



Local Government: Results of the 2013–14 Audits



VICTORIA

Victorian
Auditor-General

Local Government: Results of the 2013–14 Audits

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The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Telmo Languiller MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the *Local Government: Results of the 2013–14 Audits*.

This report presents the outcomes and observations from the 2013–14 financial audits of the 79 local councils, 11 regional library corporations and 13 associated entities. Parliament can have confidence that the 2013–14 financial, and standard statements where applicable, presents the entity's results fairly.

This report informs Parliament about significant issues identified during our audits and complements the assurance provided through individual audit opinions included in the entities' annual reports.

The report highlights that improvements can be made both to creditor and grant management policies and practices. The report also notes that 61 per cent of previous year audit findings relating to internal control deficiencies are yet to be rectified and that local councils need to accelerate the rate at which they are resolving our audit findings.

Yours faithfully

John Doyle
Auditor-General

26 February 2015

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Auditor-General's comments



John Doyle
Auditor-General

Victoria's local government sector is recognised in Victoria's constitution as the third tier of government. My report provides an analysis of the 2013–14 financial results of the 79 local councils and their financial sustainability risks. It also comments on local councils' management of creditors and grants.

Local councils continue to face the challenges of delivering quality services to their community, maintaining their existing assets and funding future capital works. To do this effectively, local councils will need to effectively prioritise spending and determine sustainable rates for services provided within the government's proposed rate capping policy, effective from 2016–17.

Twenty-one local councils reported underlying operating deficits in 2013–14 (eight in 2012–13). A key reason for this change was the Commonwealth Government's decision not to pay financial assistance grants in advance. Had the grants continued to be paid in advance, only 12 councils would have reported underlying operating deficits. Further, as the Commonwealth Government has also paused indexation of financial assistance grants over the next three years, this will challenge all local councils, particularly shire councils. The changed timing of financial assistance grants in 2013–14 has had a greater impact on small and large shire councils, as they have a greater reliance on Commonwealth grant funding to support their operations. Future operating results should not be similarly adversely impacted as the new timing of grant payments will have been in place for the entire year.

This year has also seen an increase in financial sustainability risks, with five local councils assessed as high risk in 2013–14 compared to two in 2012–13. Three out of the five local councils with a high financial sustainability risk were in part due to delays in accessing borrowings via the Local Government Funding Vehicle (LGFV). Local councils had anticipated that longer-term debt would be available prior to year end to enable them to refinance some short-term debt sooner.

The LGFV was established by the Municipal Association of Victoria to provide longer-term debt financing for local councils, and originated as a result of the \$406 million shortfall in defined benefit superannuation plans in 2011–12. A total of \$240 million was borrowed by 30 local councils. These borrowings require interest only repayments until maturity of the debt in five or seven years. This means the total interest paid will be higher than they would have paid had the principal been gradually reduced over the term of the loan. There is also a risk that local councils will not have the funds available to fully repay the loan when the debt matures.

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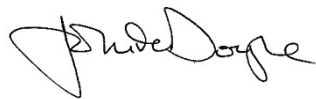
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My report also highlights that improvements can be made both to creditor and grant management policies and practices. In particular, attention is required to strengthen the processes around community grants issued by local councils. This requires a structured program to be in place to effectively and efficiently administer the distribution of grants, including an overarching grants administration policy and procedure, and recording of any conflicts of interest by assessment panel members.

Disappointingly, 61 per cent of our previous year audit findings relating to high and medium risk internal control deficiencies are yet to be rectified. That these control deficiencies should remain unremedied is a very poor reflection on both the management and governance of these councils. Local councils need to accelerate the rate at which they are resolving our audit findings. My audit team will again follow up the status of the outstanding internal control deficiencies as part of the 2014–15 audit cycle.

I note that from 1 July 2014, local councils must prepare performance statements in accordance with the Local Government Performance Reporting Framework. The framework requires extensive financial and non-financial information to be disclosed. Local councils will need to ensure they have appropriate systems in place to completely and accurately report on these performance indicators.



John Doyle

Auditor-General

February 2015

Audit summary

The Victorian local government sector comprises 79 local councils, 11 regional library corporations (RLC) and 13 associated entities. Local government is recognised in Victoria's constitution as the third tier of government. Local councils are governed by democratically elected councillors and their operations are administered by the council-appointed chief executive officer. While administered under the *Local Government Act 1989* (the Act), each council operates autonomously and is directly accountable to its constituents.

This report informs Parliament about significant issues identified during our audits and complements the assurance provided through individual audit opinions included in the entities' annual reports.

Conclusion

Parliament can have confidence in the 2013–14 financial, and standard statements where applicable, of local councils, RLCs and associated entities. Clear audit opinions were issued for each of the 103 financial statements and the 90 standard statements, meaning that the 2013–14 financial reports of the audited entities were reliable, and fairly presented the results of the entities' operations and their assets and liabilities as at 30 June 2014.

Clear audit opinions were issued in 2013–14 on all 79 local council performance statements.

Financial reporting quality

Material errors identified during the financial report preparation and audit need to be corrected before a clear audit opinion can be issued. Our expectation is that all entities will adjust errors identified during an audit, other than those errors that are clearly trivial as defined under the auditing standards. This expectation is consistent with our principle that the public is entitled to expect financial statements bearing the Auditor-General's opinion to be accurate and of the highest quality possible.

Material adjustments to financial statement account balances reduced in 2013–14. However, the number of adjustments made to note disclosures increased as a result of incorrect or incomplete disclosures on commitments and the application of the new Australian Accounting Standard *AASB 13 Fair Value Measurement* on non-financial assets. All audit recommended adjustments were made in 2013–14.

Performance reporting by councils

From 1 July 2014, local councils must prepare performance statements in accordance with the Local Government Performance Reporting Framework. The new regime requires extensive financial and non-financial information to be disclosed.

While local councils have been able to provide assurance around financial performance information for some time, the reporting of non-financial performance information on services and outcomes has not historically been as robust. Local councils need to review their systems for capturing financial and non-financial data to determine whether they result in sufficient and appropriate information to completely and accurately report on performance.

Financial sustainability risks

To be financially sustainable, local councils need to be able to meet current and future expenditure as it falls due. They must also be able to absorb foreseeable changes and the effect of financial risks materialising, without significantly changing their revenue and expenditure policies. In particular, the government has announced that it will introduce a rate capping policy for the 2016–17 financial year. Local councils will need to review and update their budgets to respond to this change.

The six financial sustainability indicators, analysed for the five years from 2009–10 to 2013–14 were:

- the underlying result
- liquidity
- indebtedness
- self-financing
- capital replacement
- renewal gap.

Appendix E describes the financial sustainability indicators and risk assessment criteria we use in this report.

The local government sector as a whole has maintained its financial sustainability year on year. Analysis of the six indicators shows that local councils as a whole had a low financial sustainability risk assessment. Notwithstanding, some local councils continue to face the ongoing challenge of maintaining spending on capital works and existing assets at sufficient levels. In particular:

- five local councils were assessed as a high financial sustainability risk in 2013–14 compared to two in 2012–13
- twenty-one local councils reported an underlying deficit in the 2013–14 financial year compared to eight in 2012–13
- thirty-three local councils were rated as high or medium self-financing risk compared to 27 in 2012–13.

The results for 2013–14 were adversely affected by the Commonwealth Government's decision not to pay part of the 2014–15 financial assistance grants in advance and delays associated with local council borrowings via the Local Government Funding Vehicle (LGFV), which was established by the Municipal Association of Victoria to provide debt financing to local councils. It originated largely as a result of the \$406 million shortfall in defined benefit superannuation plans in 2011–12. A total of \$240 million was borrowed by 30 local councils. These borrowings require interest only repayments until maturity of the debt in five or seven years. Local councils who participated in the LGFV will not be making principal repayments until the debt matures. This means the total interest paid over the five or seven years will be higher than they would have paid had the principal been gradually reduced over the term of the loan, where interest is paid on the reduced principal. There is also a risk that local councils will not have the funds available to make the full repayment when the debt matures.

The changed timing of financial assistance grants in 2013–14 had a greater impact on the large and small shire councils. Small shire councils are the most dependent on grant funding to sustain their operations. Our 2013 audit report, *Organisational Sustainability of Small Councils*, found that small shire councils reliance on government grants had increased substantially over a five-year period. Ten small shire councils reported an underlying deficit in 2013–14 (four in 2012–13). Future operating results of local councils should not be similarly adversely impacted by the changed timing of grants as the new arrangements will have been in place for the entire year.

In the prior period, 79 high and moderate risk internal control deficiencies were reported to management for immediate rectification. However, only 31 had been actioned and completed within the past 12 months. That these control deficiencies should remain unremedied is a very poor reflection on both the management and governance of these councils. Local councils need to accelerate the rate at which they are resolving our audit findings. We will again follow up the status of these deficiencies as part of the 2014–15 audit cycle.

Internal controls over creditors and grants

While management of creditors and grants was generally sound it was noted that:

- less than half of local councils maintain and report performance statistics on creditor management to their council and/or management
- thirty-seven local councils (46 per cent) did not clearly articulate in their policy the conditions under which they negotiated their payment terms with creditors
- forty-four local councils (56 per cent) did not undertake routine cleansing of their vendor masterfiles for creditors
- only 42 local councils (53 per cent) had an overarching grant administration policy and procedure in place
- twenty-six local councils (33 per cent) did not record conflicts of interest of the members of their grant assessment panels.

Recommendations

Number	Recommendation	Page
That local councils, regional library corporations and associated entities:		
1.	continue to refine their financial reporting processes by strengthening procedures over the accuracy of data needed for financial statement preparation	10
2.	continue to adjust all errors identified during audits to ensure their financial statements are of the highest possible quality.	10
That local councils:		
3.	familiarise themselves with the guidance material developed by Local Government Victoria and assess their readiness for the new performance reporting framework which is effective from 1 July 2014	13
4.	review their systems and processes in place for capturing financial and non-financial data to determine whether there are sufficient processes in place to completely and accurately report on performance	13
5.	review and update their policies and procedures on creditors to include all key elements incorporated in better practice creditor management frameworks	50
6.	establish comprehensive overarching grant administration policies and procedures that are periodically reviewed	50
7.	ensure conflicts of interests declarations are completed by all staff undertaking grant assessments	50
8.	reinforce and ensure grant payments are appropriately acquitted	50
9.	rigorously monitor grants issued and establish periodic reporting to council	50
10.	periodically review grant administration practices and related policy compliance	50
11.	through audit committees, implement appropriate monitoring mechanisms to ensure our audit findings are addressed by management on a timely basis.	50

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to all councils and the Department of Environment, Land, Water and Planning with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix G.

1 Background

1.1 Introduction

Local government is recognised in Victoria's constitution as the third tier of government. Local councils are governed by democratically elected councillors and their operations are administered by the council-appointed chief executive officer. While administered under the *Local Government Act 1989*, each council operates autonomously and is directly accountable to its constituents.

The Victorian local government sector consists of 103 entities, comprising 79 local councils, 11 regional library corporations (RLC) and 13 associated entities.

This report informs Parliament about significant issues arising from the financial audits and adds to the assurance provided through audit opinions on financial, standard and performance statements included in the respective entities' annual reports. It comments on the financial sustainability risks of local councils, their general internal controls, creditor management and grant management.

This report is one of a suite of reports on the results of the 2013–14 financial audits conducted by the Victorian Auditor-General's Office (VAGO). The full list of reports can be found in Appendix A. The local government entities audited by VAGO are listed in Appendix B.

1.2 Reporting framework

The principal legislation governing the statutory reporting of councils, RLCs and their associated entities is the *Local Government Act 1989* (the LG Act), as set out in Figure 1A.

Figure 1A
Local government sector reporting requirements

Statement	Details	Local councils	RLCs	Other
Financial	General purpose financial statements prepared in accordance with Australian Accounting Standards and applicable legislative framework comprising a: <ul style="list-style-type: none">comprehensive income statementbalance sheetcash flow statementstatement of changes in equity.	✓	✓	✓

Figure 1A
Local government sector reporting requirements — *continued*

Statement	Details	Local councils	RLCs	Other
Standard	<p>The standard statements mirror the first three general purpose financial statements (above) with the addition of columns showing the original approved budget and the difference between actual and budget.</p> <p>A standard statement of capital works is also prepared to report actual against planned capital expenditure.</p> <p>A supporting narrative is also included explaining any material variances between actual and budgeted results.</p>	✓	✓	–
Performance	<p>Key performance indicators set by each local council for each strategic activity specified in the annual budget are set out in the performance statement.</p> <p>It reports actual results against targets for each performance indicator, with an explanation of material variances.</p>	✓	–	–

Source: Victorian Auditor-General's Office.

Audit of financial and standard statements

The financial audit of certain local government entities requires the Auditor-General to issue an opinion on the financial and standard statements as applicable.

An annual financial and standard statements audit has two aims:

- to give an opinion consistent with section 9 of the *Audit Act 1994*, on whether the financial statements, and standard statements as applicable, are fairly stated in accordance with Australian Accounting Standards and the LG Act (or applicable legislative framework).
- to consider whether there has been waste of public resources or a lack of probity or financial prudence in the management or application of public resources, consistent with section 3A (2) of the *Audit Act 1994*.

Audit of performance statements

Section 132 of the LG Act requires councils to prepare performance statements annually, and section 133 requires the auditor to prepare a report to the Minister for Local Government on those performance statements.

1.2.1 Audit of internal controls relevant to the preparation of the financial and standard statements

Internal controls are systems, policies and procedures that help an entity to reliably and cost-effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely internal and external reporting.

An entity's governing body is responsible for developing and maintaining an effective internal control environment. Our audits can assess the adequacy of the internal control framework and the governance processes that relate to an entity's financial reporting. In making this assessment, consideration is given to the internal controls relevant to the entity's preparation and fair presentation of the financial and standard statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

1.3 Legislative reforms

The *Local Government Amendment (Performance Reporting and Accountability) Act 2014* commenced in April 2014 and sets out the new financial planning and reporting requirements from 1 July 2014 onwards. It requires local councils to report against prescribed performance indicators in the report of operations and performance statement in the local councils' annual reports. These amendments were largely driven by our previous reports highlighting deficiencies in the performance reporting by local councils.

1.4 Audit conduct

The audits of the 103 local government entities were undertaken in accordance with Australian Auditing Standards. Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated, any persons named in this report are not the subject of adverse comment or opinion.

The cost of preparing and printing this report was \$215 000.

1.5 Structure of this report

The structure of this report is set out in Figure 1B.

Figure 1B
Report structure

Part	Description
Part 2: Financial reporting	<p>This Part covers the results of the 2013–14 audits of the:</p> <ul style="list-style-type: none"> • general purpose financial statements of 79 local councils, 11 RLCs and 13 associated companies, trusts and joint ventures • standard statements of 79 local councils and 11 RLCs • grant acquittals related to the Nation Building Program. <p>It also comments on the changes to the financial reporting framework, quality of financial reporting and timeliness against legislated time lines.</p>
Part 3: Performance reporting	<p>This Part covers the results of the audits of the performance statements of 79 local councils for 2013–14.</p> <p>It also details the recent legislative changes with respect to performance reporting effective 1 July 2014.</p>
Part 4: Financial results	<p>This Part summarises and analyses the financial results of the 79 local councils and 11 RLCs for 2013–14. It also analyses local council trend data for the preceding five years and forecast data for three years for selected revenue and expense streams and capital spend.</p>
Part 5: Financial sustainability risks	<p>This Part provides insight into the financial sustainability risks of the 79 local councils based on the trends in six financial sustainability indicators over a five-year period.</p>
Part 6: Internal controls	<p>This Part presents the results of our assessment of the internal controls associated with the preparation of financial statements, creditor management and grant management.</p>

Source: Victorian Auditor-General's Office.

2 Financial reporting

At a glance

Background

This Part covers the results of the 2013–14 financial statement audits, and standard statements' audits, of the 79 local councils, 11 regional library corporations and 13 associated entities.

Conclusion

Clear audit opinions were issued for each of the 103 financial statement audits and 90 standard statements audits, meaning that the 2013–14 financial reports and standard statements of the audited entities were reliable, and fairly presented the results of the entities' operations and their assets and liabilities as at 30 June 2014.

Findings

- Four entities did not meet the legislated time frame for finalising their financial statements and standard statements on or before 30 September 2014. Each was granted an extension and were finalised as follows:
 - Buloke Shire Council on 1 October 2014
 - Southern Grampians Shire Council on 21 October 2014
 - Yarriambiack Shire Council on 24 October 2014
 - West Wimmera Shire Council on 30 October 2014.
- An 'emphasis of matter' paragraph was included on the clear audit opinion of Buloke Shire Council to highlight that conditions existed at 30 June 2014 that cast doubt on its ability to continue as a going concern.

Recommendations

That local councils, regional library corporations and associated entities:

- refine their financial reporting processes by strengthening their review and assurance procedures over the accuracy of data needed for financial statement preparation
- continue to adjust all errors identified during audits to ensure their financial statements are of the highest possible quality.

2.1 Introduction

This Part covers the results of the 2013–14 audits of 79 local councils, 11 regional library corporations (RLC) and 13 associated entities, and our observations regarding the quality of financial report preparation.

Independent audit opinions add credibility to financial and standard statements by providing assurance that the information in the statements is reliable and presents the entity's results fairly.

A clear audit opinion on the financial statements confirms that the statements have been prepared according to applicable accounting standards and the financial reporting requirements of the *Local Government Act 1989* (the LG Act), where appropriate.

A clear audit opinion on the standard statements confirms that the standard statements have been prepared in accordance with the requirements of the LG Act.

A qualified audit opinion means that the statements are materially different to the requirements of the relevant reporting framework, and is less reliable and useful as an accountability document.

2.2 Conclusion

Financial and standard statements prepared by local councils, RLCs and associated entities for 2013–14 were reliable as clear audit opinions were issued on all financial and standard statements.

2.3 Financial statements

For 2013–14, 103 clear audit opinions were issued on financial statements of councils, RLCs and associated entities (102 clear in 2012–13).

An auditor can draw a reader's attention to a matter or disclosure in the financial report to provide important context. Audit opinions that include an 'emphasis of matter' (EoM) paragraph still conclude that the entity's financial information is presented fairly and can be relied upon by users.

In 2013–14, Buloke Shire Council received a clear audit opinion containing an EoM paragraph to highlight that conditions existed at 30 June 2014 that cast doubt on its ability to continue as a going concern.

2.4 Standard statements

Local councils and RLCs are required to prepare standard statements under section 131 of the LG Act. These standard statements are 'special purpose financial reports', which report actual expenditure against budget for the financial year. Consistent with auditing standards, our unqualified audit opinions on special purpose financial reports include an EoM drawing the users' attention to the fact that they are prepared to meet the requirements of the LG Act and may not be suitable for another purpose.

For 2013–14, 90 clear audit opinions with an EoM were issued on all the standard financial statements of councils and RLCs (90 clear in 2012–13).

2.5 Grant acquittals

At times, councils are required to report on the use of specific grants provided to them. For example, conditions of grants provided by the Commonwealth Government may require the council to report back on, or acquit, the use of that funding. An acquittal report generally consists of an income and expenditure statement based on a prescribed template provided by the funding body.

Audits of grants are usually a funding condition and may be a prerequisite for continued funding. A grant acquittal audit provides assurance to the funding body that grant conditions have been met, and that grant expenditure was incurred in accordance with the grant agreement, including any special conditions and payment requirements. Grant acquittal audits are conducted in accordance with the Australian Auditing Standards and the requirements of the relevant grant agreement or grant conditions.

In 2013–14 we issued 75 clear opinion acquittals (85 in 2012–13), which related to the road and rail investment programme managed by the Commonwealth Government's Department of Infrastructure and Regional Development. The details of acquittal opinions issued during the year are provided in Appendix D.

2.6 Quality of financial reporting

The quality of an entity's financial reporting can be measured by the accuracy and timeliness of the preparation and finalisation of its financial and standard statements.

2.6.1 Accuracy

The frequency and size of errors in financial statements are direct measures of the quality of the financial reports submitted to audit. Ideally, there should be no errors or adjustments required as a result of an audit. When we detect errors in the financial statements they are raised with management.

Material errors identified during the financial report preparation and audit need to be corrected before a clear audit opinion can be issued. Other errors should also be corrected. While some errors may appear immaterial in isolation, in aggregate, a series of small errors may have a significant impact on the statements or an entity's operating result.

Our expectation is that all entities will adjust errors identified during an audit, other than those errors that are clearly trivial as defined under the auditing standards. This expectation is consistent with our principle that the public is entitled to expect that financial statements that bear the Auditor-General's opinion are as accurate and of the highest quality possible.

The number of material adjustments decreased from 39 in 2012–13 to 32 in 2013–14. Inner and outer metropolitan councils accounted for 53 per cent of the material adjustments (13 per cent in 2012–13).

Material adjustments were required to correct errors due to:

- inappropriate basis for estimating the value of landfill provisions
- incorrect classification of investments as cash and cash equivalents
- transactions not reported in the correct accounting period
- incorrect accounting treatment of asset disposals and found assets
- inadequate quality assurance over the reasonableness of asset revaluation data.

The number of adjustments to disclosures increased from 13 in 2012–13 to 21 in 2013–14. Both small and large shire councils accounted for 57 per cent of these adjustments (69 per cent in 2012–13).

Disclosure adjustments were mainly required to correct errors due to:

- incorrect or incomplete disclosures on the fair values of non-financial assets in line with the requirements of the new Australian Accounting Standard *AASB 13 Fair Value Measurement* standard
- incorrect or incomplete disclosures of operating and capital commitments.

2.6.2 Timeliness

Timely financial reporting is key to accountability to stakeholders and enables them to make well-timed and informed decisions. The later a financial report is produced and published after year end, the less useful it is.

Local councils and RLCs are required to finalise their audited financial statements and submit them to the Minister for Local Government by 30 September each year. In 2013–14, 75 councils (95 per cent) met the time frame compared with 76 councils (96 per cent) in 2012–13. West Wimmera Shire Council again failed to meet its statutory reporting time frame and was provided with an extension by the former minister.

Buloke Shire Council's draft financial statements, standard statements and performance statement were provided to VAGO immediately following its audit advisory committee meeting of 15 August 2014. The council cooperated with VAGO and made a number of amendments to the draft statements—finalising and signing its financial statements on 24 September 2014. We further considered the council's going concern status and our audit opinion was not issued until 1 October 2014, with an emphasis of matter paragraph. Buloke Shire Council's going concern status had been adversely impacted by the delays associated with the new Local Government Funding Vehicle (LGFV). It had expected to access funds from the LGFV prior to the end of September 2014 in order to extinguish its bridging finance (overdraft facility), which was originally due to expire on 30 September 2014.

Figure 2A shows the entities that missed their reporting time line and were granted extensions.

Figure 2A
Entities that missed the statutory reporting time line, 2013–14

Entity	Details
Buloke Shire Council	An extension to 31 October was granted. The financial report was signed 24 September 2014. Audit opinion with an emphasis of matter was issued 1 October 2014.
Southern Grampians Shire Council	An extension to 31 October 2014 was granted. The financial report was signed 20 October 2014. Audit opinion was issued 21 October 2014.
West Wimmera Shire Council	An extension to 31 October 2014 was granted. The financial report was signed 30 October 2014. Audit opinion was issued 30 October 2014.
Yarriambiack Shire Council	An extension to 31 October 2014 granted. The financial report was signed 24 October 2014. Audit opinion was issued 24 October 2014.

Source: Victorian Auditor-General's Office.

All RLCs met the reporting time frame in 2013–14 (100 per cent in 2012–13).

Changes to the local government reporting framework

The *Local Government Amendment (Performance Reporting and Accountability) Act 2014* commenced in April 2014 and sets out the new financial planning and performance reporting requirements that will apply from 1 July 2014 onwards.

The *Local Government (Planning and Reporting) Regulations 2014* replaced the *Local Government (Finance and Reporting) Regulations 2004* which expired in April 2014. These new regulations support the amendments made to the LG Act and dictate how its associated provisions are applied.

The revised regulations related to financial reporting include:

- mandatory reporting in compliance with the Local Government Model Financial Report for local councils and RLCs
- a statement of capital works for the financial year as part of local council and RLC general purpose financial statements
- expanded financial note disclosures in the financial statements for local councils and RLCs.

Changes to the performance reporting framework are detailed in Part 3 of this report.

Recommendations

That local councils, regional library corporations and associated entities:

1. continue to refine their financial reporting processes by strengthening procedures over the accuracy of data needed for financial statement preparation
 2. continue to adjust all errors identified during audits to ensure their financial statements are of the highest possible quality.
-

3 Performance reporting

At a glance

Background

This Part covers the results of the 2013–14 audits of local council performance statements. It also details recent amendments to the *Local Government Act 1989* which introduces a new performance reporting framework designed to ensure all local councils are measuring and reporting on their performance in a consistent way.

Conclusion

Parliament can have confidence in the fair presentation of the performance statements of all 79 local councils as they all received clear audit opinions for 2013–14.

Findings

From 1 July 2014, local councils must prepare performance statements in accordance with the Local Government Performance Reporting Framework. The new regime requires extensive financial and non-financial information to be disclosed.

While local councils have a mature environment in place to provide assurance around financial performance information, the environment for reporting non-financial performance information about services and outcomes has not historically been as robust.

Recommendations

That local councils:

- familiarise themselves with the guidance material developed by Local Government Victoria and assess their readiness for the new performance reporting framework
- review their systems and processes in place for capturing financial and non-financial data to determine whether there are sufficient processes in place to completely and accurately report on performance.

3.1 Introduction

This Part covers the results of the audits of the 2013–14 performance statements of local councils and details recent amendments to the *Local Government Act 1989* that are designed to enhance performance reporting by local councils.

3.2 Conclusion

Performance statements continue to be audited on a fair presentation basis, with all 79 local councils receiving a clear audit opinion.

From 1 July 2014, local councils must prepare performance statements in accordance with the Local Government Performance Reporting Framework (LGPRF). The new regime requires extensive financial and non-financial information to be disclosed. Local councils must have appropriate systems and processes in place to enable complete and accurate performance reporting.

3.3 Performance audit opinions issued

By the statutory reporting date of 30 September 2014, 75 clear audit opinions were issued on local council performance statements for 2013–14 (75 clear in 2012–13).

Clear audit opinions were issued after the statutory deadline to Buloke Shire Council on 1 October 2014, Southern Grampians Shire Council on 21 October 2014, Yarriambiack Shire Council on 24 October 2014 and West Wimmera Shire Council on 30 October 2014. The four local councils were granted reporting deadline extensions by the former Minister for Local Government.

3.4 Local Government Performance Reporting Framework

The *Audit Act 1994* empowers the Auditor-General to audit any performance indicators in the report of operations of an audited entity to determine whether they are:

- relevant to any stated objectives of the entity
- appropriate for the assessment of the entity's actual performance
- a fair representation of the entity's actual performance.

Our audit report *Performance Reporting by Local Government (2011–12)* identified shortfalls in performance reporting by local councils and recommended that all local councils critically review the performance information in their annual reports for relevance, appropriateness and for alignment with their council plan strategic objectives. In response to our report, Local Government Victoria initiated the development of a performance reporting framework in 2011 that sought to enable performance reporting that is relevant, appropriate and meaningful to the community.

The *Local Government Amendment (Performance Reporting and Accountability) Act 2014* and associated regulations set out the new mandatory performance reporting framework applicable from 1 July 2014 onwards. This framework is designed to ensure that all councils are measuring and reporting on their performance in a consistent and meaningful way.

3.4.1 Preparing for the audit

From 1 July 2014, local councils must prepare performance statements in accordance with the LGPRF. The new regime requires extensive financial and non-financial information to be disclosed.

While local councils have a mature environment in place to provide assurance around financial performance information, the environment for reporting non-financial performance information about services and outcomes has not historically been as robust.

In preparation for the new requirements, local councils should ensure they have adequate processes and systems in place to support the completeness and accuracy of data used to report on performance. Complete and accurate data sources, well designed data collection arrangements and appropriate measurement systems will provide local councils with confidence in the integrity and validity of the results that will be reported. Sound systems will also ensure local councils are well placed to demonstrate and provide evidence for their performance statement.

In June 2014, Local Government Victoria issued its *Local Government Performance Statement – Better Practice Guide*. The guide is a useful resource to assist preparers of the performance statement that complies with the Act and the *Local Government (Planning and Reporting) Regulations 2014*.

Recommendations

That local councils:

3. familiarise themselves with the guidance material developed by Local Government Victoria and assess their readiness for the new performance reporting framework which is effective from 1 July 2014
 4. review their systems and processes in place for capturing financial and non-financial data to determine whether there are sufficient processes in place to completely and accurately report on performance.
-

4 Financial results

At a glance

Background

This Part covers the financial results of the 79 local councils and 11 regional library corporations for 2013–14.

