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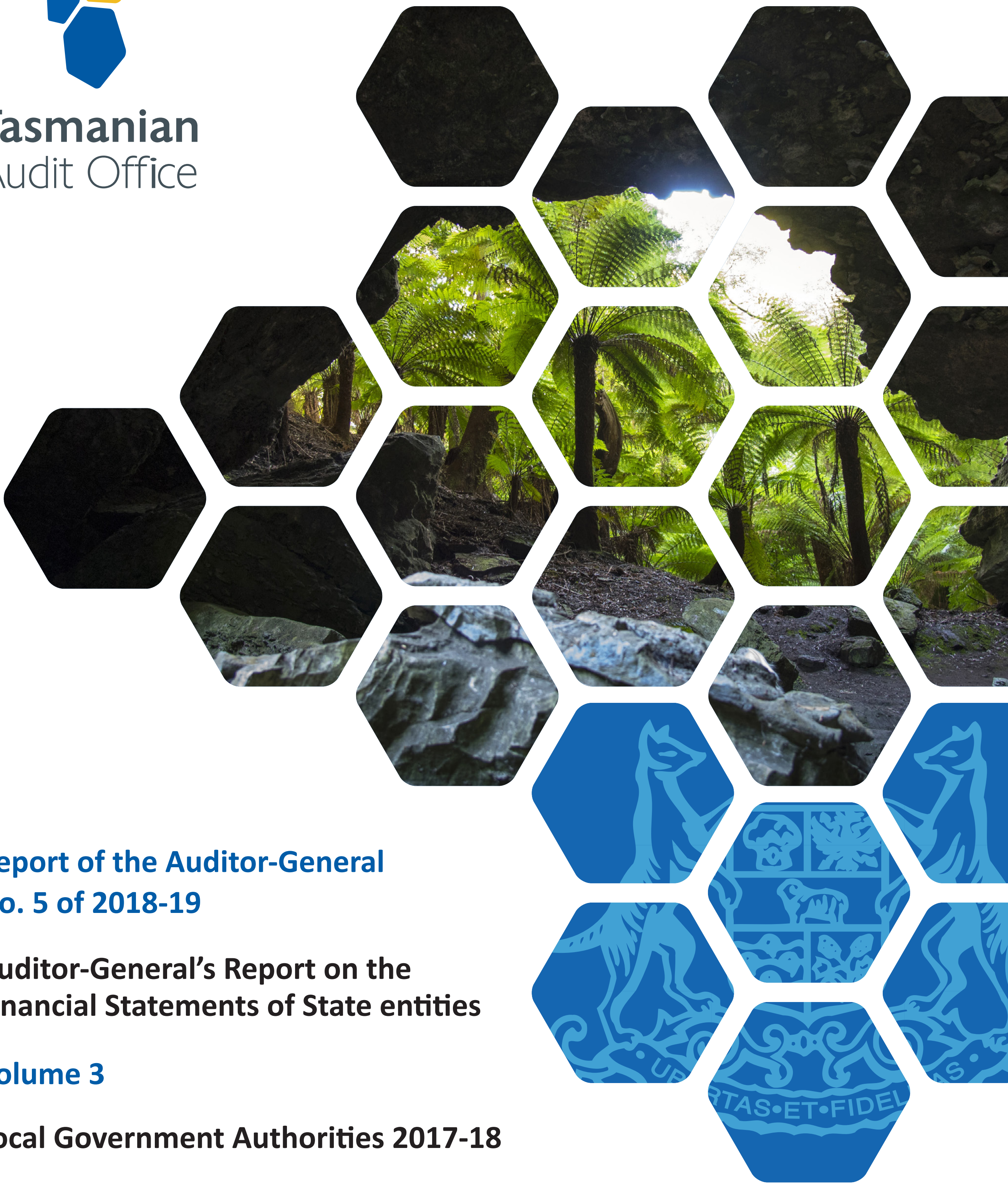
Audit Office



Report of the Auditor-General
No. 5 of 2018-19

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

Volume 3

Local Government Authorities 2017-18

November 2018

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THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

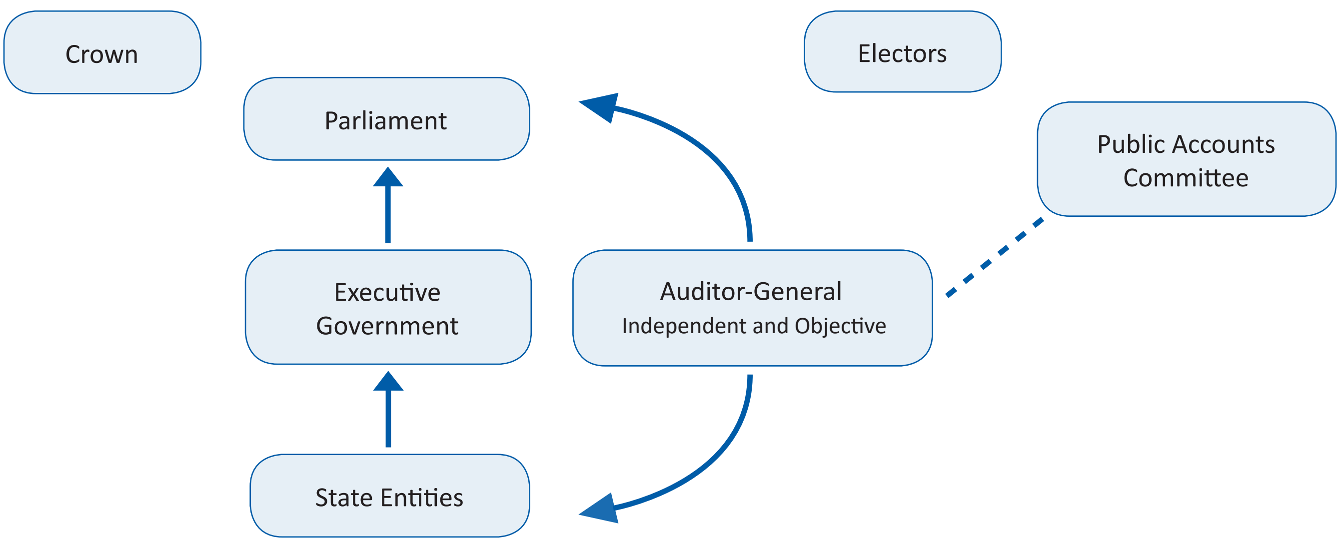
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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

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

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

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



TASMANIA

2018
PARLIAMENT OF TASMANIA

Report of the Auditor-General No. 5 of 2018-19

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

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Local Government Authorities 2017-18

November 2018

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

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

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29 November 2018

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Madam Speaker

Report of the Auditor-General No. 5 of 2018-19, Auditor-General's Report on the Financial Statements of State entities, Volume 3 - Local Government Authorities 2017-18

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 2017-18.

Yours sincerely

Rod Whitehead
Auditor-General

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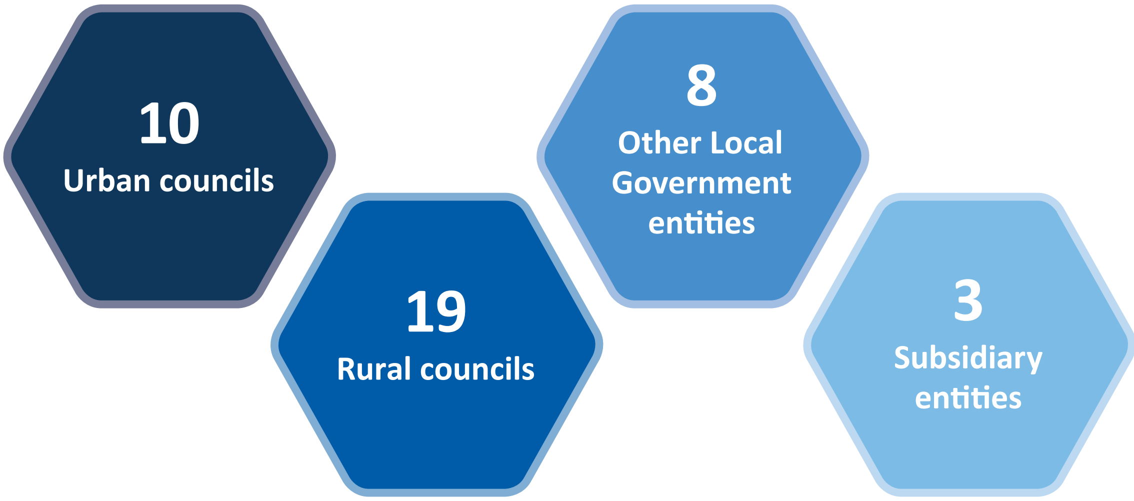
EXECUTIVE SUMMARY

INTRODUCTION

This Report contains the results of our audits of financial reports of entities in the local government sector, comprising the 29 councils, three subsidiaries and eight other local government entities. It does not include entities where the audit was dispensed. Refer to *Volume 4 - Audit Summary 2017-18* of this Report for further details regarding dispensation.



Councils were created under the *Local Government Act 1993* (LG Act) and provided governance, planning, service delivery, community development, asset management and local regulation to their regional areas. In some cases, councils established subsidiary or other entities as required to assist them achieve their objectives. Three subsidiary entities were separately audited in 2017-18.

Other local government entities were single, joint or controlling authorities controlled by councils and established under the LG Act, including a fully owned subsidiary of a joint authority, Local Government Association of Tasmania (LGAT) and Northern Tasmania Development Corporation Ltd.

All entities had a 30 June year end. The reporting framework for these entities was generally prescribed by enabling legislation or rules. For the LGAT, Launceston Flood Authority and C-Cell Pty Ltd as Trustee for C-Cell Unit Trust, we accepted preparation of a special purpose financial report. All other entities prepared general purpose financial reports.

GUIDE TO USING THIS REPORT

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

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

LOCAL GOVERNMENT ENTITIES COVERED IN THIS REPORT

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

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

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

For 2017-18, each chapter includes some infographics that provide a snapshot of key data or statistical information applicable to the entity.

Subsidiary entities

Table 1 details the subsidiary entities subject to audit in 2017-18.

Table 1: Subsidiary entities

Parent council	Subsidiary
Brighton Council	Brighton Industrial and Housing Corporation
Brighton Council	Microwise Australia Pty Ltd
Burnie City Council	Tas Communications Unit Trust
Dorset Council	North East Care Inc

At the date of this Report, the audit of the financial statements of North East Care Inc. for financial years ended 30 June 2016, 2017 and 2018, were not finalised.

DEVELOPMENTS

Feasibility studies into reform opportunities

All of the original four feasibility studies into reform opportunities for Local Government have been released, with the release of the Cradle Coast study on 30 November 2017.

An additional feasibility study was undertaken in relation to a possible merger of West Tamar and George Town Councils to form a Tamar Valley Council, with a report issued in April 2018. On 3 May 2018, George Town and West Tamar Councils announced they would not be continuing with merger talks after George Town Council chose not to undertake a community consultation process.

Following the release of the South East Feasibility Study, which contained modelling for amalgamation and further resource-sharing options involving four south east councils, Sorell and Tasman Councils requested a review into potential voluntary amalgamation. The review, undertaken by the Local Government Board, formally commenced in December 2017, with a report published on 3 August 2018. The report recommended that Tasman and Sorell Councils pursue voluntary amalgamation. On 21 August 2018, Sorell Council voted in favour of a merger. On 22 August 2018, Tasman Council voted against a possible merger.

Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) reforms

In March 2017, the Tasmanian Government announced its intention to introduce legislation to transfer all of TasWater's assets, rights, obligations and liabilities, including employees under their current terms and conditions, to a newly created Government business, which would commence operations by 1 July 2018.

Two Bills were introduced into the Tasmanian Parliament in August 2017 to implement the Government's plan. Both Bills failed to pass the Legislative Council and the proposed Government business was not established. Consequently, TasWater continued operations in its existing form, with ownership retained by the 29 Tasmanian councils.

Further water and sewerage reforms were announced in May 2018, with the signing of a Memorandum of Understanding by TasWater and the Tasmanian Government. Further details are provided in *Volume 2 - Government Businesses 2017-18* of this Report.

SUBMISSIONS AND COMMENTS RECEIVED

A copy of each chapter in this Report was provided to the relevant entity for comment and response.

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

Where comments were provided, these have been included in Appendix B.

SECTOR ANALYSIS

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

AGGREGATED FINANCIAL REPORT

The financial information in Table 2 represents aggregated information for all 29 councils, including subsidiaries but excluding other local government entities. Transactions between councils have not been identified or eliminated in our aggregation of the financial reports. The financial results are presented based on the urban and rural classifications outlined in the Executive Summary Chapter in this Report.

Table 2: Aggregated financial results

Classification	Underlying surplus $'000s	Net surplus $'000s	Net assets 2018 $'000s	Net assets 2017 $'000s
Urban	20 223	89 370	7 882 741	7 634 975
Rural	1 789	42 381	3 135 611	3 029 812
Total	**22 012**	**131 751**	**11 018 352**	**10 664 787**

Councils produced an Underlying surplus of $22.01m for 2017-18, an improvement of $6.16m from the previous year.

Councils generated an overall Net surplus of $131.75m in 2017-18, a significant decrease of $143.44m from the 2016-17 Net surplus of $275.19m, mainly due to recognition of land under roads of $153.31m in 2016-17 (Launceston City and West Tamar Councils) compared with $4.45m in 2017-18 (Derwent Valley Council).

The Australian Government provides Financial Assistance Grants to councils each year which are untied, allowing councils to spend the grants according to local priorities. In a normal financial year, four instalments of about $17.00m to $18.00m per quarter for the State might be expected, however, in recent years some payments have been made in advance. Payments in 2017-18 included advance payments of $37.96m being half of the 2018-19 allocation. Similar advance payments of $36.77m were received in 2016-17, representing half of the 2017-18 allocation.

In accordance with AASB 1004 *Contributions*, councils recognised advance payments as income when they received the funds. These arrangements significantly distorted financial results of councils. The advance payments have been adjusted for in the calculation of the 2017-18 underlying result, with the 2016-17 advance payment for 2017-18 included in the calculation and the 2017-18 advance payment for 2018-19 excluded. The Net surplus balance reflects the funding actually received and is not adjusted for the advance payments.

Net assets across the sector increased from $10.66bn to $11.02bn with urban councils holding 71.5% (2017, 71.6%).

UNDERLYING RESULT

$22.01m	$15.86m	$11.77m	$7.43m
2017-18	2016-17	2015-16	2014-15
▲ 39%	▲ 35%	▲ 58%	▲ 712%

▲ *Improvement from prior year* ▼ *Deterioration from prior year* ● *No material change from prior year.*

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

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

The Underlying surpluses or deficits reported in this Report agree to the management indicator disclosed in council financial statements in all cases for 2017-18.

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

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

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

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

Figure 1: Underlying surplus (deficit)

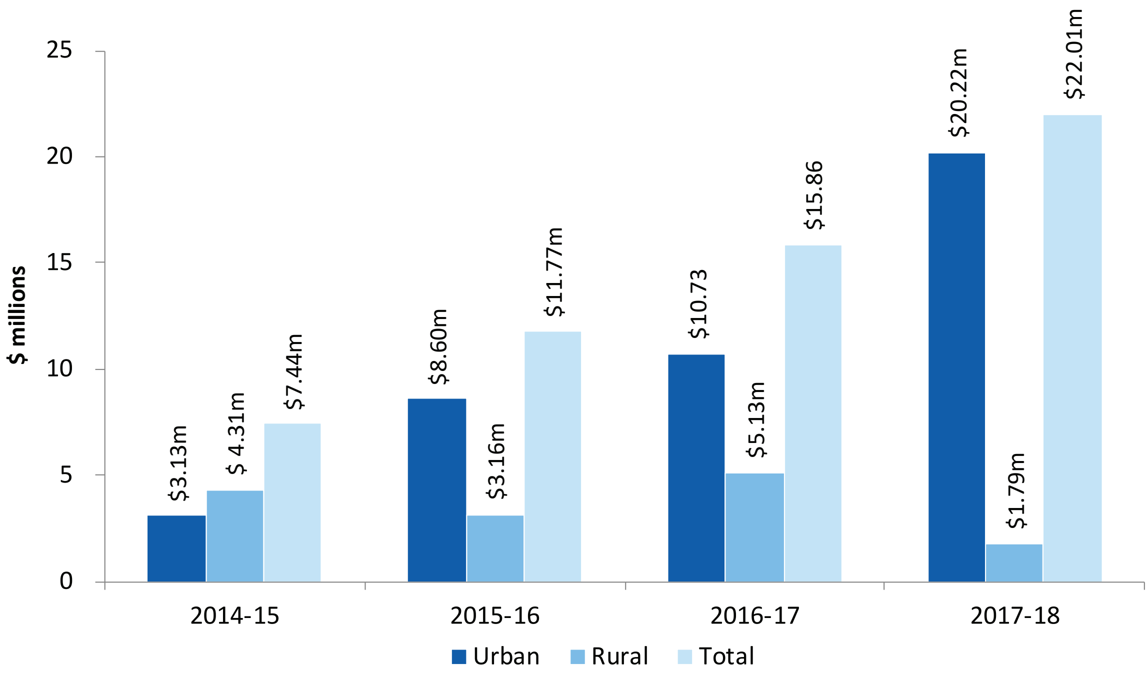


Figure 1 shows a continued improvement in total and urban underlying results over the last four years. Underlying results for rural councils were less consistent. Rural councils recorded a total Underlying surplus of $1.79m in 2017-18, compared with a surplus of $5.13m in 2016-17. One of the major reasons for the decline was Sorell Council's Underlying deficit of $2.61m in 2017-18, compared with an Underlying surplus of $0.02m in 2016-17. Further details are provided in the Audit Summary for Rural Councils later in this Report.

The total underlying surplus increased by $6.16m or 39.0% primarily due to containment of expenditure relative to increased revenue activity. Total revenue increased by 3.9% (2016-17, 2.3%) primarily driven by increased total rates revenue of 3.7% (3.7%), whilst total expenses increased by 3.2% (1.8%). Although only a 0.7% differential, the impact was magnified on a net basis due to the significant dollars involved.

