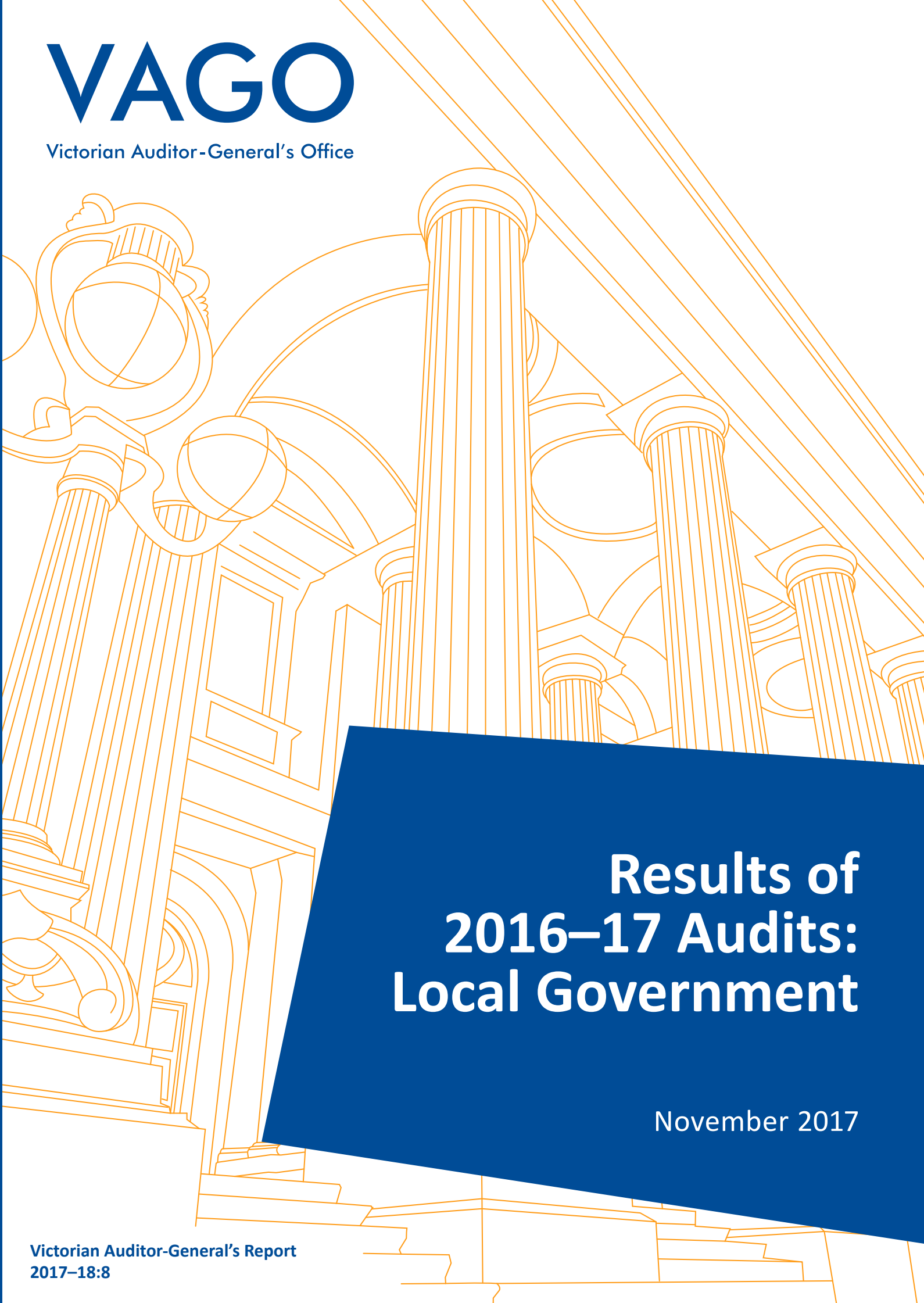


# VAGO

Victorian Auditor-General's Office



## Results of 2016–17 Audits: Local Government

November 2017





# Results of 2016–17 Audits: Local Government

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The Hon Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon Colin Brooks 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 *Results of 2016–17 Audits: Local Government*.

Yours faithfully

A handwritten signature in black ink, appearing to read "Andrew Greaves", is written over a faint, circular official stamp.

Andrew Greaves  
*Auditor-General*

29 November 2017



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## Acronyms

AASB	Australian Accounting Standards Board
DELWP	Department of Environment, Land, Water and Planning
DPC	Department of Premier and Cabinet
ESC	Essential Services Commission
IT	Information technology
LGPRF	Local Government Performance Reporting Framework
LGV	Local Government Victoria
KMP	Key management personnel
VAGO	Victorian Auditor-General's Office
VCAT	Victorian Civil and Administrative Tribunal

# Audit overview

In Victoria, the local government sector comprises 79 councils, their 10 regional library corporations and 16 associated entities. While administered under the *Local Government Act 1989*, each council operates autonomously and is directly accountable to ratepayers. Local Government Victoria (LGV), within the Department of Environment, Land, Water and Planning (DELWP), provides policy advice, oversees legislation and works with the Minister for Local Government and local councils.

In this report, we analyse and discuss the results of our 2016–17 audits of the financial reports and performance statements of Victoria’s councils, regional library corporations and associated entities.

We assess their financial performance during 2016–17, and their financial position as at 30 June 2017. In addition, we discuss the financial sustainability of the sector based on our analysis of council budgets and the 30 June 2017 audited financial reports. We also analyse the sector’s response to the introduction of the Victorian Government’s rate capping policy in 2015.

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## Conclusion

The councils’ audited financial reports and performance statements for the year ended 30 June 2017 are reliable, and Parliament and the wider community can have confidence in them.

In the short term, the sector as a whole has a relatively low financial sustainability risk. The longer-term impact of rate capping is yet to be fully determined, but it has created the impetus for councils to review their cost structures.

To mitigate and minimise any potential risks arising from issues in their internal control environment, councils need to ensure they promptly resolve the issues we have identified.

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## Findings

### Results of audit

#### Financial reports

For the financial year 2016–17, we issued clear audit opinions for 104 financial reports.

The opinion for MAPS Group Limited—an associated entity that has a 30 September balance date—remains outstanding at the date of this report.

Compared to the prior financial year, in 2016–17 councils made a small improvement in the median time taken to certify their financial reports. This could be significantly improved by bringing forward key elements of the financial reporting work, such as the timing of asset revaluations.

As new Australian Accounting Standards will apply over the next few years, the timely preparation and certification of financial reports is particularly important. Councils are encouraged to assess these new standards and prepare for their implementation at their earliest opportunity.

### Performance statements

We issued 78 clear audit opinions on councils' performance statements for 2016–17. We qualified our audit opinion for Towong Shire Council's performance statement. As the council did not conduct or participate in a 2016–17 community satisfaction survey, it was unable to obtain information for two indicators and, therefore, could not report the results.

Performance statements are important, as they communicate key financial and non-financial results. Currently, in their performance statements, councils explain significant variations in performance indicators in the context of results from prior years. While this information is useful, setting a target would assist readers to determine whether a council is operating efficiently and effectively.

### Internal controls

We assess councils' internal controls as generally well designed and operating as intended by management.

However, we continue to observe issues in key IT internal controls and have identified this as an increasing trend across the sector. Persistent high-risk IT internal control issues include:

- unsupported systems and software
- weak user access management
- lack of software patch management.

Combined, these matters increase the risk of a successful cyber attack and could result in the destruction of data or recording of non-existent transactions.

Overall, councils have resolved over 60 per cent of the internal control issues identified in our current and prior-year audits.

### Found assets

In 2016–17, 29 councils identified \$175.3 million of assets that they had not known about or recorded (compared to 31 councils and \$149.3 million assets in 2015–16). Councils use asset information to plan and monitor their maintenance and capital works planning. Therefore, it is important that they know about all relevant assets.

In our November 2016 report *Local Government: 2015–16 Audit Snapshot*, we highlighted the lack of completeness and accuracy of councils' underlying data about the assets they control as a recurring issue. This continued to be an issue in 2016–17.

## Financial sustainability

We have assessed the sector as having a relatively low financial sustainability risk in the short term.

Our analysis shows a gradual decline in the asset renewal and maintenance indicators. Overall, the sector forecasts spending less on asset renewal and maintenance.

We also found that most councils are accumulating cash—in preference to acquiring debt—to replace or expand their asset base. This is shown through the declining trend in the indebtedness indicator, and the sector's increasing cash and term deposit holdings.

We note that rural and regional councils have a higher financial sustainability risk than metropolitan councils. This is linked to their relative inability to generate sufficient own-sourced revenue streams as well as steady increases in expenditure.

## The impact of rate capping

Our analysis shows that, on average, councils are forecasting their revenue to decrease by 1 per cent over the next three financial years, while expenditure is set to increase by 2 per cent over the same period. Councils need to better understand the impact this disparity may have on the services that they provide to their communities.

It is encouraging that most councils have identified longer-term viability risks that may result from rate capping, but many do not yet understand how they can respond to this risk. To do this, a first step councils must take is to understand the nature and cost of all services they provide to their communities.

Councils also need to understand the impact of reduced revenue on their capital works programs. We found that, in response to rate capping, councils have started to reduce their longer-term capital expenditure programs. However, these programs typically only focus on the next four years. We recommend that councils develop longer-term plans, covering the next 10 to 20 years, to ensure they make appropriate decisions.

---

## Recommendation

We recommend that Local Government Victoria:

1. introduce targets for each of the performance indicators included in each councils' performance statements (see Part 2).

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## Submissions and comments

We have consulted with DELWP and the councils named in this report, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions or comments. We also provided a copy of the report to the Department of Premier and Cabinet.

The following is a summary of those responses. The full responses are included in Appendix A.

DELWP notes our findings and supports in principal the report's recommendation. DELWP intends to write to all mayors and CEOs recommending that they review the report and address matters relevant to their council.

Horsham Rural City Council provides further information on its case study. City of Kingston, Moreland City Council and City of Stonnington comment on found assets. City of Moonee Valley and Moreland City Council provide information regarding their management letter issues.

# 1

## Audit context

Victoria's Constitution recognises local government as one tier of government. Democratically elected councillors govern councils, and their operations are managed by a council-appointed chief executive officer. While administered under the *Local Government Act 1989*, each council operates autonomously and is directly accountable to ratepayers.

The sector includes 79 councils, 10 regional library corporations and 16 associated entities. We classified councils into two categories, made up of five cohorts based on size, demographics and funding—see Figure 1A. These cohorts are consistent with LGV's classification of council types.

Appendix B lists the councils included in each cohort and the results of our audits of each entity.

In this report, the **local government sector** refers to the 79 Victorian councils.

