	▲	95.0%	●	94.0%	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

CLARENCE CITY COUNCIL

OVERVIEW

Population

55 085 people

Geographic Size

386 square kilometres

Employees

236 Full Time Equivalents at 30 June 2017

Rateable Properties

25 270

Road Length

461 kilometres

Infrastructure Assets: Roads, bridges, drainage

$297.11m

KEY RESULTS AND DEVELOPMENTS

Clarence City Council's Underlying surplus was $4.80m in 2016-17, up from last year's $1.94m result. The increase in Underlying surplus was partially due to higher total rates revenue of $1.62m, or 3.6%, in line with budget. In addition, losses relating to de-recognition of assets decreased from $2.32m in 2015-16 to $0.80m in the current year. This decrease was due to the significant works carried out as part of the Kangaroo Bay development in the prior year, where a significant portion of road and other assets were de-recognised and replaced with newly created assets.

Clarence City Council reported a Net surplus of $16.78m in 2016-17 (2015-16, $14.62m) which included $8.67m contribution of assets arising from subdivision of land and capital grants of $1.41m.

Working capital was $54.10m at 30 June 2017 (2016, $53.43m). Cash and term deposits of $59.33m ($58.38m) included $1.30m of financial assistance grants received in advance and $38.79m subject to external and/or internal restrictions or set aside for specific purposes.

Clarence City Council spent $20.09m on payments for Property, plant and equipment during 2016-17 ($20.27m), with $10.51m expended on renewals and $9.58m spent on new or upgrades of existing assets. Of the latter amount, $1.73m ($3.24m) was spent on roads. Clarence City Council had budgeted to spend $36.07m on capital works in 2016-17.

Clarence City Council accepted a solution to develop a new cloud based ICT Core Business System. Implementation costs of $1.71m were capitalised as work in progress in 2016-17 with further capital expenditure expected in 2017-18, as additional stages in system development continue.

Clarence City Council acquired an investment in the Copping C Cell Unit Trust (the Trust) by purchasing 40% of the initial 100 units issued.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we recommended improvements to general ledger application controls. One out of four findings carried forward from prior years was satisfactorily resolved, with Clarence City Council committing to address the remaining matters in 2017-18.

OPERATING ENVIRONMENT

Investment in Copping C Cell Project

Clarence City Council acquired 40 of the initial 100 units issued in the Trust for $1.60m and will also provide a $2.40m loan to the Trust for the development of the Copping C Cell facility.

ICT Core Business Systems Implementation

Clarence City Council accepted a solution to develop a new ICT Core Business System. Implementation costs of $1.71m were capitalised as work in progress in 2016-17, with ongoing implementation of the new cloud based system scheduled over the next two years:

- August 2017 – General Ledger, Human Resources and Asset Register modules
- April 2018 – Property and Rating modules
- July 2018 – Contracts Management, Content Manager and remaining modules.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 9 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 9: Clarence City Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	46 251	●	44 629	●	44 091	●	43 720	▲
Grants	5 697	▲	5 195	●	5 062	●	5 028	▲
Expense								
Employee benefits	16 624	●	16 354	●	15 691	▼	14 835	●
Materials and services	28 898	▲	30 464	▼	28 572	●	29 250	▼
Depreciation	12 674	●	12 135	●	11 668	▼	10 926	▼
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	4 803	▲	1 939	▼	4 322	▲	3 899	▲
Financial assistance grants in advance	1 300	▲	(1 328)	▼	1 328	▲	(1 328)	▼
Capital and other excluded items	10 680	▼	14 012	▼	106 541	▲	1 938	▼
Net surplus (deficit)	16 783	▲	14 623	▼	112 191	▲	4 509	▼
Financial position[1]								
Cash and deposits	59 328	●	58 384	▲	55 824	●	53 764	▲
Property, plant and equipment	532 694	●	513 430	●	496 968	▲	377 395	●
TasWater investment	167 697	●	166 605	●	163 816	●	162 511	▼
Employee provisions	(4 393)	●	(4 539)	●	(4 503)	▼	(4 060)	●
Borrowings	(191)	▲	(371)	▲	(542)	▲	(703)	▲
Net assets	758 169	●	735 547	●	715 895	▲	590 747	▼
Key financial ratios								
Underlying surplus ratio	7.7	▲	3.2	▼	7.2	▲	6.7	▲
Own source revenue	91.0%	●	91.5%	●	91.6%	●	93.6%	▲
Net financial liabilities ratio[2]	83.7%	●	85.2%	●	84.6%	▲	78.7%	▼
Asset consumption ratio - roads	49.0%	▼	46.0%	●	48.0%	●	48.0%	●
Asset renewal funding ratio - roads	98.0%	▼	104.0%	●	106.0%	●	107.0%	▲
Asset sustainability ratio	80.0%	▼	88.0%	●	92.0%	▲	86.0%	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEVONPORT CITY COUNCIL

OVERVIEW

Population

27 101 people

Geographic Size

111 square kilometres

Employees

144 Full Time Equivalents at 30 June 2017

Rateable Properties

12 295

Road Length

284.3 kilometres

Infrastructure Assets: Roads, bridges, drainage

$198.64m

KEY RESULTS AND DEVELOPMENTS

Devonport City Council's Underlying surplus was $1.23m in 2016-17, down from last year's $3.02m result. The decrease in Underlying surplus was predominantly due to additional finance costs incurred of $1.71m, as a result of refinancing the debt facility.

Overall, Devonport City Council reported a Net surplus of $8.09m in 2016-17 (2015-16, $2.60m), which included $1.50m in funding from the National Stronger Regions Fund for the Living City project, $1.02m financial assistance grants received in advance in 2016-17 and an increase in contributed assets of $0.84m. There was a significant level of asset derecognition in 2015-16 of $3.09m, which significantly decreased the net surplus in the prior year. This related to the demolition of buildings to enable the Living City project to proceed.

Working capital was a deficit of $8.45m at 30 June 2017 (2016, $12.54m surplus). This was principally due to the reclassification of borrowings to current liabilities as at 30 June 2017, as the borrowing facility is to be renegotiated at the start of each year.

Devonport City Council spent $28.91m on payments for Property, plant and equipment in 2016-17 ($12.02m), which consisted of $5.58m spent on renewals and $23.33m spent on new or upgrades of assets. Of this, $20.72m ($5.12m) was spent on the Living City project and $5.48m ($3.86m) on roads.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we recommended Devonport City Council update its asset management plans which were last reviewed in 2011-12.

