Tasmanian
Audit Office

Report of the Auditor-General
No. 6 of 2015-16

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

Volume 3

Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15

November 2015

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THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

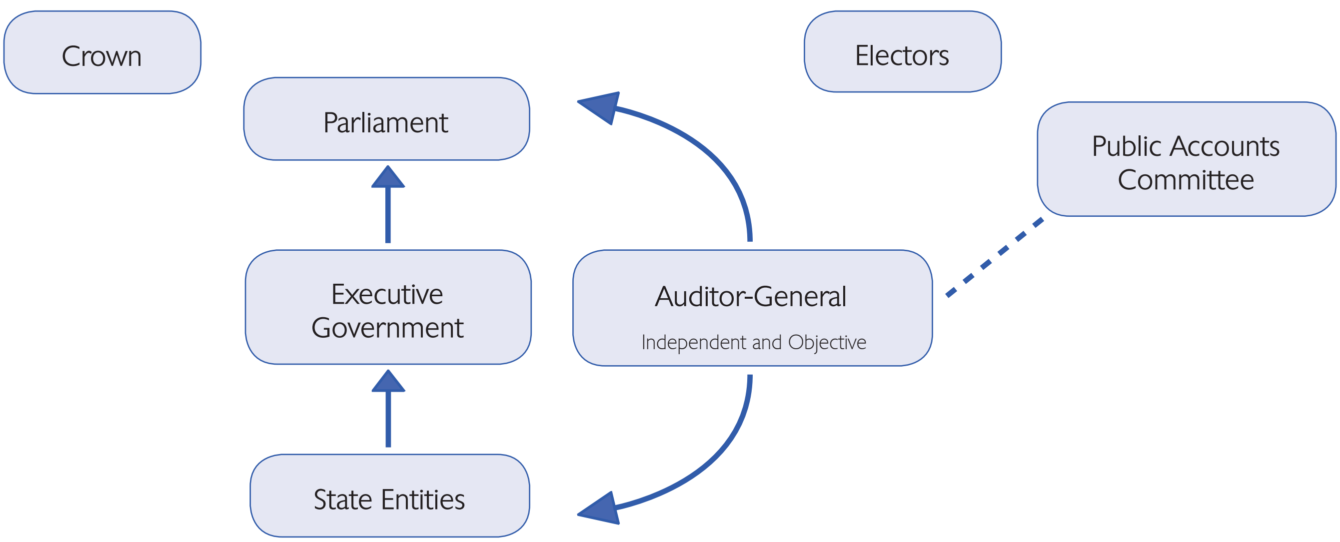
We can also carry out investigations but only relating to public money or to public property.

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

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

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

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



2015 (No. 31)

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2015
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 6 of 2015-16

Volume 3

Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15.

November 2015

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

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19 November 2015

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Madam Speaker

Report of the Auditor-General No. 6 of 2015-16, Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15.

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of state entities, Volume 3 - Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15.

Yours sincerely

H M Blake
Auditor-General

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FOREWORD

This Report details findings from financial audits of 29 local government councils for the year ended 30 June 2015 and our assessments of their financial sustainability. Also included are outcomes from our audits of the financial statements of other local government entities and Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater).

In the Tasmanian context, local government councils manage significant revenues, expenditures and investments in infrastructure. In the year ended 30 June 2015, operating revenues totalled $0.728bn, operating expenses $0.721bn and physical non-current assets at 30 June 2015 were $7.182bn. Cash holdings totalled $0.394bn.

Other local government entities, including the Local Government Association of Tasmania, in the year ended 30 June 2015 returned an Underlying Surplus, $1.832m, and managed Total Net Assets of $19.973m.

TasWater is included in this Report separately. Its Net Profit after Taxation was $33.154m and it returned $30.000m to its owners in dividends, guarantee fees and income tax equivalents during the year. Water and sewerage infrastructure assets under TasWater's management were valued at $1.878bn at 30 June 2015.

My assessments as to the financial sustainability of councils were based on their financial performance, asset management and liquidity related ratios. My conclusion was that financial performance has shown signs of improvement with the overall Underlying Result being a surplus, a first since this analysis was introduced. However, there were still too many councils incurring Operating Deficits. Asset management continued to improve and at 30 June 2015 liquidity of all councils was strong. Overall, it is my view that all councils are financially sustainable but improvements are still needed in some areas.

This Report also includes separate commentary on local government operational efficiency by providing a high level comparison of all 29 councils across a range of efficiency measures, such as rates per head of population or average staff costs per FTE. This year councils are reported based upon a classification of class size. No strong conclusions are drawn from this analysis with the information provided to enhance comparative performance.

My Report also includes discussion about how councils implemented Ministerial Orders issued in February 2014, follow up on the recognition of Land under Roads, a review of Significant Business Activities of councils, and key management personnel disclosures. I also summarise the financial performance of other local government entities and report on the timeliness of local government financial statements in meeting the requirements of the *Audit Act 2008*.

H M Blake

Auditor-General

19 November 2015

INTRODUCTION

SCOPE OF THIS REPORT

This Report deals with the outcomes from completed financial statement audits for the financial year ended 30 June 2015 of:

- Tasmania's 29 local government councils
- Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater)
- seven other local government entities.

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

CHANGE IN REPORTING APPROACH

In previous years individual chapters were prepared for each council or business unit. This has been discontinued and replaced by the following:

- audit summary chapters for each of local government and local government business units
- inclusion for the first time of a chapter outlining the consolidated financial results and position of the 29 councils.

In the case of TasWater, our chapter format remained unchanged but this entity is now included in this Report rather than with Government Businesses. This follows TasWater's removal from the Treasurer's Annual Financial Report.

FORMAT OF THE REPORT

Unless specifically indicated, comments in this Report were current as at 8 November 2015.

In addition to this Introduction, this Report includes:

- Key Points
- Audit Summary – Local Government Councils
- Local Government – Consolidated Financial Results
- Local Government – Comparative Analysis
- Local Government – Financial Sustainability
- Local Government – Operational Efficiency
- Ministerial Orders
- Infrastructure Financial Accounting in Local Government
- Land under Roads
- Significant Business Activities
- Remuneration Disclosures
- Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater)
- Audit Summary – Other Local Government Entities
- Timeliness of Local Government Financial Statements.

AUDIT SUMMARY – LOCAL GOVERNMENT COUNCILS

Local government is made up of 29 councils each responsible for a municipal area. The principal legislation establishing the powers and functions of councils is the *Local Government Act 1993.*

This Chapter summarises information for all 29 councils from our 2014-15 financial audits. It contains details such as key areas of audit attention, key developments and key findings.

LOCAL GOVERNMENT – CONSOLIDATED RESULTS

This Chapter analyses the consolidated financial results of the State's 29 councils comparing them with 2013-14. It should be read with other chapters in this Report and adds to the overall assessment of council finances.

LOCAL GOVERNMENT – COMPARATIVE ANALYSIS

Comparative analysis covering financial and other information for Tasmania's 29 councils was compiled with results provided in four attachments to this Chapter. Unless otherwise stated, information provided is for the financial year ended 30 June 2015. The attachments are presented with councils grouped as either major city; other urban and large rural; or other smaller rural.

LOCAL GOVERNMENT – FINANCIAL SUSTAINABILITY

The ratios applied in this Chapter for assessing the financial sustainability of councils have remained unchanged. However, in previous years this Chapter had assessed applicable governance arrangements as a criterion when assessing financial sustainability. This has been discontinued with our review of governance arrangements now contained in the Chapter headed "Ministerial Orders".

LOCAL GOVERNMENT – OPERATIONAL

This Chapter continues our analyses, commenced in 2013-14, of financial efficiency based on five operational ratios. This year we grouped councils into five categories by size.

MINISTERIAL ORDERS

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

INFRASTRUCTURE FINANCIAL ACCOUNTING IN LOCAL GOVERNMENT

Report of the Auditor-General No. 5 2013-14 *Infrastructure Financial Accounting in Local Government*, tabled in December 2013 (referred to here as the Infrastructure Report) made 22 recommendations relevant to councils. During our 2013-14 and 2014-15 audits of local government financial statements, we undertook additional procedures to determine if those recommendations were adopted. This Chapter provides a summary of the adoption of each relevant recommendation.

LAND UNDER ROADS

The outcomes of a review into infrastructure financial accounting in local government were reported in the Infrastructure Report tabled in December 2013. This Chapter follows up a recommendation in that Report that councils recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads*, regardless of when the land was acquired.

SIGNIFICANT BUSINESS ACTIVITIES

Section 84(2)(da) of the *Local Government Act 1993* requires councils to include in their annual financial report a statement of the operating, capital and competitive neutrality costs in respect of each significant business activity (SBA) undertaken during the financial year together with a statement of the revenue associated with that activity. In this Chapter, we examine compliance with this requirement and how compliance was documented.

REMUNERATION DISCLOSURES

In Auditor-General's Report No. 4 of 2014-15, we recommended that all State entities fully adopt the remuneration related disclosure requirements of Australian Accounting Standards Board (AASB) 124 *Related Parties Disclosures* and of the *Corporations Act 2001* as they relate to disclosing entities. In line with our recommendation, we included example disclosure of Key Management Personnel remuneration in our Local Government Model Financial Statements for 30 June 2015, and recommended that Local Government entities consider adoption. This Chapter examines progress.

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD

The *Water and Sewerage Corporation Act 2012* provided for the establishment and incorporation of TasWater. This Chapter explores its second year of operations.

AUDIT SUMMARY – OTHER LOCAL GOVERNMENT ENTITIES

Entities included in this Chapter are mainly single or joint authorities controlled by councils and established under the *Local Government Act 1993*. Their financial results are summarised in this Chapter.

TIMELINESS OF LOCAL GOVERNMENT FINANCIAL STATEMENTS

Under section 17 of the *Audit Act 2008* specific timeframes are set by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. Listed in this Chapter are local government entities whose signed financial statements were not received by the statutory deadline of 45 days from the end of the financial year.

SUBMISSIONS AND COMMENTS RECEIVED

Copies of relevant Chapters ewre provided to councils in accordance with section 30(2) of the *Audit Act 2008*.

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

KEY POINTS

Overall consolidated financial performance and position of the State's 29 Councils:

- Underlying Surplus of $6.385m in 2014-15 (2013-14, Underlying Deficit of $1.656m). However, 14 councils reported Underlying Deficits.
- Consolidated Net Assets at 30 June 2015, $9.206bn (30 June 2014, $8.609bn).
- Cash generated from operating activities of $216.183m ($129.655m).
- Consolidated cash and investments increased from $346.434m to $394.420m, an increase of $47.986m or 13.8%.
- Improvement in the Operating surplus ratio with the average annual all councils ratio exceeding our benchmark for the first time in our nine-year period of review. However, 14 (12) councils were below benchmark.
- The nine-year average Operating surplus ratio was negative 1.8 (negative 2.1, eight-year average).

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- The majority of councils submitted their financial statements within the statutory reporting deadline with the exception of Break O'Day and Latrobe Councils.
- All audits were completed satisfactorily and unqualified audit reports were issued in all instances.
- Key developments discussed include Financial Assistance Grants paid in advance, transfers of land to University of Tasmania and significant infrastructure projects undertaken by councils.
- Although all audits were completed satisfactorily, we identified a number of audit matters and made recommendations to the majority of the 29 councils. Key findings centred on accounting for infrastructure assets, administration of information systems, administration of credit cards used by staff and elected members, and quality of financial reporting.

LOCAL GOVERNMENT – CONSOLIDATED FINANCIAL RESULTS 22

This Chapter was included for the first time consolidating the financial results of the State's 29 councils and comparing them with the 2013-14 position. It should be read with other Chapters in this volume and adds to the overall assessment of council finances.

- From a consolidated perspective, the State's councils reported an Underlying Surplus of $6.385m and Net Assets of $9.206bn both of which were an improvement on the prior year.
- However, 14 councils recorded net Underlying Deficits totalling $15.292m.
- Consolidated Net Surplus amounted to $320.849m, an increase of $260.847m, and included the impact of Financial Assistance Grant grants received in advance, asset revaluations and the recognition of land under roads by some councils.
- Consolidated Comprehensive Surplus amounted to $569.914m which included the impact of fair value revaluation of Non-Current Assets, $257.461m, and fair value adjustment in investment in TasWater $13.537m.
- Cash generated from operations totalled $216.183m ($129.655m) and the consolidated cash position increased from $346.434m to $394.420m, by $47.986m or 13.8%.
- Administration of credit cards used by staff and elected members.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS 29

- The 29 councils raised $441.665m in rates, an increase of 3.99%. Cities, in general, earned a greater percentage of their operating revenue from rates.
- Councils employed 3 308 FTEs at 30 June 2015. Average employee costs per FTE was $79 000.
- On average, councils rated $1 410 per rateable property, but expended $2 505 in operating costs per rateable property. Councils' operating expenses were being supported by other revenue sources including fees and charges, interest revenue and grants.
- Most councils managed working capital effectively and can meet their short-term commitments from existing current assets.
- All councils had large or reasonably large bank and investment balances some of which were committed to future capital projects.
- For the 29 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 144.5%. However, some councils stood out as being below the target of 100%.
- Management of debt ratios indicated that all councils with debt were comfortably able to meet their loan interest charges and future longer-term debt commitments.
- Outstanding rates totalled $12.565m at 30 June 2015 with an average per council of $0.433m (2013-14, $0.545m).

LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY 41

- There was significant improvement since 2013-14, with the average all councils Operating Surplus ratio exceeding the benchmark for the first time in the nine-year period of review.
- The 29 councils generated a combined net Operating Surplus of $6.385m in 2014-15 (2013-14, $1.656m Operating Deficit) with 15 councils contributing $21.679m of this amount.
- However, 14 (12) councils generating net Operating Deficits totalling $15.292m ($18.018m) three of which contributed $12.574m, or 82%, of this amount.
- Councils on the whole slightly under invested in capital expenditure on existing assets in comparison to our benchmark although there was improvement when compared to the previous year.
- Councils' road assets had sufficient capacity to provide services to rate payers with no council in the high risk category at 30 June 2015.
- All councils were in a position where they were able to service their current commitments, had manageable debt levels and capacity to borrow should the need arise.

LOCAL GOVERNMENT OPERATIONAL EFFICIENCY 58

- All graphs and commentary should be read with caution given that numerous factors unique to councils can impact on total rates, operating and employee costs and staff levels.
- The analysis provides information within different council classifications based on size and structure which should facilitate identification of how similar councils are performing.
- On average, the greater the number of rateable properties in a municipality, the higher the rates. However, the inverse occurs for Rural Agricultural Large and Rural Agricultural Very Large groupings.
- On average, the larger the population the lower the rates per capita in a council. However, the inverse occurs for Urban Small and Urban Medium groupings.
- On average, the greater the number of rateable properties, the lower the operating costs per rateable property. However, the inverse occurs for Urban Small and Urban Medium groupings.
- On average, the more FTEs a council had, the lower the average staff costs per FTE. However, the inverse occurs for the Urban Medium grouping.
- On average, there were more FTEs with larger populations. However, the inverse occurs for the Rural Agricultural Large group.

MINISTERIAL ORDERS 78

- In February 2014 Orders were gazetted requiring local government councils to establish audit panels, develop long-term financial and long-term asset management strategies, policies and plans and report certain financial sustainability indicators in the notes to annual financial statements.
- We followed up progress towards compliance with the Orders in 2013-14 and again as part of our 2014-15 financial statement audits.
- We found that 18 (2013-14, 15) of the 29 Councils fully complied with all Orders and 10 Councils complied partially.
- We had concerns about independence of audit panels where councils appointed as "independent" members staff from other councils.
- Derwent Valley remained the only Council without an audit panel.
- Clarence, Glenorchy, Hobart, Launceston and Kingborough all had their internal audit function outsourced to an audit firm.
- Remaining councils did not have an internal audit function. However, some were considering, or had already implemented, arrangements to perform an in-house function similar to internal audit, delivered either by their own staff or staff from other councils.

INFRASTRUCTURE FINANCIAL ACCOUNTING IN LOCAL GOVERNMENT 84

- The Infrastructure Report[1] made 23 recommendations, 22 of which were relevant to councils.
- Further progress was made by councils towards adopting our recommendations. At 30 June 2015, there were 50 instances where councils did not adopt the recommendations, compared with 80 at 30 June 2014.
- The main areas still requiring attention were:
  - recognition of all land under roads
  - componentisation of complex assets
  - annual reviews and documentation of accounting estimates.

[1] *Infrastructure Financial Accounting in Local Government*

LAND UNDER ROADS 89

- It has been our long-standing view that councils should recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads,* regardless of when the land was acquired.
- At 30 June 2015, 14 councils had adopted our recommendation by recognising all land under roads. A further nine councils had only recognised land under roads acquired post 1 July 2008.

SIGNIFICANT BUSINESS ACTIVITIES 93

- We identified a lack of consistency in business operations disclosed by councils as Significant Business Activities (SBAs) in their financial reports.

REMUNERATION DISCLOSURES 95

- We included example disclosure of Key Management Personnel remuneration in our Local Government Model Financial Statements for 30 June 2015, and recommended that Local Government entities (at that time this did not include joint authorities or TasWater) consider adoption.
- Brighton, Burnie City and Glamorgan Spring Bay Councils chose to partially adopt and disclosed the dollar value of General Manager's remuneration in their financial statements.
- Devonport City Council separately identified the cash component paid to the officer in the highest band as part of the senior officer remuneration included in their annual report.

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD (TASWATER) 98

- TasWater generated an Underlying Profit (being the net profit before contributions, other transactions and taxation) of $25.169m.
- Its Net Profit after Taxation was $33.154m and it reported a Total Comprehensive Profit of $34.452m.
- During the year $102.481m was invested in Property, plant and equipment.
- TasWater is in dispute with Launceston City Council over contributions for the maintenance of the stormwater component of assets maintained by TasWater. At 30 June 2015, the matter had not been resolved and was expected to go to arbitration.
- The Return on assets of 2.2% and Return on equity of 2.1% are considered low, especially in comparison to the pre-tax weighted average cost of capital of 5.99% used in the valuation of assets under an income model.
- TasWater had a current ratio of 0.39, below our expected benchmark of not less than 1, and, at 30 June 2015 it had negative working capital of $101.250m (2013-14, $67.667m). Both the ratio and net working capital were impacted upon by high short term borrowings, reflecting TasWater's decision to take advantage of current low interest rates on these borrowings.
- The financial statements included information on TasWater's two operating segments, water and sewerage. Both segments generated profits after tax.
- Amounts paid to councils this year, consisting of dividends, income tax equivalents and loan guarantee fees, totalled $30.000m (2013-14, $29.000m).

OTHER LOCAL GOVERNMENT ENTITIES 110

- Collectively, Other Local Government entities controlled Net assets valued at $19.973m at 30 June 2015.
- They reported a combined Underlying Surplus of $1.832m.
- Dulverton Regional Waste Management Authority returned $0.682m to its member councils in dividends and tax equivalents.
- Copping Refuse Disposal Site Joint Authority reinvested $0.070m of taxation equivalents as an equity contribution by agreement with member councils.
- All entities submitted their financial statements within the statutory deadline with one exception. The Northern Tasmania Development Association Inc. submitted their financial statements 18 days after the statutory deadline.
- Unqualified audit reports were issued in all cases.

TIMELINESS OF LOCAL GOVERNMENT FINANCIAL STATEMENTS 113

- Three Local Government entities failed to submit their financial statements for audit within the statutory deadline of 45 days from the end of the financial year.
- One set of financial statements submitted for audit was not accepted.

RECOMMENDATIONS

The summary below notes the recommendations identified in this Report.

LAND UNDER ROADS

We continue to recommend that councils:

1. Recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads,* regardless of when the land was acquired.
2. Review their current valuation method and where not valuing on an individual road reservation basis using rates provided by the Office of the Valuer-General (OVG), consider the adoption of this method of valuation to ensure consistency across local government
3. Ensure they understand the inputs and assumptions and how they apply to the valuation in order to meet the disclosure requirements of AASB *13 Fair Value Measurement*.

SIGNIFICANT BUSINESS ACTIVITIES

We recommend that all councils revisit the applicable SBA reporting requirements under Section 84(2)(da) of the *Local Government Act 1993* as part of preparation of their annual financial reports and that these assessments be documented.

REMUNERATION DISCLOSURES

We recommend that Local Government entities consider early adoption of the remuneration related disclosure requirements of AASB 124 *Related Parties Disclosures* as well as disclosing information relating to remuneration of each member of key management personnel consistent with the illustrative example in our Local Government Financial Statements for 30 June 2015. The illustrative example follows disclosure requirements for Government businesses and departments.

In relation to TasWater, we recommend that it voluntarily discloses Director and Executive Remuneration in the notes to its financial statements, consistent with the requirements contained in the Guidelines.

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD

TasWater holds significant water and sewerage assets which include material long-life infrastructure assets. The fair value of these water and sewerage assets is based on their 'value in use' (income valuation). The calculation of value in use is highly dependent on a range of assumptions and estimates.

Audit testing of the valuation parameters supported TasWater's assessment that the carrying value of water and sewerage infrastructure assets was not impaired at 30 June 2015. However, the volatility in the valuation model remains a significant risk.

It was recommended that TasWater undertake a review of the valuation model, encompassing assumptions and inputs.

AUDIT SUMMARY – LOCAL GOVERNMENT COUNCILS

SNAPSHOT

- The majority of Councils submitted their financial statements within the statutory reporting deadline with the exception of Break O'Day and Latrobe Councils.
- All audits were completed satisfactorily and unqualified audit reports were issued in all instances.
- Key developments discussed include Financial Assistance Grants paid in advance, transfers of land to University of Tasmania and significant infrastructure projects undertaken by Councils
- Although all audits were completed satisfactorily, we identified a number of audit matters and made recommendations to the majority of the 29 Councils. Key findings centred on accounting for infrastructure assets, administration of information systems, administration of credit cards used by staff and elected members and quality of financial reporting.

INTRODUCTION

Local Government is made up of 29 councils each responsible for a municipal area. The principal legislation establishing the powers and functions of councils is the *Local Government Act 1993.*

This Chapter summarises information for all 29 councils from our 2014-15 financial audits.

KEY AREAS OF AUDIT ATTENTION

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

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

These and other factors influenced audit plans and identification of areas for particular audit attention. In almost all cases, there will be common areas requiring audit attention.

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

<table>
<tr><th>Description of Area</th><th>Impact on our audit approach</th></tr>
<tr><td>Property, plant and equipment include material long-life infrastructure assets.

Revaluations required estimations, judgments and complex calculations. There was a risk of material mis-statement of assets and depreciation as a result of this process.

Useful lives of assets and consequent depreciation policies can have a significant impact upon annual financial results of councils.</td><td>We tested:
• valuation reports, calculations and underlying assumptions supporting fair values of assets
• the qualifications of those persons conducting valuations to ensure appropriate independent expertise and assessed the extent to which management reviewed and challenged their work
• reconciliation of asset registers to general ledgers. This included audit of additions and disposals to ensure completeness and accuracy.
• Depreciation rates and useful lives of assets were reviewed to ensure that depreciation calculations were accurately recorded within both the asset register and general ledger and that depreciation policies were standards compliant.</td></tr>
<tr><td>Councils had significant capital works and maintenance expenditure programs.</td><td>We:
• undertook audit procedures aimed at ensuring capital and maintenance expenditure was appropriately accounted for and disclosed
• where a risk was identified, reviewed tender and contract policies and tested procedures in place at councils for compliance with the Local Government Act 1993.</td></tr>
<tr><td>Councils held significant balances in term deposits. Cash and cash equivalents by nature were liquid assets and highly susceptible to fraud.</td><td>We:
• tested placement of investments and obtained confirmations at year end
• performed audit procedures over completeness of cash to ensure that all deposits were brought to account.</td></tr>
<tr><td>Councils' major revenue was derived from rates and related charges which are calculated on individual properties.</td><td>We:
• substantiated rates by reconciling councils' rateable and non-rateable Assessed Annual Value (AAV) to the Valuer-General's AAV total and recalculated these and other charges
• performed analytical review procedures over rates and charges for the period, building changes from the prior period into our expectations.</td></tr>
</table>

Description of Area	Impact on our audit approach
Councils had a wide range of revenue streams that made up their user charges revenue. This can include several locations where cash receipts are handled.	We documented and assessed controls over various cash receipting locations on a rotating basis (where applicable). Key revenue and receipting controls over revenue transactions throughout the period were tested for compliance in accordance with our controls testing plan.
Councils received significant funds from the Australian Government, through the State Grants Commission, in the form of Financial Assistance Grants, provided for general purpose use and for the provision of local roads.	Audit confirmed such balances via external confirmations, obtained from the Department of Treasury and Finance, and reconciled these balances to the financial statements.
Councils' staff were able to place orders for goods and services under various delegation limits and centralised payment processing systems. These arrangements require effective internal controls including separation between ordering and approval processes.	Audit testing included: • detailed analytical procedures performed over expenditure accounts against prior year and budget • understanding key controls over payment and expenditure transactions and subjecting these to audit tests throughout the period.
Councils employed a large number of employees, on differing rates of pay, and employee expenses was a significant expenditure item. A number of employees completed timesheets which increased the complexity of the payroll process. Annual leave and long service leave (LSL) balances were material in most councils. Calculations of LSL and some annual leave liabilities are based on a number of assumptions and, where applicable, discounting applied.	Audit testing included: • detailed analytical procedures were performed over wages and salary accounts, based upon average full time equivalent employee numbers • verifying that key controls over payroll transactions were complied with throughout the period. Employee provision calculations were tested for accuracy and reasonableness. We also tested the allocation between Current and Non-Current Liabilities.
Councils processed a number of journal entries within their finance systems to manage transactions, adjust account balances or correct mis-allocations.	We reviewed general journals posted throughout the year, to ensure that these journals represented valid transactions and were supported by adequate documentation.

AUDITS OF THE 2014-15 STATEMENTS

Financial statements were submitted within the statutory reporting deadline by 27 of the 29 councils. Break O'Day and Latrobe Councils submitted their financial reports four and 14 days respectively after the deadline. Latrobe Council failed to submit its financial report within the deadline for the third consecutive year.

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

A summary table is provided in the *Timeliness of Local Government Financial Statements* Chapter in this Report.

KEY DEVELOPMENTS

We noted the following key developments during our audits of councils:

Financial Assistance Grants paid in advance

The Australian Government provides Financial Assistance Grants to councils for general purpose use and the provision of local roads and bridges. These grants are generally paid in four instalments. Payments in 2014-15 included advance payments of $35.896m being half of the 2015-16 allocations. No advance payments were made in 2013-14 but half of that year's allocation was paid in 2012-13.

In accordance with AASB 1004 *Contributions*, councils recognised advance payments as income when they received the funds. West Tamar Council was the only council that did not recognise the advance payment as income because it did not receive the funds into its bank account until after 30 June 2015.

Recognition of land under roads

A number of councils recognised land under roads in accordance with AASB 1051 *Land Under Roads* for the first time in 2014-15. Further discussion is provided in the *Land Under Roads* Chapter of this Report.

Transfers of land

Burnie City Council and University of Tasmania (UTAS) completed a transfer of land to allow for the construction of student accommodation. The land surrounds the West Park Oval and Sports Facility (West Park Precinct) and incorporates the Makers' Workshop. Ownership of the Makers' Workshop was retained by Council, with a long-term lease to UTAS. The Makers Workshop building valued at $6.250m was de-recognised by Council on 1 July 2014, with control passing to UTAS.

UTAS also purchased the Melville Street Car Park site from Hobart City Council for $3.800m for the construction of student accommodation.

Major Infrastructure projects

The Burnie Aquatic Centre is undergoing an $8.840m re-development, jointly funded by Burnie City Council, State and Australian Governments. Council committed $2.800m to the project.

Devonport City Council progressed its Living City Project, a $25.000m rejuvenation of the central business district. The value of land and buildings purchased by Council as part of this project was $11.345m at 30 June 2015. It borrowed an additional $2.400m in 2014-15 to fund the project. The Australian Government committed $10.000m towards Stage 1 from the National Stronger Regions Fund. Construction of Stage 1 will commence in 2016.

Launceston City Council progressed the Invermay Flood Protection Enhancement Project, which is funded by Council and State and Australian Governments. The estimated cost is $58.300m (revised in 2010-11 from the original estimate of $39.000m).

Other significant developments

Glenorchy City Council was in dispute with a contractor responsible for the construction of the Derwent Park Stormwater Harvesting and Industrial Re-use Project. The value of the claim against the contractor, who is now in liquidation, was $1.498m at 30 June 2015.

Hobart City Council signed an agreement with the Derwent Sailing Squadron to act as guarantor for a $4.100m loan.

An ongoing dispute between Launceston City Council and Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) over a fee for access to a combined sewerage and stormwater system owned by TasWater progressed to arbitration.

KEY FINDINGS

Although all audits were completed satisfactorily, we identified a number of audit matters and made recommendations to the majority of the 29 councils.

All internal control and other weaknesses identified during audits were communicated to management at an appropriate level of responsibility. Significant matters were detailed in written reports which included our recommendations for improvements and management responses. These reports were forwarded to the Mayor and General Manager, with copies sent to, where relevant, audit panels and also to the Minister for Local Government and Planning.

We consider all matters raised with management in the following year as part of a risk assessment when planning an audit. Where issues are corrected, this is noted and not raised again, although we may perform audit testing to confirm this.

Where management disagrees with a finding, or, in our view, the corrective action proposed by management does not adequately address the matter, we categorise the finding as 'unresolved'. In such a situation, we still report the matter and management response to the Mayor and General Manager. We then adapt our audit plan to address any risk of financial statements being mis-stated due to the identified weakness.

Key recommendations included matters that:

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

Common key recommendations arising from 2014-15 audits are noted below.

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

Councils made further progress towards adopting recommendations made in our Report No. 5 of 2013-14, *Infrastructure Financial Accounting in Local Government*. At 30 June 2015, there were 50 instances where councils did not adopt our recommendations, compared with 80 last year. Further commentary is included in the *Infrastructure Financial Accounting in Local Government* Chapter in this Report.

Local Government Ministerial Orders

Councils progressed implementing requirements of the Ministerial Orders during 2014-15. However, some councils had still to develop and adopt long-term financial and asset management plans and strategies. Derwent Valley did not have an audit panel in place and we recommended that it established an audit panel in accordance with the requirements of the Order. Further commentary is included in *Ministerial Orders* Chapter in this Report.

Significant Business Activities

Commentary on councils' compliance with requirements regarding Significant Business Activities is included in the *Significant Business Activities* Chapter in this Report.

Infrastructure

Infrastructure asset matters raised across various councils, excluding those discussed in the *Infrastructure Financial Accounting in Local Government* Chapter in this Report, included:

- full valuations not performed with sufficient regularity
- inappropriate indices used to estimate value for reporting purposes between full valuations
- incorrect inputs used to update unit rates used to determine replacement cost of assets
- assets renewed or replaced not being written-off as an expense but instead taken through asset revaluation reserve when a full revaluation takes place
- assets obtained for no or nominal consideration not being brought to account as capital revenue but instead recognised through asset revaluation reserve when a full revaluation takes place
- valuations driven by condition assessment that resulted in adjustments to the age of the asset (rather than its useful life) and significant retrospective adjustments to accumulated depreciation
- asset registers not integrated with the general ledger (for example, using manual spreadsheets), not reconciling to financial statements
- processing errors made when updating from manual asset registers to financial statements.

Information Systems

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

- out of date or non-existent information security policies
- no information technology (IT) strategic plans or IT risk registers
- no, out of date, or untested, disaster recovery and business continuity plans
- deficiencies in controls around the management of user access, new users, termination or modification of access rights, both lack of formalised policies, or policies not being adhered to
- staff with access rights incompatible with their duties
- network and application password parameter settings that did not meet industry best practice
- weaknesses in the password parameter settings
- passwords being shared
- no security logs or review of those logs on a regular basis
- inadequate formal change management processes and procedures surrounding software upgrades and IS changes.

Credit card administration

The use of credit cards by staff and elected members was generally regulated by internal policies. Those policies required all credit card transactions be authorised by a person independent from the cardholder. Generally, purchases made by the Mayor are authorised by the General Manager. Some councils required the Mayor to authorise purchases made by the General Manager. However, the *Local Government Act 1993* does not allow for a person who is not an employee of council to authorise expenses. It is therefore necessary that a suitably senior employee authorises the General Manager's credit card transactions. In order to mitigate both the actual and perceived risks associated with credit cards and ensure probity, we recommended incorporating into credit card policies a requirement for credit card purchases made by the General Manager to be disclosed to and scrutinised by an appropriate committee (for example an audit panel) on a regular basis.

During our audits we noted instances of non-compliance with policies and delegations as well as inadequate supporting documentation for credit card usage.

In respect of Derwent Valley Council, weaknesses in the management of credit cards reported to Council each year since 2012-13 remained unresolved. The matter related to a lack of adequate supporting documentation for credit card purchases. Our recommendations again included:

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

We continued to remind Derwent Valley Council of those matters and increased the associated audit risk to high.

Quality control review of financial statements

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

- lack of reconciled supporting workpapers for balances included in financial statements
- incorrect application of accounting standards
- incomplete notes or notes not agreeing to financial statements
- incorrect note references
- spelling and typographical errors
- addition and rounding errors.

In 2014-15 we did not accept the financial statements submitted initially by Sorell Council because they were not complete in all material respects.

Other matters

Other matters raised included:

- inadequate segregation of incompatible functions within financial systems, mainly expenditure and payroll
- no independent review of changes to master files
- no, or undocumented, independent review of bank reconciliations and payroll reports
- lack of appropriate delegation or authorisation of expenditure transactions
- weaknesses in internal controls for the processing of general journals
- out-of date, non-existent or irregularly reviewed risk registers.