**Figure 1A**  
Council cohorts in the metropolitan, and rural and regional categories

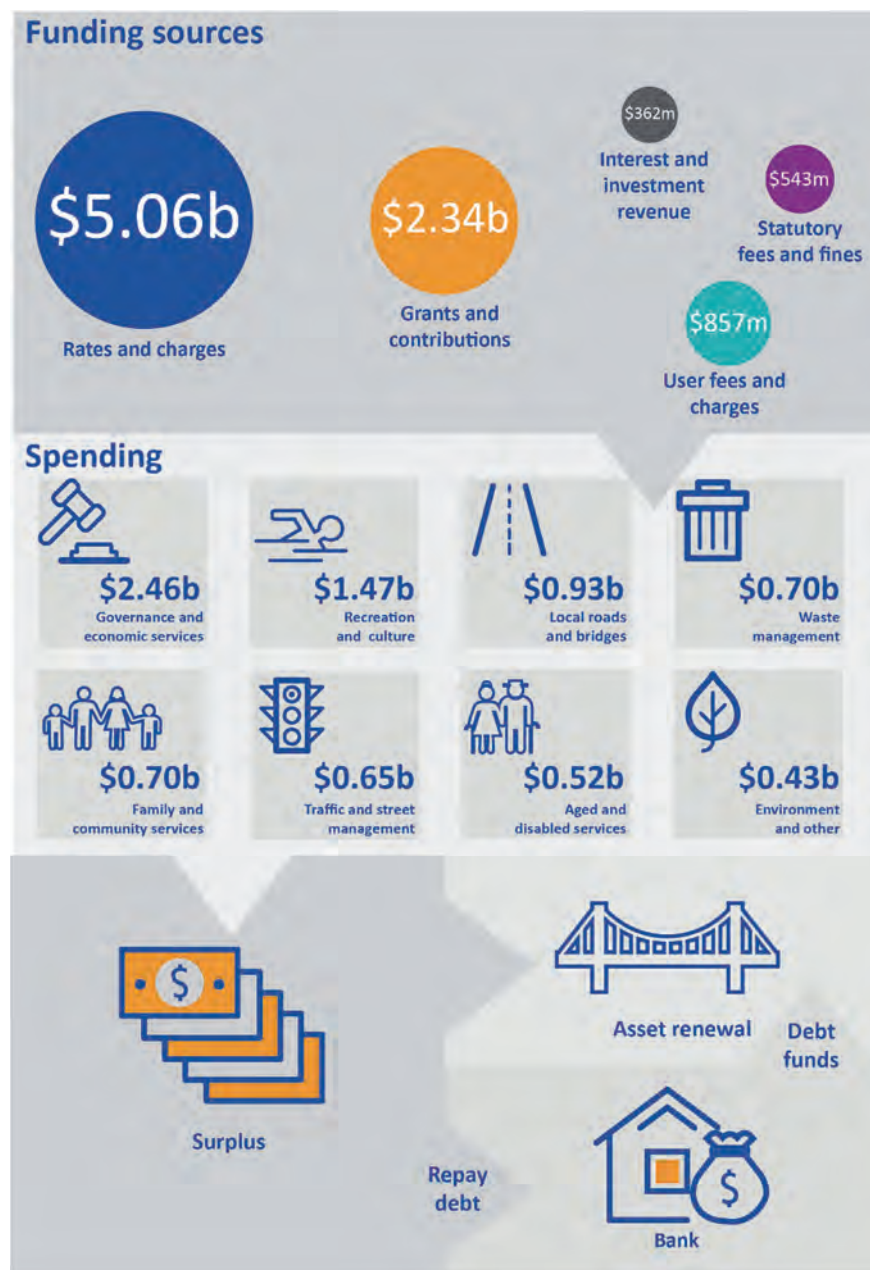
Cohort	Definition	Number of councils
<b>Metropolitan councils</b>		
Metropolitan	A metropolitan council is predominantly urban in character and located within Melbourne's densely populated urban core.	22
Interface	An interface council is one of the nine municipalities that form a ring around metropolitan Melbourne.	9
<b>Total metropolitan councils</b>		<b>31</b>
<b>Rural and regional councils</b>		
Regional city	A regional city council is urban and partly rural in character.	10
Large shire	A large shire is a municipality with more than 16 000 inhabitants that is predominantly rural in character.	19
Small shire	A small shire council is a municipality with less than 16 000 inhabitants that is predominantly rural in character.	19
<b>Total rural and regional councils</b>		<b>48</b>
<b>Total councils</b>		<b>79</b>

Source: VAGO.

## 1.1 Local government sector

The local government sector is primarily funded through rates and charges, and government grants to deliver various services for the local community. Figure 1B shows the funding sources and how the sector spends these funds.

**Figure 1B**  
**Overview of the local government sector**

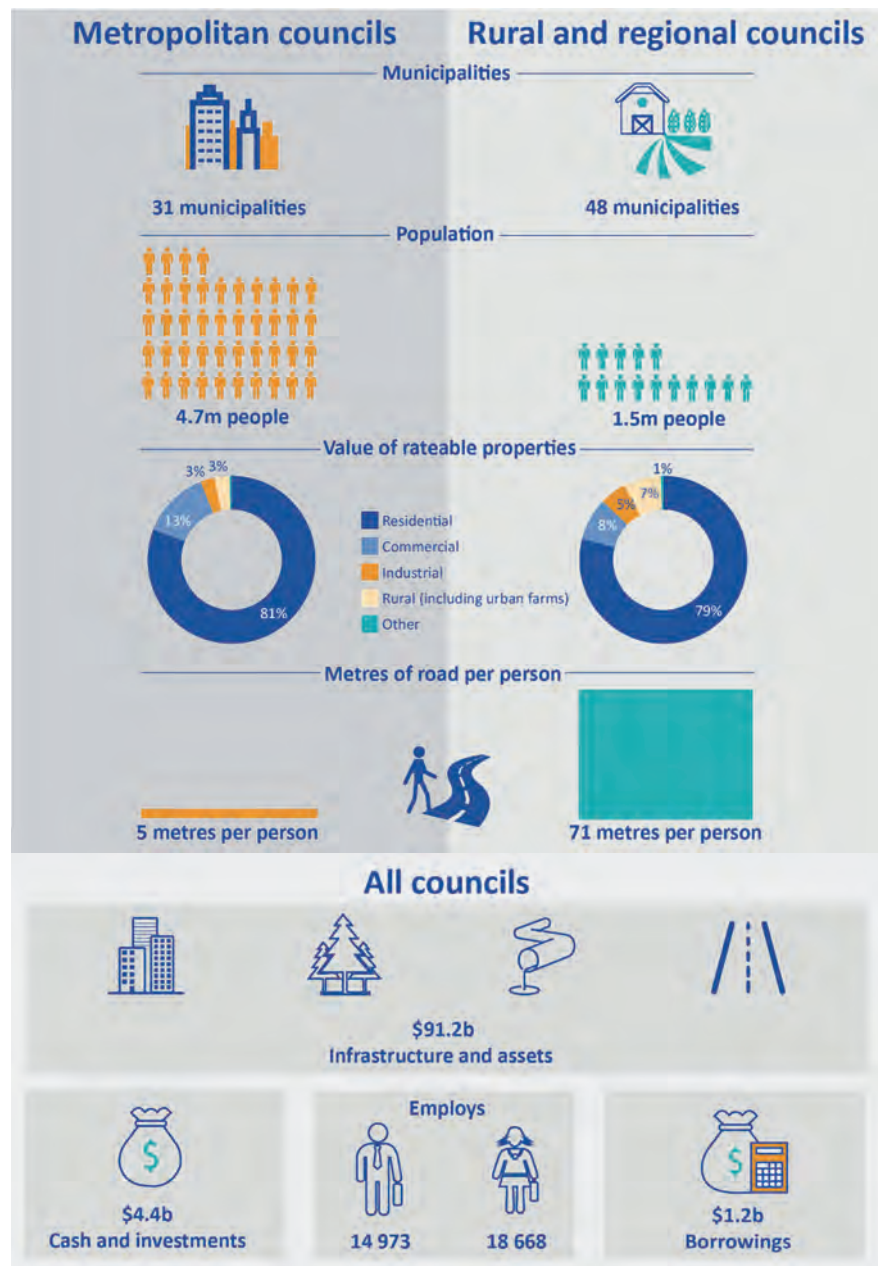


Source: VAGO, based on Local Government Victoria, Victoria Grants Commission—Questionnaire 2015–16 responses from councils.

The two categories of councils—metropolitan, and rural and regional—have different demographics and face separate challenges and opportunities. This is evident, for example, in rural and regional councils’ reliance on grants compared to the metropolitan councils.

Figure 1C compares these two categories of councils and provides key sector information.

**Figure 1C**  
**Comparison of key elements across the two councils categories**



Source: VAGO, based on Local Government Victoria, Victoria Grants Commission—Questionnaire 2015–16 responses from councils; and Australian Bureau of Statistics.

## 1.2 Sector events

Two recent developments—rate capping and governance interventions—have had or will have a considerable impact on the local government sector.

### Rate capping

In 2015, the Victorian Government introduced rate capping legislation in the form of its Fair Go Rates System. This system introduces an annual rate cap, set by the Minister for Local Government, which controls general rate increases for all councils. The 2016–17 financial year is the first year of rate capping, with rate increases capped at 2.5 per cent (2 per cent in 2017–18).

We explore the short- and long-term implications of rate capping for the local government sector in Part 5 of this report.

### Governance interventions

Effective governance is essential for maintaining strong internal controls. Although most councils have appropriate controls to govern themselves, there have been a number of recent legal interventions by the state government in response to governance failures. Figure 1D summarises the status of some recent governance issues.

**Figure 1D**  
**Current status of governance matters**

Council	Description
Ararat Rural City Council	In June 2017, a Commission of Inquiry was appointed. In August 2017, the Minister for Local Government appointed a municipal monitor to observe the council's operations.
Central Goldfields Shire Council	<p>In October 2016, the minister appointed a municipal monitor.</p> <p>On 18 August 2017, the Local Government Investigations and Compliance Inspectorate released its report <i>Protecting integrity: Central Goldfields Shire Council investigation</i>. Following the release of the report, the state government dismissed the council on 23 August 2017.</p> <p>On 26 August 2017, the state government appointed an interim administrator.</p>
Casey City Council	In June 2016, a municipal monitor was appointed. The municipal monitor report was received in September 2016.
Darebin City Council	On 25 June 2015, special inspectors were appointed.
Greater Geelong City Council	<p>In December 2015, an independent Commission of Inquiry was appointed.</p> <p>The state government dismissed the council in April 2016 and appointed three administrators until the council election in October 2017. A new council was elected in October 2017.</p>

*Note:* Municipal monitors are appointed by the Minister for Local Government to observe governance processes and provide advice to councils that are experiencing governance difficulties. Commissioners are appointed by the Minister for Local Government where there are more serious governance failures.

*Source:* VAGO.

## 1.3 Report structure

In this report, we detail the outcomes of the 2016–17 financial audits of Victoria’s local government sector. We discuss key matters arising from our audits, and provide an analysis of information included in councils’ financial reports.

Figure 1E outlines the structure of this report.

**Figure 1E**  
**Report structure**

Part	Description
Part 2—Results of audits	Presents results of our audit of local government sector entities for the 2016–17 financial year. This section also provides commentary on: <ul style="list-style-type: none"><li>• key audit themes for 2016–17</li><li>• quality of financial and performance reporting</li><li>• outcomes of the audits of the 79 councils.</li></ul>
Part 3—Internal controls	Summarises the results of our internal control evaluations of local government sector entities for the 2016–17 financial year.
Part 4—Financial sustainability	Provides an insight into the sector’s long-term viability risks, based on our analysis of financial sustainability risk indicators.
Part 5—Rate capping impact assessment	Provides commentary on the impact of rate capping on councils, based on the sector’s response.

Source: VAGO.

We undertake our financial audits according to section 8 of the *Audit Act 1994* and Australian Auditing Standards. These audits are paid for by each entity.

The results of these audits were used in preparing the report. The cost of preparing this report was \$250 000, which is funded by Parliament.



# 2

## Results of audits

Councils prepare a financial report and performance statement annually. Their financial report shows the council's financial results and is prepared in line with relevant Australian Accounting Standards and applicable legislation. The performance statement outlines the council's performance against performance indicators set by the Minister for Local Government. We audit both the financial reports and the performance statements.

---

### 2.1 Audit opinions

Independent audit opinions add credibility to financial reports and performance statements by providing reasonable assurance that the information reported is accurate and reliable.

A clear audit opinion confirms that the financial report presents fairly the transactions and balances for the reporting period, in keeping with the requirements of relevant Australian Accounting Standards and applicable legislation. A clear audit opinion for the performance statement confirms that the actual results reported are fairly presented and comply with the performance indicators set by the minister. We carried out our financial audits of the local government sector in accordance with the Australian Auditing Standards.

Figure 2A outlines the status of the sector's 2016–17 financial report and performance statement audits, and the types of opinions issued to each entity. Appendix B lists the local government entities, type of audit opinion and when they were issued.

**Figure 2A**  
**Status of 2016–17 audit opinions**

Entities	Clear audit opinions	Qualified opinion	Number of opinions issued	Incomplete
<b>Financial report</b>				
Council	79	–	79	–
Regional library corporations	10	–	10	–
Other <sup>(a)</sup>	15	–	15	1
<b>Total</b>	<b>104</b>	<b>–</b>	<b>104</b>	<b>1</b>
<b>Performance statements</b>				
Council	78	1	79	–

(a) MAPS Group Limited has a 30 September balance date—no audit opinion had been issued at the date of this report for the year ending 30 September 2017.

Source: VAGO.

### Qualified audit opinion for Towong Shire Council's performance statement

A **qualified audit opinion** is issued when the auditor concludes that a clear opinion cannot be expressed because of a conflict with the applicable reporting framework or a limitation of scope.

We qualified the performance statement audit opinion of Towong Shire Council due to the fact that the council did not conduct or participate in the required community satisfaction survey for the 2016–17 financial year. The survey obtains information from the community on the following service-related performance measures:

- satisfaction with council decisions
- satisfaction with sealed local roads within the municipality.

Accordingly, the council was unable to report results for these performance indicators in its 2016–17 performance statement. The inability to report these performance indicators constitutes a departure from the performance statement requirements under Part 6 of the *Local Government Act 1989*.