OPERATING ENVIRONMENT

Living City Project

Devonport City Council undertook further construction in relation to Stage 1 of the Living City project. This project aims to rejuvenate the area by restructuring the central business district to align with the city's waterfront.

Significant Living City development transactions during 2016-17 included:

- receipt of grant funding of $1.50m from the National Stronger Regions Fund
- receipt of $13.00m from the Tasmanian Government relating to the fit-out and future sale of one of the floors of the multi-purpose civic building, recognised as income in advance pending completion of construction
- additional building derecognition expense of $0.17m
- capital expenditure of $20.78m
- total capital work in progress of $24.36m recognised at 30 June 2017.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 10 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 10: Devonport City Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	27 334	●	26 458	●	26 351	●	26 084	▲
Grants	2 180	●	2 267	●	2 300	●	2 261	●
Expense								
Employee benefits	11 441	●	11 389	●	11 585	●	12 035	●
Materials and services	14 431	▼	13 705	▼	12 797	●	12 567	▼
Depreciation	8 393	●	8 666	●	8 702	●	8 910	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	1 225	▼	3 023	▲	2 334	▲	1 085	▲
Financial assistance grants in advance	1 020	▲	(981)	▼	981	▲	(999)	▼
Capital and other excluded items	5 843	▲	560	▼	4 491	▲	3 474	▼
Net surplus (deficit)	8 088	▲	2 602	▼	7 806	▲	3 560	▼
Financial position[1]								
Cash and deposits	16 125	▼	16 975	▼	18 658	▲	10 312	▼
Property, plant and equipment	422 545	●	411 643	●	417 608	▲	379 596	▲
TasWater investment	86 226	●	85 664	●	84 231	●	83 560	▲
Employee provisions	(2 577)	●	(2 601)	●	(2 603)	●	(2 610)	●
Borrowings	(19 738)	●	(20 507)	●	(21 492)	▼	(20 020)	▼
Net assets	521 529	●	504 912	●	498 923	▲	452 243	▲
Key financial ratios								
Underlying surplus ratio	3.1%	▼	7.7%	▲	6.0%	▲	2.9%	▲
Own source revenue	94.5%	●	94.2%	●	94.0%	●	93.9%	●
Net financial liabilities ratio	(23.3%)	▼	(19.3%)	▼	(17.8%)	▲	(38.1%)	▼
Asset consumption ratio - roads	45.2%	●	45.4%	●	45.7%	●	46.1%	●
Asset renewal funding ratio - roads	103.5%	▲	97.7%	▼	103.1%	▲	92.7%	▼
Asset sustainability ratio	66.5%	▲	58.1%	▲	42.5%	▼	81.7%	▼

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year.

1. Assets are positive, liabilities are negative.

GLENORCHY CITY COUNCIL

OVERVIEW

Population
46 397 people

Geographic Size
121 square kilometres

Employees
228 Full Time Equivalents
at 30 June 2017

Rateable Properties
21 048

Road Length
360 kilometres

Infrastructure Assets:
Roads, bridges, drainage
$420.76m

KEY RESULTS AND DEVELOPMENTS

Glenorchy City Council's Underlying surplus was $0.60m in 2016-17, an improvement of $1.00m from last year's deficit of $0.40m.
Council reported a Net deficit of $0.68m in 2016-17 (2015-16, Net surplus $145.49m). The Net surplus in the previous year included an initial recognition of land under roads acquired before 2008 of $134.89m.
Working capital was a surplus of $4.19m at 30 June 2017 (2016, $6.77m). Cash and short-term investments totalled $11.59m ($14.37m), which included $1.17m of advance financial assistance grants.
Council spent $15.63m on payments for Property, plant and equipment in 2016-17 ($21.99m), $11.18m on renewal and $4.45m on new or upgrades of assets compared to an original capital budget of $18.10m. In 2016-17, $10.20m ($9.50m) was spent on the transport network.
Council management revalued stormwater infrastructure in 2016-17, resulting in a net revaluation decrement of $36.46m and depreciation charge of $2.21m during 2016-17 which was $0.72m lower than the previous year.
Council management revalued transport infrastructure at 30 June 2017, resulting in a net revaluation increment of $10.65m.
Investment properties, $9.33m, and assets held for sale, $1.16m, were reclassified into transport, land and buildings during 2016-17.

AUDIT FINDINGS

In performing our audit we identified the following significant deficiencies in internal control:

- three bank account reconciliations were not being reviewed by an independent officer
- stormwater revaluation issues were raised:
    - obsolescence: Glenorchy City Council was in the process of assessing the capacity of stormwater pipes using computer modelling and gradually identifying pipes which were undersized
    - modern engineering equivalent replacement asset (MEERA) rates: MEERA rates were used to establish unit costs for the stormwater valuation which were less than current project costs. Glenorchy City Council believed that in the long-term using more contractors and averaging the costs incurred over a larger number of projects in different areas and working environments, the MEERA rates were achievable.

Four moderate findings were also reported related to:

- monitoring of debt covenants for the Tascorp master loan agreement
- reviewing payroll audit reports
- establishing a policy for use of PayPal to make payments
- performing Property, plant and equipment reconciliations more often than annually.

Two prior year moderate risk rated findings were still being addressed by management.

SUBMISSION OF FINANCIAL STATEMENTS

The submitted financial report was signed by the Acting Chief Financial Officer in accordance with our submission requirements on 14 August 2017. The financial report was received by our Office on the same day, which was within the statutory deadline. We decided not to accept the submitted financial report because it was not complete in all material respects. Therefore, Council breached section 17 of the Audit Act.

The submitted financial statements were incomplete to the extent that a number of key explanatory notes had not been finalised. However, because there was some confusion between our Office and Council's management about the definition of 'materially complete', the statements were submitted in the belief they would meet our requirements.

An updated financial report, signed by the Acting Chief Financial Officer, was submitted on 5 September 2017. We reviewed the updated financial report and accepted it as complete in all material respects on the same day.

The Acting General Manager signed the financial report on 19 October 2017 and an unqualified audit opinion was issued on the same day.

OPERATING ENVIRONMENT

Appointment of Commissioner

The Minister for Planning and Local Government suspended Council's Aldermen effective from 8 February 2017 and appointed former Legislative Council President Sue Smith as Commissioner. On 8 August 2017, the Minister extended the suspension of Aldermen for a further six months with the previously appointed Commissioner continuing.