RESPONSIBLE MINISTER

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

COMMENTS AND SUBMISSIONS RECEIVED

Kentish Council

Kentish Council has received its Final Management Letter in relation to the 2014/15 audit with no matters outstanding or issues raised.

Kentish Council respectfully suggests that the usefulness of this section of the report would be significantly enhanced by including details of the number of Councils to which each common key recommendation applies and the relative risk or importance of each common key recommendation (e.g. low, medium or high). Council believes that in the absence of such specific information, broad generalisations may be made by the reader.

CR Don Thwaites

Mayor

Auditor-General's Response

The suggestion made by Kentish Council will be considered in drafting the 2015-16 Report.

Derwent Valley Council

In relation to the credit card matter discussed in the Key Findings part of the Chapter, additional administration protocols have been implemented to address the matter raised.

Greg Winton

General Manager

LOCAL GOVERNMENT - CONSOLIDATED FINANCIAL RESULTS

OVERVIEW

This Chapter is included for the first time consolidating the financial results of the State's 29 councils and comparing them with the 2013-14 position. It should be read with other Chapters in this Report and adds to the overall assessment of council's finances.

From a consolidated perspective, the State's councils had a reasonable year, financially reporting an Underlying Surplus of $6.385m and Net Assets of $9.206bn, both of which were an improvement on the prior year.

SNAPSHOT

- Consolidated Underlying result was a surplus of $6.385m. This was the first consolidated Underlying surplus since the Report of the Auditor-General No 1 was issued in June 2010 when we commenced the annual analysis of the financial sustainability of councils.
- Consolidated Net Surplus amounted to $320.849m, an increase of $260.847m. The increase was primarily attributed to Recognition of land under roads, $179.121m, an increase in Capital grants and contribution of non-current assets of $36.898m and timing of Financial Assistance Grants, $32.463m.
- Consolidated Comprehensive Surplus amounted to $569.914m.
- Net Assets of all 29 councils increased from $8.610bn to $9.206bn, an increase of $0.596bn or 6.9%. The increase was due to councils' investment in Property, plant and equipment, $217.440m, and revaluation of existing, mainly infrastructure assets, $257.461m.
- The consolidated cash position increased from $346.434m to $394.420m, an increase of $47.986m or 13.8%. The increase in Cash and financial assets was largely due to the early receipt of 2015-16 Financial Assistance Grants, $32.463m.

INTRODUCTION

In this Report, we included, for the first time, an analysis of the consolidated results of all 29 councils for this and the previous financial year. We collated the financial statements for the financial years ended 30 June 2015 and 30 June 2014 and consolidated them into a single set of the following statements:

- Comprehensive Income
- Financial Position
- Cash Flows.

The following analysis will examine major variations between the consolidated information of the two financial years providing explanations for movements where relevant.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014-15	2013-14
	$'000s	**$'000s**
Rates	441 665	424 731
Fees and charges	116 337	112 212
Grants	91 718	91 199
Interest revenue	14 624	16 335
Other revenue	63 538	61 068
Total Revenue	**727 882**	**705 545**
Employee costs	254 992	252 076
Depreciation	160 089	158 894
Finance costs	5 564	5 398
Other expenses	300 852	290 833
Total Expenses	**721 497**	**707 201**
Underlying Surplus (Deficit)	**6 385**	**(1 656)**
Capital grants and contributions of non-current assets	109 315	72 417
Financial assistance grant received in advance	34 574	(35 812)
Recognition of land under roads	179 121	12 290
Non-Current asset recognition adjustment	3 119	25 104
Other	(11 665)	(12 341)
Net Surplus (Deficit)	**320 849**	**60 002**
Other Comprehensive Income		
Fair value revaluation of non-current assets	257 461	(33 261)
Fair value adjustment in TasWater	13 537	(223 034)
Actuarial gain(loss) on defined benefit plan	4 563	6 289
Other	504	68
Total Comprehensive Income (Expense)	**596 914**	**(189 936)**
Comprehensive Surplus	**596 914**	**(189 936)**

The consolidated Underlying Result was a surplus of $6.385m[1]. This is the first Underlying Surplus achieved since we commenced the annual analysis of the financial sustainability of councils. The surplus arises primarily due to containment of expenditure.

Total Revenue increased by 3.2% with no significant movements within the classes of revenue.

Total Expenses increased by 2.0% with Other expenses which increased by 3.4% being the major movement. The rate in the overall increase in Total Expenses was less than that for Total Revenue leading to the Underlying Surplus.

The largest line item in Total Expenses was Other expenses. Other expenses consisted of expenditure for items such as:

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

In both years, the 29 councils achieved a consolidated Net Surplus result. The Net Surplus this year was $320.849m, an increase of $260.847m which is explained by:

- Higher Financial Assistance Grants received in advance. The Australian Government provides Financial Assistance Grants to councils for general purpose use and for the provisions for local roads. These grants are normally paid in quarterly instalments so that, in a normal financial year, four quarterly instalments of about $16.000m to $17.000m might be expected. However, in recent years the Australian Government, as part of its own budget management arrangements, paid some quarterly payments in advance resulting in only two quarters received in 2013-14 and six quarters in 2014-15. These arrangements significantly distorted financial results of councils which was why we showed impacts after determining the Underlying result.
- Recognition by some councils of land under roads, being $179.121m in 2014-15. The need to recognise land under roads is discussed in the Chapters of this Report.
- Capital grants and contributions of non-current assets were lower in 2014-15. Capital grants are mainly from government and consist of funding specifically received for new and upgraded assets. This included Commonwealth grants mainly for roads to recovery and bridges. The State Government also provided capital grants for improving public spaces, street renewal, road safety, memorials and other purposes. It is expected that these grants will vary year to year depending upon applications made by councils and the budget priorities of Australian and State Governments.
- Non-Current Asset recognition adjustment in 2014-15 mainly related to Launceston City Council for the recognition of previously unrecognised assets. In the previous year the adjustment included $17.562m, which was directly attributable to parks and roads assets brought to account for the first time in 2013-14.

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[1] In preparing this Report, we reclassified certain financial statements items. Dollar amounts presented in tables, the text and figures have been rounded. Discrepancies between Chapters in the Report reflect reallocation of revenue and expenditure and/or rounding.

- Other expense items in the current year were, $11.665m, which included Makers' Workshop valued at $6.250m de-recognised by Burnie Council as control of this asset passed to the University of Tasmania.

The Comprehensive Result in 2014-15 was a surplus of $596.914m (2013-14, $189.936m deficit). The main reason for items included in this result were:

- The Fair value revaluation of Non-Current Assets of $257.461m. Assets such as property, buildings and infrastructure were re-valued with sufficient regularity to ensure they reflected fair value at balance date. The revaluation increments and decrements on these assets were recorded in Other comprehensive items. This movement in the fair value of these assets is dependent upon a number of inputs. As most councils' assets were valued on a depreciated replacement cost basis, movements in construction costs would be a major input in their valuation. Another factor was re-assessment of the age and capacity of these assets.
- Higher fair value adjustment in TasWater. Councils hold as an investment a proportional interest in TasWater and account for their ownership interest in accordance with AASB 139 *Financial Instruments: Recognition and Measurement.* This investment is classified as an "available-for-sale financial asset". The increase this year reflectd higher net assets in TasWater.
- Lower actuarial gain on defined benefit superannuation plans. Two councils, Hobart and Launceston Cities, manage defined benefit plans which are valued annually. The valuation results in gains or losses depending upon actuarial assumptions. The consolidated actuarial gains for 2014-15 were $4.563m.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2015	2014
	$'000s	**$'000s**
Cash and financial assets	394 420	346 434
Receivables	40 542	36 346
Inventories	4 505	3 103
Other	8 002	11 014
Assets held for transfer and resale	16 467	3 148
Total Current Assets	**463 936**	**400 045**
Payables	63 677	60 628
Interest bearing liabilities	8 933	9 146
Provisions – employee benefits	52 677	49 963
Other	15 414	16 103
Total Current Liabilities	**140 701**	**135 840**
Net Working Capital	**323 235**	**264 205**
Property, plant and equipment	7 182 237	6 641 446
Investment in TasWater	1 549 664	1 536 454
Museum collection	236 035	235 709
Other	29 990	51 089
Total Non-Current Assets	**8 997 926**	**8 464 698**
Interest bearing liabilities	77 671	78 273
Provisions – employee benefits	13 576	17 018
Other	4 371	4 200
Provision for rehabilitation	17 484	17 699
Provisions – aged persons units	1 775	1 893
Total Non-Current Liabilities	**114 877**	**119 083**
Net Assets	**9 206 284**	**8 609 820**
Reserves	4 518 526	4 203 703
Accumulated surpluses	4 684 599	4 402 953
Outside equity interest	3 159	3 164
Total Equity	**9 206 284**	**8 609 820**

Overall the Net Assets of all 29 councils increased from $8.610bn to $9.206bn, an increase of $0.596bn or 6.9%. This increase can be mainly attributed to the following:

- An increase in the Cash and financial assets, $47.986m. This is analysed in detail in the following section on the Consolidated Statement of Cash Flows.
- Receivables increased by $4.196m and included rates outstanding which is discussed further in the *Local Government* Chapter in this Report. Other receivables included fees and fines debtors, tax clearing accounts and prepayments. One reason for the overall increase in Receivables was at Meander Valley which included as a Receivable:
    - a contribution to the purchase of an industrial estate for which it will be repaid $1.436m
    - and $3.762m for an interest free loan for the development of aged care facilities in Deloraine.
- Other assets of $8.002m, which included $0.998m for land held for sale by Brighton Industrial Housing Corporation when consolidated into Brighton Council.
- Assets held for transfer or resale increased from $3.148m to $16.467m as Dorset Council reported a $15.118m transfer of infrastructure to the Department of State Growth.
- Higher Property, plant and equipment, $540.791m. This was due to the Fair value revaluation of non-current assets, $257.461m, capital expenditure on new and existing assets, $217.440m, recognition of land under roads, $179.121m, and investment properties re-classified, offset by Depreciation, $160.089m.
- Museum Collection primarily consisted of the Queen Victoria Museum and Art Gallery collections which were heritage and cultural assets. These assets were valued at $236.035m at 30 June 2015.
- Other non-current assets dropped by $21.099m mainly due to investment properties in Hobart City being re-classified to Property, plant and equipment.
- Payables dropped by $3.049m. This liability mainly consisted of trade and supply creditors and accrued expenses. Included in Payables was an amount for $10.000m accrued by Launceston City Council for land acquisition.
- Reserves increased by $314.823m mainly due to asset revaluations.

CONSOLIDATED STATEMENT OF CASH FLOWS

	2014-15	2013-14
	$'000s	**$'000s**
Operating cash flows		
Receipts from customers	627 530	594 880
Cash flows from government	122 990	55 178
Payments to suppliers and employees	(570 504)	(561 417)
Interest received	14 321	16 288
Distributions from TasWater	26 011	28 914
Finance costs	(4 165)	(4 188)
Cash from (used in) Operations	**216 183**	**129 655**
Capital grants and contributions	37 989	27 921
Payments for property, plant and equipment	(217 440)	(213 669)
Proceeds from sale of property, plant and equipment	14 353	10 788
Proceeds (payments) for financial assets	4 479	10 534
Cash (used in) Investing Activities	**(160 619)**	**(164 426)**
Repayment of interest bearing liabilities	(9 019)	(8 023)
Proceeds from interest bearing liabilities	8 159	10 387
Other	(13)	66
Cash from (used in) Financing Activities	**(873)**	**2 430**
Net Increase (Decrease) in Cash	**54 691**	**(32 341)**
Cash at the Beginning of the Year	303 658	335 998
Financial assets	**36 071**	**42 777**
Cash and Financial assets at End of the Year	**394 420**	**346 434**

The consolidated cash position of all 29 councils increased from $346.434m to $394.420m, an increase of $47.986m or 13.8%. This was mainly due to:

- Cash from Operations increased by $86.528m with higher Receipts from customers, $32.650m, and Cash flows from government, $67.812m, offset by greater Payments to suppliers and employees, $9.087m. Receipts from customers mainly consisted of rates and fees and charges. Discussion on councils' revenue raising capabilities can be found in the *Local Government* Chapter of this Report. The increase in the Cash flows from government was mainly due to receipt of two additional quarterly instalments by the Australian Government discussed earlier in this Chapter.
- Cash used in Investing Activities decreased by $3.807m. However, local government continues to invest significantly in Property, plant and equipment with $217.440m spent this year. This was funded from cash generated from operations and Capital grants.
- Cash from Financing Activities remained relatively stable with more debt being paid off than being raised.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS

SNAPSHOT

- Fourteen councils recorded a net Underlying Deficit in 2014-15. Combined Underlying Deficits totalled $15.292m.
- The 29 councils raised $441.665m in rates, an increase of 3.99%. Cities, in general, earn a greater percentage of their operating revenue from rates.
- Councils employed 3 308 FTEs at 30 June 2015. Average employee costs per FTE was $79 000.
- On average, councils were rating $1 410 per rateable property, but expending $2 505 in operating costs per rateable property. Councils' operating expenses are being supported by other revenue sources including fees and charges, interest revenue and grants.
- Most councils managed working capital effectively and can meet their short-term commitments from existing current assets.
- All councils had large or reasonably large bank and investment balances, some of which were committed to future capital projects.
- For the 29 councils, the average of total capital expenditure, on existing and new assets to depreciation ratio was 144.5%, indicating most councils were re-investing in their Non-Current Assets at an appropriate rate. However, some councils stand out as being below the target of 100%.
- Management of debt ratios indicated that all councils with debt were comfortably able to meet their loan interest charges and future longer-term debt commitments.
- Outstanding rates totalled $12.565m at 30 June 2015 with an average per council of $0.433m (2013-14, $0.545m).

INTRODUCTION

Comparative analysis covering financial and other information for Tasmania's 29 councils has been compiled with results provided in four attachments to this Chapter. The information provided is for the financial year ended 30 June 2015. The attachments are presented with councils grouped as either major city, other urban and large rural, or other smaller rural.

This is the tenth year that this analysis has been included in this Report. While only one year's data is provided, where relevant, comparative totals for 2013-14 are included.

The attachments are:

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

Our analysis of the attachments is of a general nature and should be read in conjunction with other financial analysis in this report including the *Local Government Financial Sustainability* Chapter in this Report.

When considering the various ratios and observations reported in this Chapter, it needs to be borne in mind that they are only indicators of performance or of financial position. The various ratios should not be considered in isolation. However, taken together various ratios can indicate good or poor financial condition or performance. It is also important to review these ratios over time with the analysis in this Chapter only considering performance for the single 2014-15 financial year.

DEMOGRAPHICS

Comments here are made by reference to Attachment 1.

The Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth, increased by 1 603, 0.31%, from 2013-14 to 2014-15. Across the State, populations of each municipal area vary considerably, ranging from 779 (2013-14, 784) in Flinders to 67 114 (67 035) in Launceston. The major cities' populations represented 42.24% or 217 431 (42.21%, 216 627) of the total population, but only covered 2.93% or 1 991 sq kms of the State's area. Conversely, the 13 smaller rural councils' combined populations represented 13.29%, 68 405 (13.32%, 68 375) of the total population, but covered 59.7% or 40 593 sq kms of the State's area.

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

EMPLOYEE COSTS

Comments here are made by reference to Attachment 2, which summarises Employee costs, Employee entitlements and Full Time Equivalents (FTEs) for the 29 councils.

The 29 councils employed 3 308 (2013-14, 3 404) FTEs at 30 June 2015 and incurred employee costs of $271.180m ($268.349m) for the financial year. Average employee costs per FTE varied from a high of $93 000 per FTE at Glenorchy to a low of $58 000 per FTE at Central Highlands with the average being $79 000.

Councils' FTEs per 1 000 head of population also varied with smaller rural councils having lower population bases and higher ratios. Flinders had a ratio of 25.7 FTEs per 1 000 head of population due to its small population. The average for the 29 councils was 8.0 FTE per 1 000 head of population.

At 30 June 2015, the amount of annual, long service and some sick leave accrued by the 29 councils for their employees totalled $64 399m (2013-14, $62 585m). On a per FTE basis this equated to $18 892 with variations between councils ranging from $10 377 per FTE at West Coast to $35 804 at Derwent Valley.

STATEMENT OF COMPREHENSIVE INCOME

Comments here are made by reference to Attachment 3[1].

The combined Surplus for the 29 councils was $320.850m, an increase of 437% from 2013-14, $60.002m, and included:

- $35.781m (2013-14, $25.374m) in capital grant funding
- $55.938m ($47.034m) in contributed assets, mainly through subdivisions
- $34.574m (negative $35.812m) net Financial Assistance Grants as a result of 2015-16 Grants received in advance
- $204.862m ($46.490m) in other non-operating revenue, which mainly included the recognition of land under roads for the first time by some councils, offset by
- $16.692m ($21.737m) in non-operating expenditure.

On an "underlying" basis, for the year ended 30 June 2015 councils recorded combined Underlying Surplus of $6.387m ($1.656m Underlying Deficit). Fourteen councils recorded a net Underlying Deficit for the 2014-15 financial year with results varying from an Underlying Surplus of $4.283m at Clarence to an Underlying Deficit of $9.922m at Glenorchy.

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[1] In preparing this Report, we reclassified certain financial statement items. Dollar amounts presented in tables, the text and figures have been rounded. Discrepancies between Chapters in the Report reflect reallocation of revenue and expenditure and/or rounding.

On a Comprehensive income basis, the combined Comprehensive surplus totalled $596.914m (2013-14, $189.936m Comprehensive Deficit), an improvement of $786.850m. The Comprehensive income items for this year mainly consisted of the following:

- fair value net asset revaluation increments of $257.461m (2013-14, $32.261m decrement)
- revaluation increments of councils' net investments in TasWater of $13.537m ($233.034m revaluation decrements) based on movements in TasWater's net assets during 2014-15
- actuarial gains of $4.563m ($6.289m gains) on defined benefit superannuation schemes. These gains only applied to those councils not operating under multi-employer defined benefit schemes.

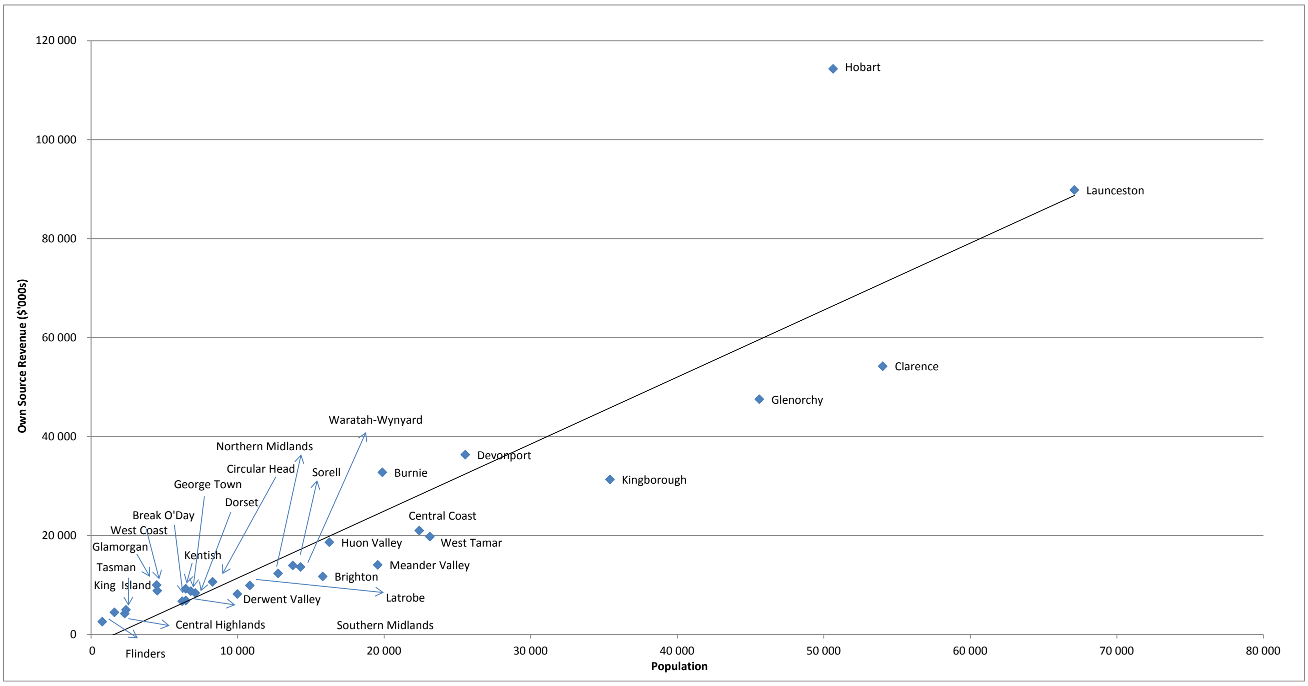
Revenue raising capacities

The 29 councils raised $441.665m (2013-14, $424.731m) in rates for 2014-15, an increase of 4.0%. Cities, in general, earn a greater percentage of their operating revenue from rates. This was reflected in the rate revenue to operating revenue ratio. In contrast, councils that had a lower rate to Operating revenue ratio received a higher percentage of recurrent grant revenue. It was noted that there were six councils (five) with rate revenue to operating revenue ratios of less than 50% meaning that they were heavily reliant on recurrent grant funding. One of these councils also had the lowest average rates per rateable valuation although it generated relatively high rate revenues per head of population.

On average councils were rating $1 410 per rateable property, but expending $2 505 per rateable property in operating costs. Councils' operating expenses are being supported by other revenue sources including fees and charges, interest revenue and grants. A reduction in grant funding would have a significant impact on local government, with any possible loss in revenue having to be offset by an increase in rates or a reduction in costs and services, in particular those funded by grants.

Councils' own source revenue

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



Source Tasmanian Audit Office

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

Attachment 3 shows ratios of operating (or recurrent) grants per head of population and operating grants compared to operating revenues. These ratios confirm previous observations that smaller councils were more reliant on recurrent operating grants. To illustrate this point, smaller rural councils' grants per head of population were considerably greater than other councils, for example Flinders $2 082, King Island $1 165 and Central Highlands $982, compared to Hobart $67, or Glenorchy $71.

Depreciation to operating revenues

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

The ratio of depreciation to operating revenues for the 29 councils was 24.3% (2013-14, 25.4%), with major cities averaging 20.9% (20.5%), other urban and larger rural 23.7% (24.1%) and other smaller rural councils 26.0% (28.0%). The ratios remained fairly constant from 2013-14 to 2014-15.

There were considerable fluctuations in the percentages of the smaller rural councils. These varied between 17.0% at Glamorgan Spring Bay, which had a comparatively low infrastructure assets base with non-current infrastructure and property, plant and equipment assets per head of population of $19 814, to 34.6% at Flinders where the Non-Current Infrastructure and Property, plant and equipment assets per head of population was $58 250. This highlighted the importance of having long-term asset management plans (further information about this is included in the Local Government Financial Sustainability Chapter) and budgeting to ensure that Operating revenues are sufficient to cover all operating costs, including depreciation. It is acknowledged that the latter will be more difficult in regional communities with significant infrastructure.

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

STATEMENTS OF FINANCIAL POSITION

Comments here are made with reference to Attachment 4.

Management of working capital

On the basis that a working capital ratio of one or better is effective, all councils managed working capital (total current assets less total current liabilities expressed as a ratio greater or less than one) effectively with most achieving a ratio of well above one at 30 June 2015. This ratio provides an indication as to whether or not an entity can meet its short-term commitments from existing current assets.

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

Management of infrastructure and other non-current assets

Included in total Non-Current Assets, amounting to $8.998bn (2013-14, $8.464bn), were infrastructure and property, plant and equipment assets controlled by the 29 councils at 30 June 2015 totalling $7.181bn ($6.641bn).

In 2014-15 payments made by councils for property, plant and equipment totalled $217.440m (2013-14, $213.666m) and depreciation charged on these assets totalled $160.089m ($158.894m). A useful measure to assess the extent to which a council was adequately investing in its non-current asset base is expenditure on all assets expressed as a percentage of depreciation with an ideal target of not less than 100%. However, a better measure for this ratio is to express expenditure on existing assets as a percentage of depreciation. This particular measure is further assessed in the Chapter dealing with Financial Sustainability.

For the 29 councils, the average of total capital expenditure, on existing and new assets, to depreciation ratio was 144.5% (2013-14, 134.8%) indicating most councils were re-investing in their non-current assets at an appropriate rate. However, some councils stand out as being below the target of 100%, these being:

- Brighton, 96.0%
- Devonport, 80.3%
- Northern Midlands, 91.0%
- Southern Midlands, 98.9%
- West Coast, 87.3%.

Another indicator which can be used to assess whether or not a council is adequately re-investing in its non current asset base is to compare rate revenue to non current infrastructure assets. This ratio indicates the level of rating undertaken in relation to the infrastructure bases being managed by each council. The higher the ratio the better. This ratio ranged from lowest to highest with, Hobart 9.9% and Flinders 32.1% respectively.

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

The ratio of non-current infrastructure and property, plant and equipment assets per rateable valuation indicated that each rateable valuation supported a fairly consistent level of infrastructure. We have not analysed why it is that some councils vary significantly from the average of $25 295 (2013-14, $24 370).

Management of debt

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

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

Brighton, Huon Valley, Kingborough, Northern Midlands, Central Highlands, Dorset and Flinders Councils did not have any loan debt at 30 June 2015.

The indebtedness ratio complements the current ratio and illustrates a council's ability to meet longer term commitments. The ratio compares non-current liabilities to a council's own source revenue, the lower the percentage the stronger a council's position to meet longer term liabilities. Those councils with ratios well above the average of 2.5% (2013-14, 2.6%) were, in general, holding higher levels of non-current borrowings at 30 June 2015 than the councils with lower ratios. However, the ratios indicate all councils could meet future longer term debt commitments.

Collection of rates

For the 29 councils, rate debts owing to councils at 30 June 2015 totalled $12.565m

(2013-14, $15.801m) with an average per council of $0.433m ($0.545m). Expressing rate debtors as a percentage of rates raised indicated that, in general, councils were recovering outstanding rate debts in a reasonable timeframe. Southern Midlands Council, at 11.18%, had the highest ratio. It is noted, however, that all councils had significant power under the *Local Government Act 1993* to recover rate debts against a property.

There were various reasons why, overall, council rates colections improved this year, one of which was collection of outstanding rates by forestry and plantation owners.

Attachment I – Local Government Comparative Analysis

Demographics

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Clarence	54 040	378	143.0	25 022	66.2	0.5
Glenorchy	45 622	121	376.7	21 447	177.1	0.5
Hobart	50 655	78	650.3	23 915	307.0	0.5
Launceston	67 114	1 414	47.5	31 834	22.5	0.5
Brighton	15 819	171	92.3	7 419	43.3	0.5
Burnie	19 893	611	32.6	9 459	15.5	0.5
Central Coast	22 411	933	24.0	10 877	11.7	0.5
Derwent Valley	9 997	4 108	2.4	5 193	1.3	0.5
Devonport	25 546	111	229.5	12 000	107.8	0.5
Huon Valley	16 273	5 507	3.0	10 426	1.9	0.6
Kingborough	35 418	720	49.2	17 004	23.6	0.5
Meander Valley	19 575	3 330	5.9	9 823	2.9	0.5
Northern Midlands	12 775	5 137	2.5	6 751	1.3	0.5
Sorell	13 779	584	23.6	8 670	14.9	0.6
Waratah-Wynyard	14 304	3 531	4.1	7 543	2.1	0.5
West Tamar	23 136	691	33.5	11 724	17.0	0.5
Break O'Day	6 466	3 526	1.8	6 466	1.8	1.0
Central Highlands	2 315	7 982	0.3	3 710	0.5	1.6
Circular Head	8 301	4 898	1.7	4 901	1.0	0.6
Dorset	7 128	3 228	2.2	5 206	1.6	0.7
Flinders	779	1 997	0.4	1 171	0.6	1.5
George Town	6 819	653	10.4	4 446	6.8	0.7
Glamorgan Spring Bay	4 492	2 591	1.7	5 623	2.2	1.3
Kentish	6 481	1 156	5.6	3 736	3.2	0.6
King Island	1 610	1 096	1.5	1 672	1.5	1.0
Latrobe	10 854	601	18.1	5 920	9.9	0.5
Southern Midlands	6 235	2 615	2.4	3 605	1.4	0.6
Tasman	2 398	661	3.6	3 481	5.3	1.5
West Coast	4 527	9 590	0.5	4 593	0.5	1.0

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Total 2014-15	**514 762**	**68 018**	**7.6**	**273 637**	**-**	**-**
Average per Council 2014-15	**17 750**	**2 345**	**61.0**	**9 436**	**29.4**	**0.7**
Total 2013-14	**513 159**	**68 018**	**7.5**	**269 153**	**-**	**-**
Average per Council 2013-14	**17 695**	**2 345**	**60.9**	**9 281**	**29.0**	**0.7**
Average Population per square kilometre for Tasmania				**7.57**		
Average Rateable properties per square kilometere				**4.02**		
Average Rateable properties per Head of Population				**0.53**		

Source Tasmanian Audit Office

Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2013-14. Released March 2015 Local Government areas taken from ABS website "2001 Census Community Profile Series" Statistics estimated at 30 June 2005. Rateable properties obtained from councils

Attachment 2 – Local Government Comparative Analysis

Employee Costs

Council	Total Employee Costs	FTEs	Average Cost Per FTE*	FTE Per 1 000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements Per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Clarence	16 725	236	71	4.4	27.76	29.9	4 503	19 081
Glenorchy	22 294	241	93	5.3	43.92	36.7	5 764	23 917
Hobart	52 950	584	91	11.5	45.01	46.2	13 797	23 625
Launceston	37 762	428	88	6.4	38.71	37.9	7 435	17 371
Brighton	4 087	50	82	3.2	30.22	31.4	1 001	20 020
Burnie	14 399	168	86	8.4	39.07	39.0	2 835	16 875
Central Coast	10 904	137	80	6.1	43.64	46.0	2 830	20 657
Derwent Valley	3 830	51	75	5.1	32.26	33.3	1 826	35 804
Devonport	11 898	157	76	6.1	30.80	32.8	2 603	16 580
Huon Valley	9 418	124	76	7.6	42.01	44.8	1 951	15 734
Kingborough	13 541	186	73	5.2	38.22	37.9	2 468	13 280
Meander Valley	6 303	82	77	4.2	33.00	35.2	1 431	17 451
Northern Midlands	4 788	58	83	4.5	29.30	28.6	1 187	20 466
Sorell	5 298	68	78	4.9	30.39	36.4	1 051	15 467
Waratah-Wynyard	6 281	84	75	5.8	37.44	36.7	1 715	20 523
West Tamar	7 882	95	83	4.1	34.85	37.5	2 295	24 245
Break O'Day	3 979	50	80	7.7	32.67	31.5	649	12 980
Central Highlands	1 920	33	58	14.3	29.48	28.6	765	23 182
Circular Head	4 516	57	79	6.9	32.88	32.6	1 110	19 474
Dorset	4 240	55	77	7.7	34.42	37.5	1 081	19 655
Flinders	1 789	20	89	25.7	42.37	36.8	333	16 650
George Town	3 924	43	91	6.3	37.16	38.6	765	17 791
Glamorgan Spring Bay	4 270	61	70	13.6	36.44	35.9	846	13 869
Kentish	2 177	31	70	4.8	22.72	22.1	524	16 903
King Island	2 161	25	86	15.5	34.06	33.1	353	14 120
Latrobe	3 679	45	82	4.1	32.19	33.8	941	20 911
Southern Midlands	4 003	51	78	8.2	39.70	40.0	1 327	26 020
Tasman	1 379	20	69	8.3	23.32	26.6	297	14 850
West Coast	4 783	69	69	15.2	43.07	42.0	716	10 377
Total	**271 180**	**3 308**	**-**	**-**	**-**	**-**	**64 399**	**-**
Average per Council	**9 351**	**114**	**79**	**8.0**	**35.1**	**35.5**	**2 221**	**18 892**
Total 2013-14	**268 349**	**3 404**	**-**	**-**	**-**	**-**	**62 585**	**-**
Average per Council 2013-14	**9 253**	**117**	**76**	**8.2**	**35.7**	**35.2**	**2 158**	**17 665**

* *Staff costs include capitalised salaries and wages*

Attachment 3 – Local Government Comparative Analysis

Statement of Comprehensive Income

Council	Operating Revenue*	Non-Operating Revenue*	Total Revenue	Operating Expenditure	Non-Operating Expenditure**	Total Expenditure	Underlying Surplus/(Deficit)	Net Surplus (Deficit)	Net Surplus/(Deficit) to Total Revenue	Comprehensive Surplus/(Deficit)	Operating Surplus Ratio	Self Financing Ratio
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%	$'000s	%	%
Clarence	60 252	107 908	168 160	55 969	0	55 969	4 283	112 191	66.7	125 146	7.1	33.9
Glenorchy	50 766	7 326	58 092	60 688	2 294	62 982	(9 922)	(4 890)	(8.4)	1 482	(20.0)	13.0
Hobart	117 652	12 871	130 523	114 607	687	115 294	3 045	15 229	11.7	14 874	2.6	23.4
Launceston	97 540	11 423	108 963	99 557	0	99 557	(2 017)	9 406	8.6	192 709	(2.1)	24.3
Brighton	13 522	3 776	17 298	13 004	0	13 004	518	4 294	24.8	3 369	3.8	35.2
Burnie	36 853	4 429	41 282	36 895	7 031	43 926	(42)	(2 644)	(6.4)	1 102	(0.1)	31.1
Central Coast	24 986	3 624	28 610	23 690	0	23 690	1 296	4 920	17.2	26 029	5.2	33.5
Derwent Valley	11 872	983	12 855	11 496	0	11 496	376	1 359	10.6	3 674	3.2	12.4
Devonport	38 629	6 578	45 207	36 295	1 106	37 401	2 334	7 806	17.3	46 680	6.0	29.0
Huon Valley	22 418	25 534	47 952	21 024	769	21 793	1 394	26 159	54.6	56 044	6.2	18.4
Kingborough	35 425	1 751	37 176	35 724	742	36 466	(299)	710	1.9	26 363	(0.8)	24.7
Meander Valley	19 099	3 348	22 447	17 890	6	17 896	1 209	4 551	20.3	4 841	6.0	41.0
Northern Midlands	16 341	3 716	20 057	16 731	0	16 731	(390)	3 326	16.6	18 124	(2.4)	46.4
Sorell	17 434	2 943	20 377	14 551	0	14 551	2 883	5 826	28.6	8 255	16.5	44.4
Waratah-Wynyard	16 775	26 426	43 201	17 128	26	17 154	(353)	26 047	60.3	18 362	(2.1)	38.8
West Tamar	22 616	2 478	25 094	21 032	0	21 032	1 584	4 062	16.2	6 953	7.0	30.7
Break O'Day	12 181	5 021	17 202	12 628	552	13 180	(447)	4 022	23.4	5 082	(3.7)	38.3
Central Highlands	6 513	1 581	8 094	6 715	0	6 715	(202)	1 379	17.0	(45 070)	(5.0)	51.7
Circular Head	13 735	26 540	40 275	13 860	0	13 860	(125)	26 415	65.6	22 702	(0.9)	47.5
Dorset	12 318	18 144	30 462	11 295	238	11 533	1 023	18 929	62.1	(19 338)	8.3	56.1
Flinders	4 222	3 615	7 837	4 857	0	4 857	(635)	2 980	38.0	3 050	(15.0)	36.7
George Town	10 559	1 391	11 950	10 164	0	10 164	395	1 786	14.9	19 217	3.7	32.5
Glamorgan Spring Bay	11 717	11 514	23 231	11 879	0	11 879	(162)	11 352	48.9	12 863	(1.4)	28.0
Kentish	9 583	6 119	15 702	9 833	0	9 833	(250)	5 869	37.4	12 037	(2.6)	51.2
King Island	6 344	4 265	10 609	6 519	1 023	7 542	(175)	3 067	28.9	3 105	(2.8)	16.1
Latrobe	11 429	20 559	31 988	10 891	0	10 891	538	21 097	66.0	21 370	4.7	29.4
Southern Midlands	10 083	5 278	15 361	10 016	0	10 016	67	5 345	34.8	4 978	0.7	36.7
Tasman	5 914	885	6 799	5 180	449	5 629	734	1 170	17.2	3 161	12.4	43.8
West Coast	11 104	1 367	12 471	11 377	2 007	13 384	(273)	(913)	(7.3)	(250)	(2.5)	26.2
Total	**727 882**	**331 393**	**1059 275**	**721 495**	**16 930**	**738 425**	**6 387**	**320 850**	**–**	**596 914**	**–**	**–**
Average per Council	**25 099**	**11 427**	**36 527**	**24 879**	**584**	**25 463**	**220**	**11 064**	**27.1**	**20 583**	**1.1**	**33.6**
Total 2013-14	**705 545**	**83 095**	**788 640**	**707 201**	**21 737**	**728 938**	**(1 656)**	**60 002**	**–**	**(189 936)**	**–**	**–**
Average per Council 2013-14	**24 329**	**2 865**	**27 194**	**24 386**	**750**	**25 136**	**(57)**	**2 069**	**2.1**	**(6 549)**	**(0.9)**	**15.5**

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

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

Statement of Comprehensive Income (Cont.)