## 2.2 Quality of financial and performance reporting

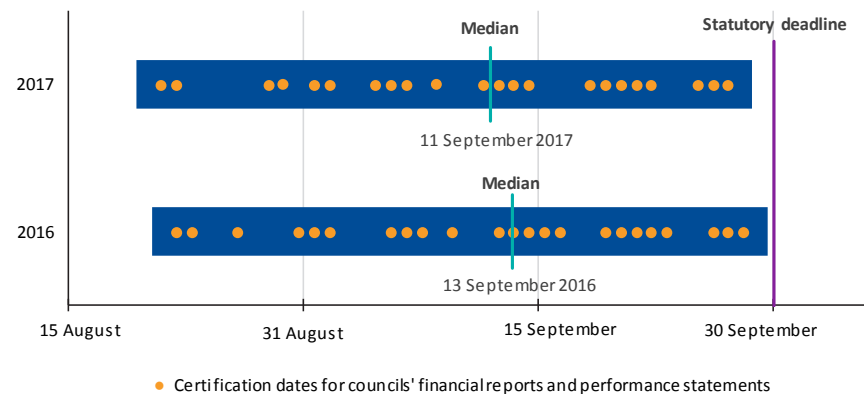
The quality of an entity's financial and performance reporting can be measured by the timeliness and accuracy of these reports.

### Timeliness

Timely financial reports and performance statements enable users to make better informed and prompt decisions. The later these reports are produced, the less relevant the information is.

Councils are required to submit their financial reports and performance statements to the Minister for Local Government and have them certified by 30 September each year. Figure 2B shows when councils' reports were certified in 2016 and 2017.

**Figure 2B**  
**Timeliness of financial reports and performance statements**



**Note:** The certification date for Central Goldfields Shire Council is omitted from this figure.

**Source:** VAGO.

**Shell accounts** are a set of financial reports and performance statements prepared by management prior to the balance date. These assist with planning the structure and contents of the actual financial report and performance statement.

With the exception of Central Goldfields Shire Council's reports—which were certified on 9 November 2017 and received an extension from the minister until 30 November 2017—all councils met the statutory deadline, as in 2016.

While the sector made a small improvement in the median time taken to certify the reports compared to the prior year, further improvements could be made by bringing forward work such as:

- conducting asset valuations prior to the balance date
- evaluating and mitigating key risks during the year such as the completeness and accuracy of landfill provisions
- preparing shell accounts for audit review.

## Accuracy

The number and size of errors identified through our audit of the financial reports and performance statements is a direct measure of the quality of those documents. Ideally, there should be no errors or adjustments required as a result of an audit. When material errors are detected through the audit process, they are brought to management's attention for correction.

Material errors identified during the audit process need to be corrected before a clear audit opinion can be issued. While some errors may appear immaterial in isolation, a series of smaller errors when considered together may have a material impact on the entity's financial report or performance statement.

**Material errors** are significant misstatements or omissions of information that may influence a user's decision-making.

**Developer contributions** are physical assets such as roads and drains that are transferred to councils once their construction is complete.

## Financial reports

Aggregated errors that required adjustment include:

- a \$727.7 million understatement of total assets due to incorrect valuation of non-current assets—we explore these matters further in the Section 2.3
- \$81.9 million in term deposits incorrectly classified as either other financial assets or cash equivalents
- a \$25.6 million overstatement in total revenue due to developer contributions reported in the incorrect financial year
- a \$3.5 million understatement and a \$1.7 million overstatement in total liabilities due to errors in landfill provision calculations.

In 2016–17, LGV provided guidance to the sector regarding accounting for landfills. We encourage councils to review this information when evaluating the reasonableness of their landfill provisions.

## Performance statements

LGV issues the Local Government Performance Reporting Framework (LGPRF) which outlines the requirements for councils' performance statements. Based on our analysis of errors identified through the audit process, performance indicators that were more susceptible to error include:

- statutory planning—council planning decisions upheld by the Victorian Civil and Administrative Tribunal (VCAT)
- food safety—critical and major noncompliance outcome notifications
- aquatic facilities—utilisation.

These errors were generally due to a lack of awareness of the LGPRF or challenges the council faced in interpreting whether an item should be included in a specific performance indicator.

When preparing their statements, councils are required to explain significant variations in performance indicators compared to prior years. While this information is useful, the current performance reporting framework does not impose targets. As a result, management and readers of the performance statement are unable to determine if a council is operating efficiently and effectively.

Setting a target would assist management and users of performance statements to understand where a council's performance can be improved.

## 2.3 Key audit themes

As we plan our financial audit work across the sector each year, we seek to identify key audit risks. These risks, if not addressed, may lead to material misstatements in financial reporting. We communicate these risks in our audit strategy documents, which are presented to management and audit committees at each council prior to the end of the financial year.

The homogenous nature of local councils means that there are often common risk themes across the sector, covering governance, operations and customers. This year, the most common key audit risks we identified were:

- noncompliance with the accounting standard requirements in AASB 124 *Related Party Disclosures* (AASB 124), which applied to this sector for the first time
- the valuation of non-current physical assets
- found assets recognised across the sector
- information technology (IT) risks—see Part 3.

### AASB 124 *Related Party Disclosures*

In their financial reports for the year ended 30 June 2017, not-for-profit entities were required to apply AASB 124 for the first time. This meant that all councils needed to disclose information about material related-party transactions and relationships that may have affected their financial performance or position. The application of AASB 124 created challenges for both the councils preparing the financial report and their auditors, to ensure that the information disclosed was complete and accurate.

Across the local government sector, there was a broad range of material related-party relationships that needed to be disclosed, including:

- key management personnel (KMP) and their close family
- other entities controlled by KMPs
- all other council-controlled agencies.

While the level of disclosure varied across the sector, rural and regional councils typically reported more material related-party transactions than metropolitan councils. Common disclosures included:

- provision of goods and services to councils
- community grants to related parties
- KMP family members employed by council
- payments to related entities such as regional library corporations.

These transactions were reported to be on normal commercial terms.

Overall, we noted that most councils had appropriate processes in place to capture and disclose the information needed to meet the requirements of AASB 124.

**KMPs** are employees who make strategic decisions for the council.

In its first year, the implementation of AASB 124 went relatively well. Other significant changes to standards in the next few years—summarised in Appendix C—will also impact council financial reporting. Councils are encouraged to examine these changes, identify potential impacts and prepare for their implementation.

## Physical asset fair value assessments and revaluations

The **fair value** is the estimated cost to purchase or replace an asset. Calculation of fair value should take into account any conditions or restrictions placed on the asset.

At 30 June 2017, the 79 councils held \$91.2 billion in infrastructure, property, plant and equipment (\$84.6 billion at 30 June 2016). In particular, there was a \$5.2 billion asset revaluation increment across the local government sector.

To comply with Australian Accounting Standards, each council must annually determine and disclose the fair value of its infrastructure, property, plant and equipment assets in its financial report.

There are two common methods used to calculate fair value across the local government sector:

- Market approach—based on market sales of similar assets. This method is generally used to value land and buildings.
- Current replacement cost—reflects the expected cost in today's dollars of replacing an asset to a similar standard and at a similar age. This method is generally used to value infrastructure such as roads and bridges.

As the total value of infrastructure, property, plant and equipment represents a significant percentage of a council's total assets, our audits allocate a significant amount of time and effort to verifying their fair value estimates. As valuing infrastructure, property, plant and equipment involves significant management judgement across a range of values, there is a higher risk of material financial report errors.

We found that the practices governing asset revaluations varied across the sector. Key issues include:

- incorrect unit costs applied to assets
- underlying data integrity issues resulting in found, ghost or duplicate assets
- lack of review of underlying spreadsheets resulting in calculation errors.

All material errors identified were resolved before we signed relevant councils' financial reports.

## Found assets

Included in the \$91.2 billion in infrastructure, property, plant and equipment, the Victorian local government sector recognised \$175.3 million in found assets this year (compared to \$149.3 million in 2015–16). Figures 2C and 2D show the spread of these assets across Victoria and metropolitan Melbourne.

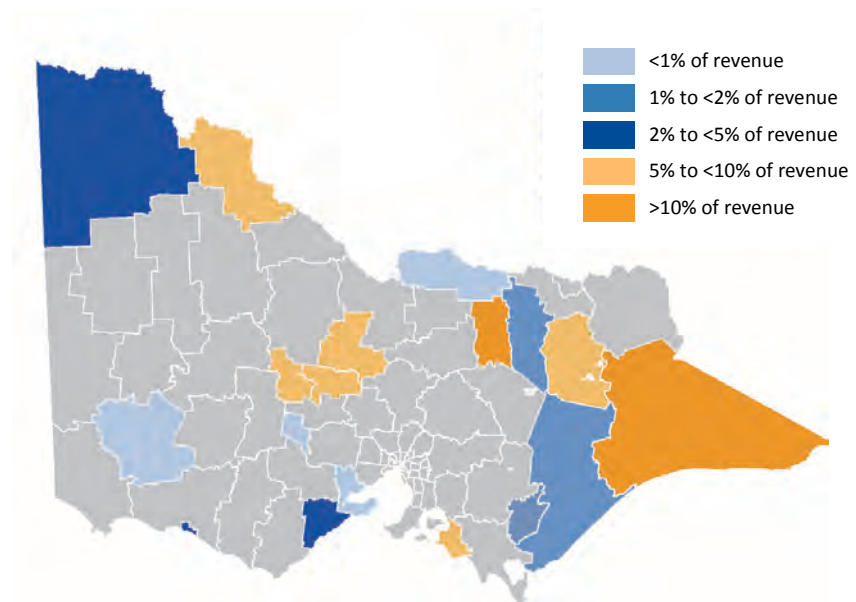
**Found assets** are physical assets controlled by the council that have previously been omitted from their records.

**Ghost assets** are items recorded by a council that no longer exist.

**Duplicate assets** are additional items recognised for an existing asset.

**Figure 2C**

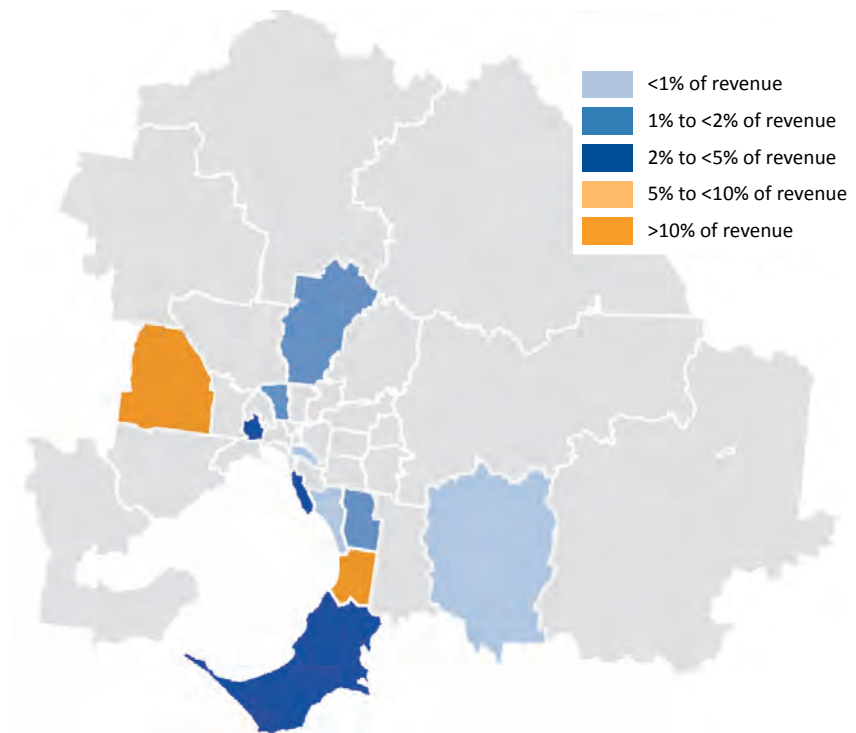
**Found assets as a proportion of revenue across the Victorian local government sector, 2016–17**



Source: VAGO.

**Figure 2D**

**Found assets as a proportion of revenue in metropolitan category, 2016–17**



Source: VAGO.

The value of found assets varied across the local government sector. The majority of these relate to infrastructure.

Common challenges included:

- underground assets such as drains which are difficult to inspect
- uncertainty over ownership of assets between entities, such as drains with water entities.

Technological advances, including GPS information, have assisted councils in improving the accuracy of data in their asset registers. Nevertheless, further work is required to reduce the number of found assets across the sector. Those assets that are not captured are obviously not subject to regular maintenance and may continue to deteriorate, resulting in considerable long-term costs.

# 3

## Internal controls

Effective internal controls help entities meet their objectives reliably and cost-effectively. Entities also require strong internal controls to deliver reliable, accurate and timely external and internal financial reports.

In our annual financial audits, we consider the internal controls relevant to financial reporting and assess whether entities have managed the risk that their financial reports may not be complete and accurate. Poor internal controls make it more difficult for entities to comply with relevant legislation and increase the risk of fraud and error.

### 3.1 Assessment of internal controls

As part of our audit, we assess the design and implementation of councils' internal controls and, where we identify ones that we intend to rely on, we test how effectively they are operating. If we assess an entity's internal controls as not being well designed, not operating as intended or missing, we communicate this finding to the entity's management and audit committee.