On 18 October 2017, the Minister announced his intention to introduce legislation into Parliament to dismiss council and hold an election on 16 January 2018 to appoint a new council. The *Glenorchy City Council (Dismissal of Councillors) Act 2017* received royal assent on 22 November 2017, thereby dismissing the Councillors of Glenorchy City Council as at that date.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 11 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 11: Glenorchy City Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	34 582	▲	32 727	▲	31 153	●	29 817	▲
Grants	3 150	●	3 155	●	3 241	●	3 273	▼
Expense								
Employee benefits	20 561	●	19 728	▲	21 884	▼	19 680	●
Materials and services	15 780	▼	14 190	▲	16 070	▼	13 467	▲
Depreciation	12 494	●	12 882	▲	15 250	●	14 774	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	603	▲	(404)	▲	(7 941)	▼	(3 794)	▼
Financial assistance grants in advance	1 172	▲	(1 167)	▼	1 167	▲	(1 143)	▼
Capital and other excluded items	(2 450)	▼	147 062	▲	1 882	▲	331	▼
Net surplus (deficit)	(675)	▼	145 491	▲	(4 892)	▼	(4 606)	▼
Financial position[1]								
Cash and deposits	11 591	▼	14 374	▼	22 692	▼	31 467	▼
Property, plant and equipment	690 295	●	704 808	▲	505 578	●	498 908	●
TasWater investment	165 003	●	163 928	●	161 184	●	159 900	▼
Employee provisions	(5 609)	▼	(5 294)	▲	(5 764)	●	(5 831)	●
Borrowings	(5 169)	▲	(6 020)	▲	(6 815)	▲	(8 171)	▲
Net assets	849 418	●	874 133	▲	679 984	●	678 504	▼
Key financial ratios								
Underlying surplus ratio	1.1%	▲	(0.8%)	▲	(15.6%)	▼	(7.5%)	▼
Own source revenue	94.2%	●	93.9%	●	93.6%	●	93.6%	▲
Net financial liabilities ratio[2]	(11.7%)	▼	(10.6%)	▼	7.1%	▼	18.1%	▼
Asset consumption ratio - roads	55.0%	●	54.4%	▲	45.4%	●	47.0%	●
Asset renewal funding ratio - roads	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	89.5%	●	89.1%	▲	61.8%	●	65.0%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

HOBART CITY COUNCIL

OVERVIEW

Population
51 750 people

Geographic Size
78 square kilometres

Employees
595 Full Time Equivalents
at 30 June 2017

Rateable Properties
24 158

Road Length
315 kilometres

Infrastructure Assets: Roads, bridges, drainage
$316.24m

KEY RESULTS AND DEVELOPMENTS

Hobart City Council's Underlying surplus was $1.14m in 2016-17, down from last year's $2.33m. The decreased Underlying surplus was predominantly due to:

- higher Materials and services, $5.45m
- higher Employee costs, $1.16m

offset by

- higher Rates revenue and fees and charges, $5.10m.

Hobart City Council reported a Net surplus of $8.52m in 2016-17 (2015-16, $691.97m). The Net surplus in the prior year included initial recognition of land under roads acquired before 2008 of $684.82m.

Working capital was a surplus of $14.76m at 30 June 2017 (2016, $18.08m). Cash and term deposits totalled $33.05m ($36.31m), which included $1.32m of advance financial assistance grants.

The net Property, plant and equipment revaluation increased by $42.82m. Hobart City Council performed an internal revaluation on three classes of assets during 2016-17, including roads and bridges, land improvements and two categories within the buildings class – public conveniences and grandstands.

Hobart City Council spent $31.27m on payments for Property, plant and equipment in 2016-17 ($30.18m). Of this, $10.22m ($8.76m) was on roads and bridges. The original capital budget was $39.57m.

The defined benefit superannuation liability decreased by $4.09m and resulted in a net superannuation asset of $0.55m. The decrease in the liability was mainly due to changes in financial assumptions, with the largest impact related to a higher return achieved on scheme assets in 2016-17.

AUDIT FINDINGS

In performing our audit we identified an issue relating to the unit rate used in the stormwater revaluation. Hobart City Council performed an in-house stormwater revaluation in 2014-15 using the MEERA rates to establish unit costs. It was based on valuing at the lowest possible rates at which services could be provided from a number of potential external suppliers. In 2016-17, it was noted the MEERA rates were lower than current project costs and Hobart City Council was not able to achieve MEERA rates.

One moderate finding was also reported regarding the review of termination checklists and termination calculations. Three prior year moderate risk rating findings were outstanding and Hobart City Council management agreed to address these matters in 2017-18.

OPERATING ENVIRONMENT

Transforming Hobart Program

Hobart City Council had a series of major projects underway during 2016-17 under the Transforming Hobart capital works program. Transforming Hobart capital works program aims to enhance roads, paths, buildings, toilets and open spaces. Significant transactions during 2016-17 included:

- Morrison Street Cycleway – works of $2.12m to extend and improve pedestrian and cyclists' amenities
- Sandy Bay Retail Precinct Upgrade – works of $1.84m to improve the pedestrian amenity in the area
- Sandy Bay Cycle Way Stage 3B, 3C and 3D – $1.22m was spent on this stage of works that improved pedestrian and cyclists' amenity.

New Enterprise Resource Planning System

Hobart City Council commenced Project Phoenix to implement a new enterprise management system. Project Phoenix will deliver new business processes, refined data sets, new websites, mobile applications and information systems. It will occur over three separate phases, including:

- Phase 1: Internal core systems (finance, payroll, human resources position management and self-services)
- Phase 2: Public face (customer requests, property and rating, planning, work health and safety, community engagement platform and online service)
- Phase 3: Operations (assets, timesheet mobile applications, stores and inventory, training, performance, recruitment, risk and safety and analytics).

Phase 1 is expected to go live in April 2018. The total budget of Phoenix program is $4.80m with $1.13m spent during 2016-17.

McRobies Gully landfill site

The McRobies Gully landfill operation in South Hobart was due to close in 2017. Hobart City Council submitted an application to the Environmental Protection Authority (EPA) to increase the landfill profile height from 184 metres to 200 metres and extend its lifespan by an additional 15 years. EPA approved was subsequently received.

Contingent liabilities

As at 30 June 2017, Hobart City Council estimated maximum obligations for payments pursuant to Development Assistance Deeds were as follows:

- Vodafone development, $1.28m
- Myer development, $3.50m.

Vodafone development contingent payments were subject to the achievement of employee occupancy targets. Payments in relation to the Myer development were contingent upon annual gross sales from the Liverpool Street Myer Store reaching agreed thresholds.