Council	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Operating Costs Per Rateable Valuation	Councils' Own Source Revenue	Council's Own Source Revenue to Operating Revenue	Operating Government Grants*	Operating Grants Per Head of Population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	$'000s	%	$	$	$	$'000s	%	$'000s	$	%	%
Clarence	44 091	73.2	1 762	816	2 237	54 216	90.0	6 036	112	10.0	19.4
Glenorchy	31 153	61.4	1 453	683	2 830	47 525	93.6	3 241	71	6.4	30.0
Hobart	73 929	62.8	3 091	1 459	4 792	114 282	97.1	3 370	67	2.9	14.8
Launceston	60 161	61.7	1 890	896	3 127	89 821	92.1	7 719	115	7.9	19.5
Brighton	7 837	58.0	1 056	495	1 753	11 733	86.8	1 789	113	13.2	21.9
Burnie ***	20 830	56.5	2 202	1 047	3 901	32 773	88.9	4 080	205	11.1	22.4
Central Coast	13 618	54.5	1 252	608	2 178	20 983	84.0	4 003	179	16.0	23.3
Derwent Valley	5 944	50.1	1 145	595	2 214	8 182	68.9	3 690	369	31.1	19.6
Devonport	26 351	68.2	2 196	1 032	3 025	36 329	94.0	2 300	90	6.0	22.5
Huon Valley	10 630	47.4	1 020	653	2 016	18 658	83.2	3 760	231	16.8	27.2
Kingborough	22 898	64.6	1 347	647	2 101	31 314	88.4	4 111	116	11.6	19.7
Meander Valley	10 378	54.3	1 057	530	1 821	14 066	73.6	5 033	257	26.4	25.3
Northern Midlands	9 170	56.1	1 358	718	2 478	12 349	75.6	3 992	312	24.4	31.3
Sorell	11 106	63.7	1 281	806	1 678	13 962	80.1	3 472	252	19.9	24.0
Waratah-Wynyard	10 060	60.0	1 334	703	2 271	13 654	81.4	3 121	218	18.6	24.5
West Tamar	15 617	69.1	1 332	675	1 794	19 772	87.4	2 844	123	12.6	22.5
Break O'Day	7 442	61.1	1 151	1 151	1 953	9 257	76.0	2 924	452	24.0	29.0
Central Highlands	3 146	48.3	848	1 359	1 810	4 240	65.1	2 273	982	34.9	32.5
Circular Head	7 212	52.5	1 472	869	2 828	10 637	77.4	3 098	373	22.6	28.7
Dorset	6 526	53.0	1 254	916	2 170	8 279	67.2	4 039	567	32.8	26.8
Flinders	1 414	33.5	1 208	1 815	4 148	2 600	61.6	1 622	2 082	38.4	34.6
George Town	7 280	68.9	1 637	1 068	2 286	8 753	82.9	1 806	265	17.1	21.9
Glamorgan Spring Bay	6 542	55.8	1 163	1 456	2 113	9 999	85.3	1 718	382	14.7	17.0
Kentish	4 814	50.2	1 289	743	2 632	6 867	71.7	2 716	419	28.3	27.9
King Island	1 987	31.3	1 188	1 234	3 899	4 469	70.4	1 875	1 165	29.6	25.7
Latrobe	6 424	56.2	1 085	592	1 840	9 914	86.7	1 515	140	13.3	24.9
Southern Midlands	4 420	43.8	1 226	709	2 778	6 715	66.6	3 368	540	33.4	25.3
Tasman	4 046	68.4	1 162	1 687	1 488	4 988	84.3	926	386	15.7	17.6
West Coast	6 639	59.8	1 445	1 467	2 477	8 853	79.7	2 251	497	20.3	25.8
Total	**441 665**	**–**	**–**	**27 428**	**72 637**	**635 190**	**–**	**92 692**	**–**	**–**	**–**
Average per Council	**15 230**	**56.7**	**1 410**	**946**	**2 505**	**21 903**	**80.7**	**3 196**	**382**	**19.3**	**24.3**
Total 2012-13	**424 731**	**–**	**–**	**25 209**	**72 252**	**586 973**	**–**	**91 199**	**-**	**-**	**-**
Average per Council 2012-13	**14 646**	**56.1**	**1 373**	**910**	**2 530**	**21 184**	**80.0**	**3 145**	**384**	**20.0**	**25.4**

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

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

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

Attachment 4 – Local Government Comparative Analysis

Statement of Financial Position

Council	Current Assets	Current Liabilities	Working Capital	Current Ratio	Net Financial Liabilities Ratio*	Non-Current Assets	Non Current Liabilities	Loan Debt	Interest Coverage	Indebtedness Ratio	Rate Debtors	Rate Debtors to Rates Raises
	$'000s	$'000s	$'000s	No.	%	$'000s	$'000s	$'000s	%	%	$'000s	%
Clarence	63 003	9 934	53 069	6.3	84.7	663 915	1 090	542	535.92	1.52	2 246	5.09
Glenorchy	28 275	11 676	16 599	2.4	7.1	674 737	11 352	6 815	14.71	3.28	564	1.81
Hobart	47 942	23 913	24 029	2.0	(2.3)	891 743	26 209	14 428	23.87	5.33	1 099	1.49
Launceston	65 277	27 586	37 691	2.4	25.9	1 633 537	11 710	7 500	49.50	2.31	771	1.28
Brighton	6 548	1 924	4 624	3.4	25.7	177 364	105	0	-	1.10	24	0.31
Burnie	16 720	6 752	9 968	2.5	12.5	355 114	4 591	4 456	47.99	3.05	337	1.62
Central Coast	8 521	4 507	4 014	1.9	(8.6)	471 187	5 837	3 027	39.85	2.16	296	2.17
Derwent Valley	2 190	2 831	(641)	0.8	(23.3)	100 180	2 796	2 943	7.68	5.50	540	9.08
Devonport	19 867	5 600	14 267	3.5	(17.8)	505 688	21 032	21 492	8.89	5.07	93	0.35
Huon Valley	10 327	3 173	7 154	3.3	30.2	263 548	255	0	-	1.25	332	3.12
Kingborough	11 899	7 980	3 919	1.5	8.8	596 498	609	0	-	1.41	236	1.03
Meander Valley	23 931	2 205	21 726	10.9	79.4	223 684	6 154	3 600	(37.13)	3.38	522	5.03
Northern Midlands	12 073	1 956	10 117	6.2	60.8	267 055	148	0	-	0.75	1 018	11.10
Sorell	7 463	2 594	4 869	2.9	11.8	221 944	2 702	2 876	38.66	2.31	151	1.36
Waratah-Wynyard	10 099	2 872	7 227	3.5	36.6	192 852	312	11	-	1.57	399	3.97
West Tamar	11 207	3 063	8 144	3.7	33.1	272 653	421	117	532.62	1.23	850	5.44
Break O'Day	7 994	1 848	6 146	4.3	(17.3)	155 669	8 035	8 130	20.40	6.04	342	4.60
Central Highlands	7 477	1 168	6 309	6.4	94.0	88 378	93	0	-	1.32	122	3.88
Circular Head	10 011	2 363	7 648	4.2	50.3	179 998	520	676	107.72	1.52	380	5.27
Dorset	33 601	2 463	31 138	13.6	123.8	133 015	151	0	299.52	1.57	270	4.14
Flinders	7 524	512	7 012	14.7	148.7	48 688	202	0	-	1.27	97	6.86
George Town	5 099	2 001	3 098	2.5	4.4	139 225	2 300	2 166	27.34	2.98	306	4.20
Glamorgan Spring Bay	2 607	3 466	(859)	0.8	(25.1)	121 084	1 945	2 844	34.00	4.37	11	0.17
Kentish	8 090	1 470	6 620	5.5	46.1	121 324	1 501	1 491	47.53	2.30	164	3.41
King Island	5 792	1 030	4 762	5.6	40.9	68 311	1 033	1 155	22.23	2.78	51	2.57
Latrobe	8 670	2 071	6 599	4.2	37.4	185 337	1 480	302	167.10	1.83	169	2.63
Southern Midlands	11 693	1 829	9 864	6.4	84.4	95 072	862	795	74.61	2.52	494	11.18
Tasman	5 161	411	4 750	12.6	68.7	47 889	435	360	91.43	1.59	200	4.94
West Coast	4 874	1 501	3 373	3.2	21.0	102 237	998	878	43.14	2.33	481	7.25
Total	**463 935**	**140 699**	**323 236**	**-**	**-**	**8 997 926**	**114 878**	**86 604**	**-**	**-**	**12 565**	**-**
Average per Council	**15 998**	**4 852**	**11 146**	**4.9**	**35.9**	**310 273**	**3 961**	**2 986**	**75.8**	**2.5**	**433**	**4.0**
Total 2013-14	**400 044**	**135 839**	**264 205**	**-**	**-**	**8 464 698**	**119 083**	**87 419**	**-**	**-**	**15 801**	**-**
Average per Council 2013-14	**13 795**	**4 684**	**9 111**	**4.1**	**30.6**	**291 886**	**4 106**	**3 014**	**54.2**	**2.6**	**545**	**5.5**

Statement of Financial Position (cont.)

Council	Payments for Property, Plant and Equipment	Depreciation	Total Capital Expenditure to Depreciation Ratio	Rate Revenue to Property, Plant and Equipment	Property, Plant and Equipment Per Square Kilometre	Property Plant and Equipment Per Head of Population	Property, Plant and Equipment Per Rateable Valuation
	$'000s	$'000s	%	%	$	$	$
Clarence	18 973	11 668	162.6	11.3	1 314 728	9 196	19 861
Glenorchy	17 933	15 250	117.6	16.2	4 174 880	11 082	23 573
Hobart	25 781	17 450	147.7	9.9	9 379 628	14 424	30 553
Launceston	25 560	19 008	134.5	19.4	826 321	17 405	36 693
Brighton	2 838	2 955	96.0	16.8	770 560	8 344	17 792
Burnie	9 871	8 248	119.7	14.0	476 795	14 644	30 798
Central Coast	6 056	5 824	104.0	29.0	422 855	17 606	36 275
Derwent Valley	4 539	2 327	195.1	13.5	19 481	8 005	15 411
Devonport	6 989	8 702	80.3	15.8	3 752 093	16 347	34 801
Huon Valley	7 491	6 108	122.6	21.7	41 883	14 175	22 124
Kingborough	7 732	6 977	110.8	22.0	700 174	14 236	29 652
Meander Valley	6 197	4 840	128.0	16.6	51 676	8 792	17 520
Northern Midlands	4 652	5 112	91.0	24.9	44 397	17 851	33 779
Sorell	6 831	4 185	163.2	17.6	334 900	14 187	22 547
Waratah-Wynyard	4 140	4 108	100.8	14.8	42 294	10 440	19 798
West Tamar	9 631	5 081	189.5	13.9	314 823	9 404	18 558
Break O'Day	8 914	3 531	252.4	16.5	34 929	19 046	19 046
Central Highlands	2 186	2 114	103.4	25.6	10 102	34 832	21 735
Circular Head	5 127	3 937	130.2	21.6	31 757	18 737	31 735
Dorset	7 239	3 300	219.4	17.7	35 877	16 245	22 243
Flinders	3 577	1 460	245.0	32.1	22 727	58 250	38 751
George Town	3 297	2 312	142.6	16.5	184 043	17 624	27 031
Glamorgan Spring Bay	4 428	1 991	222.4	13.6	34 346	19 814	15 829
Kentish	3 361	2 673	125.7	23.7	98 671	17 600	30 531
King Island	2 551	1 628	156.7	32.0	57 959	39 448	37 985
Latrobe	4 674	2 850	164.0	24.1	258 240	14 287	26 195
Southern Midlands	2 519	2 547	98.9	18.8	31 851	13 361	23 108
Tasman	1 853	1 040	178.2	11.6	70 845	19 513	13 442
West Coast	2 500	2 863	87.3	11.2	7 747	16 410	16 174
Total	**217 440**	**160 089**	**-**	**-**	**-**	**-**	**-**
Average per Council	**7 498**	**5 520**	**144.5**	**18.7**	**811 951**	**17 631**	**25 295**
Total 2013-14	**213 666**	**158 894**	**-**	**-**	**-**	**-**	**-**
Average per Council 2013-14	**7 368**	**5 479**	**134.8**	**18.9**	**762 694**	**17 293**	**24 370**

LOCAL GOVERNMENT FINANCIAL SUSTAINABILITY

SNAPSHOT

- There has been significant improvement since 2013-14, with the average all councils Operating surplus ratio exceeding the benchmark, for the first time in the nine-year period of review.
- The 29 councils generated a combined net Operating surplus[1, 2] of $6.387m in 2014-15 (2013-14, $1.656m Operating deficit) with 15 councils contributing $21.679m of this amount. However, 14 (12) councils generated net Operating deficits totalling $15.292m ($18.018m) three of which contributed $12.574m, or 82%, of this amount.
- Councils on the whole have slightly under invested in capital expenditure on existing assets in comparison to our benchmark and there has again been improvement when compared to the previous year.
- Councils' road assets have sufficient capacity to provide services to rate payers with no council in the high risk category at 30 June 2015.
- All councils were in a position where they were able to service their current commitments, had manageable debt levels and capacity to borrow, should the need arise.

INTRODUCTION

We started an analysis of the financial sustainability of councils in 2008-09 by using five selected financial ratios assessed over a four-year period. Similar analysis has been completed since then with this Report, where relevant, covering a nine-year period.

The ratios analyse councils' operating results, asset management practices and net financial liabilities (liquidity) over the nine year period to 30 June 2015. However, the asset renewal funding ratio was only calculated based on long-term financial and asset management plans, where available, examined since 30 June 2012.

INDICATORS OF FINANCIAL SUSTAINABILITY

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

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

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

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

- Operating surplus ratio
- Asset sustainability ratio
- Asset renewal funding ratio
- Road asset consumption ratio
- Net financial liabilities ratio

[1] *Also referred to as the Underlying Surplus or Underlying Deficit ratios.*

[2] *In preparing this Report, we reclassified certain financial statements items. Dollar amounts presented in tables, the text and figures have been rounded. Discrepencies between Chapters in this Report reflect reallocation of revenue and expenditure and/or rounding.*

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

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

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

Indicator	Formula	Benchmark	Description
Operating surplus ratio (Underlying result ratio)	Net operating surplus divided by Total operating revenue	Greater than 0 – break even operating result	A positive result indicates a surplus the larger the surplus the stronger the result and therefore stronger assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long term. Net result and underlying revenue are obtained from the Comprehensive income statement and are adjusted for one-off material items, asset disposal and fair value adjustments, amounts received specifically for new or upgraded assets, physical resources received free of charge (such as developer contributions, operating results from discontinued operations and operating grants received in advance (such as financial assistance grants) and any other material one-off (non-recurring) items of revenue or expenditure.
Asset sustainability ratio	Renewal and upgrade expenditure on existing assets divided by Depreciation on existing assets	At least 100%	Comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. Expenditure included in the numerator must be expenditure that was 'capitalised', not expensed, on assets that will require future maintenance and depreciation. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.
Asset renewal funding ratio	Future (planned) asset replacement expenditure compared with Future asset replacement expenditure (actual) required	At least 90%	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial (or separate asset) management plans.

Asset consumption ratio – roads	Depreciated replacement cost divided by Current replacement cost	>60%	Shows the depreciated replacement cost of depreciable assets relative to their 'as new' (replacement) value. It therefore shows the average proportion of new condition left in assets.
Net financial liabilities ratio	Liquid assets less Total liabilities compared to Total operating revenue	Net financial liabilities between zero to negative 50% of operating income. Positive ratio indicates liquid assets in excess of total liabilities.	The significance of net amount owed compared with the period's income. Indicates the extent to which net financial liabilities could be met by operating income. Where the value is falling over time, it indicates that the entity's capacity to meet its financial obligations from operating income is strengthening. Reasons for an increase in the net financial liabilities ratio will sometimes also result in an entity incurring higher net operating costs (eg from additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the entity's overall operating result. A council with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through the acquisition of additional assets without detracting from its financial sustainability.

On the following pages we apply these ratios to the consolidated financial position of the 29 councils included in this Report, over a nine-year period and then comparatively averaging the performance of all councils. With the exception of the asset renewal funding ratio, all data used in calculating the ratios and preparing the various graphs were sourced from audited financial statements. Also, within the graphs, where relevant, a red line represents the actual ratio each year and a black line the benchmark for the period under review. Where we were able to assess the asset renewal funding ratio, this was based on unaudited long-term asset and financial management plans.

In previous years our sustainability assessments of councils incorporated information on governance arrangements focussing on audit committees and their charters. In conjunction with operating performance, asset management and the extent to which net liabilities can be serviced by operating income, we considered appropriate audit committee arrangements, including oversight of financial sustainability, as relevant to our comparative assessment of councils. This was discontinued this year primarily because Ministerial Orders addressed our concerns in this regard.

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

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

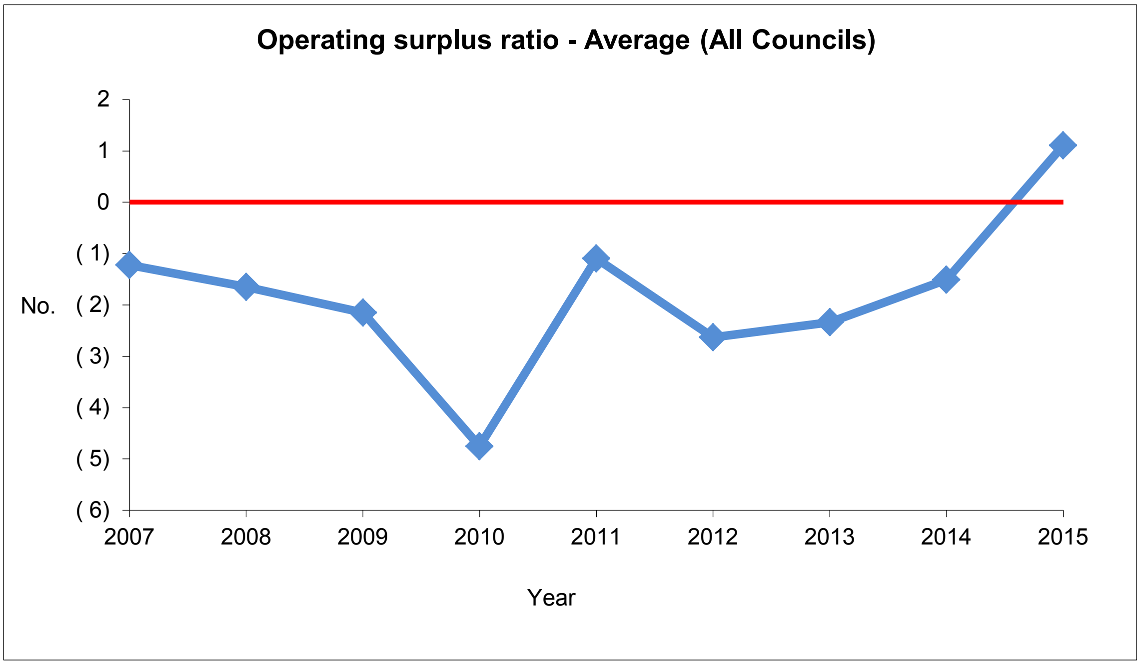
FINANCIAL SUSTAINABILITY TRENDS

Operating surplus ratio

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

Figure 1 below shows the operating surplus ratio achieved on a consolidated basis by the 29 councils in each of the past nine years.

Figure 1: 9-year average all councils operating surplus ratio



Source Tasmanian Audit Office

The average operating margin, this year, had for the first time in all nine years under review exceeded the benchmark. The ratio hit its lowest point of minus 5.0 in 2009-10 which was attributed to the water and sewerage reforms which were effective from 1 July 2009. Consequently, a number of councils required priority dividends to overcome lost operating income.

There was a significant improvement in 2010-11 when the ratio reached minus 1.1. Although there was a decline in the ratio in 2011-12, it trended upwards since then. In 2014-15 the ratio was 1.1 which is a significant improvement.

The 29 councils generated a combined net Operating surplus of $6.387m in 2014-15 (2013-14, $1.656m Operating deficit), with 14 (12) councils generating net Operating deficits totalling $15.292m ($18.018m). Table 2 shows the Operating results of all councils in 2014-15 along with respective operating margins and whether council had long term asset and financial management plans[3].

[3] *While long term asset and financial management plans are not directly relevant to Operating results, they are included to assess if any correlation existed. No conclusions were drawn.*

Table 1 Underlying Results Listing 2014-15

	Underlying Result 2014-15	Operating Surplus Ratio 2014-15	Operating Surplus Ratio Nine year average	Plans and Strategies Order 2014-15
	$'000s	**%**	**%**	
Clarence	4 283	7.1	1.1	i
Hobart	3 045	2.6	(2.4)	i
Sorell	2 883	16.5	3.8	i
Devonport	2 334	6.0	(1.9)	i
West Tamar	1 584	7.0	7.9	i
Huon Valley	1 394	6.2	4.9	i
Central Coast	1 296	5.2	(2.7)	i
Meander Valley	1 209	6.0	3.6	i
Dorset	1 023	8.3	2.6	p
Tasman	734	12.4	9.4	i
Latrobe	538	4.7	5.0	p
Brighton	518	3.8	8.0	i
George Town	395	3.7	1.3	i
Derwent Valley	376	3.2	(0.3)	i
Southern Midlands	67	0.7	(7.5)	p
Burnie	(42)	(0.1)	(1.5)	i
Circular Head	(125)	(0.9)	1.2	p
Glamorgan Spring Bay	(162)	(1.4)	0.9	p
King Island	(175)	(2.8)	(5.4)	i
Central Highlands	(202)	(5.0)	(27.9)	i
Kentish	(250)	(2.6)	(0.9)	i
West Coast	(273)	(2.5)	1.6	p
Kingborough	(299)	(0.8)	(6.5)	i
Waratah-Wynyard	(353)	(2.1)	(5.1)	i
Northern Midlands	(390)	(2.4)	(6.4)	i
Break O'Day	(447)	(3.7)	(10.1)	p
Flinders	(635)	(15.0)	(18.1)	i
Launceston	(2 017)	(2.1)	(0.2)	i
Glenorchy	(9 922)	(20.0)	(9.8)	i
TOTAL	**6 387**	**1.1**	**(1.8)**	**-**

Plans and Strategies Orders ratings

i - fully implemented

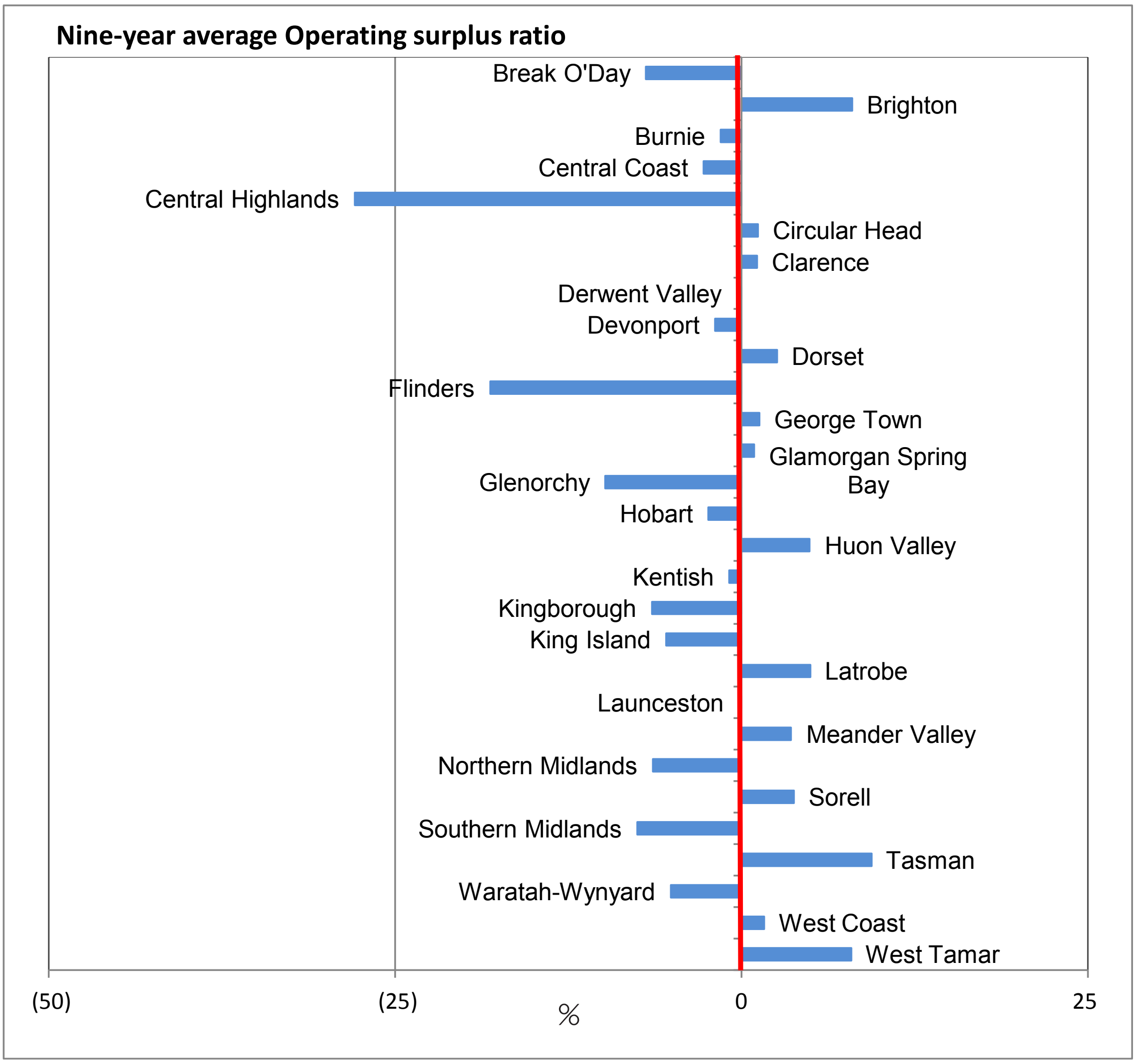
p - partially implemented

Table 1 shows that:

- 15 Councils contributed $21.679m to the overall Operating Surplus of $6.387m.
- three councils (Glenorchy, Launceston and Flinders) contributed to $12.574m (82%) towards the $15.292m Operating Deficits generated by 14 councils.
- with three exceptions, councils with a current Operating Deficit also had negative nine-year average Operation Deficit ratios.
- however, 8 councils with current Operating Deficits, showed improvement compared with the nine-year average.
- most councils with current Operating deficits, with four exceptions, had both long term asset and financial management plans in place which may have assisted in the improved operating result.

Figure 2 below details the nine-year average operating surplus ratio for each council.

Figure 2: 9-year average Operating surplus ratios

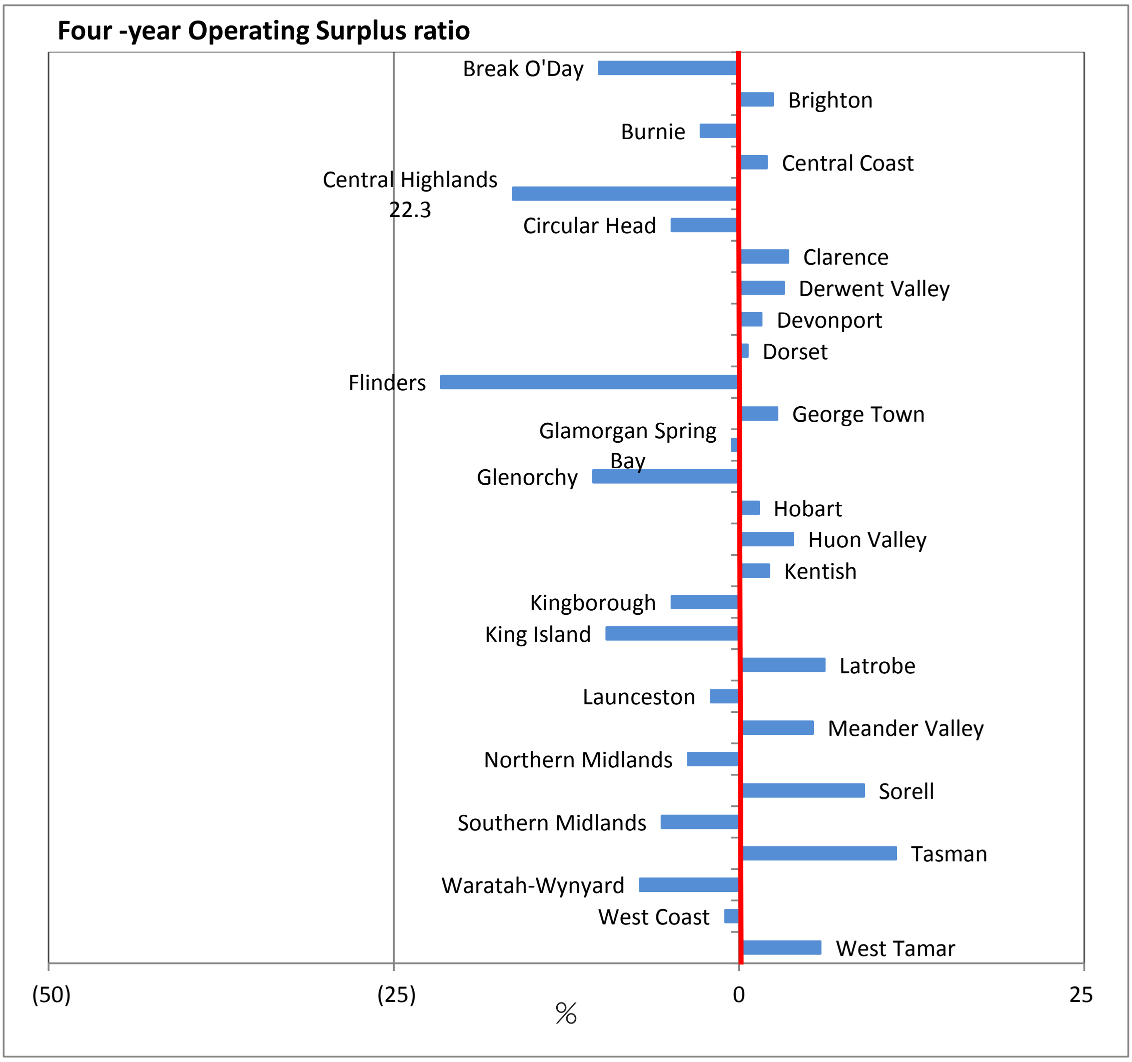


Source Tasmanian Audit Office

The figure showed that 16 of the 29 councils, on average over the nine-year period, operated below the benchmark. Of the 29 councils, 14 (2013-14, 12) recorded Operating Deficits but, despite this result, there was a positive all council average Operating surplus ratio in 2014-15.