In 2016–17, we reported 359 extreme-, high- and medium-risk internal control issues across the 79 councils, comprising:

- 110 newly identified issues
- updates on 249 issues identified through previous years' financial audits.

Figure 3A summarises these control issues by area and risk. Appendix D provides additional information on our risk ratings and our expected time lines for councils to resolve issues.

Figure 3A

Reported internal control issues, by area and risk rating, 2016–17

Area of issue	Extreme	High	Medium	Total
Governance	–	2	48	50
Information systems	4	36	69	109
General ledger	–	–	10	10
Revenue and receivables	–	–	20	20
Expenditure and payables	–	2	33	35
Employee benefits	–	–	23	23
Infrastructure, property, plant and equipment	1	8	91	100
Cash and other assets	–	1	11	12
<b>Total</b>	<b>5</b>	<b>49</b>	<b>305</b>	<b>359</b>

*Note:* We reported 339 low-risk internal control issues in 2016–17, made up of 93 newly identified issues and an update on 246 previously reported ones. As these matters are minor and/or may present opportunities to improve existing processes, they have been excluded from this figure.

*Source:* VAGO.

## Extreme-risk issues

Figure 3B shows the extreme-risk issues we identified and their current status. There were two extreme-risk issues carried forward from 2015–16 and three new issues raised in 2016–17.

Figure 3B

Summary of extreme-risk issues reported in 2016–17

**Extreme-risk issues** are internal control issues that could cause severe disruption to operations and/or result in a material misstatement in the financial report.

Council	Description of finding	Year raised	Current status
Cardinia Shire Council	Insufficient software patch and support management	2015–16	Closed
Casey City Council	Insufficient software patch and support management	2015–16	Closed
Bayside City Council	Inappropriate password management controls	2016–17	Closed
Bayside City Council	Weak user access management controls	2016–17	Closed
West Wimmera Shire Council	Lack of a detailed asset register	2016–17	Open

*Source:* VAGO.

## Cardinia Shire Council and Casey City Council

Both Cardinia Shire Council and Casey City Council had severe weaknesses relating to their IT. Specifically:

- critical software patches had not been applied to numerous devices
- some devices had been missing software patches since 2007
- council was still using software that was no longer supported by the vendor.

We note that unsupported and unpatched software increases the risk that a cyber attacker may gain access to systems and sensitive information.

We confirmed that these deficiencies were resolved in 2016–17. These councils have since implemented procedures to address these controls in the future.

## Bayside City Council

Our review of the Bayside City Council's IT environment identified internal control issues regarding password and user access management.

Key issues concerning password management included:

- passwords being maintained insecurely on the network
- active account passwords being configured to never expire
- system password settings and an organisational policy that did not comply with industry better practices.

If passwords are not stored securely, there is a high risk that accounts might be exploited—particularly those with 'super user' privileges. Additionally, permitting users to select weak passwords that are not changed periodically increases the risk of unauthorised access to systems.

Key issues concerning user access management included:

- accounts being assigned 'super user' privileges when they were not required
- 'super user' access being assigned to shared accounts, which limited the ability to make individual users accountable for their usage.

Inappropriate and excessive user access rights may result in unauthorised access to data and programs or potential financial fraud.

The council has undertaken corrective actions for password and user access management to strengthen its IT environment.

## West Wimmera Shire Council

West Wimmera Shire Council does not have a detailed fixed asset register that lists individual items such as bridges, road segments and drainage assets. As a result, we determined movements for each asset class by referring to other supporting documentation or calculations.

West Wimmera Shire Council accepted this finding and is currently arranging a complete network revaluation to the segment level. This will provide a new detailed asset register that should improve asset management in 2017–18 and beyond.

**High-risk issues** are internal control issues that could cause a major disruption to operations or are likely to result in a material misstatement in the financial report.

## High-risk issues

We reported 49 high-risk internal control issues, comprising:

- 13 newly identified issues
- updates on 36 issues identified in previous years' financial audits.

Figure 3C shows these high-risk issues by council and area.

**Figure 3C**  
**Summary of high-risk issues reported in 2016–17**

Council	Issue type				Issue status <sup>(a)</sup>	
	IT controls	Fixed assets	Other	Total	Resolved	Unresolved
Ballarat City Council	3	—	—	3	3	—
Bayside City Council	3	—	—	3	—	3
Benalla Rural City Council	—	2	—	2	—	2
Boroondara City Council	2	—	—	2	2	—
Borough of Queenscliffe	1	—	1	2	2	—
Campaspe Shire Council	—	—	1	1	1	—
Cardinia Shire Council	2	—	—	2	2	—
Casey City Council	1	—	—	1	1	—
Central Goldfields Shire Council	1	—	—	1	—	1
East Gippsland Shire Council	—	1	—	1	—	1
Frankston City Council	—	1	—	1	1	—
Greater Dandenong City Council	3	—	—	3	2	1
Greater Geelong City Council	2	—	—	2	2	—
Hobsons Bay City Council	2	—	—	2	2	—
Mitchell Shire Council	—	1	1	2	2	—
Moonee Valley City Council	4	—	—	4	1	3
Moreland City Council	1	—	—	1	—	1
Mornington Peninsula Shire Council	—	1	—	1	1	—
Port Phillip City Council	1	—	—	1	1	—
South Gippsland Shire Council	2	—	—	2	1	1
Southern Grampians Shire Council	1	—	1	2	1	1
Strathbogie Shire Council	—	1	1	2	—	2
West Wimmera Shire Council	1	1	—	2	1	1
Whitehorse City Council	4	—	—	4	4	—
Wodonga City Council	2	—	—	2	2	—
<b>Total</b>	<b>36</b>	<b>8</b>	<b>5</b>	<b>49</b>	<b>32</b>	<b>17</b>

(a) Status of issue as reported to management.

Source: VAGO.

A **cyber attack** is a deliberate act by a third party to gain unauthorised access to an entity's data, with the objective to damage, deny, manipulate or steal information. To reduce the risk of a successful cyber attack, it is imperative that IT control issues are addressed in a timely manner.

## Poor IT controls and cyber risk

IT control activities support the operating capability of an IT system. Strong IT controls ensure smooth day-to-day operations of councils and the reliability of data used for financial reporting and preparing performance statements. They reduce the risk that employees or third parties can circumvent processes and help maintain the integrity of information and the security of data.

In our audits of the 79 councils, we identified 18 with high-risk IT control issues related to:

- unsupported systems and software
- user access controls
- software patch management controls
- other general IT controls.

Appendix E lists IT control issues for each council.

The severity of these IT control issues determined whether they were rated extreme, high or medium.

Poorly designed and implemented IT controls increase the risk of unauthorised access to systems, which may result in the destruction of data or recording of non-existent transactions. They also increase the risk of a successful cyber attack.

**Medium-risk issues** are internal control issues that could cause moderate disruption to operations or a misstatement that is not material in the financial report.

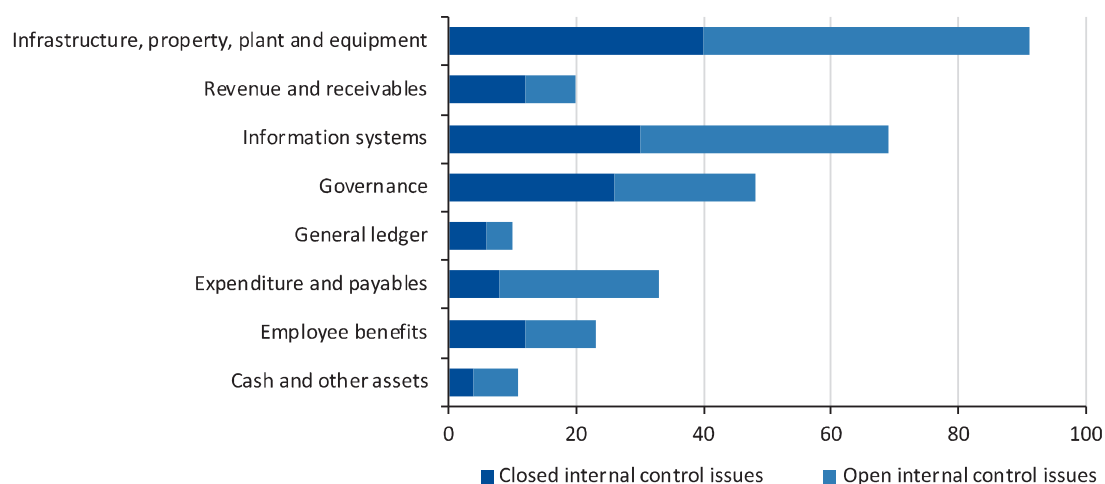
## Medium-risk issues

We reported 305 medium risk internal control issues, comprising:

- 94 newly identified issues
- updates on 211 issues identified through previous years' financial audits.

Figure 3D shows the number of issues by area and current status.

**Figure 3D**  
**Summary of medium-risk issues reported in 2016–17**



Source: VAGO.

Information systems and fixed assets continue to be areas of major internal control weakness across the sector. Nevertheless, it is pleasing to note that councils resolved a number of issues during the 2016–17 audits.

### 3.2 Status of matters raised in previous audits

We monitor the status of prior-year internal control issues in our management letters, to ensure they are resolved. Figure 3E shows the status of these issues, as reported in our management letters to councils.

**Figure 3E**  
**Status of prior-period internal control issues, by risk rating, 2016–17**

Issue status	Extreme	High	Medium	Total
Resolved	2	28	121	151
Unresolved	–	8	90	98
<b>Total</b>	<b>2</b>	<b>36</b>	<b>211</b>	<b>249</b>

*Note:* Issues rated as low risk are excluded from this analysis.

*Source:* VAGO.

We found that councils showed significant improvement in resolving extreme- and high-risk internal control issues. The eight remaining unresolved high-risk matters primarily relate to six IT control issues that councils are still addressing. While there was an improvement in resolving medium-risk issues, further work is required to address these matters within the recommended six-month time frame.

# 4

## Financial sustainability

**Rate capping** introduces an annual rate cap set by the Minister for Local Government, which controls general rate increases for all councils.

In this part, we analyse the financial sustainability risks that local councils face, including the impact of emerging funding challenges due to rate capping and reduced government grants.

We discuss the trends in key balances, such as types of revenue, expenses, capital expenditure and borrowings. We also analyse the sector against seven financial sustainability risk indicators, from financial years 2012–13 to 2019–20. The information is drawn from councils' audited financial reports for the five years 2012–13 to 2016–17, and the unaudited 2017–18 budget for the three future financial years.

We include a new sustainability risk indicator this year—the adjusted underlying result. Our analysis of this indicator is based on six financial years' data from 2014–15 to 2019–20, sourced from councils' published performance statements.

Appendix F details the seven financial sustainability indicators, risk assessment criteria and benchmarks we use in this report. Appendix F also contains the results for each council against the seven sustainability risk indicators.

### 4.1 Conclusion

As at 30 June 2017, we assessed the local government sector as having a relatively low financial sustainability risk. The sector as a whole continues to generate positive results, display strong liquidity ratios and hold low levels of debt.

The sector's short-term financial sustainability risk indicators remain strong. However, our analysis of the data shows a declining trend in the financial sustainability risk indicators for asset renewal and maintenance. Councils are reducing their capital spending in response to rate capping and a reduction in government grants. To meet community expectations, they need to identify and respond to long-term asset replacement and renewal requirements for infrastructure in a timely manner.

We note that rural and regional councils have a higher financial sustainability risk than metropolitan councils. This is mainly due to smaller year-on-year revenue increases, steady increases in expenditure, and their relative inability to generate significant own-sourced revenue streams.

## 4.2 Financial sustainability risks

To be financially sustainable, councils should make enough money from their operations to meet their financial obligations and fund their asset management plans.

Figure 4A summarises the sector's financial sustainability risk indicators for 30 June 2017.

**Figure 4A**  
Financial sustainability risk indicators, by cohort, 2016–17

Indicator		Average across councils for year ended 30 June 2017					
		All councils	Metro	Interface	Regional	Large	Small
Financial performance							
Net result	per cent	19.71%	16.90%	33.96%	16.49%	15.67%	15.54%
Adjusted underlying result	per cent	8.50%	12.62%	12.45%	3.52%	6.88%	7.05%
Financial position							
Liquidity	ratio	2.97	2.59	3.64	2.43	2.70	3.48
Internal financing	per cent	166%	169%	191%	147%	161%	161%
Indebtedness	per cent	23.78%	13.93%	24.81%	33.54%	28.75%	17.86%
Asset renewal and maintenance indicators							
Capital replacement	ratio	1.48	1.56	1.84	1.48	1.31	1.21
Renewal gap	ratio	0.99	1.15	0.93	0.91	1.01	0.93

Key: ● High risk ● medium risk; ● low risk.

Source: VAGO.