Hobart City Council also acted as guarantor for a number of financial institution loans made to community organisations totalling $6.33m.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 12 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 12: Hobart City Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	78 241	●	75 078	●	73 933	●	70 790	▲
Grants	4 045	▼	4 343	▲	3 370	●	3 500	▼
Expense								
Employee benefits	52 753	●	51 589	●	51 018	●	51 187	●
Materials and services	34 427	▼	28 978	▲	31 670	▼	27 035	▼
Depreciation	19 228	●	18 444	▼	17 450	●	17 877	▼
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	1 137	▼	2 334	▼	3 839	▼	4 744	▲
Financial assistance grants in advance	1 318	▲	(1 349)	▼	1 349	▲	(1 362)	▼
Capital and other excluded items	6 063	▼	690 985	▲	10 041	▲	3 251	▲
Net surplus (deficit)	8 518	▼	691 970	▲	15 229	▲	6 633	▲
Financial position[1]								
Cash and deposits	33 051	▼	36 305	▼	40 709	▲	33 108	▲
Property, plant and equipment	1 487 857	●	1 434 219	▲	730 673	●	698 244	▼
TasWater investment	164 686	●	163 612	●	160 874	●	159 591	▼
Employee provisions	(13 848)	▲	(17 415)	▼	(15 194)	▲	(16 415)	▲
Borrowings	(11 693)	▲	(13 097)	▲	(14 428)	▲	(16 162)	▼
Net assets	1 649 804	●	1 592 630	▲	889 563	●	874 690	▼
Key financial ratios								
Underlying surplus ratio	0.9%	▼	1.9%	▼	3.3%	▼	4.1%	▲
Own source revenue	96.8%	●	96.4%	●	97.1%	●	97.0%	●
Net financial liabilities ratio[2]	(3.8%)	▲	(5.5%)	▼	(2.3%)	▲	(9.6%)	▲
Asset consumption ratio - roads	45.5%	●	46.1%	●	47.0%	●	49.0%	▼
Asset renewal funding ratio - roads	100.0%	●	100.0%	●	100.0%	▲	89.5%	▼
Asset sustainability ratio	106.8%	▼	128.9%	●	134.0%	▲	118.3%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

KINGBOROUGH COUNCIL

OVERVIEW

Population

36 263 people

Geographic Size

720 square kilometres

Employees

186 Full Time Equivalents at 30 June 2017

Rateable Properties

16 755

Road Length

439 kilometres

Infrastructure Assets: Roads, bridges, drainage

$311.21m

KEY RESULTS AND DEVELOPMENTS

Kingborough Council's Underlying deficit was $0.37m in 2016-17, an improvement on last year's deficit of $2.16m. The improved result was predominantly due to a 5.4% increase in total rates revenue of $1.30m.

Overall, Kingborough Council reported a Net surplus of $5.00m in 2016-17 (2015-16, $7.16m). This included contribution of non-monetary assets, $2.71m, capital grants received, $1.85m, and 2017-18 financial assistance grant received in advance, $1.05m.

Working capital was a surplus of $3.71m at 30 June 2017 (2016, $0.92m). Cash of $9.57m held ($7.41m) included $1.05m of advance financial assistance grants and $1.42m of trust funds and deposits held.

Kingborough Council in 2017 spent $9.32m ($9.89m) on payments for Property, plant and equipment, $6.25m on renewal and $3.07m on new or upgrades of assets compared to a capital budget of $13.63m which included $2.63m for the former Kingston High School site. Of this, $6.38m ($7.90m) was spent on infrastructure.

Kingborough Council was successful in gaining approval for $7.20m of loan funding under the ALGCP with $6.00m allocated to the Kingston Park project and $1.20m for street lighting. Kingborough Council had not drawn down the loan or commenced work on the project at 30 June 2017.

CONCLUSION

In performing our audit we did not identify any significant deficiencies in internal control, however we did identify a number of moderate audit findings, including:

- review of infrastructure asset dimensions, following the discovery of prior period errors by management
- revision of the building revaluation methodology and grouping of assets within this class to ensure appropriate values are calculated
- review of all current capital works in progress to ensure completed projects are capitalised and assets depreciated from the date they commence being used.

OPERATING ENVIRONMENT

Prior period error

A road conditioning assessment undertaken by management during the year discovered a number of unsealed roads that were in excess of standard widths recorded in the asset register. This resulted in an adjustment which increased the value of road assets, reflecting the additional width of the unsealed roads. As the adjustment related to characteristics of roads that existed in the prior period, the adjustment was made retrospectively to the Statement of Financial Position. The adjustment increased the gross value of roads by $10.78m and increased accumulated depreciation by $8.54m, resulting in $2.24m increased value of road assets.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 13 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 13: Kingborough Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	25 310	▲	24 015	▲	22 898	●	21 828	▲
Grants	3 771	●	3 879	▼	4 110	▲	3 893	●
Expense								
Employee benefits	14 646	●	14 265	▼	13 223	▼	11 882	●
Materials and services	15 374	▲	17 070	●	16 511	●	15 876	▲
Depreciation	9 097	▼	8 560	▼	6 977	●	6 938	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	(375)	▲	(2 164)	▼	(1 344)	▼	(719)	▲
Financial assistance grants in advance	1 049	▲	(1 007)	▼	1 007	▲	(1 017)	▼
Capital and other excluded items	4 333	▼	10 330	▲	1 045	▼	2 732	▲
Net surplus (deficit)	5 007	▼	7 159	▲	708	▼	996	▲
Financial position[1]								
Cash and deposits	9 571	▲	7 407	▼	10 557	▲	8 343	▼
Property, plant and equipment	501 913	▲	472 046	▼	504 195	▲	479 760	●
TasWater investment	93 676	●	93 066	●	91 508	●	90 752	▼
Employee provisions	(2 619)	●	(2 722)	▼	(2 468)	▼	(2 277)	▼
Net assets	600 343	▲	566 712	▼	599 809	●	573 468	●
Key financial ratios								
Underlying surplus ratio	(1.0%)	▲	(6.0%)	▼	(4.0%)	▼	(2.0%)	▲
Own source revenue	90.2%	●	89.3%	●	88.4%	●	88.3%	●
Net financial liabilities ratio[2]	8.0%	▲	2.0%	▼	9.0%	▲	7.0%	▼
Asset consumption ratio - roads	51.0%	●	53.0%	▼	62.0%	●	63.0%	●
Asset renewal funding ratio - roads	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	69.0%	●	70.0%	▲	64.0%	▼	80.0%	●

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

LAUNCESTON CITY COUNCIL

OVERVIEW

Population

66 864 people

Geographic Size

1 414 square kilometres

Employees

441 Full Time Equivalents

at 30 June 2017

Rateable Properties

31 366

Road Length

930 kilometres

Infrastructure Assets:

Roads, bridges, drainage

$738.73m

KEY RESULTS AND DEVELOPMENTS

Launceston City Council's Underlying surplus was $1.26m in 2016-17, down from last year's $2.29m result. The decrease in Underlying surplus was predominantly due to the TasWater combined sewerage and stormwater charge of $1.56m.