Conclusion

The overall operating result for local councils deteriorated from a surplus of \$1.2 billion in 2012–13 to \$923.6 million in 2013–14. This was mainly driven by the Commonwealth Government's re-phasing of the payment of financial assistance grants—no longer forward paying grants into the preceding financial year. Future operating results of local councils should not be similarly adversely impacted by the changed grant arrangements as these arrangements will have been in place for the entire year.

Findings

- Twenty-one local councils reported underlying operating deficits for the year (eight in 2012–13) of which nine would not have otherwise reported a deficit if the financial assistance grant had not been re-phased.
- Outer metropolitan councils' rates and charges have increased by 7 per cent across the five years to 2013–14—the highest average rate of increase of all local council cohorts. This has been offset by a 6 per cent increase in capital expenditure and a 7 per cent increase in employee benefits.
- Large shire councils are more reliant on government grant funding than regional city councils to sustain operations and fund capital works, but also have a greater capacity to utilise rate revenue as an alternative source of income compared with small shire councils.
- Small shire councils are the most sensitive to changes in their revenue and expenditure streams. They are also the most dependent on grant funding to sustain their operations as they have a lower population base to generate rate revenue from.
- Regional library corporations remain heavily dependent on local council support for their ongoing operations. Without continued support regional library corporations will struggle to provide their services.

4.1 Introduction

Accrual-based financial statements enable an assessment of whether entities generate sufficient surpluses from their operations to maintain services, fund asset maintenance and retire debt.

The financial objective for local councils and regional library corporations (RLC) should be to generate sufficient resources from operations to meet their financial obligations, and fund asset replacement and acquisitions. The ability of local councils and RLCs to do this depends largely on how they manage their expenditure and maximise revenue.

4.2 Financial results—local councils

The overall operating result for local councils decreased 25 per cent from a surplus of \$1.23 billion in 2012–13 to a surplus of \$923.6 million in 2013–14. Twenty-one local councils reported an underlying operating deficit in 2013–14 compared with eight in 2012–13.

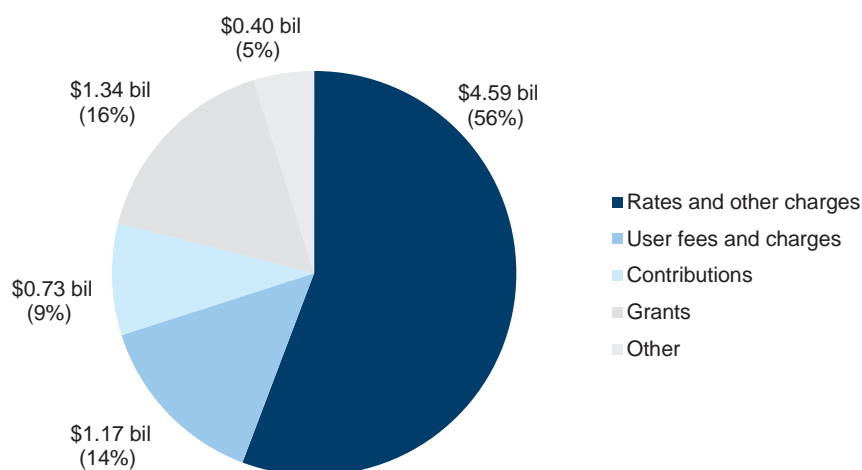
The reduced surplus was largely attributed to the Commonwealth Government's announcement in its May Budget that it would not bring forward any payments of 2014–15 grants into the 2013–14 year. This followed five years in which some payments were brought forward. The underlying operating results for small and large shire councils were the most impacted by this announcement, accounting for 17 of the 21 local councils that reported an underlying operating deficit in 2013–14. Future operating results of local councils should not be similarly adversely impacted by the changed grant arrangements as these arrangements will have been in place for the entire year.

4.2.1 Operating revenue

Local councils generated operating revenue of \$8.24 billion in 2013–14, a decrease of 1 per cent on the \$8.34 billion collected in 2012–13. This included an increase in rates and user fees and charges of \$292 million, offset by a decrease in grants, developer contributions and interest yields of \$437 million.

Figure 4A shows the composition of council operating revenue for 2013–14.

Figure 4A
Local council revenue composition, 2013–14



Source: Victorian Auditor-General's Office.

Rates and government grants continue to be the primary sources of revenue for councils—accounting for 72 per cent (72 per cent in 2012–13) of total revenue generated for the year. All other revenue categories remained similar to 2012–13.

The government has announced that it will introduce a rate capping policy for the 2016–17 financial year. Local councils will need to review and update their budgets to respond to this change.

The proportion of grant revenue decreased from 20 per cent in 2012–13 to 16 per cent in 2013–14. This is partly offset by an increase in the proportion of revenue generated from rates and other charges underscoring councils' reliance on rates to address shortfalls in alternative revenue streams.

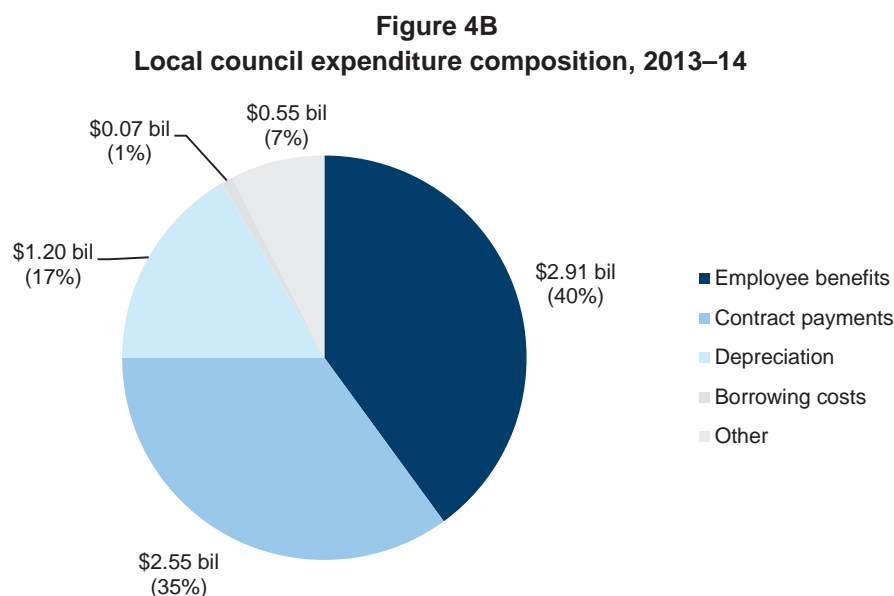
The decrease in grant revenue was driven by the Commonwealth Government's re-phasing of the payment of financial assistance grants—no longer forward paying grants into the preceding financial year. This had an immediate short-term impact on local council's underlying result, particularly with small and large shire councils, where 17 small and large shire councils reported an underlying deficit in 2013–14.

While the re-phasing of financial assistance grants has impacted the current year's results for some local councils, the Commonwealth's decision to pause indexation of financial assistance grants will have a greater impact on small and large shire councils that rely on Commonwealth grant funding to support their operations. These shires will need to monitor, control and constrain expenditure growth if grant revenue is unlikely to increase in the foreseeable future.

4.2.2 Operating expenditure

Total operating expenditure of local councils was \$7.3 billion in 2013–14 (\$7.1 billion in 2012–13), an increase of 3 per cent. An increase of \$200 million in employee benefits and \$50 million in depreciation offset by a reduction of \$71 million in material and supplies contributed to the result.

Figure 4B shows the composition of operating expenditure for 2013–14.



Source: Victorian Auditor-General's Office.

Employee benefits represented 40 per cent of total expenditure and were the key driver in the increase in expenditure in 2013–14.

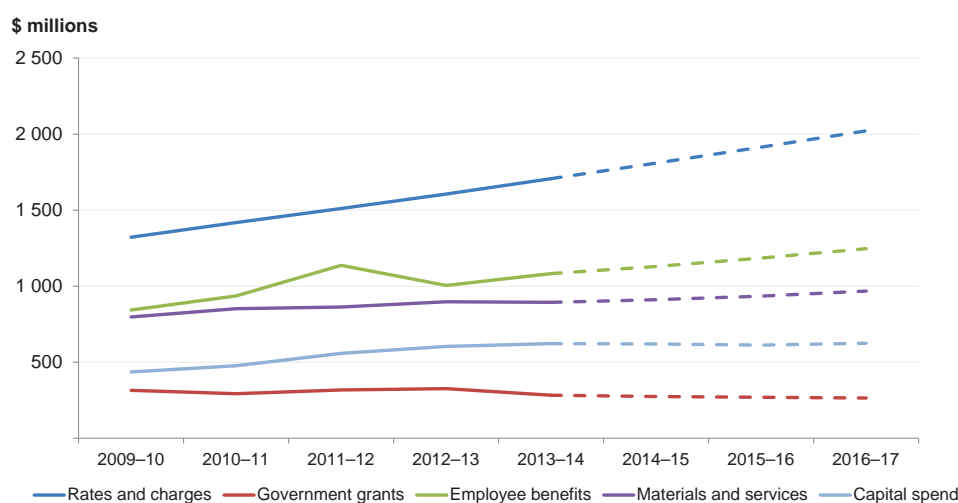
4.3 Trend analysis and outlook

The analysis presented is based on the audited financial data from 2009–10 to 2013–14 for all local councils. The 2014–15 to 2016–17 forecasts are based on 2014–15 local council published budgets.

4.3.1 Inner metropolitan councils

Figure 4C shows the five-year trend from 2009–10 to 2013–14 and forecast (2014–15 to 2016–17) for rates and charges, grants, employee benefits, materials and services and capital spend.

Figure 4C
Trend and forecast results for inner metropolitan councils



Source: Victorian Auditor-General's Office.

Rates and charges for this cohort have increased by an average of 5 per cent from 2009–10 to 2013–14. These increases have been largely negated by an average annual increase of 5 per cent in employee benefits for the same period. Materials and services have increased at an average of 2 per cent per annum, broadly in line with the consumer price index.

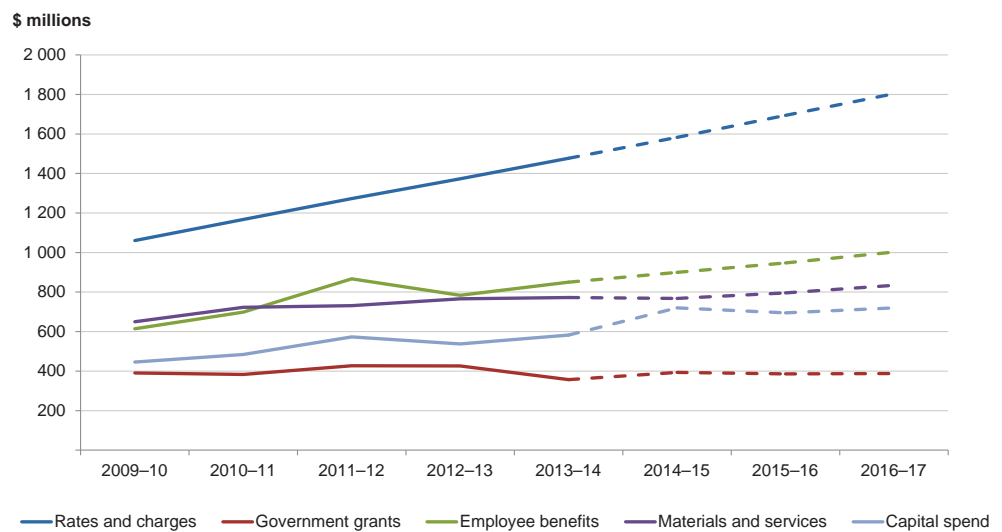
With the year on year increase in rates nullified by corresponding increases in employee benefits, inner metropolitan councils have instead relied on alternative revenue sources such as user fees and charges and borrowings to supplement their revenue and maintain their capital spend.

The forecast from 2014–15 to 2016–17 shows rate revenue, employee benefits and materials and services increase broadly in line with historical trends. Capital spend is forecast to plateau with no discernible increase across the forward estimates.

4.3.2 Outer metropolitan councils

Figure 4D shows the five-year trend from 2009–10 to 2013–14 and forecast (2014–15 to 2016–17) for rates and charges, grants, employee benefits, materials and services and capital spend.

Figure 4D
Trend and forecast results for outer metropolitan councils



Source: Victorian Auditor-General's Office.

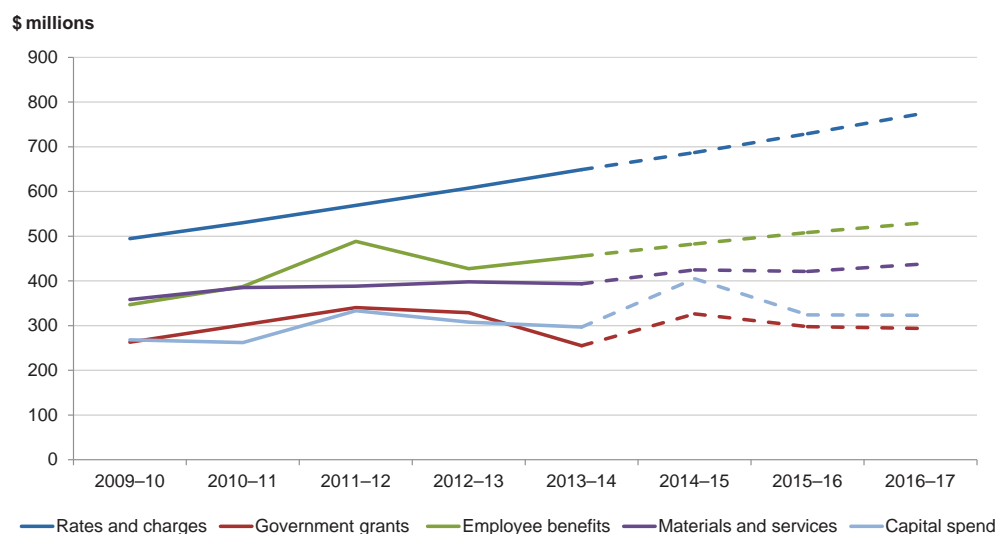
Rates and charges for outer metropolitan councils averaged 7 per cent across the five years to 2013–14—the highest average rate of increase of all local council categories. This category contains councils that form part of Melbourne's growth corridors and as a result their average increases in capital spend of 6 per cent and employee benefits of 7 per cent to service their growing populations exceeded most other council categories.

Annual increases to rates and employee benefits are projected to reduce across the next three years to 5 per cent and 4 per cent respectively while capital spend is projected to remain above 5 per cent.

4.3.3 Regional city councils

Figure 4E shows the five-year trend from 2009–10 to 2013–14 and forecast (2014–15 to 2016–17) for rates and charges, grants, employee benefits, materials and services and capital spend.

Figure 4E
Trend and forecast results for regional city councils



Source: Victorian Auditor-General's Office.

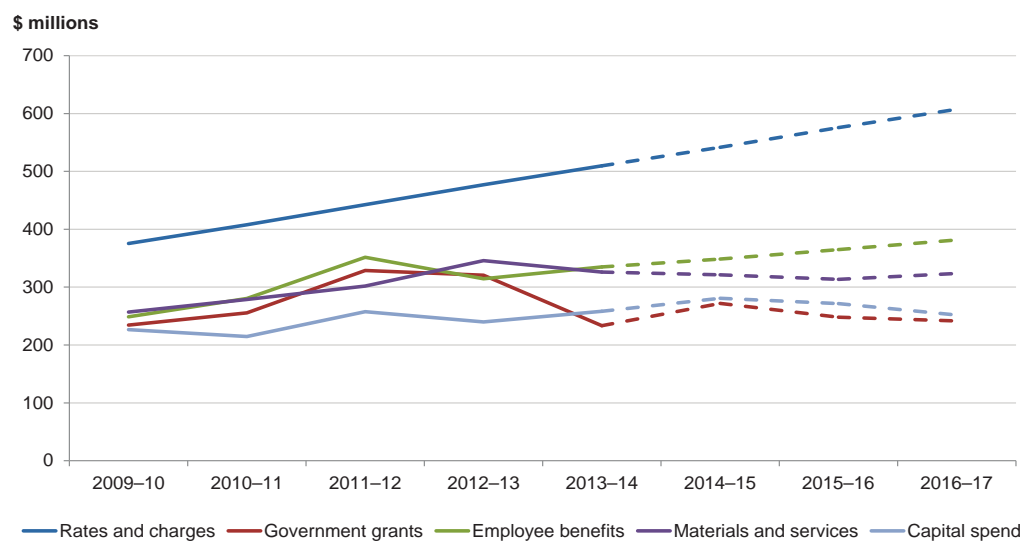
Employee benefits and rates have broadly increased in line with each other across the five-year period after allowing for the spike in 2011–12 for the defined benefit superannuation funding call.

Regional city councils, similar to large shire and small shire councils, have a higher reliance on government grants to fund operations and their capital works programs as evident in the similar trend from 2014–15 onwards.

4.3.4 Large shire councils

Figure 4F shows the five-year trend from 2009–10 to 2013–14 and forecast (2014–15 to 2016–17) for rates and charges, grants, employee benefits, materials and services and capital spend.

Figure 4F
Trend and forecast results for large shire councils



Source: Victorian Auditor-General's Office.

Rates and charges for this cohort have increased by an average of 6 per cent from 2009–10 to 2013–14. These increases have been largely negated by an average annual increase of 6 per cent in employee benefits and 5 per cent in materials and services.

Large shire councils are more reliant on government grant funding than regional city councils to sustain operations and fund capital works but also have a greater capacity to utilise rate revenue as an alternative source of income compared with small shire councils.

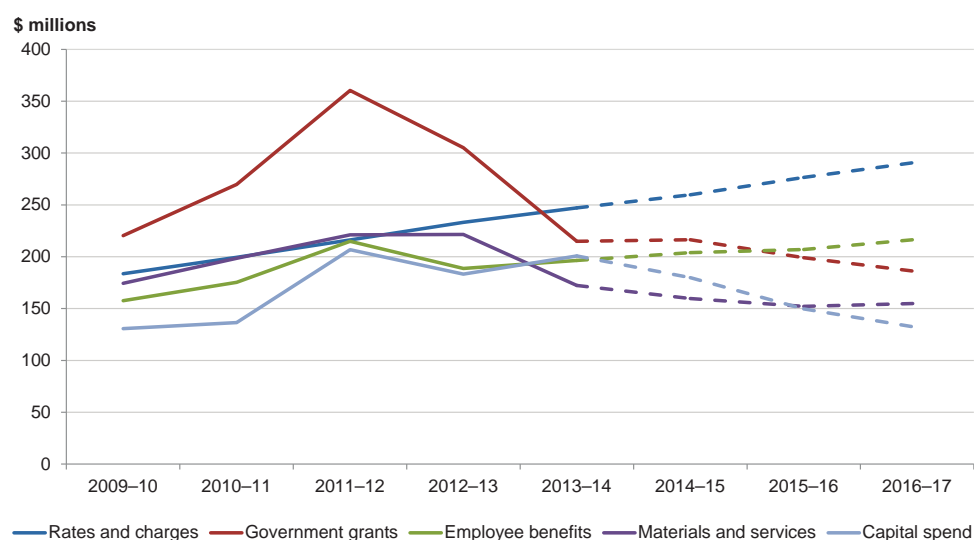
Rate revenue and employee benefits are forecast to increase by an average of 4 per cent and 3 per cent for the period 2014–15 to 2016–17 respectively. Increases in capital spend and materials and services for the same period are forecast to plateau or decrease.

4.3.5 Small shire councils

Small shire councils are located in rural areas and cover 40 per cent of Victoria's total area with populations of less than 20 000 people. These councils are the most sensitive to changes in their revenue and expenditure streams.

Figure 4G shows the five-year trend from 2009–10 to 2013–14 and forecast (2014–15 to 2016–17) for rates and charges, grants, employee benefits, materials and services and capital spend.

Figure 4G
Trend and forecast results for small shire councils



Source: Auditor-General's Office.

Small shires are the most dependent on grant funding to sustain their operations as they have a lower population base to generate rate revenue from. Until 2013–14, it was the only council category whereby revenue generated from government grants exceeded rates and charges. Consequently 10 councils in this category reported an underlying deficit for the 2013–14 year (four in 2012–13). Without adequate grant funding, these councils are unable to meet their employee benefits, supplier obligations and capital spend.

Small shire councils project a rapid decline in receipts of government grants across the forward estimates and will continue the trend whereby rates and charges overtake government grants as the primary source of revenue. Consequently growth in major council expenditure categories have been curbed or forecast to decrease. Capital spend is projected to deteriorate by 10 per cent as natural disaster reconstruction works near completion and a greater emphasis is placed on maintaining those assets.

Our audit report *Organisational Sustainability of Small Councils*, tabled in June 2013, identified that small shire councils' reliance on government grants had increased substantially over a period of five years. This exposes these local councils to significant financial risks if the number and value of grants are reduced or the timing of grant payments change. Small shire councils should have a sound understanding of the issues and challenges impacting their sustainability and develop appropriate strategies to mitigate their impact as much as possible.

4.4 Financial result—regional library corporations

The overall operating result for RLCs improved from a surplus of \$3.11 million in 2012–13 to a surplus of \$4.56 million in 2013–14. This improvement was due to increases in council contributions partly offset by increases in employee benefits.

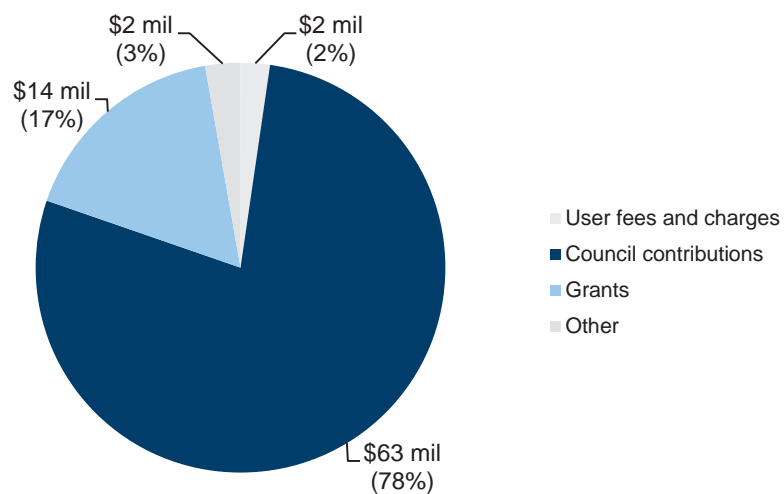
Seventy-five per cent of RLCs total revenue comes from councils, so they remain heavily dependent upon council support to fund their ongoing operations. Without this level of continuing support RLCs will struggle to provide the services that they were set up to deliver.

4.4.1 Operating revenue

In 2013–14, revenue for RLCs amounted to \$80 million (\$77 million in 2012–13). Government grants marginally increased from \$13.4 million in 2012–13 to \$14.0 million in 2013–14.

Figure 4H shows the overall composition of operating revenue for RLCs in 2013–14.

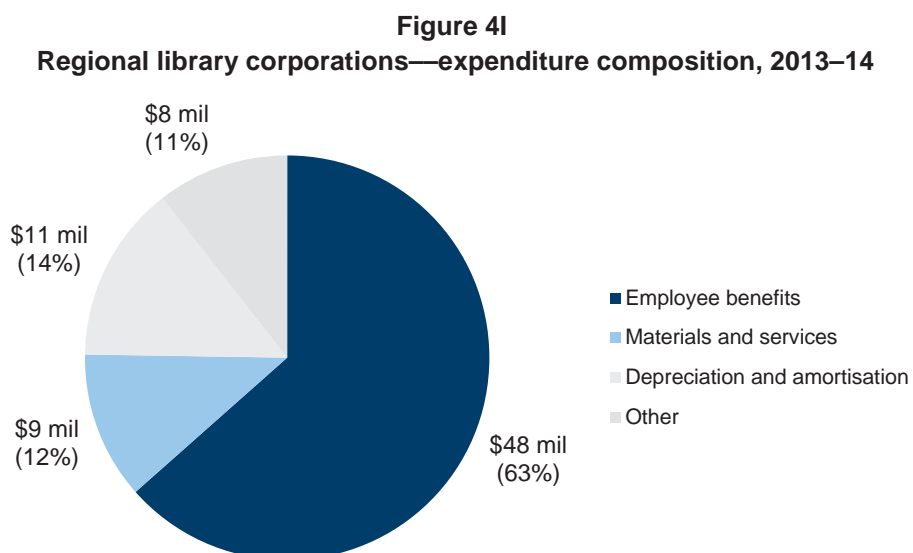
Figure 4H
Regional library corporations—revenue composition, 2013–14



Source: Victorian Auditor-General's Office.

4.4.2 Operating expenditure

In 2013–14, RLCs had expenditure of \$75 million (\$73 million in 2012–13). Figure 4I shows the composition of expenditure for the year.



Source: Victorian Auditor-General's Office.

The largest component of expenditure was employee benefits of \$48 million which had increased from \$45 million in 2012–13, a 6.7 per cent increase from the previous year. All other expenditure components had remained consistent with 2012–13.

5 Financial sustainability risks

At a glance

Background

To be financially sustainable, entities need to be able to meet current and future expenditure as it falls due, and to absorb foreseeable changes and financial risks without significantly changing their revenue and expenditure policies. This Part provides insight into the financial sustainability risks of the 79 local councils.

Conclusion

Five local councils were assessed as a high financial sustainability risk in 2013–14 (two in 2012–13), three due to delays associated with the Local Government Funding Vehicle (LGFV) to raise debt.

Findings

- The LGFV was a facility established by the Municipal Association of Victoria to provide debt financing to local councils. It originated as a result of the \$406 million shortfall in defined benefit superannuation plans in 2011–12. A total of \$240 million was borrowed by 30 local councils. These borrowings require interest-only repayments until maturity of the debt in five or seven years. Local councils who participated in the LGFV will not be making principal repayments until the debt matures. This means the total interest paid over the five or seven years will be higher than they would have paid had the principal been gradually reduced during the term of the loan, where interest is paid on the reduced principal amount. There is also a risk that local councils will not have the funds available to make the full repayment when the debt matures.
- Forty-two per cent of local councils were rated as high or medium self-financing risk compared to 34 per cent in 2012–13.
- Twenty-one local councils reported an underlying deficit compared with eight in 2012–13. The deterioration in the underlying results and self-financing ratios were predominantly driven by the Commonwealth Government decision not to pay financial assistance grants in advance. Small and large shire councils were most affected with 17 reporting underlying deficits for the year (seven in 2012–13).

5.1 Introduction

To be financially sustainable, entities need to be able to meet their current and future expenditure as it falls due. They also need to absorb foreseeable changes and financial risks that materialise without significantly changing their revenue and expenditure policies.

Financial sustainability should be viewed from both the short-term and long-term perspective. Short-term indicators relate to the ability of an entity to maintain positive operating cash flows, or the ability to generate an operating surplus in the next financial year. Long-term indicators focus on strategic issues such as the ability to fund significant asset replacement or reduce long-term debt.

In this Part, insight is provided into the financial sustainability of local councils as at 30 June 2014 using six key financial sustainability indicators, and trends in the indicators over the past five years. This analysis identifies trends that warrant attention or highlight positive results for individual local councils and the five local council categories—inner metropolitan, outer metropolitan, regional city, large shire and small shire.

Appendix E describes the sustainability indicators, the risk assessment criteria used, and their significance.

5.2 Financial sustainability

5.2.1 Assessment by council category

Figure 5A shows that the number of local councils with a high financial sustainability risk assessment increased from two in 2012–13 to five in 2013–14. The number of local councils with a medium sustainability risk decreased from 11 in 2012–13 to seven in 2013–14.

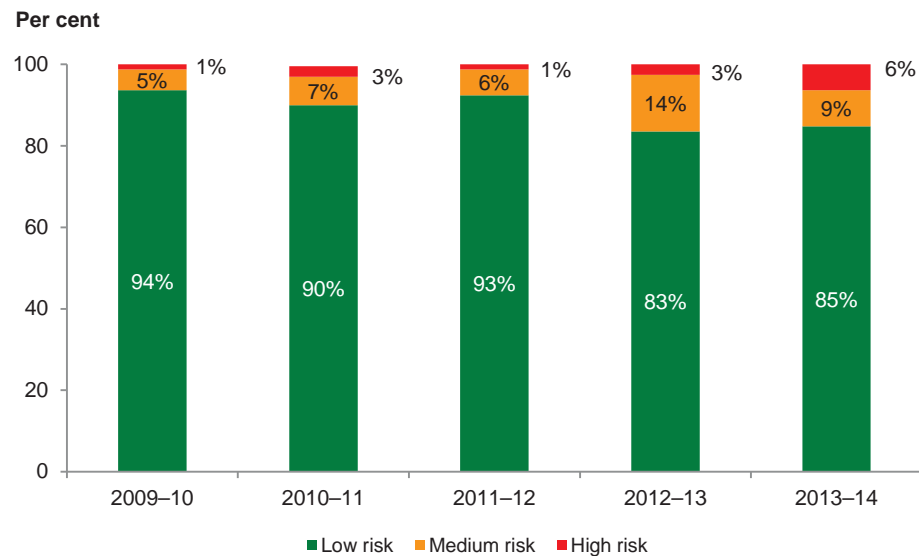
Figure 5A
Two year financial sustainability risk assessment, by council category

Council	2013–14			2012–13		
	High	Medium	Low	High	Medium	Low
Inner metropolitan	1	1	15	1	2	14
Outer metropolitan	1	1	12	–	4	10
Regional city	–	1	10	–	1	10
Large shire	1	3	12	–	3	13
Small shire	2	1	18	1	1	19
Total	5	7	67	2	11	66
Per cent	6	9	85	3	14	83

Source: Victorian Auditor-General's Office.