In 2017-18, seven councils recorded Underlying deficits totalling $5.90m compared to six in 2016-17 totalling $5.58m. Individual results ranged from an Underlying surplus of $7.85m for Clarence City Council to an Underlying deficit of $2.61m for Sorell Council.

Flinders Council recorded Underlying deficits in all of the last four years. A further 10 councils recorded an average over the last four years of less than break-even, although each had at least one Underlying surplus result during this period.

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

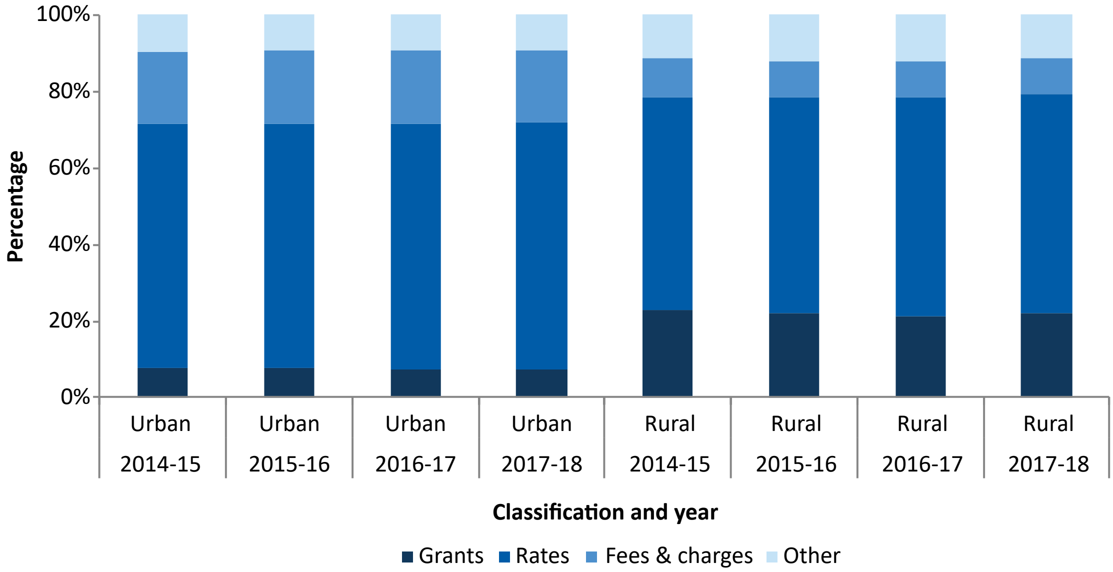
REVENUE

$791.88m	$491.28m	$93.12m
Operating revenue	Total rate revenue	Operating grants
▲ 3.9%	▲ 3.7%	▲ 5.0%

Councils recorded $791.88m Operating revenue in 2017-18 which was an increase of $29.70m from 2016-17.

Councils' own source revenues represented operating revenue other than recurrent grants. In general terms, urban councils with larger populations had the ability to generate higher levels of own source revenue. Smaller rural councils, with lower population levels, relied more heavily on grant funding. Figure 2 shows urban grant funding in 2017-18 of 7.1% of total revenue (2016-17, 7.2%) compared with 21.7% (21.3%) for rural councils.

Figure 2: Revenue source



The most significant contributor to own source revenue was rates, which in 2017-18 made up 64.6% (2016-17, 64.4%) of urban council revenue and 56.5% (57.2%) of rural council revenue. Flinders and King Island Councils had significantly below average total rate revenue at 20.3% and 33.9% of total operating revenue, respectively. Urban councils generated a further 19.0% (19.0%) of revenue from fees and charges compared to the 9.3% (9.5%) generated by rural councils.

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

The 2018 CCI indicated an average rate increase across the State of at least 2.4% was likely necessary in 2017-18 to maintain current levels of service and assumed other revenue sources also increased in line with costs. The mix of construction and non-construction activity varied from council to council. Similarly, there were parts of Tasmania where construction costs increased faster than the State average. Such factors were all of relevance at the local level when councils determined the level of rate increase necessary to provide services and meet council's spending profile.

Over the past four years, total rate revenue increased by 14.0% for urban councils and 16.8% for rural councils. This represented an average annual increase of 3.5% and 4.2%, respectively. Total rate revenue increases were impacted by changes in annual rate charges set by councils as well as movements in the number of rateable properties and rateable valuations.

Figure 3 shows the cumulative increase in council total rate revenue compared with the cumulative CCI index. It does not account for movements in the number of rateable properties or rateable valuations.

Figure 3: Cumulative total rate revenue increase

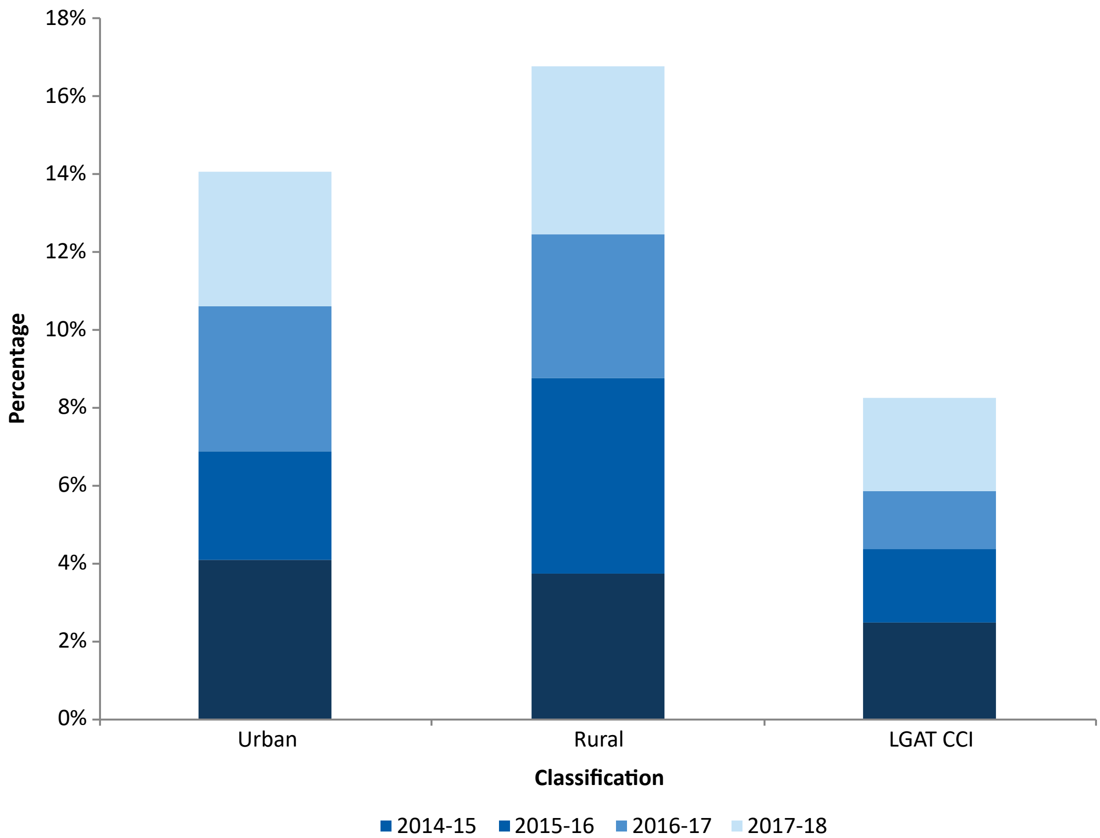
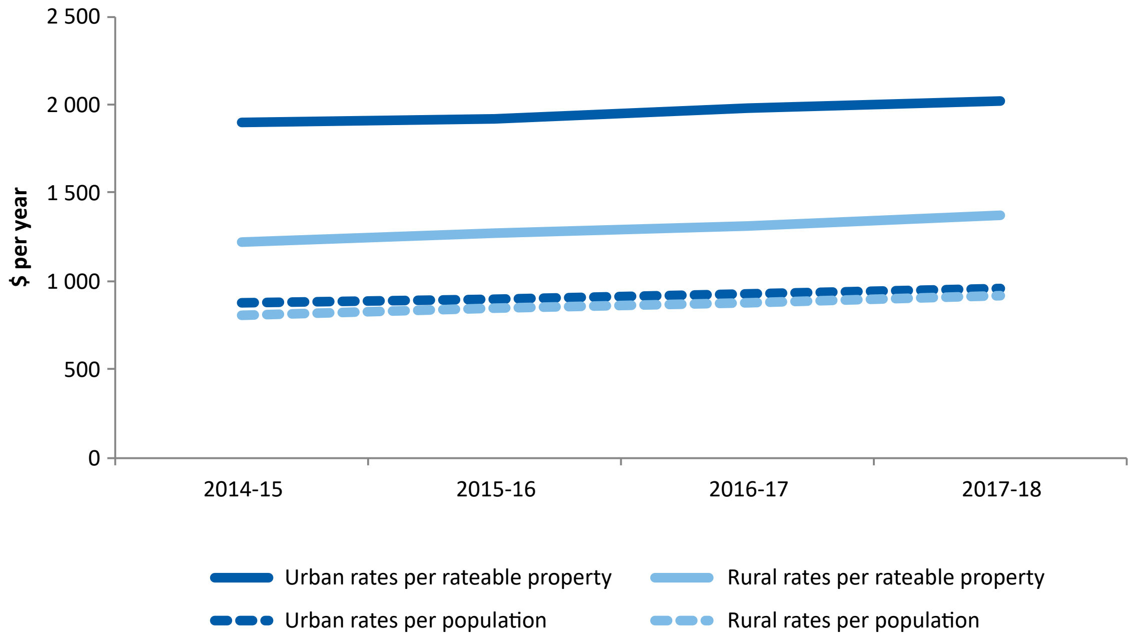


Figure 4 shows total rate revenue compared to rateable properties and population. Both these measures show fairly even rises in total rate revenue for both urban and rural councils over the last four years, with urban rates in both cases above rural rates.

Figure 4: Total rate revenue



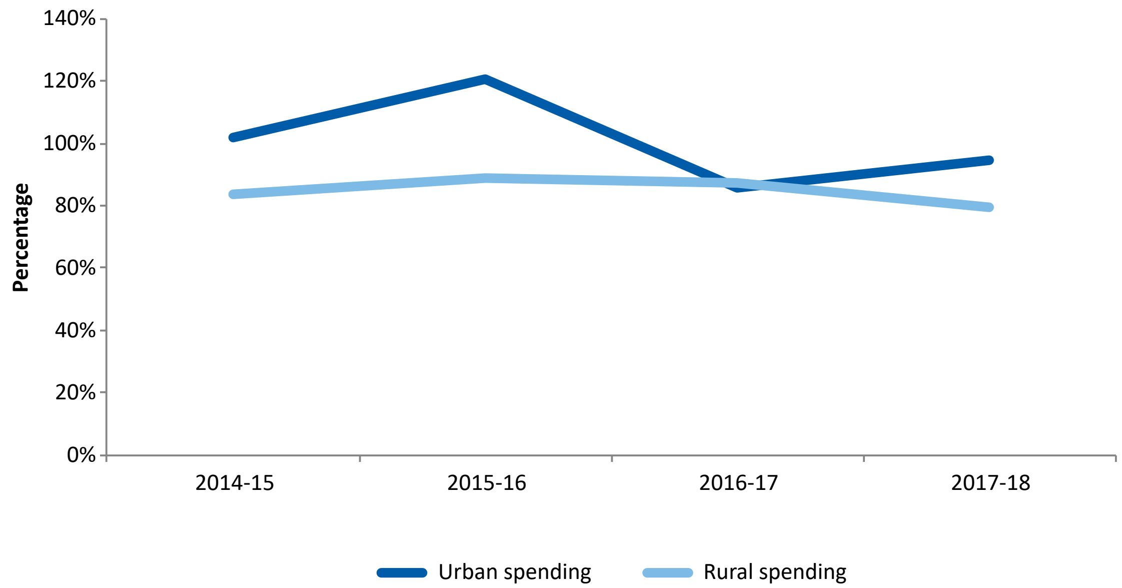
CAPITAL INVESTMENT

$1.04bn	$1.12bn	$79.70m
Total capital spend last four years	Total budgeted capital spend last four years	Total spending gap last four years

In total, councils spent 7.1% below original capital budgets over the last four years.

As highlighted in Figure 5, actual capital spend to budget for rural councils was fairly consistent in the last four years, at an average of 84.8%. In comparison, urban councils' actual spend was, on average, 100.6% of budget, offsetting part of the rural spending gap.

Figure 5: Capital spending to budget



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

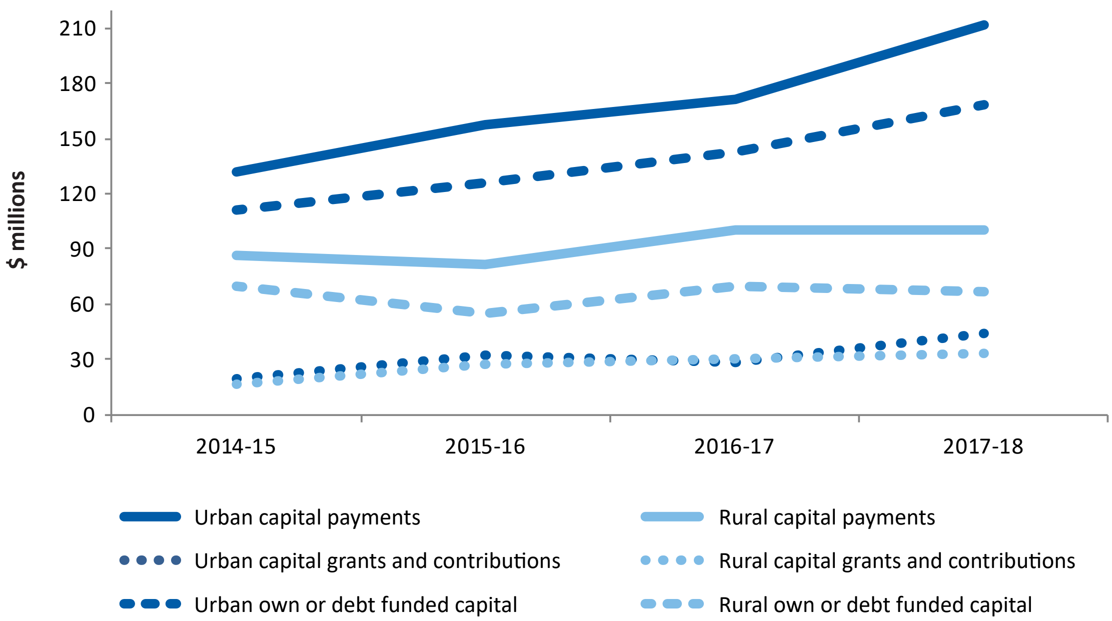
Urban councils experienced more volatility between years, from 85.6% in 2016-17 to 120.7% in 2015-16, as they were more likely to spend on large, unplanned projects when funding became available. Due to their size and funding base, they had greater capacity to amend budgets to include new projects as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

Capital investment funding source

$1.04bn	$231.42m	$809.15m
Total capital spend last four years	Total capital grants last four years	Total self-funded last four years

Over the last four years, 77.8% of councils' capital spending was self-funded with the balance from capital grants. Capital grants represented Tasmanian or Australian Government grants for new and upgraded assets and asset replacements. These included grants under the RTR program, NDRRA funding, as well as funding for improving public spaces, leisure and recreation facilities, bridge and street renewal, road safety, memorials and other purposes.

Figure 6: Capital investment funding source



As highlighted in Figure 6, capital spending by the ten urban councils was significantly higher than the combined spending of the 19 rural councils over the four year period. In addition, urban spending grew at a much faster rate. Capital spending by urban councils increased by $80.65m or 61.4% from 2014-15 to 2017-18. In comparison, capital spending by rural councils increased by $14.62m or 17% over the same period.

In 2017-18, capital spending by Hobart, Launceston and Devonport City Councils represented $122.14m or 57.6% of total urban capital spending of $212.01m. Details of major capital projects are contained within individual council Chapters.

Figure 6 also illustrates that movements in capital expenditure and funding source differed for urban and rural councils. For urban councils, capital spending moved in line with external capital funding, with increases in 2015-16 and 2017-18. Urban own or debt funded capital showed a steady increase over the four year period. This reinforces the observations made in Figure 5 above. That is, urban councils were more likely to spend on large, unplanned projects when funding became available because they had greater capacity to amend budgets to include new projects as need or opportunity arose.

In contrast, rural capital funding increased by $10.38m in 2015-16 (mostly due to increased RTR funding) however spending decreased from the prior year by $4.24m. This was partially reversed in 2016-17 when capital grant funding increased by only $2.93m but spending increased by $17.95m. This may indicate a time lag for rural councils, between receipt of capital grant funding and capital spending of those funds or greater variability in self-funded capital.

It is expected that capital grants will vary year to year depending upon applications made by councils and budget priorities of governments. Despite this, a consistently large component of capital grants for local government was funding provided under the RTR program. The current RTR program commenced in 2014-15 and continues to 2018-19 with total funds of $104.40m allocated to Tasmania, $41.32m urban and $63.08m rural. Capital RTR funding received over the first four years to 30 June 2018 was $11.15m, $32.72m, $27.31m and $21.91m, respectively. A further $0.82m in operational RTR funding was received in 2017-18. The receipt of funding varied largely due to timing of projects and an Australian Government initiative that allowed for double funding in 2015-16.

Other notable specific purpose funding for councils in 2017-18 included:

- Devonport City Council, Living City, $7.50m
- Launceston City Council, North Bank redevelopment, $6.85m, flood mitigation, $3.25m, Civic Square redevelopment, $1.50m
- NDRRA funding for the June 2016 floods of $6.53m, which mostly comprised Meander Valley Council, $3.18m and Central Coast Council, $1.86m
- Central Coast Council, Dial Regional Sports Complex, $2.50m
- Dorset Council, Bridport Western Access Road, $2.12m
- West Tamar Council, Legana Main St redevelopment, $1.67m
- Hobart City Council, Bridge of Remembrance, $1.64m
- George Town Council, Soldier Settlement Road, $1.60m
- Circular Head Council, Community Wellbeing Centre, $1.53m
- Glamorgan Spring Bay Council, Prosser River entrance stabilisation, $1.45m.