Launceston City Council reported a Net surplus of $131.19m in 2016-17 (2015-16, $27.98m), which included initial recognition of land under roads acquired before 2008 of $124.33m.

Working capital was a surplus of $48.59m at 30 June 2017 (2016, $37.69m). Cash and short-term investments of $71.08m held ($65.75m) included $2.10m of advance financial assistance grants.

Launceston City Council spent $31.55m on payments for Property, plant and equipment in 2017 ($27.30m), $13.91m on renewal and $17.64m on new or upgrades of assets compared to an original capital budget of $26.69m. Of this, $6.76m ($7.46m) was spent on roads.

Launceston City Council was successful in gaining approval for $19.50m of loan funding under the ALGCP. At 30 June 2017, Launceston City Council had drawn down $9.00m of the loan funding to commence work on the CH Smith site redevelopment.

On 20 April 2017, the Australian Government, Tasmanian Government and Launceston City Council signed. The Launceston City Deal, which represents a five-year plan (from 2017 to 2022) to position Launceston as one of Australia's most liveable and innovative regional cities.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we made recommendations relating to the following areas:

- depreciation methodology and framework documentation
- system limits for accounts payable officers
- reconciliation of assessed annual value used for rating purposes to the Valuer-General's valuations
- governance framework for the Northern Tasmanian Waste Management Group
- approval process for credit card transactions for the Director Corporate Services.

OPERATING ENVIRONMENT

Launceston City Deal

The Launceston City Deal was signed by the Australian Government, Tasmanian Government and Launceston City Council on 20 April 2017. The City Deal includes a range of commitments and projects, including:

- the $260.00m relocation and redevelopment of University of Tasmania's main Launceston campus to Inveresk
- $19.40m investment in the City Heart project to enliven Launceston's central business district
- revitalising the city, including the northern suburbs, to provide increased access to jobs, training and transport and improved amenities for residents and tourists
- delivering local jobs and apprenticeships and support for business growth
- creating a more co-ordinated approach to jobs pathways and industry engagement
- ensuring clear governance to improve the health of the Tamar Estuary and accountability for prioritising future investments.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 14 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Table 14: Launceston City Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	63 568	●	62 324	●	60 161	●	57 892	●
Grants	7 581	●	7 717	●	7 719	▲	6 813	●
Expense								
Employee benefits	38 446	●	38 121	●	36 948	●	36 156	▼
Materials and services	35 810	▼	31 967	●	31 835	●	32 834	▼
Depreciation	20 007	●	19 440	●	19 008	●	18 213	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	1 261	▼	2 290	▲	(345)	▲	(1 739)	▼
Financial assistance grants in advance	2 104	▲	(2 098)	▼	2 098	▲	(2 036)	▼
Capital and other excluded items	127 820	▲	27 790	▲	7 653	▼	23 504	▲
Net surplus (deficit)	131 185	▲	27 982	▲	9 406	▼	19 729	▲
Financial position[1]								
Cash and deposits	71 082	▲	65 747	▲	60 685	●	59 650	▼
Property, plant and equipment	1 295 301	▲	1 145 739	●	1 168 087	▲	981 770	▼
Museum collection	237 491	●	237 112	●	236 035	●	235 709	●
TasWater investment	234 923	●	233 057	●	229 157	●	227 332	●
Employee provisions	(7 646)	●	(7 565)	●	(7 435)	▼	(6 924)	●
Borrowings	(12 126)	▼	(5 367)	▲	(7 500)	▲	(10 091)	▼
Net assets	1 804 139	▲	1 653 653	●	1 659 872	▲	1 467 045	▼
Key financial ratios								
Underlying surplus ratio	1.2%	▼	2.3%	▲	(0.4%)	▲	(1.9%)	▼
Own source revenue	92.6%	●	92.4%	●	92.0%	●	92.7%	●
Net financial liabilities ratio[2]	29.0%	▼	31.0%	▲	26.0%	▲	22.0%	▲
Asset consumption ratio - roads	67.0%	●	68.0%	●	70.0%	●	60.0%	●
Asset renewal funding ratio - roads	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	70.0%	▼	80.0%	▲	51.0%	▼	79.0%	●

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

WEST TAMAR COUNCIL

OVERVIEW

Population
23 352 people

Geographic Size
691 square kilometres

Employees
101 Full Time Equivalents at 30 June 2017

Rateable Properties
11 510

Road Length
467 kilometres

Infrastructure Assets: Roads, bridges, drainage
$154.7m

KEY RESULTS AND DEVELOPMENTS

West Tamar Council's Underlying surplus was $2.10m in 2016-17, up from last year's $1.24m result. The increase in Underlying surplus was predominantly due to 3.4% rise in total rates revenue of $0.54m, in line with budget.

Overall, West Tamar Council reported a Net surplus of $35.75m in 2016-17 (2015-16, $5.99m). This included initial recognition of land under roads acquired before 2008 of $28.98m.

Working capital was a surplus of $13.62m at 30 June 2017 (2016, $9.97m). Cash and term deposits of $15.23m held (2016, $10.97m) included $1.57m of advance financial assistance grants and $0.58m specific purpose grants, not yet expended in accordance with relevant conditions.

West Tamar Council spent $7.06m on payments for Property, plant and equipment during 2016-17 ($6.87m), $3.74m on renewal and $3.32m on new or upgrades of existing assets compared to a capital budget of $9.12m. Of this, $2.68m ($3.35m) was spent on roads.

West Tamar Council received $1.13m from NDRRA for remediation work for the mine shaft at the Beaconsfield Mine and Heritage Centre following significant rainfall during 2016. Repairs are expected to cost $1.50m and be completed in 2018. Costs incurred in 2016-17 totalled $0.83m.