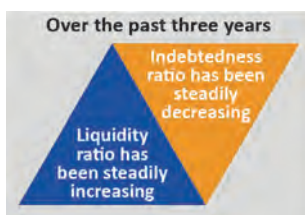
## 4.3 Overall analysis

The sector, overall, generated a surplus from operations this year.

At 30 June 2017, councils collectively held current assets valued at \$4.4 billion in the form of cash and term deposits (\$3.4 billion at 30 June 2016) and borrowings of \$1.2 billion (\$1.2 billion at 30 June 2016). Those councils with debt are able to service it.

The indebtedness indicator shows that, as a sector, councils prefer not to borrow funds. Instead, most prefer to accumulate cash to replace or expand their asset base. This raises questions of intergenerational equity, as the investment in new assets is effectively being funded by past and current ratepayers.

We note that the asset renewal and maintenance indicators are gradually declining and are forecast to decline further.



## 4.4 Analysis of council categories

### Financial performance analysis

#### Net result indicator

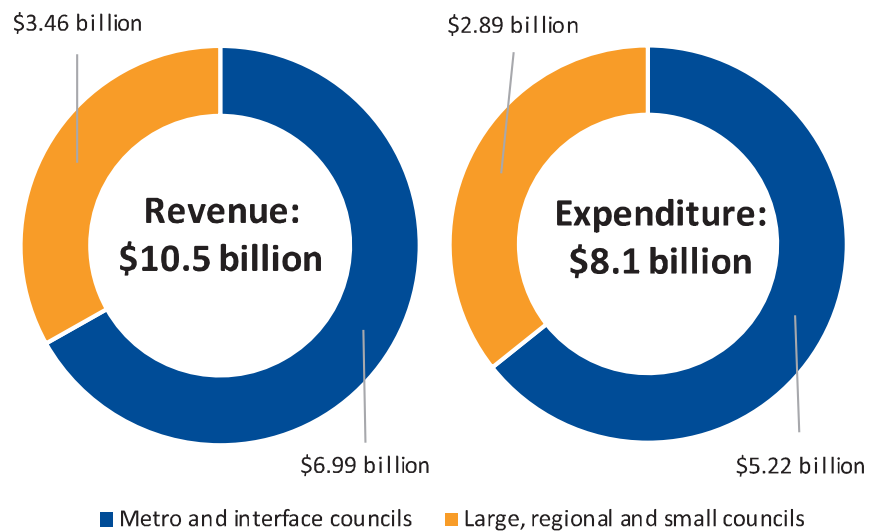
The **net result indicator** measures the net result of the council as a percent of revenue.

In 2016–17, councils collectively recorded revenue totalling \$10.5 billion (\$9.3 billion in 2015–16). Rates revenue of \$5.4 billion (\$5.2 billion in 2015–16) makes up more than 50 per cent of total revenue. The second largest revenue stream for the sector was government grants revenue, totalling \$1.9 billion is (\$1.4 billion in 2015–16).

Combined, employee expenses of \$3.3 billion (\$3.2 billion in 2015–16) and a materials and services expense of \$2.9 billion (\$2.7 billion in 2015–16) make up 77 per cent of councils' total expenses.

Figure 4B shows the split of revenue and expenditure.

**Figure 4B**  
**Sector revenue and expenditure for 2016–17**

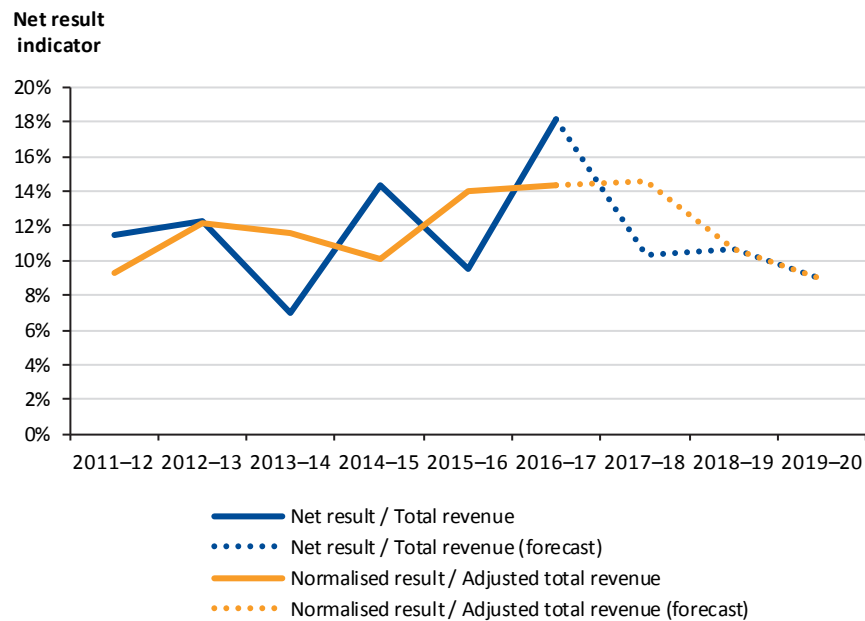


Source: VAGO.

Figure 4C shows a summary of the net result indicator from 2011–12 to 2019–20.

**Normalised result** is net result adjusted for receipts of Commonwealth financial assistance grants ahead of need.

**Figure 4C**  
**Net result compared to normalised result for the local government sector, 2011–12 to 2019–20**



Source: VAGO.

Taken as a whole, the local government sector has been able to generate a surplus from operations in each of the past five years. The sector is budgeting a surplus over the next three years. However, the net result indicator is forecast to decline over this period as the impact of rate capping on revenue growth takes effect. The impact of rate capping and the sector's response is discussed in Part 5.

The net result indicator for the sector during the last five years is distorted by the timing of Commonwealth financial assistance received by the sector. In Figure 4C, the spike in the reported net result indicator during 2014–15 and 2016–17 is mainly due to the advance receipt of Commonwealth grant funds and does not reflect operational performance. Figure 4C also presents the normalised net results—that is, after adjusting for the advance receipt of Commonwealth grant funding.

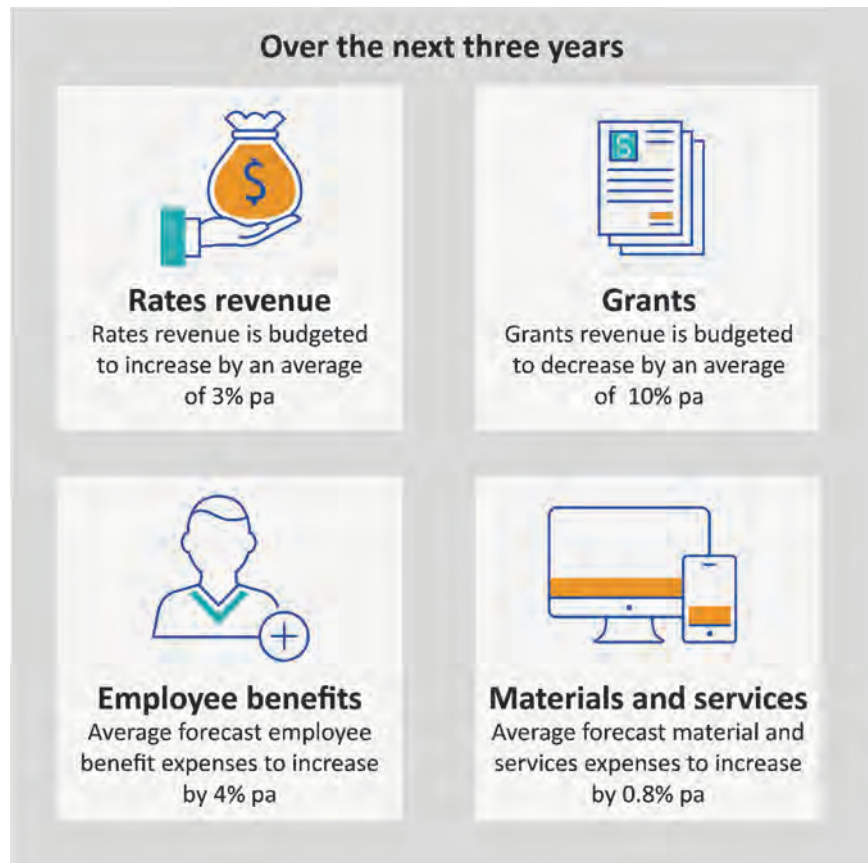


#### Looking forward

Over the budget period, our analysis shows that councils are forecasting an average increase in rate revenue of 3 percent—in line with rate capping—and an average 10 per cent reduction in government grant revenue. However, over the same period, expenses are budgeted to increase at 2 per cent.

Figure 4D summarises the key changes to councils' revenue and expenditure over the next three years.

**Figure 4D**  
**Council revenue and expenditure going forward**



Source: VAGO.

Councils must formulate effective strategies to manage the impact of this growing funding gap on the key services that they provide to the community. Councils need to engage and assess community expectations to critically review the services they provide.

We analysed councils' responses to a rate capping questionnaire, which show that councils are planning to reduce spending in response to the new rate capping environment. This is more pronounced within the rural and regional councils due to their limited ability to increase alternative revenue streams.

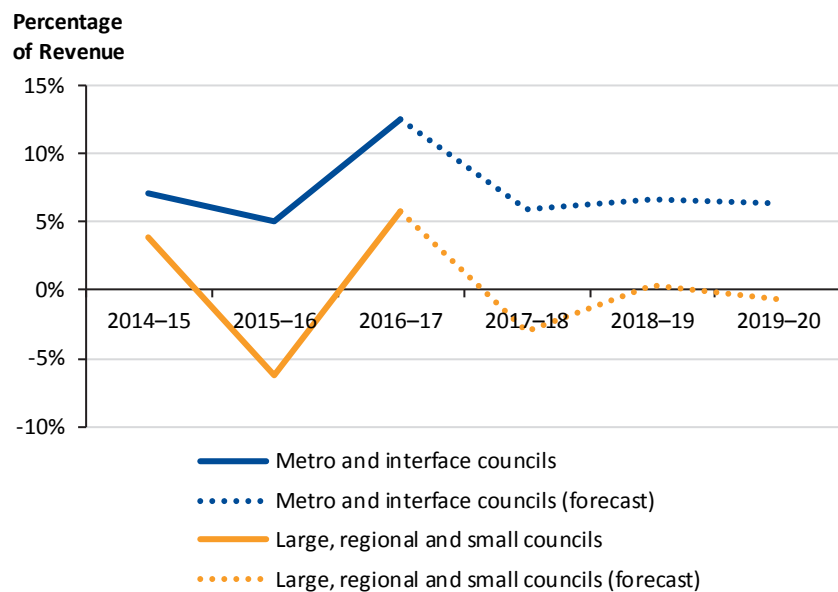
We note that the average increase in expenditure projected to occur over the next three years is less than 1 per cent for rural and regional councils, against a rate cap of 2 per cent in 2017–18.

## Adjusted underlying result indicator

This indicator measures a council's ability to generate surplus from its ordinary course of business. Figure 4E shows the results of this indicator across two categories of councils.

The **adjusted underlying result indicator** excludes non-recurrent capital grants, non-monetary asset contributions, and other contributions to fund capital expenditure from net result.

**Figure 4E**  
**Adjusted underlying surplus analysis for the local government sector, 2014–15 to 2019–20**



**Note:** Councils began preparing performance statements in 2014–15.

**Source:** VAGO.

For metropolitan councils, the actual and forecast adjusted underlying result are consistently above 5 per cent. This highlights their ability to generate surpluses from various revenue streams and service larger populations.

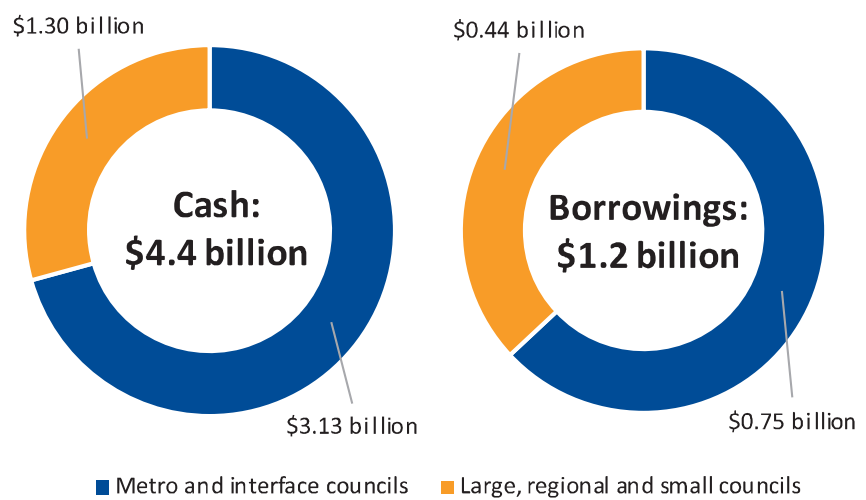
Rural and regional councils are budgeting to spend more than they can raise. More than 30 per cent of councils in this category are forecasting deficits for the next three years. The majority of councils in this category are facing additional financial pressures due to smaller year-on-year revenue increases and steady increases in expenditure.