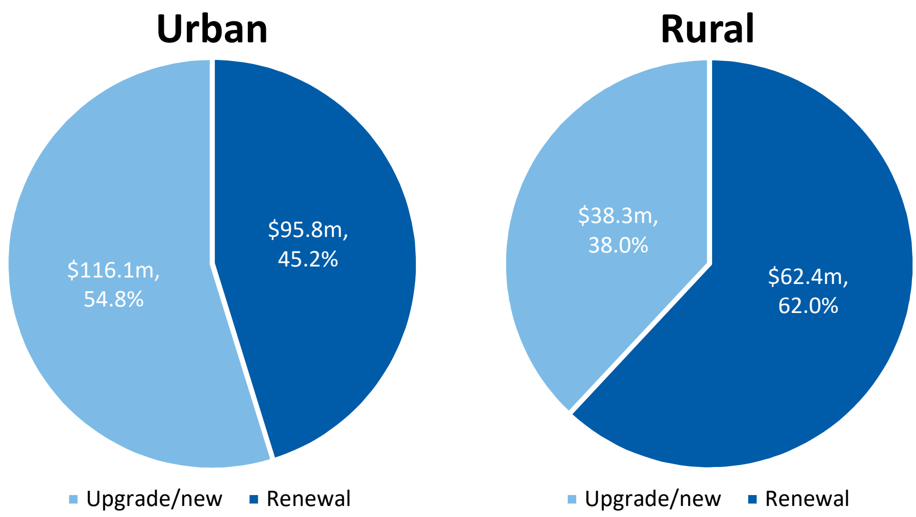
Capital investment allocation

As illustrated in Figure 7, urban councils spent a greater proportion on new and upgraded assets compared with renewal and replacements in 2017-18.

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

Rural councils generally had longer road networks to maintain and renew than urban councils and therefore more of their annual capital spending was allocated to renewal of existing assets as shown in Figure 7.

Figure 7: Capital investment allocation 2017-18



Urban councils spent 45.2% of total capital spending on renewal of existing assets in 2017-18, compared to 62.0% renewal spending by rural councils. The balance of funds spent was for new or upgraded assets. Devonport City, Hobart City and Launceston City Councils' new spending totalled $74.32m in 2017-18, accounting for 64.0% of urban new capital spending and overall 35.1% of all urban capital spending. Major projects for these three councils are detailed in individual council chapters, and included Devonport's Living City project, Hobart's Transforming Hobart capital works program and Launceston's City Heart project.

Natural disaster events

June 2016 floods

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

- Break O'Day
- Central Coast
- Kentish
- Latrobe
- Launceston City
- Northern Midlands
- Meander Valley
- Waratah-Wynyard.

The councils incurred $9.29m in operational costs and wrote-off $2.03m in flood damaged assets as a result of the flood. In total, councils recognised $16.54m in NDRRA funding in the three years to 30 June 2018. Additional funding is due to be claimed and recognised in 2018-19.

May 2018 floods

On 10 May 2018, Hobart and surrounds experienced a major weather event which caused significant flooding and damage.

Hobart City Council incurred emergency and clean-up costs to the end of June 2018 of $1.32m. Additional work was undertaken subsequent to the end of the financial year to quantify the financial impacts. As at the 28 September 2018, the following had been identified:

- Damage occurred to 14 of Hobart City Council's insured assets
- Damage and clean-up costs to essential assets such as roads, footpaths, stormwater infrastructure, bridges and tunnels was estimated to be $13.1m, of which 75% of eligible expenditure may be recovered through Tasmanian and Australian Government NDRRA

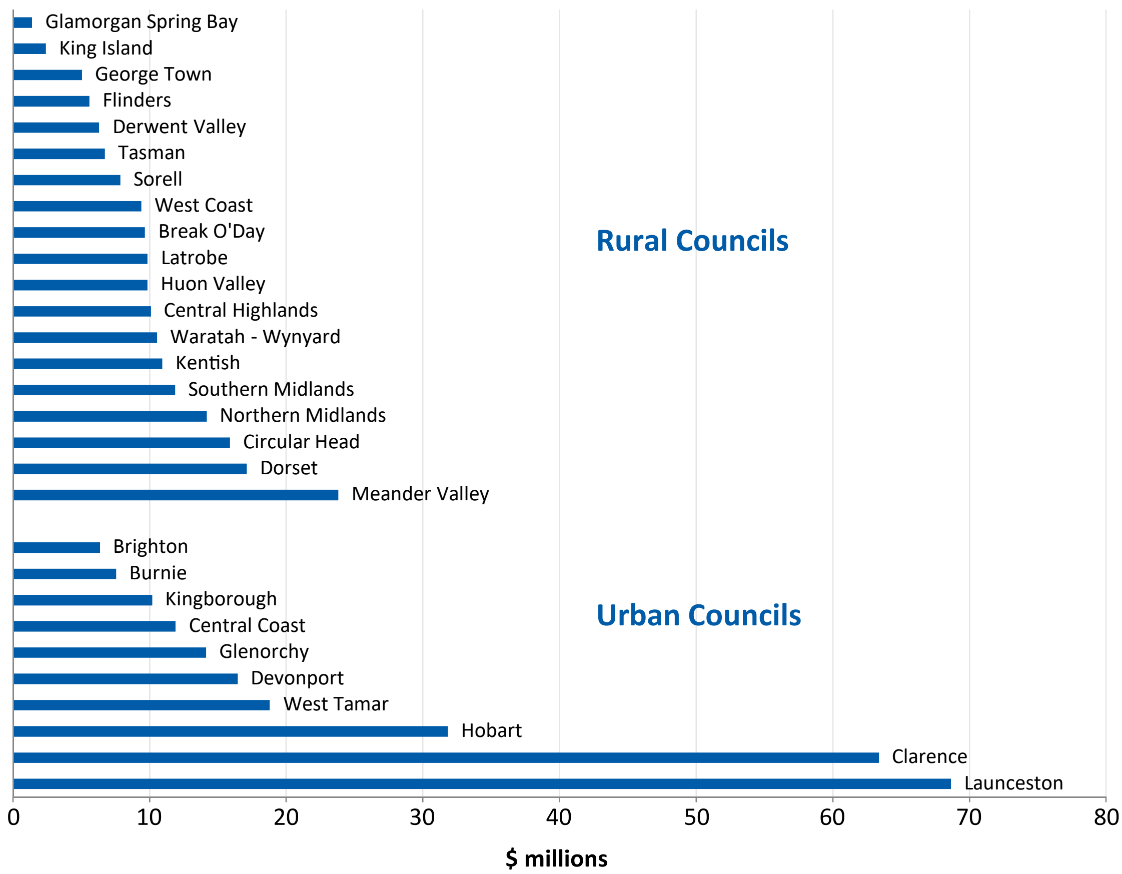
- Repair costs to non-essential assets such as bushland tracks, trail networks, parks and sportsgrounds was estimated to be $3.2m, with recovery assistance up to 75% of eligible expenditure available through the Community Recovery Fund up to $2.4m (plus a 15% contingency)
- Eligibility for reimbursement of eligible repair costs for McRobies Gully Waste Management Centre will be subject to a determination, with repair costs estimated to be $1.6m
- An insurance claim was expected to be lodged for damage that occurred to insured assets
- Kingborough Council incurred expenditure of $0.54m, which was recorded as non-recurrent expenditure and excluded from Council's underlying result for 2017-18.

CASH AND BORROWINGS

$437.86m	$297.31m	$146.08m
Cash	Working capital	Interest-bearing liabilities

At 30 June 2018, councils held cash and financial assets of $437.86m, (2017, $423.64m) and $146.08m in interest-bearing liabilities ($103.38m). Four councils had no debt at 30 June 2018. The increase in interest bearing liabilities in 2017-18 of $42.70m was partly due to the drawdown of loans under the Department of Treasury and Finance's (Treasury) Accelerated Local Government Capital Program, which is further detailed below.

Figure 8: Cash and financial assets held 30 June 2018



The low level of debt in comparison to cash held resulted in a strong working capital of $297.31m ($310.95m). The advance payment of $37.96m of Australian Government Financial Assistance Grants for 2018-19 received in June 2018 was included in cash held at the end of the financial year. Excluding these payments, overall cash held would have been $399.91m.

The 10 urban councils held $249.26m, 56.9%, of cash and financial assets at 30 June 2018 and $96.27m, 65.9%, of total borrowings.

Cash expense cover ratio

A cash expense cover ratio was calculated to assess whether the level of unrestricted cash held by each council was appropriate. In determining the level of cash held, we excluded cash subject to external restrictions, unexpended specific purpose grants and grant funds received in advance to arrive at an unrestricted cash balance.

The cash expense cover ratio compared the unrestricted cash balance against the total payments for operating and financing activities from the cash flow statement, as the cash flow statement is more reflective of the actual movements in cash. The ratio represented the number of months a council can continue operating based on current monthly expenditure. The ratio does not take into consideration capital expenditure requirements.

The following benchmarks were adopted by the Office to assess the adequacy of cash balances held:

- less than three months – level of cash considered less than adequate
- three to six months – level of cash considered adequate
- six to 12 months – level of cash considered more than adequate
- greater than 12 months – level of cash considered much more than adequate.

Figure 9: Cash expense cover ratio - unrestricted cash at 30 June 2018

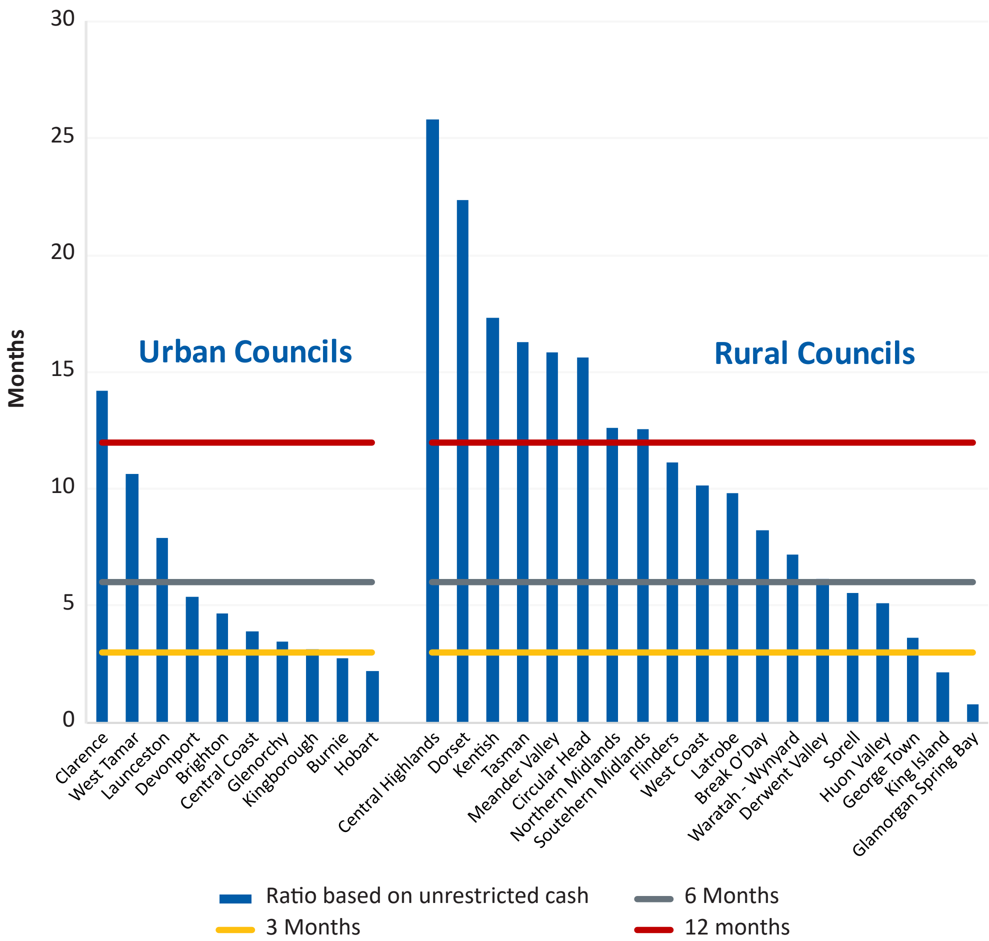


Figure 9 shows one urban and eight rural councils with a cash expense cover ratio in excess of 12 months, with a further two urban councils and six rural councils in the six to 12 month range. Burnie, Hobart, King Island and Glamorgan Spring Bay councils had cash expense cover ratios that were considered to be less than adequate.

This ratio should not be considered in isolation but also take into account other ratios around financial sustainability in this report.

Accelerated Local Government Capital Program (ALGCP)

In 2016-17, the Tasmanian Government introduced the ALGCP, whereby a funding pool of $120.00m was made available to allow councils to bring forward planned capital works. Where loan funds had been drawn down, interest payments were eligible for reimbursement from Treasury, for a maximum period of five years. At 30 June 2018, $65.52m in applications had been approved, with a total of $42.69m drawn down in loans.

FINANCIAL SUSTAINABILITY

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

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

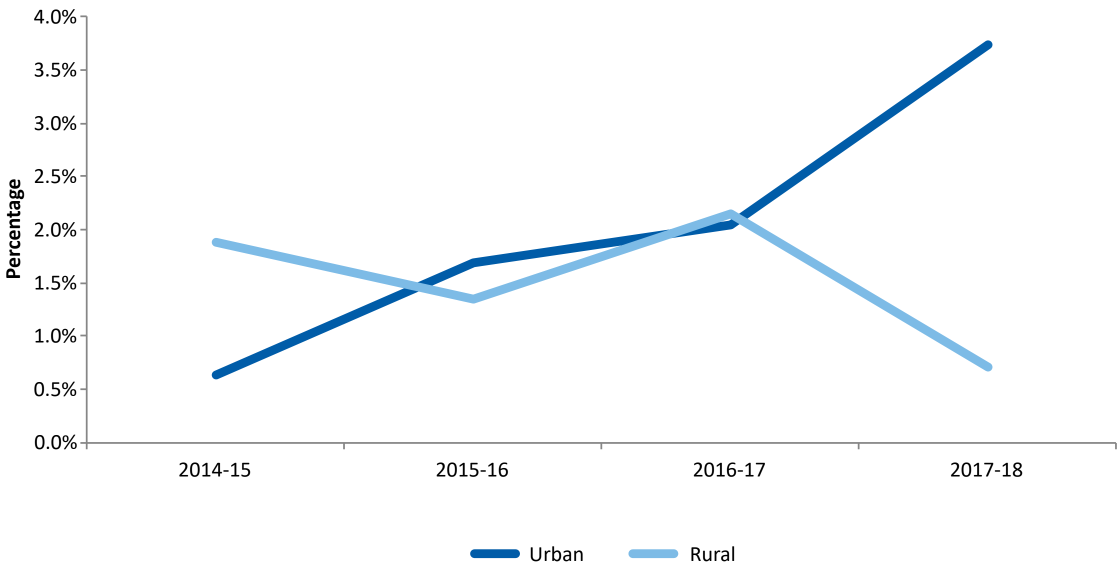
Bearing these cautions in mind, taken together the ratios can indicate low, moderate or high financial sustainability risk. The indicators used in this Report are:

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

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

Underlying surplus ratio

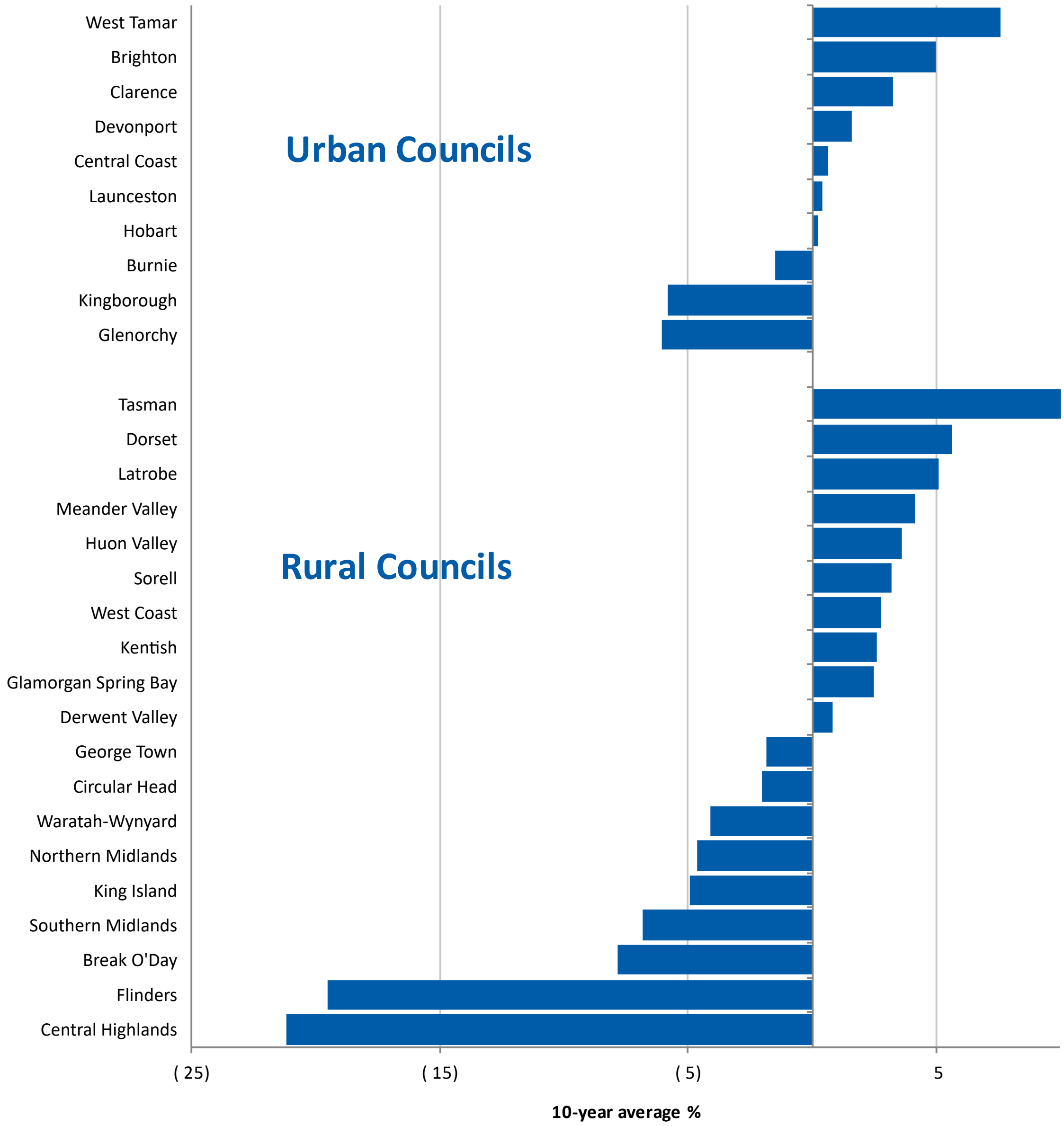
Figure 10: Underlying surplus ratio



Urban councils showed a steady increase in underlying results over the past four years, with a high of 3.7% recorded in 2017-18. Rural councils were less consistent, with a drop from 2.2% in 2016-17 to 0.7% in 2017-18, which was impacted by the significant deficit for Sorell Council of $2.61m.