West Tamar Council was successful in gaining approval for $1.70m of loan funding under the ALGCP for alterations and additions to the multipurpose facility at the Windsor Community Precinct. West Tamar Council had not drawn down the loan or commenced work on the project at 30 June 2017. A major contract for the project was awarded in August 2017.

A pre-feasibility study exploring a possible merger between the West Tamar and George Town councils commenced in 2017 following approval of a memorandum of understanding in September 2017 by Councillors and a funding commitment made by the Tasmanian Government.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, however we recommended improvements to revenue and expenditure processes and documentation of third party information system arrangements.

OPERATING ENVIRONMENT

Natural disaster event

The Beaconsfield Mine and Heritage Centre mine yard experienced significant cracking and surface subsidence, attributed to significant rainfall experienced during 2016, which led to an underground collapse of the mine shaft. Remediation work to prevent further damage and the potential collapse of the mine headframe was expected to cost $1.50m. Expenses incurred in 2016-17 totalled $0.83m.

Funding of $0.75m, or 50% was received from the Australian Government and $0.38m, 25%, from the Tasmanian Government under NDRRA. The remainder is to be funded by West Tamar Council.

The work was un-budgeted and unforeseen and had not been factored into the long-term financial plan or annual budget. Remediation works were ongoing and expected to be completed during the 2017-18 year.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 15 provides a snapshot of key financial results for 2016-17 in comparison to prior years.

Figure 15: West Tamar Council financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	16 724	●	16 180	●	15 617	●	14 877	●
Grants	3 209	●	3 158	▲	2 844	▲	2 580	▼
Expense								
Employee benefits	8 181	●	8 076	▼	7 599	●	7 698	●
Materials and services	7 081	▼	6 331	●	6 055	●	5 991	●
Depreciation	5 334	●	5 316	●	5 081	●	5 210	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	2 102	▲	1 243	▼	1 584	▲	625	▼
Financial assistance grants in advance	1 572	▲	0	●	0	▲	(1 251)	▼
Capital and other excluded items	32 071	▲	4 742	▲	2 478	▲	1 446	▼
Net surplus (deficit)	35 745	▲	5 985	▲	4 062	▲	820	▼
Financial position[1]								
Cash and deposits	15 234	▲	10 965	▲	9 845	▼	11 854	▼
Property, plant and equipment	250 328	▲	216 440	●	217 574	●	209 532	▲
TasWater investment	56 269	●	55 902	●	54 967	●	54 259	▼
Employee provisions	(2 039)	▲	(2 322)	●	(2 295)	●	(2 317)	▲
Borrowings	0	▲	(40)	▲	(117)	▲	(227)	▲
Net assets	320 059	▲	282 030	●	280 376	●	273 423	●
Key financial ratios								
Underlying surplus ratio	8.6%	▲	5.2%	▼	7.0%	▲	2.8%	▼
Own source revenue	86.9%	●	86.7%	●	87.4%	●	88.3%	●
Net financial liabilities ratio[2]	54.0%	▲	39.0%	▲	33.0%	▼	39.7%	▼
Asset consumption ratio - roads	62.0%	●	63.0%	●	63.0%	●	63.7%	●
Asset renewal funding ratio - roads	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	70.0%	▼	75.0%	▼	99.0%	▲	91.0%	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

1. Assets are positive, liabilities are negative.

2. Positive number indicates liquid assets in excess of total liabilities.

AUDIT SUMMARY – RURAL COUNCILS

INTRODUCTION

This Chapter includes 19 councils classified as "rural" as noted in the Executive Summary Chapter of this Report.

OVERVIEW

Population

154 853 people

Geographic Size

62 789 square kilometres

Employees

1 019 Full Time Equivalents at 30 June 2017

Rateable Properties

103 788

Road Length

10 038 kilometres

Infrastructure Assets: Roads, bridges, drainage

$1.70bn

KEY RESULTS AND DEVELOPMENTS

The 19 rural councils recorded a combined Underlying surplus of $5.17m in 2016-17 up from last year's $3.16m result. Significant surpluses were recorded by Derwent Valley, Dorset, Huon Valley, Meander Valley and Tasman Councils. Deficits were incurred by Flinders, George Town, King Island and Northern Midlands Councils, with the deficits for the first two councils being more significant.

The rural councils recorded a total Net surplus of $61.46m. No Net deficits were recorded in 2016-17, which was partly due to prepaid financial assistance grants of $23.32m. Without this, the total Net surplus would have been $38.14m and three councils would have recorded small Net deficits.

Working capital and Net assets for rural councils totalled $158.19m and $3.03bn, respectively. Working capital at 30 June 2017 was impacted by the receipt of prepaid financial assistance grants and new borrowings taken out as a result of the ALGCP.

At the date of this Report, rural councils were approved for loans totalling $25.33m under the ALGCP, of which $5.17m was approved subsequent to 30 June 2017. Interest payments on these loans are eligible for rebate, paid as a grant from the Department of Treasury and Finance (Treasury), for a maximum period of five years, which made them an attractive financing option. At 30 June 2017, $11.30m of funding had been drawn down.

CONCLUSION

Submission of financial statements

Entities included in this Chapter submitted financial statements within the statutory deadline, except for Central Highlands and West Coast Councils that submitted one day late on 15 August 2017.

Latrobe Council submitted financial statements within the statutory deadline, but the statements were not accepted as materially complete under section 17 of the Audit Act that provides for the Auditor-General to determine whether financial reports submitted were complete in all material respects. Amended financial statements were received and accepted on 22 September 2017.

Audit reports

All audits were completed satisfactorily and unqualified audit reports were issued in all cases.

Other matter paragraph

Following a complaint in 2015-16, the Tasmanian Economic Regulator (the Regulator) determined overnight recreational vehicle parking and camping services operated by West Coast Council at Queenstown and Rosebery was a significant business activity of West Coast Council. The Regulator determined that the complaint was justified in relation to both services, because in providing the camping areas without charge West Coast Council had neither considered nor applied full cost attribution.

Consistent with 2015-16, West Coast Council did not include disclosures required by section 84(2)(da) of the LGA in the 2016-17 financial report. The disclosure was not made on the basis that West Coast Council disagreed with the findings of the Regulator. We included an 'other matter' paragraph to highlight the non-disclosure as we believed it was important to inform the users of the financial report. Including an 'other matter' paragraph did not modify our audit opinion.

West Coast Council advised it exited from the partnership providing the Rosebery service in December 2016. The council also advised that during 2016-17 implementation of procedures had occured to ensure it no longer undertook the activities in Queenstown. As these activities were undertaken for part of 2016-17, the 'other matter' paragraph, remained relevant and was included in our audit opinion for 2016-17.