A longer-term negative trend in this indicator will have an adverse impact on the services that these councils are able to offer to their communities. It is important that councils can generate positive surpluses, and councils' ability to do so will assist them in the longer term to generate sufficient funds to keep delivering the service levels that their communities expect.

## Analysis of financial position indicators

As at 30 June 2017, the sector held \$4.4 billion in cash and term deposits (\$3.4 billion at 30 June 2016). This compares to borrowings of \$1.2 billion (\$1.2 billion at 30 June 2016). Councils' ability to adequately service their borrowings varies. Figure 4F shows the split of cash and borrowings held across the two categories.

**Figure 4F**  
**Cash and borrowings held by the sector at 30 June 2017**



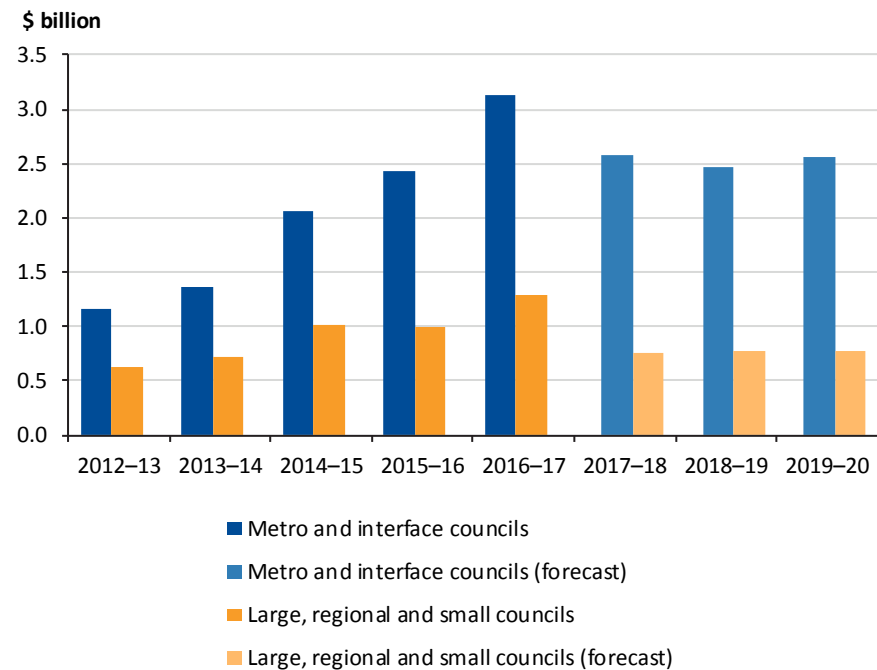
*Note:* Cash refers to both cash and term deposits.

*Source:* VAGO.

## Short-term assets

As at 30 June 2017, the local government sector had a strong current asset position and held a high level of cash and term deposits. Figure 4G shows the cash and term deposit balances held by the two categories of councils at year end. Overall, this has been increasing at more than 25 per cent annually. This is partly due to the advance receipt of Commonwealth financial assistance grants.

**Figure 4G**  
**Cash and term deposit balance held by councils, 2012–13 to 2019–20**



Source: VAGO.

As shown in Figure 4G, metropolitan councils holds substantially more cash than the rural and regional category. However, we note that the majority of associated liabilities for metropolitan councils are longer term, to fund the infrastructure needs of growing communities.

Rural and regional councils show a stable level of cash and term deposits in the forecast period.

### Indebtedness indicator

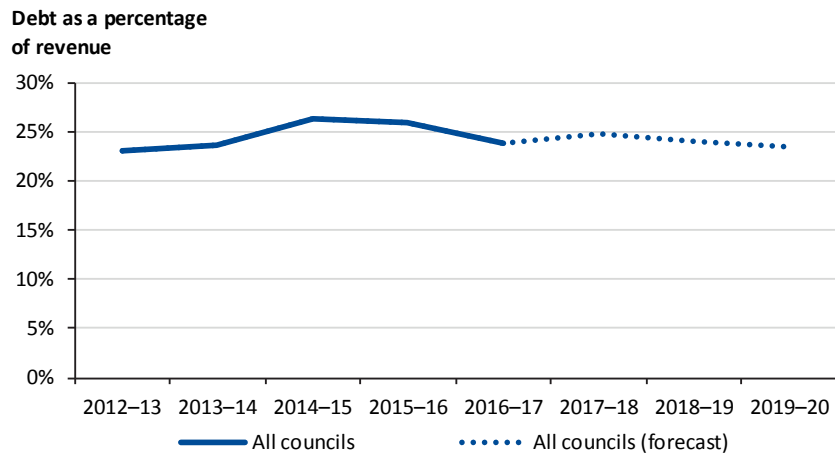
Our indebtedness indicator assesses whether councils are able to meet their debt servicing and repayment obligations from their own-sourced revenue. Figure 4H details the results of this indicator for the sector.

Of the 79 councils, 69 had some level of debt on their balance sheet at 30 June 2017. Analysis of these councils shows:

- interest-bearing liabilities to total revenue of 12 per cent
- net borrowing costs to total revenue of less than 1 per cent and net borrowing costs to rate revenue of less than 2 per cent.

The **indebtedness indicator** looks at whether entities are able to meet their longer-term liabilities from their own-sourced revenue.

**Figure 4H**  
**Indebtedness indicator analysis for the local government sector, 2012–13 to 2019–2020**

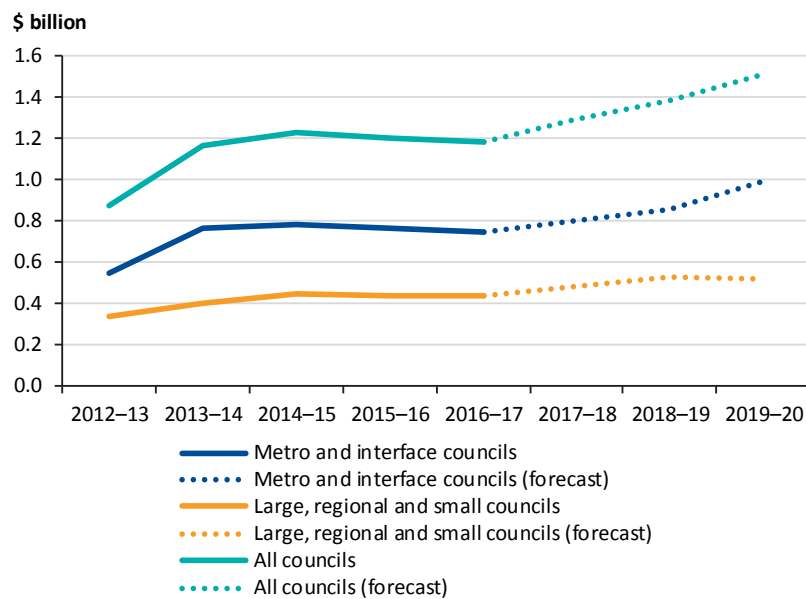


Source: VAGO.

Across the sector, the average percentage of indebtedness over the five-year period to 2016–17 is around 24.5 per cent. This percentage is trending lower, underlining the sector’s preference to avoid borrowing. The average debt balance of the sector over a five-year period from 2012–13 to 2016–17 was \$1.1 billion, compared to the average cash and term deposit balance of \$2.9 billion.

Figure 4I shows the borrowings balance from 2012–13 to 2019–20 by the two categories and across the sector.

**Figure 4I**  
**Borrowings balance for the local government sector, 2012–13 to 2019–20**



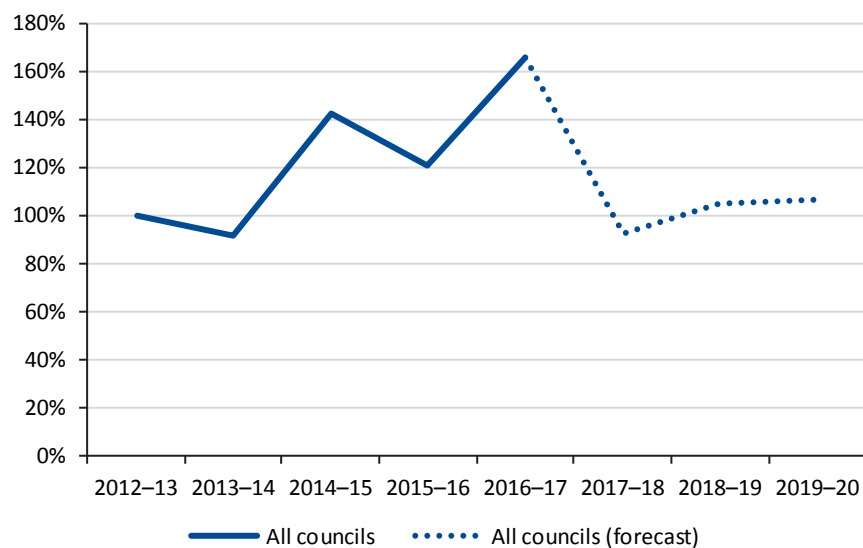
Source: VAGO.

Figure 4I shows stable levels of long-term debt by rural and regional councils. In contrast, metropolitan councils are forecasting an increase in borrowings. We note that this increase is partly due to borrowings planned by Melbourne City Council for infrastructure redevelopment.

### Internal financing indicator

This indicator examines the capacity of the sector to fund capital expenditure using cash generated from operations and government funding each year. Figure 4J shows the results of the sector for this indicator between 2012–13 and 2019–20.

**Figure 4J**  
**Internal financing indicator for the local government sector, 2012–13 to 2019–20**



Source: VAGO.

The internal financing indicator result is influenced by the timing of Commonwealth grant funding received by the sector. In most of the past five years, a proportion of this annual funding has been granted toward the end of the financial year. However, this is not always the case—the dip in 2013–2014 is due to the receipt of Commonwealth grant funding after 30 June for that year. In contrast, the significant increase in this indicator at 30 June 2017 is also due to the advance receipt of a Commonwealth funding for 2017–18 on 7 June 2017.

## Asset renewal and maintenance indicators analysis

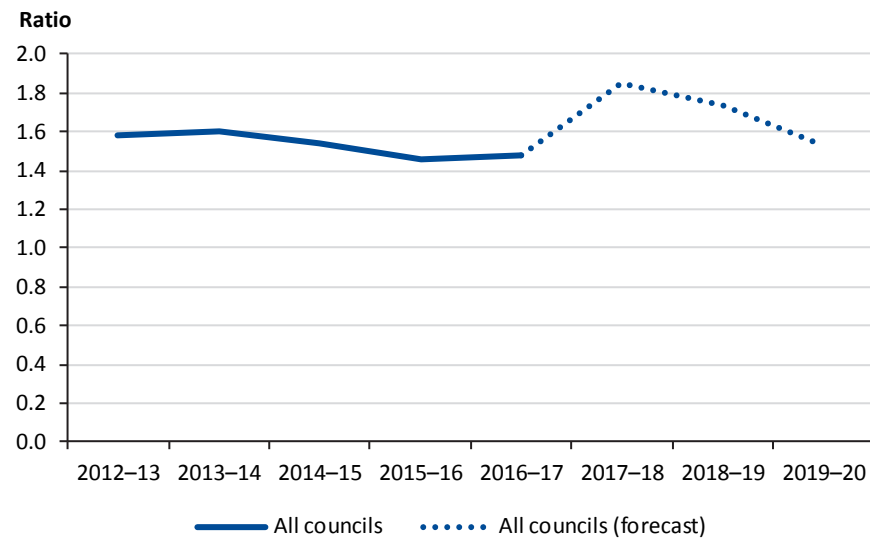
A key risk for councils is maintaining and renewing their extensive infrastructure networks while operating at sustainable levels. We assess councils' spending on assets through the capital replacement and renewal gap indicators.

### Capital replacement indicator

The **capital replacement indicator** measures the level of spending on new and renewed assets compared to the depreciation expense associated with these assets.

The sector's result for this indicator is shown in Figure 4K.