Figure 11 shows the 10-year average underlying surplus ratio by individual council. Twelve councils recorded an average Underlying surplus ratio for the 10-year period less than break-even. The number of councils that returned break-even or better results steadily improved, from 14 in 2008-09 to 22 in 2017-18.

Figure 11: 10-year Average Underlying surplus ratio



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

- Flinders Council recorded Underlying deficits in all 10 years
- Kingborough Council achieved an Underlying surplus in 2017-18 following nine years of Underlying deficits
- King Island recorded Underlying deficits in nine out of the 10 years including 2017-18
- Northern and Southern Midlands Councils recorded Underlying deficits in eight out of the 10 years, with small Underlying surpluses recorded in the other two years
- Burnie City, Break O’Day, Central Highlands and Waratah-Wynyard Councils recorded Underlying deficits in seven out of the 10 years. However, all four councils recorded Underlying surpluses in 2017-18. Break O’Day and Waratah-Wynyard Councils recorded Underlying surpluses in the past two years and Central Highlands Council recorded Underlying surpluses in the past three years.

Asset sustainability ratio

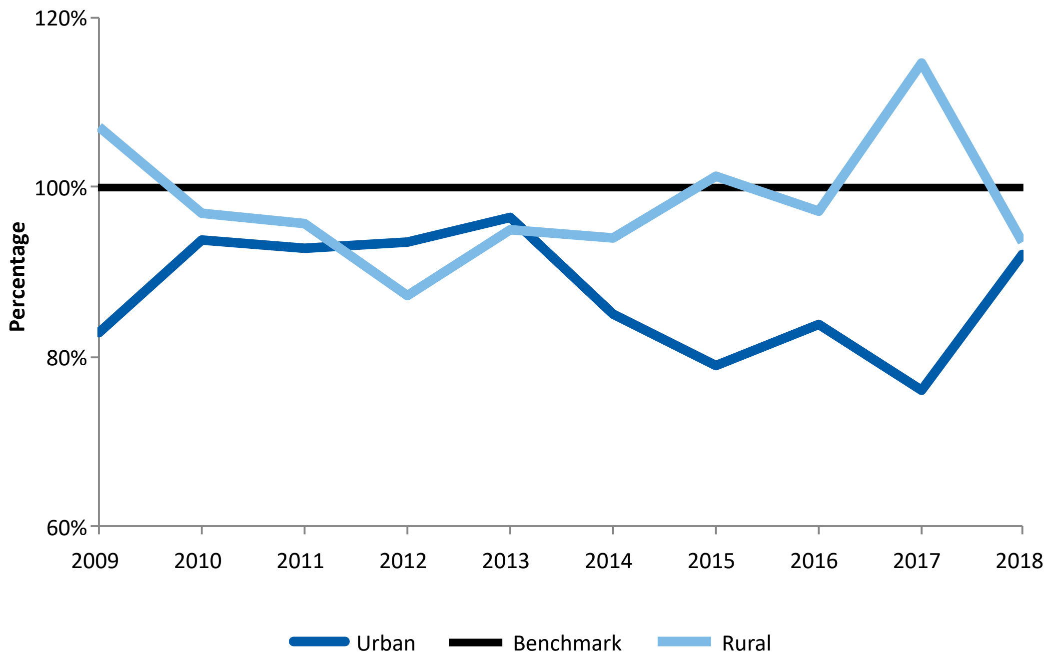
This ratio showed the extent to which councils were maintaining operating capacity through renewal of their existing asset base. The generally accepted benchmark for this ratio, subject to appropriate levels of maintenance expenditure and the existence of approved long-term asset management plans, was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

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

Figure 12 shows the asset sustainability ratio on an average basis for urban and rural councils over the last 10 years.

Urban councils expended, on average, 87.5% of their depreciation expense to maintain existing non-current assets, rural councils, 98.2% over the 10-year period. As noted earlier in the Capital investment section of this Chapter, rural councils had generally spent more on renewal of existing assets than urban councils.

Figure 12: Asset sustainability ratio



In most cases councils failed to meet the benchmark, with only 11 having an Asset sustainability ratio on average equal to or above 100% over the 10-year period. However, a further three councils averaged above 90% and only six below 80% including the lowest, Glenorchy City Council at 62.1%.

Road asset renewal funding ratio

Our review of asset renewal funding only examined road infrastructure because these assets represented more than 50% of total infrastructure assets held by councils. This ratio measured councils' capacity to fund future asset replacement requirements. An inability to fund future requirements will result in revenue, expenditure or debt consequences or a reduction in service levels.

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

Since we commenced reporting this ratio, the number of councils without asset management plans decreased from 19 in 2011 to one in 2018 as shown in Table 3. King Island Council remained the only council at 30 June 2018 without a long-term asset management plan for road infrastructure.

A total of 27 of the 28 councils that had long-term asset management plans demonstrated ratios equal to or better than our 90% benchmark. Waratah-Wynyard Council's average ratio was only slightly below at 89.9%.

Table 3: Road asset renewal funding ratio

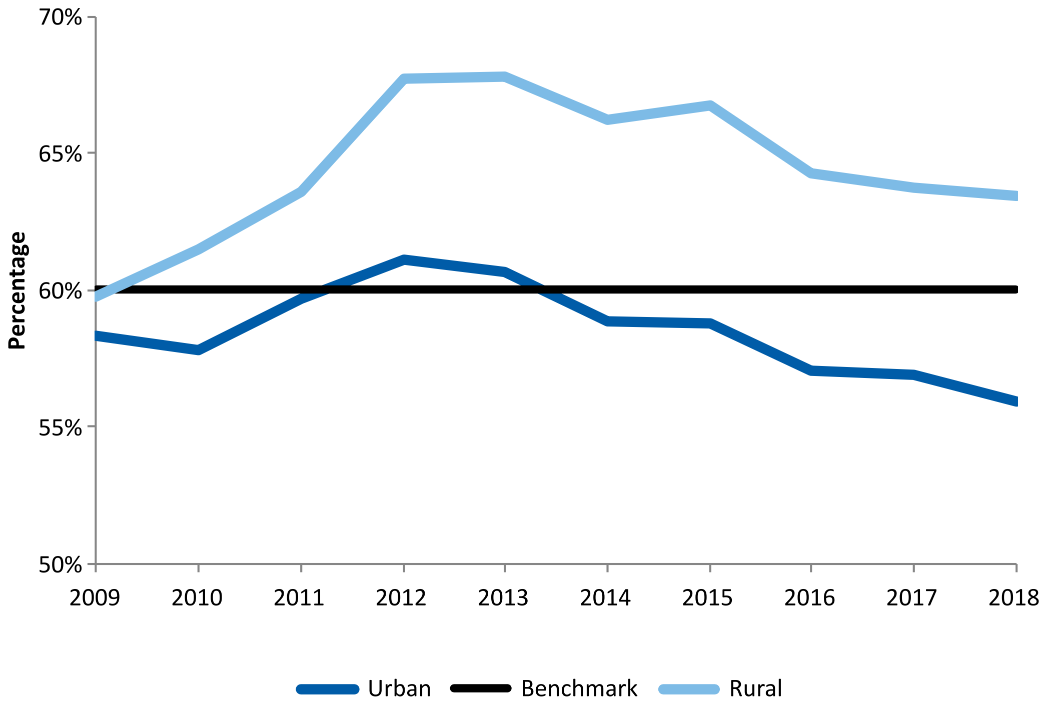
Range	2011	2012	2013	2014	2015	2016	2017	2018
≥90	9	11	20	22	23	27	28	26
<90	1	3	2	1	2	0	0	2
no asset management plan	19	15	7	6	4	2	1	1

Road asset consumption ratio

Our review of asset consumption only examined road infrastructure because these assets represented more than 50% of total infrastructure assets held by councils. The ratio indicated the levels of service potential available in existing road infrastructure managed by councils. The higher the percentage, the greater future service potential available to provide services to ratepayers.

Figure 13 shows the Road asset consumption ratio on an average basis for urban and rural councils over the last 10 years. A ratio above 60% represented low financial sustainability risk whilst a ratio less than 40% represented high risk.

Figure 13: Road asset consumption ratio



The rural Road asset consumption ratio was consistently above 60% except for 2008-09, which was slightly lower at 59.7%.

The urban Road asset consumption ratio was consistently above 55%, peaking at 61.1% in 2011-12 and dropping to 55.9% in 2017-18.

Changes over the 10-year period included:

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

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

At 30 June 2018, all councils had a Road asset consumption ratio above 40%. Based on our benchmark, 17 councils had low asset management risk with the remaining 12 at moderate risk.

Net financial liabilities ratio

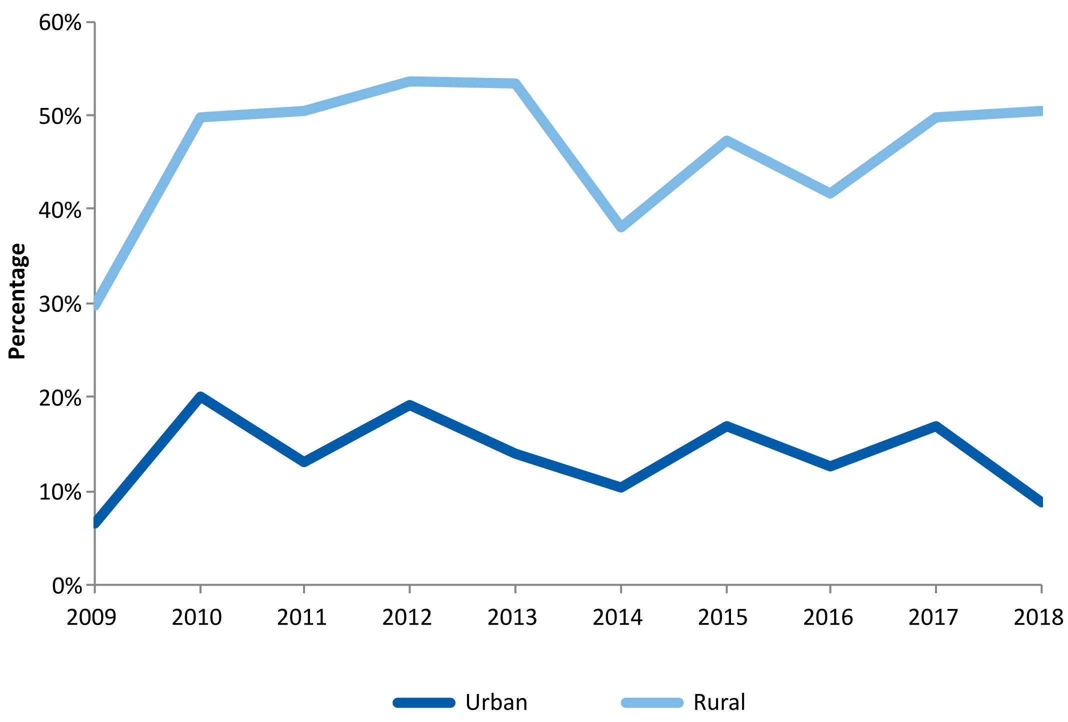
This ratio indicated the net financial obligations of councils compared to operating revenue in any one year; specifically, the extent to which net financial liabilities (liquid assets less total liabilities) could be met by operating revenue.

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

Our benchmark was a ratio of between 0% and minus 50%, with a council having a ratio lower than minus 50%, being considered higher risk.

Figure 14 shows the Net financial liabilities ratio on an average basis for urban and rural councils in each of the past 10 years.

Figure 14: Net financial liabilities ratio



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

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

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

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

BRIGHTON COUNCIL

OVERVIEW

Population
16 872 people

Geographic Size
171 square kilometres

Employees
55 full time equivalents at 30 June 2018

Rateable Properties
7 810

Road Length
184 kilometres

Infrastructure Assets: Roads, bridges, drainage
$100.99m

KEY RESULTS AND DEVELOPMENTS

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

The Council's Underlying deficit was $0.39m in 2017-18, down from last year's $0.01m surplus.
The Council reported a Net surplus of $1.70m in 2017-18 (2016-17, $3.43m) which included decreased commercial revenue from Brighton Industrial & Housing Corporation (BIHC) of $0.52m and an increased net donation to Brighton Bowls Club of $0.43m.
Working capital was a surplus of $6.18m at 30 June 2018 (2017, $6.32m). Cash and term deposits of $6.38m held ($6.85m) included $0.86m of advance financial assistance grants.
Brighton Council spent $5.33m on payments for Property, infrastructure, plant and equipment in 2017-18 ($2.45m). Of this, $3.99m ($1.40m) was spent on infrastructure.
BIHC recorded a loss of $0.03m and Microwise Australia Pty Ltd (Microwise) recorded a profit of $0.01m. These results were consolidated in Brighton Council's Underlying surplus and Net surplus.

AUDIT FINDINGS

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

OTHER MATTERS OF INTEREST

Subsidiary entities

The Council had a 100% controlling interest in two entities being the BIHC and Microwise. The results, assets and liabilities are consolidated into the financial statements of the Council.

BIHC was formed to develop affordable residential dwellings for home-buyers through strategic allocation and use of vacant Housing Tasmania land and to add to the social and cultural amenities of the municipality.

BIHC prepared special purpose financial statements for 2017-18. BIHC did not earn any revenue during 2017-18 as no land exchanges or sales occurred during the year, as all land was sold in previous financial years. BIHC incurred expenditure of $0.03m (2016-17, $0.34m) associated with the final legal and associated matters from the sale and acquisition of land in 2016-17. With the purpose of the entity now complete, management are considering winding up BIHC.

Microwise prepared special purpose financial statements for 2017-18. Microwise was a 100% owned incorporated entity of Council formed for the purpose of managing intellectual property contained in the PropertyWise software product, to create and develop software and provide software maintenance. Microwise generated $0.51m in revenue (2016-17, $0.59m), of which $0.42m ($0.43m) related to licence fees. Expenditure of $0.50m ($0.36m) was incurred, which included $0.19m to the Council for fees and consultancy costs.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 4 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 4: Brighton Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	8 931	▲	8 364	●	8 080	●	7 837	▲
Grants	1 746	▲	1 547	▼	1 713	●	1 789	▲
Expense								
Employee benefits	4 582	●	4 493	▼	3 204	▼	2 940	●
Materials and services, including levies	4 752	●	4 664	▲	5 330	▼	5 040	●
Depreciation	3 250	●	3 149	▼	2 982	●	2 955	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	(392)	▼	10	▲	(75)	▼	518	▲
Financial assistance grants in advance	70	▼	792	▲	(799)	▼	799	▲
Capital and other excluded items	2 013	▼	2 623	▲	1 159	▼	3 055	▼
Net surplus (deficit)	1 691	▼	3 425	▲	285	▼	4 372	▼
Financial position[1]								
Cash and deposits	6 381	▼	6 848	▲	3 838	▼	5 008	▲
Property, plant and equipment[2]	137 428	▲	130 231	●	127 514	●	131 824	●
TasWater investment	47 045	●	46 442	●	46 139	●	45 367	●
Employee provisions	(1 222)	●	(1 231)	●	(1 148)	▼	(1 001)	●
Net assets	190 859	●	183 157	●	177 200	●	181 960	●

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Key financial ratios								
Underlying surplus ratio	(2.7%)	▼	0.1%	▲	(0.5%)	▼	3.8%	▲
Own source revenue	88.0%	●	89.2%	●	87.7%	●	86.8%	●
Net financial liabilities ratio[3]	36.0%	●	38.0%	▲	15.0%	▼	25.7%	▲
Asset consumption ratio - roads	65.0%	●	65.0%	●	66.0%	▼	77.0%	●
Asset renewal ratio[4]	100.0%	●	100.0%	●	100.0%	●	100.0%	▲
Asset sustainability ratio	135.0%	▲	44.0%	▼	85.0%	▼	96.0%	▲

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

Table 5 provides a snapshot of key financial results for 2017-18 in comparison to prior years for the subsidiaries of the Council.

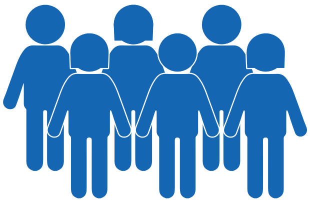
Table 5: Brighton Council key subsidiaries financial snapshot for 2017-18

	Revenue		Expenses		Net profit (loss)		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Brighton Industrial and Housing Corporation	0	▼	25	▲	(25)	▼	898	●
Microwise Australia Pty Ltd	514	▼	504	▼	10	▼	1 417	●

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

BURNIE CITY COUNCIL

OVERVIEW



Population

19 245 people

Geographic Size

611 square kilometres

Employees

140 full time equivalents at 30 June 2018

Rateable Properties

9 764

Road Length

343 kilometres

Infrastructure Assets: Roads, bridges, drainage

$188.60m

KEY RESULTS AND DEVELOPMENTS

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

Burnie City Council's Underlying surplus was $0.49m in 2017-18, an improvement from the deficit of $0.94m in the prior year. The 2016-17 Underlying deficit was predominantly due to disposal of remaining former aquatic centre assets of $0.95m that were replaced by the upgraded and refurbished aquatic centre.