Based on the advice provided by West Coast Council that these activities had ceased, subject to audit examination, more than likely the 'other matter' paragraph will not be required in future years.

OPERATING ENVIRONMENT

Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth for rural councils, increased by 529, or 0.3%, from 2015-16 to 2016-17. Across the rural councils, populations of each municipal area varied considerably, ranging from Flinders Council's population of 926 to Meander Valley Council's population of 19 596. The rural councils' combined populations represented 29.9% of the total Tasmanian population, but covered 92.3% of the State's land area and 69.4% of council-owned roads in Tasmania.

As noted in previous years, rural councils may face difficulties in providing and maintaining services because they do not have access to the higher ratepayer base of larger councils and in many cases they manage large road networks.

Natural disaster event

Councils throughout Tasmania were heavily impacted by a major flood event in June 2016. Some councils incurred significant operational costs and infrastructure losses resulting in insurance and/or NDRRA funding. Councils that experienced a significant financial impact as a consequence of the flood event included:

- Break O'Day
- Kentish
- Latrobe

- Northern Midlands
- Meander Valley
- Waratah-Wynyard.

In total, rural councils recognised $7.80m in NDRRA funding in 2015-16 and 2016-17. The councils incurred $5.89m in operational costs and wrote-off $1.68m in flood damaged assets over the two years. Additional funding is due to be claimed and recognised in 2017-18.

Appointment of Commissioner

Following a Board of Inquiry Report, the Minister for Planning and Local Government dismissed Huon Valley Council councillors effective from 10 October 2016 and appointed a Commissioner for a period of 12 months. On 17 July 2017, the Minister announced that the Commissioner's appointment was extended for a further 12 months.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 16 provides a snapshot of key financial results for 2016-17.

Table 16: Rural councils financial snapshot

Council	Underlying surplus (deficit)		Net surplus (deficit) before tax		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind
Break O'Day	612	▲	2 896	▼	168 911	▲
Central Highlands	120	▼	2 751	▲	99 245	●
Circular Head	285	▲	3 749	▼	199 534	●
Derwent Valley	1 093	▲	2 802	▲	103 747	●
Dorset	1 645	▲	5 120	▲	152 368	●
Flinders	(1 125)	▼	286	▲	59 514	▲
George Town	(1 113)	▼	635	▼	116 805	●
Glamorgan Spring Bay	386	▲	5 960	▲	125 654	▲
Huon Valley	1 007	▲	3 698	▲	259 396	●
Kentish	100	▼	4 716	▲	133 303	▲
King Island	(827)	▼	725	▼	73 328	●
Latrobe	516	▼	4 190	▲	205 171	▲
Meander Valley	1 489	▲	6 529	▼	283 552	●
Northern Midlands	(678)	▼	3 137	▼	297 654	●
Sorell	49	▼	3 628	▼	260 482	▲
Southern Midlands	22	▲	3 482	▲	111 168	▲
Tasman	904	▼	1 879	▲	70 975	▲
Waratah-Wynyard	134	▲	3 428	▲	203 767	●
West Coast	553	▼	1 848	▼	110 050	●
Total	**5 172**	▲	**61 459**	●	**3 034 624**	●

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

AUDIT SUMMARY – OTHER LOCAL GOVERNMENT ENTITIES

INTRODUCTION

Entities included in this Chapter are:

- single or joint authorities controlled by councils and established under the LGA:
  - Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions (SWS)
  - Cradle Coast Authority
  - Dulverton Regional Waste Management Authority (DRWMA)
  - Southern Tasmanian Councils Authority (STCA)
  - Southern Waste Strategy Authority (SWSA)
- Local Government Association of Tasmania (LGAT)
- Northern Tasmania Development Corporation Ltd (previously Northern Tasmania Development Association Inc).

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

Owner accounting

Both SWS and DRWMA were equity accounted by councils that had respective equity interests in these entities. This means that, following initial recognition, the carrying amount of the investment in the entity increased or decreased to recognise each participating council's share of the joint authority's operating result, with a corresponding amount recognised in each council's income statement. Distributions received from the joint authority reduced the carrying amount of the investment.

Transactions and balances of the remaining five entities were generally not recognised in councils' financial statements.

KEY RESULTS AND DEVELOPMENTS

Collectively, Other local government entities controlled Net assets valued at $26.64m at 30 June 2017 (2016, $22.06m).
They reported a combined Underlying surplus of $4.64m (2015-16, $3.00m).
DRWMA returned $1.75m to its owner councils in dividends and tax equivalents.
SWS commenced construction of the State's first category C waste cell and established a unit trust to develop and operate the cell.
SWSA was wound up on 31 May 2017 and all remaining equity returned to member councils in accordance with its rules. The functions previously undertaken by SWSA were transferred to STCA.
On 14 February 2017, Northern Tasmania Development Association Inc was restructured from an incorporated association to a company limited by guarantee. The entity was renamed Northern Tasmania Development Corporation Ltd. There was no change to the ownership as a result of the restructure.

CONCLUSION

All entities submitted financial statements within the statutory deadline. Unqualified audit reports were issued for those audits that had been completed.

At the date of this Report, the audits of SWS and its subsidiary were still in progress pending the finalisation of note disclosures in the financial statements relating to a government grant received.

OPERATING ENVIRONMENT

Copping Refuse Disposal Joint Authority

C Cell Unit Trust (the Trust) was established to develop and operate the State's first controlled waste C Cell. The Trust was 60% owned by SWS and 40% by Clarence City Council. SWS created a wholly owned subsidiary, C Cell Pty Ltd to act as Trustee of the Trust.

Tenders for construction were advertised by SWS on behalf of C Cell Pty Ltd and awarded in May 2017 on behalf of the Trust.

Construction of the cell was estimated to cost $6.40m and was due to be completed in late November 2017. Funding for the project included $2.00m from the Tasmanian Government, of which $1.70m was received in 2016-17, and borrowings from Clarence City Council of $2.40m, which were not drawn down at 30 June 2017.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 17 provides a snapshot of key financial results for 2016-17.