Figure 5B shows that from 2009–10 to 2011–12 the overall financial sustainability risk assessment was relatively consistent. Seventeen per cent of local councils in 2012–13 were rated as medium or high risk compared with 15 per cent in 2013–14.

Figure 5B
Five-year financial sustainability risk assessment



Source: Victorian Auditor-General's Office.

The number of local councils with a financial sustainability risk assessed as high increased from two to five. Having a liquidity ratio of less than one at 30 June 2014 was the main driver behind the high financial sustainability risk assessments. Of the five local councils assessed as high risk, three were impacted by the delay in refinancing debt into the new Local Government Funding Vehicle (LGFV).

The LGFV was a facility established by the Municipal Association of Victoria to provide debt financing to local councils. It originated as a result of the \$406 million shortfall in defined benefit superannuation plans in 2011–12. A total of \$240 million was borrowed by 30 local councils. These borrowings require interest only repayments until maturity of the debt in five or seven years. Local councils who participated in the LGFV will not be making principal repayments until the debt matures. This means the total interest paid over the five or seven years will be higher than they would have paid if the principal was gradually reduced during the term of the loan, where interest is paid on the reduced principal amount. There is also a risk that local councils will not have the funds available to make the full repayment when the debt matures.

Our report *Effectiveness of Support for Local Government*, to be tabled in Parliament in February 2015, assessed the economy, efficiency and effectiveness of support provided to local councils, including that provided by the Municipal Association of Victoria.

Eight local councils previously assessed as high or medium risk improved and were assessed as low in 2013–14. The sustainability assessments of these local councils in 2012–13 were largely impacted by the higher self-financing ratios following repayment of their defined benefit superannuation funding call liability. However the sustainability assessments of another three local councils deteriorated in 2013–14 due to lower self-financing ratios.

5.2.2 Assessment of financial sustainability risk by council category

The overall risk assessments for each of the five categories of local councils are discussed below. Detailed results of our sustainability risk assessments for each category and each council can be found in Appendix E.

Inner metropolitan councils

The overall 2013–14 financial sustainability risk for the 17 inner metropolitan councils was assessed as low. One local council was assessed as high risk and one local council was assessed as medium risk in the year compared to three in both categories in 2012–13.

Yarra City Council's financial sustainability risk improved from high risk in 2012–13, because of a liquidity ratio less than 1.00, to low in 2013–14 with a liquidity ratio of 1.07.

Hobsons Bay City Council's was assessed as having a high risk assessment as its liquidity ratio fell below 1.00 on 30 June 2014 following long-term debt becoming current in anticipation of the council's entry into the LGFV for debt procurement. The council's three-year forecast indicates a liquidity ratio above 1.00 from 2014–15 onwards.

Port Phillip City Council was assessed as having a medium financial sustainability risk (low in 2012–13) due to a high self-financing ratio risk. This was driven by an increase of 12 per cent in payments to employees largely caused by the full year's operation of the redeveloped and expanded Bubup Nairn family and children's centre.

Outer metropolitan councils

The overall 2013–14 financial sustainability risk for the 14 outer metropolitan councils was assessed as low.

Four local councils were assessed as medium risk in 2012–13 with Nillumbik Shire Council and Yarra Ranges Shire Council's sustainability risk assessments impacted by repaying their defined benefit superannuation funding call liability in that year. In 2013–14 these two local councils were assessed as low financial sustainability risk.

Brimbank City Council was assessed as having a high financial sustainability risk in 2013–14 because its liquidity ratio fell below 1.00 on 30 June 2014 following long-term debt becoming current in anticipation of the council's entry into the LGFV for debt procurement. The council's three-year forecast indicates a liquidity ratio above 1.00 from 2014–15 onwards.

The renewal gap continues to be a challenge for this cohort of local councils, with no demonstrable improvement from the previous year. Eight local councils were rated as medium risk (eight local councils or 57 per cent in 2012–13).

Outer metropolitan councils service the growth corridors of Melbourne. While their primary focus is more on meeting new infrastructure needs rather than on maintaining assets at serviceable levels, the asset renewal gap is a challenge for them.

Regional city councils

The overall 2013–14 financial sustainability risk for the 11 regional city councils was assessed as low. However, as has been the case since 2007–08, Wodonga City Council was again assessed as medium risk. The council nevertheless continues to pay off borrowings incurred to fund its manufacturing, transport and logistics precinct known as LOGIC.

Similar to inner metropolitan councils, regional city councils have established assets. But uniquely, they serve as proxy centres to the large and small shire councils geographically located around them. As a consequence they will need to continue to focus on spending on renewing and maintaining their existing assets while looking to stimulate economic growth in the area. This is evidenced by 36 per cent of local councils in this cohort having a renewal gap ratio of less than 1.00.

Large shire councils

The overall financial sustainability risk for the 16 large shire councils was assessed as low for 2013–14. Three local councils in this cohort were assessed as medium risk in 2013–14 (three local councils or 19 per cent in 2012–13). One council, Moorabool Shire Council, was assessed as high risk owing to a liquidity ratio less than 1.00.

Moorabool Shire Council's liquidity ratio fell below 1.00 on 30 June 2014 following long-term debt becoming current in anticipation of the council's entry into the LGFV for debt procurement. The council's three-year forecast indicates a liquidity ratio above 1.00 from 2014–15 onwards.

Moira Shire Council's medium sustainability risk assessment remained the same because of a high self-financing risk ratio largely driven by the timing of cash receipts and payments of natural disaster funding and associated works.

Surf Coast Shire Council was a medium risk in 2013–14 (low in 2012–13) because of its high indebtedness ratio after recognising additional landfill provisions associated with its Anglesea landfill site.

Small shire councils

The overall financial sustainability risk for the 21 small shire councils was assessed as low for 2013–14. Buloke Shire Council was again assessed as high risk (also high in 2012–13).

Buloke Shire Council reported a positive underlying operating result for 2013–14 due to the receipt of significant non-recurrent capital grant funding. However, at balance date the council had a poor liquidity position and had used its overdraft facility to meet its short-term commitments associated with flood recovery works. The council's poor liquidity position had been exacerbated by its earlier borrowings to meet its defined benefit superannuation obligations. The audit opinion on the 2013–14 financial statements continues to emphasise the material uncertainty that may cast doubt over this council's ability to continue as a going concern for financial reporting purposes.

The underlying results for 10 small shire councils deteriorated significantly in 2013–14 (four in 2012–13) due to the Commonwealth not providing its financial assistance grants in advance. Yarriambiack Shire Council's liquidity ratio, which fell below 1.00 on 30 June 2014, was significantly impacted by this re-phasing. Notwithstanding the timing adjustment, the re-phasing that occurred in 2013–14 should not result in an impact to local councils in future years as the new timing for grants will have been in place for the entire year.

Part 4 of this report highlights the reliance by local councils in this cohort on grant funding to support their continued operations, and their vulnerability to changes in federal and state government funding policy or decision-making. This exposes them to the potential for higher financial risks in the future.

5.3 Five-year sustainability trend analysis

This section analyses and comments on the trends for six sustainability indicators over the past five years.

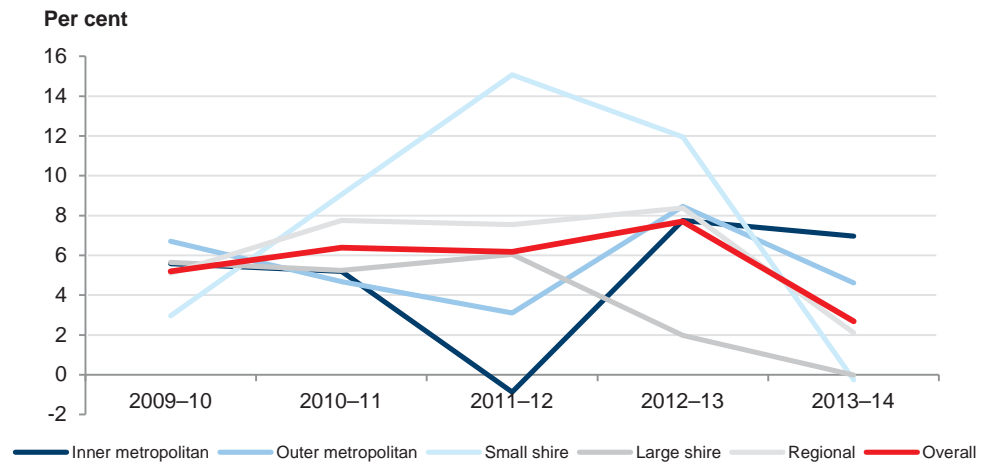
5.3.1 Underlying result

A continuous positive underlying operating result means that an entity has the capacity to expand services, reduce debt and/or facilitate capital works.

The underlying result for the sector across the five years was positive, fluctuating between 5 per cent and 8 per cent indicating no immediate concerns at the sector level. However in 2013–14 four of the five local council categories experienced a decline in their average underlying results due to local councils not receiving advance payments of 2014–15 financial assistance grants in the current year.

Figure 5C shows the average underlying result for all local councils since 2009–10.

Figure 5C
Average underlying result



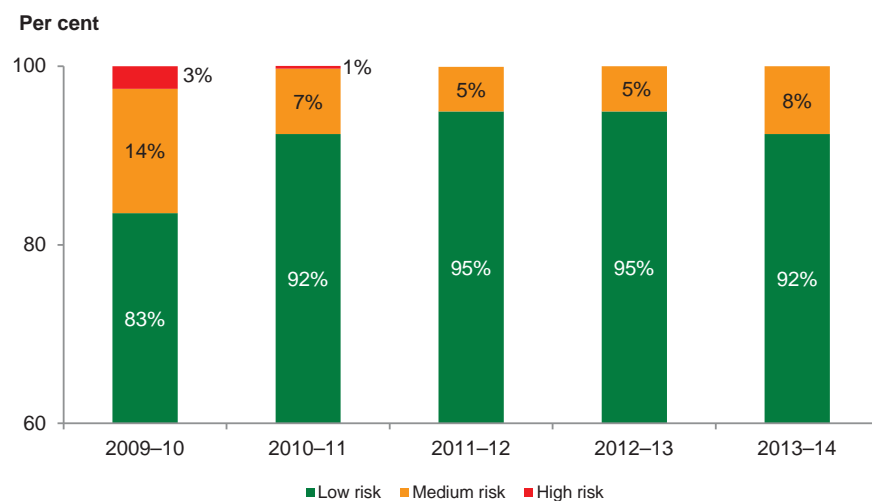
Source: Victorian Auditor-General's Office.

The decline in the average underlying results for all local council categories was primarily due to the Commonwealth Government's announcement in its May Budget that it would not pay 2014–15 financial assistance grants in the 2013–14 financial year, contrary to previous practice. As a consequence, 21 local councils reported an underlying deficit, compared with eight in 2012–13.

Inner metropolitan councils, who are the least reliant on financial assistance grants, displayed no change in the average underlying result from the prior period.

Figure 5D shows that the underlying result of 8 per cent of local councils was assessed as medium risk in 2013–14 (5 per cent in 2012–13).

Figure 5D
Underlying result risk assessment



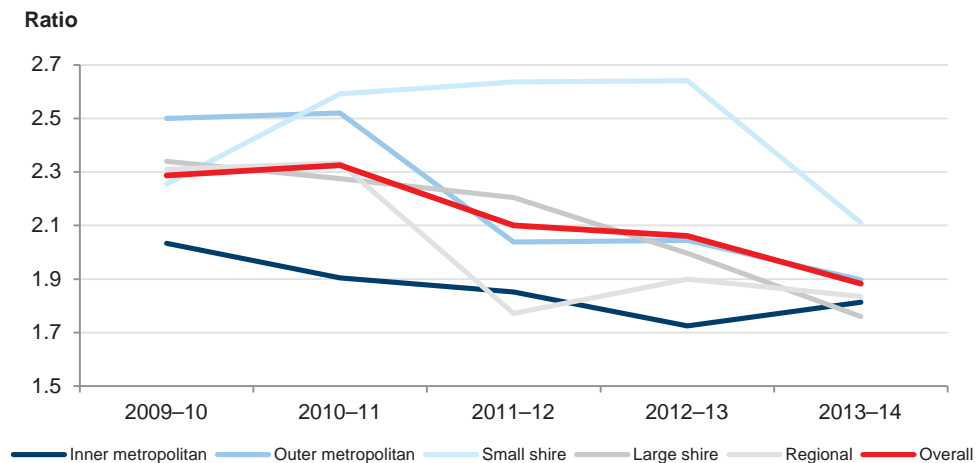
Source: Victorian Auditor-General's Office.

The proportion of local councils assessed as medium or high risk has decreased from 17 per cent to 8 per cent since 2009–10, with no high-risk assessments in 2011–12 to 2013–14. The proportion of local councils assessed as low risk has remained stable over the past four years.

5.3.2 Liquidity

Figure 5E shows that the average liquidity ratio for the sector was above 1.50 for 2013–14, indicating no immediate concerns at the sector level. However, the ability of local councils to repay their short-term financial obligations has declined in all but the inner metropolitan cohort.

Figure 5E
Average liquidity ratio by local council category



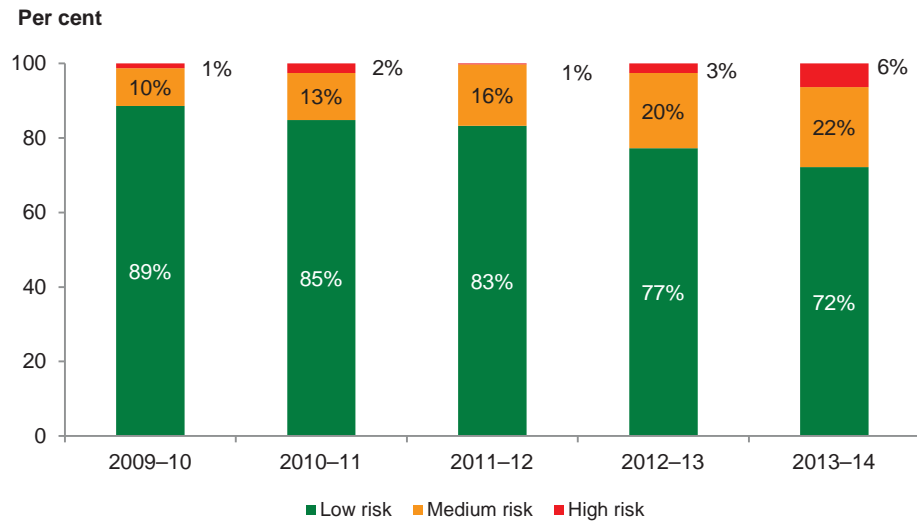
Source: Victorian Auditor-General's Office.

The average liquidity ratio decreased from 2.10 in 2011–12 to 1.88 in 2013–14. All cohorts except for inner metropolitan councils experienced declines in their average liquidity ratios since 2012–13 in part due to the Commonwealth Government no longer bringing forward the payment of financial assistance grants into the previous financial year. The withdrawal of forward payments, normally paid in June, did not give local councils adequate time to adjust to the revised payment schedule.

Small shire councils were the most affected by the Commonwealth Government's decision with the average liquidity ratio decreasing from 2.64 in 2012–13 to 2.11 in 2013–14. Small shire councils have a higher reliance on financial assistance grants averaging 15 per cent of total revenue across five years. Notwithstanding, this cohort has the highest average liquidity ratio meaning it has adequate cash flow for repaying short-term debt.

Figure 5F shows that the proportion of local councils assessed as high risk increased from 3 per cent in 2012–13 to 6 per cent in 2013–14. Local councils assessed as medium risk also increased from 20 per cent in 2012–13 to 22 per cent in 2013–14.

Figure 5F
Liquidity risk assessment

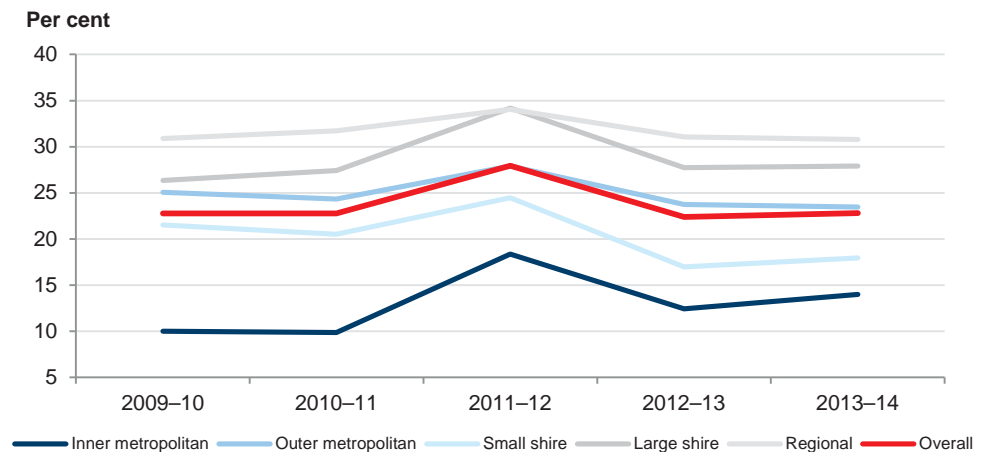


Source: Victorian Auditor-General's Office.

5.3.3 Indebtedness

Figure 5G shows the average indebtedness of local councils over the five-year period.

Figure 5G
Average indebtedness by local council category



Source: Victorian Auditor-General's Office.

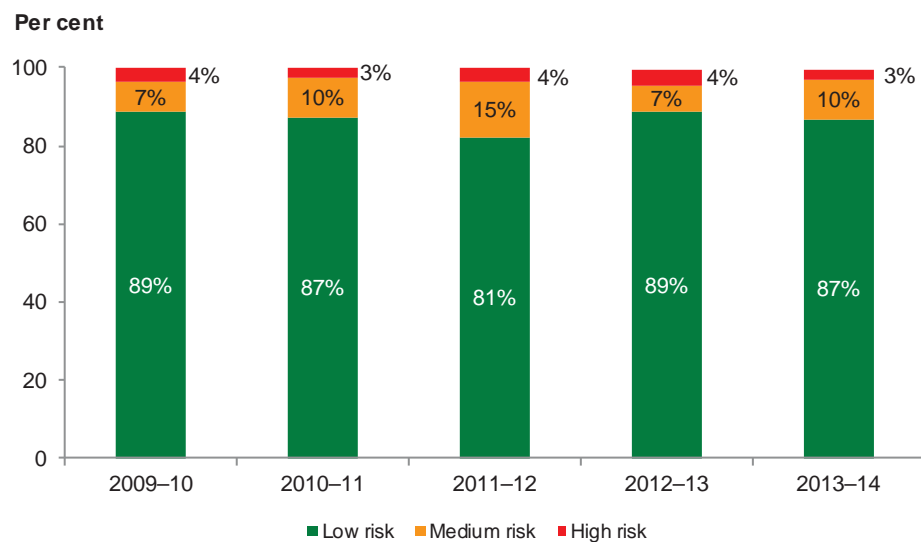
Average indebtedness for the sector which peaked in 2011-12 was affected by the payment options afforded to the local councils for the defined benefit superannuation funding call. The improvement in 2012-13 was due to a reduction in obligations for those local councils that chose to defer payments to 2012-13. Average indebtedness for all council cohorts remained stable between 2012-13 and 2013-14.

Inner metropolitan councils continue to have the lowest indebtedness of all categories and the greatest capacity to increase revenue through fees and charges. As a result, the risk that inner metropolitan councils will not service their debt is low.

Conversely, large and regional councils continue to have the highest indebtedness. These local councils have limited discretionary revenue options and should continue to actively manage and monitor their debt.

Figure 5H shows that the proportion of local councils in the medium- and high-risk categories is comparable to the indebtedness risk assessments prior to 2012–13. Nevertheless local councils need to remain focused on maintaining their debt at sustainable levels.

Figure 5H
Indebtedness risk assessment

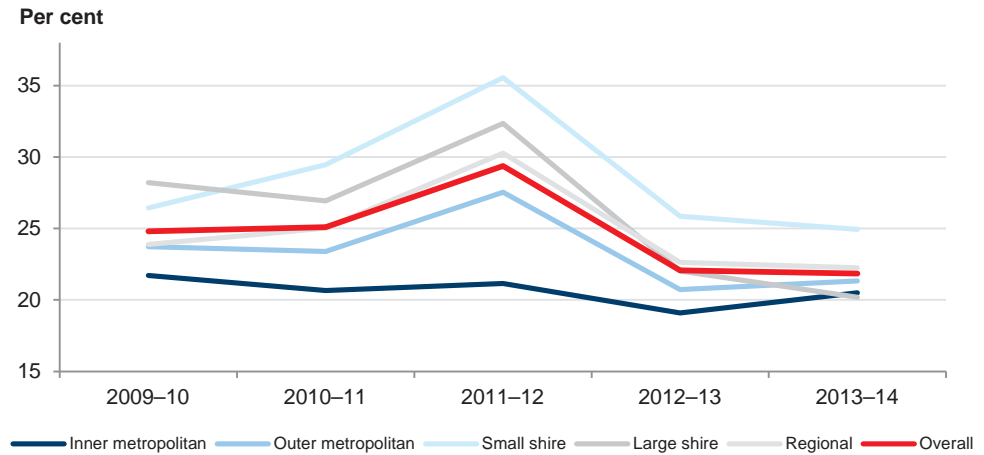


Source: Victorian Auditor-General's Office.

5.3.4 Self-financing

The self-financing ratio gives an indication of whether local councils have generated sufficient operating cash flows to invest in asset renewal and repay any debt that may have been incurred in the past.

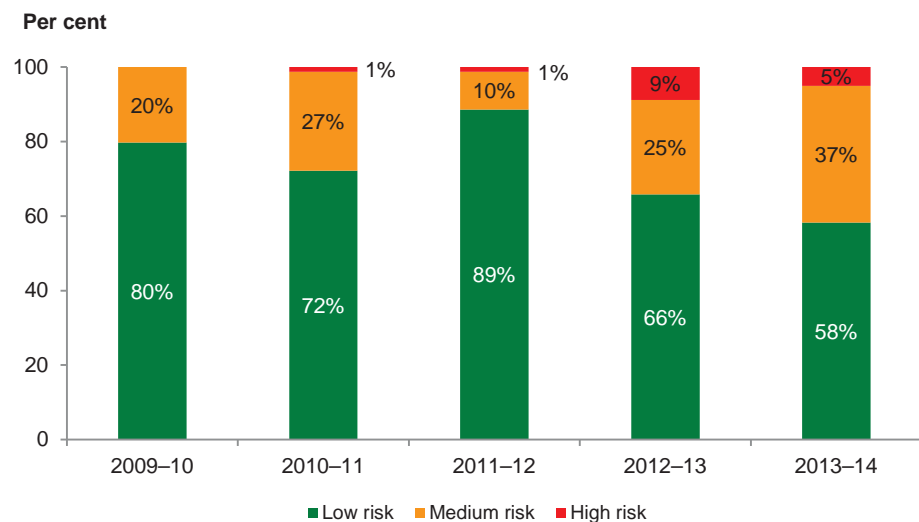
Figure 5I
Average self-financing by local council category



Source: Victorian Auditor-General's Office.

Figure 5I shows a substantial decrease in the overall self-financing ratio from 2011-12 to 2012-13 due to the timing of payments associated with the defined benefit superannuation funding call. From 2012-13 to 2013-14 the overall self-financing ratio remained stable.

Figure 5J
Self-financing risk assessment



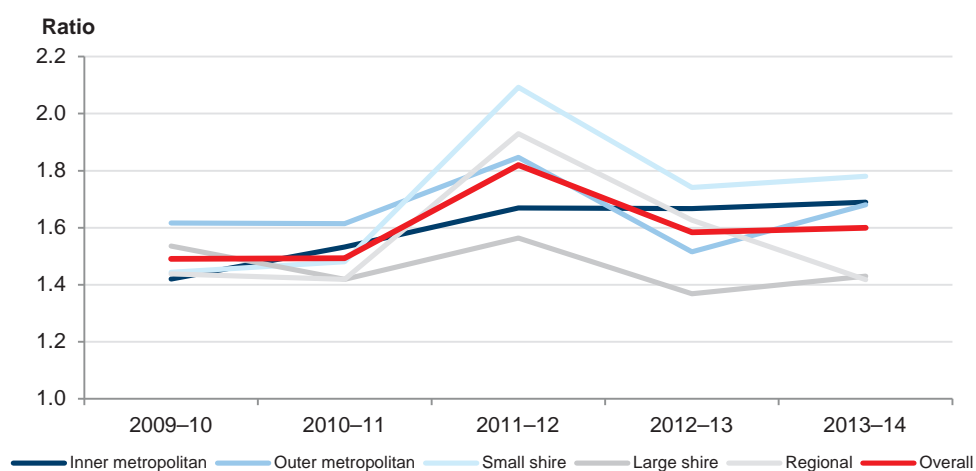
Source: Victorian Auditor-General's Office.

Figure 5J shows an increase in self-financing risk, with 42 per cent of local councils rated as high or medium risk compared with 34 per cent in 2012-13. The deterioration is due to the lower receipts of cash associated with the financial assistance grants.

5.3.5 Capital replacement

Figure 5K shows that the average capital replacement ratio across all council categories.

Figure 5K
Average capital replacement by local council category



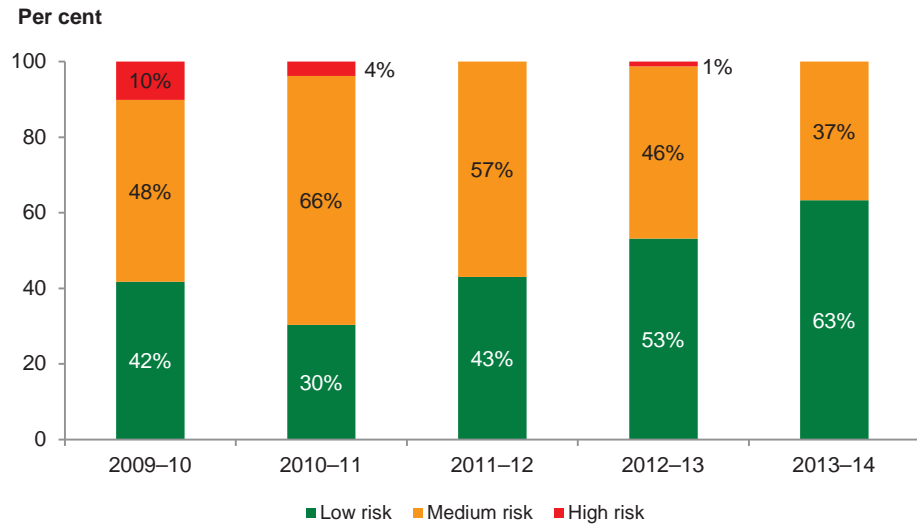
Source: Victorian Auditor-General's Office.

Across five years the overall trend for the sector shows that capital spending on infrastructure, property, plant and equipment is at least one and a half times greater than aggregate depreciation and amortisation. This shows that local councils are assessed as low risk overall. Higher aggregate capital expenditure of \$1.9 billion in 2013-14 (\$1.8 billion in 2012-13) compared with minimal increases in aggregated depreciation contributed to the overall improvement.

The capital replacement indicator for regional city councils deteriorated, differing from the other council cohorts, indicating that the rate of capital spending in 2013-14 did not match the consumption of its assets—as represented by depreciation and amortisation.

Figure 5L shows an improvement in the capital risk assessment with 63 per cent of local councils rated as low in 2013-14 compared with 42 per cent in 2009-10. Nevertheless 37 per cent of local councils are still assessed as a medium risk on this indicator.

Figure 5L
Capital replacement risk assessment



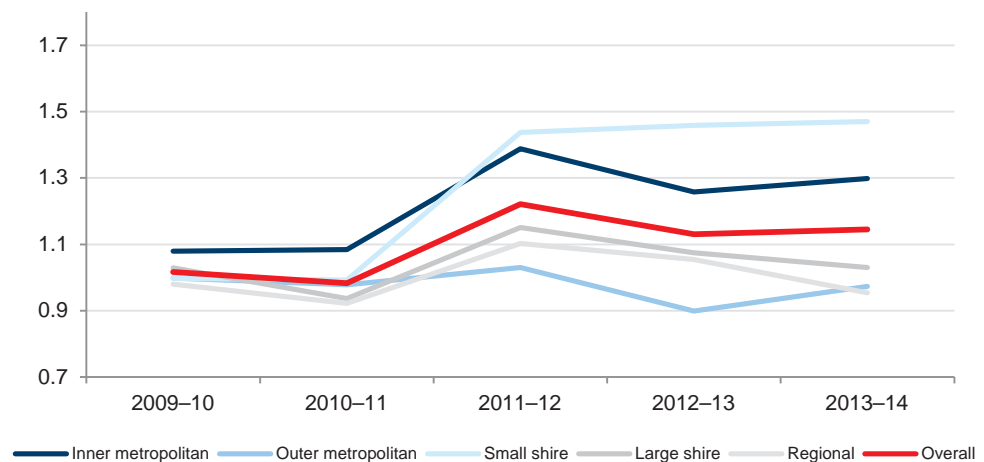
Source: Victorian Auditor-General's Office.