Burnie City Council reported a Net surplus of $2.96m in 2017-18 (2016-17, $1.43m Net deficit). The 2016-17 result was impacted by the following expenses:

- construction work undertaken on assets not owed by Council of $3.64m, which related to work completed on stormwater infrastructure for a number of private properties within the municipality under a stormwater infrastructure program.
- derecognition of the Autism Centre building of $1.70m, following the transfer of the Centre's operations to another provider.

Working capital was a surplus of $3.84m at 30 June 2018 (2017, $4.84m). Cash and term deposits held of $7.55m ($8.33m) included $1.17m of advance financial assistance grants and $0.80m specific purpose grants, not yet expended in accordance with relevant conditions.

Burnie City Council spent $9.64m on Property, plant and equipment during 2017-18 ($12.97m), $3.93m ($3.18m) on renewal and $5.66m ($9.37m) on new or upgrades of existing assets compared to a capital budget of $13.49m.

Burnie City Council's subsidiary, Tas Communications Unit Trust contributed $0.23m ($0.30m) to Burnie City Council's consolidated result and managed Net assets of $2.33m ($2.33m).

Burnie City Council recognised an investment in joint venture of $3.33m at 30 June 2018 ($3.34m) relating to its 51% ownership interest in Burnie Airport Corporation Unit Trust.

AUDIT FINDINGS

The audits of Burnie City Council and it's subsidiary, Tas Communications Unit Trust, were completed with no significant deficiencies in internal control identified. One moderate rated finding relating to bank signatories was reported as part of the audit of Tas Communications Unit Trust. Two low rated findings were reported as part of Council's audit.

OTHER MATTERS OF INTEREST

Subsidiary and joint venture entities

Tas Communications Unit Trust

Tas Communications Unit Trust was 100% owned by Burnie City Council and was accounted for as a subsidiary and consolidated within Council's financial statements. The Unit Trust provided information technology services, including support, hosting, consulting and broadband telecommunications, to commercial and local government entities.

The majority of Tas Communications Unit Trust's revenue was derived from the provision of communication and information technology services under service agreements with Burnie City Council, other regional councils, TasWater, University of Tasmania and local private companies. Approximately 55.6% of revenue was derived from external sources with the balance from Burnie City Council.

Tas Communications Unit Trust recorded a net surplus of $0.23m in 2017-18 (2016-17, $0.30m).

Burnie Airport Corporation Unit Trust

Burnie City Council owned 51% of the units issued in Burnie Airport Corporation Unit Trust, with the balance held by Australian Regional Airports. The Unit Trust's corporate trustee, Burnie Airport Corporation Pty Ltd, had four directors - two from Burnie City Council and two from Australian Regional Airports.

Prior to 2017-18, the Burnie Airport Corporation Unit Trust was accounted for as a subsidiary based on Burnie City Council's 51% ownership interest. Following a review of the agreement with Australian Regional Airports, Council concluded that the Burnie Airport Corporation Unit Trust was a joint venture, based on joint control and decision making by the four directors of the corporate trustee. Burnie City Council recognised an Investment in joint venture of $3.33m at 30 June 2018 (2017, $3.34m).

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 6 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 6: Burnie City Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	22 490	●	22 563	●	21 877	●	20 830	●
Grants	2 507	▼	2 829	▼	3 675	▼	4 137	●
Expense								
Employee benefits	11 176	●	11 632	▲	12 879	▲	13 831	●
Materials and services	10 457	●	10 743	●	11 038	●	11 427	▲
Depreciation	8 005	●	8 177	●	8 030	●	8 248	●

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	489	▲	(943)	▼	(390)	▼	(345)	▲
Financial assistance grants in advance	28	▼	1 143	▲	(1 243)	▼	1 243	▲
Capital and other excluded items	2 444	▲	(1 626)	▼	29 196	▲	(3 542)	▼
Net surplus (deficit)	2 961	▲	(1 426)	▼	27 563	▲	(2 644)	▲
Financial position[1]								
Cash and deposits	7 551	▼	8 327	▼	9 744	▼	13 521	▲
Property, plant and equipment[2]	331 668	●	318 871	●	327 310	▲	291 322	●
TasWater investment	66 151	●	65 304	●	64 878	●	63 792	●
Employee provisions	(2 706)	●	(2 827)	●	(2 919)	●	(2 835)	●
Borrowings	(1 573)	▲	(1 870)	▲	(3 910)	▲	(4 456)	●
Net assets	403 514	●	390 533	●	393 418	▲	360 491	●
Key financial ratios								
Underlying surplus ratio	1.5%	▲	(2.7%)	▼	(1.1%)	▼	(0.9%)	▲
Own source revenue	92.6%	●	92.0%	●	89.8%	●	88.8%	●
Net financial liabilities ratio[3]	6.5%	▼	8.0%	▲	3.9%	▼	12.4%	▲
Asset consumption ratio - roads	46.1%	●	45.8%	●	46.2%	●	47.0%	●
Asset renewal ratio - roads[4]	130.8%	▼	142.7%	▲	127.9%	●	129.0%	▲
Asset sustainability ratio	50.6%	▲	40.0%	▼	63.2%	▲	53.7%	▼

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

Table 7 provides a snapshot of key subsidiary and joint venture financial results for 2017-18.

Table 7: Burnie City Council financial snapshot

	Revenue		Expenses		Net profit (loss)		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Burnie Airport Corporation Unit Trust	1 299	▼	1 116	▲	183	▲	6 527	●
Tas Communications Unit Trust	1 915	●	1 688	●	227	▼	2 329	●

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

CENTRAL COAST COUNCIL

OVERVIEW

Population
21 908 people

Geographic Size
933 square kilometres

Employees
139 full time equivalents at 30 June 2018

Rateable Properties
10 902

Road Length
666 kilometres

Infrastructure Assets: Roads, bridges, drainage
$301.14m

KEY RESULTS AND DEVELOPMENTS

Central Coast Council's Underlying surplus was $0.99m in 2017-18, which declined from last year's $1.43m result.

Overall, Central Coast Council reported a Net surplus of $18.75m in 2017-18 (2016-17, $7.36m). The surplus reported in 2017-18 included $13.32m in capital and cash contributions.

Working capital was a surplus of $8.37m at 30 June 2018 (2017, $11.66m). Cash and term deposits held of $11.91m ($14.88m) included $2.00m of 2018-19 financial assistance grants received in advance.

Central Coast Council spent $16.60m on payments for Property, plant and equipment during 2017-18 ($11.77m), $8.79m on renewal and $8.94m on new or upgrades of existing assets compared to a capital budget of $21.31m. Several major projects were carried over into next year, such as the LED street Lighting program and Forth/Leith shared pathway.

Capital grant funding of $4.09m was received in 2017-18 ($3.20m). This included an additional $2.50m funding for the Dial Regional Sports Complex which was finalised in 2017-18 with $12.07m of new and existing works capitalised in 2017-18.

Central Coast Council recognised $11.62m in capital contributions relating to road, land under road and bridge assets taken over from the Department of State Growth (State Growth). Council recognised a further $0.39m in cash contributions for maintenance of these assets.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control. We re-raised a moderate rated audit matter relating to suggested improvements to financial report submission and quality. We also raised a new moderate rated audit matter regarding the provision for rehabilitation of the waste disposal site and one low rated matter.

OTHER MATTERS OF INTEREST

Capital Grants

Central Coast Council achieved its second, third and final milestones for the Dial Regional Sports Complex development. This year, $2.50m (2016-17, $1.06m) in capital funding was provided for the complex and scoreboard. Of this funding, $2.45m was provided as a capital grant from the Australian Government through the Department of Infrastructure and Regional Development.

Capital and Cash Contributions

Central Coast Council received a total of $13.32m in capital and cash contributions in 2017-18 ($1.38m). These contributions included $11.62m in roads and bridge assets from State Growth. These assets included roads and bridges positioned on Preservation Drive and Mission Hill Road. State Growth also contributed $0.39m cash for the maintenance of these assets. A further $0.76m in cash contributions was received from Central Coast Council's childcare operations.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 8 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 8: Central Coast Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	15 035	●	14 543	●	13 983	●	13 618	●
Grants	3 989	●	3 915	●	4 009	●	4 003	▲
Expense								
Employee benefits	9 980	●	9 957	●	10 024	▼	9 537	●
Materials and services	9 433	▼	8 232	●	8 129	▼	7 698	●
Depreciation	6 558	▼	6 197	●	6 155	▼	5 824	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	987	▼	1 428	▲	809	▼	1 298	▲
Financial assistance grants in advance	31	▼	1 973	▲	(1 974)	▼	1 974	▲
Capital and other excluded items	17 729	▲	3 958	▲	1 397	▼	1 649	▼
Net surplus (deficit)	18 747	▲	7 359	▲	232	▼	4 921	▼
Financial position[1]								
Cash and deposits	11 909	▼	14 879	▲	6 651	▼	7 143	▲
Property, plant and equipment[2]	456 671	●	435 782	●	422 742	▲	394 566	▲
TasWater investment	75 946	●	74 973	●	74 484	●	73 237	●
Employee provisions	(3 093)	●	(3 137)	▼	(2 883)	●	(2 830)	●
Borrowings	(10 400)	●	(10 600)	▼	(3 061)	●	(3 027)	●
Net assets	532 789	●	513 575	●	498 100	▲	469 365	▲

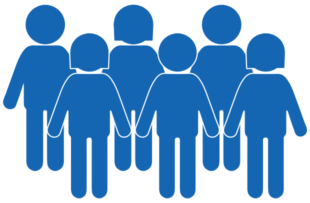
	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Key financial ratios								
Operating surplus ratio	3.6%	▼	5.4%	▲	3.2%	▼	5.2%	▲
Own source revenue	85.4%	●	85.2%	●	84.8%	●	84.0%	●
Net financial liabilities ratio[3]	(19.8%)	▼	(13.5%)	●	(14.0%)	▼	(9.3%)	▲
Asset consumption ratio - roads	81.5%	●	83.3%	●	83.2%	●	82.7%	●
Asset renewal ratio - roads[4]	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	134.0%	▲	126.0%	▲	100.0%	▲	95.0%	●

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

CLARENCE CITY COUNCIL

OVERVIEW



Population
55 659 people

Geographic Size
386 square kilometres

Employees
239 full time equivalents at 30 June 2018

Rateable Properties
25 336

Road Length
461 kilometres

Infrastructure Assets: Roads, bridges, drainage
$284.57m

KEY RESULTS AND DEVELOPMENTS

Clarence City Council's Underlying surplus was $7.85m in 2017-18, up from last year's $4.80m surplus.

Overall, Clarence City Council reported a Net surplus of $21.16m in 2017-18 (2016-17, $16.78m) which included $9.37m contribution of assets, mainly arising from subdivision of land and capital grants.

Total rates revenue increased by $1.92m, or 4.1%, in line with budget. User charges increased by $1.25m, or 24.4%, mainly due to the increase in construction activity within the municipality during 2017-18.

Working capital was $58.03m at 30 June 2018 (2017, $54.10m). Cash and term deposits of $63.37m ($59.33m) included $1.37m ($1.30m) of financial assistance grants received in advance and $39.77m ($38.79m) subject to external and/or internal restrictions or set aside for specific purposes.

Clarence City Council spent $19.43m on property, plant and equipment during 2017-18 ($20.09m), with $9.78m expended on renewals and $10.31m spent on new or upgrades of existing assets. Clarence City Council had budgeted to spend $19.75m on capital works in 2017-18.

Clarence City Council completed Stage 1 of the implementation of the new cloud based TechnologyOne system in 2017-18. General Ledger, Human Resources and Asset Register modules of the new system went live from 1 August 2017.

In 2017-18, Clarence City Council sold 20% of units held in the Copping C Cell Unit Trust (the Trust) to Kingborough Council for $0.32m. Clarence City Council also provided a $2.40m loan to the Trust for the development of the Copping C Cell.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any high or moderate risk audit findings. We raised one low risk audit finding.

Three matters arising from the prior year audit were satisfactorily resolved during the course of this year's audit, with the remaining items currently being addressed.

OTHER MATTERS OF INTEREST

Investment in Copping C Cell Project

In 2017-18, Clarence City Council sold 20% of its units in the Copping C Cell Unit Trust (the Trust) to Kingborough Council for $0.32m. The sale of units reduced the interest held by Clarence City Council in the Trust from 40% to 32%. In addition, Clarence City Council provided a $2.40m loan to the Trust for the development of the Copping C Cell.

ICT Core Business Systems Implementation

Clarence City Council completed Stage 1 of the implementation of the new cloud based TechnologyOne system in 2017-18. General Ledger, Human Resources and Asset Register modules of the new system went live from 1 August 2017. Stages 2 and 3 of the implementation of new system, including Property and rating modules, Contracts Management, Content Manager and remaining modules, are scheduled in 2018-19.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 9 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 9: Clarence City Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	48 168	●	46 251	●	44 629	●	44 091	●
Grants	5 449	●	5 697	▲	5 180	●	5 079	●
Expense								
Employee benefits	17 626	▼	16 624	●	16 354	●	15 691	▼
Materials and services	12 160	●	11 895	▲	12 664	▼	11 426	●
Depreciation	12 322	●	12 674	●	12 135	●	11 668	▼
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	7 854	▲	4 803	▲	1 939	▼	4 322	▲
Financial assistance grants in advance	66	▼	1 300	▲	(1 311)	▼	1 311	▲
Capital and other excluded items	13 242	▲	10 680	▼	14 012	▼	106 558	▲
Net surplus (deficit)	21 162	▲	16 783	▲	14 640	▼	112 191	▲
Financial position[1]								
Cash and deposits	63 369	▲	59 328	●	58 384	▲	55 824	●
Property, plant and equipment[2]	540 836	●	532 694	●	513 430	●	496 968	▲
TasWater investment	169 874	●	167 697	●	166 605	●	163 816	●

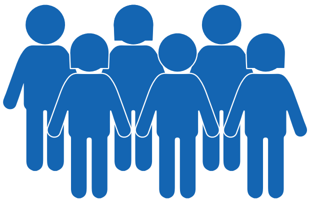
	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Employee provisions	(4 821)	▼	(4 393)	●	(4 539)	●	(4 503)	▼
Borrowings	0	▲	(191)	▲	(371)	▲	(542)	▲
Net assets	774 762	●	758 169	●	735 547	●	715 895	▲
Key financial ratios								
Underlying surplus ratio	11.9%	▲	7.6%	▲	3.2%	▼	7.2%	▲
Own source revenue	91.7%	●	90.3%	●	91.5%	●	91.6%	●
Net financial liabilities ratio[3]	86.3%	●	83.7%	●	85.2%	●	84.6%	▲
Asset consumption ratio - roads	45.2%	▼	49.0%	▼	46.0%	●	48.0%	●
Asset renewal ratio[4]	95.7%	●	98.0%	▼	104.0%	●	106.0%	●
Asset sustainability ratio	79.4%	●	80.0%	▼	88.0%	●	92.0%	▲

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

DEVONPORT CITY COUNCIL

OVERVIEW



Population
25 317 people

Geographic Size
111 square kilometres

Employees
142 full time equivalents at 30 June 2018

Rateable Properties
12 385

Road Length
269 kilometres

Infrastructure Assets: Roads, bridges, drainage
$208.16m

KEY RESULTS AND DEVELOPMENTS

Devonport City Council's Underlying surplus was $1.51m in 2017-18, up on last year's surplus of $1.22m.
Overall, Devonport City Council reported a Net surplus of $10.63m in 2017-18 (2016-17, $8.09m), primarily due to capital grants received, $8.68m.
Capital grant funding of $8.68m was received in 2017-18 ($3.10m). The main projects funded were the Living City project, $7.50m and Roads to Recovery, $0.90m.
Working capital was a deficit of $45.99m at 30 June 2018 (2017, deficit $8.45m) due to classification of borrowings as current liabilities based on the loans being subject to an annual review by the lender. Net current assets were insufficient to cover borrowings if they were to be repaid in full within 12 months. Council believes that it is highly probable that the borrowings will be refinanced and will not be repaid in full within 12 months.
In 2017-18 Devonport City Council spent $45.89m ($28.91m) on payments for Property, plant and equipment, which consisted of $5.03m on renewal and $40.86m on new or upgrades of assets. Of this, $36.80m was spent on the Living City project and $4.47m on roads.
During the year Devonport City Council drew down an additional $26.19m in borrowings to fund construction of Living City project, with borrowings totalling $45.16m as at 30 June 2018 ($19.74m). Council borrowings are subject to an annual review, as a result all borrowings are classified as current liabilities.

AUDIT FINDINGS

In performing our audit, we did not identify any significant deficiencies in internal control. One moderate rated matter was reported relating to computer information system controls and one low rated matter was noted.

OTHER MATTERS OF INTEREST

Living City Project

The Devonport Living City project is a 10 year urban rejuvenation project to invigorate the Devonport Central Business District providing opportunity for the hospitality, retail and tourism sectors. The project comprises three stages with an estimated cost of $270.00m, which will be funded by the Tasmanian and Australian Governments and Devonport City Council.

Stage 1 budgeted costs were $71.10m, funded by $10m from the Australian Government, $13m from the Tasmanian Government, $11m from Devonport City Council's cash reserves, with the remaining costs funded by external borrowings. Total Stage 1 costs as at 30 June 2018 were $61.58m, and the project was almost complete.

Significant Living City development transactions during 2017-18 included:

- receipt of grant funding of $7.50m from the National Stronger Regions Fund
- completion of the multi-level car park December 2017, with a cost of $13.10m
- capital expenditure of $36.80m
- total capital work in progress of $48.48m recognised at 30 June 2018.