**Figure 4K**  
Capital replacement indicator analysis for the local government sector, 2012–13 to 2019–20



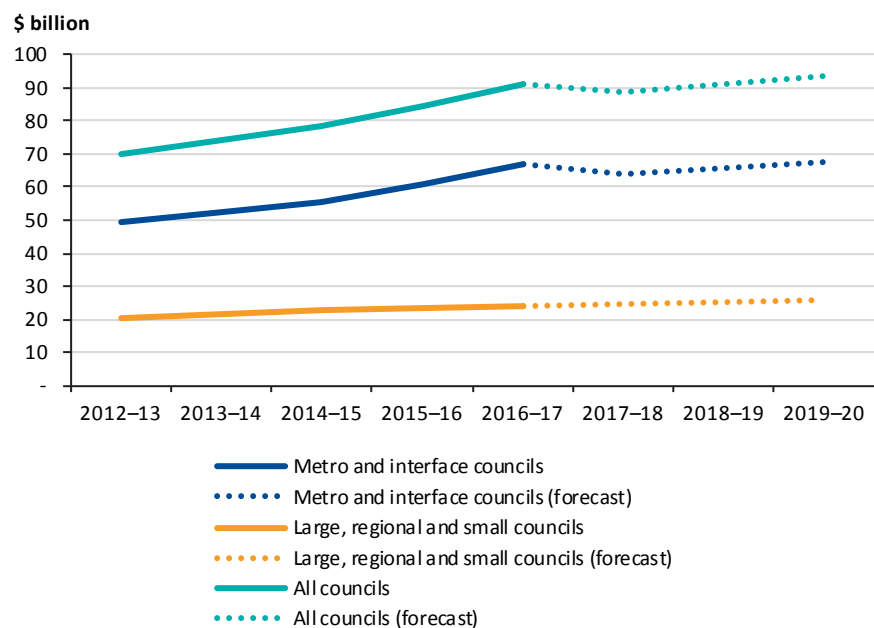
Source: VAGO.

Figure 4K shows that the sector is budgeting for a sharp increase in capital spending during 2017–18. This spending is then forecast to decline. Councils are reducing their capital spending mainly in response to rate capping and a reduction in government grants.

Although spending on capital replacement is budgeted to improve significantly in the near term for the sector as a whole, our analysis shows that this longer-term asset planning measure has been declining across the majority of councils in the last three years.

As shown in Figure 4L, metropolitan councils are increasing their asset base at a higher rate than their rural and regional counterparts. The challenge for rural and regional councils is to generate enough cash through own-sourced revenue streams to invest in new and replacement assets. This will also have a direct impact on the level of service these councils can provide to their communities.

**Figure 4L**  
Infrastructure, property, plant and equipment balance the local government sector, 2012–13 to 2019–20



Source: VAGO.

### Renewal gap indicator

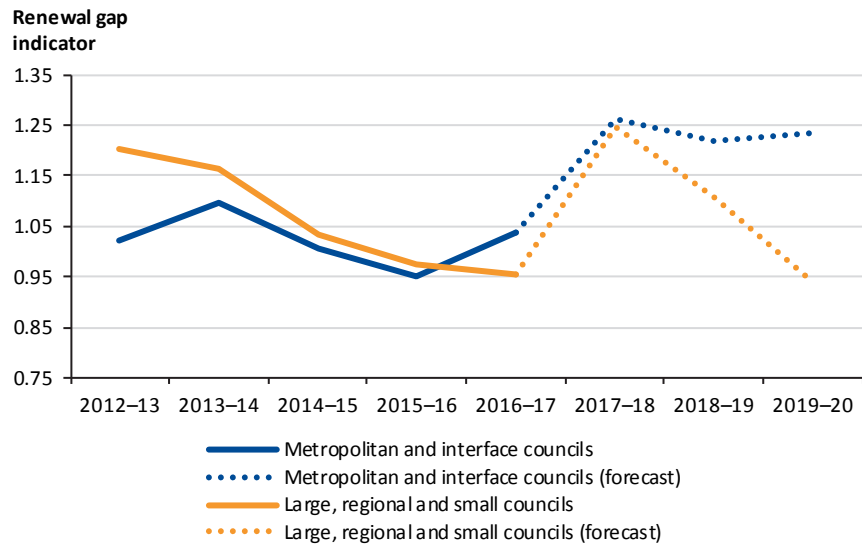
The renewal gap indicator provides more information on the types of assets being acquired by councils. It provides an indication of whether spending has focused on purchasing new assets or renewing and upgrading existing ones.

The **renewal gap indicator** compares the rate of spending through renewing, restoring and replacing existing assets to its depreciation expense.

Spending above the rate at which an asset is being used indicates that an entity is sufficiently renewing its assets and optimising their use.

Figure 4M shows the results of this indicator over eight financial years, for the two categories.

**Figure 4M**  
**Renewal gap indicator analysis for the local government sector, 2012–13 to 2019–20**



Source: VAGO.

The renewal gap indicator broadly mirrors the trend of the capital replacement indicator. Similar to capital replacement, 2017–18 council budgets for asset renewals do not reflect the historic declining trend.

With regard to the renewal gap indicator, rural and regional councils are trending below 1:1. This highlights the need for councils to prioritise asset maintenance as part of their planning processes. This renewal gap is forecast to trend sharply downward in response to rate capping. In order for these councils to meet community needs and expectations, they must actively monitor their rate of spending and remain focused on maintaining assets at serviceable levels as they age.

In the short to medium term, rural and regional councils may need to defer spending on new assets or consider adding debt as a funding measure, to improve their existing assets. This will ensure current ratepayers who are using these assets now—rather than future ratepayers—bear the costs associated with them.



# 5

## Rate capping impact assessment

In 2015, the Victorian Government introduced rate capping legislation in the form of its Fair Go Rates System. This system controls general rate increases for all councils. The annual rate cap is set by the Minister for Local Government.

We assessed local councils' response to the rate capping regime in the short term and their budgeting process from a medium- to long-term perspective.

### 5.1 Conclusion

The 2016–17 financial year is the first year of rate capping—rate increases are **capped at 2.5 per cent** (2 per cent in 2017–18).

The majority of councils identified rate capping as a long-term viability risk.

Longer-term planning tools—for the next 10 to 20 years—are essential for assessing and responding to community expectations. Further, this will assist councils to develop robust asset maintenance programs.

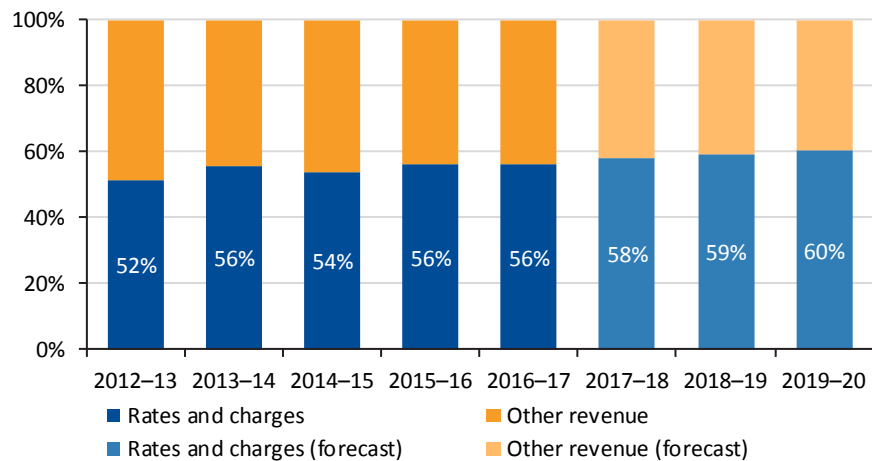
Councils need to clearly identify the individual services they provide and determine the cost of providing them to the community. This will assist them to determine the community's service requirements and find efficient ways to provide them. In this regard, community consultation is critical.

Councils must also consider collaborative arrangements with other councils as a cost-effective way to deliver services.

## 5.2 Rate revenue

Rate revenue, as a proportion of total revenue, increased between 2012–13 and 2016–17, as shown in Figure 5A. Councils forecast this trend to continue despite the impact of rate capping. This is partly due to decreases in government grant funding for the sector.

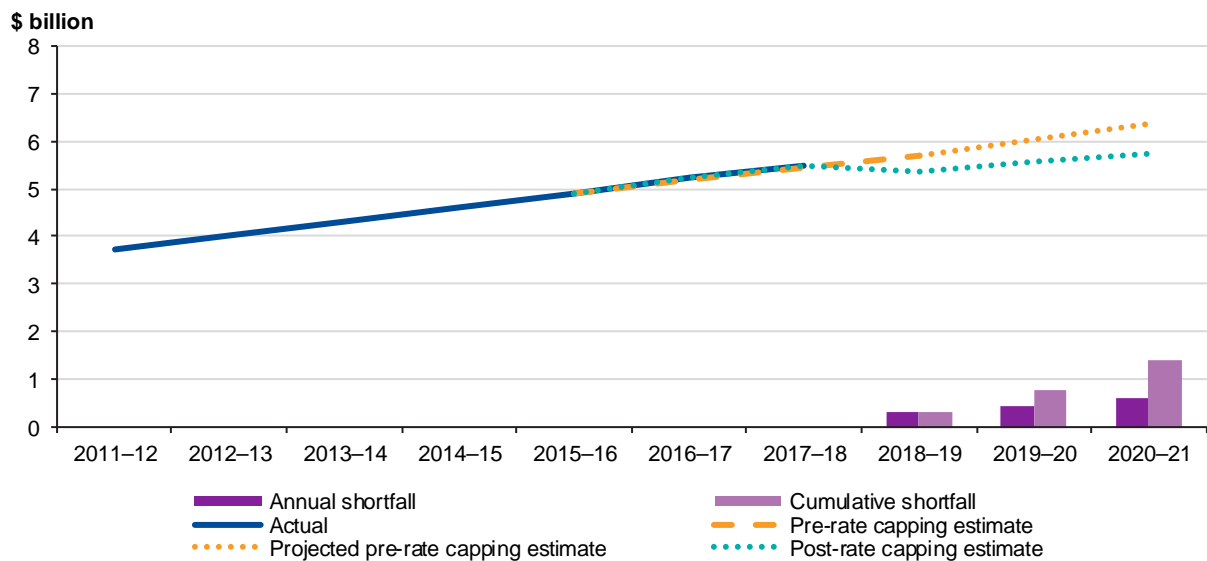
**Figure 5A**  
Rate revenue as a percentage of total revenue, 2012–13 to 2019–20



Source: VAGO.

Councils—especially rural and regional cohorts—have a limited capacity to generate additional own-sourced revenue. Therefore, reducing expenditure and prioritising service delivery become key considerations for managing their cash flow in the future. Figure 5B shows the estimated impact of the rate capping regime across the local government sector.

**Figure 5B**  
Rate revenue forecast before and after rate capping, 2011–12 to 2020–21



Source: VAGO, based on analysis of published council budgets prepared before and after rate capping.

The sector forecasts that the cumulative projected rate revenue gap is approximately \$1.6 billion over the next three years. This highlights the requirement for councils to use the budgeting process appropriately, to adjust their operational and capital spending in future years. In responding to this shortfall, councils must also assess community expectations on service delivery and its financial viability.

### Review of council services and cost of provision

The cost of individual services that councils provide—broken down into direct and overhead elements—is a key tool for council management to assess efficiencies in service provision. Coupled with service reviews to identify non-essential services, a comprehensive costing analysis of services would be a powerful tool for councils to mitigate some of the expected funding pressures that the sector will face as a result of rate capping.

This costing could be partially informed by councils' analysis and reporting for their annual baseline data submissions to the Essential Services Commission.

---

### 5.3 Short-term impacts of rate capping

A majority of councils have predicted short-term impacts on their operations following the introduction of rate capping. Common council responses through the budgeting process include:

- seeking additional revenue streams, such as full user-pays models for service delivery and the sale of council-owned surplus assets
- reducing capital programs, including freezing new capital works in the short term and focusing more on asset renewal than asset acquisitions
- increasing efficiency in service delivery through the use of new technology and cost reduction.

We note that a small number of councils are also opting to apply for a rate increase above the capped amount, as a short-term funding measure.

### Importance of community consultation

To understand the impact of rate capping on the users of their services, councils need to engage with their communities. This can provide a council with a clear idea of the services and projects that their community expects and values. It is also a useful tool for communicating the actions that the council needs to take in response to having less revenue to fund the services that it provided previously.

Where councils are engaging with the community, consultation varies from workshops to media campaigns, to promote awareness, engage community members and collect valuable input for council decision-making.

Figure 5C is a case study of better practice community engagement at Casey City Council.

**Figure 5C**

**Case study: Community engagement at Casey City Council**

**Background**

Casey City Council is located in Melbourne's south-eastern suburbs, covering an area of 409 square kilometres. It includes Berwick, Cranbourne, Hallam, Hampton Park and Narre Warren. Casey is Victoria's largest council, with an approximate population of 304 000 residents, which is forecast to grow to over 500 000 by 2040.

**Council assessment of the impact of rate capping on future operations**

Due to rate capping, the council forecast a \$168 million decrease in rate revenue over 10 years and estimated a decrease of \$3 million per year in funds available for capital works. The expected impact on operations included:

- delaying non-critical capital works and reducing the asset maintenance program to match funding
- funding major capital projects with new debt
- being unable to deliver required services to the community in the longer term
- future enterprise bargaining agreements being aligned with future rate increases.