5.3.6 Renewal gap

The renewal gap compares the rate of spending through renewing, restoring and replacing existing assets with the rate that they depreciate. Spending more than the rate an asset is used indicates that an entity is sufficiently renewing its assets.

Figure 5M shows that the sector average renewal gap has improved over the five-year period, though there is a decline for regional and large shire councils.

Figure 5M
Average renewal gap by council category



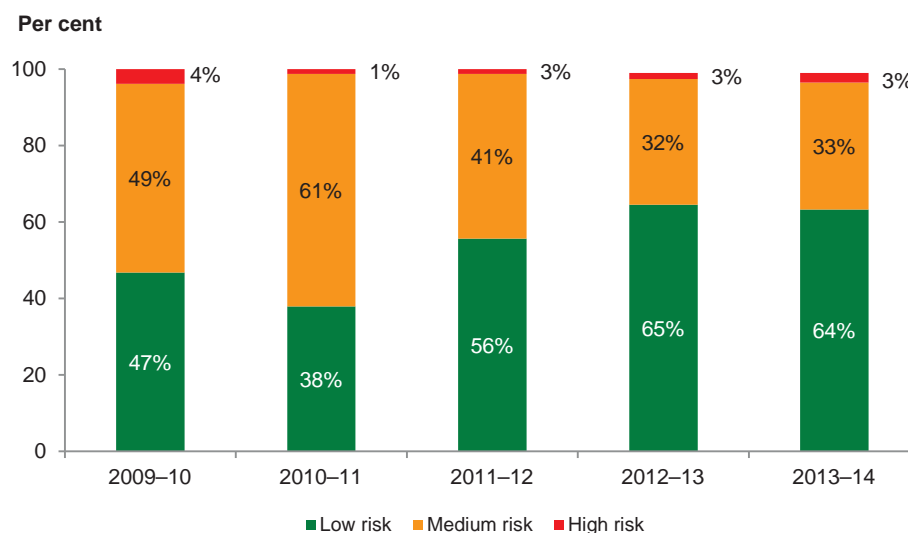
Source: Victorian Auditor-General's Office.

Between 2012–13 and 2013–14, the renewal gap indicator trended similarly to the capital replacement indicator, with local councils exceeding their rate of asset renewal spending compared with the rate assets are depreciated.

Regional city and large shire councils reported a decline in their average renewal gap from 2011–12 to 2013–14. These cohorts must actively monitor their rate of spend and remain focused on maintaining their assets at serviceable levels as they age.

Figure 5N shows that the renewal gap risk assessment has improved from 2010–11 to 2012–13 and has remained stable since.

Figure 5N
Renewal gap risk assessment



Source: Victorian Auditor-General's Office.

6 Internal controls

At a glance

Background

This Part presents the results of our assessment of the internal controls associated with the preparation of financial statements, creditor management and grant management.

Conclusion

Internal controls at councils were adequate for maintaining the reliability of financial reporting. Nevertheless, we identified a number of instances where important internal controls need to be strengthened. These matters were reported to the local councils and their management teams and included 99 high risk and medium risk-rated matters (79 in 2012–13).

The management of creditors and grants by local councils was generally sound, however, controls could be strengthened by developing comprehensive policies, introducing more effective management practices, and enhancing policy compliance monitoring.

Findings

- Sixty-one per cent of previous year audit findings relating to high- and medium-risk internal control deficiencies are yet to be rectified.
- On average, local councils did not have all key elements of an effective creditor management framework in place.
- Better practices can be incorporated into local councils current grant management framework.

Recommendations

That local councils:

- through audit committees, implement appropriate monitoring mechanisms to ensure our audit findings are addressed by management on a timely basis
- review and update their policies and procedures on creditors to include all key elements incorporated in better practice creditor management frameworks
- review and update their policies and procedures on grants management to include all better practice elements incorporated in the effective grant management frameworks.

6.1 Introduction

Poor internal controls diminish council's ability to achieve an entity's objectives, deliver agreed service levels and comply with relevant legislation. Poor internal controls also increase the risk of fraud, error, irregularities and financial report misstatements. Reliable internal controls are a prerequisite for accurate and timely financial reporting.

The councillors and management of each local council are responsible for developing and maintaining adequate systems of internal control to enable:

- preparation of accurate financial records and other supporting information
- timely and reliable external and internal reporting
- safeguarding of public assets
- prevention or detection of fraud, errors and other irregularities.

Integral to the annual financial audit is an assessment of the adequacy of the internal control framework—and the governance processes—related to an entity's financial reporting.

Internal controls are systems, policies and procedures that help an entity to reliably and cost-effectively meet its objectives. Sound internal controls enable delivery of reliable, accurate and timely external and internal reports.

This Part comments on the general internal controls associated with the preparation of financial and standard statements of the 79 local councils, and their management of creditors and grants.

6.2 General internal controls

Internal controls at local councils were adequate for maintaining the reliability of financial reporting. Nevertheless, we identified a number of instances where important internal controls need to be strengthened. These matters were reported to the local councils and their management teams.

General internal controls

Weaknesses in internal controls that are found during the audit of an entity are reported to its mayor or administrator (on behalf of the council), chief executive officer and audit committee in a management letter.

In 2013–14, there were 160 control-related issues reported in local councils' interim and final management letters (115 in 2012–13). Figure 6A shows the reported issues by area and by risk rating.

Figure 6A
2013–14 reported issues by area and risk

Area	2013–14			Total
	High	Medium	Low	
Supplier payments	–	29	17	46
Payroll	2	15	13	30
General ledger	2	9	8	19
IT controls	9	14	11	34
Revenue	–	11	7	18
Governance	2	3	2	7
Assets	–	3	3	6
Total	15	84	61	160
Per cent	9	53	38	

Source: Victorian Auditor-General's Office.

Of the 160 reported control-related issues 76 (48 per cent) related to supplier payments and payroll control deficiencies. Adequate internal controls should exist for the processing and monitoring of supplier payments and payroll to mitigate the risk of error, fraud or mismanagement.

Fifteen high-risk issues were identified and reported to management. Nine of these issues related to inadequate IT disaster recovery or business continuity plans and inadequate review of access rights and security profile at five local councils. The other risks were in relation to the inadequate review of journals, segregation of duties and inadequate financial preparation process.

Status of prior period issues

Internal control deficiency issues identified in prior periods are presented and communicated to councils and their audit committees through the current years' interim management letters. These issues are monitored to ensure weaknesses identified in the control environments identified by previous audits are resolved promptly. Figure 6B shows the internal control deficiency issues identified in the prior period with the resolution status by risk.

Figure 6B
Prior period internal control deficiency issues—resolution status by risk

Status	2013–14			Total	Per cent
	High	Medium	Low		
Not yet commenced	–	1	1	2	2
Ongoing	4	43	16	63	55
Completed	6	25	19	50	43
Total	10	69	36	115	100

Source: Victorian Auditor-General's Office.

In the prior period, 79 high- and moderate-risk internal control deficiency issues were reported to management for immediate rectification with only 31 actioned and completed within the past 12 months.

A high or moderate risk rating indicates that the issues identified pose a control weakness which could have adverse effects on the ability of a local council to:

- achieve its process objectives
- comply with relevant legislation
- identify material misstatements if the control weaknesses are not addressed.

To provide local councils with adequate time to action identified 2013–14 internal control issues, a follow up will be conducted by VAGO as part of the planning for 2014–15 audits. A status update will also be provided to local councils as part of the 2014–15 interim management letters.

6.3 Creditor management

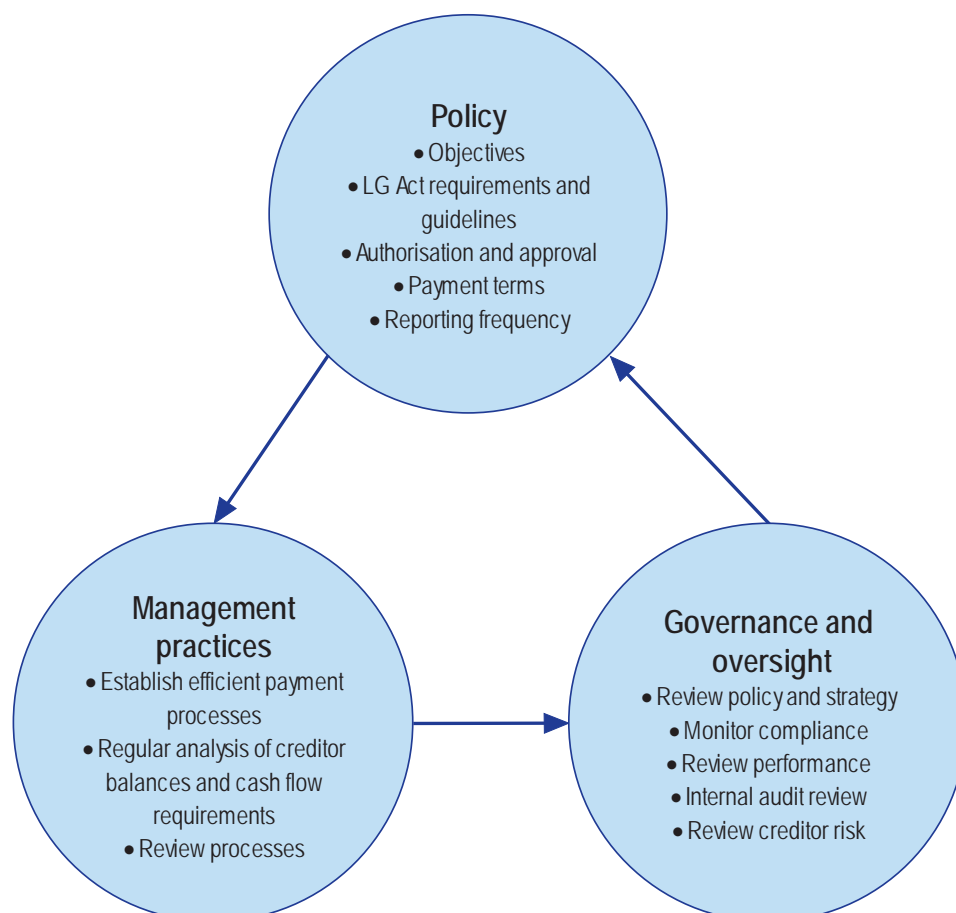
In 2013–14, Victoria's 79 local councils spent \$2.4 billion procuring materials and services and \$1.9 billion in payments for capital works. The effective management of creditors is vital as the volume and value of invoices processed increases.

The *Local Government Act 1989* requires sound financial management to be exercised by local councils. This includes the effective management of current and future liabilities.

Effective creditor management results in lower transaction processing costs, improved efficiency and control.

The key elements of an effective creditor management framework are detailed in Figure 6C, which draws on the Standing Directions of the Minister for Finance. While the directions are not mandatory for local government, it provides and outlines the components of effective creditor management controls and processes.

Figure 6C
Key elements of an effective creditor management framework



Source: Victorian Auditor-General's Office.

6.3.1 Policies and procedures

The existence of policies and procedures is an important reference point so that tasks are completed in a consistent manner and result in valid transactions being recorded and reported.

Most local councils did not have a dedicated creditor management policy in place, instead having key elements incorporated into their procurement policies. Nevertheless it was pleasing to note that 10 local councils were in the process of drafting dedicated creditor management policies.

While most of the elements of better practice were included in local council policies and procedures, 37 local councils (46 per cent) did not clearly articulate the conditions under which they negotiated their terms of trade with creditors. Without clear guidance about how to manage terms of trade, councils can miss opportunities to better manage and utilise their cash flows more effectively.

6.3.2 Management practices

The administration of creditor payments is an important responsibility of local councils, and the technology supporting this is constantly evolving. The more efficient systems have at least some of the following features—automatic ageing analysis, system-based matching of invoices for authorisation, and payment by electronic funds transfer (EFT).

Figure 6D shows the payment method, by volume, used by local councils.

Figure 6D
Payment methods of local councils (percentage)

Cohort	EFT	Cheque	Corporate card and/or purchasing card
Inner metropolitan	82%	11%	6%
Outer metropolitan	73%	14%	13%
Regional city	83%	7%	10%
Small shire	86%	9%	4%
Large shire	84%	9%	7%
Total	82%	10%	8%

Source: Victorian Auditor-General's Office.

Local councils use EFT more than other payment methods. The use of cheques has diminished over the years as local councils capitalise on the use of EFT because it is more efficient and secure as local councils can reliably control accounting and authorisation procedures.

The use of corporate cards and/or purchasing cards provides local councils with reduced administrative costs, and greater convenience and flexibility for staff compared to using cash or cheques. It can, however, expose entities to different risks of inappropriate or unauthorised expenditure if appropriate controls are not in place. Controls should be established to ensure corporate cards and/or purchasing cards are used appropriately for local council purposes.

In our *Local Government: Results of Audits 2014–15* report we plan to assess local council controls and security over credit and debit card transactions and data.

Ageing of creditors

Creditors set payment terms of varying time frames, generally from immediate payment to within 30 days. Delays in paying suppliers can have repercussions, including the loss of early payment discounts, impacts on cash flow projections and potential damage to the council's reputation. Conversely, paying in advance of the due date results in opportunities missed to better utilise their cash for other council-related purposes.

While most local council finance systems have the capability to age their creditors, 33 per cent did not use the facility to effectively manage and monitor their payment performance. Using their systems effectively will allow local councils to better manage their cash flows.

Vendor masterfile maintenance

Financial systems, such as accounts payable, rely on the maintenance of standing data within masterfiles to enable the processing of individual payments. The standing data includes details such as the supplier's name, terms of trade, preferred payment methods, bank account details and payment history.

Changes made to standing data must be complete, accurate and legitimate or processing errors can occur and have the potential to be repeated many times. In addition, inappropriate or unauthorised changes may increase the risk of fraud. An independent review of masterfile changes is critical to the detection and timely correction of unintentional or fraudulent changes, to reduce the risk of payments to unauthorised or fictitious suppliers.

A regular cleanse of the masterfile enables the detection and removal of duplicated inaccurate and superfluous data. It can also improve the operational efficiency of the system and mitigate the risk of fraud. It was therefore disappointing that 56 per cent of local councils did not undertake routine cleansing of the vendor masterfile.

6.3.3 Governance and oversight

Key performance indicators over creditor management can relate to the achievement of payment terms, the number of late payments, duplicate payments, supplier complaints, active suppliers, the ageing of creditors and percentage of payments made by EFT.

Our review indicated that less than half of the 79 local councils maintain and report performance statistics on creditor management to their council and/or management.

Creditor management is a risk for all organisations. Inadequate systems can result in inefficient processing, duplicated payments and fraud. Poor cash flow management may result in additional interest expenses being incurred, loss of discount and an increase in supplier complaints. Sixty-two per cent of local councils did not have risks associated with the management of creditors and payment processing in their risk register.

6.4 Grant management

Local councils distributed approximately \$24 million in 2013–14 (\$27 million in 2012–13) towards supporting local community activities through community grants. These programs assist local councils to strengthen communities by empowering individuals and community organisations to respond collectively to community needs.

Community grants contribute to achieving the primary objective of a local council under the *Local Government Act 1989*, that is, 'to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions'.

Councillor discretionary funds, also often called ward funds, are budgetary allocations which set aside specific funds to councillors either as individuals or as groups allowing them to allocate council funds in their own right.

In October 2013, the Local Government Investigations and Compliance Inspectorate published a review of councillor discretionary funds. This review identified issues regarding the oversight and accountability of discretionary funds and recommended that they be abolished.

6.4.1 Effective grant management framework

Figure 6E outlines the key elements of an effective grant management framework. It draws on the requirements of *Local Government Act 1989*, the Australian National Audit Office's *Implementing better practice – grants administration* and the Local Government Investigations and Compliance Inspectorate's *Review of councillor discretionary funds*.

Figure 6E
Key elements of an effective grant management framework

Component	Key elements
Policy	<p>A policy for grants management exists and:</p> <ul style="list-style-type: none"> contains an objective specifies the scope of the policy prescribes applicant assessment processes and selection criteria specifies key principles, requirements, roles and responsibilities associated with evaluating applicants. <p>Policy approved by the council.</p>
Management practices	<p>Conflicts of interest declared by assessors and are managed.</p> <p>Transparent processes around the assessment of applications.</p> <p>Requirement for acquittals, to ensure that grants are used for the purpose that council has granted the funds.</p>
Governance and oversight	<p>Reporting to senior management and the council on grant progress and outcomes of grant programs.</p> <p>Internal audit used to review policy, processes and practice periodically.</p>

Source: Victorian Auditor-General's Office.

6.4.2 Policies and procedures

Local councils operate within an environment of legislation and government policy.

Ensuring that the relevant requirements are well understood and effectively incorporated into the design and administration of any grant activity is essential in order for local councils to fulfil their obligations in a transparent, accountable and cost-effective manner.

While most local councils had policies and procedures in place for individual grant programs they administer, only 42 (53 per cent) had an overarching grant administration policy and procedure in place.

Individual grant policies and procedures covered the majority of better practice elements—which included identifying the objective of the grant (84 per cent), the scope (77 per cent) and the selection criteria and applicant assessment process (75 per cent). However, some elements were not well incorporated in the grants management policies across local councils. These include:

- establishing the frequency the policy should be reviewed and updated (30 per cent)
- specifying the key principles, roles and responsibilities associated with evaluating the grant applications (27 per cent)
- articulating the approval arrangements for payment of grants (33 per cent).

6.4.3 Management practices

Management practices were consistent across the sector with all local councils having documented selection criteria to assess prospective applicants that were in line with the council's objectives.

The responsibility for assessing submissions by prospective applicants varied, with the majority of local councils convening a panel consisting either of local council members only (59 per cent) or a combination of council members and community representatives (28 per cent). Five local councils (6 per cent) used a single assessor.

An approved community grant was selected for each local council to determine whether the processes and procedures in place were sound. The assessments were made against the key elements outlined in Figure 6E.

Our review of the selected community grants identified:

- twenty-six (33 per cent) assessed grants did not record conflicts of interest of the members of the panel
- thirteen (16 per cent) assessed grants were not acquitted subsequent to payment to determine the legitimacy of the transactions for which the grants were being used and whether the objectives of the grant had been met.

The management of risks associated with conflict of interest is fundamental to the integrity of the grant management process. Failure to manage actual, potential or perceived conflicts gives rise to risks of:

- noncompliance with legal requirements
- misconduct, abuse of office or corruption, which can result in inaccurate financial information being disclosed in financial reports
- reputational damage.

6.4.4 Governance and oversight

A sound and well implemented governance and accountability framework for grants management is important for assuring programs meet governance needs. Throughout the life cycle of a grants program, the outcomes achieved should be evaluated against project-specific and program-related objectives. Performance measures to assess effectiveness should be determined during program planning.

Twenty-eight local councils (35 per cent) do not produce reports to senior management and council on the progress and outcomes of grants.

The tracking and reporting of grants distributed to senior management and council assures that the grants distributed are being used appropriately. This also allows local councils to evaluate the effectiveness of the grant program.

Internal audit oversight

Sixty-five (82 per cent) local councils' internal audit function had not undertaken a review of the management of grants within the past three years. Five other local councils have included a review of grant management in their future internal audit plans.

Although community grants issued by local councils are not as significant in dollar terms as some other council programs, local councils have an obligation to make appropriate use of rate payer resources. This requires a structured program to be in place to effectively and efficiently administer the distribution of grants. The internal audit function is particularly important to ensure that this is the case and reduces the risk of community grants being inappropriately made.

Recommendations

That local councils:

5. review and update their policies and procedures on creditors to include all key elements incorporated in better practice creditor management frameworks
 6. establish comprehensive overarching grant administration policies and procedures that are periodically reviewed
 7. ensure conflicts of interests declarations are completed by all staff undertaking grant assessments
 8. reinforce and ensure grant payments are appropriately acquitted
 9. rigorously monitor grants issued and establish periodic reporting to council
 10. periodically review grant administration practices and related policy compliance
 11. through audit committee, implement appropriate monitoring mechanisms to ensure our audit findings are addressed by management on a timely basis.
-

Appendix A.

VAGO reports on the results of audits

Figure A1
VAGO reports on the results of the 2013–14 financial audits

Report	Description
<i>Information and Communication Technology Controls Report 2013–14</i>	The report provides an analysis of common themes relating to IT audit findings and the maturity of IT controls across selected entities and highlights key and emerging issues observed as part of the IT audits. <i>Tabled in Parliament in October 2014.</i>
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14</i>	The report provides the result of the audit of the state's annual financial report. It addresses the quality and timing of financial reporting and explains significant financial results for the state. <i>Tabled in Parliament in October 2014.</i>
<i>Water Entities: Results of the 2013–14 Audits</i>	The report provides the results of the audits of 20 entities in the water sector. The report addresses their financial and performance reporting and financial sustainability risks. It also addresses governance arrangements relating to gifts, benefits and hospitality, and audit committees. <i>Tabled in Parliament in February 2015.</i>
<i>Portfolio Departments and Associated Entities: Results of the 2013–14 Audits</i>	The report provides the results of the audits of 210 entities and comments on their timeliness and accuracy. The report also considers the financial sustainability risks of self-funded agencies, the internal audit function at portfolio departments, controls relating to infringement notices, the state's insurance agencies' compliance with the Prudential Insurance Standards and developments of significant projects and Private Public Partnerships during 2013–14. <i>Tabled in Parliament in February 2015.</i>
<i>Public Hospitals: Results of the 2013–14 Audits</i>	The report provides the results of the audits of approximately 110 entities in the public hospital sector. The report addresses their financial performance and financial sustainability risks, their internal audit functions, and their management of asset maintenance. <i>Tabled in Parliament in February 2015.</i>
<i>Local Government: Results of the 2013–14 Audits</i>	The report provides the results of the audits of 103 entities in the local government sector. The report addresses their financial and performance reporting, financial sustainability risks, oversight arrangements for grants, and creditor management practices and governance. <i>This report.</i>

Figure A1
VAGO reports on the results of the 2013–14 financial audits – *continued*

Report	Description
<i>Universities: Results of the 2014 Audits</i>	The report provides the results of the audits of 64 entities in the university sector. The report will address their financial reporting and financial sustainability risk, and internal controls relating to travel and accommodation expenditure. <i>To be tabled in Parliament in May 2015.</i>
<i>Technical and Further Education Institutes: Results of the 2014 Audits</i>	The report provides the results of the audits of 25 entities in the technical and further education institutes sector. The report will address their financial reporting and financial sustainability risks, and internal controls relating to risk management practices. <i>To be tabled in Parliament in May 2015.</i>

Source: Victorian Auditor-General's Office.



Appendix B.

Audit status

Inner metropolitan councils and associated entities

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Banyule City Council	●		✓	22 Sep 2014	●	●
Bayside City Council	●		✓	19 Sep 2014	●	●
Boroondara City Council	●		✓	3 Sep 2014	●	●
Darebin City Council	●		✓	4 Sep 2014	●	●
Glen Eira City Council	●		✓	15 Sep 2014	●	●
Hobsons Bay City Council	●		✓	12 Sep 2014	●	●
Kingston City Council	●		✓	3 Sep 2014	●	●
Maribyrnong City Council	●		✓	15 Sep 2014	●	●
Maroondah City Council	●		✓	27 Aug 2014	●	●
Melbourne City Council	●		✓	11 Sep 2014	●	●
Citywide Service Solutions Pty Ltd		C	✓	11 Sep 2014	●	●
Queen Victoria Market Pty Ltd		C	✓	10 Sep 2014	●	●
Regent Management Company Pty Ltd		C	✓	5 Sep 2014	●	●
Sustainable Melbourne Trust Fund		O	✓	11 Sep 2014	●	●
City of Monash	●		✓	28 Aug 2014	●	●
Moonee Valley City Council	●		✓	27 Aug 2014	●	●
Moreland City Council	●		✓	17 Sep 2014	●	●
Port Phillip City Council	●		✓	10 Sep 2014	●	●
Stonnington City Council	●		✓	2 Sep 2014	●	●
Prahran Market Pty Ltd		C	✓	16 Sep 2014	●	●
Whitehorse City Council	●		✓	27 Aug 2014	●	●

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES – continued						
Yarra City Council	●		✓	22 Aug 2014	●	
2013–14 Total number of entities = 22	17	5		Per cent	22	0
2012–13 Total number of entities = 22	17	5		Per cent	22	0
				Per cent	100	0

(a) Councils – includes financial, standard and performance statements.

Note: Non-LG audit types: C – Corporations Act 2001 and O – other reporting framework.

Source: Victorian Auditor-General's Office.

Outer metropolitan councils and associated entities

Entity	Audit types		Financial statements ^(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Brimbank City Council	●		✓	11 Sep 2014	●	
Cardinia Shire Council	●		✓	19 Sep 2014	●	
Casey City Council	●		✓	10 Sep 2014	●	
Frankston City Council	●		✓	19 Sep 2014	●	
Frankston Regional Aquatic Centre Pty Ltd		C	✓	30 Sep 2014	●	
Greater Dandenong City Council	●		✓	10 Sep 2014	●	
Dandenong Market Pty Ltd		C	✓	26 Aug 2014	●	
Hume City Council	●		✓	18 Sep 2014	●	
Knox City Council	●		✓	29 Aug 2014	●	
Manningham City Council	●		✓	21 Aug 2014	●	
Melton City Council	●		✓	3 Sep 2014	●	
Mornington Peninsula Shire Council	●		✓	26 Sep 2014	●	
Nillumbik Shire Council	●		✓	28 Aug 2014	●	
City of Whittlesea	●		✓	19 Sep 2014	●	
Wyndham City Council	●		✓	22 Sep 2014	●	
Yarra Ranges Shire Council	●		✓	27 Aug 2014	●	
2013–14 Total number of entities = 16*	14	2			16	0
				Per cent	100	0
2012–13 Total number of entities = 15	14	1			14	1
				Per cent	93	7

(a) Councils – includes financial, standard and performance statements.

Note: * The Frankston Regional Aquatic Centre Pty Ltd is a wholly owned subsidiary of Frankston City Council.

Note: Non-LG audit types: C – Corporations Act 2001 and O – other reporting framework.

Source: Victorian Auditor-General's Office.

Regional city councils and associated entity

Entity	Audit types		Financial statements(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Ballarat City Council	●		✓	25 Sep 2014	●	
Greater Bendigo City Council	●		✓	15 Sep 2014	●	
Greater Geelong City Council	●		✓	27 Aug 2014	●	
Greater Shepparton City Council	●		✓	24 Sep 2014	●	
Horsham Rural City Council	●		✓	16 Sep 2014	●	
Latrobe City Council	●		✓	17 Sep 2014	●	
Mildura Rural City Council	●		✓	26 Sep 2014	●	
Mildura Airport Pty Ltd		C	✓	19 Sep 2014	●	
Swan Hill Rural City Council	●		✓	17 Sep 2014	●	
Wangaratta Rural City Council	●		✓	18 Sep 2014	●	
Warrambool City Council	●		✓	15 Sep 2014	●	
Wodonga City Council	●		✓	29 Sep 2014	●	
2013–14 Total number of entities = 12	11	1			12	0
2012–13 Total number of entities = 12	11	1		Per cent	100	0
				Per cent	100	0

(a) Councils – includes financial, standard and performance statements.

Note: Non-LG audit types: C – Corporations Act 2001.

Source: Victorian Auditor-General's Office.

Large shire councils

Entity	Audit types		Financial statements(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Bass Coast Shire Council	●		✓	18 Sep 2014	●	
Baw Baw Shire Council	●		✓	12 Sep 2014	●	
Campaspe Shire Council	●		✓	29 Sep 2014	●	
Colac-Otway Shire Council	●		✓	12 Sep 2014	●	
Corangamite Shire Council	●		✓	24 Sep 2014	●	
East Gippsland Shire Council	●		✓	29 Sep 2014	●	
Glenelg Shire Council	●		✓	24 Sep 2014	●	
Macedon Ranges Shire Council	●		✓	29 Sep 2014	●	
Mitchell Shire Council	●		✓	10 Sep 2014	●	
Moira Shire Council	●		✓	23 Sep 2014	●	
Moorabool Shire Council	●		✓	8 Sep 2014	●	
Moyne Shire Council	●		✓	23 Sep 2014	●	
South Gippsland Shire Council	●		✓	25 Sep 2014	●	
Southern Grampians Shire Council	●		✓	21 Oct 2014*		●
Surf Coast Shire Council	●		✓	11 Sep 2014	●	
Wellington Shire Council	●		✓	18 Sep 2014	●	
2013–14 Total number of entities = 16	16	0		Per cent	15	1
2012–13 Total number of entities = 16	16	0		Per cent	94	6
				Per cent	15	1
				Per cent	94	6

(a) Councils – includes financial, standard and performance statements.