Maternity Hospital

Devonport City Council purchased the former maternity hospital on Don Road in September 2017 for $0.95m. The Tasmanian government provided a grant of $0.92m to meet the costs of demolition, returning the property to a greenfield site.

Tenders were sought for the demolition, with the contract awarded in October 2017. Demolition was completed during 2017-18, with costs of $0.92m included as a Materials and services expense.

With the site remediated, Devonport City Council elected to dispose of the land. An independent valuation of the land was provided to Devonport City Council in March 2018, indicating the site was worth $0.63m. The land was subsequently listed for sale and an offer of $0.67m received June 2018. The sale is due to be finalised during 2018-19. As the carrying value of the land less costs to sell was higher than the written down value, the land was revalued downwards, with a revaluation decrement of $0.41m realised at 30 June 2018.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 10 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 10: Devonport City Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	27 327	●	27 334	●	26 458	●	26 351	●
Grants	3 161	▲	2 180	●	2 267	●	2 300	●
Expense								
Employee benefits	11 647	●	11 441	●	11 389	●	11 585	●
Materials and services	15 199	▼	14 431	●	13 705	▼	12 797	●
Depreciation	8 427	●	8 393	●	8 666	●	8 702	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	1 508	▲	1 225	▼	3 023	●	2 334	▲
Financial assistance grants in advance	55	▼	1 020	▲	(981)	▼	981	▲

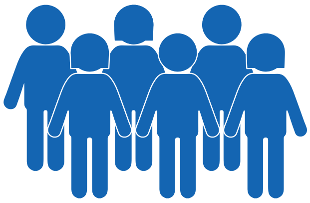
	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Capital and other excluded items	10 570	▲	5 843	▲	560	▼	4 491	▲
Net surplus (deficit)	10 625	▲	8 088	▲	2 602	▼	7 806	▲
Financial position[1]								
Cash and deposits	16 442	●	16 125	●	16 975	▼	18 658	▲
Property, plant and equipment[2]	495 425	●	454 167	●	425 250	●	417 608	▲
TasWater investment	87 345	●	86 226	●	85 664	●	84 231	●
Employee provisions	(2 540)	●	(2 577)	●	(2 601)	●	(2 603)	●
Borrowings	(45 159)	▼	(19 738)	●	(20 507)	●	(21 492)	▼
Net assets	541 771	●	523 751	●	508 124	●	489 923	▲
Key financial ratios								
Underlying surplus ratio	3.7%	▲	3.1%	▼	7.7%	▲	6.0%	▲
Own source revenue	92.2%	●	94.5%	●	94.2%	●	94.0%	●
Net financial liabilities ratio[3]	(90.3%)	▼	(23.3%)	▼	(19.3%)	▼	(17.8%)	▲
Asset consumption ratio - roads	45.2%	●	45.2%	●	45.4%	●	45.7%	●
Asset renewal ratio - roads[4]	95.6%	▼	103.5%	▲	97.7%	●	103.1%	▲
Asset sustainability ratio	59.6%	▼	66.5%	▲	58.1%	▲	42.5%	▼

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

GLENORCHY CITY COUNCIL

OVERVIEW



Population
46 790 people

Geographic Size
121 square kilometres

Employees
237 full time equivalents at 30 June 2018

Rateable Properties
21 222

Road Length
367 kilometres

Infrastructure Assets: Roads, bridges, drainage
$421.03m

KEY RESULTS AND DEVELOPMENTS

Glenorchy City Council's Underlying surplus was $0.09m in 2017-18, which was $0.51m worse than the prior year's surplus of $0.60m.
Council reported a Net deficit of $10.44m in 2017-18 (2016-17, $0.67m). The Net deficit in the current year included $15.90m of assets written off, primarily due to the decommissioning of the Derwent Park Stormwater Reuse Scheme (Scheme), which included buildings and other land improvements $2.02m, and storm water and drainage assets of $11.00m.
Working capital was a surplus of $3.96m at 30 June 2018 (2017, $4.19m). Cash and short-term investments totalled $14.14m ($11.59m), which included $1.21m ($1.17m) of financial assistance grants received in advance.
Council spent $12.07m on Property, plant and equipment in 2017-18 ($15.63m), $6.95m for renewal and $5.12m for new or upgrades of assets compared to an original capital budget of $12.98m. In 2017-18, $6.07m ($10.20m) was spent on the transport network.
Council revalued its land and buildings and other land improvement assets at 30 June 2018, resulting in a net revaluation increment of $7.27m to land and a net revaluation decrement of $5.60m to buildings. The net revaluation decrement to buildings and other land improvements was primarily due to the decrement to the Derwent Entertainment Centre (DEC), $5.20m. The decrement was due to the current replacement cost being written down due to economic obsolescence.

AUDIT FINDINGS

In performing our audit, we identified two moderate risk deficiencies in internal control relating to:

- the absence of a policy for the management of employee support benefits
- the robustness of the calculation for the provision for the tip restoration costs.

Two high risk and four moderate risk prior findings were still being addressed by Council management.

OTHER MATTERS OF INTEREST

Council election

Following the introduction of the *Glenorchy City Council (Dismissal of Councillors) Act 2017*, a notice of election for a new Council was issued on 25 November 2017 with polling closing on 16 January 2018. On 18 January 2018, Ms Kristie Johnson was appointed Mayor and Mr Matt Stevenson was appointed Deputy Mayor. Six new aldermen were appointed, with two previous aldermen returned.

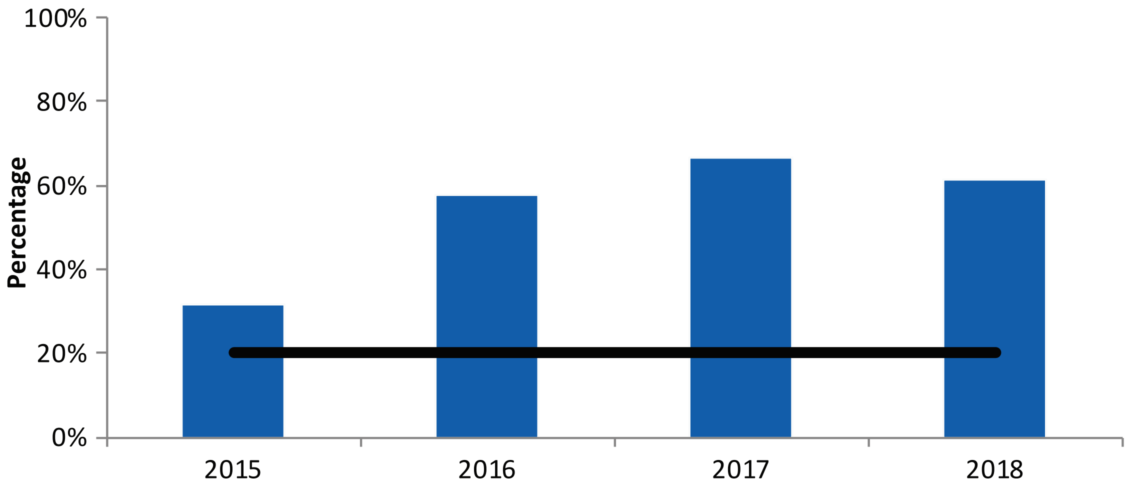
Council's financial position

During 2018 public attention was drawn to Council's financial position with concerns expressed over solvency and structural deficits. In addition, a number of future contingencies had been identified. To address future viability risk, Council resolved to increase rates for 2018-19 by 12.5%. In this section, we have considered a number of measures to examine Council's viability. These measures cover solvency, liquidity and budget position.

Solvency

Council's solvency ratio over the past four years averaged 54.4% as shown in Figure 15. This ratio, calculated as underlying surplus excluding depreciation over total liabilities, measured the ability of Council to meet its long-term debts. A solvency ratio higher than the benchmark of 20% indicated Council was solvent.

Figure 15: Solvency ratio



Liquidity

A cash expense cover ratio was calculated to assess whether the level of unrestricted cash held by Council was appropriate. In determining the level of cash held, we excluded cash subject to external restrictions, unexpended specific purpose grants and grant funds received in advance to arrive at an unrestricted cash balance.

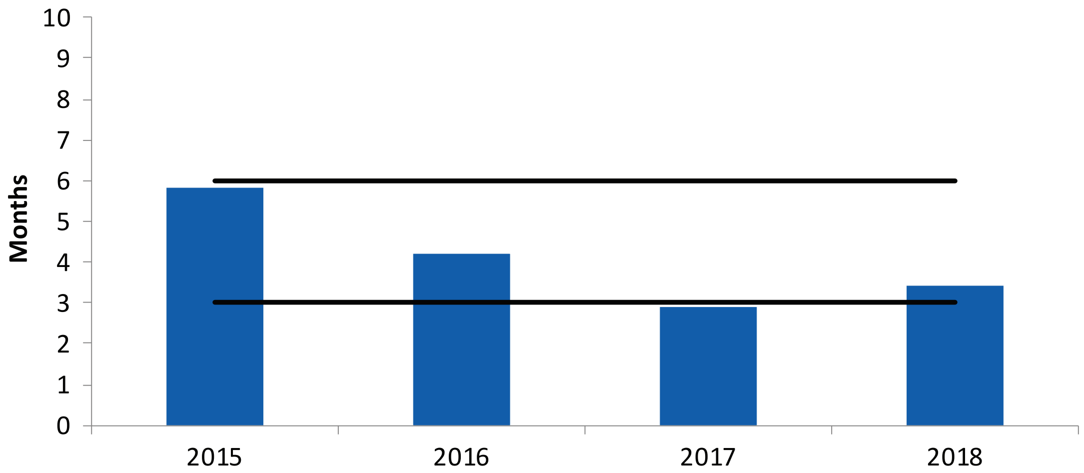
The cash expense cover ratio compared the unrestricted cash balance against the total payments for operating and financing activities from the cash flow statement, as the cash flow statement is more reflective of the actual movements in cash. The ratio represented the number of months a council can continue operating based on current monthly expenditure. The ratio does not take into consideration capital expenditure requirements.

The following benchmarks were adopted by the Office to assess the adequacy of cash balances held:

- less than three months – level of cash considered less than adequate
- three to six months – level of cash considered adequate
- six to 12 months – level of cash considered more than adequate
- greater than 12 months – level of cash considered much more than adequate.

Figure 16 shows Council's Cash expense cover ratio for the last four years.

Figure 16: Cash expense cover ratio



As depicted in Figure 16, Council's cash expense cover ratio over the last four years averaged 4.10 months, which fell in the range we consider as adequate. We are aware that Council had identified some contingencies such as closure of the Derwent Park Stormwater Reuse Scheme (refer to section later in this Chapter), ongoing losses at the Derwent Entertainment Centre and completion of the KGV redevelopment. In a worst case sense, such contingencies could result in Council's Cash expense cover ratio falling to below three months.

We have also looked at Council's Net financial liabilities ratio which indicates the extent to which net liabilities could be met by operating income.

As shown by Figure 17, Council's ratio deteriorated over the last four years. Despite this, it remained within our benchmark of 0%-(50%) which indicated Council could meet short and long-term obligations. We also determined that Council had further capacity to borrow, as supported by the Interest cover ratio being well in excess of our benchmark of 2.0 as shown in Figure 18.

Figure 17: Net financial liabilities ratio

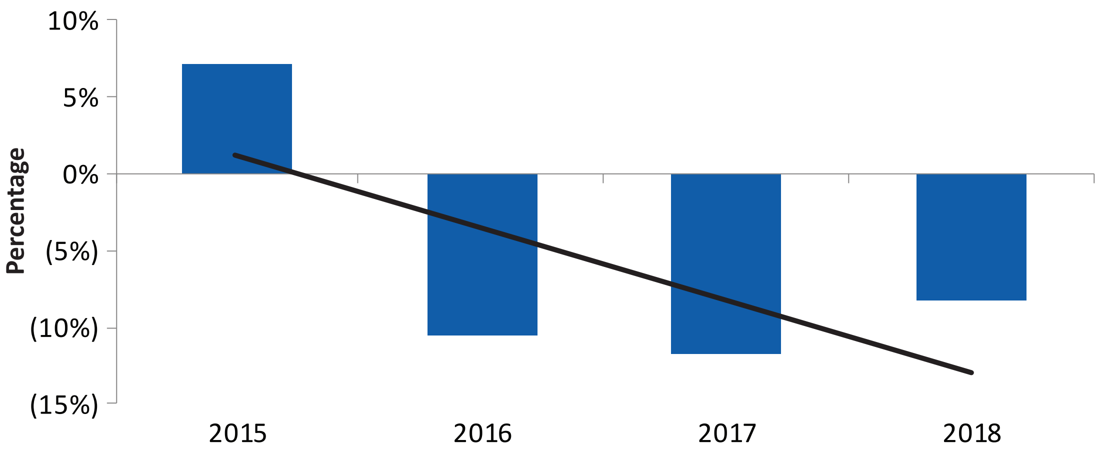
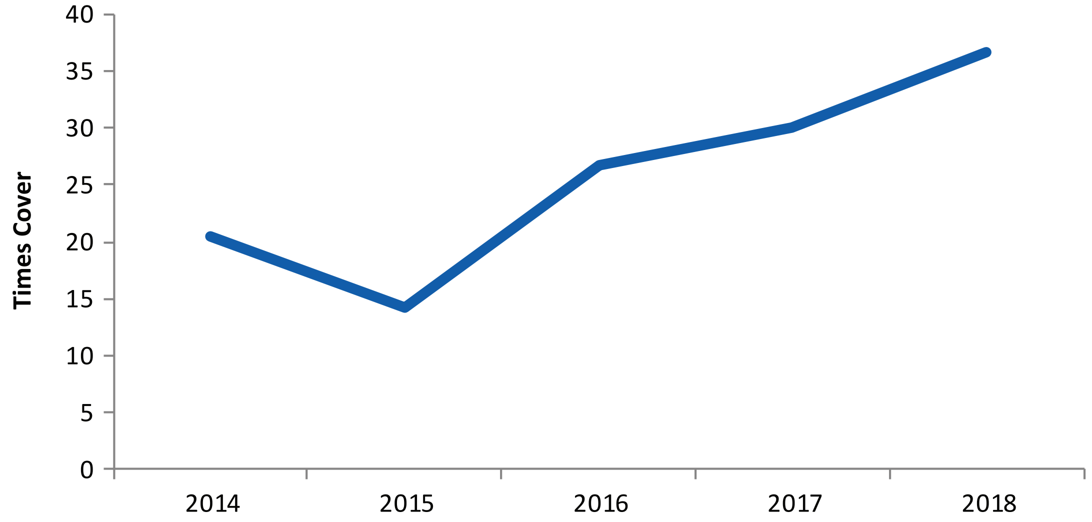


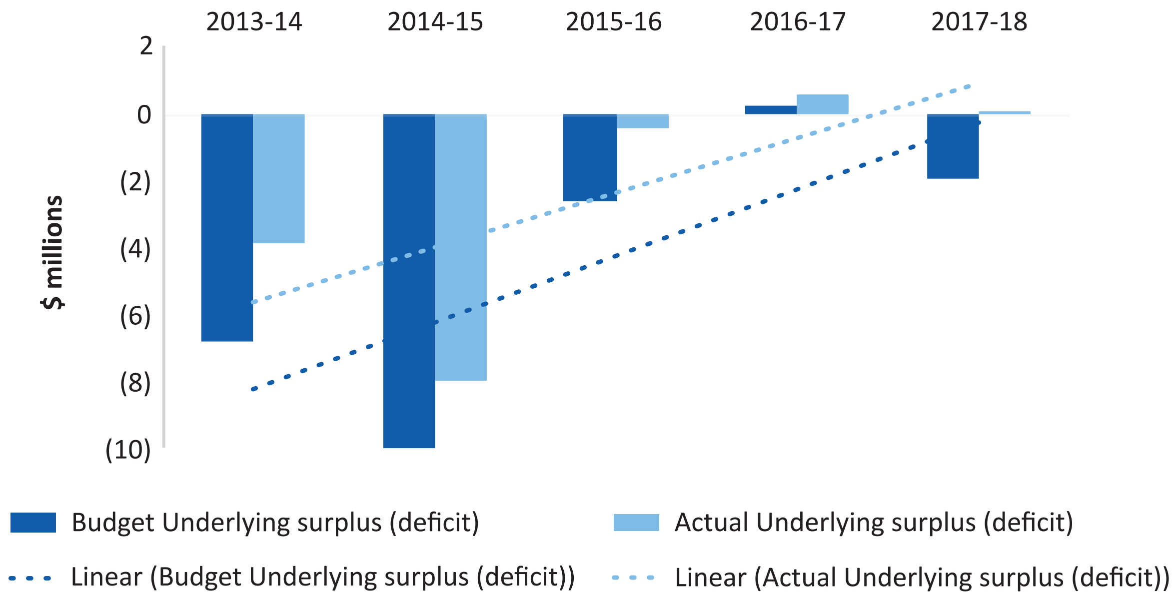
Figure 18: Interest cover ratio



Budget position

In this part we have examined Council's budgeted and actual underlying results over the last five years. As can be seen from Figure 19, the overall trend is Council moving from underlying deficits to small underlying surpluses.