Figure 3 below details the four-year average operating surplus ratio for each council. This was included to assess whether or not there has been improvement and to remove the negative impact in 2009-10 of the water and sewerage reforms and gauge the effect of other recent changes.

Figure 3: 4-year average Operating surplus ratio



Source Tasmanian Audit Office

The figure showed that, similar to the nine year average, 14 of the 29 councils, operated below the benchmark on average over the past four years. This indicated that there has been no noticeable improvement but, as discussed previously, there has been an overall improvement in the Operating surplus ratio this year.

Conclusion based on assessment of the operating surplus ratio

There were 14 councils with an average Operating surplus below benchmark over the past nine years, and 14 over the past four years. However, the difference this year was that the average ratio for all councils, for the first time in the nine-year period, exceeded our benchmark. Despite this, a number of councils that achieved a negative Operating ratio in the current year also recorded negative ratio over the nine-year period of review.

We commend those councils who have improved their Operating performance and recommend all councils develop plans with the objective of achieving positive Operating surplus ratios.

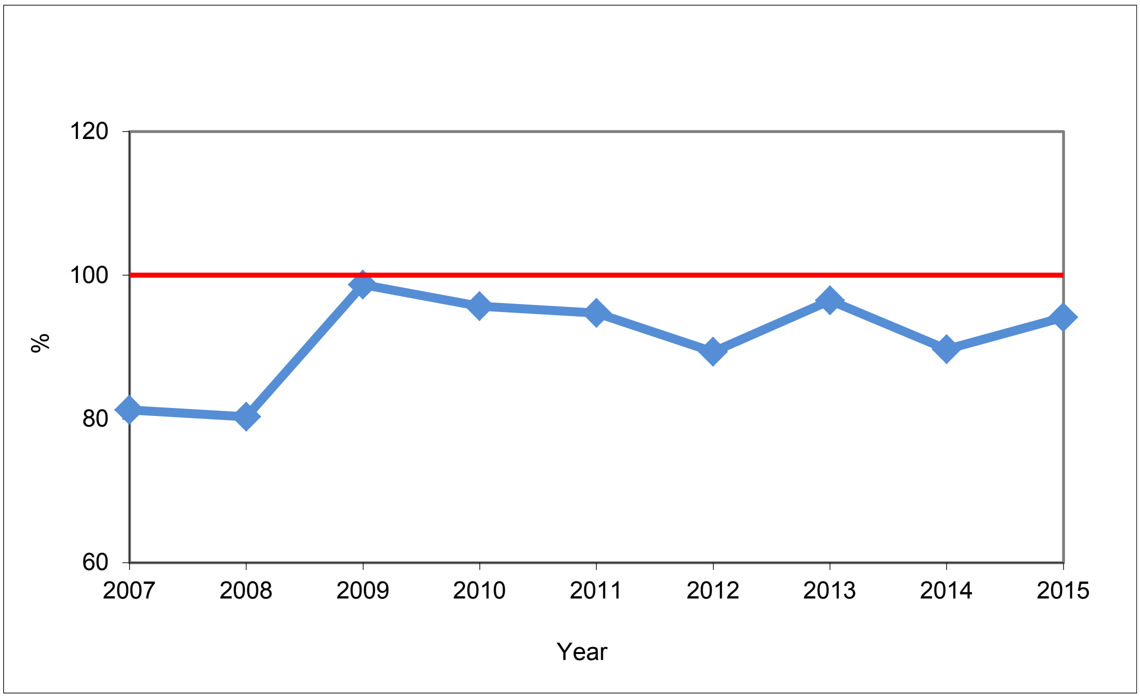
Asset sustainability ratio

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

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

Figure 4 below shows the asset sustainability ratio on a consolidated basis for the 29 councils in each of the past nine years.

Figure 4: 9-year Average all councils asset sustainability ratio



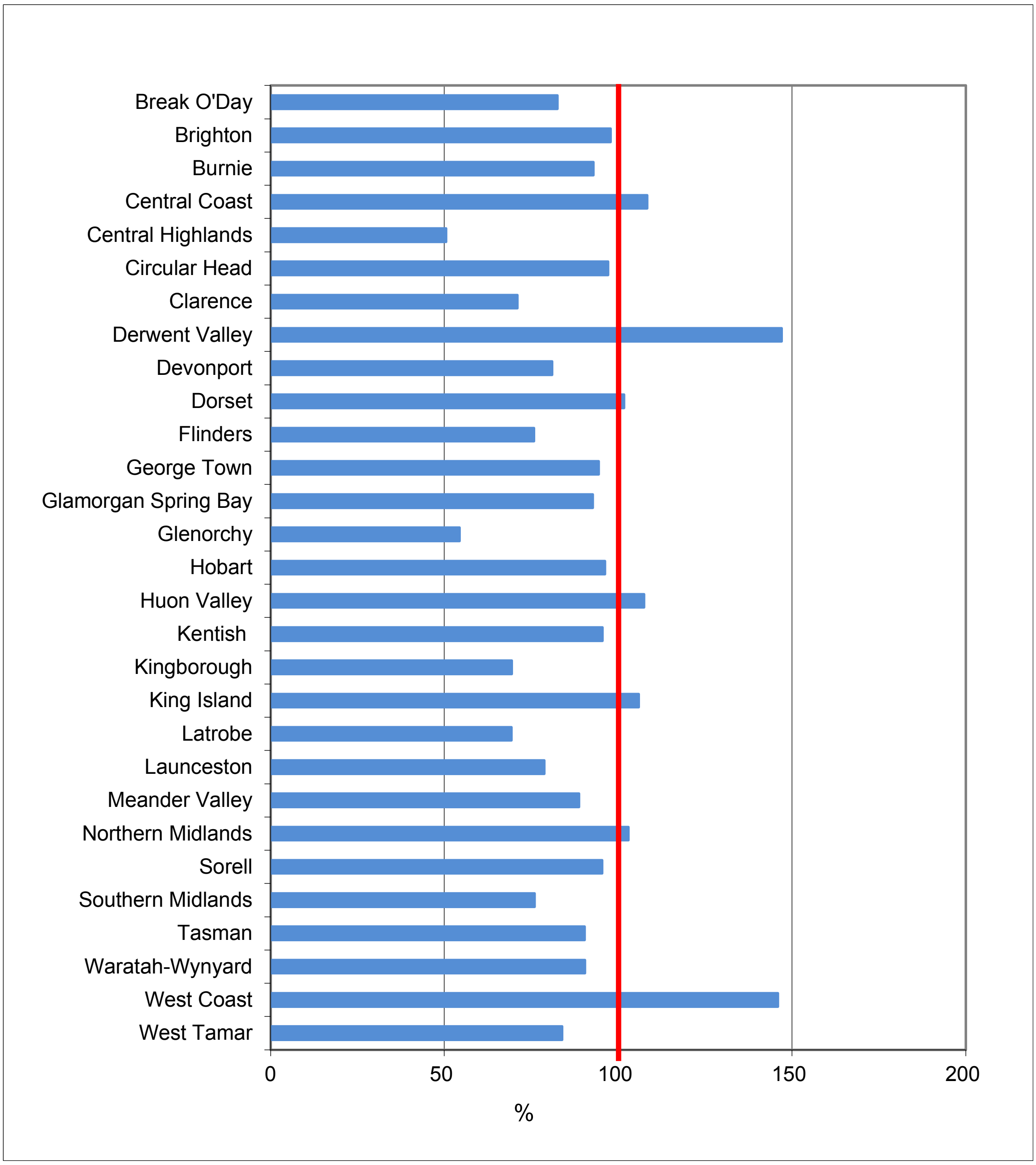
Source Tasmanian Audit Office

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

The ratio improved from 81% in 2007 to 94% in 2015 with this increase likely in part due to the development of management and financial plans.

Figure 5 below shows the average nine-year asset sustainability ratio achieved by council.

Figure 5: 9-year average asset sustainability ratio



Source Tasmanian Audit Office

In most cases councils failed to meet the benchmark, with only seven (2013-14, seven) having an asset sustainability ratio equal to or above 100% over the nine-year period, a similar result to the previous year. However, a further ten (three) councils averaged above 90% and there was none below 50% (one), an improvement on the previous year.

Conclusion based on assessment of the asset sustainability ratio

Councils on the whole have slightly under invested in capital expenditure on existing assets in comparison to the benchmark. There was a slight improvement when compared to the previous year. Results have improved across the board since we began the review nine years ago as there has been a greater focus on long-term planning.

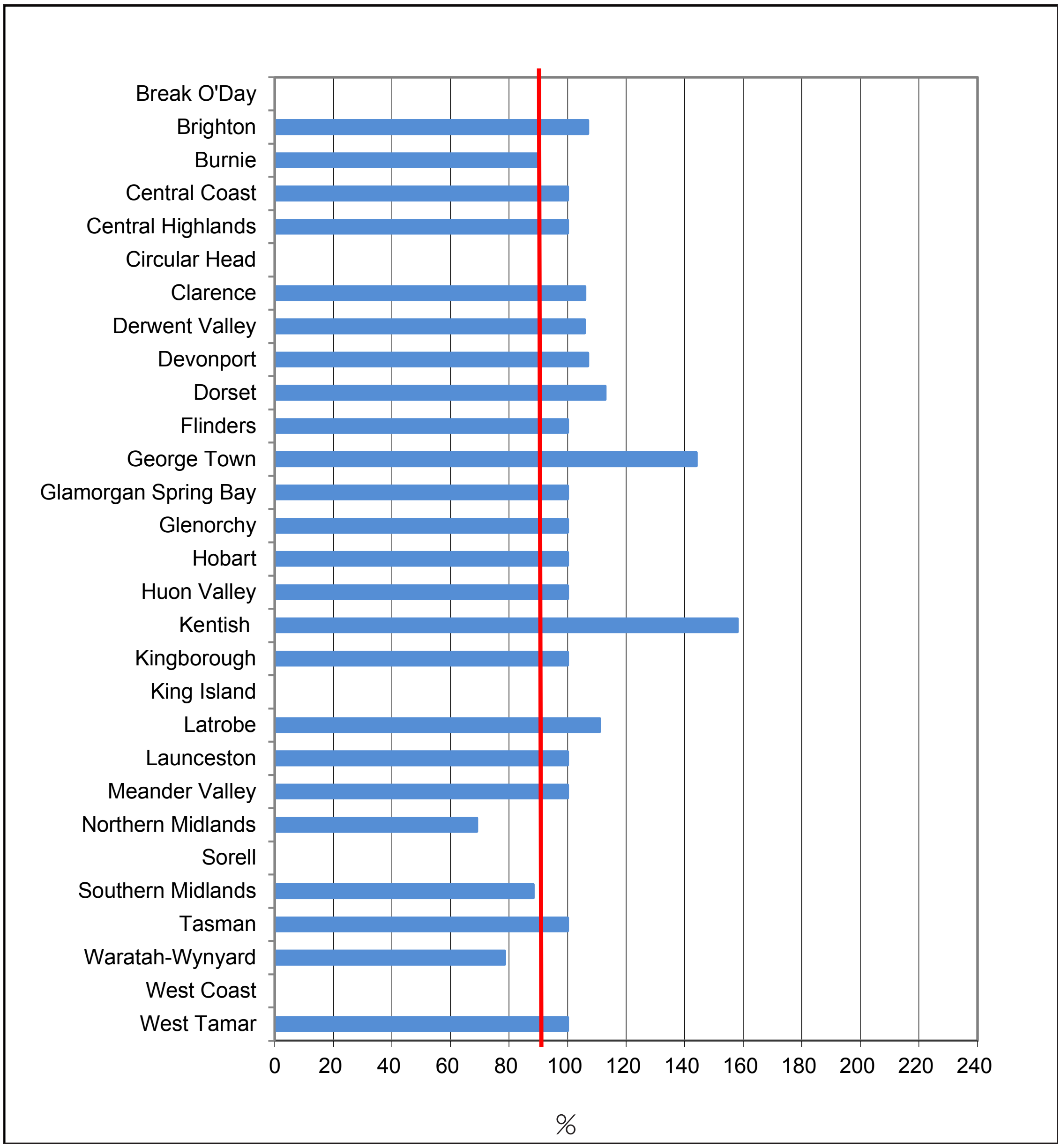
Asset renewal funding ratio

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

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

Figure 6 below shows the asset renewal funding ratio for those councils that had long-term financial and asset management plans. The ratio was calculated at 30 June 2015 on estimated required and planned capital expenditure. The periods covered by financial and asset management plans varied, with a minimum of 10 years being required by the *Local Government Act 1993,* and some extending to up to 20 years. Where there is no blue line, this represents no asset management or financial plans in accordance with the Ministerial Orders, making it difficult to calculate the asset renewal funding ratio.

Figure 6: Asset renewal funding ratio



Source Tasmanian Audit Office

Councils that produced long-term financial and asset management plans in accordance with the Ministerial Orders have detailed projections of required future capital expenditure. In most cases councils indicated their intention to fully fund the required work. The ratio, at a minimum, was calculated on transport, stormwater and buildings infrastructure assets by each council in accordance with the requirements of the *Local Government Act 1993*.

Twenty one (19 in 2013-14) of the 29 councils demonstrated ratios equal to or better than our 90% benchmark, which was a similar result to the previous year. Five (nine in 2013-14) councils had no approved plans established in accordance with the Ministerial Orders which was also an improvement.

Conclusion based on assessment of the asset renewal funding ratio

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

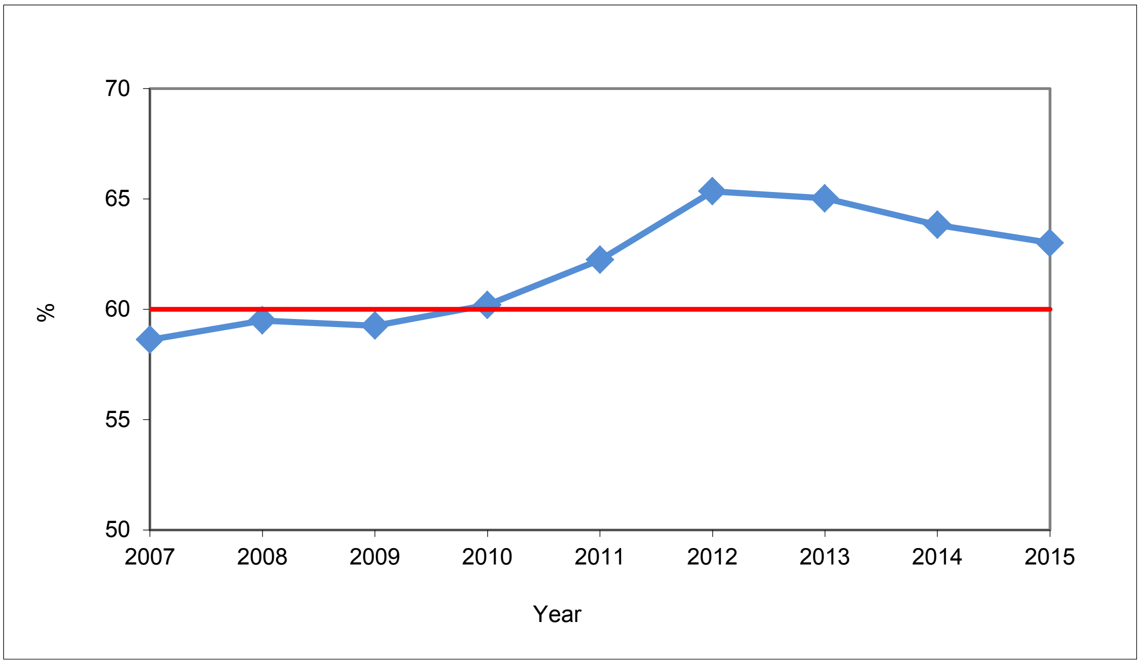
Road consumption ratio

Our review of asset consumption was based only on road infrastructure primarily due to these assets representing 66.6%, or $3.044bn, of total infrastructure assets held by the 29 councils of $4.570bn.

The ratio indicates the levels of service potential available in existing road infrastructure managed by councils. The higher the percentage, the greater future service potential is available to provide services to ratepayers.

Figure 7 below shows the road asset consumption ratio on a consolidated basis for the 29 councils in each of the past nine years. Ratio above 60% represented low financial sustainability risk and less than 40% high financial sustainability risk.

Figure 7: 9-year average all councils road consumption ratio



Source Tasmanian Audit Office

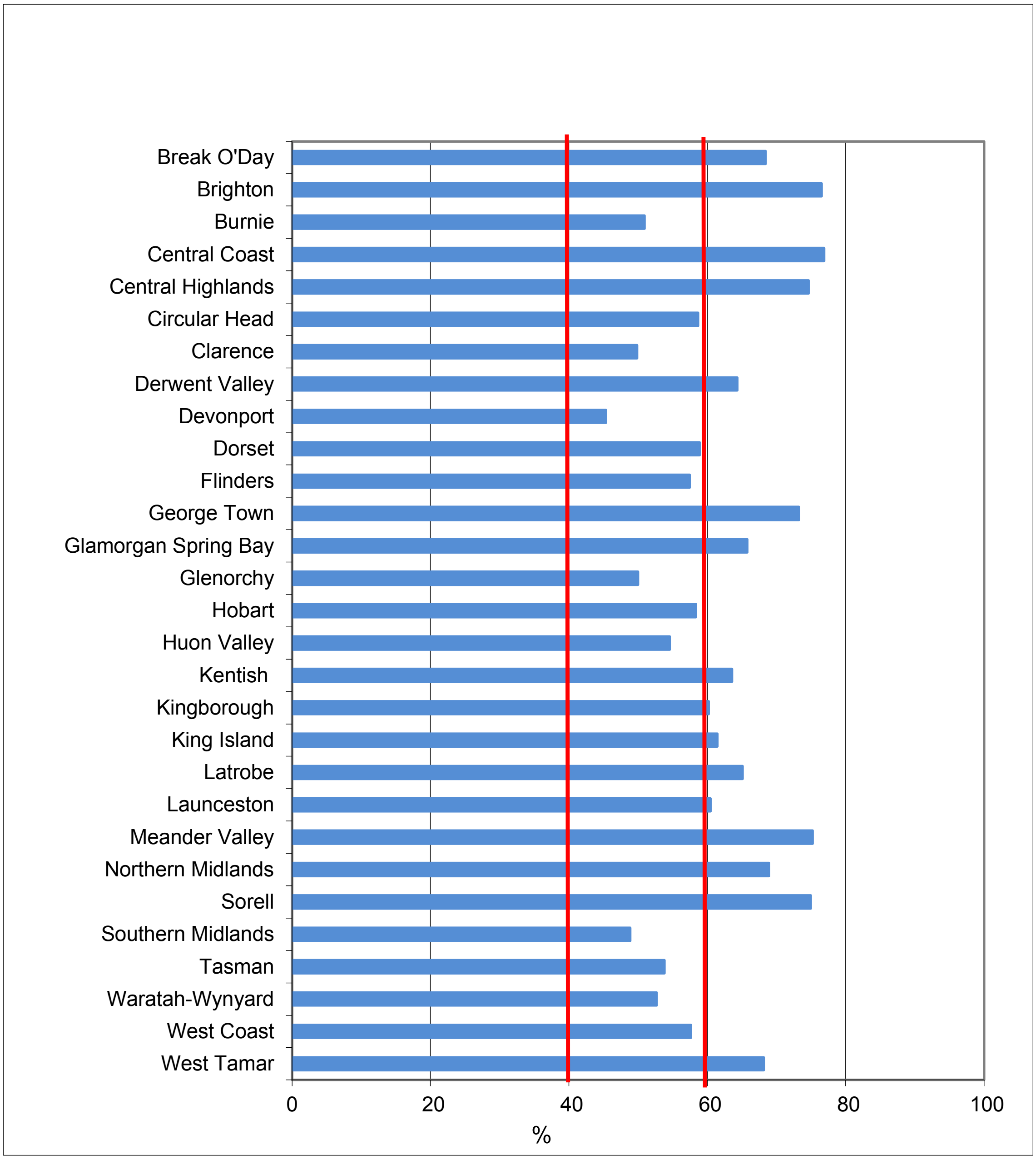
The figure indicated relatively low levels of consumption of council road assets with improvement over the period. The road consumption ratio improved from 59% in 2007 to 63% in 2015, with all councils within a low or moderate asset sustainability risk. A number of reasons contributed to the improvement including:

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

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

Figure 8 below shows the nine-year average road consumption ratio for each council.

Figure 8: 9-year average road consumption ratio



Source Tasmanian Audit Office

Sixteen (15 in 2014) of the 29 councils, on average over the nine-year period to 30 June 2015, had low asset management risk with the remaining 13 (14) at moderate risk.

Conclusion based on assessment of the asset consumption ratio

Overall, there was improvement in the level of consumption of road infrastructure assets over the nine-year period. At 30 June 2015, no council was below our high risk benchmark of 40%.

Net financial liabilities ratio

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

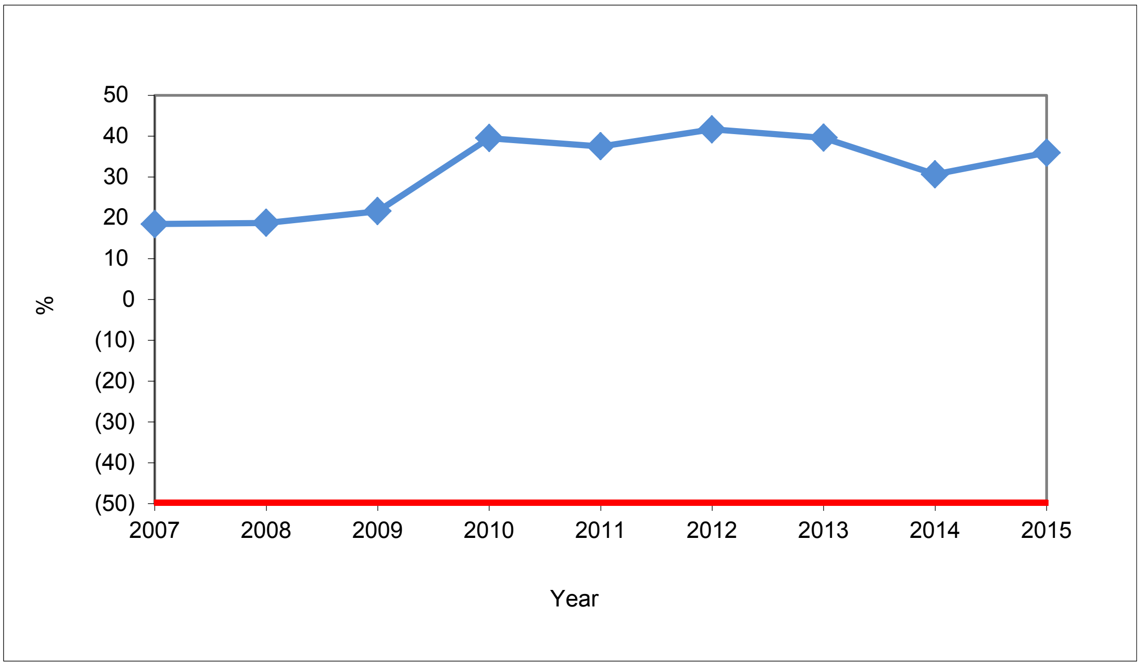
Where the ratio is positive, it indicates a council's liquid assets exceeded its total liabilities and that, therefore, at least in the immediate term, additional operating income is not needed to service current obligations.

Conversely a negative ratio indicates an excess of total liabilities over liquid assets meaning that, if all liabilities fell due at once, additional operating revenue would be needed to fund the shortfall in liquid assets.

Our benchmark 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 9 below shows the net financial liabilities ratio on a consolidated basis for the 29 councils in each of the past nine years.

Figure 9: 9-year overall average all councils net financial liabilities ratio



Source Tasmanian Audit Office

The average net financial liabilities ratio was positive each year. This was because, on a consolidated basis, total liquid assets exceeded total liabilities. At 30 June 2015, the 29 councils had current liabilities of $140.699m and non-current liabilities of $114.878m, which included borrowings of $86.604m. However, cash and other current liquid assets totalled $420.677m, which was $165.100m greater than Total Liabilities. Operating revenue generated during 2014-15 totalled $727.882m.

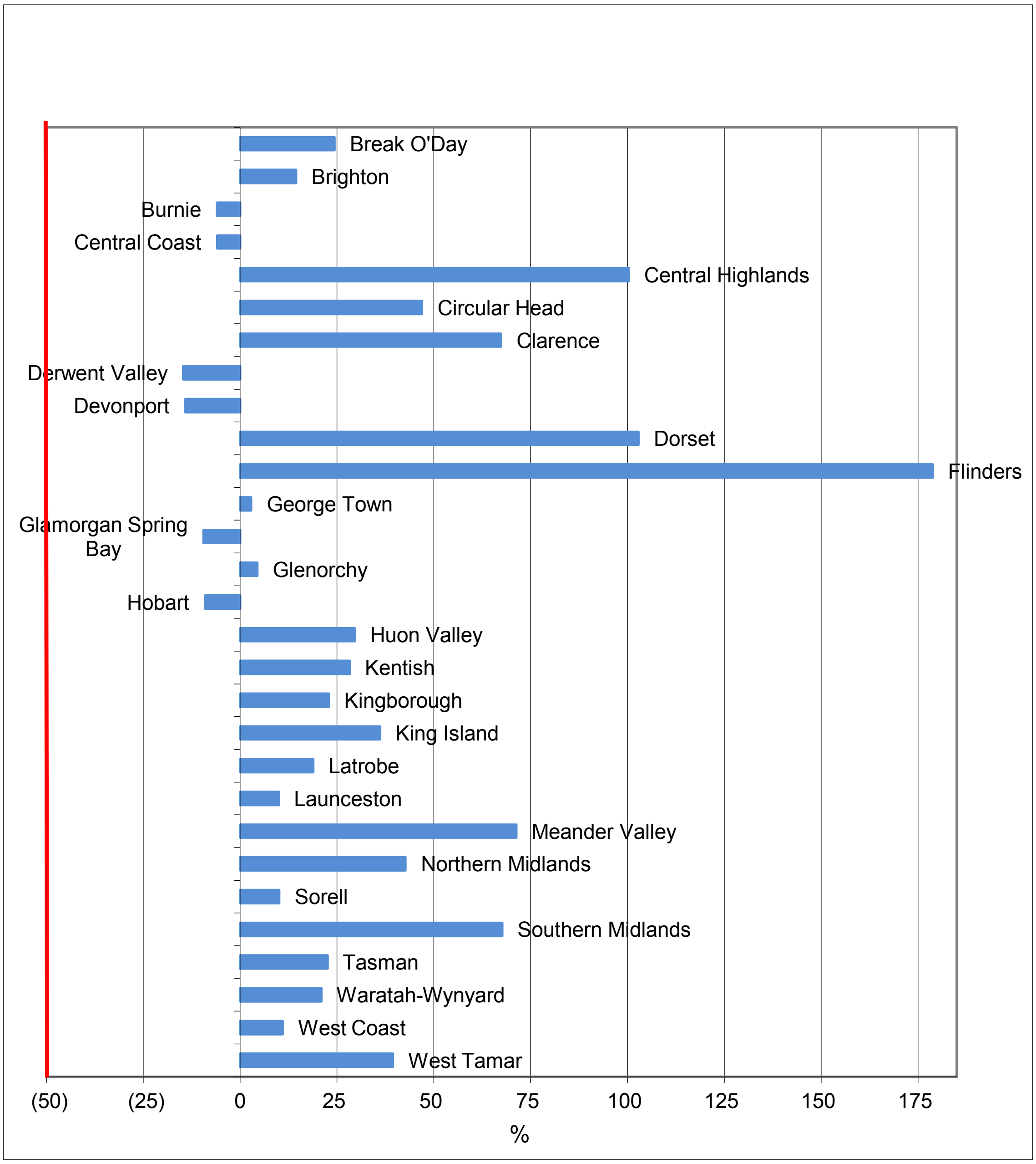
The ratio improved in 2009-10 when many councils transferred borrowings to the water and sewerage corporations at which time the average ratio for all councils was 39.5. This strong result continued since that time with the ratio at 30 June 2015 being 35.9.

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

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

Figure 10 shows the average nine-year net financial liabilities ratio for each council.

Figure 10: 9-year average net financial liabilities ratio



Source Tasmanian Audit Office

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

Conclusion based on assessment of net financial liabilities ratio

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

OVERALL FINANCIAL SUSTAINABILITY ASSESSMENT

Based on these ratios we concluded that, at 30 June 2015, assessed on average performance over the past nine years, councils in general had a moderate financial sustainability risk from financial operating and asset management perspectives but low risk from a net financial liabilities perspective.

There has been significant improvement since 2013-14, with the average all councils Operating surplus ratio exceeding benchmark for the first time in the nine-year period of review. Combined Operating result for all councils was a surplus of $6.387m for the year, indicating surpluses were being incurred. However, 14 councils contributed significantly to this strong result and 14 councils continued to incur Operating Deficits.

As mentioned in previous reports, councils were generally under investing in existing assets, although not significantly, with only seven out of 29 councils investing in existing assets, on average over a nine-year period, in excess of their annual depreciation charge. Overall, there was a slight improvement in this ratio with no council below 50% of our 100% benchmark.

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

COMMENTS AND SUBMISSIONS RECEIVED

Glenorchy City Council

Operating surplus ratio

Glenorchy City Council notes the underlying deficit. In March 2015 Council formally adopted and is currently implementing a strategic and operational review program with recommendations of achieving a break- even or small surplus operating position by 30 June 2017. This LTFP was formally adopted by Council on 1 June 2015.

Nine-year average asset sustainability ratio

Glenorchy City Council has comprehensively reviewed the condition and effective life of its storm water and road asset classes. A review of building assets is underway. Storm water assets effective life has been extended from 80 to 135 years and the condition of road assets is above industry standard. It is expected that these factors will have a downward impact on depreciation cost levels and a consequent positive impact on the asset sustainability ratio which will progressively flow through the nine-year moving average. This issue was part of the formal adoption by Council in March 2015 of the strategic and operational review program.

Nine-year average road consumption ratio

Glenorchy City Council has comprehensively reviewed the condition and effective life of its road asset class. The condition of road assets is above industry standard and this is expected to exert downward pressure on depreciation cost levels and a consequent positive impact on the average road consumption ratio which will progressively flow through the nine-year moving average.

Peter Brooks

General Manager

Central Highland Council

Operating surplus ratio

Central Highlands Council has no issues with two draft chapters and will continue to work towards a net profit/zero deficit.

Lyn Eyles

General Manager

Kentish Council

Overall Financial Sustainability Assessment

The second last paragraph of the report states the conclusion that councils are generally under investing in existing assets. Kentish Council does not believe this conclusion is justified. The comparison of expenditure on existing assets to depreciation may indicate that councils are under investing in existing assets, but it may also indicate that, on average, the amount of expenditure required at this stage of the life cycle of councils' assets is below the long-term average requirement (as indicated by depreciation). The Asset Management system used is more sophisticated than taking a simple average. Kentish Council believes that assessment of the level of investment in existing assets should be based on a comparison of expenditure on existing assets to the required asset renewal expenditure as determined by asset management plans.

Don Thwaites

Mayor

Latrobe Council

Overall Financial Sustainability Assessment

The second last paragraph of the report states the conclusion that councils are generally under investing in existing assets. Latrobe Council does not believe this conclusion is justified. The comparison of expenditure on existing assets to depreciation may indicate that councils are under investing in existing assets, but it may also indicate that, on average, the amount of expenditure required at this stage of the lifecycle of councils' assets is below the long-term average requirement (as indicated by depreciation). Latrobe council believes that assessment of the level of investment in existing assets should be based on a comparison of expenditure on existing assets to the required asset renewal expenditure as determined by asset management plans.

Cr Peter Freshney

Mayor

Auditor-General's Response

Comments made by Kentish and Latrobe Councils will be considered in drafting the 2015-16 Report.