Note: * Reporting extension granted by the Minister for Local Government until 31 October 2014.

Source: Victorian Auditor-General's Office.

Small shire councils

Entity	Audit types		Financial statements(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Alpine Shire Council	●		✓	19 Sep 2014	●	●
Ararat Rural City Council	●		✓	17 Sep 2014	●	●
Benalla Rural City Council	●		✓	15 Sep 2014	●	●
Buloke Shire Council	●		✓	1 Oct 2014*	●	●
Central Goldfields Shire Council	●		✓	23 Sep 2014	●	●
Gannawarra Shire Council	●		✓	17 Sep 2014	●	●
Golden Plains Shire Council	●		✓	11 Sep 2014	●	●
Hepburn Shire Council	●		✓	25 Sep 2014	●	●
Hindmarsh Shire Council	●		✓	18 Sep 2014	●	●
Indigo Shire Council	●		✓	17 Sep 2014	●	●
Loddon Shire Council	●		✓	12 Sep 2014	●	●
Mansfield Shire Council	●		✓	17 Sep 2014	●	●
Mount Alexander Shire Council	●		✓	17 Sep 2014	●	●
Murrindindi Shire Council	●		✓	29 Sep 2014	●	●
Northern Grampians Shire Council	●		✓	10 Sep 2014	●	●
Pyrenees Shire Council	●		✓	15 Sep 2014	●	●
Borough of Queenscliffe	●		✓	29 Sep 2014	●	●
Strathbogie Shire Council	●		✓	24 Sep 2014	●	●
Towong Shire Council	●		✓	29 Sep 2014	●	●
West Wimmera Shire Council	●		✓	30 Oct 2014*	●	●
Yarriambiack Shire Council	●		✓	24 Oct 2014*	●	●

Small shire councils – continued

Entity	Audit types		Financial statements(a)		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES – continued						
2013–14 Total number of entities = 21	21	0			18	3
				Per cent	86	14
2012–13 Total number of entities = 21	21	0			20	1
				Per cent	95	5

(a) Councils – includes financial, standard and performance statements.

Note: * Reporting extension granted by the Minister for Local Government until 31 October 2014.

Source: Victorian Auditor-General's Office.

Regional library corporations

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Casey-Cardinia Regional Library Corporation	●		✓	8 Sep 2014	●	
Corangamite Regional Library Corporation	●		✓	22 Sep 2014	●	
Eastern Regional Library Corporation	●		✓	11 Sep 2014	●	
Geelong Regional Library Corporation	●		✓	12 Aug 2014	●	
Goulburn Valley Regional Library Corporation	●		✓	25 Sep 2014	●	
High Country Library Corporation	●		✓	22 Sep 2014	●	
North Central Goldfields Regional Library Corporation	●		✓	4 Sep 2014	●	
West Gippsland Regional Library Corporation	●		✓	10 Sep 2014	●	
Whitehorse-Manningham Regional Library Corporation	●		✓	29 Aug 2014	●	
Wimmera Regional Library Corporation	●		✓	19 Sep 2014	●	
Yarra Plenty Regional Library Corporation	●		✓	15 Aug 2014	●	
2013-14 Total number of entities = 11	11	0			11	0
				Per cent	100	0
2012-13 Total number of entities = 11	11	0			11	0
				Per cent	100	0

Source: Victorian Auditor-General's Office.

Associated companies

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Clear opinion issued	Auditor-General's report signed	Before 30 Sep 2014	After 30 Sep 2014
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Clayton Landfill Joint Venture		O	✓	25 Sep 2014	●	
RFK Pty Ltd / Community Chef		C	✓	30 Sep 2014	●	
Regional Kitchen Pty Ltd		C	✓	30 Sep 2014	●	
Streetsahead Cleaning Services	●		✓	29 Aug 2014	●	
Wimmera Development Association		A	✓	16 Sep 2014	●	
2013–14 Total number of entities = 5	1	4			5	0
2012–13 Total number of entities = 5	1	4		Per cent	100	0
				Per cent	100	0

Note: Non-LG audit types: A – Associations Incorporation Act 1981, C – Corporations Act 2001 and O – other reporting framework.
 Source: Victorian Auditor-General's Office.

Overall totals

Category	Audit types		Timeliness of audited financial statement completion	
	LG Act	Non-LG	Before 30 Sep 2014	After 30 Sep 2014
Inner metropolitan councils and associated entities	17	5	22	0
Outer metropolitan councils and associated entities	14	2	16	0
Regional city councils and associated entity	11	1	12	0
Large shire councils	16	0	15	1
Small shire councils	21	0	18	3
Regional library corporations	11	0	11	0
Associated companies	1	4	5	0
2013–14 Overall total number of entities = 103	91	12	99	4
			Per cent	4
2012–13 Overall total number of entities = 102	91	11	99	3
			Per cent	3

Source: Victorian Auditor-General's Office.

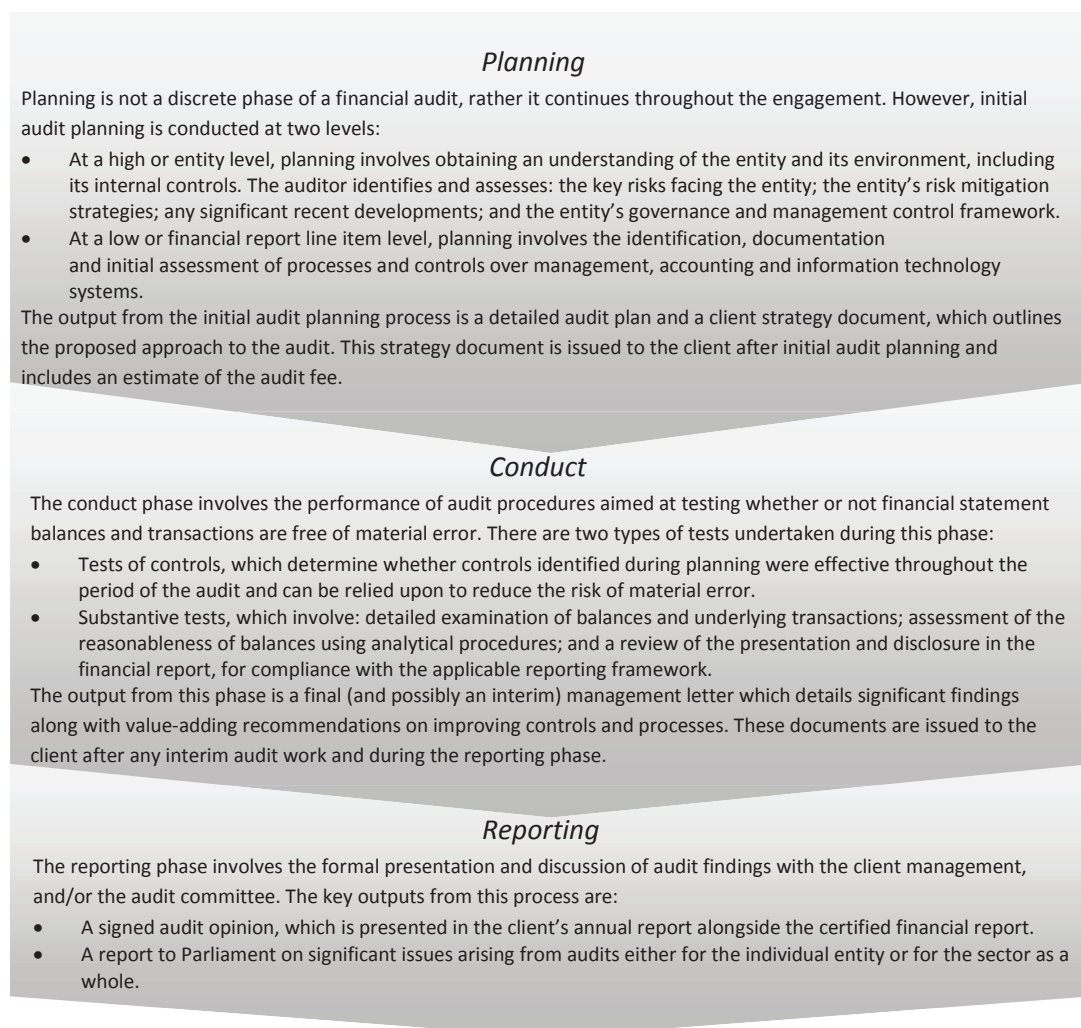
Appendix C.

Frameworks

Financial audit framework

The financial audit framework applied in the conduct of the 2013–14 audits of the local government sector is set out in Figure C1.

Figure C1
Financial audit framework

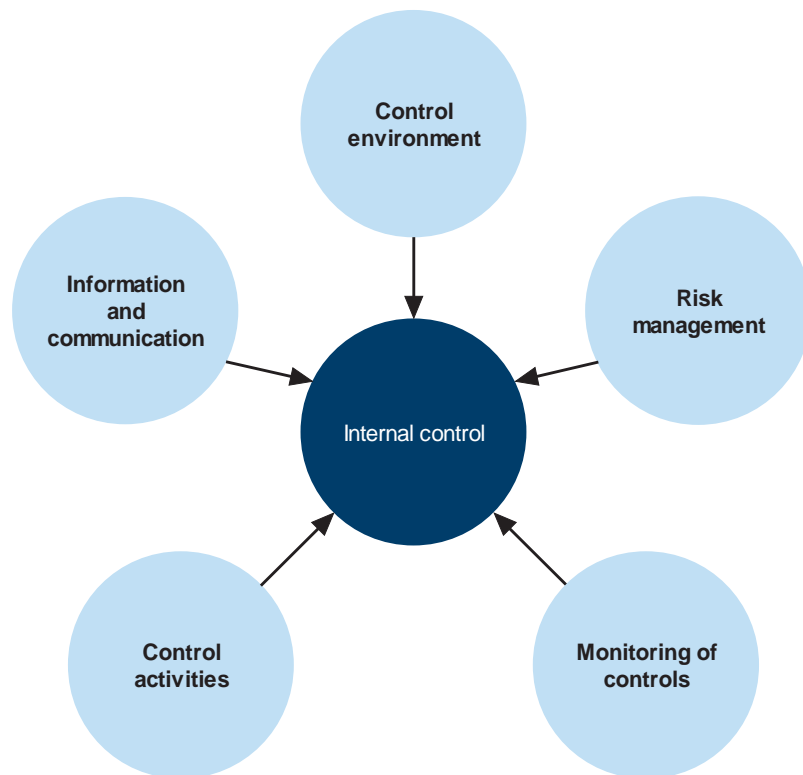


Source: Victorian Auditor-General's Office.

Internal control framework

Figure C2 identifies the main components of an effective internal control framework.

Figure C2
Internal control framework



Source: Victorian Auditor-General's Office.

Financial report preparation

Our assessment of council financial reporting performance against better practice was also based on criteria outlined in Figure C3.

Figure C3
Financial report preparation better practice

Key area	Better practice
Financial report preparation plan	Establish a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices required in preparing the financial report.
Preparation of shell statements	Prepare a shell financial report and provide it to the auditors early to enable early identification of amendments, minimising the need for significant disclosure changes at year end.
Materiality assessment	Assess materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee. The assessment assists preparers to identify potential errors in the financial report.
Monthly financial reporting	Adopt full accrual monthly reporting to assist in preparing the annual financial report. This allows the year-end process to be an extension of the month-end process.
Quality control and assurance procedures	Require rigorous review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing it to the auditors.
Supporting documentation	Prepare high-standard documentation to support and validate the financial report and provide a management trail.
Analytical reviews	Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report.
Reviews of controls/self-assessment	Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report.
Competency of staff	Preparers of the financial report have a good understanding of, and experience in, applying relevant accounting standards and legislation. They should also have project management and interpersonal skills.
Financial compliance reviews	Undertake periodic compliance reviews to identify areas of noncompliance or changes to legislation that impact the financial report.
Adequate security	Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure.

Source: Victorian Auditor-General's Office, and Australian National Audit Office Better Practice Guide Preparation of Financial Statements, June 2009.

Appendix D.

Acquittal status

Figure D1
Acquittal opinions issued in 2013–14

Council	Acquittal opinion issued*
Alpine Shire Council	1
Ararat Rural City Council	1
Ballarat City Council	1
Banyule City Council	1
Bass Coast Shire Council	1
Baw Baw Shire Council	1
Bayside City Council	1
Benalla Rural City Council	1
Boroondara City Council	1
Borough of Queenscliffe	1
Brimbank City Council	1
Buloke Shire Council	1
Campaspe Shire Council	1
Cardinia Shire Council	1
Casey City Council	1
Central Goldfields Shire Council	1
City of Port Phillip	1
Colac Otway Shire Council	1
Corangamite Shire Council	1
Darebin City Council	1
East Gippsland Shire Council	1
Gannawarra Shire Council	1
Glen Eira City Council	1
Glenelg Shire Council	1
Golden Plains Shire Council	1
Greater Bendigo Shire Council	1
Greater Dandenong City Council	1
Greater Geelong City Council	1
Greater Shepparton City Council	1

Figure D1
Acquittal opinions issued in 2013–14 – *continued*

Council	Acquittal opinion issued*
Hepburn Shire Council	1
Hindmarsh Shire Council	1
Hobsons Bay City Council	1
Horsham Rural City Council	1
Indigo Shire Council	1
Kingston City Council	1
Knox City Council	1
Latrobe Shire Council	1
Loddon Shire Council	1
Macedon Ranges Shire Council	1
Manningham Shire Council	1
Mansfield Shire Council	1
Maribyrnong City Council	1
Maroondah City Council	1
Melbourne City Council	1
Melton City Council	1
Mildura Rural City Council	1
Mitchell Shire Council	1
Moira Shire Council	1
Monash City Council	1
Moonee Valley City Council	1
Moorabool Shire Council	1
Moreland City Council	1
Mornington Peninsula Shire Council	1
Mount Alexander Shire Council	1
Moyne Shire Council	1
Murrindindi Shire Council	1
Nillumbik Shire Council	1
Northern Grampians Shire Council	1
Pyrenees Shire Council	1
South Gippsland Shire Council	1
Southern Grampians Shire Council	1
Stonnington City Council	1
Strathbogie Shire Council	1
Swan Hill Rural City Council	1

Figure D1
Acquittal opinions issued in 2013–14 – *continued*

Council	Acquittal opinion issued*
Towong Shire Council	1
Wangaratta Rural City Council	1
Warrnambool City Council	1
Wellington Shire Council	1
West Wimmera City Council	1
Whitehorse City Council	1
Wodonga City Council	1
Wyndham City Council	1
Yarra City Council	1
Yarra Ranges Shire Council	1
Yarriambiack Shire Council	1
Total issued	75

Note: * Includes all opinions issued since 1 November 2013.

Source: Victorian Auditor-General's Office.

Appendix E.

Financial sustainability

Indicators used reflect short- and long-term sustainability, and are measured by:

- **underlying result**—generate enough revenue to cover operating costs, including the cost of replacing assets reflected in depreciation expense
- **liquidity**—have sufficient working capital to meet short-term commitments
- **self-financing**—generate sufficient operating cash flows to invest in asset renewal and repay any debt it may have incurred in the past
- **indebtedness**—are not overly reliant on debt to fund capital programs
- **capital replacement**—have been replacing assets at a rate consistent with their consumption
- **renewal gap**—have been maintaining existing assets at a consistent rate.

Figure E1
Financial sustainability indicators for councils

Indicator	Formula	Description
Underlying result (per cent)	Adjusted net surplus/ total underlying revenue	<p>A positive result indicates a surplus. The larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.</p> <p>Underlying revenue does not take into account non-cash developer contributions and other one-off (non-recurring) adjustments.</p>
Liquidity	Current assets/ current liabilities	<p>Measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio higher than 1:1 means there is more cash and liquid assets than short-term liabilities.</p>
Self-financing (per cent)	Net operating cash flows/ underlying revenue	<p>Measures the ability to replace assets using cash generated by the entity's operations.</p> <p>The higher the percentage, the more effectively this can be done.</p>
Indebtedness (per cent)	Non-current liabilities/ own-sourced revenue	<p>Comparison of non-current liabilities (mainly comprised of borrowings) to own-sourced revenue. The higher the percentage, the less able to cover non-current liabilities from the revenues the entity generates itself.</p> <p>Own-sourced revenue is used—rather than total revenue—because it does not include capital grants, which are usually tied to specific projects.</p>
Capital replacement	Capital expenditure/ depreciation	<p>Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciation rate.</p> <p>This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.</p>
Renewal gap	Renewal and upgrade expenditure/depreciation	<p>Comparison of the rate of spending on existing assets through renewing, restoring, and replacing existing assets with depreciation. Ratios higher than 1:1 indicate that spending on existing assets is greater than the depreciation rate.</p> <p>Similar to the investment gap, this is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.</p>

Source: Victorian Auditor-General's Office.




Figure E2
Risk assessment criteria for financial sustainability indicators

Risk	Underlying result	Liquidity	Indebtedness	Self-financing	Capital replacement	Renewal gap
High	Less than negative 10% Insufficient revenue is being generated to fund operations and asset renewal.	Less than 1.0 Insufficient current assets to cover liabilities.	More than 60% Potentially long-term concern over ability to repay debt levels from own-source revenue.	Less than 10% Insufficient cash from operations to fund new assets and asset renewal.	Less than 1.0 Spending on capital works has not kept pace with consumption of assets.	Less than 0.5 Spending on existing assets has not kept pace with consumption of these assets.
Medium	Negative 10% to zero A risk of long-term run down to cash reserves and inability to fund asset renewals.	1.0–1.5 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	40–60% Some concern over the ability to repay debt from own-source revenue.	10–20% May not be generating sufficient cash from operations to fund new assets.	1.0–1.5 May indicate spending on asset renewal is insufficient.	0.5–1.0 May indicate insufficient spending on renewal of existing assets.
Low	More than zero Generating surpluses consistently.	More than 1.5 No immediate issues with repaying short-term liabilities as they fall due.	40% or less No concern over the ability to repay debt from own-source revenue.	20% or more Generating enough cash from operations to fund assets.	More than 1.5 Low risk of insufficient spending on asset renewal.	More than 1.0 Low risk of insufficient spending on asset base.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment is calculated using the ratings determined for each indicator as shown in Figure E3.

Figure E3
Overall financial sustainability risk assessment

	High risk of short-term sustainability concerns indicated by either: <ul style="list-style-type: none"> • red underlying result indicator or • red liquidity indicator.
	Medium risk of longer-term sustainability concerns indicated by either: <ul style="list-style-type: none"> • red self-financing indicator or • red indebtedness indicator or • red capital replacement indicator or • red renewal gap indicator.
	Low risk of financial sustainability concerns—there are no high-risk indicators.

Source: Victorian Auditor-General's Office.

A trend analysis uses actual figures for the previous five years and a trend analysis using forecast figures for the following three years. The sustainability indicators are colour coded in line with the risk assessment criteria. The legend in Figure E4 is used in presenting the results of our assessments.

Figure E4
Legend for financial sustainability tables

	An improving trend.
–	No substantial trend.
	A deteriorating trend.

Source: Victorian Auditor-General's Office.

Inner metropolitan councils

Figure E5
Financial sustainability risk assessment results 2013–14

Inner metropolitan councils	Average Underlying result (%)	Liquidity	Indebtedness (%)	Self-financing (%)	Capital replacement	Renewal gap	Sustainability assessment
Banyule City Council	3.59	4.09	56.67	16.61	2.12	1.52	●
Bayside City Council	9.79	2.20	12.37	28.90	1.53	0.97	●
Boroondara City Council	8.68	1.76	33.66	23.58	2.09	1.76	●
Darebin City Council	3.58	1.64	1.24	17.63	1.17	1.08	●
Glen Eira City Council	8.38	1.38	17.97	23.53	2.23	1.77	●
Hobsons Bay City Council	5.62	0.99	0.88	24.61	1.50	1.33	●
Kingston City Council	7.85	1.68	14.00	24.32	1.71	1.45	●
Maribyrnong City Council	4.27	2.62	4.53	25.48	1.26	1.41	●
Maroondah City Council	2.61	1.61	1.65	25.00	1.53	1.03	●
Melbourne City Council	3.19	1.33	0.85	24.50	1.74	1.14	●
Monash City Council	-1.30	1.54	7.92	10.62	1.15	0.86	●
Moonee Valley City Council	3.02	1.61	6.99	16.66	1.25	0.87	●
Moreland City Council	4.39	1.49	35.74	14.90	1.55	0.96	●
Port Phillip City Council	0.24	1.59	2.52	7.89	1.37	0.73	●
Stonnington City Council	10.60	2.10	11.09	28.21	1.88	1.50	●
Whitehorse City Council	4.55	2.13	5.70	19.99	1.67	1.23	●
Yarra City Council	4.76	1.07	24.05	16.28	1.37	1.16	●
Category average	4.93	1.81	13.99	20.51	1.60	1.22	●
Category risk assessment	Low	Low	Low	Low	Low	Low	Low

Source: Victorian Auditor-General's Office.

Figure E6
Underlying result (per cent) 2010–2014

Inner metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Banyule City Council	8.83	6.13	-2.28	3.69	1.58	3.59	▼	-4.74	6.14	1.33	▲
Bayside City Council	8.48	7.81	4.74	14.00	13.92	9.79	▲	15.68	14.21	14.26	▼
Boroondara City Council	10.39	8.76	0.62	12.37	11.26	8.68	▲	12.56	14.33	14.71	▲
Darebin City Council	6.95	5.04	-1.51	6.61	0.83	3.58	▼	4.43	4.42	4.54	-
Glen Eira City Council	16.85	7.77	-0.55	8.31	9.50	8.38	▼	7.05	7.69	6.79	-
Hobsons Bay City Council	9.06	4.50	0.01	7.55	6.96	5.62	-	5.55	5.60	6.20	▲
Kingston City Council	7.09	6.09	3.49	12.11	10.46	7.85	▲	8.12	7.87	7.16	▼
Maribyrnong City Council	9.70	6.92	-3.32	6.98	1.07	4.27	▼	7.13	8.63	4.11	▼
Maroondah City Council	3.23	5.82	-3.56	1.01	6.55	2.61	-	5.28	5.79	1.65	▼
Melbourne City Council	-12.80	9.59	5.33	7.86	5.97	3.19	▲	-0.79	-2.38	-1.28	-
Monash City Council	1.32	-9.31	-6.77	-0.72	8.96	-1.30	▲	5.44	5.61	7.72	▲
Moonee Valley City Council	9.38	2.72	-6.03	4.28	4.77	3.02	▼	5.25	5.48	6.01	▲
Moreland City Council	3.76	3.46	-3.31	9.74	8.31	4.39	▲	9.01	6.56	6.47	▼
Port Phillip City Council	-2.86	0.57	-0.28	6.59	-2.80	0.24	▲	7.00	8.08	9.27	▲
Stonnington City Council	7.17	9.60	4.59	16.65	14.98	10.60	▲	11.66	13.23	13.08	▲
Whitehorse City Council	3.48	4.57	-3.37	9.90	8.17	4.55	▲	8.56	9.19	9.92	▲
Yarra City Council	4.91	8.39	-2.50	4.98	8.02	4.76	▲	6.74	8.26	8.51	▲
Average underlying result (%)	5.58	5.20	-0.87	7.76	6.97	4.93		6.70	7.57	7.09	

Source: Victorian Auditor-General's Office.

Figure E7
Liquidity (ratio) 2010–2014

Inner metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Banyule City Council	4.47	4.11	2.71	2.80	4.09	3.64	-	1.68	2.51	2.12	-
Bayside City Council	1.31	1.68	2.07	1.86	2.20	1.82	-	1.97	1.87	2.05	-
Boroondara City Council	1.52	1.47	1.62	1.45	1.76	1.56	-	1.56	1.49	1.54	-
Darebin City Council	1.95	1.77	2.10	1.80	1.64	1.85	-	1.50	1.50	1.53	-
Glen Eira City Council	1.99	0.95	1.55	1.17	1.38	1.41	-	1.11	1.09	1.13	-
Hobsons Bay City Council	1.56	1.34	1.07	1.22	0.99	1.24	-	1.37	1.47	1.57	-
Kingston City Council	1.32	1.47	1.81	1.66	1.68	1.59	-	1.07	1.10	1.10	-
Maribyrnong City Council	2.01	1.95	1.87	2.90	2.62	2.27	-	2.16	2.30	2.13	-
Maroondah City Council	2.65	2.41	2.53	2.60	1.61	2.36	-	1.49	1.33	1.28	-
Melbourne City Council	2.94	2.52	1.72	1.63	1.33	2.03	▼	1.15	1.14	1.19	-
Monash City Council	1.10	1.04	1.46	1.05	1.54	1.24	-	1.67	1.74	1.73	-
Moonee Valley City Council	1.71	1.66	1.35	1.37	1.61	1.54	-	1.29	1.43	1.72	-
Moreland City Council	1.25	1.26	1.71	1.39	1.49	1.42	-	1.47	1.52	1.57	-
Port Phillip City Council	2.24	2.55	2.86	1.71	1.59	2.19	-	1.86	1.80	1.86	-
Stonnington City Council	2.38	2.06	1.84	2.09	2.10	2.10	-	2.03	1.94	1.79	-
Whitehorse City Council	3.12	3.10	2.20	1.68	2.13	2.44	▼	2.43	2.63	2.92	-
Yarra City Council	1.06	1.04	1.02	0.96	1.07	1.03	-	1.09	1.16	1.27	-
Average liquidity	2.03	1.90	1.85	1.73	1.81	1.87		1.58	1.65	1.68	

Source: Victorian Auditor-General's Office.

Figure E8
Indebtedness (per cent) 2010–2014

Inner metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Banyule City Council	41.81	35.12	45.30	32.82	56.67	42.34	▲	50.17	43.13	38.17	▼
Bayside City Council	22.03	20.03	24.39	15.47	12.37	18.86	▼	8.45	4.47	5.06	▼
Boroondara City Council	5.97	4.46	26.81	33.01	33.66	20.78	▲	30.16	26.73	23.54	▼
Darebin City Council	5.08	4.20	14.83	1.10	1.24	5.29	▼	0.80	0.66	0.67	-
Glen Eira City Council	12.95	12.16	32.26	22.74	17.97	19.62	▲	17.89	16.26	14.55	▼
Hobsons Bay City Council	2.59	3.96	11.79	10.10	0.88	5.86	▲	16.68	18.67	17.78	▲
Kingston City Council	2.74	19.02	24.44	14.97	14.00	15.03	▲	14.26	12.41	10.37	▼
Maribyrnong City Council	13.33	7.50	7.62	6.35	4.53	7.87	▼	4.59	3.84	3.17	▼
Maroondah City Council	1.66	1.16	10.96	1.24	1.65	3.33	-	26.21	22.30	20.22	▼
Melbourne City Council	3.28	2.02	0.75	0.76	0.85	1.53	▼	1.78	1.83	1.82	-
Monash City Council	8.93	8.14	21.83	10.72	7.92	11.51	-	9.76	7.68	2.45	▼
Moonee Valley City Council	15.66	14.38	17.67	12.03	6.99	13.34	▼	3.64	2.13	1.50	▼
Moreland City Council	20.29	23.99	42.27	32.49	35.74	30.96	▲	34.78	31.54	28.54	▼
Port Phillip City Council	4.37	2.44	10.19	1.52	2.52	4.21	▼	5.54	4.92	4.32	▼
Stonnington City Council	4.85	4.23	7.20	2.95	11.09	6.06	▲	10.58	8.18	14.18	▲
Whitehorse City Council	2.83	2.31	2.16	1.71	5.70	2.94	▲	8.74	7.64	6.64	▼
Yarra City Council	1.65	2.44	11.42	10.98	24.05	10.11	▲	18.58	15.57	12.88	▼
Average indebtedness (%)	10.00	9.86	18.35	12.41	13.99	12.92		15.45	13.41	12.11	

Source: Victorian Auditor-General's Office.