Figure 19: Budget position and underlying results

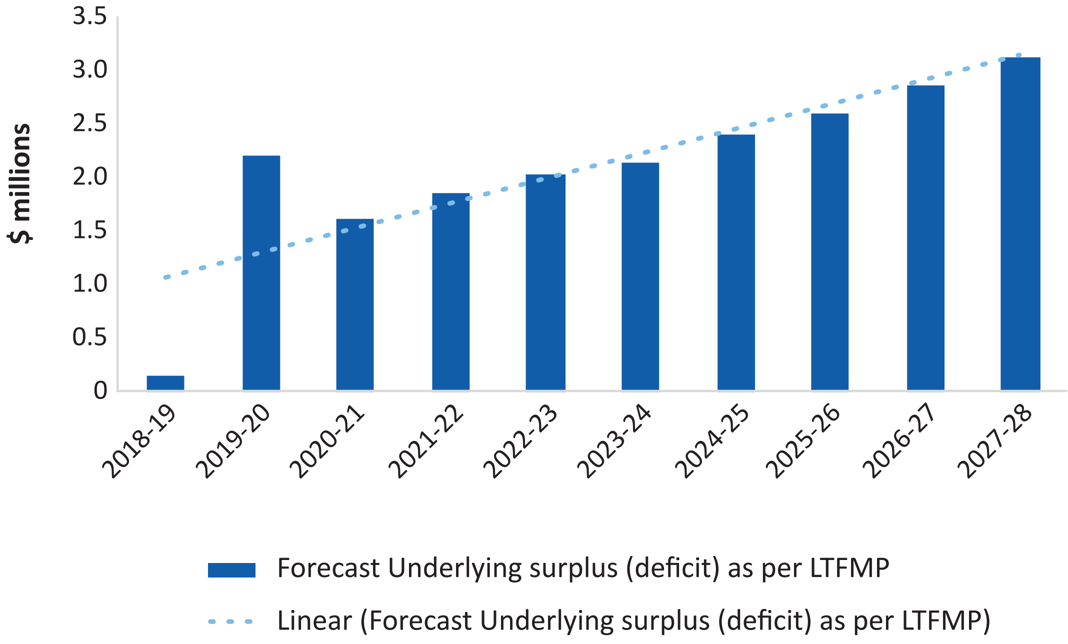


Council budgeted for significant deficits in 2013-14 and 2014-15 and a small deficit in 2015-16. Council's budget position improved in 2016-17 where a small surplus was expected. However, in 2017-18 the position deteriorated with an underlying deficit of $1.90m expected.

Figure 19 shows Council's Underlying surplus result was positive in the last two years, which suggests that Council had improved its position in relation to this measure of sustainability.

Figure 20 illustrates Council's underlying results as forecast by its Long-Term Financial Management Plan. Based on the plan, Council expects to consistently produce underlying surpluses into the future.

Figure 20: Long-term financial management plan (LTFMP) (unaudited)



Overall, based on our analysis, at 30 June 2018 Council could meet its long-term debts, had sufficient cash to meet expenses, had some capacity to borrow if the need arose and had steadily improved its underlying results which, was expected to continue into the future. We acknowledge Council had identified a number of possible contingencies which, in a worst case sense, could negatively impact its position past 30 June 2018. While Council could potentially leverage off its capacity to borrow to meet some contingencies, for example those arising from closure of the Derwent Park Stormwater Resuse Scheme, this would negatively impact its cash expense ratio and underlying results.

New finance system

Council implemented a new cloud based version of the finance and payroll system, effective 1 July 2017. The property and rating system went live from May 2018. The new finance system replaced the legacy five ledgers (works, property, fleet, general and primary) with two ledgers (project/works and general). A new chart of accounts was also implemented.

An external consultant was responsible for project and change management.

Derwent Park Stormwater Reuse Scheme

Stage one of the Derwent Park Stormwater Reuse Scheme (the Scheme) was commissioned on 29 August 2013 and stage two was commissioned on 17 August 2015. After additional testing and defect rectification, the entire Scheme moved to its operational phase from 1 July 2016. The construction cost of the Scheme was $21.25m, of which $9.25m was received from the Commonwealth Department of Environment and $12.00m was contributed by Council.

The main objectives of the Scheme were to:

- mitigate the impacts of flooding in the Derwent Park area during heavy rain events
- reduce the amount of pollutants entering into the receiving waterbody and to offset potable water use by harvesting and treating stormwater collected from the Derwent Park/ Springfield catchment, Humphreys Rivulet and underground aquifers for industrial and irrigation reuse purposes.

Council approved the closure of the Scheme on 28 May 2018 due to it making losses. Assets associated with the Scheme were written-off or written-down in 2017-18, including Buildings and other land improvements, $2.02m, and Stormwater and drainage assets, $11.00m. The assets included sheds, electrical items, power supply fittings, switchboards, instrumentation controls, valves and fittings, bores, wells and storage structures.

Council conducted an independent valuation to determine the market value and residual value of the Scheme prior to it being decommissioned.

Council had commenced preparing a business case for submission to the Commonwealth Department of Environment to assist in determining whether any repayment of funding would be required to be made by Council. The business case is expected to be submitted during the second quarter 2018-19.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 11 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 11: Glenorchy City Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	35 531	●	34 582	▲	32 727	▲	31 153	●
Grants	3 234	●	3 150	●	3 155	●	3 241	●
Expense								
Employee benefits	21 238	●	20 561	●	19 728	▲	21 884	▼
Materials and services	15 373	●	15 780	▼	14 190	▲	16 070	▼
Depreciation	12 822	●	12 494	●	12 882	▲	15 250	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	87	▼	603	▲	(404)	▲	(7 941)	▼
Financial assistance in advance	33	▼	1 172	▲	(1 167)	▼	1 167	▲
Capital and other excluded items	(10 564)	▼	(2 450)	▼	147 062	▲	1 882	▲
Net surplus (deficit)	(10 444)	▼	(675)	▼	145 491	▲	(4 892)	▼
Financial position[1]								
Cash and deposits	14 144	▲	11 591	▼	14 374	▼	22 692	▼
Property, plant and equipment[2]	689 681	●	690 295	●	714 133	▲	513 553	●
TasWater investment	167 145	●	165 003	●	163 928	●	161 184	●
Employee provisions	(5 797)	●	(5 609)	▼	(5 294)	▲	(5 764)	●
Borrowings	(4 259)	▲	(5 169)	▲	(6 020)	▲	(6 815)	▲
Net assets	852 593	●	849 418	●	874 133	▲	679 984	●
Key financial ratios								
Underlying Surplus Ratio	0.2%	▼	1.1%	▲	(0.8%)	▲	(15.6%)	▼
Own source revenue	94.1%	●	94.2%	●	93.9%	●	93.6%	●
Net financial liabilities ratio[3]	(8.3%)	▲	(11.7%)	▼	(10.6%)	▼	7.1%	▼
Asset consumption ratio - roads	54.4%	●	55.0%	●	54.4%	▲	45.4%	●
Asset renewal ratio - roads[4]	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	54.3%	●	89.5%	●	89.1%	▲	61.8%	●

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

HOBART CITY COUNCIL

OVERVIEW

Population
52 191 people

Geographic Size
78 square kilometres

Employees
596 full time equivalents at 30 June 2018

Rateable Properties
24 297

Road Length
312 kilometres

Infrastructure Assets: Roads, bridges, drainage
$324.10m

KEY RESULTS AND DEVELOPMENTS

Hobart City Council's Underlying surplus was $3.70m in 2017-18, an improvement on last year's surplus of $1.14m.
Hobart City Council reported a Net surplus of $11.92m in 2017-18 (2016-17, $8.52m). This included contributions of non-monetary assets, $5.26m, capital grants received, $3.50m, and 2018-19 financial assistance grant received in advance, $1.38m.
Working capital was a surplus of $9.94m at 30 June 2018 (2017, $13.97). Cash and term deposits totalled $31.84m ($33.05m), which included $1.38m of advance financial assistance grants.
The Property, plant and equipment revaluation increase in 2017-18 was $48.34m ($86.14m). The revaluation increment in 2017-18 mainly related to land, whereas the 2016-17 increment mainly related to land, roads and bridges.
Hobart City Council spent $43.28m on payments for Property, plant and equipment in 2017-18 ($31.27m). Of this, $15.35m ($10.22m) was on roads and bridges. The original capital budget was $45.13m.
The defined benefit superannuation asset increased by $3.52m and resulted in a net superannuation asset of $4.07m. The increase in the asset was mainly due to changes in financial assumptions, with the largest impact related to a higher return achieved on scheme assets in 2017-18.

AUDIT FINDINGS

In performing our audit we identified one moderate rated issue relating to Council using contract rates to value roads assets, rather than using road component unit rates reflective of capital works performed by both Council and contractors.

One high and two low to moderate risk rated findings were outstanding and Hobart City Council management agreed to address these matters in 2018–19.

OTHER MATTERS OF INTEREST

Natural disaster event

Hobart City Council experienced significant damage across the municipality during major flooding in May 2018. Emergency and clean-up costs incurred to the end of June 2018 were $1.32m.

Additional work was undertaken subsequent to the end of the financial year to quantify the financial impacts. As at the 28 September 2018, the following had been identified:

- Damage occurred to 14 of Hobart City Council's insured assets.
- Damage and clean-up costs to essential assets such as roads, footpaths, storm water infrastructure, bridges and tunnels was estimated to be $13.10m, of which 75.0% of eligible expenditure may be recovered through Tasmanian and Australian Government NDDRA.
- Repair costs to non-essential assets such as bushland tracks, trail networks, parks and sportsgrounds was estimated to be $3.20m, with recovery assistance up to 75.0% of eligible expenditure available through the Community Recovery Fund up to $2.40m (plus a 15.0% contingency).
- Eligibility for reimbursement of eligible repair costs for McRobies Gully Waste Management Centre will be subject to a determination, with repair costs estimated to be $1.60m.
- An insurance claim was expected to be lodged for damage that occurred to insured assets.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 12 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 12: Hobart City Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	82 187	●	78 241	●	75 078	●	73 933	●
Grants	3 267	▼	4 045	▼	4 343	▲	3 370	●
Expense								
Employee benefits	54 360	●	52 753	●	51 589	●	51 018	●
Materials and services	33 950	●	34 427	▼	28 978	▲	31 670	▼
Depreciation	20 361	▼	19 228	●	18 444	▼	17 450	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	3 695	▲	1 137	▼	2 334	▼	3 839	▼
Financial assistance grants in advance	64	▼	1 318	▲	(1 349)	▼	1 349	▲
Capital and other excluded items	8 164	▲	6 063	▼	690 985	▲	10 041	▲
Net surplus (deficit)	11 923	▲	8 518	▼	691 970	▲	15 229	▲
Financial position[1]								
Cash and deposits	31 844	●	33 051	▼	36 305	▼	40 709	▲
Property, plant and equipment[2]	1 603 616	●	1 531 174	▲	1 434 219	▲	730 673	●
TasWater investment	166 823	●	164 686	●	163 612	●	160 874	●
Employee provisions	(15 199)	▼	(14 393)	●	(13 875)	●	(13 797)	●

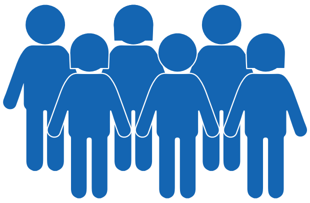
	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Borrowings	(20 211)	▼	(11 693)	▲	(13 097)	▲	(14 428)	▲
Net assets	1 759 500	●	1 693 121	▲	1 592 630	▲	889 563	●
Key financial ratios								
Underlying surplus ratio	2.9%	▲	0.9%	▼	1.9%	▼	3.3%	▼
Own source revenue	97.5%	●	96.8%	●	96.4%	●	97.1%	●
Net financial liabilities ratio[3]	(12.3%)	▼	(4.2%)	▲	(5.5%)	▼	(2.3%)	▲
Asset consumption ratio - roads	44.8%	●	45.5%	●	46.1%	●	47.0%	●
Asset renewal ratio - roads[4]	100.0%	●	100.0%	●	100.0%	●	100.0%	▲
Asset sustainability ratio	136.4%	▲	106.8%	▼	128.9%	●	134.0%	▲

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

KINGBOROUGH COUNCIL

OVERVIEW



Population
36 734 people

Geographic Size
720 square kilometres

Employees
182 full time equivalents at 30 June 2018

Rateable Properties
16 903

Road Length
544 kilometres

Infrastructure Assets: Roads, bridges, drainage
$330.02m

KEY RESULTS AND DEVELOPMENTS

Council's Underlying surplus was $0.41m in 2017-18, an improvement on last year's deficit of $0.89m.
Total Rates and fire levies revenue increased by $1.45m from 2016-17, representing an increase of 5.7%.
Overall, Council reported a Net surplus of $9.38m in 2017-18 (2016-17, $4.49m). This included contributions of non-monetary assets, $7.96m, capital grants received, $1.42m, and the 2018-19 financial assistance grant received in advance, $1.11m.
Working capital was a surplus of $2.84m at 30 June 2018 (2017, $3.92m). Cash of $10.19m held ($9.57m) included $1.11m ($1.05m) of advance financial assistance grants and $1.87m ($1.42m) of trust funds and deposits held.
Council expended $16.38m on Property, infrastructure, plant and equipment during 2017-18. Of this, $12.11m was spent on infrastructure, with $6.01m of the expenditure on the renewal of existing assets, and $6.10m on new/upgraded assets, including $3.58m on Kingston Park. The balance of capital expenditure, $4.27m, was on various plant and land and buildings.
Council was successful in gaining approval for $7.20m of loan funding under the Accelerated Local Government Capital Program. The Kingston Park project was allocated $6.00m of the funding, with the remaining $1.20m allocated for street lighting. At 30 June 2018, Council had drawn down $2.70m of the loan for the Kingston Park project.

AUDIT FINDINGS

The audit was completed with no significant deficiencies in internal control identified.

OTHER MATTERS OF INTEREST

Investment in C cell Unit Trust

During 2017-18 Council purchased equity in C Cell Unit Trust. Council acquired 8 of the 100 issued units, representing an 8% ownership interest, from Clarence City Council for $0.32m.

Kingston Park development

Council commenced developing a 11.3 hectare site (former Kingston High School), known as Kingston Park, with a primary objective of encouraging and complementing future sustainable development of the whole of central Kingston and Kingborough. The development will include a mix of commercial and residential uses, together with public open space and community and cultural facilities. About one-third of the site's area will be utilised by each of these generic land uses – that is, one third is to be sold for residential or commercial use, one third is to be retained for public open space and one third is to be used for community use and public infrastructure.

The total budget for the development is $23.00m, with funding for the project sourced from:

- a grant of $2.80m under the Australian Government's Building Better Regions Fund
- an approved interest-free loan of $6.00m
- the sale of land, which is still under negotiation.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 13 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 13: Kingborough Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	26 758	▲	25 310	▲	24 015	▲	22 898	●
Grants	3 444	▼	3 771	●	3 879	▼	4 110	▲
Expense								
Employee benefits	14 961	●	14 646	●	14 265	▼	13 223	▼
Materials and services	9 218	●	9 182	●	9 458	●	9 409	▲
Depreciation	9 683	▼	9 213	▼	8 560	▼	6 977	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	413	▲	(894)	▲	(2 164)	▼	(1 344)	▼
Financial assistance grants in advance	60	▼	1 049	▲	(1 007)	▼	1 007	▲
Capital and other excluded items	8 908	▲	4 333	▼	10 330	▲	1 045	▼
Net surplus (deficit)	9 381	▲	4 488	▼	7 159	▲	708	▼
Financial position[1]								
Cash and deposits	10 194	▲	9 571	▲	7 407	▼	10 557	▲
Property, plant and equipment[2]	527 987	▲	500 788	▲	472 098	▼	504 229	▲
TasWater investment	94 892	●	93 676	●	93 066	●	91 508	●
Employee provisions	(2 791)	▼	(2 619)	●	(2 544)	▼	(2 468)	▼
Net assets	624 273	●	599 053	▲	566 712	▼	599 809	●

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Key financial ratios								
Underlying surplus ratio	1.0%	▲	(2.3%)	▲	(6.0%)	▼	(4.0%)	▼
Own source revenue	91.5%	●	90.2%	●	89.3%	●	88.4%	●
Net financial liabilities ratio[3]	(1.2%)	▼	8.8%	▲	1.6%	▼	9.1%	▲
Asset consumption ratio - roads	51.0%	●	51.0%	●	53.0%	▼	62.0%	●
Asset renewal ratio - roads[4]	80.0%	▼	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	81.0%	▲	69.0%	●	70.0%	▲	64.0%	▼

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

LAUNCESTON CITY COUNCIL

OVERVIEW

Population
67 004 people

Geographic Size
1 411 square kilometres

Employees
440 full time equivalents at 30 June 2018

Rateable Properties
32 362

Road Length
752 kilometres

Infrastructure Assets: Roads, bridges, drainage
$753.52m

KEY RESULTS AND DEVELOPMENTS

Launceston City Council's Underlying surplus was $3.30m in 2017-18, an improvement on last year's surplus of $1.26m.
Overall, Launceston City Council reported a Net surplus of $16.68m in 2017-18 (2016-17, $131.19m), which included capital grants and contributions revenue of $16.12m. Last year's Net surplus included the initial recognition of land under roads acquired before 2008 of $124.33m.
Working capital was a surplus of $61.55m at 30 June 2018 (2017, $48.57m). Investments of $68.21m ($68.61m) included $44.86m of restricted and committed funds.
In 2017-18 Launceston City Council spent $32.98m ($31.55m) on payments for Property, plant and equipment, compared to a capital budget of $26.55m. Property, plant and equipment additions recognised in 2017-18 included $15.02m on renewal and $15.86m on new or upgrades of assets.
Capital grant revenue of $14.49m was recognised in 2017-18 (2016-17, $4.36m). The main projects funded were North Bank Master Plan, $4.60m, Civic Square redevelopment $3.75m, and the final instalment for the Invermay Flood Protection Enhancement project, $2.00m.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control. One moderate rated matter was raised relating to the reconciliation processes for Council's parking cash collections.

There was one unresolved prior year finding, which was still being addressed by Council.

OTHER MATTERS OF INTEREST

Launceston City Deal

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

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

Key activities and achievements during 2017-18 included:

- City Deal partners settled their contributions to the UTAS relocation project during 2017-18. On 16 January 2018, the Australian Government announced its agreement with UTAS to provide $130.00m contribution. On 25 January 2018, the Tasmanian Government settled its funding agreement with UTAS to provide $60.00m. The Launceston City Council transferred the land for the Inveresk site to UTAS. Total funding committed by Council was $5.40m (land value). As at 30 June 2018, Council had disposed of $3.03m, as its contribution to the redevelopment, being land at Willis Street Carpark and at Inveresk
- Launceston City Council was successful in gaining approval for $19.50m of loan funding under the ALGCP. At 30 June 2018, Launceston City Council had drawn down $9.00m of the loan funding to commence work on the CH Smith site redevelopment. The approved loan funds have been allocated to the following projects:
    - CH Smith building, $9.00m
    - Brisbane Street Mall redevelopment, $5.80m
    - St John Street redevelopment, $4.20m
    - Cataract Gorge upgrade, $0.50m.