LOCAL GOVERNMENT OPERATIONAL EFFICIENCY

SNAPSHOT

- This Chapter includes an analysis of the following five operational efficiency ratios for councils: rates per rateable property, rates per head of population, operating costs per rateable property, average staff costs per FTE and FTEs per head of population.
- All graphs and commentary should be read with caution given that numerous factors unique to municipalities can impact on total rates, operating and employee costs and staff levels, including:
  - size of commercial sectors
  - numbers or rateable properties
  - seasonal factors at the time of census which may influence population data in some municipal areas
  - services and functions by council
  - workforce arrangements, such as level of reliance on contractors or sharing of resources with other councils.
- The analysis assesses differences in performance within different council classifications based on size and structure which should facilitate identification of how similar councils are performing.
- On average, the greater the number of rateable properties in a municipality, the higher the rates. However, the inverse occurs for Rural Agricultural Large and Rural Agricultural Very Large groupings.
- On average, the larger the population the lower the rates per capita in a municipality. However, the inverse occurs for Urban Small and Urban Medium groupings.
- On average, the greater the number of rateable properties, the lower the operating costs per rateable property. However, the inverse occurs for Urban Small and Urban Medium groupings.
- On average, the more FTEs a Council had, the lower the average staff costs per FTE. However, the inverse occurs for the Urban Medium grouping.
- On average, there were more FTEs with larger populations. However, the inverse occurs for the Rural Agricultural Large group.

INTRODUCTION

Indicators of operational efficiency of councils were included in the Comparative Analysis section of this Report in prior years with separate commentary first provided in our 2013-14 analysis. This analysis was provided again this year using the following five operational ratios:

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

Our analysis provided a high level comparison across classifications of councils. This classification grouped councils of similar size and structure which should facilitate identification of how similar councils were performing.

The classification groups were:

1. Rural agricultural, small and medium, with populations of up to 5 000 at a density of <30 per square kilometre.
2. Rural agricultural, large, with populations between 5 000 – 10 000 at a density of <30 per square kilometre.

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

This classification was based upon a national standard and is updated periodically for changes in population and other determining factors. Using this standard, West Coast Council was classified Rural Agricultural Large. West Coast Council had pointed out (refer to section at the end of this Chapter) that its population had fallen below that for Rural Agricultural Large and the application of this standard would result in incorrect and misleading comparisons. To acknowledge the fall in West Coast population and to maintain consistency in approach, West Coast Council was included in the analysis for Rural Agricultural Large, as well as Rural Agricultural Small and Medium classifications.

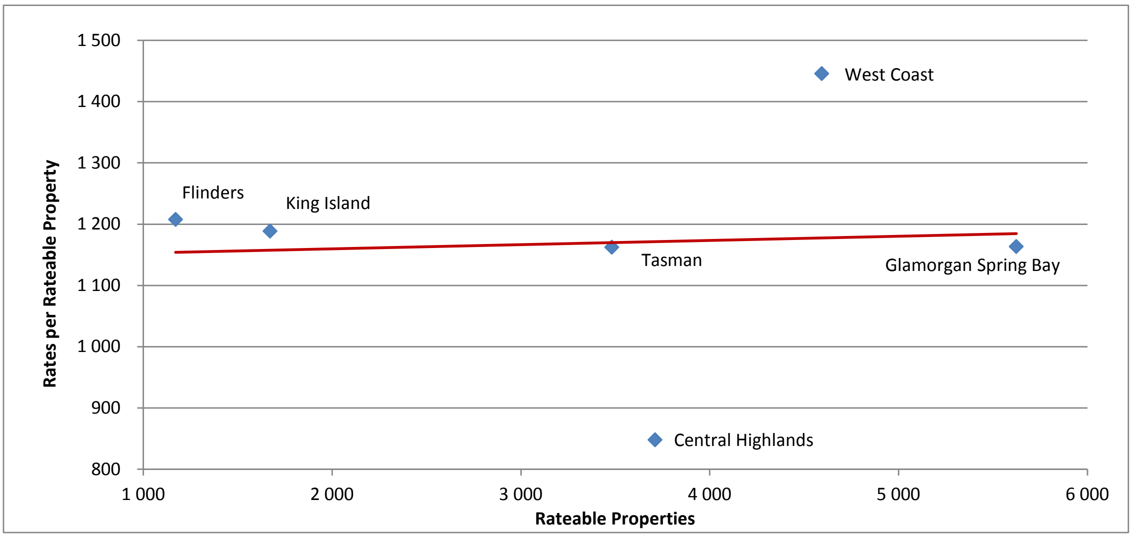
OPERATIONAL EFFICIENCY

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

Rates per rateable property

Figures 1.1 – 1.5 show the rates per rateable property for each council.

Figure 1.1: Rural Agricultural, Small and Medium



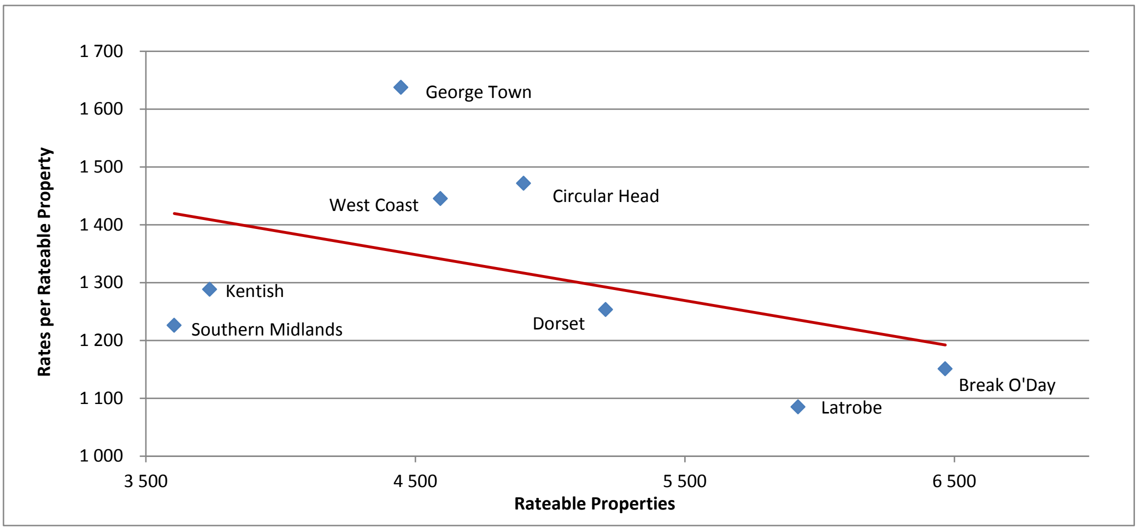
Source: Tasmanian Audit Office[1]

Figure 1.1 indicated the following:

- on average, the higher the number of rateable properties in a municipality, the higher the rates
- Central Highlands had the lowest rates and the third highest number of rateable properties
- Glamorgan Spring Bay had the highest number of rateable properties and second lowest rates.

[1] *For the reasons outlined on page 60, West Council was included both Figures 1.1 and 1.2.*

Figure 1.2: Rural Agricultural, Large



Source: Tasmanian Audit Office

Comment by the General Manager of West Coast Council, which he requested be included on each page where he considered this council was incorrectly categorised

West Coast Council is incorrectly categorised here. Any comparisons made on this chart are therefore incorrect and misleading.

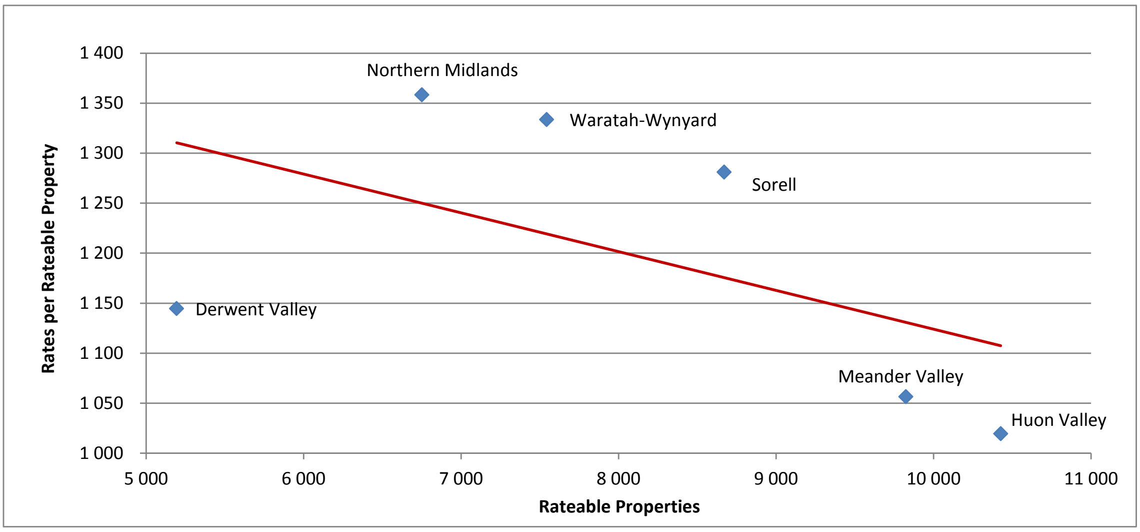
Auditor-General's response

On page 58 of this Chapter I outlined the basis on which councils were classified. This is based on a national standard supported by the Department of Premier and Cabinet (DPAC) and I was unwilling to apply it inconsistently to suit West Coast Council. However, in recognition of their position, I included this Council in both figures 1.1 and 1.2. I do not agree that doing so results in incorrect or misleading comparisons. Instead, it facilitates comparison of councils nationally classified.

Figure 1.2 indicated the following:

- on average, the higher the number of rateable properties in a municipality, the lower the rates
- Latrobe had the lowest rates but the second highest number of rateable properties
- George Town had the highest rates per rateable property
- Dorset appeared to be the average with regard to rates and rateable properties for this group.

Figure 1.3: Rural Agricultural, Very Large

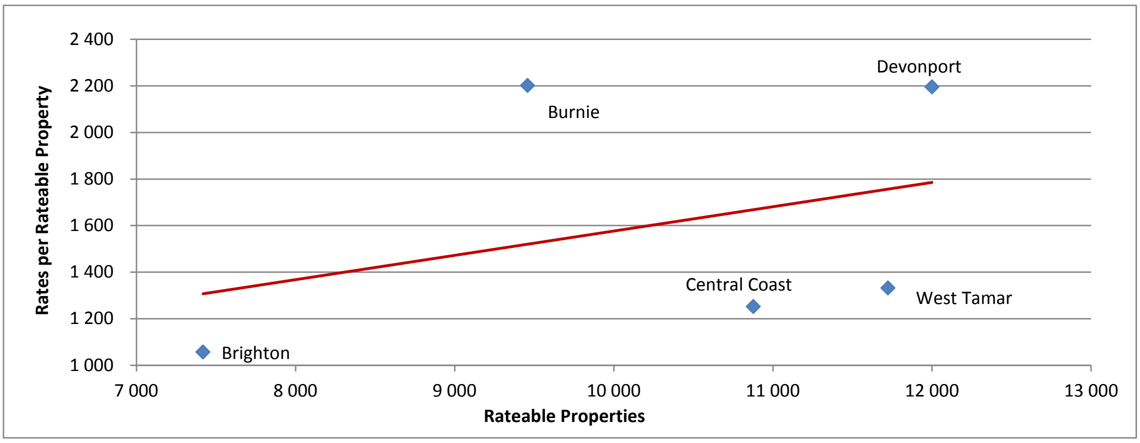


Source: Tasmanian Audit Office

Figure 1.3 indicated the following:

- on average, the higher the number of rateable properties in a municipality, the lower the rates
- Huon Valley had the lowest rates and the highest number of rateable properties
- Northern Midlands had the highest rates per rateable property whereas Derwent Valley had the lowest number of rateable properties with significantly lower rates per rateable property than Northern Midlands.

Figure 1.4: Urban Small

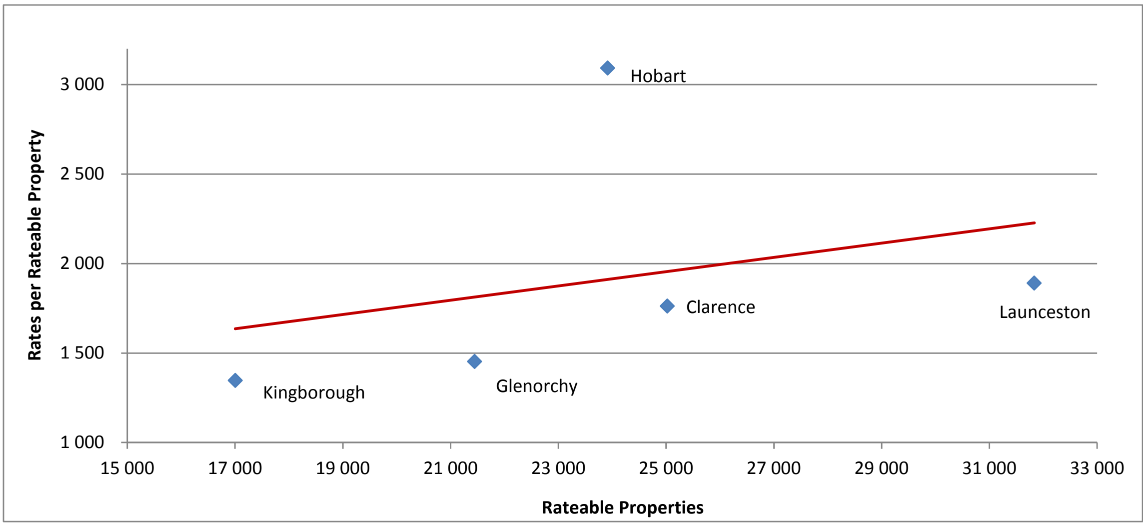


Source: Tasmanian Audit Office

Figure 1.4 indicated the following:

- on average, the higher the number of rateable properties in a municipality, the higher the rates
- Brighton had the lowest rates but the fewest rateable properties
- Burnie and Devonport had the same rates but Devonport had a higher number of rateable properties
- the result was similar for Central Coast and West Tamar.

Figure 1.5: Urban Medium



Source: Tasmanian Audit Office

Figure 1.5 indicated the following:

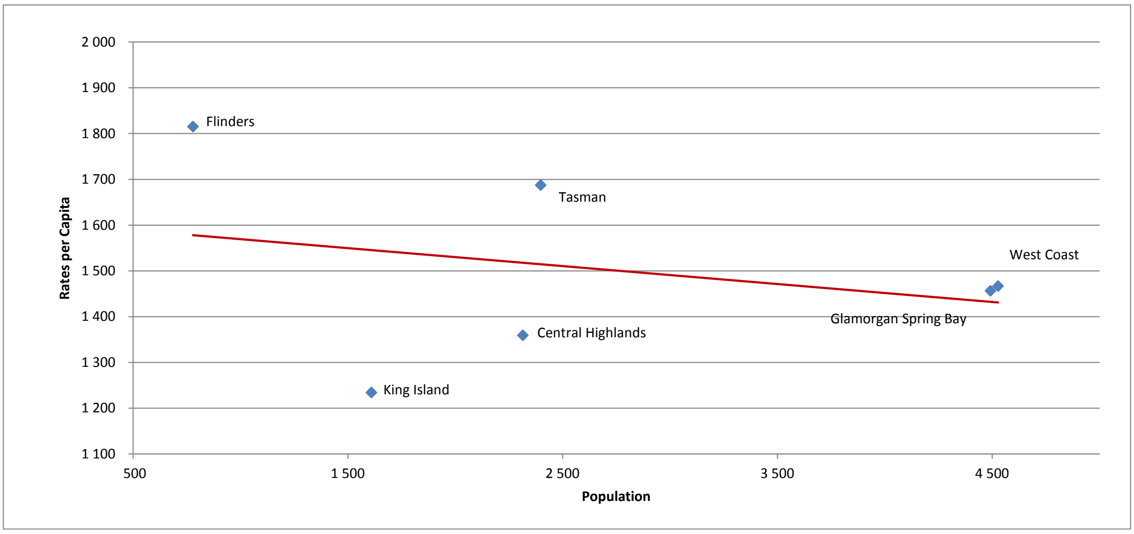
- on average, the higher the number of rateable properties in a municipality, the higher the rates
- Kingborough had the lowest rates per rateable property and the fewest rateable properties
- Hobart had the highest rates per rateable property
- Launceston had the most rateable properties and the second highest rates per rateable property.

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

Rates per head of population

Figure 2.1 – 2.5 show the rates per head of population (per capita) for each council.

Figure 2.1: Rural Agricultural, Small and Medium



Source: Tasmanian Audit Office[2]

Figure 2.1 indicated the following:

- on average, the larger the population, the lower the rates per capita
- there was much variation in rates per capita
- King Island had the second smallest population and the lowest rates per capita
- Flinders had the smallest population and the highest rates per capita.

[2] *For the reasons outlined on page 60, West Council is included both Figures 2.1 and 2.2.*

Figure 2.2: Rural Agricultural, Large

Source: Tasmanian Audit Office

Comment by the General Manager of West Coast Council, which he requested be included on each page where he considered this council was incorrectly categorised

West Coast Council is incorrectly categorised here. Any comparisons made on this chart are therefore incorrect and misleading.

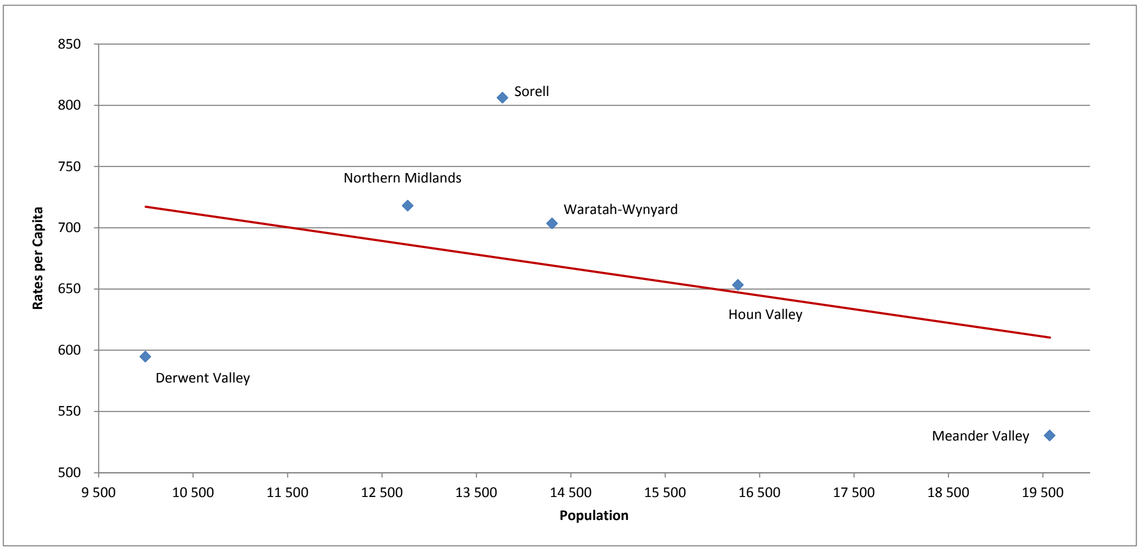
Auditor-General's response

My response is not repeated – refer page 60.

Figure 2.2 indicated the following:

- on average, the larger the population, the lower the rates per capita
- again, there was much variation in rates per capita
- Latrobe had the largest population and the lowest rates per capita
- West Coast had the smallest population but the highest rates per capita
- Dorset, as in figure 1.2, was at the average for both indicators.

Figure 2.3: Rural Agricultural, Very Large

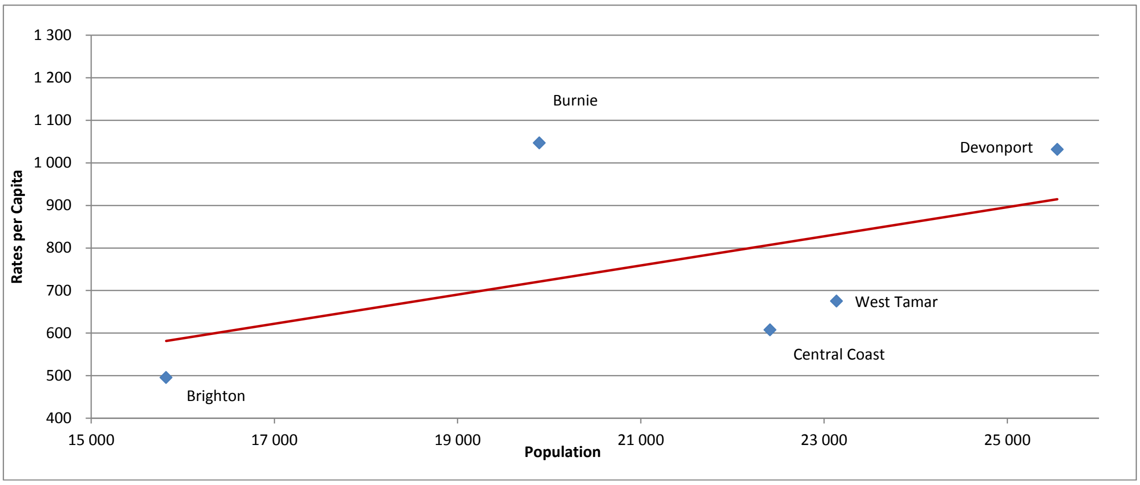


Source: Tasmanian Audit Office

Figure 2.3 indicated the following:

- on average, the larger the population, the lower the rates per capita
- again, there was much variation in rates per capita
- Sorell had the highest rates per capita
- Meander Valley had the lowest rates per capita and the largest population, while Derwent Valley had the second lowest rates per capita and the smallest population.

Figure 2.4: Urban Small

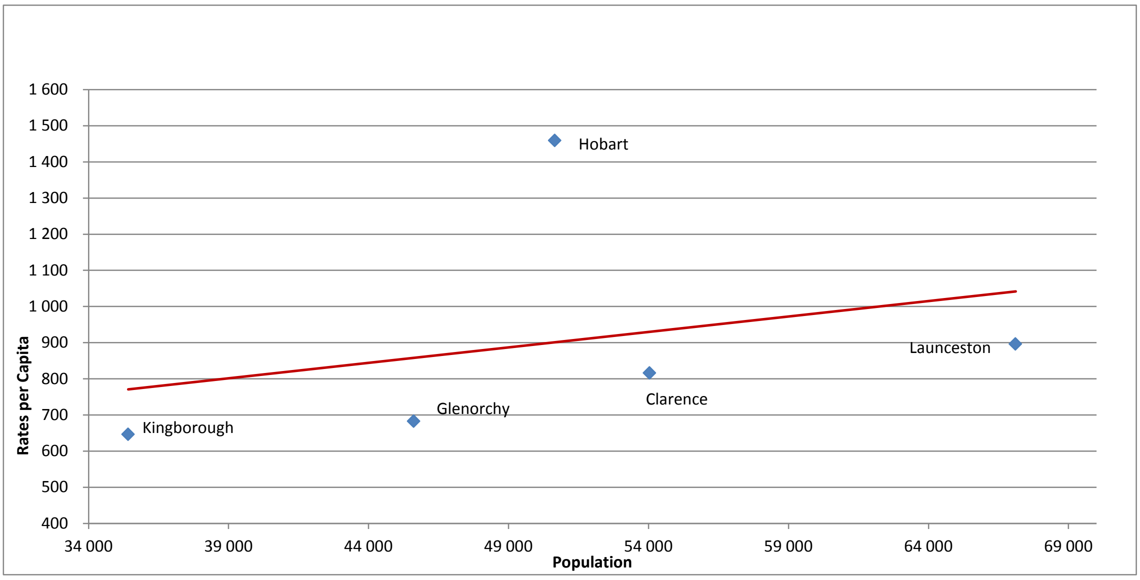


Source: Tasmanian Audit Office

Figure 2.4 indicated the following:

- on average, the larger the population, the higher the rates per capita
- again, there was much variation in rates per capita
- Brighton had the smallest population and the lowest rates per capita
- Devonport had the largest population and one of the highest rates per capita
- Burnie and Devonport had similar rates per capita but Burnie had the smaller population.

Figure 2.5: Urban Medium



Source: Tasmanian Audit Office

Figure 2.5 indicated the following:

- on average, the larger the population, the higher the rates per capita
- While Hobart City was an outlier in this analysis, the variance between Launceston and Kingborough was high.

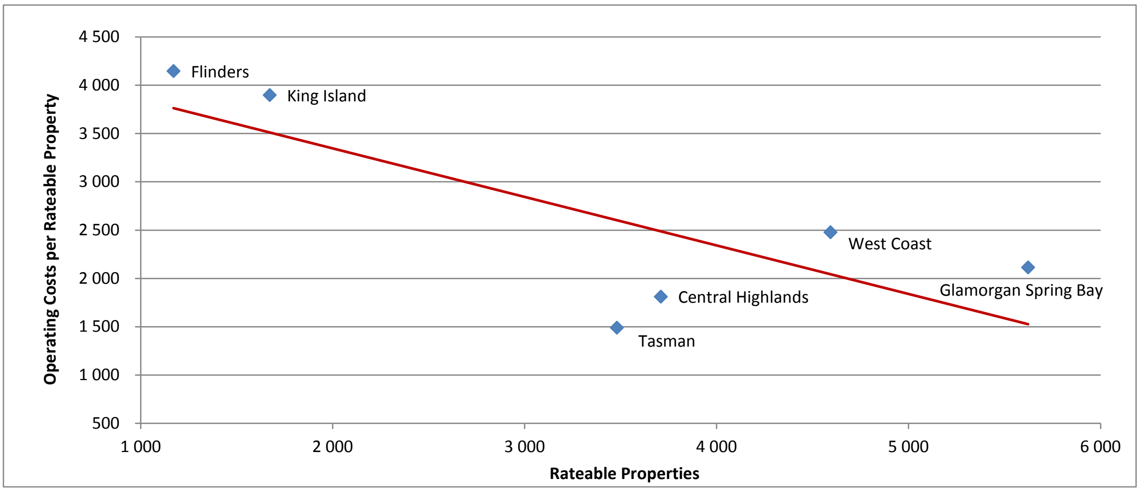
Particularly for Hobart and Launceston, regard must be had to the fact that relative sizes of high value commercial properties without corresponding residential populations, many of whom travel into cities to work, can inflate this ratio.

Operating costs per rateable property

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

Figures 3.1–3.5 shows the operating costs per rateable property for each council.

Figure 3.1: Rural Agricultural, Small and Medium



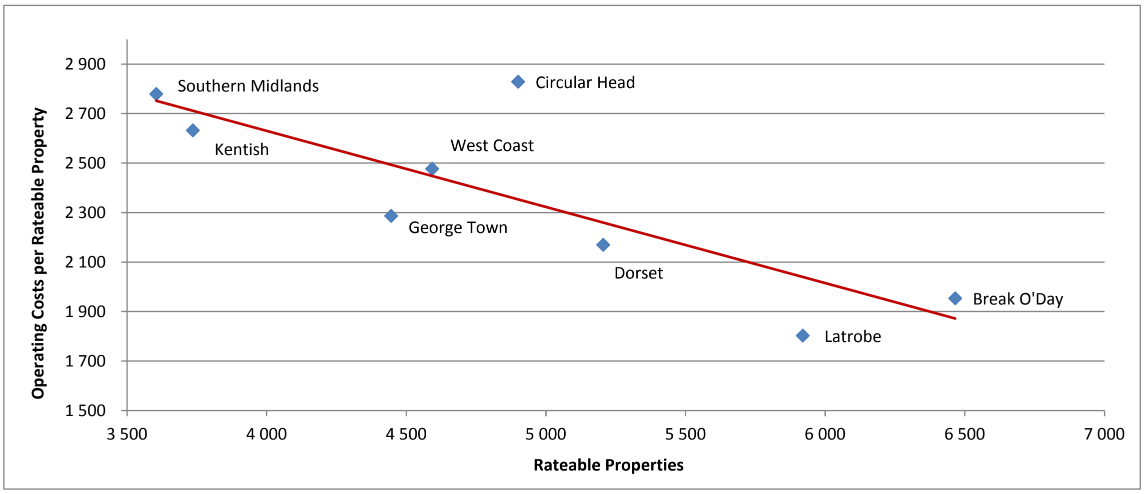
Source: Tasmanian Audit Office[3]

Figure 3.1 indicated the following:

- on average, the higher the number of rateable properties, the lower the operating costs
- there was also much variation in operating costs per rateable property
- Flinders and King Island had high operating costs per rateable property, likely due to the smaller number of rateable properties
- Tasman had the lowest operating cost and the medium population of this group.

[3] *For the reasons outlined on page 60, West Council is included both Figures 3.1 and 3.2.*

Figure 3.2: Rural Agricultural, Large



Source: Tasmanian Audit Office

Comment by the General Manager of West Coast Council, which he requested be included on each page where he considered this council was incorrectly categorised

West Coast Council is incorrectly categorised here. Any comparisons made on this chart are therefore incorrect and misleading.

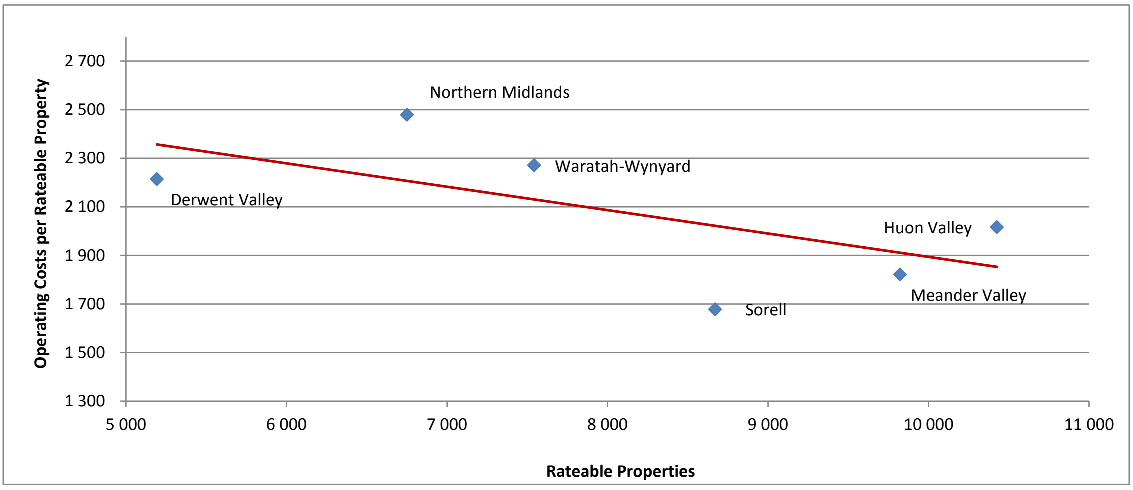
Auditor-General's response

My response is not repeated – refer page 60.

Figure 3.2 indicated the following:

- on average, the higher the number of rateable properties, the lower the operating costs
- again, there was much variation in operating costs per rateable property
- Southern Midlands and Kentish had higher operating costs per rateable property likely due to the smaller number of rateable properties
- Dorset, as previously mentioned, was very much at the average
- Latrobe had the lowest operating costs per rateable property.

Figure 3.3: Rural Agricultural, Very Large



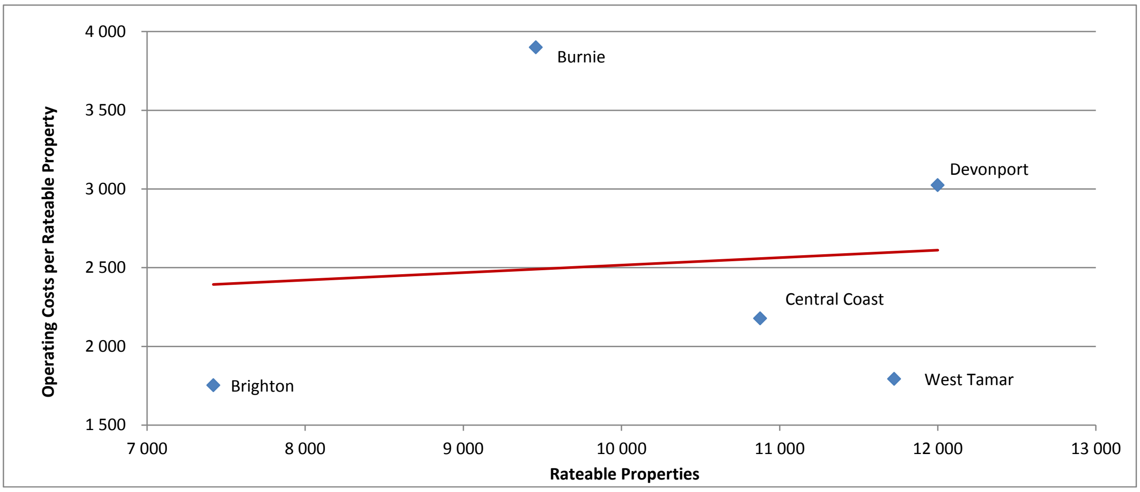
Source: Tasmanian Audit Office

Figure 3.3 indicated the following:

- on average, the more the rateable properties, the lower operating costs
- again, there was much variation in operating costs per rateable property

- Derwent Valley and Northern Midlands had higher operating costs per rateable property likely due to the smaller number of rateable properties
- Sorell had the lowest operating costs per rateable property.