Figure E9
Self-financing (per cent) 2010–2014

Inner metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Banyule City Council	21.35	14.50	20.23	10.63	16.61	16.66	▼	12.51	19.02	19.36	▲
Bayside City Council	21.57	20.88	24.47	23.74	28.90	23.91	▲	29.06	27.59	27.72	▼
Boroondara City Council	26.90	28.49	27.54	28.73	23.58	27.05	▼	32.21	33.05	32.72	▲
Darebin City Council	21.62	17.34	20.52	9.31	17.63	17.28	▼	17.75	17.70	17.64	-
Glen Eira City Council	28.76	26.34	21.16	23.60	23.53	24.68	▼	20.86	22.72	21.54	▲
Hobsons Bay City Council	22.93	24.01	21.39	25.80	24.61	23.75	▲	22.77	22.55	23.23	-
Kingston City Council	17.96	19.20	18.66	25.81	24.32	21.19	▲	20.59	20.52	20.01	▼
Maribyrnong City Council	23.62	23.84	17.69	13.11	25.48	20.75	▼	20.80	20.03	17.13	▼
Maroondah City Council	17.92	19.54	20.61	17.20	25.00	20.06	▲	21.69	20.41	16.89	▼
Melbourne City Council	20.61	26.49	21.88	20.02	24.50	22.70	-	22.29	20.77	20.68	▼
Monash City Council	16.42	13.62	18.10	7.13	10.62	13.18	▼	22.68	22.74	24.21	▼
Moonee Valley City Council	22.76	19.48	23.50	21.81	16.66	20.84	▼	21.52	21.81	21.96	-
Moreland City Council	23.17	19.53	17.17	21.46	14.90	19.24	▼	25.39	22.56	21.97	▼
Port Phillip City Council	15.38	12.07	19.30	17.77	7.89	14.48	▼	17.46	18.24	19.16	▲
Stonnington City Council	27.98	24.38	24.19	21.36	28.21	25.23	▼	25.58	26.95	27.14	▲
Whitehorse City Council	22.31	18.14	22.04	16.70	19.99	19.84	▼	23.06	23.22	23.60	▲
Yarra City Council	17.75	23.27	20.86	20.21	16.28	19.68	▼	22.86	23.70	23.38	▲
Average self-financing (%)	21.71	20.65	21.14	19.08	20.51	20.62		22.30	22.56	22.25	

Source: Victorian Auditor-General's Office.

Figure E10
Capital replacement (ratio) 2010–2014

Inner metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Banyule City Council	1.24	1.96	3.39	1.56	2.46	2.12	-	1.57	1.21	1.90	-
Bayside City Council	1.77	1.18	1.45	1.70	1.53	1.53	-	2.08	1.93	2.06	-
Boroondara City Council	1.70	1.65	2.38	2.73	1.98	2.09	-	1.98	2.06	1.96	-
Darebin City Council	1.03	1.29	1.42	1.01	1.08	1.17	-	1.61	1.53	1.32	-
Glen Eira City Council	2.16	3.39	2.39	1.92	1.28	2.23	▼	1.83	1.62	1.46	-
Hobsons Bay City Council	1.44	1.60	1.94	1.42	1.12	1.50	-	1.67	1.39	1.26	-
Kingston City Council	1.29	2.36	1.54	1.73	1.62	1.71	-	2.06	1.53	1.48	▼
Maribyrnong City Council	1.48	1.35	0.95	0.85	1.67	1.26	-	0.25	1.48	1.54	▼
Maroondah City Council	1.31	1.25	1.51	1.13	2.44	1.53	-	2.32	1.93	1.22	▼
Melbourne City Council	1.36	1.30	2.02	2.11	1.90	1.74	-	1.50	1.36	1.32	-
Monash City Council	1.26	1.05	1.35	1.13	0.97	1.15	-	1.47	1.51	1.58	-
Moonee Valley City Council	1.44	1.35	1.35	1.21	0.93	1.25	-	1.41	1.29	1.20	-
Moreland City Council	1.38	1.51	1.22	1.80	1.83	1.55	-	1.45	1.55	1.44	-
Port Phillip City Council	0.75	0.91	1.43	2.37	1.40	1.37	▲	1.79	1.86	1.84	-
Stonnington City Council	2.02	1.54	1.65	1.71	2.48	1.88	-	1.91	1.96	2.67	▲
Whitehorse City Council	1.22	1.38	1.56	2.43	1.76	1.67	-	1.27	1.26	1.15	-
Yarra City Council	1.27	0.98	0.81	1.54	2.27	1.37	▲	1.95	1.77	1.74	-
Average capital replacement	1.42	1.53	1.67	1.67	1.69	1.60		1.65	1.60	1.60	

Source: Victorian Auditor-General's Office.

Figure E11
Renewal gap (ratio) 2010–2014

Inner metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend
Banyule City Council	0.65	1.71	3.65	0.75	0.83	1.52	-
Bayside City Council	0.96	0.87	0.89	1.04	1.11	0.97	-
Boroondara City Council	1.25	1.32	2.02	2.47	1.73	1.76	-
Darebin City Council	0.80	0.83	1.27	1.21	1.26	1.08	-
Glen Eira City Council	1.92	2.39	1.65	1.75	1.15	1.77	-
Hobsons Bay City Council	1.26	1.48	1.80	1.15	0.98	1.33	-
Kingston City Council	1.16	1.13	1.61	1.80	1.55	1.45	-
Maribyrnong City Council	1.68	0.96	1.30	1.11	1.99	1.41	-
Maroondah City Council	0.81	0.78	0.92	0.76	1.87	1.03	-
Melbourne City Council	0.76	0.73	1.17	1.06	1.98	1.14	▲
Monash City Council	0.75	0.83	0.84	0.95	0.93	0.86	-
Moonee Valley City Council	1.16	0.58	1.10	0.96	0.54	0.87	-
Moreland City Council	0.81	0.68	0.97	1.34	1.01	0.96	-
Port Phillip City Council	0.61	0.54	0.79	0.65	1.04	0.73	-
Stonnington City Council	1.51	1.47	1.45	1.55	1.51	1.50	-
Whitehorse City Council	0.99	1.12	1.19	1.58	1.29	1.23	-
Yarra City Council	1.27	0.99	0.95	1.26	1.32	1.16	-
Average renewal gap	1.08	1.08	1.39	1.26	1.30	1.22	

Source: Victorian Auditor-General's Office.

Outer metropolitan councils

Figure E12
Financial sustainability risk assessment results 2013–14

Outer metropolitan councils	Average Underlying result (%)	Indebtedness Liquidity	Self-financing (%)	Capital replacement	Renewal gap	Sustainability assessment	
Brimbank City Council	1.67	0.94	16.45	21.09	1.52	0.95	●
Cardinia Shire Council	5.52	1.97	50.92	18.43	1.98	0.70	●
Casey City Council	11.17	3.95	32.99	19.50	1.57	0.82	●
Frankston City Council	6.25	1.80	23.29	29.78	1.67	0.99	●
Greater Dandenong City Council	7.71	1.51	47.03	22.95	1.81	0.91	●
Hume City Council	8.20	1.20	15.75	27.02	1.97	0.98	●
Knox City Council	2.66	1.56	12.96	10.83	1.74	1.30	●
Manningham City Council	7.32	1.90	8.39	19.41	1.89	1.11	●
Melton City Council	6.54	1.62	20.22	25.61	1.37	0.33	●
Mornington Peninsula Shire Council	2.59	1.31	21.93	16.63	1.18	1.02	●
Nillumbik Shire Council	3.76	2.23	32.61	16.16	1.72	1.51	●
Whittlesea City Council	2.79	3.36	23.00	18.80	1.21	0.81	●
Wyndham City Council	11.26	1.78	11.77	35.50	1.98	0.77	●
Yarra Ranges Shire Council	0.14	1.44	10.96	16.73	1.56	1.47	●
Category average	5.54	1.90	23.45	21.32	1.65	0.98	●
Category risk assessment	Low	Low	Low	Low	Low	Medium	Low

Source: Victorian Auditor-General's Office.

Figure E13
Underlying result (per cent) 2010–2014

Outer metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Brimbank City Council	6.74	2.05	-5.55	5.28	-0.16	1.67	▼	10.48	9.74	10.41	-
Cardinia Shire Council	2.17	2.30	8.77	8.18	6.19	5.52	▲	4.79	5.12	10.22	▲
Casey City Council	2.55	9.00	12.94	19.85	11.53	11.17	▲	13.05	12.81	11.57	▼
Frankston City Council	0.61	3.21	1.24	11.10	15.12	6.25	▲	11.76	9.99	10.80	▼
Greater Dandenong City Council	12.87	9.64	5.71	8.30	2.05	7.71	▼	4.62	3.78	3.48	▼
Hume City Council	11.32	11.73	9.18	7.08	1.71	8.20	▼	6.20	4.01	1.76	▼
Knox City Council	7.20	0.64	-1.43	5.50	1.37	2.66	▼	3.53	3.21	3.44	-
Manningham City Council	10.38	2.68	4.00	10.56	8.96	7.32	▲	10.16	9.23	10.01	-
Melton City Council	0.61	7.25	3.66	16.42	4.76	6.54	▲	5.38	8.39	8.02	▲
Mornington Peninsula Shire Council	6.45	2.96	-0.46	3.12	0.86	2.59	▼	5.73	7.53	6.12	-
Nillumbik Shire Council	7.43	9.52	-3.51	1.10	4.25	3.76	▼	3.54	10.04	10.58	▲
Whittlesea City Council	7.92	-5.71	3.43	4.55	3.78	2.79	-	7.41	6.40	5.84	▼
Wyndham City Council	13.91	13.75	8.56	11.55	8.52	11.26	▼	13.43	12.75	12.74	▼
Yarra Ranges Shire Council	3.66	-3.42	-3.13	5.85	-2.27	0.14	▼	6.80	11.29	9.52	▲
Average underlying result (%)	6.70	4.69	3.10	8.46	4.76	5.54		7.63	8.16	8.18	

Source: Victorian Auditor-General's Office.

Figure E14
Liquidity (ratio) 2010–2014

Outer metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Brimbank City Council	2.50	1.99	1.67	1.18	0.94	1.65	▼	1.33	1.05	1.07	-
Cardinia Shire Council	1.96	3.16	2.65	2.25	1.97	2.40	-	1.50	1.46	1.38	-
Casey City Council	1.84	2.59	3.22	3.14	3.95	2.95	▲	4.18	3.58	3.71	-
Frankston City Council	1.69	1.81	1.37	1.63	1.80	1.66	-	1.80	2.02	2.23	-
Greater Dandenong City Council	2.28	2.13	1.98	2.10	1.51	2.00	-	1.42	1.55	1.62	-
Hume City Council	2.07	1.87	1.49	1.42	1.20	1.61	-	1.13	1.06	1.07	-
Knox City Council	2.24	1.99	1.93	1.43	1.56	1.83	-	1.28	1.38	1.48	-
Manningham City Council	2.02	2.12	1.47	1.83	1.90	1.87	-	1.68	1.41	1.49	-
Melton City Council	2.16	2.45	1.57	1.65	1.62	1.89	-	1.30	1.94	2.80	▲
Mornington Peninsula Shire Council	1.48	1.63	1.69	1.14	1.31	1.45	-	1.06	1.19	1.21	-
Nillumbik Shire Council	2.44	2.94	1.58	2.23	2.23	2.28	-	1.92	1.95	2.05	-
Whittlesea City Council	3.97	3.87	3.07	3.69	3.36	3.59	-	3.09	2.59	2.41	▼
Wyndham City Council	5.23	4.45	2.61	2.88	1.78	3.39	▼	2.84	2.83	2.70	-
Yarra Ranges Shire Council	3.12	2.29	2.23	2.04	1.44	2.22	▼	1.55	1.48	1.47	-
Average liquidity	2.50	2.52	2.04	2.04	1.90	2.20		1.86	1.82	1.91	

Source: Victorian Auditor-General's Office.

Figure E15
Indebtedness (per cent) 2010–2014

Outer metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Brimbank City Council	18.22	13.71	28.19	21.09	16.45	19.53	▲	36.05	37.21	34.39	▼
Cardinia Shire Council	84.91	74.39	72.12	61.01	50.92	68.67	▼	78.88	72.54	65.98	▼
Casey City Council	28.78	41.70	45.38	29.38	32.99	35.65	▼	30.65	22.78	50.95	▲
Frankston City Council	1.66	1.22	1.16	1.37	23.29	5.74	▲	24.13	20.24	18.29	▼
Greater Dandenong City Council	22.79	19.58	38.36	51.86	47.03	35.92	▲	44.80	39.87	35.56	▼
Hume City Council	21.60	20.61	17.43	16.85	15.75	18.45	▼	21.32	19.84	26.06	▲
Knox City Council	8.91	13.98	26.46	14.19	12.96	15.30	▲	11.61	10.54	9.45	▼
Manningham City Council	2.11	1.79	9.99	9.23	8.39	6.30	▲	8.52	8.40	8.16	-
Melton City Council	43.00	37.35	32.92	21.98	20.22	31.09	▼	26.56	31.02	33.00	▲
Mornington Peninsula Shire Council	32.03	29.12	31.45	19.43	21.93	26.79	▼	19.05	18.48	18.06	▼
Nillumbik Shire Council	36.42	41.86	37.23	34.25	32.61	36.47	▼	32.06	36.18	35.14	▲
Whittlesea City Council	35.32	32.70	28.67	26.05	23.00	29.15	▼	24.74	33.22	43.34	▲
Wyndham City Council	8.30	6.52	5.55	12.46	11.77	8.92	▲	39.25	38.64	34.42	▼
Yarra Ranges Shire Council	6.75	6.23	15.50	13.24	10.96	10.54	▲	31.12	35.21	33.46	▲
Average indebtedness (%)	25.06	24.34	27.89	23.74	23.45	24.89		30.62	30.30	31.88	

Source: Victorian Auditor-General's Office.

Figure E16
Self-financing (per cent) 2010–2014

Outer metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Brimbank City Council	27.18	22.04	22.59	11.24	21.09	20.83	▼	27.11	27.58	28.38	▲
Cardinia Shire Council	23.22	23.52	37.68	28.84	18.43	26.34	▼	29.18	22.81	31.71	▲
Casey City Council	18.04	22.39	31.33	30.07	19.50	24.27	▲	25.27	25.32	25.97	▲
Frankston City Council	19.08	16.83	29.81	24.05	29.78	23.91	▲	30.23	28.13	28.87	▼
Greater Dandenong City Council	21.52	27.02	28.97	24.50	22.95	24.99	-	23.37	22.73	23.09	-
Hume City Council	29.22	34.71	27.01	22.06	27.02	28.00	▼	25.58	23.33	24.43	▼
Knox City Council	17.80	21.31	17.67	19.85	10.83	17.49	▼	16.08	16.82	16.62	▲
Manningham City Council	19.72	29.58	33.29	28.03	19.41	26.00	-	26.83	26.95	27.75	▲
Melton City Council	17.60	19.57	26.09	21.92	25.61	22.16	▲	22.58	25.35	24.69	▲
Mornington Peninsula Shire Council	21.30	21.76	18.55	20.20	16.63	19.69	▼	19.67	21.06	19.74	-
Nillumbik Shire Council	20.68	20.46	21.74	6.96	16.16	17.20	▼	20.42	19.74	20.41	-
Whittlesea City Council	29.54	7.49	28.66	12.43	18.80	19.39	▼	24.63	25.19	24.67	-
Wyndham City Council	49.84	44.70	42.17	31.48	35.50	40.74	▼	36.29	35.41	34.41	▼
Yarra Ranges Shire Council	17.44	16.13	19.85	8.67	16.73	15.76	▼	22.29	24.63	25.15	▲
Average self-financing (%)	23.73	23.39	27.53	20.74	21.32	23.34		24.97	24.65	25.42	

Source: Victorian Auditor-General's Office.

Figure E17
Capital replacement (ratio) 2010–2014

Outer metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Brimbank City Council	1.49	1.44	1.68	1.73	1.27	1.52	-	2.31	2.27	1.74	▼
Cardinia Shire Council	2.09	1.85	1.68	2.16	2.10	1.98	-	2.70	1.39	1.59	▼
Casey City Council	1.80	1.73	1.67	1.26	1.40	1.57	-	1.98	2.33	3.36	▲
Frankston City Council	1.47	1.24	1.47	1.51	2.65	1.67	▲	2.00	1.30	1.40	▼
Greater Dandenong City Council	1.47	1.56	1.86	1.79	2.36	1.81	-	1.11	0.96	1.02	-
Hume City Council	2.27	1.81	2.23	1.64	1.92	1.97	-	1.96	1.79	1.71	-
Knox City Council	2.01	1.71	2.41	1.31	1.25	1.74	-	1.31	1.18	1.22	-
Manningham City Council	1.74	1.67	3.14	1.47	1.43	1.89	-	1.77	1.90	1.54	-
Melton City Council	0.85	1.03	1.77	1.81	1.36	1.37	-	2.06	1.37	1.19	▼
Mornington Peninsula Shire Council	1.31	1.14	1.24	1.13	1.09	1.18	-	1.36	1.67	1.45	-
Nillumbik Shire Council	1.77	2.29	2.21	0.75	1.58	1.72	-	1.50	2.61	2.77	▲
Whittlesea City Council	1.66	1.09	0.60	0.95	1.73	1.21	-	2.28	3.20	2.79	▲
Wyndham City Council	1.59	2.21	2.14	2.23	1.71	1.98	-	2.37	1.67	1.65	▼
Yarra Ranges Shire Council	1.10	1.82	1.76	1.48	1.67	1.56	-	2.32	2.21	1.74	▼
Average capital replacement	1.62	1.61	1.85	1.52	1.68	1.65		1.93	1.85	1.80	

Source: Victorian Auditor-General's Office.

Figure E18
Renewal gap (ratio) 2010–2014

Outer metropolitan councils	2010	2011	2012	2013	2014	Mean	Actual trend
Brimbank City Council	0.75	0.89	1.32	0.90	0.90	0.95	-
Cardinia Shire Council	0.71	0.60	0.61	0.76	0.79	0.70	-
Casey City Council	0.79	0.81	0.81	0.73	0.97	0.82	-
Frankston City Council	1.05	1.02	1.04	0.86	0.96	0.99	-
Greater Dandenong City Council	1.43	0.35	0.94	0.92	0.90	0.91	-
Hume City Council	1.04	1.16	0.69	1.19	0.83	0.98	-
Knox City Council	1.78	1.11	1.22	1.22	1.19	1.30	-
Manningham City Council	0.99	0.98	1.57	1.00	1.01	1.11	-
Melton City Council	0.01	0.41	0.58	0.34	0.29	0.33	-
Mornington Peninsula Shire Council	1.14	1.05	1.10	0.84	0.97	1.02	-
Nillumbik Shire Council	1.53	2.02	1.95	0.55	1.49	1.51	-
Whittlesea City Council	0.57	1.25	0.59	0.55	1.08	0.81	-
Wyndham City Council	0.38	0.75	0.69	1.08	0.97	0.77	-
Yarra Ranges Shire Council	1.82	1.29	1.30	1.64	1.29	1.47	-
Average renewal gap	1.00	0.98	1.03	0.90	0.97	0.98	

Source: Victorian Auditor-General's Office.

Regional city councils

Figure E19
Financial sustainability risk assessment results 2013–14

Regional city councils	Average Underlying result (%)	Indebtedness Liquidity	Self-financing (%)	Capital replacement	Renewal gap	Sustainability assessment	
Ballarat City Council	7.53	2.33	28.35	31.57	1.71	1.10	●
Greater Bendigo City Council	3.95	2.06	31.84	26.65	1.56	0.93	●
Greater Geelong City Council	3.99	1.42	20.19	17.88	1.52	0.81	●
Greater Shepparton City Council	6.33	2.24	18.25	27.94	1.42	1.13	●
Horsham Rural City Council	12.85	2.73	19.03	32.46	1.75	1.11	●
Latrobe City Council	7.06	1.50	27.63	15.84	1.39	1.03	●
Mildura Rural City Council	7.58	1.56	42.98	18.84	1.69	1.27	●
Swan Hill Rural City Council	0.44	1.63	17.20	19.00	1.52	1.21	●
Wangaratta Rural City Council	1.89	1.52	56.91	13.98	1.07	0.72	●
Warrnambool City Council	6.50	1.46	19.47	23.61	1.84	1.36	●
Wodonga City Council	9.81	1.74	73.90	16.94	1.76	0.35	●
Category average	6.18	1.84	32.34	22.25	1.57	1.00	●
Category risk assessment	Low	Low	Low	Low	Low	Medium	Low

Source: Victorian Auditor-General's Office.

Figure E20
Underlying result (per cent) 2010–2014

Regional city councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ballarat City Council	10.01	6.70	4.82	12.94	3.15	7.53	▼	0.31	0.54	1.49	▲
Greater Bendigo City Council	7.30	1.24	4.58	6.14	0.50	3.95	▼	0.98	8.53	8.71	▲
Greater Geelong City Council	3.30	6.80	-0.94	7.86	2.95	3.99	-	11.80	9.18	3.69	▼
Greater Shepparton City Council	5.25	6.64	7.44	9.81	2.53	6.33	-	5.38	2.86	3.94	▼
Horsham Rural City Council	2.07	24.30	22.69	10.34	4.83	12.85	▼	7.17	2.74	2.86	▼
Latrobe City Council	10.26	12.07	3.81	6.48	2.66	7.06	▼	7.82	4.24	11.80	▲
Mildura Rural City Council	3.32	5.59	16.26	10.65	2.09	7.58	▲	16.14	8.48	9.02	▼
Swan Hill Rural City Council	-2.47	-1.38	0.92	4.17	0.94	0.44	▲	11.42	5.65	10.17	▼
Wangaratta Rural City Council	7.98	4.98	1.37	2.88	-7.75	1.89	▼	7.53	11.69	9.43	▲
Warrnambool City Council	0.50	14.24	4.70	6.24	6.82	6.50	▲	6.30	3.93	4.04	▼
Wodonga City Council	8.52	4.10	17.27	14.69	4.47	9.81	-	9.19	2.77	3.78	▼
Average underlying result (%)	5.10	7.75	7.54	8.38	2.11	6.18		7.64	5.51	6.27	

Source: Victorian Auditor-General's Office.

Figure E21
Liquidity (ratio) 2010–2014

Regional city councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ballarat City Council	2.49	2.36	1.54	1.90	2.33	2.12	-	1.25	1.30	1.55	-
Greater Bendigo City Council	1.86	1.78	1.44	1.92	2.06	1.81	-	1.39	1.42	1.39	-
Greater Geelong City Council	1.79	1.74	1.64	1.62	1.42	1.64	-	1.18	1.15	1.14	-
Greater Shepparton City Council	1.69	1.98	1.92	2.33	2.24	2.03	-	1.33	1.37	1.35	-
Horsham Rural City Council	2.87	3.32	2.92	2.74	2.73	2.91	-	1.28	1.52	1.53	-
Latrobe City Council	2.24	1.94	2.04	1.57	1.50	1.86	-	1.35	1.35	1.33	-
Mildura Rural City Council	1.64	1.76	1.38	1.73	1.56	1.61	-	1.12	1.12	1.15	-
Swan Hill Rural City Council	2.25	2.33	1.58	1.33	1.63	1.82	-	1.20	1.43	1.71	▲
Wangaratta Rural City Council	1.73	2.09	1.67	1.49	1.52	1.70	-	1.05	1.02	1.13	-
Warrnambool City Council	1.73	1.71	1.79	1.61	1.46	1.66	-	1.14	1.26	1.43	-
Wodonga City Council	5.11	4.67	1.55	2.66	1.74	3.15	▼	1.05	1.12	1.10	-
Average liquidity	2.31	2.33	1.77	1.90	1.84	2.03		1.21	1.28	1.35	

Source: Victorian Auditor-General's Office.

Figure E22
Indebtedness (per cent) 2010–2014

Regional city councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ballarat City Council	13.12	10.93	9.64	8.46	28.35	14.10	▲	26.42	24.17	22.08	▼
Greater Bendigo City Council	9.03	10.02	17.86	27.29	31.84	19.21	▲	30.17	33.21	33.90	▲
Greater Geelong City Council	25.84	21.24	27.89	20.85	20.19	23.20	▼	30.44	27.40	26.89	▼
Greater Shepparton City Council	7.91	20.24	22.06	20.02	18.25	17.70	▼	19.44	19.85	19.65	-
Horsham Rural City Council	19.53	19.91	33.55	24.11	19.03	23.23	▲	33.27	37.24	36.84	▲
Latrobe City Council	50.55	43.32	47.90	33.09	27.63	40.50	▼	34.32	32.07	30.55	▼
Mildura Rural City Council	32.77	30.56	32.44	41.97	42.98	36.14	▲	37.55	33.47	29.90	▼
Swan Hill Rural City Council	24.73	26.35	26.77	16.23	17.20	22.26	▼	26.97	23.67	20.15	▼
Wangaratta Rural City Council	41.02	49.71	48.51	49.56	56.91	49.14	▲	56.94	54.79	48.94	▼
Warrnambool City Council	22.23	23.70	35.25	19.27	19.47	23.98	▼	24.56	24.15	20.30	▼
Wodonga City Council	92.95	93.07	72.72	80.68	73.90	82.66	▼	62.77	58.90	58.79	▼
Average indebtedness (%)	30.88	31.73	34.05	31.05	32.34	32.01		34.80	33.54	31.64	

Source: Victorian Auditor-General's Office.

Figure E23
Self-financing (per cent) 2010–2014

Regional city councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ballarat City Council	29.15	29.40	33.15	24.04	31.57	29.46	-	23.69	23.26	24.11	-
Greater Bendigo City Council	29.59	24.66	31.62	23.19	26.65	27.14	▼	21.33	29.19	29.98	▲
Greater Geelong City Council	19.09	18.83	21.02	10.60	17.88	17.48	▼	16.31	16.56	17.73	▲
Greater Shepparton City Council	24.63	20.87	27.33	22.05	27.94	24.56	▲	23.46	18.78	21.54	▼
Horsham Rural City Council	28.62	37.08	43.79	40.85	32.46	36.56	▼	29.70	30.93	25.81	▼
Latrobe City Council	28.62	29.72	31.80	27.96	15.84	26.79	▼	26.32	24.50	30.01	▲
Mildura Rural City Council	24.47	25.76	31.84	21.74	18.84	24.53	▼	32.85	26.99	27.19	▲
Swan Hill Rural City Council	16.25	17.95	29.68	17.57	19.00	20.09	▲	27.06	19.14	23.22	▼
Wangaratta Rural City Council	24.97	21.25	26.07	23.80	13.98	22.01	▼	24.83	28.29	27.52	▲
Warrnambool City Council	17.67	30.03	21.68	15.57	23.61	21.71	▼	23.64	22.30	22.38	▼
Wodonga City Council	19.79	19.79	35.02	21.53	16.94	22.62	▼	23.59	19.05	19.55	▼
Average self-financing (%)	23.90	25.03	30.27	22.63	22.25	24.81		24.80	23.54	24.46	

Source: Victorian Auditor-General's Office.

Figure E24
Capital replacement (ratio) 2010–2014

Regional city councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ballarat City Council	1.65	1.19	1.89	1.91	1.89	1.71	-	0.95	0.98	0.88	-
Greater Bendigo City Council	1.51	1.21	1.97	1.64	1.46	1.56	-	1.34	1.75	1.70	-
Greater Geelong City Council	1.59	1.61	1.58	1.36	1.45	1.52	-	2.34	1.67	1.34	▼
Greater Shepparton City Council	1.61	1.62	1.47	1.25	1.16	1.42	-	1.78	1.31	1.27	▼
Horsham Rural City Council	1.13	1.52	3.16	1.79	1.14	1.75	-	2.47	1.24	1.13	▼
Latrobe City Council	1.61	1.80	1.24	1.21	1.09	1.39	-	1.86	1.20	1.67	-
Mildura Rural City Council	1.52	1.39	2.06	2.08	1.41	1.69	-	2.27	1.37	1.42	▼
Swan Hill Rural City Council	1.87	1.07	1.64	1.84	1.19	1.52	-	1.94	1.11	1.37	▼
Wangaratta Rural City Council	1.17	0.87	1.14	1.28	0.90	1.07	-	1.84	1.73	1.36	-
Warrnambool City Council	1.38	2.40	2.36	1.02	2.04	1.84	-	1.65	1.20	1.01	▼
Wodonga City Council	0.78	0.94	2.70	2.52	1.86	1.76	▲	1.90	1.04	1.46	-
Average capital replacement	1.44	1.42	1.93	1.63	1.42	1.57		1.85	1.33	1.33	

Source: Victorian Auditor-General's Office.

Figure E25
Renewal gap (ratio) 2010–2014

Regional city councils	2010	2011	2012	2013	2014	Mean	Actual trend
Ballarat City Council	1.50	1.19	0.96	0.91	0.97	1.10	-
Greater Bendigo City Council	0.60	0.69	0.82	1.28	1.25	0.93	-
Greater Geelong City Council	0.80	0.86	0.98	0.79	0.61	0.81	-
Greater Shepparton City Council	1.23	1.24	1.31	0.98	0.89	1.13	-
Horsham Rural City Council	0.79	0.83	1.46	1.54	0.95	1.11	-
Latrobe City Council	1.22	1.14	0.88	1.01	0.93	1.03	-
Mildura Rural City Council	1.12	1.09	1.50	1.49	1.16	1.27	-
Swan Hill Rural City Council	1.42	0.82	1.43	1.37	1.02	1.21	-
Wangaratta Rural City Council	0.94	0.67	0.58	0.86	0.54	0.72	-
Warrnambool City Council	0.90	1.45	1.95	0.90	1.61	1.36	-
Wodonga City Council	0.27	0.15	0.27	0.46	0.57	0.35	-
Average renewal gap	0.98	0.92	1.10	1.05	0.95	1.00	

Source: Victorian Auditor-General's Office.