  Council expended the following amounts on these projects during 2017-18:
    - CH Smith site redevelopment, $2.00m
    - Brisbane St Mall redevelopment, $0.92m
    - St John Street redevelopment, $0.22m
    - Cataract Gorge upgrade, $0.20m.
- In addition to the Brisbane St Mall and St John St redevelopments noted above, Council expended the following amounts on City Heart projects during 2017-18:
    - Civic Square redevelopment, $4.70m
    - Way-finding signage and Wi-Fi, $0.09m (budget $1.30m). The final design has since been completed, with roll-out expected to occur during 2018-19.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 14 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 14: Launceston City Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	65 115	●	63 568	●	62 324	●	60 161	●
Grants	8 443	▲	7 581	●	7 717	●	7 719	▲
Expense								
Employee benefits	39 806	●	38 446	●	38 121	●	36 948	●
Materials and services	35 211	●	35 810	▼	31 967	●	31 835	●
Depreciation	20 090	●	20 007	●	19 440	●	19 008	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	3 297	▲	1 261	▼	2 288	▲	(345)	▲
Financial assistance grants in advance	70	▼	2 104	▲	(2 098)	▼	2 098	▲
Capital and other excluded items	13 309	▼	127 820	▲	27 792	▲	7 653	▼
Net surplus (deficit)	16 676	▼	131 185	▲	27 982	▲	9 406	▼
Financial position[1]								
Cash and deposits	68 635	▼	71 082	▲	65 747	▲	60 685	●
Property, plant and equipment[2]	1 346 914	●	1 299 929	▲	1 150 489	●	1 168 177	▲
Museum collection	237 624	●	237 491	●	237 112	●	236 035	●
TasWater investment	237 631	●	234 586	●	233 057	●	229 157	●
Employee provisions	(7 463)	▲	(7 646)	●	(7 565)	●	(7 435)	▼
Borrowings	(9 769)	▲	(12 126)	▼	(5 367)	▲	(7 500)	▲
Net assets	1 866 943	●	1 804 139	▲	1 653 653	●	1 659 872	▲
Key financial ratios								
Underlying surplus ratio	3.1%	▲	1.2%	▼	2.3%	▲	(0.4%)	▲
Own source revenue	92.2%	●	92.6%	●	92.4%	●	92.0%	●
Net financial liabilities ratio[3]	36.1%	▲	29.2%	▼	31.2%	▲	25.6%	▲
Asset consumption ratio - roads	66.2%	●	66.8%	●	67.6%	●	69.8%	▲
Asset renewal ratio - roads[4]	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	74.8%	▲	69.5%	▼	80.3%	▲	51.3%	▼

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

WEST TAMAR COUNCIL

OVERVIEW

Population
23 721 people

Geographic Size
691 square kilometres

Employees
99 full time equivalents at 30 June 2018

Rateable Properties
11 641

Road Length
467 kilometres

Infrastructure Assets: Roads, bridges, drainage
$162.54m

KEY RESULTS AND DEVELOPMENTS

West Tamar Council's Underlying surplus was $2.28m in 2017-18, a small improvement from the prior year's $2.10m result.

West Tamar Council reported a Net surplus of $6.65m in 2017-18 (2016-17, $35.75m). The surplus reported in the prior year included the initial recognition of land under roads acquired before 2008 totalling $28.98m.

Working capital was a surplus of $16.36m at 30 June 2018 (2017, $13.62m). Cash and term deposits of $18.79m ($15.23m) included $1.64m ($1.57m) of financial assistance grants for the next financial year received in advance.

West Tamar Council spent $10.41m on payments for Property, plant and equipment during 2017-18 ($7.06m) compared to a capital budget of $13.98m. An amount of $6.28m was spent on asset renewals with $4.13m spent on new assets or upgrades of existing assets

Capital grant funding of $3.17m was received in 2017-18 ($0.85m). The projects funded were the redevelopment of the Legana main road, $1.67m, the construction of a school and community oval at Riverside $0.60m, Road to Recovery $0.73m and other $0.17m.

West Tamar Council was successful in receiving approval for $2.20m of loan funding under the ALGCP. Two interest only loans for $1.70m and $0.50m were drawn down from Tascorp in December 2017, with both repayable in five years.

West Tamar and George Town Councils did not proceed with a pre-feasibility study into a possible merger between the two councils.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control. We did raise a moderate rated audit matter relating to suggested improvements to the review and approval of the Corporate Services Manager's credit card expenditure.

OTHER MATTERS OF INTEREST

Capital Grants

West Tamar Council signed a grant deed with the Tasmanian Government for funding of $2.80m for redevelopment of the Legana main road. In 2017-18, Council received the first two milestone payments, totalling $1.67m.

Council also signed a grant deed with the Commonwealth Government for the provision of funding of $1.00m relating to the construction of a school and community oval. In 2017-18, $0.60m of the funding was received.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 15 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 15: West Tamar Council financial snapshot

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Revenue								
Rates	17 561	▲	16 724	●	16 180	●	15 617	●
Grants	3 300	●	3 209	●	3 158	▲	2 884	▲
Expense								
Employee benefits	8 473	●	8 181	●	8 076	▼	7 599	●
Materials and services	7 421	●	7 081	▼	6 331	▼	6 055	●
Depreciation	5 493	●	5 334	●	5 316	●	5 081	●
Reconciliation from underlying surplus (deficit) to net surplus (deficit)								
Underlying surplus (deficit)	2 284	▲	2 102	▲	1 243	▼	1 584	▲
Financial assistance grants in advance	67	▼	1 572	▲	0	●	0	▲
Capital and other excluded items	4 297	▲	32 071	▲	4 742	▲	2 478	▲
Net surplus (deficit)	6 648	▼	35 745	▲	5 985	▲	4 062	▲
Financial position[1]								
Cash and deposits	18 791	▲	15 234	▲	10 965	▲	9 845	▼
Property, plant and equipment[2]	264 687	▲	250 328	▲	216 440	●	217 574	●
TasWater investment	56 999	●	56 269	●	55 902	●	54 967	●
Employee provisions	(2 022)	●	(2 039)	▲	(2 322)	●	(2 295)	●
Borrowings	(2 200)	▼	0	▲	(40)	▲	(117)	▲
Net assets	335 737	●	320 059	▲	282 030	●	280 376	●
Key financial ratios								
Underlying surplus ratio	8.9%	●	8.6%	▲	5.2%	▼	7.0%	▲
Own source revenue	87.1%	●	86.9%	●	86.7%	●	87.4%	●
Net financial liabilities ratio[3]	54.0%	●	54.0%	▲	39.0%	▲	33.0%	▼

	2017-18		2016-17		2015-16		2014-15	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Asset consumption ratio - roads	61.0%	●	62.0%	●	63.0%	●	63.0%	●
Asset renewal ratio - roads[4]	100.0%	●	100.0%	●	100.0%	●	100.0%	●
Asset sustainability ratio	114.0%	▲	70.0%	▼	75.0%	▼	99.0%	▲

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

1. *Assets are positive, liabilities are negative.*
2. *Property, plant and equipment includes work in progress, intangibles and investment properties.*
3. *A positive number indicates liquid assets in excess of total liabilities.*
4. *Asset renewal ratio was not subject to audit.*

AUDIT SUMMARY – RURAL COUNCILS

INTRODUCTION

This Chapter includes 19 Local Government council entities classified as “rural” as noted in the Executive Summary Chapter of this Report.

OVERVIEW

Population
155 436 people

Geographic Size
62 790 square kilometres

Employees
1 024 full time equivalents at 30 June 2018

Rateable Properties
103 848

Road Length
10 038 kilometres

Infrastructure Assets: Roads, bridges, drainage
$1.82bn

KEY RESULTS AND DEVELOPMENTS

The 19 rural councils recorded a combined Underlying surplus of $1.79m in 2017-18 down from last year’s $5.13m surplus. Significant deficits were recorded by Sorell and Flinders Councils ($2.61m and $1.59m respectively), which were partially offset by the significant surpluses recorded by Huon Valley Council, $1.53m, Meander Valley Council, $1.22m and Dorset Council, $0.94m.

The rural councils recorded a total Net surplus of $42.38m (2016-17, $61.70m). All councils recorded Net surpluses apart from Sorell and Flinders Councils. The higher Net surplus in 2016-17 was partly due to prepaid financial assistance grants of $23.32m. Without this, the total Net surplus would have been $38.38m. Rural councils received prepaid financial assistance grants in June 2018 of $23.97m, however, there was minimal impact on the overall Net surplus for 2017-18 due to the offsetting impact of the 2017 prepaid grants.

Working capital and Net assets for rural councils totalled $172.24m and $3.14bn, respectively. Working capital at 30 June 2018 was impacted by the receipt of prepaid financial assistance grants and new borrowings taken out as a result of the ALGCP.

At the date of this Report, rural councils were approved for loans totalling $25.83m under the ALGCP. Interest payments on these loans were eligible for reimbursement from Treasury, for a maximum period of five years, which made them an attractive financing option. At 30 June 2018, $21.06m of funding had been drawn down.

OTHER MATTERS OF INTEREST

Tasmanian population, as recorded by the Australian Bureau of Statistics – Regional Population Growth for rural councils, increased by 583, or 0.4%, from 2016-17 to 2017-18. Across the rural councils, populations of each municipal area varied considerably, ranging from Flinders' population of 943 to Meander Valley's population of 19 583. The rural councils' combined populations represented 29.8% of the total Tasmanian population, but covered 92.3% of the State's land area and 69.7% of council-owned roads in Tasmania.

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

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 16 provides a snapshot of key financial results for 2017-18 in comparison to prior years.

Table 16: Rural councils financial snapshot

	Underlying surplus (deficit)		Net surplus (deficit)		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind
Break O'Day	692	▲	3 344	▲	173 898	●
Central Highlands	82	▼	692	▼	100 075	●
Circular Head	65	▼	3 081	▼	202 941	●
Derwent Valley	(266)	▼	4 747	▲	127 623	▲
Dorset	938	▼	3 966	▼	161 441	▲
Flinders	(1 593)	▼	(1 007)	▼	58 836	●
George Town	(101)	▲	2 353	▲	124 527	▲
Glamorgan Spring Bay	668	▲	3 266	▼	136 777	▲
Huon Valley	1 527	▲	788	▼	258 457	●
Kentish	353	▲	1 904	▼	136 878	●
King Island	(429)	▲	169	▼	73 560	●
Latrobe	595	▲	3 671	▼	211 045	●
Meander Valley	1 221	▼	7 204	▲	294 747	●
Northern Midlands	62	▲	3 442	▲	307 220	●
Sorell	(2 609)	▼	(991)	▼	268 167	●
Southern Midlands	(509)	▼	1 492	▼	113 538	●
Tasman	211	▼	615	▼	64 432	●
Waratah-Wynyard	431	▲	1 859	▼	209 239	●
West Coast	451	▼	1 786	●	112 210	●
Total	**1 789**	▼	**42 381**	▼	**3 135 611**	●

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

AUDIT SUMMARY – OTHER LOCAL GOVERNMENT ENTITIES

INTRODUCTION

Entities included in this Chapter are:

- single, joint or controlling authorities controlled by councils and established under the LGA:
  - Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions (SWS), including its wholly owned subsidiary, C-Cell Pty Ltd as trustee of the C Cell Unit Trust
  - Cradle Coast Authority
  - Dulverton Regional Waste Management Authority (DRWMA)
  - Launceston Flood Authority (LFA)
  - Southern Tasmanian Councils Authority (STCA)
- Local Government Association of Tasmania (LGAT)
- Northern Tasmania Development Corporation Ltd

All entities were subject to audit except for Maidstone Park Management Controlling Authority, the audit of which was dispensed. The financial results of the remaining entities were derived from audited financial statements. The reporting framework for these entities was prescribed by enabling legislation or rules. In our analysis of financial performance we have, where necessary, re-allocated certain revenue or expenditure items to better assist readers to interpret financial performance. For C-Cell Pty Ltd, LGAT and LFA, we accepted preparation of a special purpose financial report. All other entities prepared a general purpose financial report.

Owner accounting

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

LFA was established by Launceston City Council as a single authority under Section 30 of the LGA. The transactions of LFA were incorporated within the financial statements of Launceston City Council.

Maidstone Park Management Controlling Authority was established by Devonport City Council as a controlling authority under Section 29 of the LGA. The transactions of Maidstone Park Management Controlling Authority were incorporated within the financial statements of Devonport City Council.

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

KEY RESULTS AND DEVELOPMENTS

Collectively, Other local government entities controlled Net assets valued at $28.26m at 30 June 2018 (2017, $26.33m).
They reported a combined Underlying surplus of $3.72m (2016-17, $4.62m).
DRWMA returned $2.08m ($1.75m) to its owner councils in dividends, $0.97m, and tax equivalents, $1.11m.
SWS, as a for-profit entity, was subject to the National Taxation Equivalents Regime and was liable to pay tax equivalents to its owner councils. At 30 June 2018, SWS recorded a tax payable balance of $1.13m ($0.82m). In 2017-18, $0.18m ($0.25m) of tax was waived and treated as an equity contribution. No dividends were paid to the owner councils during 2017-18.

The two waste management authorities, SWS and DRWMA, controlled Net assets totalling $21.24m at 30 June 2018 ($19.02m) and reported a combined Underlying surplus of $4.46m for the year ($4.25m)
The remaining five entities collectively controlled Net assets valued at $7.02m at 30 June 2018 ($7.31m).

CONCLUSION

Unqualified audit reports were issued for all entities.

OTHER MATTERS OF INTEREST

Copping Refuse Disposal Joint Authority

C-Cell Unit Trust (the Trust) was established in 2015-16 to develop and operate the State's first controlled waste C-cell. The Trustee of the Trust is C-Cell Pty Ltd, a wholly owned subsidiary of SWS.

Originally, the Trust was 60% owned by SWS and 40% by a private sector entity. The latter sold its units to SWS in June 2016. Clarence City Council purchased 40% of the units in the Trust in December 2016. In 2017-18, Clarence City Council sold 20% of its ownership interest, or 8% of the issued units in the Trust, to Kingborough Council for $0.32m.

Construction of the C-cell was originally estimated to cost $6.40m. As at 30 June 2018, including leachate and associated infrastructure, the total construction cost was $6.70m. Construction of the cell was funded from:

- the sale of units in the Trust of $4.00m
- borrowings from Clarence City Council of $2.4m
- borrowings from SWS of $0.30m. SWS lent the Trust a total of $0.75m, with the balance being for working capital.

The Tasmanian Government provided a grant of $2.0m, of which $1.70m was received in 2016-17 and the balance of $0.30m in 2017-18. The grant was paid to SWS, which then used those funds to purchase units in the Trust.

FINANCIAL ANALYSIS

Financial snapshot 2017-18

Table 17 provides a snapshot of key financial results for 2017-18.

Table 17: Other local government entities financial snapshot

	Underlying surplus (deficit)		Net surplus (deficit) before tax		Net assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind
Cradle Coast Authority	(405)	▼	(405)	▼	1 709	▼
Dulverton Regional Waste Management Authority	3 534	▲	3 219	▲	13 830	▲
Launceston Flood Authority	(450)	▼	(450)	▼	0	●
Local Government Association of Tasmania	96	▼	96	▼	4 580	●
Northern Tasmania Development Corporation Ltd	30	▼	30	▼	261	▲
Southern Tasmanian Councils Authority	(16)	▼	(16)	▼	467	●
Total	**3 715**	▼	**3 400**	▼	**28 256**	▲

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

APPENDIX A – ACRONYMS AND ABBREVIATIONS

ALGCP	Accelerated Local Government Capital Program
Audit Act	*Audit Act 2008*
BIHC	Brighton Industrial and Housing Corporation
CCI	Council Cost Index
DEC	Derwent Entertainment Centre
DRWMA	Dulverton Regional Waste Management Authority
LFA	Launceston Flood Authority
LGD	Local Government Division
LG Act	*Local Government Act 1993*
LGAT	Local Government Association of Tasmania
LTFMP	Long-term financial management plan
Microwise	Microwise Australia Pty Ltd
NDRRA	Natural Disaster Relief and Recovery Arrangements
the Office	Tasmanian Audit Office
RTR	Roads to Recovery
Scheme	Derwent Park Stormwater Reuse Scheme
State Growth	Department of State Growth
STCA	Southern Tasmanian Councils Authority
SWS	Copping Refuse Disposal Site Joint Authority, trading as Southern Waste Solutions
SWSA	Southern Waste Strategy Authority
Treasury	Department of Treasury and Finance
the Trust	Copping C Cell Unit Trust
UTAS	University of Tasmania

APPENDIX B – SUBMISSIONS AND COMMENTS RECEIVED

SORELL COUNCIL

With regard to the Underlying deficit for Sorell of $2.61m, this was principally due to the disposal of $3.5m of transport assets in accordance with AASB 116 and contemporary asset management practice.

Consistent with prior comments and observations, I would again reiterate that unless the Tasmanian Audit Office or Department of Premier and Cabinet can confirm all councils are transparently and consistently reporting on these matters and for this particular example, the recognition and treatment of asset disposals at the component level resulting from capital renewal, a comparative benchmark is unlikely to be achieved.

Robert Higgins
General Manager, Sorell Council

Auditor-General's response

The intent of the underlying result is to show the outcome of a council's normal or usual day to day operations. Further information in regard to the parameters used to determine the underlying result can be found on page 4 and 5 of this Report, in the *Guide to using the reports* and on the Tasmanian Audit Office website resources' page - www.audit.tas.gov.au/resources: *Guidance to Local Government Councils on calculating Underlying Result (revised June 2017)*. Council underlying result calculations are subject to audit procedures during the completion of our financial statement audits.

Rod Whitehead
Auditor-General

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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