Table 17: Other local government entities financial snapshot

	Underlying surplus (deficit)		Net surplus (deficit) before tax		Net Assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind
SWS (including C Cell Pty Ltd)	998	▲	998	▲	6 637	▲
DRWMA	3 338	▲	3 214	▲	12 693	▲
Cradle Coast Authority	(176)	▼	(176)	▼	2 114	▼
LGAT (including LGAT Assist)	196	▲	196	▲	4 484	▼
NTD	68	▲	68	▲	231	▲
STCA	244	▲	244	▲	483	▲
SWSA	(30)	▲	(30)	▲	0	▼
Total	**4 638**	▲	**4 514**	▲	**26 642**	▲

Indicator ▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

A review of the financial results of these entities for 2016-17 identified:

- the two waste management authorities, SWS and DRWMA, controlled Net assets totalling $19.33m at 30 June 2017 and reported a combined Underlying surplus of $4.34m for the year
- DRWMA returned $1.75m to owner councils in dividends, $0.53m, and tax equivalents, $1.22m
- SWS, as a for-profit entity, was subject to the National Taxation Equivalents Regime and was liable to pay tax equivalents of $0.25m to its owner councils in 2016-17. The owner councils chose to waive the tax and treat the amount payable as an equity contribution. No dividends were paid to the owner councils during 2016-17
- the remaining five entities collectively controlled Net assets valued at $7.31m at 30 June 2017.

APPENDIX A - ACRONYMS AND ABBREVIATIONS

ALGCP	Accelerated Local Government Capital Program
Audit Act	*Audit Act 2008.*
ASA	Australian Auditing Standards
BIHC	Brighton Industrial and Housing Corporation
the Trust	Copping C Cell Unit Trust
SWS	Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions
CCI	Council Cost Index
DPAC	Department of Premier and Cabinet
State Growth	Department of State Growth
DRWMA	Dulverton Regional Waste Management Authority
EPA	Environmental Protection Authority
LGD	Local Government Division
LGA	*Local Government Act 1993*
LGAT	Local Government Association of Tasmania
Microwise	Microwise Australia Pty Ltd
MEERA	modern engineering equivalent replacement asset
NDRRA	Natural Disaster Relief and Recovery Arrangements,
NTD	Northern Tasmania Development Corporation Ltd
RTR	Roads to Recovery
STCA	Southern Tasmanian Councils Authority
SWS	Southern Waste Solutions
SWSA	Southern Waste Strategy Authority
the Regulator	Tasmanian Economic Regulator

APPENDIX B - TIMELINESS OF REPORTING

Entity	Financial Report Received & Accepted	Accepted report certified by	Final certified report received	Audit opinion signed
Local government authorities				
Urban councils				
Brighton Council	14 August 2017	AA	14 August 2017	28 September 2017
Brighton Industrial and Housing Corporation[3]	14 August 2017	M	27 September 2017	28 September 2017
Microwise Pty Ltd[3]	14 August 2017	M	27 September 2017	28 September 2017
Burnie City Council	14 August 2017	AA	14 August 2017	28 September 2017
Burnie Airport Corporation Unit [3]	31 July 2017	AA	31 July 2017	14 September 2017
Tas Communications Unit Trust[3]	28 July 2017	AA	28 July 2017	5 September 2017
Central Coast Council	14 August 2017	M	26 September 2017	28 September 2017
Clarence City Council[4]	14 August 2017	M	23 October 2017	**25 October 2017**
Devonport City Council	14 August 2017	AA	20 September 2017	20 September 2017
Glenorchy City Council [1,2]	**5 September 2017**	M	19 October 2017	19 October 2017
Hobart City Council	14 August 2017	M	26 September 2017	27 September 2017
Kingborough Council[4]	14 August 2017	M	24 October 2017	**27 October 2017**
Launceston City Council	14 August 2017	M	6 September 2017	21 September 2017
West Tamar Council	11 August 2017	M	17 August 2017	25 August 2017
Rural councils				
Break O'Day Council	14 August 2017	AA	15 August 2017	27 September 2017
Central Highlands Council[1]	**15 August 2017**	AA	15 August 2017	29 September 2017
Circular Head Council	14 August 2017	M	28 September 2017	28 September 2017
Derwent Valley Council	14 August 2017	M	27 September 2017	28 September 2017
Dorset Council	14 August 2017	AA	27 September 2017	28 September 2017
Flinders Council	14 August 2017	M	29 September 2017	**29 September 2017**
George Town Council	14 August 2017	M	22 September 2017	27 September 2017
Glamorgan Spring Bay Council	14 August 2017	AA	14 August 2017	28 September 2017
Huon Valley Council	14 August 2017	M	26 September 2017	27 September 2017
Kentish Council	14 August 2017	M	26 September 2017	28 September 2017
King Island Council	14 August 2017	M	26 September 2017	28 September 2017
Latrobe Council[1,2]	**22 September 2017**	M	1 November 2017	2 November 2017
Meander Valley Council	14 August 2017	AA	14 August 2017	28 September 2017
Northern Midlands Council	14 August 2017	M	29 September 2017	**29 September 2017**
Sorell Council[4]	10 August 2017	M	27 October 2017	**30 October 2017**
Southern Midlands Council	14 August 2017	AA	26 September 2017	27 September 2017
Tasman Council[4]	14 August 2017	AA	30 October 2017	**30 October 2017**
Waratah-Wynyard Council	14 August 2017	M	20 September 2017	21 September 2017
West Coast Council[1]	**15 August 2017**	AA	15 August 2017	29 September 2017
Local government business units				
Copping Refuse Disposal Site Joint Authority	8 August 2017	M	not yet finalised	**not yet finalised**
C Cell Pty Ltd[3]	8 August 2017	M	not yet finalised	**not yet finalised**
Cradle Coast Authority	11 August 2017	M	12 September 2017	14 September 2017

Entity	Financial Report Received & Accepted	Accepted report certified by	Final certified report received	Audit opinion signed
Dulverton Regional Waste Management Authority	11 August 2017	M	7 September 2017	7 September 2017
Southern Tasmanian Councils Authority	14 August 2017	M	27 September 2017	28 September 2017
Southern Waste Strategy Authority	14 August 2017	AA	14 August 2017	28 September 2017
Local Government Association of Tasmania	14 August 2017	AA	14 August 2017	28 September 2017
Northern Tasmania Development Corporation Ltd	14 August 2017	M	8 September 2017	11 September 2017

M - Management

AA - Accountable Authority

Bold red text – *indicates non-compliance with legislated timeframes*

1. Audit opinion issued within 45 days of acceptance of financial report

2. Submitted withing statutory deadline but not accepted as materially complete

3. Audited subsidiaries

4. Audit opinion delayed pending finalisation of Copping Refuse Disposal Site Joint Authority audit

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

Cover photo: Tourism Tasmania & Garry Moore

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