Figure 3.4: Urban Small

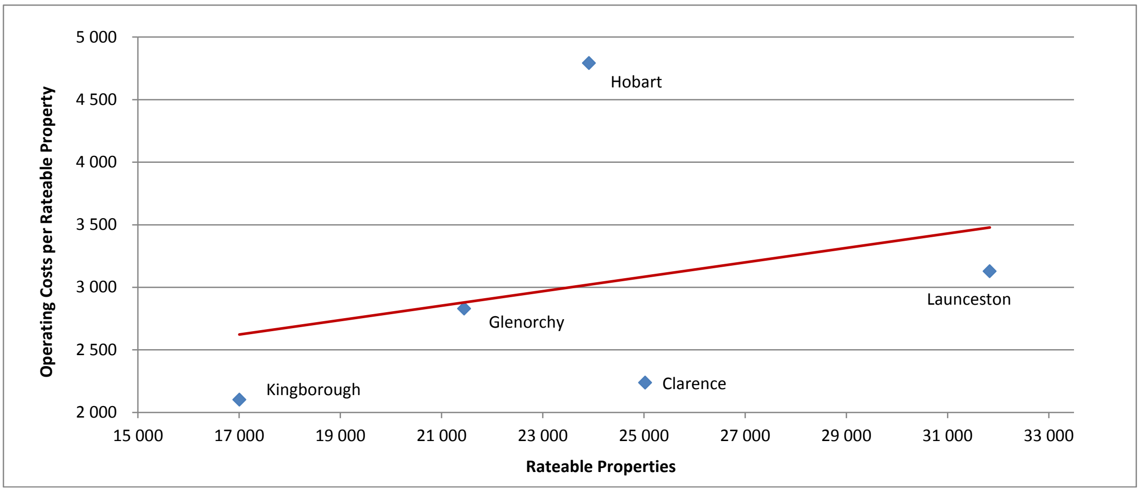


Source: Tasmanian Audit Office

Figure 3.4 indicated the following:

- on average, the more the rateable properties, the higher the operating costs
- there were two major outliers, one being Brighton (the lowest cost) and the other Burnie (the highest cost)
- Devonport had the second highest operating costs and the largest number of rateable properties
- Brighton and West Tamar had similar operating costs but West Tamar had by far the larger number of rateable properties.

Figure 3.5: Urban Medium



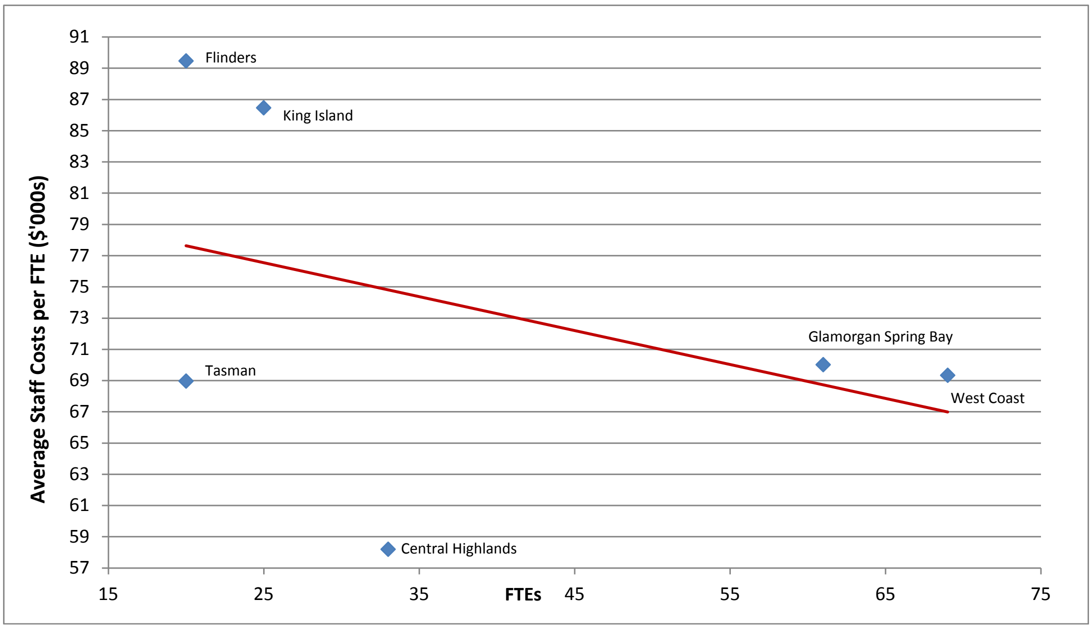
Source: Tasmanian Audit Office

Figure 3.5 highlighted a greater dispersion between councils' operating costs per rateable property than rates per rateable property. However, consistent with analysis of rates per rateable property, Hobart had higher than the average operating cost per rateable property. The relative size of commercial sectors, which provide significant rates but not necessarily the proportionate number of rateable properties, can inflate this ratio somewhat.

Average staff costs per FTE

Figure 4.1 – 4.5 show the average staff costs per FTE for each council.

Figure 4.1: Rural Agricultural, Small and Medium

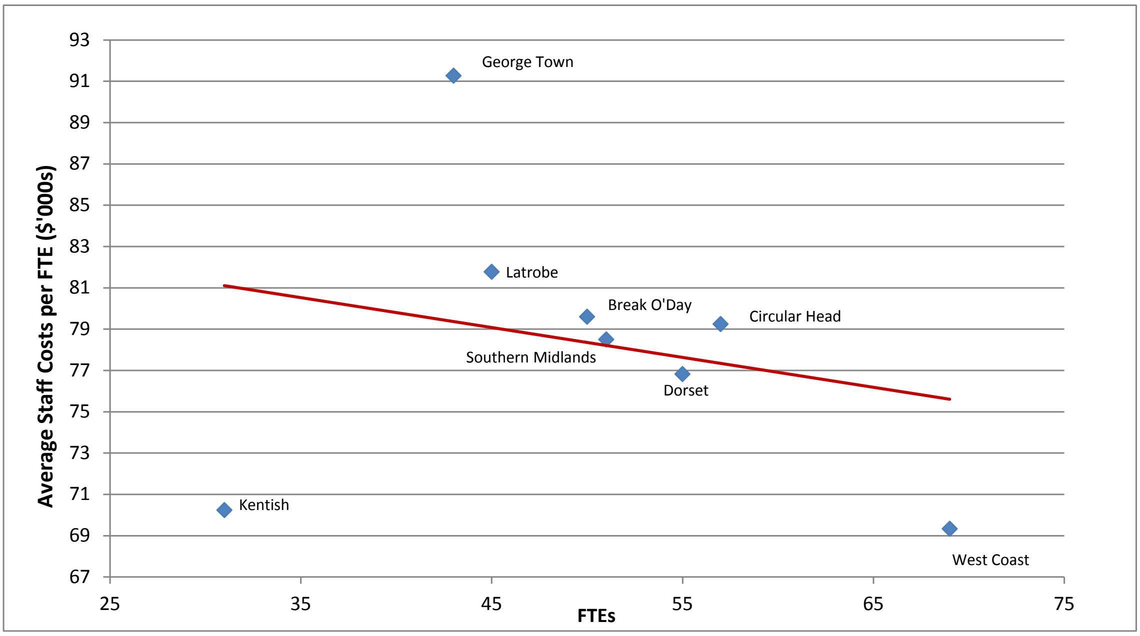


Source: Tasmanian Audit Office[4]

Figure 4.1 indicated the following:

- there was much variation in average staff costs
- on average, the more the FTEs the lower the average staff costs
- Flinders and King Island had the highest average costs
- Tasman and Glamorgan Spring Bay average staff costs were of a similar level although one was double the size of the other in staff numbers
- Central Highlands was the lowest.

Figure 4.2: Rural Agricultural, Large



Source: Tasmanian Audit Office

[4] *For the reasons outlined on page 60, West Council was included both Figures 4.1 and 4.2.*

Comment by the General Manager of West Coast Council, which he requested be included on each page where he considered this council was incorrectly categorised

West Coast Council is incorrectly categorised here. Any comparisons made on this chart are therefore incorrect and misleading.

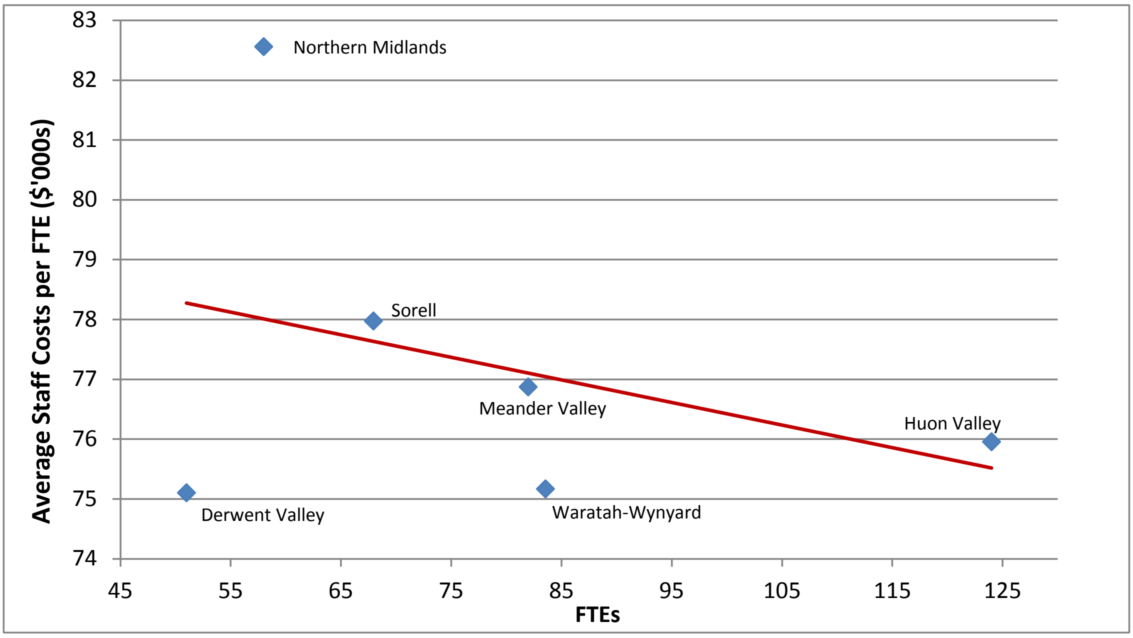
Auditor-General's response

My response is not repeated – refer page 60.

Figure 4.2 indicated the following:

- there was much variation in average staff costs
- on average, the more the FTEs the lower the average staff costs
- George Town had the highest average staff costs, while West Coast had the lowest.

Figure 4.3: Rural Agricultural, Very Large

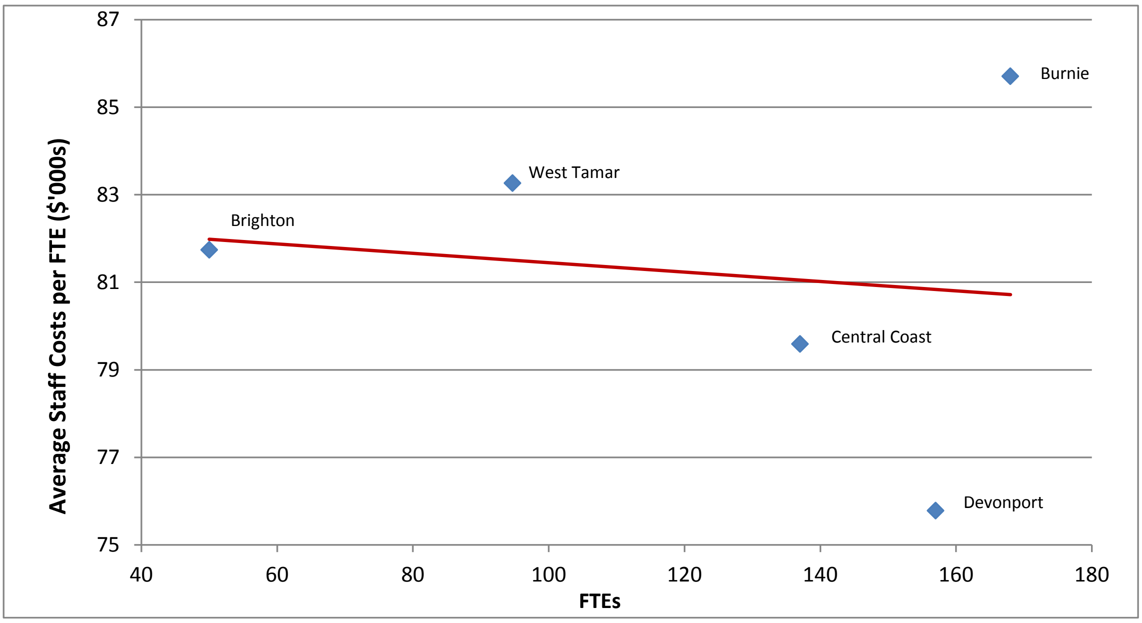


Source: Tasmanian Audit Office

Figure 4.3 indicated the following:

- there was much variation in average staff costs
- on average, the more the FTEs the lower the average staff costs
- Northern Midlands had the highest average staff costs per FTE and the second lowest number of FTEs
- Derwent Valley had the lowest average staff costs.

Figure 4.4: Urban Small

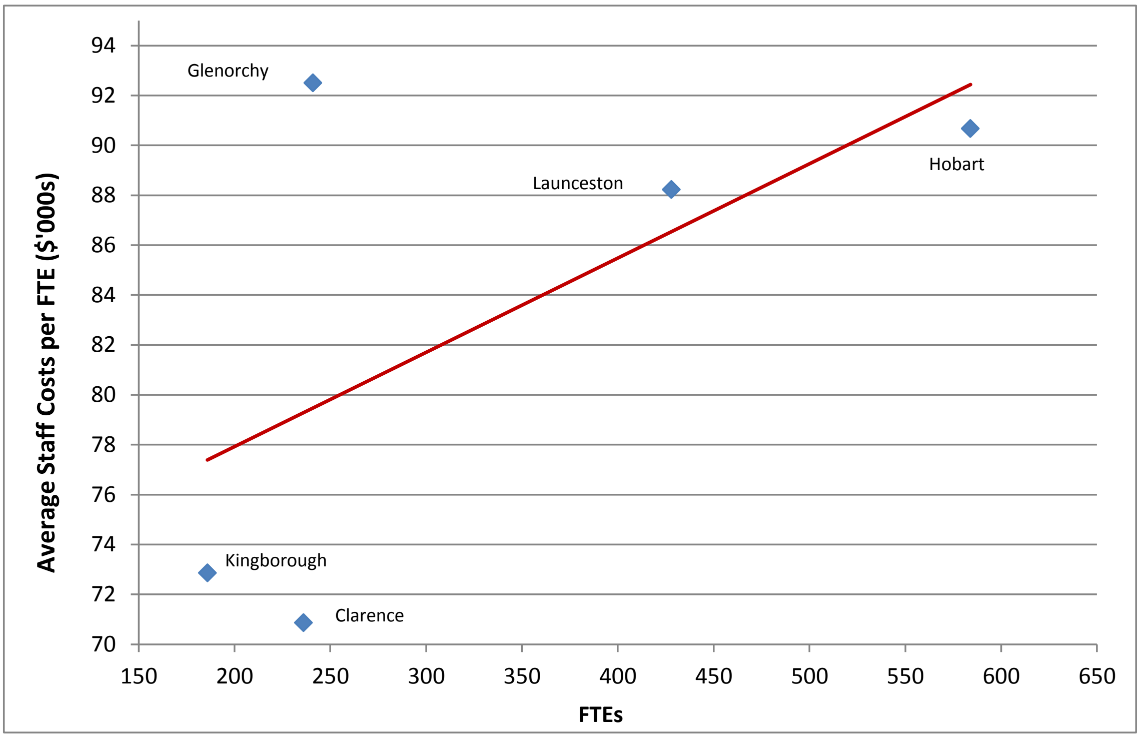


Source: Tasmanian Audit Office

Figure 4.4 indicated the following:

- here was much variation in average staff costs
- on average, the more the FTEs the lower the average staff costs although Devonport was an outlier in this respect
- Burnie and Devonport had the most FTEs but Devonport had a significantly smaller average staff costs than Burnie.

Figure 4.5: Urban Medium



Source: Tasmanian Audit Office

Figure 4.5 indicated that:

- there was much variation in staff costs

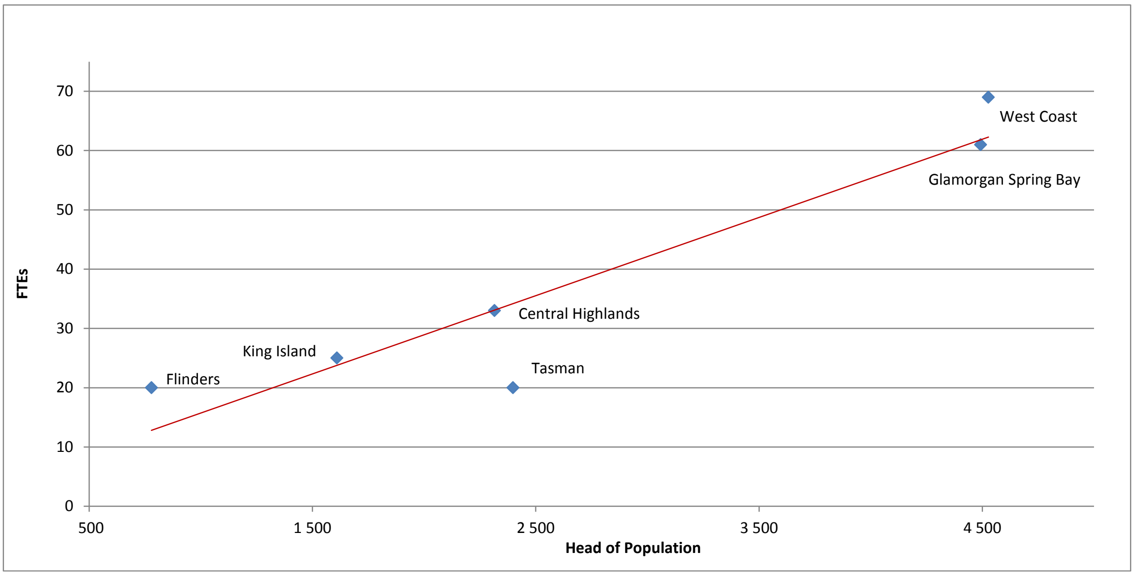
- the average staff costs per FTE trend for this grouping was significantly different to the previous groupings. On average, the higher the number of FTEs, the higher the average staff costs
- Glenorchy had the highest average staff costs and Clarence the lowest.

FTEs per head of population

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

Figure 5.1 – 5.5 show the number of FTEs per head of population for each council.

Figure 5.1: Rural Agricultural, Small and Medium

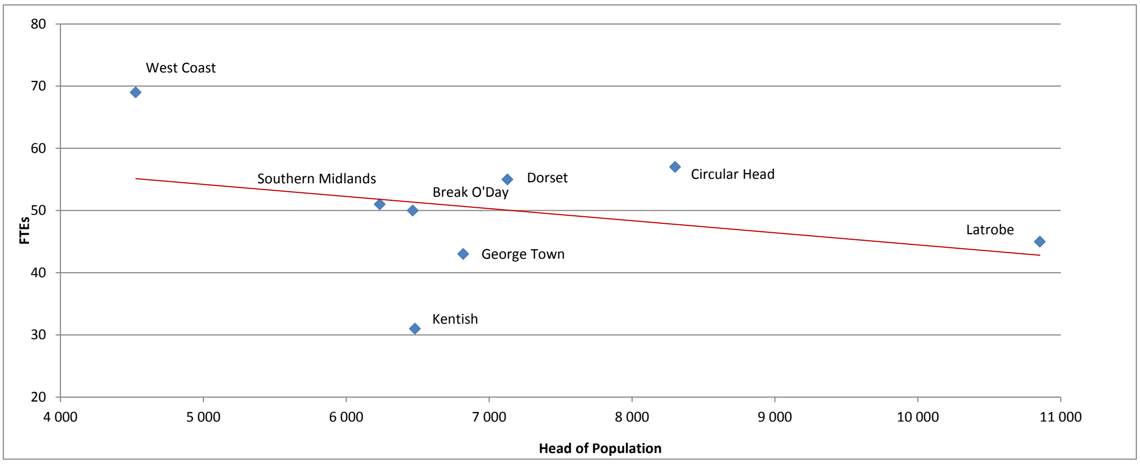


Source: Tasmanian Audit Office[5]

Figure 5.1 indicated that:

- on average, the larger the population, the higher the FTEs per council
- most councils' FTE complements were similarly sized in proportion to their respective populations.

Figure 5.2: Rural Agricultural, Large



Source: Tasmanian Audit Office

[5] *For the reasons outlined on page 60, West Council was included both Figures 5.1 and 5.2.*

Comment by the General Manager of West Coast Council, which he requested be included on each page where he considered this council was incorrectly categorised

West Coast Council is incorrectly categorised here. Any comparisons made on this chart are therefore incorrect and misleading.

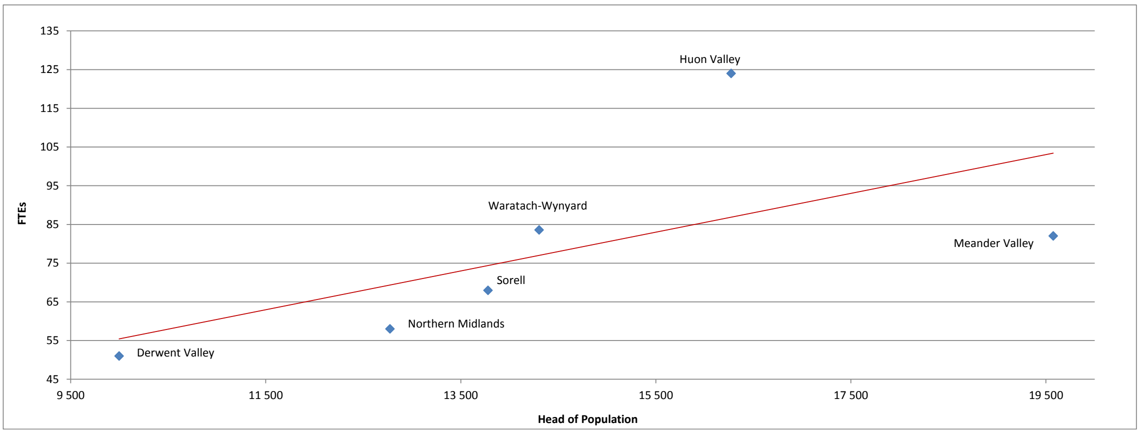
Auditor-General's response

My response is not repeated – refer page 60.

Figure 5.2 indicated that:

- on average, the larger the population, the fewer FTEs a council had
- this trend was mainly driven by West Coast and Latrobe being at the extreme ends of the graph.

Figure 5.3: Rural Agricultural, Very Large

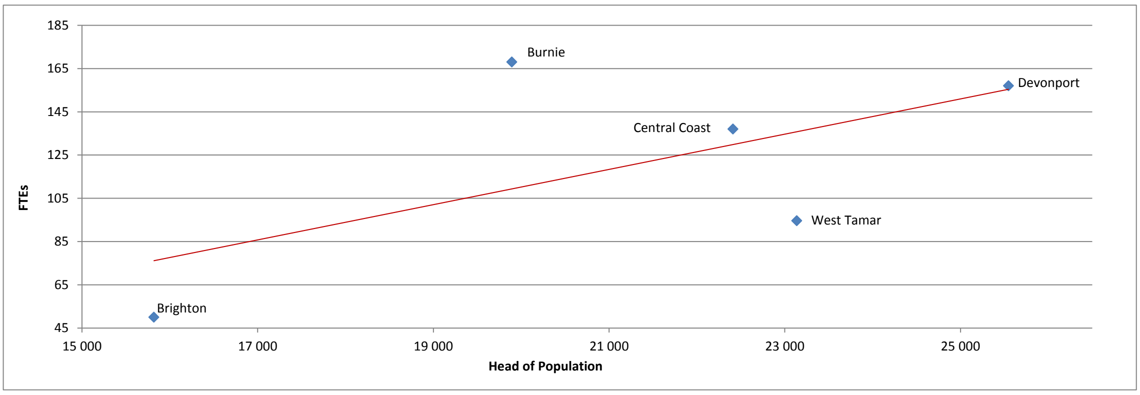


Source: Tasmanian Audit Office

Figure 5.3 indicated that:

- on average, the larger the population, the more FTEs a council had
- Huon Valley had the highest number of FTEs and the second largest population probably because it runs medical and childcare centres.

Figure 5.4: Urban Small

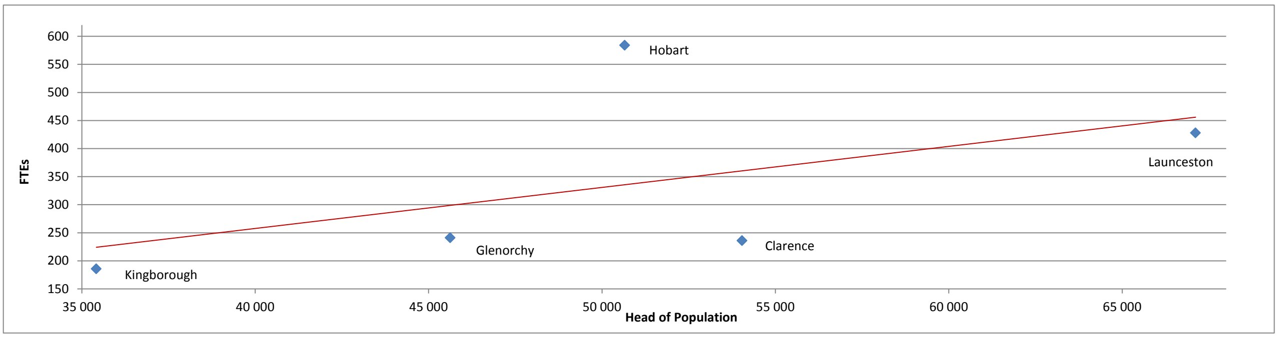


Source: Tasmanian Audit Office

Figure 5.4 indicated that:

- on average, larger the population, the more FTEs a council had
- Devonport appeared to have for this group the average number of FTEs in proportion to its population
- Burnie appeared to have more FTEs than Devonport despite having a smaller population.

Figure 5.5: Urban Medium



Source: Tasmanian Audit Office

Figure 5.5 indicated that FTEs increased as the population of the municipality increased. The ratio of FTEs per head of population was relatively consistent across councils with the only outlier being Hobart City, which had a significantly higher number of FTEs per head of population, perhaps because, being the States capital, it provides some functions unique to this role. It may also be reflective of Hobart maintaining an outside day labour force for both maintenance and construction activities while other councils rely more on contractors.

COMMENTS AND SUBMISSIONS RECEIVED

Glenorchy City Council

Average staff costs per FTE – Urban Medium

The average staff costs per FTE for Glenorchy City Council for 2015 are above ordinary levels by approximately $8,000 per FTE as a result of one off redundancies and termination payments flowing from a management team restructure in February 2015.

Peter Brooks

General Manager

Huon Valley Council

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

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

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

Operating costs per rateable property

Inclusive of medical centres	Comparative position	Exclusive of medical centres	Comparative position
$2,008	Approx. 3rd lowest operating costs per property	$1,838	Approx. 2nd lowest costs per property

Average staff costs per FTE

Inclusive of medical centres	Comparative position	Exclusive of medical centres	Comparative position
$75,952	Approx. 3rd lowest staff costs per FTE	$68,721	Lowest costs per FTE

Medical centre operating data 2014-15

Employee costs $1,480,312

FTEs 8.49

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

Simone Watson

General Manager

Kentish Council

4.2 Average Staff Cost per FTE – Rural Agricultural, Large

Comparability of the Kentish and Latrobe averages to other Councils may be affected by the treatment of resource-sharing transactions between the two councils. A full-time employee is counted as one full-time equivalent by the employer council and the full salary is included in staff costs for that council. The cost of hiring labour is not included in staff cost, but in contract labour cost. A significant portion of the management staff at Kentish Council are hired from Latrobe Council and so the relatively higher cost per FTE of the Kentish portion of the cost of these employees is reflected in the Latrobe average cost per FTE rather than Kentish.

The following detail may assist in interpreting or re-calculating the average FTE costs.

Staff hired by Kentish to Latrobe

Estimated FTE	Total Cost	Average Cost
1.31	$105,405	$80,462

Staff hired by Latrobe to Kentish

Estimated FTE	Total Cost	Average Cost
2.13	$263,198	$123,567

Don Thwaites

Mayor

King Island Council

4.1 Average staff costs per FTE – Rural Agricultural Small and Medium

Flinders and King Island had the two highest average staff costs per FTE and the two lowest number of FTEs. Higher costs result due to many factors including the following:

- Both Councils provide additional services that are non-core activities for mainland councils with fewer employees to undertake these activities
- There can be higher costs to lure a skilled workforce to a remote location including relocation costs, additional superannuation contributions and other fringe benefits that are not applicable to mainland councils

Zoe Behrendt

Manager Corporate Services

Latrobe Council

4.2 Average Staff Cost per FTE – Rural Agricultural, Large

Comparability of the Latrobe and Kentish averages to other Councils may be affected by the treatment of resource-sharing transactions between the two councils. A full-time resource-shared employee is counted as one full-time equivalent by the employer council and the full salary is included in staff costs for that council. The cost of hiring labour is not included in staff cost, but in contract labour cost. A significant portion of the management staff at Kentish Council are hired from Latrobe Council and so the relatively higher cost per FTE of the Kentish portion of the cost of these employees is reflected in the Latrobe average cost per FTE rather than Kentish.

The following detail may assist in interpreting or re-calculating the average FTE costs.

Staff hired by Kentish to Latrobe

Estimated FTE	Total Cost	Average Cost
1.31	$105,405	$80,462

Staff hired by Latrobe to Kentish

Estimated FTE	Total Cost	Average Cost
2.13	$263,198	$123,567

CR Peter Freshney

Mayor

Southern Midlands Council

3.2 Operating Costs per Rateable Property – Rural Agricultural Large

It is acknowledged that within the report it states that all graphs below should be read with caution given that there are numerous factors unique to each municipality which can impact upon the rates levied, operating and employee costs and staff levels. Council does however seek to have it noted that the "Operating Costs per Rateable Property" does show that the Southern Midlands Council has relatively high operating costs when compared to others within its classification. It should be acknowledged that total expenditure includes consolidation of the Council owned entities, and in particular Heritage Building Solutions. The inclusion of an additional $751,000 in expenditure due to consolidation represents approximately 7.5% of total expenditure, or alternatively, approximately $205 per rateable property.

Tim Kirkwood

General Manager

West Coast Council

Classification Groups

Council noted that, according to the "Classification Groups" identified (and used throughout the documents) the West Coast Council is incorrectly identified as "Rural Agricultural, Large" -populations between 5,000 -10,000.

The most accurate measure of population available (ABS Estimated Residential Population) puts West Coast's population at 4,527. Accordingly, Council believes that West Coast should be placed within the "Rural Agricultural, Small and Medium" classification group populations of up to 5,000.

The appropriate classification of the West Coast Council is critical. Without an appropriate amendment, a true comparison with other similar Councils cannot be achieved.

Rates per rateable property

The West Coast Council area encompasses 6 mine operations which contribute over $1,721,469.84 in rates to a total rate income base of $6,601,924.36. Accordingly, this comparison will always be skewed to a higher than normal figure i.e. the total rates per rateable property (excluding mine operations) for the West Coast is $1,038.

Rates per capita

With the West Coast Council correctly classified (see above), this indicator would show the Council in a range near Glamorgan Spring Bay on the relevant chart.

Operating costs per rateable property

Again, with the West Coast Council correctly classified (see above), this indicator would show the Council in a range near Glamorgan Spring Bay, Central Highlands and Tasman.

Average staff costs per FTE

The baseline of around 69 staff members (used for West Coast Council) is not indicative and does not therefore reflect the true average staff numbers for the Council i.e. during the period Council employed additional staff as part of the one-off Mine Assistance Program (following the closure of Mt Lyell) and carried same of these workers forward to accommodate the joint State Government and Council one-off footpath construction program for Strahan in the early part of the 2015 calendar year. The actual FTE count for West Coast (under normal operations) is actually 54.

Again, with the West Coast Council correctly classified (see above) and the true staff numbers identified, this indicator would show the Council in a range near Glamorgan Spring Bay.

FTEs per head of population

The baseline of around 69 staff members (used for West Coast Council) is not indicative and does not therefore reflect the true average staff numbers for the Council i.e. during the period Council employed additional staff as part of the one-off Mine Assistance Program (following the closure of Mt Lyell) and carried some of these workers forward to accommodate the joint State Government and Council one-off footpath construction program for Strahan in the early part of the 2015 calendar year. The actual FTE count for West Coast (under normal operations) is actually 54.

Again, with the West Coast Council correctly classified (see above) and the true staff numbers identified, this indicator would show the Council around the average line.

Dirk Dowling

General Manager

MINISTERIAL ORDERS

SNAPSHOT

- In February 2014 Orders were gazetted requiring local government councils to establish audit panels, develop long-term financial and long-term asset management strategies, policies and plans and report certain financial sustainability indicators in the notes to annual financial statements.
- We followed up progress towards compliance with the Orders during our 2013-14 audits and again as part of our 2014-15 financial statement audits.
- We found that 18 (15 in 2014) of the 29 councils fully complied with all Orders and 10 complied partially.
- We had concerns about independence of audit panels where councils appointed as "independent" members staff from other councils.
- Derwent Valley Council remained the only council without an audit panel.
- Clarence, Glenorchy, Hobart, Launceston and Kingborough all had outsourced their internal audit function.
- Remaining councils did not have an internal audit function, although some were considering, or had already implemented, arrangements to perform an in-house function similar to internal audit, delivered either by their own staff or staff from other councils.