Large shire councils

Figure E26
Financial sustainability risk assessment results 2013–14

Large shire councils	Average Underlying result (%)	Liquidity	Indebtedness (%)	Self-financing (%)	Capital replacement	Renewal gap	Sustainability assessment
Bass Coast Shire Council	6.62	1.53	23.77	13.37	1.55	1.07	●
Baw Baw Shire Council	0.27	1.38	10.71	28.57	1.45	1.25	●
Campaspe Shire Council	5.96	1.54	15.80	17.51	1.59	0.91	●
Colac Otway Shire Council	4.41	1.93	26.49	34.25	1.54	1.16	●
Corangamite Shire Council	5.93	1.90	30.28	28.00	1.16	0.97	●
East Gippsland Shire Council	7.94	2.18	24.19	21.38	1.61	1.11	●
Glenelg Shire Council	-0.18	2.23	56.04	22.93	1.59	1.15	●
Macedon Ranges Shire Council	6.52	1.65	17.55	19.24	1.65	1.12	●
Mitchell Shire Council	-3.33	1.23	50.15	6.87	1.40	0.89	●
Moira Shire Council	3.31	2.15	38.68	9.86	1.10	0.97	●
Moorabool Shire Council	-0.85	0.93	30.40	20.52	1.56	1.25	●
Moyne Shire Council	7.08	1.48	7.63	22.14	1.43	1.02	●
South Gippsland Shire Council	3.78	1.23	3.10	15.92	1.38	1.12	●
Southern Grampians Shire Council	0.98	1.99	21.93	15.35	1.12	0.92	●
Surf Coast Shire Council	3.78	1.91	63.26	23.99	2.17	0.81	●
Wellington Shire Council	3.89	2.92	26.70	23.06	1.10	0.98	●
Category average	3.51	1.76	27.92	20.19	1.46	1.04	●
Category risk assessment	Low	Low	Low	Low	Medium	Low	Low

Source: Victorian Auditor-General's Office.

Figure E27
Underlying result (per cent) 2010–2014

Large shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Bass Coast Shire Council	16.81	10.97	8.81	2.37	-5.84	6.62	▼	-2.31	-2.28	6.69	▲
Baw Baw Shire Council	1.23	-7.75	2.67	1.35	3.84	0.27	▲	16.33	11.23	16.31	-
Campaspe Shire Council	-1.76	7.88	12.89	10.30	0.49	5.96	▲	3.24	2.22	1.39	▼
Colac Otway Shire Council	5.16	5.54	1.84	3.30	6.20	4.41	-	6.53	5.55	5.53	▼
Corangamite Shire Council	6.72	1.44	16.78	3.14	1.55	5.93	▼	3.88	4.45	4.63	▲
East Gippsland Shire Council	21.05	5.12	-8.79	13.16	9.15	7.94	▼	14.35	6.52	4.80	▼
Glenelg Shire Council	5.89	8.81	9.36	-38.30	13.34	-0.18	▼	12.55	8.33	4.40	▼
Macedon Ranges Shire Council	14.02	7.81	1.36	8.18	1.26	6.52	▼	5.26	-0.14	-2.02	▼
Mitchell Shire Council	9.89	-1.04	-6.09	-7.21	-12.19	-3.33	▼	-1.67	-1.89	1.66	▲
Moira Shire Council	0.76	5.50	12.51	-8.99	6.76	3.31	-	3.85	6.16	4.74	▲
Moorabool Shire Council	-9.10	3.03	2.22	6.05	-6.46	-0.85	▲	0.45	3.60	0.03	-
Moyne Shire Council	4.32	10.00	8.46	10.36	2.26	7.08	▼	7.40	9.06	10.39	▲
South Gippsland Shire Council	12.23	7.78	0.59	1.99	-3.72	3.78	▼	7.55	6.31	6.80	▼
Southern Grampians Shire Council	1.78	-2.72	4.50	13.67	-12.31	0.98	▼	8.00	10.47	9.22	▲
Surf Coast Shire Council	0.59	10.12	5.46	6.23	-3.53	3.78	▼	0.91	7.50	-0.40	▼
Wellington Shire Council	0.86	10.82	2.65	6.18	-1.06	3.89	▼	-1.44	6.38	8.60	▲
Average underlying result (%)	5.65	5.21	4.70	1.99	-0.02	3.51		5.31	5.22	5.17	

Source: Victorian Auditor-General's Office.

Figure E28
Liquidity (ratio) 2010–2014

Large shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Bass Coast Shire Council	2.11	2.44	1.98	1.79	1.53	1.97	-	1.10	1.09	1.33	-
Baw Baw Shire Council	1.77	1.24	1.46	1.51	1.38	1.47	-	1.26	1.23	1.17	-
Campaspe Shire Council	4.44	3.00	2.56	2.46	1.54	2.80	▼	2.17	1.85	1.78	-
Colac Otway Shire Council	2.18	2.41	2.73	2.67	1.93	2.38	-	1.86	1.27	1.56	-
Corangamite Shire Council	2.27	1.77	1.37	1.71	1.90	1.80	-	1.77	2.03	2.05	-
East Gippsland Shire Council	3.64	3.56	2.76	3.21	2.18	3.07	▼	1.57	1.56	1.77	-
Glenelg Shire Council	2.91	2.72	3.45	2.83	2.23	2.83	-	1.81	1.70	1.65	-
Macedon Ranges Shire Council	1.52	1.91	1.93	1.51	1.65	1.71	-	1.33	1.33	1.29	-
Mitchell Shire Council	2.12	1.67	2.00	1.42	1.23	1.69	-	0.78	0.83	1.06	-
Moira Shire Council	1.87	1.76	2.00	1.32	2.15	1.82	-	1.09	1.30	1.46	-
Moorabool Shire Council	1.17	1.88	1.97	1.36	0.93	1.46	-	1.50	1.39	1.37	-
Moyne Shire Council	1.60	1.80	1.82	1.47	1.48	1.63	-	1.14	1.09	1.25	-
South Gippsland Shire Council	2.79	2.21	2.07	1.70	1.23	2.00	▼	1.77	1.48	1.68	-
Southern Grampians Shire Council	2.85	3.42	3.02	2.72	1.99	2.80	-	1.99	1.75	1.55	-
Surf Coast Shire Council	1.96	1.87	2.01	1.85	1.91	1.92	-	1.30	1.50	1.39	-
Wellington Shire Council	2.23	2.30	2.14	2.41	2.92	2.40	-	1.86	2.01	2.28	-
Average liquidity	2.34	2.25	2.20	2.00	1.76	2.11		1.52	1.46	1.54	

Source: Victorian Auditor-General's Office.

Figure E29
Indebtedness (per cent) 2010–2014

Large shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Bass Coast Shire Council	14.51	19.77	26.03	16.05	23.77	20.03	▲	22.64	21.84	26.06	▲
Baw Baw Shire Council	39.73	31.14	33.38	18.95	10.71	26.78	▼	16.69	18.90	14.89	▼
Campaspe Shire Council	22.34	16.33	24.72	17.74	15.80	19.38	▼	18.47	16.87	17.57	▼
Colac Otway Shire Council	27.07	33.81	39.50	30.32	26.49	31.44	▲	31.83	24.62	21.75	▼
Corangamite Shire Council	19.02	19.69	15.10	21.85	30.28	21.19	▲	24.56	22.79	18.67	▼
East Gippsland Shire Council	20.63	24.08	47.81	33.72	24.19	30.09	▲	30.75	27.31	25.37	▼
Glenelg Shire Council	22.03	18.08	30.23	76.18	56.04	40.51	▲	75.12	72.53	62.29	▼
Macedon Ranges Shire Council	20.99	14.65	28.78	15.38	17.55	19.47	▲	27.43	28.40	26.60	▼
Mitchell Shire Council	21.41	15.44	30.93	29.25	50.15	29.44	▲	52.22	42.44	34.18	▼
Moira Shire Council	72.76	56.64	55.44	44.37	38.68	53.58	▼	33.18	27.81	24.25	▼
Moorabool Shire Council	29.55	50.49	59.37	33.97	30.40	40.76	▲	35.20	46.98	54.76	▲
Moyne Shire Council	7.02	13.20	14.84	5.08	7.63	9.55	▲	11.35	9.20	7.41	▼
South Gippsland Shire Council	7.28	1.78	14.22	2.60	3.10	5.79	▲	10.35	8.34	8.14	▼
Southern Grampians Shire Council	32.83	33.02	40.10	22.19	21.93	30.01	▼	20.60	23.82	21.09	-
Surf Coast Shire Council	30.84	42.35	63.50	57.26	63.26	51.44	▲	52.56	54.36	44.98	▼
Wellington Shire Council	33.24	28.37	23.14	18.68	26.70	26.03	▼	23.00	23.72	23.75	▲
Average indebtedness (%)	26.33	26.18	34.19	27.72	27.92	28.47		30.37	29.37	26.99	

Source: Victorian Auditor-General's Office.

Figure E30
Self-financing (per cent) 2010–2014

Large shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Bass Coast Shire Council	31.53	31.35	30.75	10.85	13.37	23.57	▼	18.79	17.88	20.99	▲
Baw Baw Shire Council	20.44	23.35	25.19	22.81	28.57	24.07	▲	34.64	30.74	34.52	-
Campaspe Shire Council	24.01	26.86	36.89	28.52	17.51	26.76	▼	23.53	24.36	24.42	▲
Colac Otway Shire Council	31.53	30.27	33.15	21.17	34.25	30.07	▼	31.24	28.79	28.95	▼
Corangamite Shire Council	28.32	26.69	24.45	17.47	28.00	24.99	▼	30.84	29.85	30.27	▼
East Gippsland Shire Council	29.82	28.18	31.42	26.70	21.38	27.50	▼	36.32	32.56	32.32	▼
Glenelg Shire Council	26.78	26.04	35.95	22.09	22.93	26.76	▼	23.36	21.78	19.48	▼
Macedon Ranges Shire Council	28.55	19.09	32.11	21.22	19.24	24.04	▼	25.19	21.04	18.91	▼
Mitchell Shire Council	28.87	32.53	26.99	15.73	6.87	22.20	▼	22.56	20.93	23.29	▲
Moira Shire Council	24.88	21.89	35.15	7.15	9.86	19.79	▼	22.18	24.59	23.40	▲
Moorabool Shire Council	29.29	27.08	33.37	23.97	20.52	26.85	▼	22.01	26.94	25.33	▲
Moyne Shire Council	35.74	32.15	36.00	36.24	22.14	32.45	▼	32.58	34.80	35.75	▲
South Gippsland Shire Council	27.12	25.04	27.52	8.57	15.92	20.83	▼	24.16	25.00	26.08	▲
Southern Grampians Shire Council	26.28	25.39	39.33	27.54	15.35	26.78	▼	30.16	32.19	29.71	-
Surf Coast Shire Council	24.95	29.18	35.84	26.97	23.99	28.19	▼	20.14	23.13	21.26	▲
Wellington Shire Council	33.11	35.99	33.56	35.37	23.06	32.22	▼	33.91	33.95	35.22	▲
Average self-financing (%)	28.20	27.57	32.35	22.02	20.19	26.07		26.98	26.78	26.87	

Source: Victorian Auditor-General's Office.

Figure E31
Capital replacement (ratio) 2010–2014

Large shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Bass Coast Shire Council	1.88	1.56	1.91	1.27	1.12	1.55	-	1.06	0.98	1.17	-
Baw Baw Shire Council	1.63	1.28	1.36	1.03	1.95	1.45	-	2.95	1.91	2.02	▼
Campaspe Shire Council	0.84	1.04	1.85	1.81	2.41	1.59	▲	1.64	1.37	1.15	-
Colac Otway Shire Council	1.70	1.58	1.42	1.32	1.70	1.54	-	1.48	1.30	1.06	-
Corangamite Shire Council	1.28	1.33	1.19	1.08	0.95	1.16	-	1.19	1.11	1.12	-
East Gippsland Shire Council	1.95	1.47	1.48	1.45	1.73	1.61	-	1.67	1.21	1.16	▼
Glenelg Shire Council	1.64	1.49	1.38	1.59	1.78	1.59	-	2.08	1.71	1.10	▼
Macedon Ranges Shire Council	2.50	1.24	1.75	1.58	1.16	1.65	-	1.62	1.10	0.94	▼
Mitchell Shire Council	1.34	1.20	1.22	1.72	1.55	1.40	-	1.63	0.76	0.77	▼
Moira Shire Council	1.18	1.18	1.50	0.90	0.75	1.10	-	1.23	1.13	1.11	-
Moorabool Shire Council	1.18	1.40	2.05	1.68	1.50	1.56	-	1.19	2.10	1.63	-
Moyne Shire Council	1.64	1.46	1.18	1.45	1.40	1.43	-	1.32	1.39	1.30	-
South Gippsland Shire Council	1.17	1.53	1.68	1.29	1.24	1.38	-	1.43	1.52	1.27	-
Southern Grampians Shire Council	1.14	0.93	1.23	1.34	0.96	1.12	-	1.51	1.85	1.61	▲
Surf Coast Shire Council	2.20	2.75	2.80	1.51	1.61	2.17	-	1.14	1.77	0.99	-
Wellington Shire Council	1.30	1.19	1.05	0.87	1.10	1.10	-	1.47	1.28	1.18	-
Average capital replacement	1.54	1.41	1.57	1.37	1.43	1.46		1.54	1.41	1.22	

Source: Victorian Auditor-General's Office.

Figure E32
Renewal gap (ratio) 2010–2014

Large shire councils	2010	2011	2012	2013	2014	Mean	Actual trend
Bass Coast Shire Council	1.07	1.05	1.37	0.90	0.94	1.07	-
Baw Baw Shire Council	1.18	0.81	1.16	1.31	1.78	1.25	-
Campaspe Shire Council	0.52	0.76	1.33	1.42	0.54	0.91	-
Colac Otway Shire Council	1.17	1.19	1.12	0.97	1.34	1.16	-
Corangamite Shire Council	0.98	0.78	1.12	1.06	0.90	0.97	-
East Gippsland Shire Council	1.50	1.02	0.96	1.13	0.95	1.11	-
Glenelg Shire Council	1.24	1.22	1.11	1.06	1.09	1.15	-
Macedon Ranges Shire Council	1.20	0.87	1.36	1.29	0.89	1.12	-
Mitchell Shire Council	0.84	0.90	0.78	1.02	0.90	0.89	-
Moirra Shire Council	1.13	1.02	1.26	0.80	0.64	0.97	-
Moorabool Shire Council	0.59	0.93	1.69	1.62	1.43	1.25	-
Moyne Shire Council	1.23	0.79	0.97	1.07	1.04	1.02	-
South Gippsland Shire Council	0.82	1.13	1.37	1.08	1.18	1.12	-
Southern Grampians Shire Council	0.77	0.91	1.07	0.92	0.94	0.92	-
Surf Coast Shire Council	1.05	0.74	0.64	0.72	0.91	0.81	-
Wellington Shire Council	1.19	0.95	0.92	0.84	1.01	0.98	-
Average renewal gap	1.03	0.94	1.14	1.07	1.03	1.04	

Source: Victorian Auditor-General's Office.

Small shire councils

Figure E33
Financial sustainability risk assessment results 2013–14

Small shire councils	Average Underlying result (%)	Liquidity	Indebtedness (%)	Self-financing (%)	Capital replacement	Renewal gap	Sustainability assessment
Ararat Rural City Council	3.39	2.52	1.42	34.01	1.10	1.03	●
Alpine Shire Council	0.48	1.85	29.92	23.26	1.32	0.73	●
Benalla Rural City Council	6.67	1.22	47.89	17.00	1.77	1.32	●
Borough of Queenscliffe	15.12	2.39	0.59	20.18	2.03	1.42	●
Buloke Shire Council	8.16	0.18	6.03	68.12	2.15	2.03	●
Central Goldfields Shire Council	7.80	1.23	26.91	26.01	1.81	1.24	●
Gannawarra Shire Council	17.35	2.63	14.89	22.16	2.50	1.37	●
Golden Plains Shire Council	13.96	2.72	32.07	22.55	2.42	1.30	●
Hepburn Shire Council	13.92	1.85	12.43	22.02	2.22	1.85	●
Hindmarsh Shire Council	17.83	2.02	1.52	20.96	2.11	1.59	●
Indigo Shire Council	13.12	2.17	22.45	25.26	1.83	1.60	●
Loddon Shire Council	8.36	4.12	20.34	23.40	1.47	1.12	●
Mansfield Shire Council	5.75	1.50	23.21	26.34	1.91	1.21	●
Mount Alexander Shire Council	3.78	1.77	33.23	20.77	1.80	1.19	●
Murrindindi Shire Council	10.39	2.75	22.00	34.30	2.03	1.08	●
Northern Grampians Shire Council	9.33	1.64	26.48	16.61	1.22	1.52	●
Pyrenees Shire Council	-3.01	2.25	19.84	3.07	1.27	0.83	●
Strathbogie Shire Council	4.82	1.61	16.26	32.37	1.44	1.04	●
Tolong Shire Council	8.21	4.00	4.07	24.40	1.36	1.27	●
West Wimmera Shire Council	2.83	2.90	5.44	15.51	1.06	0.98	●
Yarriambiack Shire Council	-6.02	0.96	9.58	25.46	1.27	0.98	●
Category average	7.73	2.11	17.93	24.94	1.72	1.27	●
Category risk assessment	Low	Low	Low	Low	Low	Low	Low

Source: Victorian Auditor-General's Office.

Figure E34
Underlying result (per cent) 2010–2014

Small shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ararat Rural City Council	-1.71	6.59	1.18	6.99	3.91	3.39	▲	14.81	6.20	5.34	▼
Alpine Shire Council	4.21	-1.88	7.26	-4.44	-2.75	0.48	▼	6.61	7.40	3.35	▼
Benalla Rural City Council	4.20	9.56	14.54	6.79	-1.77	6.67	▼	6.67	2.86	3.00	▼
Borough of Queenscliffe	5.90	15.81	20.53	15.44	17.92	15.12	▲	28.25	1.14	0.77	▼
Buloke Shire Council	-22.66	-21.14	16.83	11.25	56.52	8.16	▲	3.75	8.14	9.25	▲
Central Goldfields Shire Council	-4.37	13.28	7.41	21.67	1.00	7.80	▲	11.43	7.57	4.93	▼
Gannawarra Shire Council	3.28	3.83	50.40	21.69	7.55	17.35	▲	5.00	11.76	4.86	-
Golden Plains Shire Council	12.74	9.53	25.35	16.29	5.89	13.96	▼	4.97	9.09	10.92	▲
Hepburn Shire Council	9.83	5.49	20.36	33.90	0.01	13.92	▲	4.95	16.66	2.66	▼
Hindmarsh Shire Council	10.49	3.06	37.35	42.75	-4.50	17.83	▲	3.21	1.32	1.59	▼
Indigo Shire Council	19.01	11.83	14.78	11.34	8.62	13.12	▼	13.61	4.90	1.13	▼
Loddon Shire Council	0.47	26.37	35.51	-3.87	-16.67	8.36	▼	5.15	4.09	-1.31	▼
Mansfield Shire Council	23.32	18.69	-14.90	5.52	-3.89	5.75	▼	4.98	4.86	3.83	▼
Mount Alexander Shire Council	-5.57	1.91	5.35	17.43	-0.22	3.78	▲	6.78	9.42	6.91	-
Murrindindi Shire Council	11.33	8.54	23.73	5.98	2.37	10.39	▼	-0.91	-5.78	-4.79	▼
Northern Grampians Shire Council	-3.19	19.69	15.81	23.81	-9.46	9.33	▼	-4.02	2.45	-0.18	▲
Pyrenees Shire Council	3.24	28.78	17.00	-20.93	-43.12	-3.01	▼	-12.34	-14.52	-12.42	-
Strathbogie Shire Council	-4.17	6.97	13.68	7.19	0.43	4.82	▲	6.51	5.47	5.28	▼
Towong Shire Council	2.30	8.77	-4.15	28.46	5.69	8.21	▲	14.18	13.60	1.42	▼
West Wimmera Shire Council	-2.22	7.02	11.18	9.11	-10.96	2.83	▼	-0.25	0.88	1.03	▲
Yarriambiack Shire Council	-4.26	5.37	-3.84	-5.29	-22.06	-6.02	▼	-0.03	-1.80	-1.45	▼
Average underlying result (%)	2.96	8.96	15.02	11.96	-0.26	7.73		5.87	4.56	2.20	

Source: Victorian Auditor-General's Office.

Figure E35
Liquidity (ratio) 2010–2014

Small shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ararat Rural City Council	2.71	3.33	4.45	3.40	2.52	3.28	-	2.07	2.05	2.07	-
Alpine Shire Council	1.91	2.06	2.45	2.40	1.85	2.13	-	1.83	1.73	1.68	-
Benalla Rural City Council	1.64	1.42	1.75	1.65	1.22	1.54	-	1.00	1.05	1.08	-
Borough of Queenscliffe	1.61	2.51	1.80	2.03	2.39	2.07	-	1.28	2.03	2.52	▲
Buloke Shire Council	0.41	0.44	0.70	0.57	0.18	0.46	-	0.29	0.99	1.99	▲
Central Goldfields Shire Council	1.64	1.13	1.42	1.52	1.23	1.39	-	1.09	0.95	0.85	-
Gannawarra Shire Council	2.61	1.97	3.46	2.63	2.63	2.66	-	1.79	1.79	2.14	-
Golden Plains Shire Council	1.71	1.74	2.33	3.16	2.72	2.33	▲	1.84	1.23	1.48	-
Hepburn Shire Council	1.83	2.63	2.32	2.50	1.85	2.23	-	1.95	1.97	1.99	-
Hindmarsh Shire Council	2.54	2.60	3.38	3.30	2.02	2.77	-	1.16	1.14	1.24	-
Indigo Shire Council	1.57	1.92	1.81	2.31	2.17	1.96	-	1.24	1.04	0.81	-
Loddon Shire Council	3.59	7.43	3.40	4.54	4.12	4.62	-	2.42	2.25	2.40	-
Mansfield Shire Council	4.09	3.68	2.51	2.61	1.50	2.88	▼	1.62	1.56	1.41	-
Mount Alexander Shire Council	2.34	2.54	1.92	2.80	1.77	2.27	-	1.74	1.80	1.41	-
Murrindindi Shire Council	2.59	2.28	2.34	3.29	2.75	2.65	-	2.40	2.76	3.18	▲
Northern Grampians Shire Council	1.50	2.29	2.36	1.90	1.64	1.94	-	0.85	1.08	1.18	-
Pyrenees Shire Council	4.01	5.09	4.45	3.57	2.25	3.87	▼	1.96	1.96	1.98	-
Strathbogie Shire Council	1.54	1.37	2.08	2.12	1.61	1.74	-	1.54	1.56	1.49	-
Towong Shire Council	2.28	3.16	4.80	4.74	4.00	3.80	▲	3.02	3.40	3.59	▲
West Wimmera Shire Council	1.68	2.06	2.94	2.72	2.90	2.46	▲	1.71	1.48	1.95	-
Yarriambiack Shire Council	3.55	2.93	2.69	1.72	0.96	2.37	▼	1.40	1.64	1.78	-
Average liquidity	2.26	2.60	2.64	2.64	2.11	2.45		1.63	1.69	1.82	

Source: Victorian Auditor-General's Office.

Figure E36
Indebtedness (per cent) 2010–2014

Small shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ararat Rural City Council	1.23	1.02	21.47	2.27	1.42	5.48	-	17.39	15.21	13.00	▼
Alpine Shire Council	21.57	20.92	31.60	31.06	29.92	27.02	▲	25.38	21.75	18.39	▼
Benalla Rural City Council	47.27	38.56	45.59	50.00	47.89	45.86	▲	45.01	38.82	33.60	▼
Borough of Queenscliffe	21.20	15.72	3.48	0.49	0.59	8.30	▼	9.82	9.36	7.39	▼
Buloke Shire Council	13.64	17.99	13.90	11.20	6.03	12.55	▼	67.99	64.81	61.47	▼
Central Goldfields Shire Council	59.67	47.79	34.78	31.38	26.91	40.11	▼	36.47	32.04	19.40	▼
Gannawarra Shire Council	30.00	31.23	17.44	16.57	14.89	22.02	▼	15.48	14.09	13.29	▼
Golden Plains Shire Council	22.37	37.99	33.70	25.80	32.07	30.39	▲	34.69	38.76	38.54	▲
Hepburn Shire Council	25.72	14.89	22.84	11.25	12.43	17.43	▼	21.78	19.76	15.17	▼
Hindmarsh Shire Council	1.87	1.94	15.74	1.39	1.52	4.49	-	1.32	1.24	1.19	-
Indigo Shire Council	10.06	14.89	24.79	20.86	22.45	18.61	▲	22.28	16.71	13.70	▼
Loddon Shire Council	31.18	28.42	22.01	16.37	20.34	23.66	▼	18.32	18.59	18.96	▲
Mansfield Shire Council	24.89	18.83	20.06	9.81	23.21	19.36	▼	33.02	29.71	26.70	▼
Mount Alexander Shire Council	18.19	24.86	26.17	31.24	33.23	26.74	▲	22.95	25.20	23.42	-
Murrindindi Shire Council	29.03	27.50	27.25	25.04	22.00	26.16	▼	19.89	17.91	16.71	▼
Northern Grampians Shire Council	15.80	20.95	32.83	13.88	26.48	21.99	▲	23.39	20.69	18.09	▼
Pyrenees Shire Council	30.87	33.50	28.10	22.66	19.84	26.99	▼	16.85	12.71	8.64	▼
Strathbogie Shire Council	28.59	19.85	29.16	16.02	16.26	21.97	▼	9.55	10.41	8.97	▼
Towong Shire Council	10.62	9.36	24.16	8.41	4.07	11.32	▼	8.37	8.51	8.03	-
West Wimmera Shire Council	2.66	2.35	14.56	1.73	5.44	5.35	▲	5.11	3.59	2.18	▼
Yarriambiack Shire Council	5.49	2.88	24.05	8.85	9.58	10.17	▲	5.07	4.01	3.05	▼
Average indebtedness (%)	21.52	20.55	24.46	16.96	17.93	20.28		21.91	20.18	17.61	

Source: Victorian Auditor-General's Office.

Figure E37
Self-financing (per cent) 2010–2014

Small shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ararat Rural City Council	22.53	27.95	21.03	16.24	34.01	24.35	▲	36.02	29.94	29.49	▼
Alpine Shire Council	20.80	17.34	30.90	14.32	23.26	21.32	-	24.44	23.31	22.47	▼
Benalla Rural City Council	21.06	17.01	37.86	12.03	17.00	20.99	▼	22.39	18.84	17.86	▼
Borough of Queenscliffe	20.38	25.42	33.43	19.48	20.18	23.78	▼	36.38	8.27	11.11	▼
Buloke Shire Council	15.29	12.54	46.43	35.54	68.12	35.58	▲	34.65	36.55	39.94	▲
Central Goldfields Shire Council	24.20	38.16	24.50	26.50	26.01	27.87	▼	27.58	25.20	22.75	▼
Gannawarra Shire Council	26.67	31.50	55.61	26.86	22.16	32.56	▼	25.18	29.69	23.79	▼
Golden Plains Shire Council	25.92	26.70	25.33	25.08	22.55	25.11	▼	17.11	25.94	25.38	▲
Hepburn Shire Council	33.59	36.66	42.95	50.39	22.02	37.12	▼	29.34	38.66	28.59	▼
Hindmarsh Shire Council	32.65	27.09	59.29	53.53	20.96	38.70	▲	32.52	27.69	30.13	▼
Indigo Shire Council	35.37	16.06	31.19	26.05	25.26	26.78	▼	29.59	22.13	18.97	▼
Loddon Shire Council	30.71	45.20	47.60	22.38	23.40	33.86	▼	34.18	35.50	31.63	▼
Mansfield Shire Council	26.45	43.00	3.89	10.06	26.34	21.95	▼	23.93	24.09	22.96	▼
Mount Alexander Shire Council	28.40	18.66	27.69	24.38	20.77	23.98	▼	26.35	21.87	25.81	▼
Murrindindi Shire Council	22.71	21.59	29.20	33.52	34.30	28.26	▲	24.79	19.83	20.24	▼
Northern Grampians Shire Council	24.56	43.02	40.50	31.27	16.61	31.19	▼	19.91	24.27	22.66	▲
Pyrenees Shire Council	30.02	50.40	33.83	-3.06	3.07	22.85	▼	32.16	31.55	32.20	-
Strathbogie Shire Council	25.11	23.78	35.14	22.85	32.37	27.85	▲	27.33	28.89	25.32	▼
Towong Shire Council	23.53	30.73	38.15	44.76	24.40	32.31	▲	35.02	26.46	27.14	▼
West Wimmera Shire Council	30.06	35.11	48.09	33.25	15.51	32.41	▼	34.28	33.04	32.51	▼
Yarriambiack Shire Council	35.26	28.75	33.66	17.47	25.46	28.12	▼	29.15	35.58	33.40	▲
Average self-financing (%)	26.44	29.37	35.54	25.85	24.94	28.43		28.68	27.01	25.92	

Source: Victorian Auditor-General's Office.