BACKGROUND

As reported in the Report of the Auditor-General No.7 of 2014-15 *Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14* (the 2014 Report) the then Minister for Local Government made the following Ministerial Orders under Sections 70F, 84 (2A) and 85B of the *Local Government Act 1993* (the Act), effective on the day of their gazettal, which occurred on 19 February 2014:

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

Initially, we followed up progress towards compliance with the Orders during 2013-14 audits and again as part of our 2014-15 financial statement audits within the following parameters:

- Audit panels – it was our expectation that by 30 June 2015 all councils would have established, or progressed establishment of, audit (or equivalent) panels with charters consistent with the Order. Where we found that this was not the case, we reported this to the relevant council. However, non-compliance did not impact our audit opinion on the financial statements.
- Content of plans, policies and strategies – it was not, and is not, our intention to audit long-term asset management or financial management plans. These are 'forward looking' with our focus being on 'historical' financial information. However, as part of our audits we:
    - made inquiry into the existence of these plans or progress towards their development
    - established whether they had been reviewed and reported on (reported to council) by audit panels (the Audit Panels Order makes this a requirement)
    - made inquiry into the extent of reporting by management on compliance with, and achievement of, these plans and evidence of their regular review and update.
- Our findings were reported to relevant councils. However, other than any potential impact on the asset renewal funding ratio referred to below, non-compliance did not impact our audit opinion on the financial statements.

- Management indicators – our reports to Parliament regarding councils have for some time now included all of the indicators required by the Order and as anticipated, other than for the Asset renewal funding ratio, councils reported all of the indicators in the notes to their 2014-15 financial statements. We audited the indicators and formed an opinion on them along with our opinion on the financial statements as a whole. Any non-compliance was reported to respective councils. Where there was non-compliance, we assessed the materiality thereof and any implications on our audit opinion.
- Asset renewal funding ratio – this is a 'forward looking' ratio requiring completion of long-term asset management and long-term financial management plans at least for the next ten years. We inquired into the existence of these plans and their formal adoption. We also ensured the mathematical accuracy of the plans but we did not, and will not, attempt to form a view regarding other matters such as assumptions and judgements made, priorities chosen, systems implemented, etc. As a result, our audit report included the following sentence:

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

  However, we tested calculation of the ratio.

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

OUR FINDINGS

Audit panels

The table below records our findings in regards to councils' compliance with the *Local Government (Audit Panels) Order 2014* and an update on progress at 30 June 2015, including comparison of membership of implemented audit panels.

	Audit Panels 2014	Audit Panels 2015	Number of Independent Members	Number of Councillors
City Councils				
Burnie	i	i	2	2
Clarence	i	i	3	2
Devonport	i	i	3	2
Glenorchy	i	i	3	2
Hobart	i	i	3	2
Launceston	i	i	2	2
Large Urban and Rural Councils				
Central Coast	x	i	2	2
Circular Head	x	i	4	1
Huon Valley	i	i	2	2
Kingborough	i	i	2	2
Meander Valley	i	i	1	2
Waratah-Wynyard	x	i	4	0
West Tamar	i	i	1	2
Medium Rural Councils				
Brighton	p*	p*	1	2
Derwent Valley	x	x	n/a	n/a
George Town	i	i	1	2
Latrobe	p	i	1	2
Northern Midlands	i	i	2	2
Sorell	p*	p*	3	2
West Coast	x	s	1	2
Smaller Rural Councils				
Break O'Day	x	i	1	2
Dorset	x	i	1	2
Central Highlands	p*	p*	2	2
Flinders	p*	i	2	2
Glamorgan Spring Bay	p*	p*	3	2
Kentish	p	i	1	2
King Island	x	i	4	0
Southern Midlands	i	i	1	2
Tasman	p*	p*	2	2

i = fully implemented

p = implemented with independence issues*

s = partially implemented, charter approved,appointing members 2016

x = not started

As noted previously, it was our expectation that by 30 June 2015 all councils would have established, or would have progressed establishment of, audit (or equivalent) panels with charters consistent with the Order. Our assessment during 2014-15 found 22 of the 29 councils fully complied with the Order. West Coast approved a Charter and advised that members will be appointed during 2015-16 and Derwent Valley had made no progress. The remaining five councils established audit panels but we had concerns about their independence.

The Order requires the audit panel to have a minimum of one independent member when the panel has three members and two independent members when the panel has four or five members. It was our understanding that staff from other councils were appointed as 'independent' members of the audit panels for Brighton, Sorell, Central Highlands, Glamorgan Spring Bay and Tasman. While this was technically in accordance with the requirements of the Order, this arrangement, in our view, impinges on both the real and perceived independence of audit panel members. To attain maximum independence, and therefore maximum effectiveness of the audit panel, independent members must be free from any management, business or other relationships that could be perceived to interfere with their ability to act in the best interests of the council. It is important for panel members to not only be independent, but also to be perceived in that way.

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

Internal Audit

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

With the establishment of audit panels across local government nearing completion, the next step in strengthening governance practice is the establishment of an internal audit function. We found some councils had progressed further than others in this regard. Clarence, Glenorchy, Hobart, Launceston and Kingborough all had outsourced internal audit functions.

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

- process instructions for staff
- reporting forms
- schedule of activities.

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

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

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

Contents of Plans and Strategies and Management Indicators

The table below records our findings in regards to councils' compliance with the *Local Government (Contents of Plans and Strategies) Order 2014* and *The Local Government (Management Indicators) Order 2014*:

	2014		2015	
	Contents of plans and strategies	Management indicators	Contents of plans and strategies	Management indicators
City Councils				
Burnie	i	i	i	i
Clarence	i	i	i	i
Devonport	i	i	i	i
Glenorchy	i	i	i	i
Hobart	i	i	i	i
Launceston	i	i	i	i
Large Urban and Rural Councils				
Central Coast	i	i	i	i
Circular Head	p	p	p	p
Huon Valley	i	i	i	i
Kingborough	i	i	i	i
Meander Valley	i	i	i	i
Waratah-Wynyard	i	i	i	i
West Tamar	i	i	i	i
Medium Rural Councils				
Brighton	p	p	i	i
Derwent Valley	x	p	i	i
George Town	i	i	i	i
Latrobe	p	i	p	i
Northern Midlands	i	i	i	i
Sorell	x	p	i	p
West Coast	x	p	p	p

	2014		2015	
	Contents of plans and strategies	Management indicators	Contents of plans and strategies	Management indicators
Smaller Rural Councils				
Break O'Day	p	p	p	p
Dorset	p	i	p	i
Central Highlands	i	i	i	i
Flinders	i	i	i	i
Glamorgan Spring Bay	p	p	p	i
Kentish	x	p	i	i
King Island	x	p	p	p
Southern Midlands	x	i	p	i
Tasman	i	i	i	i
i = fully implemented				
p = partially implemented				
x = not started				

In 2014-15 we found that 21 of the 29 councils fully complied with the Plans and Strategies Order, compared with 17 in 2013-14 with eight partially complying, compared to six last year. By 30 June 2015 there were no councils that had not commenced development of plans and strategies, compared to six last year.

In 2014-15, 24 of the 29 councils fully complied and five partially complied with the Management Indicators Order. This improved from 20 fully compliant, and nine partially compliant in 2013-14.

CONCLUSION

We found that 18 of the 29 councils fully complied with all three Orders, with ten at least partially complying with all three.

We had concerns about independence of audit panels where councils appointed as “independent” members staff from other councils.

Derwent Valley remained the only council without an audit panel.

Instances of non-compliance and partial compliance were raised with the relevant councils.

INFRASTRUCTURE FINANCIAL ACCOUNTING IN LOCAL GOVERNMENT

SNAPSHOT

- The Infrastructure Report made 23 recommendations, 22 of which were relevant to councils.
- Further progress was made by councils in 2014-15 towards adopting our recommendations. At 30 June 2015, there were 50 instances where councils did not adopt the recommendations, compared with 80 at 30 June 2014.
- The main areas still requiring attention were:
    - recognition of all land under roads
    - componentisation of complex assets
    - annual reviews and documentation of accounting estimates.

INTRODUCTION

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

The Infrastructure Report made 23 recommendations, of which 22 were relevant to councils. Adoption of the relevant recommendations was followed up initially during 2013-14, and again during 2014-15, council audits. Findings from our initial follow-up were reported in Report of the Auditor-General No.7 of 2014-15 *Auditor-General's Report on the Financial Statements of State entities, Volume 4.*

FOLLOW-UP ACTIONS TAKEN BY US

During our 2013-14 and 2014-15 audits of local government financial statements, we undertook additional procedures to determine if all 22 recommendations relevant to councils were adopted.

Table 1 provides a summary of the adoption of each recommendation, including an update for action taken by councils in 2014-15.

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

Recommendation		Number of councils not adopting recommendation (2015)	Number of councils not adopting recommendation (2014)
1	The components of a road asset should be identified and recognised at fair value and should be separately valued and depreciated over their useful lives.	5	8
2	Assets should be recognised at cost based on a modern equivalent asset. Donated or contributed assets should be recognised at fair value in accordance with Accounting Standards. Periodic revaluations of infrastructure assets should be based on the amount required currently to replace the service capacity of the asset.	0	1
3	Residual values for property, plant and equipment assets be recognised only where the estimated amount to be received from disposal of the asset is greater than the cost of disposal of the asset.	2	2
4	Assets subject to planned 'optimal' renewal methods be componentised to recognise the different useful lives estimated for each part of the asset. The componentised assets be revalued as modern equivalent assets being the cost that is required currently to replace the service capacity of an asset.	4	4
5	Useful lives should be assigned to all infrastructure related assets with the exception of land and certain earthworks with the characteristics of land. The assessment of useful life should be based on engineering reviews of expected physical wear and tear and technological and commercial obsolescence of the asset.	0	2
6	Useful lives should be reviewed annually to ensure that the value of depreciation calculated and recognised remains relatively accurate and to support ongoing asset renewal planning.	1	2
7	Road earthworks assets established with an unlimited useful life should be reviewed annually for obsolescence and if any earthworks asset is assessed as having a remaining useful life, changes be made to recognise the remaining useful life.	2	3

Recommendation		Number of councils not adopting recommendation (2015)	Number of councils not adopting recommendation (2014)
8	The condition of assets is only one of several factors that should be used to predict the remaining useful life of assets used for calculating depreciated replacement cost and depreciation. Condition should not on its own be used to directly determine the value of depreciation or depreciated replacement cost.	0	0
9	Councils should adopt a consistent, systematic methodology to grade and report on the condition of infrastructure.	0	1
10	Assets that have an expected useful life should be depreciated over the estimated useful life in a manner that represents the pattern of consumption of future economic benefits embodied in the asset. The consumption of future economic benefits is related to the consumption of service potential and not to the physical condition of assets.	0	0
11	The depreciation method should be assessed annually to ensure that it continues to represent the underlying pattern of consumption of future economic benefits embodied in the asset.	0	1
12	Road and other assets should be de-recognised (written off) when the asset is replaced or renewed.	2	3
13	Councils: • recognise re-sheeting of unsealed roads as capital expenditure • with a relatively small expenditure on re-sheeting unsealed roads should consider capitalisation of unsealed road re-sheeting as a network asset(s) for resheeting completed in the reporting period • the network asset(s) for each period should be depreciated over the estimated useful life and de-recognised at the end of the useful life.	1	1
14	Councils should prepare and adopt a policy for revaluation, defining the criteria to be used in determining whether the carrying amount differs materially from that which would be determined using fair value at the end of the reporting period. The policy should include the method of assessing fair value and the source information to be used.	2	3

Recommendation		Number of councils not adopting recommendation (2015)	Number of councils not adopting recommendation (2014)
15	Councils should undertake an annual review of accounting estimates as required by Australian Accounting Standards, to be approved by the General Manager. The review should include the useful life, residual value and depreciation methods applied, whether there is a material difference between the carrying value of assets recorded at fair value with that determined using fair value and whether there are any indications of impairment of assets. The rationale and documented support for any action or non-action taken should be part of the information provided.	5	5
16	Councils should undertake an annual review of the currency and accuracy of asset registers and the General Manager should report the rationale and documented support for any decision to revalue or not revalue to the audit committee and/or the council.	4	4
17	The value of capital renewal and capital new/upgrade expenditure by asset class should be disclosed in financial statements.	4	8
18	The residual values for infrastructure assets should be disclosed in the financial statements.	0	0
19	Management assessments and decisions which impact upon the financial statements should be supported by appropriate and sufficiently reliable, precise and detailed documentation.	1	2
20	The five financial ratios shown below, indicating the financial sustainability of councils together with explanations of variances from expected benchmarks, should be disclosed in council financial statements: • Operating surplus ratio • Asset sustainability ratio • Asset renewal funding ratio • Road asset consumption ratio • Net financial liabilities ratio	1	3

Recommendation		Number of councils not adopting recommendation (2015)	Number of councils not adopting recommendation (2014)
21	An integrated approach to financial management should be supported by the development of financial management strategies in conjunction with the development of the long-term financial plan as a single integrated financial planning document.	1	3
22	Councils recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads,* regardless of when the land was acquired. Councils should approach the Tasmanian Valuer-General to determine and agree a process of valuing land under roads in each municipal area and to facilitate a regular revaluation of land under roads.	15	24

As illustrated in Table 1, the majority of the 29 councils adopted, or were already applying, most recommendations from the Infrastructure Report, apart from Recommendation 22. At 30 June 2015, there were 50 instances where councils did not adopt the recommendations, compared with 80 at 30 June 2014. It was pleasing that further progress has been made in 2014-15 towards adopting our recommendations.

The main areas still requiring attention were:

- recognition of all land under roads. Further detail regarding this matter is provided in the *Land Under Roads* Chapter of this Report
- componentisation of complex assets, as greater use of componentisation of assets allows for the recognition of non-depreciable components and other components with extremely long useful lives while also making provision for the future potential obsolescence of the assets
- annual reviews of accounting estimates, namely useful lives, residual values and depreciation methods, as required by Australian Accounting Standards and supporting those estimates with appropriate and sufficiently reliable, precise and detailed documentation.

RESIDUAL VALUES

One of the points addressed by the Infrastructure Report were differing views between engineers and accountants regarding the definition, use and validity of residual values in the valuation and depreciation of infrastructure assets for financial reporting purposes. It concluded that residual values should only be used where an asset has a potential market for its disposal, e.g. fleet and plant.

As an update on this matter, the Australian Accounting Standards Board (AASB) recently clarified that residual value, as defined in AASB 116 *Property, Plant and Equipment,* does not includes cost savings from the re-use of parts of infrastructure assets[1]. That AASB's rationale for its conclusions is set out in its Agenda Decision *Definition of Residual Value in relation to Infrastructure Assets*[1]. The conclusion reached by the AASB confirmed the recommendation made in the Infrastructure Report that residual values for property, plant and equipment assets should be recognised only where the estimated amount to be received from disposal of the asset is greater than the cost of disposal of the asset.

1 AASB Media Release 3 July 2015

LAND UNDER ROADS

SNAPSHOT

- It has been our long-standing view that councils should recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads*, regardless of when the land was acquired.
- At 30 June 2015, 14 councils had adopted our recommendation by recognising all land under roads. A further nine councils had only recognised land under roads acquired post 1 July 2008.
- We recommend that councils review their current valuation method and where not valuing on an individual road reservation basis using rates provided by the Office of the Valuer-General (OVG), consider the adoption of this method of valuation.

INTRODUCTION

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

Recommendation 22 from the Infrastructure Report was:

> Councils recognise the value of all land under roads at fair value in accordance with Australian Accounting Standard 1051 *Land Under Roads*, regardless of when the land was acquired. Councils should approach the Tasmanian Valuer-General to determine and agree a process of valuing land under roads in each municipal area and to facilitate a regular revaluation of land under roads.

ACCOUNTING REQUIREMENTS

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

VALUATION METHODS

In July 2014, in response to requests from councils, the Office of the Valuer-General (OVG) provided the Local Government Association of Tasmania (LGAT) with a schedule of rates for property class categories in each municipality.

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

The majority of councils that have recognised land under roads, 18 of 23, adopted these rates for their land under roads valuation, although we noticed two different uses of these rates:

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

Other methods of valuation used by councils were:

- value of land for whole municipal area divided by total municipal land area to create a land value average for the municipality which was then applied to the land under road area (Method 3)
- application of rate based on a calculated average value of surrounding land (Method 4).

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

ADOPTION OF THIS RECOMMENDATION IN FINANCIAL REPORTS

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

At 30 June 2015, 14 councils had adopted our recommendation by recognising all land under roads. A further nine councils had only recognised land under roads acquired post 1 July 2008.

Six councils have not yet recognised any land under roads regardless of when acquired. In these cases land under roads acquired since 1 July 2008 was assessed as immaterial. We will continue to monitor land acquisitions in these councils.

It was pleasing to note that during 2014-15 a number of councils recognised land under roads for the first time, refer to shaded areas in the table.

Council	Land under Roads pre 1 July 2008	Land under Roads post 1 July 2008	Value ($'000s)	Road length* (km)	Method of recognition**
Burnie City	n	y	30	352	4
Clarence City	y	y	99 358	430	1
Devonport City	y	y	86 326	239	1
Glenorchy City	n	y	5 185	293	4
Hobart City	n	y	3 875	297	1
Launceston City	n	y	2 616	707	1
Central Coast	y	y	25 037	663	1
Circular Head	n	y	1	767	1
Huon Valley	y	y	22 577	757	3
Kingborough	y	y	52 529	513	3
Meander Valley	n	n	n/a	792	n/a
Waratah-Wynyard	y	y	4 413	522	2
West Tamar	n	y	1 089	449	1
Brighton	y	y	12 290	153	1
Derwent Valley	n	n	n/a	330	n/a
George Town	n	n	n/a	285	n/a
Latrobe	y	y	19 624	286	1
Northern Midlands	n	y	1 772	979	4
Sorell	n	y	346	335	2
West Coast	n	n	n/a	175	n/a
Break O'Day	n	n	n/a	554	n/a
Dorset	y	y	12 226	739	2
Central Highlands	n	y	18	752	1
Flinders	y	y	1 928	385	1
Glamorgan Spring Bay	y	y	10 169	345	2
Kentish	y	y	4 399	485	1
King Island	n	n	n/a	432	n/a
Southern Midlands	y	y	2 979	803	1
Tasman	y	y	2 507	203	1

* *ROADS OWNED BY LOCAL GOVERNMENT, by local government areas - January 2004, per ABS 1362.6 - Regional Statistics, Tasmania, 2007 (discontinued)*

** *refer Valuation Methods section earlier for definitions*

OUR ASSESSMENT

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

CONCLUSION AND RECOMMENDATIONS

We continue to recommend that councils:

1. Recognise the value of all land under roads at fair value in accordance with AASB 1051 *Land Under Roads*, regardless of when the land was acquired.
2. Review their current valuation method and where not valuing on an individual road reservation basis using rates provided by the OVG, consider the adoption of this method of valuation, to ensure consistency across local goverment
3. Ensure they understand the inputs and assumptions and how they apply to the valuation in order to meet the disclosure requirements of AASB 13 *Fair Value Measurement*.

We will continue to review councils' adoption of this recommendation during future financial audits and discuss findings with management and audit panels.

COMMENTS AND SUBMISSIONS RECEIVED

Burnie City Council

Council has elected not to recognise land under roads that it controlled prior to 30 June 2008.

Council will recognise all land under roads in accordance with the *Infrastructure Financial Accounting in Local Government* Report during the year ending 30 June 2016. The decision to delay recognition was to enable more time to consider the valuation methodology for accuracy.

CR Anita Dow

Mayor

SIGNIFICANT BUSINESS ACTIVITIES (SBA)

SNAPSHOT

- We identified a lack of consistency in business operations disclosed by councils as Significant Business Activities (SBAs) in their financial reports.
- We recommend that all councils revisit the applicable SBA reporting requirements under Section 84(2)(da) of the *Local Government Act 1993* as part of preparation of their annual financial reports and that these assessments be documented.

BACKGROUND

In 1995, Australian governments, acting on recommendations made by the Independent Committee of Inquiry into a National Competition Policy (also known as the Hilmer Report), agreed to the National Competition Policy (NCP). The principal objective of NCP was to promote competition within the economy where it was considered to be in the public benefit.[1]

WHAT IS NATIONAL COMPETITION POLICY?

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

WHAT IS REQUIRED?

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

- NCP – applying the Principles to Local Government in Tasmania[2]
- identification and management of SBAs by local government in Tasmania to comply with competitive neutrality principles[2].

Councils are required to identify which of their activities are SBAs and, therefore, to which competitive neutrality principles (either corporatisation or full cost attribution, as appropriate) should be applied. Single and joint local government authorities are also required to comply with the competitive neutrality principles.

Section 84(2)(da) of the *Local Government Act 1993* requires councils to include in their annual financial statements the operating, capital and competitive neutrality costs in respect of each SBA undertaken during the financial year together with a statement of the revenue associated with that activity.

Councils must report their compliance with NCP in their financial statements including:

- progress made in implementing competitive neutrality principles
- outcome of any public benefit assessments undertaken
- SBAs as identified by councils or determined by the Tasmanian Economic Regulator (the Regulator) following a competitive neutrality complaint
- any complaints received and the outcome of the investigation of those complaints.

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

2 *Reports are available on the Office of the Tasmanian Economic Regulator's website.*

TASMANIAN ECONOMIC REGULATOR (THE REGULATOR)

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

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

REPORTING IN 2014-15 FINANCIAL REPORTS

We identified SBA disclosure as an area of audit focus in 2014-15 after noting a lack of consistency in business operations disclosed as SBAs in local government financial statements. Our review followed several investigations undertaken by the Regulator, which found inconsistencies in the application of NCP principles.

During our 2014-15 audits of local government we enquired with council staff about their approach to assessing business operations in line with NCP.

Where councils identified potential SBAs but were unable to reliably report relevant information at 30 June 2015, additional disclosure was made stating that councils were reviewing their business operations to identify new SBAs and determine whether SBAs previously disclosed met the current definition for disclosure. It is our intention to conduct a more detailed review during the course of our 2015-16 audits.

RECOMMENDATION

We recommend that all councils revisit the applicable SBA reporting requirements under Section 84(2)(da) of the *Local Government Act 1993* as part of preparation of their annual financial reports and that these assessments be documented.

REMUNERATION DISCLOSURES

SNAPSHOT

- We included example disclosure of Key Management Personnel remuneration in our Local Government Model Financial Statements for 30 June 2015, and recommended that Local Government entities (at that time this did not include joint authorities or TasWater) consider adoption.
- Brighton, Burnie City and Glamorgan Spring Bay Councils chose to partially adopt and disclosed the dollar value of General Manager's remuneration in their financial statements.
- Devonport City Council separately identified the cash component paid to the officer in the highest band as part of the senior officer remuneration included in the annual report.
- We recommend that Local Government entities consider early adoption of the remuneration related disclosure requirements of AASB 124 *Related Parties Disclosures* as well as disclosing information relating to remuneration of each member of key management personnel consistent with the illustrative example in our Local Government Financial Statements for 30 June 2015. The illustrative example follows disclosure requirements for Government businesses and departments.
- In relation to TasWater, we recommend that it voluntarily discloses Director and Executive Remuneration in the notes to its financial statements, consistent with the requirements contained in the Guidelines.

INTRODUCTION

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

This recommendation was addressed for Government businesses in *Guidelines for Tasmanian Government Businesses - Director and Executive Remuneration* (the Guidelines). The matter of remuneration disclosures by businesses is discussed further in Auditor-General's Report No. 5 of 2015-16.

For the first time this year, the Department of Treasury and Finance mandated remuneration disclosures in financial statements for Government departments. The disclosure requirements mirrored those in the Guidelines.

Currently, there is no legislative requirement for Local Government entities (Councils, joint authorities or Tasmanian Water Corporation Pty Ltd (TasWater)) to report, in their financial statements, remuneration of key management personnel. The *Local Government Act 1993* (the Act) requires Councils to include in their annual report:

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

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

In line with our previous recommendation, we included example disclosure of Key Management Personnel remuneration in our Local Government Model Financial Statements for 30 June 2015, and recommended that Local Government entities (at that time this did not include joint authorities or TasWater) consider adoption.

REPORTING IN 2014-15 FINANCIAL STATEMENTS

Councils did not adopt our model disclosure of Key Management Personnel remuneration, with the exception of Brighton, Burnie City and Glamorgan Spring Bay Councils, which chose to partially adopt and disclosed the dollar value of General Manager's remuneration in their financial statements.

As part of the senior officer remuneration included in the annual report, Devonport City Council separately identified the cash component paid to the officer in the highest band.

Future Developments

As reported in Auditor-General's Report No. 12 of 2014-15, an amending standard AASB 2015-6 *Amendments to Australian Accounting Standards– Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* was issued on 1 April 2015. The amending standard removed the exemption from AASB 124 *Related Party Disclosures*for not-for-profit public sector entities. Consistent related party disclosures will now apply to the Australian Government, State Governments, local councils and other not-for-profit public sector entities for annual reporting periods beginning on or after 1 July 2016. Commencing with the financial reporting period 2016-17, Local Government entities will be required to identify and disclose transactions with key management personnel in accordance with AASB 124 *Related Parties Disclosures*. However, the amended standard will not require disclosure of specific information relating to remuneration of key management personnel by individual employee.

Recommendation

We recommend that Local Government entities consider early adoption of the remuneration related disclosure requirements of AASB 124 as well as disclosing specific information relating to remuneration of each member of key management personnel consistent with the illustrative example in our Local Government Financial Statements for 30 June 2015. The illustrative example follows disclosure requirements for Government businesses and departments.

In relation to TasWater, we recommend that it voluntarily discloses Director and Executive Remuneration in the notes to its financial statements, consistent with the requirements contained in the Guidelines.

COMMENTS AND SUBMISSIONS RECEIVED

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

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

Burnie City Council

Council will continue to be compliant with accounting standards and will adopt any additional disclosure requirements of the amended standard. Additional disclosure will be considered for the 2015-16 reporting period.

CR Anita Dow

Mayor

Glenorchy City Council

Glenorchy City Council (GCC) fully supports the recommendation made by the Auditor General and will adopt it for this financial year 2015-16. The main reason we did not implement the recommendation was that GCC were in a transition period – a major restructure of the management team and we considered that it would be better to adopt the recommendation next (this) financial year 2015-2016.

Peter Brooks

General Manager

Kentish Council

Kentish Council believes that consistency of remuneration disclosures by local government is desirable.

Management will consider early adoption of the remuneration related disclosure requirements of AASB 124 Related Party Disclosures when preparing its 2015/16 financial report.

Council is currently preparing its 2014/15 Annual Report and will consider including additional remuneration disclosures in this report.

CR Don Thwaites

Mayor

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD (TasWater)

OVERALL CONCLUSION

The audit was completed on time and an unmodified audit opinion issued on 7 August 2015 indicating TasWater's financial report presented fairly, in all material respects, its financial performance and position this year.

In this, its second year of operations, TasWater improved its financial results as evidenced by a higher net profit after tax compared to the 2013-14 result and an increase in net assets to $1.548bn. An area of risk was its high net working capital deficit of $101.250m but that is manageable bearing in mind strong cash generated from operations, existing borrowing facilities and the manner in which it manages its debt arrangements with TASCORP. This needs constant review.

SNAPSHOT

- TasWater generated an Underlying Profit (being the net profit before contributions, other transactions and taxation) of $25.169m.
- Its Net Profit after Taxation was $33.154m and it reported a Total Comprehensive Profit of $34.452m.
- During the year $102.481m was invested in Property, plant and equipment.
- TasWater is in dispute with Launceston City Council over contributions for the maintenance of the stormwater component of assets maintained by TasWater. At 30 June 2015, the matter had not been resolved and was expected to go to arbitration.
- The Return on assets of 2.2% and Return on equity of 2.1% are considered low, especially in comparison to the pre-tax weighted average cost of capital of 5.99% used in the valuation of assets under an income model.
- TasWater had a current ratio of 0.39, below our expected benchmark of not less than 1, and, at 30 June 2015 it had negative working capital of $101.250m (2013-14, $67.667m). Both the ratio and net working capital were impacted upon by high short term borrowings reflecting TasWater's decision to take advantage of current low interest rates on these borrowings.
- The financial statements included information on TasWater's two operating segments, water and sewerage. Both segments generated profits after tax.
- Amounts paid to Councils this year, comprising dividends, income tax equivalents and loan guarantee fees, totalled $30.000m (2013-14, $29.000m).

TasWater holds significant water and sewerage assets which include material long-life infrastructure assets. The fair value of these water and sewerage assets is based on their "value in use" (income valuation). The calculation of value in use is highly dependent on a range of assumptions and estimates.

Audit testing of the valuation parameters supported TasWater's assessment that the carrying value of water and sewerage infrastructure assets was not impaired at 30 June 2015. However, the volatility in the valuation model remains a significant risk.

It was recommended that TasWater undertake a review of the valuation model, encompassing assumptions and inputs.

Key developments this year included:

Fixed and volumetric charges

During the financial year under review, the Tasmanian Economic Regulator (the Regulator) released its price determination investigation final report in response to TasWater's Draft Price and Services Plan (PSP2), covering the three-year period commencing 1 July 2015. The primary focus of the second price determination investigation was the regulation of prices rather than revenue.

The Regulator proposed alternative values for a number of the revenue components resulting in lower revenue limits to those proposed by TasWater in its draft PSP2. This negatively impacted upon the infrastructure valuation referred to earlier.

Capital investment

TasWater undertook significant infrastructure investment again this year. Capital expenditure was projected to be $90.000m and the outcome was investment of $102.481m on Property, plant and equipment.

Launceston City Council

TasWater is seeking a recurring annual payment for maintenance of the stormwater component of combined sewerage and stormwater assets transferred to it from the Launceston City Council (Council). Council have disputed the request and, at 30 June 2015, discussions were ongoing.

At the time of completing our audit, this matter had not been resolved and was expected to go to arbitration. TasWater recorded this as a contingent asset at 30 June 2015 with which we concurred.

Major variations between the 2014-15 and 2013-14 financial years included:

- higher sales revenue of $17.304m (6.7%) from both fixed and variable water and sewerage charges. This represented a combination of higher prices and volumes
- increased Depreciation expense of $6.658m
- wages increased $5.927m
- higher Other operating costs of $6.658m.

The audit was completed satisfactorily with no major items outstanding.

INTRODUCTION

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

a. efficiently provide water and sewerage functions in Tasmania

b. encourage water conservation, the demand management of water and the re-use of water on an economic and commercial basis

c. be a successful business and, to this end, to:

  i. operate its activities in accordance with good commercial practice

  ii. deliver sustainable returns to its members

  iii. deliver water and sewerage services to customers in the most cost-efficient manner.

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

KEY AREAS OF AUDIT ATTENTION

Description of Area	Impact on Audit Approach
The Corporation was a for-profit entity expected to meet profit projections and distribution expectations	We performed audit procedures to obtain a sufficient level of assurance that: • revenue and expenses were recognised and recorded in the correct period • capital costs were appropriately accounted for • accounting policies were applied consistently and any changes were adequately disclosed.

Description of Area	Impact on Audit Approach
Tariffs set in the 2012 Pricing Determination for the three regions and transitional arrangements towards the target tariffs resulted in the water and sewerage charges being calculated outside Gentrack. These calculations were subject to quality assurance before uploading to the three Gentrack databases.	We performed substantive audit procedures to ensure that charges are not materially mis-stated, including: • a recalculation of a selection of charges • analytical procedures • consolidation of information from three Gentrack databases in the Navision general ledger.
Customers in most areas were billed for the volume of water used. Estimation of usage between the last read date and 30th June 2015 was based on a complex model.	We performed audit procedures to ensure that unbilled water charges are not materially mis-stated. These procedures include: • an understanding of assumptions used • a review of calculations • analytical procedures.
Impairment of receivables was subject to estimation.	We performed audit procedures to ensure impairment of receivables was not materially mis-stated.
Property, plant and equipment include material long-life water and sewerage infrastructure assets. The fair value of these water and sewerage assets was based on their 'value in use' (income valuation). The income valuation methodology was based on projected cash flows generated by the water and sewerage assets over a period of seven years. The projected cash flows were then discounted to present value using a discount rate based on a real pre-tax Weighted Average Cost of Capital (WACC). The calculation of value in use was highly dependent on a range of assumptions and estimates, such as the growth rate, inflation rate, operating expenditure growth rate and WACC all of which are mentioned in the notes to TasWater's financial statements.	We examined the valuation methodology and underlying data used to determine fair value, including testing significant assumptions, the valuation model and underlying data. We examined management's impairment testing, including the treatment of new capital works, completed in 2014-15. In addition, we reviewed relevant disclosure related to Property, plant and equipment in the financial statements. We also reviewed disclosure of critical accounting estimates and judgements in the financial report to ensure compliance with AASB 101 *Presentation of Financial Statements*.
The Corporation was subject to the National Tax Equivalent Regime. Tax effect accounting calculations were subject to complex tax legislation and rulings and generally are performed within a short timeframe.	We tested: • tax balances • the tax effect accounting calculations • corresponding disclosure in the financial statements. We obtained a representation from the Corporation's tax accountant.

Description of Area	Impact on Audit Approach
The Corporation undertook significant infrastructure investment each year. Payments for Property, plant and equipment, including capitalised wages, totalled $102.481m for 2014-15. As the Corporation adopted a "value in use" valuation basis, the capitalisation of new works should be reviewed to ensure an increase in revenue generation.	We: • verified material capital works and capital works in progress at year-end • reviewed the calculation and disclosure of future commitments • reviewed the process and controls over tendering of capital contracts ensuring appropriate classification of costs between capital and maintenance.
General journal entries were not independently approved within Navision. There was a risk of incorrect or fraudulent entries. This was mitigated by a round table review by the Finance team of trial balance amounts against budget.	Audit tested selected general journal entries for appropriateness. We found no errors.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 6 August 2015 and an unqualified audit report was issued on 7 August 2015.

KEY DEVELOPMENTS

Fixed and volumetric charges

During the financial year under review, the Regulator released its price determination investigation final report in response to TasWater's Draft PSP2 , covering the three-year period commencing 1 July 2015. The primary focus of the second price determination investigation was the regulation of prices rather than revenue. The Regulator proposed alternative values for a number of the revenue limit components resulting in lower revenue limits to those proposed by TasWater in its draft PSP2.

In summary, the Regulator proposed that TasWater adopt the following price transition arrangements for the second regulatory period:

- Customers above their respective target fixed tariffs as at 30 June 2015 will immediately move to their respective target fixed tariffs as from 1 July 2015.
- Most residential customers below their respective target fixed tariffs as at 30 June 2015 will see a maximum annual increase to their combined fixed service charges (water and sewerage) of no more than $100 or 10 per cent, whichever is the greater, until both fixed water and sewerage target tariffs are reached.
- Non-residential customers below their respective target fixed tariffs as at 30 June 2015 will see the combined $100 side constraint increased in proportion to their water connection size and the assessed number of equivalent tenements.
- Fixed water target tariffs to be held constant at TasWater's proposed 2017-18 level for each year of the second regulatory period.
- Customers on target fixed sewerage tariffs will face price increases of six per cent per annum which is a continuation of the approach that applied through the first regulatory period.

Capital investment

TasWater undertook significant infrastructure investment again this year. Capital expenditure was projected to be $90.000m and the out-turn was investment of $102.481m on Property, plant and equipment. Major additions included:

- Treated water to Spreyton/Melrose area, $9.160m
- Westbury/Hagley water treatment plant, $7.333m
- Campbell Town water treatment plant, $5.463m
- Taroona pump station and rising main to Sandy Bay, $5.103m
- On-Property Installations, 3.739m
- Fingal water supply, $3.701m
- Water meter renewals, $3.637m
- Lauderdale construction of mains, $2.838m
- Deloraine waste water treatment plant upgrade, $2.829m
- Bracknell water supply, $2.640m
- Risdon Vale water and sewerage construction, $2.114m
- Water quality monitoring and alarming project, $2.033m.

Launceston City Council

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

TasWater is seeking a recurring annual payment for maintenance of the stormwater component of the asset. Council disputed the request and, at 30 June 2015, discussions were ongoing.

At the time of completing our audit, this matter had not been resolved and was expected to go to arbitration. TasWater recorded this as a contingent asset at 30 June 2015 with which we concurred.

KEY FINDINGS

The audit was completed with one significant audit finding reported, which is detailed below.

Valuation of Infrastructure Assets

TasWater holds significant water and sewerage assets which include material long-life infrastructure assets. The fair value of these water and sewerage assets is based on their "value in use" (income valuation). The income valuation methodology is based on projected cash flows generated by the water and sewerage assets over a period of seven years. The projected cash flows are then discounted to present value using a ten year trailing average discount rate based on a real pre-tax weighted average cost of capital (WACC).

The calculation of "value in use" is highly dependent on a range of assumptions and estimates, such as the growth rate, inflation rate, operating expenditure growth rate, planned capital expenditure and the WACC.

Audit testing of the valuation parameters supported TasWater's assessment that the carrying values of water and sewerage infrastructure assets were not impaired at 30 June 2015. However, the volatility in the valuation model, as noted being due to the range of assumptions and estimates, remains a significant risk to TasWater. Consequently, a review of the model, encompassing assumptions and inputs, could provide TasWater with additional assurance over the valuation of the water and sewerage infrastructure assets in future financial periods. The review could be undertaken as an internal audit project or through the engagement of an external consultant.

It was recommended that TasWater undertake a review of the valuation model, encompassing assumptions and inputs.

Management comment

TasWater will engage an appropriately skilled independent third party to undertake a comprehensive review of our asset valuation model, including the inputs, assumptions and sensitivity drivers, prior to 30 June 2016.

In addition, three low risk items were identified and reported to management related to:

- the need to revalue land, buildings and leasehold improvements in 2015-16.
- full implementation of the Navision Inventory Register. In addition, we recommended that unrecorded items of stock identified through this process be recognised as inventory.
- employees with excessive leave balances be encouraged to take leave to reduce them.

These matters are being addressed by management.

FINANCIAL ANALYSIS

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

Profitability

TasWater recorded a Net Profit after Tax in 2014-15 of $33.154m (2013-14, $27.236m). Its underlying result (before contributions, other transactions and taxation) for 2014-15 was $25.169m ($26.990m).

The result was consistent with budget and fairly comparable with the 2013-14 year. Higher sales revenue of $17.304m (6.7%) from both fixed and variable water and sewerage charges was offset by:

- increased Depreciation expense of $6.658m, 11%, due to mainly capitalised projects. This included backdated depreciation required in relation to a number of assets that were transferred to capital from work in progress
- wages increased $5.927m, 8%, due to increases reflected in regional Enterprise Bargaining Agreements, $2.0m lower than budget capitalised wages, an unfavourable overtime variance of $0.975m, higher workers compensation premiums of $0.711m and $2.121m in additional staff and on costs associated with use of temporary staff to fill vacancies
- higher Other operating costs of $6.658m, including chemical costs of $6.510m, which was $1.207m above budget, costs incurred in establishing new customer connections were approximately $1.000m higher than budget and a $0.732m increase in sampling costs.

The additional sales revenue was in line with transition pricing arrangements designed to move all customers to single statewide pricing for water and sewerage services. These allowed for increases of up to ten percent or $50, which ever was greater for a standard domestic water connection, plus the same side constraint per equivalent tenement for sewerage.

TasWater's Underlying Result ratio of 11.9% (2013-14, 10.4%) and Self-financing ratio of 34.5% (28.9%) improved slightly from 2014 and were consistent with operating results. Its Return on assets ratio of 2.2% (2.4%) and Return on equity ratio of 2.1% (1.6%) were considered low, especially in comparison to the pre-tax Weighted Average Cost of Capital of 5.99% (6.68%) used in the valuation of assets under an income model.

Financial position

TasWater's financial position reflected its significant investment in water and sewerage infrastructure assets. At 30 June 2015, Property, plant and equipment represented 93.4% (2013-14, 93.4%) of total assets.

During 2014-15, TasWater paid $102.481m on additions to Property, plant and equipment. Details of major investments were outlined earlier in this Chapter.

Capital expenditure on existing assets resulted in a Capital Investment Ratio (expenditure on existing assets to depreciation on existing assets) of 151%, which exceeds our 100% benchmark.

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

At 30 June 2015, TasWater had a current ratio of 0.39 (2013-14, 0.45), below our expected benchmark of not less than 1. This means that current liabilities, primarily current, or short term, borrowings, were twice the amount of current assets.

However, we note that:

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

Cash flow

TasWater's cash flow statement reveals an increase in its cash position of $9.127m (2013-14, decrease $9.287m). This included strong operating net cash inflows of $95.821m and net borrowing of $33.276m. These inflows were used primarily to fund capital works of $102.481m and dividend payments of $22.120m.

In summary the cash flow statements includes:

	2014-15	2013-14
	$'000s	**$'000s**
Cash from operations before interest paid	111 092	88 719
Net investments in infrastructure	(97 850)	(77 633)
	13 242	11 086
Net Borrowings, capital contributions received in cash and capital grants	34 105	14 320
Funds available to service debt and pay dividends	47 347	25 406
Finance costs paid	(16 100)	(16 046)
Dividends paid	(22 120)	(18 647)
Surplus (Shortfall) to/from existing cash reserves	**9 127**	**(9 287)**

The table indicates to us that TasWater's cash flows improved from its first year of operations, primarily due to increased borrowings. At 30 June 2015, TasWater had un-utilised borrowing facilities of $34.259m (2013-14, $67.344m).

TasWater paid total distributions of $30.000m, consisting income tax equivalents, loan guarantee fees and dividends, during the year which was in line with the forecast contained in its Corporate Plan.

Segment reporting

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

	Water	Sewerage	Other	Total
Revenue	152 190	145 820	2 303	300 313
Expenses	(124 661)	(127 295)	(975)	(252 931)
Profit before Tax	**27 529**	**18 525**	**1 328**	**47 382**
Income tax expense	8 058	6 090	80	14 228
Profit after tax	**19 471**	**12 435**	**1 248**	**33 154**

Statement of Comprehensive Income

	2015	2014
	$'000s	**$'000s**
Sales revenue	274 727	257 423
Other operating revenue excluding contributions from customers and developers	3 374	3 644
Total Revenue	**278 101**	**261 067**
Depreciation	67 870	61 212
Employee benefits	79 821	73 894
Finance costs	18 240	18 637
Interest cost on defined benefit superannuation plan	371	362
Other operating expenses	86 630	79 972
Total Expenses	**252 932**	**234 077**
Underlying Profit	**25 169**	**26 990**
Customer and developer contributions	22 213	12 572
Net Profit before tax	**47 382**	**39 562**
Income tax equivalents expense	(14 228)	(12 326)
Net Profit	33 154	27 236
Other Comprehensive Income		
Superannuation actuarial gain/(loss)	1 854	(541)
Income tax expense on above items	(556)	162
Total other comprehensive income	**1 298**	**(379)**
Total Comprehensive Profit	**34 452**	**26 857**

Statement of financial Position

	2015	2014
	$'000s	**$'000s**
Cash	12 148	3 021
Receivables and prepayments	48 214	46 329
Inventories	5 181	5 290
Assets Held for Sale	275	1 672
Total Current Assets	**65 818**	**56 312**
Payables	26 324	19 619
Borrowings	117 220	86 135
Employee benefits (incl. superannuation)	15 127	14 990
Unearned income	4 410	1 585
Current tax liability	2 666	51
Other current liabilities	1 321	1 599
Total Current Liabilities	**167 068**	**123 979**
Net Working Capital	**(101 250)**	**(67 667)**
Property, plant and equipment	1 878 388	1 828 452
Intangibles	8 979	7 948
Deferred tax assets	58 183	64 813
Total Non-Current Assets	**1 945 550**	**1 901 213**
Borrowings	248 521	246 521
Superannuation liability	6 963	8 825
Employee benefits	1 744	1 369
Unearned income	34 923	36 380
Restoration provision	3 793	4 427
Total Non-Current Liabilities	**295 944**	**297 522**
Net Assets	**1 548 356**	**1 536 024**
Contributed equity	1 527 814	1 527 814
Retained earnings	20 542	8 210
Total Equity	**1 548 356**	**1 536 024**

Statement of Cash Flows

	2014-15	2013-14
	$'000s	**$'000s**
Receipts from customers and other sources	290 237	272 980
Grant funds	5 000	0
Customer and development contributions	829	2 817
Payments to suppliers and employees	(176 332)	(174 051)
Interest received	67	143
Finance costs	(16 100)	(16 046)
Income tax equivalents	(5 539)	(7 764)
Guarantee fees paid	(2 341)	(2 589)
Cash from operations	**95 821**	**75 490**
Payments for property, plant and equipment	(94 221)	(69 425)
Capitalised costs	(8 260)	(9 007)
Contributions received	2 701	0
Proceeds from sale of property, plant and equipment	1 930	799
Cash used in investing activities	**(97 850)**	**(77 633)**
Proceeds from borrowings	196 894	188 250
Repayment of borrowings	(173 618)[1]	(178 672)
Dividends paid	(22 120)	(18 647)
Grant funds received	0	1 925
Cash from financing activities	**1 156**	**(7 144)**
Net increase in cash	**(873)**	**(9 287)**
Cash at the beginning of the year	3 021	12 308
Cash at end of the year	**2 148[1]**	**3 021**

1 Adjusted for a $10.000m loan drawdown that was recorded as cash at bank. this amount should have been offset against current borrowings.

Financial Analysis

	Bench Mark	2014-15	2013-14
Financial Performance			
Net profit ($'000s)		33 154	27 236
Modified EBIT ($'000s)		43 780	45 989
Operating margin		1.10	1.12
Return on assets		2.2%	2.4%
Return on equity		2.1%	1.6%
Underlying result ratio		11.9%	10.4%
Self financing ratio		34.5%	28.9%
Financial Management			
Indebtedness ratio		60.1%	47.5%
Debt to equity		23.6%	21.7%
Debt to total assets		18.2%	17.0%
Interest cover	>2	6.4	5.3
Current ratio	>1	0.39	0.45
Cost of debt		5.0%	5.6%
Debt collection	30 days	43	47
Creditor turnover	30 days	29	20
Asset Management			
Asset investment ratio	>100%	151%	128%
Asset renewal ratio	100%	n/a	n/a
Consumption ratio	>40%	84%	87%
Returns to Owners			
Dividends paid ($'000s)		22 120	18 647
Loan guarantee fee paid ($'000s)		2 341	2 589
Income tax equivalents paid ($'000s)		5 539	7 764
Total return to Owners		30 000	29 000
Dividends paid or payable ($'000s)		22 120	18 647
Dividend payout ratio	50%	66.7%	68.5%
Dividend to equity ratio		1.4%	1.1%
Other Information			
Average staff numbers (FTEs)		824	814
Average staff costs ($'000s)		102	97
Average leave balance per FTE ($'000s)		19	18

AUDIT SUMMARY – OTHER LOCAL GOVERNMENT ENTITIES

SNAPSHOT

- Collectively, Other Local Government entities controlled Net Assets valued at $19.973m at 30 June 2015.
- They reported a combined Underlying Surplus of $1.832m.
- Dulverton Regional Waste Management Authority returned $0.682m to its member councils in dividends and tax equivalents.
- Copping Refuse Disposal Site Joint Authority re-invested $0.070m of taxation equivalents as an equity contribution by agreement with member Councils.
- All entities submitted their financial statements within the statutory deadline with one exception. The Northern Tasmania Development Association Inc. (NTDAI) submitted their financial statements 18 days after the statutory deadline.
- Unqualified audit reports were issued in all cases.

INTRODUCTION

Entities included in this Chapter are:

- single or joint authorities controlled by councils and established under the *Local Government Act 1993* (the Act):
    - Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions (SWS)
    - Cradle Coast Authority (CCA)
    - Dulverton Regional Waste Management Authority (DRWMA)
    - Southern Tasmanian Councils Authority (STCA)
    - Southern Waste Strategy Authority (SWSA)
- Local Government Association of Tasmania (LGAT) established under the Act
- Northern Tasmania Development Association Inc.

Audits of financial statements for these entities are carried out under the provisions of the *Audit Act 2008* which requires them to submit their financial statements to the Auditor-General and gives the Auditor-General the mandate to audit those financial statements.

The financial results discussed were derived from the audited financial statements of each entity. The reporting framework for these entities is generally prescribed by their enabling legislation or rules. In our analysis of some entities' financial performance we have, if necessary, re-allocated certain revenue or expenditure items to better assist readers to interpret financial performance. The majority of these entities prepare general purpose financial statements.

Both SWS and DRWMA are equity accounted by each member council. This means that, following initial recognition, the carrying amount of the investment is increased or decreased to recognise each participating council's share of the joint authority's operating result, with a corresponding amount recognised in each council's profit or loss. Distributions received from the joint authority are offset against the carrying amount of the investment.

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

AUDITS OF THE 2014-15 STATEMENTS

The entities listed above submitted their financial statements within the statutory deadline with one exception. NTDAI submitted their financial statements 18 days after the statutory deadline.

Unqualified audit reports were issued in all cases.

KEY FINDINGS

Audits were completed satisfactorily, with the following key findings reported to management.

Local Government Association of Tasmania

We made a recommendation relating to the valuation of the building (including improvements) owned and occupied by LGAT. Management are considering our recommendation.

KEY DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

During our audit of the above entities, the following key developments were noted:

Cradle Coast Authority

Subsequent to 30 June 2015, CCA entered into a sponsorship arrangement for the 2017 Australian Masters Games at a cost of $1.750m over the next two years. The Australian and State Governments committed to contributing a combined total of $1.500m towards the cost.

Dulverton Regional Waste Management Authority

DRWMA extended the estimated closure date of its landfill site to 2084, reassessed the after care provision and changed the basis for discounting the provision to its present value.

These changes resulted in a decrease in the make good asset and provision for after care liability to $0.816m and $0.981m, respectively.

Local Government Association of Tasmania

In previous years LGAT classified government grants and contributions as reciprocal transfers. LGAT changed its policy in accordance with the requirement in AASB 1004 *Contributions* to recognise income from grants and contributions immediately in profit or loss if the ultimate beneficiary is not the grantor, which is generally the case. Comparative information was restated accordingly.

Northern Tasmania Development Association Inc.

A member council cancelled its membership as at 30 June 2015, which reduced the number of members to seven.

Southern Waste Strategy Authority

SWSA changed its governance arrangements. From 2015-16, SWSA will have no employees and administration will be provided by Glenorchy City Council. In addition, both Glenorchy and Clarence City Councils were engaged to provide education services on behalf of SWSA.

No contributions will be levied on members in 2015-16 with activities being funded from accumulated surpluses.

FINANCIAL ANALYSIS

The table below summarises the financial results and position of Other Local Government entities for 2014-15:

	Underlying Surplus (Deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	Net Assets 2015	Net Assets 2014
	$'000s	$'000s	$'000s	$'000s	$'000s
Copping Refuse Disposal Site Joint Authority	115	79	79	3 779	3 630
Dulverton Regional Waste Mamagement Authority	2 191	1 534	1 764	8 884	7 320
Cradle Coast Authority	(158)	(158)	(158)	2 248	2 406
Local Government Association of Tasmania (including LGAT Assist)	64	64	64	4 521	4 450
Northern Tasmania Development Association Inc.	(391)	(391)	(391)	127	518
Southern Tasmanian Councils Authority	(16)	(16)	(16)	205	221
Southern Waste Strategy Authority	27	27	27	209	182

A review of the financial results of these entities for 2014-15 identified the following:

- The two waste management authorities (SWS and DRWMA) controlled Net assets totalling $12.663m at 30 June 2015 and reported a combined Underlying Surplus of $2.306m in 2014-15.
- DRWMA returned $0.682m to its member councils in dividends, $0.200m, and tax equivalents, $0.482m.
- SWS did not make any payments to its member councils. An agreement with member councils resulted in taxation equivalent returns of $0.070m being re-invested into SWS as an equity contribution during 2014-15.
- The remaining five entities collectively controlled Net assets valued at $7.310m at 30 June 2015.

TIMELINESS OF LOCAL GOVERNMENT FINANCIAL STATEMENTS

SNAPSHOT

- Three Local Government entities failed to submit their financial statements for audit within the statutory deadline of 45 days from the end of the financial year.
- One set of financial statements submitted for audit was not accepted.

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under section 17 of the *Audit Act 2008* (the Audit Act) specific dates are set, by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year.

Our responsibility under section 19 of the *Audit Act* is to complete our audit within 45 days of receiving financial statements from State entities. All entities covered by this report have a 30 June financial year-end making 14 August the statutory date by which financial statements are to be submitted with our deadline 28 September. These dates may change if the deadline falls on a weekend. These dates were set to allow sufficient time for audits to be completed and for accountable authorities to prepare annual reports for tabling in Parliament.

Listed below are Local Government entities, covered by this report, whose signed financial statements were not received by the statutory deadline of 45 days from the end of the financial year. Dates shown in brackets represent the date signed financial statements were received and days late:

- Break O'Day Council (18 August 2015 – 4 days)
- Latrobe Council (28 August 2015 – 14 days)
- Northern Tasmania Development Association Inc. (1 September 2015 – 18 days)

These entities were reminded of their obligation to report within the prescribed deadline in future.

STEPS TAKEN BY AUDIT TO FACILITATE EARLIER FINANCIAL REPORTING

We continue to assist Local Government entities to achieve early financial reporting. This is done in a number of ways including:

- where possible early planning of audits. As part of planning audits discussions are held with management, and where relevant those charged with governance, and agreements reached on financial reporting and auditing timeframes. These agreements are always aimed at completion within statutory reporting deadlines
- preparation of detailed completion plans for large Local Government entities for components of the financial statements
- where financial systems allow, conducting audit testing of selected balances prior to balance date thus minimising work post balance date
- annual preparation of Model Local Government Financial Statements.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

The Audit Act requires all State entities to prepare financial statements in accordance with Australian Accounting Standards. For one entity covered by this report, Local Government Association of Tasmania, we accepted preparation of specific purpose financial reports (SPFR). There were no instances where these standards were not complied with or where SPFR failed to satisfy our requirements.

SUBMISSION OF FINANCIAL STATEMENTS

Section 17 of the Audit Act also provides for the Auditor-General to determine whether signed financial statements submitted are complete in all material respects. Upon receipt of signed financial statements we immediately review and evaluate them utilising a checklist, to ensure they are complete and presentation complied with Australian Accounting Standards. We also confirm the accuracy of comparatives and cross references, and ensure the statements are arithmetically correct.

During the 2014-15 financial reporting cycle, we did not accept financial statements submitted by Sorell Council because they were not complete in all material respects.

Timeliness of audit opinion issue from balance date

Entity	Balance Date	Financial Statement deadline	Signed Financial Statements Received	Re-signed/Amended Financial Statements Received	Clear opinion issued	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
LOCAL GOVERNMENT AUTHORITIES												
Cities												
Burnie City Council	30 June 2015	14 August 2015	14 August 2015	28 September 2015	Yes	21 October 2015						✓
Burnie Airport Corporation Unit Trust	30 June 2015	14 August 2015	30 July 2015	n/a	Yes	1 September 2015		✓				
Tasmanian Communications Unit Trust	30 June 2015	14 August 2015	27 July 2015	n/a	Yes	8 September 2015		✓				
Clarence City Council	30 June 2015	14 August 2015	14 August 2015	15 September 2015	Yes	18 September 2015			✓			
Devonport City Council	30 June 2015	14 August 2015	12 August 2015	28 August 2015	Yes	28 August 2015		✓				
Glenorchy City Council	30 June 2015	14 August 2015	14 August 2015	20 August 2015	Yes	10 September 2015			✓			
Hobart City Council	30 June 2015	14 August 2015	13 August 2015	n/a	Yes	25 September 2015				✓		
Launceston City Council	30 June 2015	14 August 2015	14 August 2015	28 September 2015	Yes	28 September 2015				✓		
Medium												
Brighton Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	21 September 2015			✓			
Brighton Industrial and Housing Corporation	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	10 September 2015			✓			
Microwise Pty Ltd	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	10 September 2015			✓			
Central Coast Council	30 June 2015	14 August 2015	14 August 2015	28 September 2015	Yes	28 September 2015				✓		
Derwent Valley Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	15 October 2015					✓	
Huon Valley Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	14 September 2015			✓			
Kingborough Council	30 June 2015	14 August 2015	14 August 2015	17 September 2015	Yes	17 September 2015			✓			
Meander Valley Council	30 June 2015	14 August 2015	11 August 2015	n/a	Yes	21 September 2015			✓			
Northern Midlands Council	30 June 2015	14 August 2015	14 August 2015	28 September 2015	Yes	28 September 2015				✓		
Sorell Council	30 June 2015	14 August 2015	14 August 2015	7 September 2015	Yes	25 September 2015				✓		
Waratah-Wynyard Council	30 June 2015	14 August 2015	14 August 2015	26 September 2014	Yes	28 September 2015				✓		
West Coast Council	30 June 2015	14 August 2015	13 August 2015	n/a	Yes	28 September 2015				✓		
West Tamar Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	1 September 2015		✓				
Small												
Break O'Day Council	30 June 2015	14 August 2015	18 August 2015	25 September 2015	Yes	1 October 2015				✓		
Central Highlands Council	30 June 2015	14 August 2015	12 August 2015	n/a	Yes	21 September 2015			✓			
Circular Head Council	30 June 2015	14 August 2015	14 August 2015	30 September 2015	Yes	8 October 2015					✓	
Dorset Council	30 June 2015	14 August 2015	13 August 2015	28 September 2015	Yes	28 September 2015				✓		
Flinders Council	30 June 2015	14 August 2015	14 August 2015	9 September 2015	Yes	10 September 2015			✓			
George Town Council	30 June 2015	14 August 2015	14 August 2015	25 September 2015	Yes	28 September 2015				✓		
Glamorgan-Spring Bay Council	30 June 2015	14 August 2015	14 August 2015	27 September 2015	Yes	28 September 2015				✓		
Kentish Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	28 September 2015				✓		
King Island Council	30 June 2015	14 August 2015	14 August 2015	14 August 2015	Yes	24 September 2015				✓		
Latrobe Council	30 June 2015	14 August 2015	28 August 2015	n/a	Yes	12 October 2015					✓	
Southern Midlands Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	18 September 2015			✓			
Tasman Council	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	25 September 2015				✓		
Local Government Business Units												
Copping Refuse Disposal Site Joint Authority	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	6 October 2015				✓		
Cradle Coast Authority	30 June 2015	14 August 2015	12 August 2015	n/a	Yes	28 September 2015				✓		
Dulverton Regional Waste Management Authority	30 June 2015	14 August 2015	13 August 2015	18 September 2015	Yes	26 September 2015				✓		
Southern Tasmanian Councils Authority	30 June 2015	14 August 2015	14 August 2015	n/a	Yes	18 September 2015			✓			
Southern Waste Strategy Authority	30 June 2015	14 August 2015	7 August 2015	n/a	Yes	21 September 2015			✓			
Local Government Association of Tasmania (LGAT)	30 June 2015	14 August 2015	14 August 2015	24 September 2015	Yes	28 September 2015				✓		
Northern Tasmania Development Association Inc (The Association)	30 June 2015	14 August 2015	1 September 2015	n/a	Yes	1 October 2015				✓		

APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report titled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising four volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Treasurer's Annual Financial Report, General Government Sector and Other State entities 2014-15

Volume 2 – Government Business 2014-15

Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15

Volume 4 – State entities 31 December 2015, findings related to 2014-15 audits and other matters.

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

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating Margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying Surplus (Deficit) ($'000s)		Operating Revenue less Operating Expenses
Operating surplus ratio	>0	Net Operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total liquid assets less financial liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000s)		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result from Ordinary Activities before Tax
Government guarantee fees ($'000s)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by FTEs
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days[3]	Actual annual leave provision days due divided by average FTEs
Average staff costs[2] ($'000s)		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Other Information		
Staff numbers FTEs		Effective full time equivalents

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

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

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

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating Surplus (Deficit) or Result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating Surplus Ratio** – a positive result indicates a surplus with the larger the surplus the stronger the assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by an entity through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of an entity's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.

- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing existing non-current assets. (Caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a "considerable" margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

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

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the Comprehensive Income Statement. This together with the Employee costs capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

AUDIT FINDING – RISK CATEGORIES

In reporting audit finding to clients, we determine three risk categories. These categories are based on their significance and potential impact on the client.

Risk Category	Client Impact
High	Matters which pose a significant business or financial risk to the entity and/or matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year and/or matters that may escalate to high risk if not addressed promptly and/or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature and/or matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

APPENDIX 3 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse Opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that mis-statements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's Report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Combined employee costs

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

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually Property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Contributions from the State

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

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume in its normal operating cycle
- holds primarily for the purpose of trading
- expects to realise within twelve months after the reporting period or

- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle
- it holds primarily for the purpose of trading
- is due to be settled within twelve months after the reporting period or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

Deficit

Total expenditure exceeds Total Revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Disclaimer of Opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected mis-statements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
  - to receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial liability

Any liability that is:

- a contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period

- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective re-statement of items in its financial statements, or when it re-classifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title "Statement of Comprehensive Income" instead of "Statement of Profit or Loss and Other Comprehensive Income".

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Impairment loss

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

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Material

Omissions or mis-statements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially mis-stated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-Financial Asset

Physical assets such as land, buildings and infrastructure.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Operating cycle

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

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that mis-statements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected mis-statements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State Owned Corporation
- a State authority that is not a Government Business Enterprise
- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State Owned Corporation

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a **clear audit opinion**.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

APPENDIX 4 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACIPA	Academy of Creative Industries and Performing Arts
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
AFS	Australian Financial Services
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ARM	Asset Revaluation Model
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBP	Bell Bay Power Pty Ltd
BHF	Better Housing Futures
CCA	Cradle Coast Authority
CC&SB	Customer Care and Billing System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CPI	Consumer Price Index
CSO	Community Service Obligation
DBP	Defined Benefit Pension
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DoE	Department of Education
DoJ	Department of Justice
DORC	Depreciated Optimised Replacement Cost
DPAC	Department of Premier and Cabinet
DPEM	Department of Police and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DRWMA	Dulverton Regional Waste Management Authority
DTF	Department of Treasury and Finance
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EFTSL	Equivalent Full-time Student Load

EOI	Expression of Interest
FCAS	Frequency Control Ancillary Services
FIND	Fines and Infringement Notices Database
FMAA	*Financial Management and Audit Act 1990*
FPM	Financial Procedures Manual
FRFI	*Forestry (Rebuilding the Forest Industry) Act 2014*
FSC	Forest Stewardship Council
FSI	Forest Services International
FTE	Full-time Equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GGS	General Government Sector
GIF	Group Investment Fund
GMO	Grantham, Mayo and Otterloo
GSP	Gross State Product
GST	Goods and Services Tax
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HECS-HELP	Higher Education Loan Program
HoA	House of Assembly
HR	Human Resources
IPSASB	International Public Sector Accounting Standards Board
IRR	Inter Regional Revenues
IST	Island Speciality Timbers
IT	Information Technology
KIPC	King Island Ports Corporation
KMP	Key Management Personnel
KPI	Key Performance Indicators
KV	Kilovolt
LGAT	Local Government Association of Tasmania
LGH	Launceston General Hospital
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MWh	Megawatt Hour
NCP	National Competition Policy
NDRRA	Natural Disaster Relief and Recovery Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NRAS	National Rent Affordability Scheme
NTDAI	Northern Tasmania Development Association, Inc.
NTER	National Taxation Equivalent Regime

OVG	Office of the Valuer-General
PA	Public Account
PAYG	Pay As You Go
PFC	Public Financial Corporation
PSP	Price and Services Plan
PFT	Private Forests Tasmania
PNFC	Public Non-Financial Corporation
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PT	Public Trustee
PWC	Price WaterhouseCoopers
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
RHH	Royal Hobart Hospital
RIN	Regulatory Information Notices
SBA	Significant Business Activies
SDTF	Special Deposits and Trust Fund
SES	State Emergency Service
SEV	Soil Expectation Value
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee
SLIMS	Student Lifecycle Information Management and Services
SOC	State Owned Corporation
SPFR	Specific Purpose Financial Reports
STCA	Southern Tasmania Councils Authority
SWS	Southern Waste Solutions
SWSA	Southern Waste Strategy Authority
TAFR	Treasurer's Annual Financial Report
TAHL	Tasmanian Affordable Housing Limited
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCFA	Tasmanian Community Forest Agreement
TDIA	Tasmanian Dairy Industry Authority
TDR	Tasmania Development and Resources
TDRA	Temporary Debt Repayment Account
TESI	Tasmanian Electricity Supply Industry
TFA	*Tasmanian Forest Agreement Act*
TFIA	Tasmanian Forest Intergovernmental Agreement

TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
THO-N	Tasmanian Health Organisation - North
THO-NW	Tasmanian Health Organisation - North West
THO-S	Tasmanian Health Organisation - South
TI	Tasmanian Irrigation Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TRB	Tasmanian Racing Board
TVPS	Tamar Valley Power Station
TUOS	Transmission Use of System
TUU	Tasmanian University Union Incorporated
UPF	Uniform Presentation Framework
UTAS	University of Tasmania
VaR	Value at Risk
VET	Vocational Education and Training
VG	Valuer-General
VoIP	Voice over Internet Protocol
WACC	Weighted Average Cost of Capital
WIF	Water Infrastructure Fund
WIP	Work in Progress

APPENDIX 5 - RECENT PUBLICATIONS

Tabled	Report No.	Title
2014		
May	No 11 of 2013-14	Compliance with the Alcohol, Tobacco and Other Drugs plan 2008-13
June	No 12 of 2013-14	Quality of Metro services
June	No 13 of 2013-14	Teaching quality in public high schools
2015		
August	No. 1 of 2014-15	Recruitment practices in the State Service
September	No. 2 of 2014-15	Follow up of selected Auditor-General Reports October 2009 to September 2011
September	No. 3 of 2014-15	Motor vehicle fleet management in government departments
November	No. 4 of 2014-15	Volume 3 – Government Businesses 2013-14
November	No. 5 of 2014-15	Volume 2 – General Government and Other State entities 2013-14
December	No. 6 of 2014-15	Volume 1 – Analysis of the Treasurer's Annual financial Report 2013-14
February	No. 7 of 2014-15	Volume 4 – Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14 Part 1: Key points, Joint Authorities, TasWater and other matters
March	No. 8 of 2014-15	Security of information and communications technology (ITC) infrastructure
March	No. 9 of 2014-15	Tasmanian Museum and Art Gallery: Compliance with the National Standards for Australian Museums and Galleries
May	No. 10 of 2014-15	Number of public primary schools
May	No. 11 of 2014-15	Road management in local government
June	No. 12 of 2014-15	Volume 5 – Other State entities – findings relating to 2013-14 audits and other matters
July	No. 1 of 2015-16	Absenteeism in the State Service
September	No. 2 of 2015-16	Capital works programming and management
October	No. 3 of 2015-16	Vehicle fleet usage and management in other state entities
October	No. 4 of 2015-16	Follow up of four reports published since June 2011
November	No. 5 of 2015-16	Volume 2 – Government Businesses 2014-15

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

Tasmanian Audit Office

Our Vision

Strive | Lead | Excel | To Make A Difference

Our Purpose

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

Availability of reports

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

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AUDIT MANDATE AND STANDARDS APPLIED

Mandate

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

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

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

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

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

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

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

Standards Applied

Section 31 specifies that:

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

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

(b) the Australian Auditing and Assurance Standards.'

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

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