Figure E38
Capital replacement (ratio) 2010–2014

Small shire councils	2010	2011	2012	2013	2014	Mean	Actual trend	Forecast			Future trend
								2015	2016	2017	
Ararat Rural City Council	1.13	0.87	0.98	1.10	1.42	1.10	-	1.86	1.27	1.18	▼
Alpine Shire Council	1.58	0.93	1.70	1.13	1.24	1.32	-	1.97	1.51	1.14	▼
Benalla Rural City Council	0.91	1.59	2.77	1.82	1.77	1.77	-	1.57	0.92	0.99	▼
Borough of Queenscliffe	1.61	1.16	2.77	2.19	2.43	2.03	▲	6.16	1.02	0.61	▼
Buloke Shire Council	1.22	0.61	1.56	1.59	5.79	2.15	▲	1.43	0.82	0.82	▼
Central Goldfields Shire Council	1.43	2.35	1.23	2.41	1.64	1.81	-	2.00	1.44	1.10	▼
Gannawarra Shire Council	1.34	1.86	5.62	2.33	1.33	2.50	-	1.82	1.66	1.04	▼
Golden Plains Shire Council	2.92	3.03	2.45	1.76	1.95	2.42	▼	1.85	2.46	2.05	-
Hepburn Shire Council	1.43	1.78	3.06	3.09	1.71	2.22	-	1.19	1.77	1.01	-
Hindmarsh Shire Council	1.64	1.13	1.70	4.06	2.01	2.11	▲	1.16	1.11	1.03	-
Indigo Shire Council	2.70	1.53	1.98	1.33	1.61	1.83	-	2.32	1.40	1.27	▼
Loddon Shire Council	0.98	0.76	3.38	0.97	1.24	1.47	-	1.37	1.28	0.91	-
Mansfield Shire Council	1.20	2.48	1.50	1.35	3.03	1.91	▲	1.90	1.26	1.27	▼
Mount Alexander Shire Council	1.40	1.31	2.39	2.33	1.56	1.80	-	1.51	1.87	1.85	-
Murrindindi Shire Council	1.97	2.48	3.58	0.96	1.18	2.03	▼	1.28	0.59	0.59	▼
Northern Grampians Shire Council	0.93	1.85	1.09	0.95	1.25	1.22	-	1.06	1.11	0.94	-
Pyrenees Shire Council	1.17	1.53	1.16	1.72	0.79	1.27	-	0.93	0.77	0.82	-
Strathbogie Shire Council	1.38	1.44	1.56	1.41	1.41	1.44	-	2.02	1.36	1.47	▼
Towong Shire Council	1.22	1.04	1.17	1.56	1.81	1.36	-	2.30	1.07	1.05	▼
West Wimmera Shire Council	1.20	1.01	1.02	1.01	1.04	1.06	-	1.20	1.16	0.76	-
Yarriambiack Shire Council	0.97	0.93	1.77	1.51	1.17	1.27	-	1.09	1.05	1.04	-
Average capital replacement	1.44	1.51	2.12	1.74	1.78	1.72		1.81	1.28	1.09	

Source: Victorian Auditor-General's Office.

Figure E39
Renewal gap (ratio) 2010–2014

Small shire councils	2010	2011	2012	2013	2014	Mean	Actual trend
Ararat Rural City Council	0.88	1.21	0.94	1.05	1.07	1.03	-
Alpine Shire Council	0.76	0.55	0.13	1.10	1.08	0.73	-
Benalla Rural City Council	1.01	1.61	1.04	1.21	1.72	1.32	-
Borough of Queenscliffe	0.95	0.88	2.31	1.96	0.98	1.42	-
Buloke Shire Council	0.93	0.50	1.40	1.31	5.97	2.03	▲
Central Goldfields Shire Council	0.51	1.74	0.88	2.04	1.01	1.24	-
Gannawarra Shire Council	0.97	1.39	1.40	1.87	1.24	1.37	-
Golden Plains Shire Council	0.98	1.24	1.76	1.13	1.38	1.30	-
Hepburn Shire Council	1.06	1.43	2.95	2.74	1.08	1.85	-
Hindmarsh Shire Council	1.15	0.91	1.40	2.64	1.83	1.59	▲
Indigo Shire Council	2.70	0.86	1.74	1.16	1.56	1.60	-
Loddon Shire Council	0.73	0.34	2.63	0.78	1.12	1.12	-
Mansfield Shire Council	0.91	0.82	0.70	1.05	2.58	1.21	▲
Mount Alexander Shire Council	1.09	0.88	1.65	1.34	1.01	1.19	-
Murrindindi Shire Council	1.39	0.95	1.61	0.64	0.82	1.08	-
Northern Grampians Shire Council	0.61	1.52	2.29	1.96	1.23	1.52	-
Pyrenees Shire Council	0.94	1.01	0.53	1.07	0.58	0.83	-
Strathbogie Shire Council	0.77	0.85	1.36	0.98	1.25	1.04	-
Towong Shire Council	0.79	0.55	1.07	2.46	1.46	1.27	▲
West Wimmera Shire Council	1.10	0.94	0.96	0.91	0.98	0.98	-
Yarriambiack Shire Council	0.72	0.61	1.42	1.23	0.93	0.98	-
Average renewal gap	1.00	0.99	1.44	1.46	1.47	1.27	

Source: Victorian Auditor-General's Office.

Appendix F.

Acronyms and glossary

Glossary

Appropriate

Measures or indicators are appropriate if they provide users with sufficient information to assess the extent to which an entity has achieved a pre-determined target, goal or outcome.

Asset

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

Audit Act 1994

An Act of the State of Victoria that establishes the:

- operating powers and responsibilities of the Auditor-General
- the operation of his office—the Victorian Auditor-General's Office (VAGO)
- nature and scope of audits conducted by VAGO
- relationship of the Auditor-General with the Public Accounts and Estimates Committee as the representative body of Parliament
- Auditor-General's accountability to Parliament for discharge of the position's responsibilities.

Audit committee charter

The responsibilities and terms of reference of the audit committee should be clearly defined in its charter, formally approved by the council and communicated to stakeholders.

Auditor's opinion

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

Clear audit opinion—financial statement

A positive written expression indicating that the financial statement has been prepared in accordance with the requirements of the relevant legislation and Australian Accounting Standards.

A clear or unqualified audit opinion is provided when the financial statement presents fairly the transactions and balances for the reporting period in accordance with the relevant legislative framework.

Clear audit opinion—financial report

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

Also referred to as an **unqualified audit opinion**.

Clear audit opinion—performance report

A positive written expression provided when the performance report has been prepared and presents fairly the performance indicators and results of performance for the reporting period in accordance with the requirements of the relevant legislation.

Also referred to as an **unqualified audit opinion**.

Clear audit opinion—standard statements

A positive written expression provided when the standard statements have been prepared for the reporting period in accordance with the requirements of the relevant legislation.

Also referred to as an **unqualified audit opinion**.

Corporations Act 2001

An Act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at federal and interstate levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

Council

A group of councillors, who are the elected representatives of people who are residents in the council's district or ratepayers of the council.

Deficit

Total expenditure exceeds total revenue resulting in a loss.

Depreciation

The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.

Emphasis of matter

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

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities.

Expense

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

Financial report

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

Financial sustainability

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

Financial year

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

General purpose financial statements

Statements that provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users.

Going concern

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

Governance

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

Internal control

Processes affected by an entity's structure, work and authority flows, people and management information systems, designed to assist the entity accomplish specific goals and objectives. Internal controls are a means by which an entity's resources are directed, monitored and measured. It plays an important role in preventing and detecting error and fraud and protecting the entity's resources.

Joint venture

A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.

Liability

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

Local Government Act 1989

An Act of the State of Victoria that establishes the:

- purpose of councils
- powers that will enable councils to meet the needs of their communities
- accountable system of local government
- reform of law relating to local government in Victoria.

Performance report

A statement containing predetermined performance indicators and targets and actual results against these for that financial year, with an explanation for any significant variance between the results and the targets.

Qualified audit opinion—financial report

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

- disagreement with those charged with governance
- conflict between applicable financial reporting frameworks
- limitation of scope.

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

Qualified audit opinion—performance report

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to the noncompliance with the *Local Government Act 1989*.

Rating strategy

A document that how and why and how rates are set and determined, as well as procedural and legislative requirements, assistance and payment options.

Relevant

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

Revaluation

Recognising a reassessment of values for non-current assets at a particular point in time.

Revenue

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

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Standard statements

Specific purpose financial statements that compare actual financial performance reported on in the principle financial statements with budget. Where there are significant variations between actual and budgeted performance the variance is explained.

Surplus

Total revenue exceeds total expenditure resulting in a profit.

Appendix G.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16A and 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to all councils all councils and the Department of Environment, Land, Water and Planning with a request for submissions or comments.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

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RESPONSE provided by the Secretary, Department of Environment, Land, Water and Planning



**Department of Environment,
Land, Water and Planning**

Ref: SEC010999

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office
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East Melbourne Victoria 8002
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Dear Dr Frost

Peter,

PROPOSED AUDIT REPORT - LOCAL GOVERNMENT: RESULTS OF THE 2013-14 AUDITS

Thank you for your letter dated 12 February 2015 with which you enclosed the proposed audit report *Local Government: Results of the 2013-14 audits*. I appreciate the opportunity to respond.

I am pleased to receive your advice that clear audit opinions have been given on the financial statements of the 103 entities.

I also welcome the recommendations made in respect of required action by local councils, regional library corporations and associated entities, particularly in respect of the mandatory Local Government Performance Reporting Framework and the need for councils to ensure the integrity of both the financial and non-financial data.

The increase in the number of councils assigned a 'High Financial Sustainability Risk Assessment' is noted. I note also your comments concerning the impact of the delayed Commonwealth Grants Commission payments and delayed commencement of the Local Government Funding Vehicle established by the Municipal Association of Victoria upon the range of sustainability indicators. I would welcome the opportunity for officers of Local Government Victoria to work with your office to understand the impact on indicators for individual councils and regional groupings of councils.

While there are no recommendations that apply directly to Local Government Victoria or the department, I do note the number of improvement opportunities you have identified for local councils and every encouragement will be given to these councils to address the matters raised.

Thank you for raising this matter with me.

Yours sincerely

Adam Fennessy
Secretary

Privacy Statement
Any personal information about you or a third party in your correspondence will be protected under the provisions of the Privacy and Data Protection Act 2014. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorised by law. Enquiries about access to information about you held by the Department should be directed to the Privacy Coordinator, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



RESPONSE provided by the Chief Executive Officer, Brimbank City Council

18 February 2015

Dr Peter Frost
Acting Auditor-General
Victorian Auditor General's Office
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Dear Dr Frost

RE: Audit Act 1994, s16(3) – Proposed Audit Report – Local Government: Results of the 2013-2014 Audits.

Thank you for your letter dated 12 February 2015 regarding the Proposed Audit Report – Local Government: Results of the 2013-2014 Audits.

Council notes your comment in relation to Brimbank City Council's financial sustainability risk as at 30 June 2014.

In response to your request for submissions/comments for inclusion in the proposed Audit Report, please find below Brimbank City Council's comment:

The overall sustainability assessment of high risk attributed to Council was due to interim borrowing arrangements while Council was waiting for the Local Government Funding Vehicle to be finalised.

Council has since returned to a more favourable liquidity ratio as we continue to manage the City's finances in a stable and responsible manner.

Participation in the Local Government Funding Vehicle means Council is now able to access lower interest loans. This is particularly important as demand for services increase and external funding sources decrease.

Should you require any further information please contact Council's Chief Financial Strategist, Shane Marr, on 9249 4310 or shanema@brimbank.vic.gov.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Bill Jaboor'.

Bill Jaboor
Chief Executive Officer

RESPONSE provided by the Chief Executive Officer, Hobsons Bay City Council



18 February 2015

Mr Jan-Michael Perez
Senior Manager Financial Audit
Victorian Auditor-General's Office
Level 24
35 Collins Street
Melbourne Vic 3000

Ask for: CEO's Office
Phone: 9932 1000

Dear Mr Perez

Local Government: Results of the 2013-14 Audits

Thank you for the opportunity to respond to the *Local Government: Results of the 2013-14 Audits* report scheduled to be published and reported in Parliament in February 2015.

Identification of Hobsons Bay as "high risk" as a result of these indicators highlights that these indicators, taken in isolation at a given point in time, do not always provide the reader with a true indication of a Council's financial sustainability.

Despite a liquidity ratio of less than 100 per cent at 30 June 2014, Hobsons Bay was not at 'high risk' and did not have short term financial sustainability concerns. This temporary situation was caused by long term debt becoming current for a brief period of time at the end of the financial year. This was not a concern as Council was aware of the situation and had plans in place for it to be resolved by transferring the debt to a long term facility shortly after the end of the financial year. This transfer has successfully happened.

Continuing to name councils in these types of situations provides a misleading indication that could cause damage to a council's reputation, as well as alarm to the community, being contrary to a stated council position. This is an example of a situation where some discretion should perhaps be exercised before inaccurately labelling a council as 'high risk'.

I trust that some further explanatory note may be added to the report that clarifies the position of Hobsons Bay.

Yours sincerely

Chris Eddy
Chief Executive Officer

Auditor-General's response to the Chief Executive Officer of Hobsons Bay City Council

The chief executive officer has stated that the identification of Hobsons Bay as a high financial sustainability risk, when taken in isolation at a given point in time, does not always provide the reader with a true indication of a council's financial sustainability.

The results of financial sustainability indicators should be considered over time and not in isolation. Our indicators include ratios that are generally accepted as valid indicators of financial sustainability risks. The indicator results are based on the published financial statements of the council, which have been prepared in accordance with the Australian Accounting Standards. Further, as also highlighted in our report, the financial results and sustainability risks of councils were impacted by the Commonwealth Government's decision to not part pay its 2014–15 grants in advance during 2013–14 and the delays associated with the Local Government Funding Vehicle.

RESPONSE provided by the Chief Executive Officer, City of Port Phillip

Enquiries: David Filmatter
Telephone: (03) 9209 6591
File Ref: 34/04/57



17 February 2015



Mr Tim Loughnan
State Director
VAGO
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Loughnan

PROPOSED AUDIT REPORT LOCAL GOVERNMENT: RESULTS OF THE 2013-14 AUDITS

Thank you for giving me the opportunity to comment on the movement in the City of Port Phillip's self-financing ratio which had fallen from 18.6% in 2012/13 to 8% in 2013/14 resulting in the VAGO assessment of the organisation having a high self-funding risk and a medium overall financial sustainability risk. I have reviewed the reasons for the change and am pleased to be able to advise that the 2013/14 result was adversely impacted by the following one-off factors:

1. The full and final settlement of the Local Authorities Superannuation Board defined benefits superannuation liability which had an unfavourable impact of \$10.873 million on the organisation's cash flow from operating activities.
2. A one-off contribution of \$3.0 million that the organisation made to the CaSPA Aged Care facility.
3. An unfavourable movement in the carrying value of Council's long service leave liability of \$1.8 million.

A review of our forward financial plan projections has confirmed that the self-funding ratio will return to historical levels (ranging between 17.5% and 19.7%) over the next three financial years.

Yours sincerely

A handwritten signature in blue ink that reads 'Tracey Slatter'.

TRACEY SLATTER
Chief Executive Officer

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RESPONSE provided by the Chief Executive Officer, Surf Coast Shire



Our Ref: Trim Ref: F14/1235 D15/14738
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19 February 2015

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
Melbourne VIC 3000

Dear Dr Frost,

**Audit Act 1994, s163(3) – Proposed Audit Report:
Local Government: Results of the 2013-14 audits**

Thank you for your letter dated 12 February 2015 in relation to results of the 2013-14 Audits for Local Government.

We note your comments in relation to Surf Coast Shire's indebtedness ratio as at 30 June 2014 and accept these as accurate.

Further to the acknowledgement that Council's indebtedness ratio rose due to an increase in Council's landfill rehabilitation provisions, Council wishes to note that current projections indicate that the Anglesea Landfill site will cease operation in 2024/25 and rehabilitation work is progressively occurring until this date.

As a result of investigation into the remaining capacity of the landfill and future rehabilitation requirements, Council increased its provision during the 2013-14 financial year by \$4.8 million to hold a total provision of \$14.0 million as at 30 June 2014.

Council would also like to note that it held a discretionary cash allocation of \$4.8 million as at 30 June 2014 that has been allocated towards future Landfill works. This allocation is not allowed for in the indebtedness ratio calculation.

Should you require further information in relation to this matter, please contact Mr John Brockway, Manager Finance via email at jbrockway@surfcoast.vic.gov.au.

Yours faithfully

A handwritten signature in blue ink that reads "Keith Baillie".

Keith Baillie
Chief Executive Officer

RESPONSE provided by the Chief Executive Officer, West Wimmera Shire Council



WEST WIMMERA SHIRE COUNCIL

19 February 2015

WWSC File No: 15/000429

Dr Peter Frost
Acting Auditor- General (via email)



Dear Dr Frost

Ref: 29472/01 Audit Act 1994 S 16(3) (b) - Proposed Audit Report Local Government Submission from West Wimmera Shire Council

I acknowledge the receipt of your letter to our CEO Mark Crouch dated 12th February 2015. As indicated in the letter, I am writing to provide submission and comments on the proposed Audit Report on Local Government.

West Wimmera Shire Council (Council) understands the importance of timely finalisation of its annual report. Unfortunately major resource constraints arose due to senior staff resignations. Council sought an extension to submit the annual accounts.

Being a small rural Council, Council has challenges to recruit and retain skilled finance professionals. Council is aware of this challenge and working to address this resource issue with a range of activities, including capacity building within the existing workforce. Council is also working with neighbouring councils on the resource sharing aspects to address the resource issues.

Council also established an audit committee in 2014-15 to assist Council to monitor the progress of the audit recommendations.

Yours sincerely

Venkata Peteti
General Manager- Corporate and Community Services

CC: Tim Loughnan

Ivy Ly

All correspondence to: Edenhope Civic Centre, P O Box 201, Edenhope VIC 3318

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Kaniva: 25 Baker Street, Kaniva VIC 3419 - Tel: (03) 5392 7700 - Fax: (03) 5392 7750

RESPONSE provided by the Chief Executive Officer, City of Wodonga

City of Wodonga

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18 February 2015

Enquiries: Michael Caton
Reference: A10.0014

Tim Loughnan
Sector Director
Victorian Auditor General's Office
Level 24,
35 Collins Street
Melbourne VIC 3000



Dear Mr Loughnan

Re: 2013-2014 Financial Performance of Councils

Thank you for the opportunity to provide comment on your upcoming report on the financial performance of Councils for the 2013-2014 financial year.

You have provided us with extracts of data and commentary from your proposed report which we have reviewed and wish to comment on. We believe the following points will provide further guidance on council's approach to financial management and the subsequent financial indicator results ensuing from them as mentioned in your report.

- The liquidity ratio has deteriorated from 2.66 in 2012-2013 to 1.74 in 2013-2014. The result in 2012-2013 reflected the proceeds from a loan for \$7.9 million that Council received on the 20th of June 2013. Also note that in the 2013-2014 year Council did not take up approved and budgeted borrowings of \$3.0 million, these being deferred to 2014-15 in the adopted budget for that year. Council believes that the liquidity ratio at 1.74 still reflects a solid position and is an indication of the prudent approach Council takes to its overall financial position and cash management.
- The indebtedness ratio has decreased from 81 per cent in 2012-2013 to 74 per cent in 2013-2014. This reflects a plateauing in the overall level of indebtedness. Indebtedness is forecast to fall in subsequent years resulting in a projected steady decline in the indebtedness ratio.
- Council's investment at LOGIC (valued during the year at \$41.5 million), was always with a long term view of some 20-25 years. LOGIC has been a success story for Wodonga with regard to actual land sales themselves, but more importantly, the jobs and economic activity generated by the additional investment by the purchasers of land. Land sales to date have exceeded the "most likely case" envisaged in the original business plan. To date more than 580 direct jobs and many indirect jobs on an ongoing basis have been created, more than \$137 million worth of development has occurred, generating an annual rate receipt of \$616,000.
- SCT Logistics has recently confirmed its intention to invest in the construction of a rail terminal at LOGIC, which is anticipated to employ 118 full-time staff once operational.



**RESPONSE provided by the Chief Executive Officer, City of Wodonga –
continued**

2012-2013 Financial Performance of Councils



- Council has land holdings that council has identified as surplus to its needs. These assets are in the process of being divested, with land being put to the market in stages as deemed appropriate.
- Wodonga Council's Strategic Resource Plan (SRP) does not rely upon the realisation of LOGIC or any other land sale proceeds which are currently in the process of eventuating. A copy of the SRP can be found under Documents and Publications at www.wodonga.vic.gov.au.
- The council believes consideration of the above points provides for council's outstanding debt to be extinguished in its entirety with a significant amount remaining for cash reserves in the longer term.
- The council's Strategic Resource Plan provides for a long term prudent financial management platform to ensure Wodonga Council's key strategic activities are able to be achieved. Also, emphasis on the implementation of a strong asset management ethos will see the knowledge of the City's investment gap strengthened. By linking asset management to the City's strategic financial direction this will provide further information to assist in improving the long term sustainability of the City.
- Wodonga Council has communicated a clear and concise financial strategy to its community. It is our strong and clear view that the City's finances are sustainable and that the strategies that have already been put in place will ensure that rates growth will not be compromised, whilst delivering the services, assets, and events expected by the Wodonga community.

City of Wodonga trusts that the above information has provided further explanation and clarification of the council's overall approach to financial management and that this has been reflected in the financial sustainability indicators developed by your office.

Yours faithfully

**Patience Harrington
Chief Executive Officer**

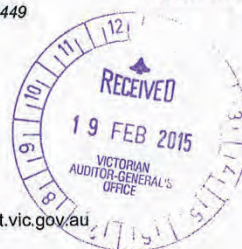
RESPONSE provided by the Chief Executive Officer, City of Yarra

In reply please quote: D15/16666
Our ref: D15/16661
Contact: Philip Mason 9205 5449



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18 February 2015



Dr Peter Frost
Acting Auditor-General
Via Email: Jie.Yang@audit.vic.gov.au

Dear Dr Frost

Proposed Audit Report Local Government: Results of the 2013-14 audits

Thank you for your letter dated 12 February 2015 in relation to the proposed parliamentary Audit Report *Local Government: Results of the 2013-14 audits* noting Council's improved liquidity position.

Explanation provided last year detailed Council's liquidity position of below 1.00 was temporary and due to an increase in current trade creditors associated with the redevelopment works at the Collingwood Town Hall. Council made a conscious decision in 2012-13 to accelerate works on this project, ahead of budget, bringing forward \$1.4 million from the 2013-14 capital works program.

Council will continue improved operational performance and cash flow management practices and a sustained effort to ensure future on-going improved liquidity to remain in the low risk financial sustainability category, as assessed by the Victorian Auditor-General's Office.

Should you require further information please feel free to contact Philip Mason, Manager Finance on 9205 5449.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Vijaya Vaidyanath'.

Vijaya Vaidyanath
Chief Executive Officer

cc: Phil Mason, Manager Finance

Yarralink Interpreter Service 9280 1940 | Để được trợ giúp bằng Tiếng Việt, hãy gọi số 9280 1939 | Per assistenza in italiano chiamare 9280 1931 | 用廣東話獲得協助，請電9280 1932 | Για βοήθεια στα Ελληνικά καλέστε 9280 1934 | Para ayuda en castellano llame al 9280 1935 | За помош на македонски јавете се на 9280 1936 | 用廣東話獲得協助，請電9280 1937 | Türkçe yardım almak için 9280 1938 numaralı telefonu arayın | 9280 1930 للمساعدة باللغة العربية يرجى الاتصال على الرقم

RESPONSE provided by the Chief Executive Officer, Municipal Association of Victoria

MUNICIPAL ASSOCIATION OF VICTORIA

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20 February 2015

Dr Peter Frost
Acting Auditor-General
Level 24
35 Collins Street
MELBOURNE VIC 3000



Dear Mr Frost

**Audit Act 1994, s16(3) – Proposed Audit Report
Local Government: Results of the 2013-14 Audits**

The Local Government Funding Vehicle is a special purpose vehicle established by the MAV to provide lower cost, capital-markets funding for Victorian councils. The LGFV is rated Aa2 by Moody's on the basis of the very strong debt positions of Victorian councils. In November 2014 the launch of the \$240M deal on behalf of thirty Victorian councils had indicative pricing of 75 basis points over swap for the five year term and 90 basis points over swap for the 7 year term.

Twenty six of the participating councils had no net debt and the other four had net debt less than 15% of their annual rates revenue. In addition, it is important to note that since the establishment of local government in Victoria, no council has defaulted on a loan.

The NAB and CommBank were co-arrangers for the deal and the Commonwealth Bank provides the LGFV liquidity facility which enables missed interest payments by any council to be covered for up to 12 months, time within which a council would refinance the loan outside the LGFV.

Prior to the LGFV, Councils relied exclusively on bank loans, with repayments on a principal and interest basis. The movement to bullet maturities ie interest only until maturity has been a significant move into contemporary finance practice for councils. Any view that principal and interest loans are preferable given principal is repaid over the term and to result in fewer defaults is not a view supported by the practises of Commonwealth and State governments, the broader commercial environment or the vast majority of domestic investments.

In addition, to determine the overall costs, the analysis should be based on a portfolio basis rather than a single loan basis. The aggregate debt position is forecast to remain constant, if not growing, which therefore implies that existing local government P&I loans are being refinanced by new principal and interest loans. On a portfolio basis, the cheaper source of funding, through the LGFV, will generate greater interest saving compared to the existing P&I regime.



RESPONSE provided by the Chief Executive Officer, Municipal Association of Victoria – continued

Finally, alternative funding markets provides essential risk management considerations by providing diversification advantage. That is, the existence of the bond both reduces the reliance on bank funding and the competition results in a reduction in interest on bank loans with the net result of cheaper borrowings across the local government sector.

We note that we observed very strong investment appetite from banks and bond investors for Councils given their strong credit profile. Further with the changes in the bank market regulations, the maximum term of a loan is now estimated at approximately 10 years rather than 20 years previously observed (noting many banks quote 20 years tenor, but with a right to break / reprice after 10). As such, a bank loan without alternative sources, would likely see an increase in refinancing risks.

Given the above, we do not consider that the key findings raised are accurate given the benefits and reality of what the LGFV provides the sector.

Yours sincerely



ROB SPENCE
Chief Executive Officer

Auditor-General's response to the Chief Executive Officer of Municipal Association of Victoria

The chief executive officer has stated that any view that principal and interest loans are preferable given principal is repaid over the term and results in fewer defaults is not supported. Our report makes no comment about the likelihood or frequency of loan defaults. It does, however, make the statement of fact that repaying the loan principal over its term will result in lower interest costs than would occur if the principal is not progressively repaid over the term. Our report also notes the risk that councils may not have the funds available to make the full repayment of the principal amount when the debt matures. If this risk was realised the relevant councils would have a number of potential options, including refinancing.

Auditor-General's reports

Reports tabled during 2014–15

Report title	Date tabled
Technical and Further Education Institutes: Results of the 2013 Audits (2014–15:1)	August 2014
Coordinating Public Transport (2014–15:2)	August 2014
Managing the Environmental Impacts of Transport (2014–15:3)	August 2014
Access to Legal Aid (2014–15:4)	August 2014
Managing Landfills (2014–15:5)	September 2014
Management and Oversight of the Caulfield Racecourse Reserve (2014–15:6)	September 2014
Effectiveness of Catchment Management Authorities (2014–15:7)	September 2014
Heatwave Management: Reducing the Risk to Public Health (2014–15:8)	October 2014
Emergency Response ICT Systems (2014–15:9)	October 2014
Public Sector Performance Measurement and Reporting (2014–15:10)	October 2014
Mental Health Strategies for the Justice System (2014–15:11)	October 2014
Information and Communications Technology Controls Report 2013–14 (2014–15:12)	October 2014
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14 (2014–15:13)	October 2014
Additional School Costs for Families (2014–15:14)	February 2015
Responses to 2012–13 Performance Audit Recommendations (2014–15:15)	February 2015
Water Entities: Results of the 2013–14 Audits (2014–15:16)	February 2015
Portfolio Departments and Associated Entities: Results of the 2013–14 Audits (2014–15:17)	February 2015
Public Hospitals: Results of the 2013–14 Audits (2014–15:18)	February 2015
Efficiency and Effectiveness of Hospital Services: High-value Equipment (2014–15:19)	February 2015
Effectiveness of Support for Local Government (2014–15:20)	February 2015

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