**Council responses to rate capping**

In March 2016, Casey applied to the Essential Services Commission for a rate capping variation of 0.97 per cent above the cap limit of 2.5 per cent for 2016–17. Council performed a detailed assessment on the impact of rate capping as part of the application process.

The Essential Services Commission's reasons for rejecting the application included the council's underspending on its capital expenditure budget. Over the past five years, Casey had on an average underspent its capital expenditure budget by \$14 million per year. The Essential Services Commission concluded that it was reasonable to expect Casey to manage its overall capital works program to match available funding.

During 2015–16, the council informed the community about the rate cap variation application through targeted community engagement programs, Casey Let's Chat and Building Our Future. Further community engagement activities—People's Panel and Casey Next—took place in 2016–17.

Feedback from Casey Next included recommendations on what the community thought the council should focus on. This feedback was captured by the council and conveyed through its planning document. People's Panel provided recommendations about how the council should manage long-term financial challenges. The council incorporated all recommendations from this community consultation process into its long-term plan.

Casey also formulated strategic programs to manage council assets, expenditure and revenue:

- The council completed an efficiency and effectiveness program, which resulted in an organisational restructure, a more agile workplace and, in turn, significant cost savings. The recommendations from People's Panel and Casey Next confirmed and validated the importance and type of work being undertaken by the council's efficiency and effectiveness program.
- The council's property strategy helped identify several surplus commercial properties as being owned by the council. The council has since decided to sell these properties over the next three years, forecasting cash inflows of \$18 million.
- The council set a clear debt policy, including setting a maximum leverage ratio of the total project cost.

Figure 5C

Case study: Community engagement at Casey City Council—*continued*

**Conclusion**

- **Managing community expectations**

Casey engaged extensively with the community to understand its needs and used the knowledge to frame its response through various strategic initiatives.

- **Engagement with staff**

Rate capping will affect negotiations of future enterprise bargaining agreements. It is important that the council discusses these impacts with its staff and their bargaining representatives in a timely manner, to avoid any disputes that may affect operations.

- **Longer-term planning**

Councils need to have a longer-term plan that takes into consideration community expectations and asset management strategies.

Source: VAGO.

## 5.4 Longer-term impact and responses

Most councils identified rate capping as a strategic risk in their risk registers. In response, they are planning various initiatives to assess the impact on the services they provide and their asset renewal and maintenance programs.

Responses include:

- increasing revenue through:
  - instituting a full user-pays model for selected council services
  - identifying additional revenue streams
- reducing asset renewal programs over the medium to long term
- funding new assets by borrowing rather than accessing cash reserves
- reducing expenditure by:
  - setting enterprise bargaining agreement negotiations so that wage and salary costs increase in line with forecast rate cap increases
  - initiating collaborative projects and shared-service models between councils in the same region
- introducing efficiency measures, particularly using new technologies such as automated solutions that allow customers to access council services online.

### Longer-term capital project planning

Councils need to focus on delivering services to their communities now and ensuring they can continue to meet community expectations in the future. The sustainability issues that we highlighted across the sector require a longer-term planning response. Given the nature of the assets involved, this longer-term plan should incorporate robust asset management strategies as well.

Through our review, we identified Horsham Rural City Council as a better practice example of a council reviewing their capital works program—see Figure 5D.

Figure 5D

Case study: Longer-term capital project planning at Horsham Rural City Council

**Background**

Horsham Rural City Council is a small council situated in the Wimmera region of Victoria, approximately 300 kilometres north-west of Melbourne. It has a population of 19 774 and covers an area of 4 267 square kilometres. At 30 June 2017, Horsham had \$341 million of infrastructure assets, of which \$279 million represented road assets. The council's existing road network consists of 2 976 kilometres of local roads, of which 32 per cent represents sealed roads.

**Road asset renewal versus asset additions**

The council identified a growing gap in the level of renewal funding it required to maintain its existing road assets. Due to external factors such as soil conditions, the use of the local road network by larger vehicles and farming practices in the Wimmera region, the council's road network deteriorates at an accelerated rate. The council also noted that when road assets deteriorate beyond a certain point, the renewal cost exponentially increases.

Horsham engaged an independent contractor during 2013–14 to perform a condition assessment of the council-owned road network. The report costed the gap in renewal funding at \$6.5 million. The contractor recommended that the council increase its annual expenditure on road asset renewal by 3 per cent per annum over the subsequent 10 financial years.

The table below illustrates how the council plans to increase infrastructure renewal funding over the medium term by reduce funding allocations for new capital works.

Asset funding	2017–18	2018–19	2019–20	2020–21
Asset renewal (\$m)	8.5	7.0	9.7	9.8
New assets (\$m)	7.3	6.3	4.8	2.4
Total budgeted capital works expenditure (\$m)	18.3	14.9	15.4	15.1
Asset renewal as percentage of total capital works	46%	47%	63%	65%

Source: VAGO.

Internally, the council allocates a portion of each year's rate increase as an infrastructure levy intended to close the asset renewal gap. One of the council's objectives is to ensure that rate increases establish sustainable capital funding for asset renewal.

**Increase in rate capping**

Horsham successfully submitted an application to the Essential Services Commission for a rate capping exemption for the 2016–17 financial year. The council requested an increase of 1 per cent over the rate cap of 2.5 per cent. The main reason the council cited was the growing gap in the renewal funding it required to maintain the condition of its existing road assets.

Source: VAGO.

Currently, many budgeting tools used by councils include only a four-year strategic report plan and a one-year detailed budget. Proposed legislative changes require councils to have longer-term forecasts. This will help councils to manage funding pressures more proactively and deliver services more efficiently.

### Shared-service arrangements

One way that councils plan to rationalise costs is by sharing various services and functions with other councils, to take advantage of collective bargaining arrangements.



# Appendix A

## *Audit Act 1994* section 16— submissions and comments

We have consulted with DELWP and the councils named in this report, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments. We also provided a copy of the report to the Department of Premier and Cabinet.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

DELWP .....	54
— <i>Auditor-General's response to the Secretary, DELWP</i> .....	56
Horsham Rural City Council .....	57
City of Kingston.....	58
City of Moonee Valley.....	59
Moreland City Council .....	60
City of Stonnington.....	61

**RESPONSE provided by the Secretary, DELWP**



Department of Environment,  
Land, Water and Planning

PO Box 500, East Melbourne,  
Victoria 8002 Australia  
[delwp.vic.gov.au](http://delwp.vic.gov.au)

Mr Andrew Greaves  
Auditor-General  
Level 31, 35 Collins Street  
MELBOURNE VIC 3000

Ref: SEC013236

Dear Mr Greaves

**PROPOSED REPORT - RESULTS OF 2016-17 AUDITS: LOCAL GOVERNMENT**

Thank you for your advice of 9 November 2017 providing me with the opportunity to review your proposed report and provide a submission in accordance with section 16(3) of the *Audit Act 1994*.

I am pleased to note that clear audit opinions have been issued in respect of the financial report of 78 local governments, recognising that the Central Goldfields Shire Council received an extension from the Minister for Local Government until 30 November 2017 to submit their financial report and performance statement. Ten regional library corporations and 14 related entities were also given a clear audit opinion, with two related entity audit opinions yet to be issued at the date of your report.

I also note that clear audit opinions have been issued for 77 council performance statements, with Towong Shire Council's performance statement qualified due to the Council not conducting, or participating in, a community satisfaction survey for 2016-17. This meant they were unable to obtain information and report results for two indicators. I confirm that Local Government Victoria (LGV) is in dialogue with the Towong Shire regarding a resolution to this matter.

You have recommended that LGV consider introducing targets for each of the local government performance indicators included in councils' performance statements. I am supportive of this recommendation in-principle as a means of councils providing a more public expression of the performance standard to which they aspire. In doing so, it will be important to recognise the individual, local characteristics of councils and the communities they serve, and that councils are elected to establish service scope and standards for, and with, their respective communities. This will inevitably result in variability in targets set by different councils based on their individual priorities.

The Know Your Council website currently allows users to compare the performance of an individual council over time. It also allows for a comparison of performance against a cohort of similar councils, and the sector as a whole. Forecasts are currently provided for financial performance indicators. LGV has commenced a comprehensive consultation with the local government sector as part of a review of existing and future indicators for the Local Government Performance Reporting Framework (LGPRF). A series of technical working groups are scheduled over the coming months to consider possible improvements to the LGPRF. An exploration of development of targets to be potentially included in the LGPRF will be included as part of that work. Any changes agreed could then be included in the 2017-18 release of Know Your Council data.

I note also the other findings of your audit report including those regarding internal controls, found assets, the financial sustainability of the sector and the impact of rate-capping.

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 authorized by law. Enquiries about access to information about you held by the Department should be directed to [foi.unit@delwp.vic.gov.au](mailto:foi.unit@delwp.vic.gov.au) or FOI Unit, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



**RESPONSE provided by the Secretary, DELWP—continued**

The significant improvement in the resolution by councils of higher risk, prior period internal control deficiency issues is positive, particularly given the concerns around timely responses raised in the 2015-16 edition of your report. However, it is clear from your findings that councils can further strengthen their internal controls, particularly in relation to information systems and fixed assets. LGV will write to all councils to remind them of their obligations to respond to matters raised in management letters in a timely way.

Your findings in relation to found assets are also noted. LGV continues to work with councils to improve and refine asset management practices, including through applications for assistance under the local government Finance and Accounting Support Team (FAST) funding program. Greater alignment between asset management plans and long term financial plans remains a priority and LGV's 2015 *Local Government Asset Management Better Practice Guide* encourages the pursuit of best practice asset management methodologies.

I note your assessment that at 30 June 2017 the local government sector had a relatively low financial sustainability risk assessment, and as a whole continues to generate positive results, display strong liquidity ratios and hold low levels of debt. You have also noted that rural and regional councils have a higher financial sustainability risk when compared to metropolitan councils. The particular financial sustainability challenges faced by rural and regional councils are acknowledged. My department received funding in the 2017-18 Victorian Budget to initiate the development of a program to respond to external funding constraints and structural challenges faced by rural and regional councils (Rural and Regional Councils Sustainability Reform Program). This work is currently in progress and policy options to address these challenges are being developed for consideration by government.

Your findings on the impact of rate capping highlight the importance of effective service planning in responding to longer-term viability risks, particularly establishing the levels and costs of services provided by councils. I support your recommendation that councils develop longer-term plans covering the next 10 to 20 years to ensure appropriate decisions are made on how to proceed. The directions identified as part of the review of the *Local Government Act 1989*, currently in progress, has identified longer-term community, financial and asset planning as a key potential reform for the local government sector.

Once tabled in Parliament, LGV will write to all mayors and CEOs to encourage them to review your report and address any matters that are relevant to their council. The importance of addressing identified internal control weaknesses in a timely manner and asset management improvements that reduce the instance of found assets will be highlighted.

Thank you for providing the opportunity to make a submission on your proposed audit report.

Yours sincerely



**John Bradley**  
Secretary

20/6/2017

### Auditor-General's response to the Secretary, DELWP

Since sending the proposed report to DELWP for comment, we have issued three additional audit opinions—two for Central Goldfields Shire Council (financial report and performance statement) and one for MomentumOne Shared Services Pty Ltd. All three were clear audit opinions, and this report reflects the final number of clear audit opinions issued.

**RESPONSE provided by the Chief Executive, Horsham Rural City Council**



Our Reference: F18/A04/000001 GH:kn  
Your Reference: File No: 32293/01

15 November 2017

Mr Andrew Greaves  
Auditor-General  
Victorian Auditor-General's Office  
Level 31 / 35 Collins Street  
Melbourne 3000

By email: [enquiries@audit.vic.gov.au](mailto:enquiries@audit.vic.gov.au)  
[LGPANov2017@audit.vic.gov.au](mailto:LGPANov2017@audit.vic.gov.au)  
[tim.loughnan@audit.vic.gov.au](mailto:tim.loughnan@audit.vic.gov.au)

Dear Mr Greaves

**Proposed Report: Results of 2016-17 Audits: Local Government  
Case Study – Horsham Rural City Council**

I am writing in response to your letter of 9 November 2017 regarding the above and wish to provide the following information/comments in relation to the report.

With regard to the comments at the bottom of page 45, Council would like to provide further information to say that the approach of “tagging” rate revenue for renewal has been in place since 2008/09. This has resulted in an accumulated annual fund from rate revenue, tagged for renewal, of over \$2m in the 2017/18 financial year.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Peter F Brown".

PETER F BROWN  
Chief Executive

Address correspondence to: Chief Executive Officer PO Box 511 Horsham Victoria 3402  
Civic Centre 18 Roberts Avenue Horsham Victoria 3400  
Ph 03 5382 9777 Fax 03 5382 1111 Email [council@hrcc.vic.gov.au](mailto:council@hrcc.vic.gov.au) Website: [www.hrcc.vic.gov.au](http://www.hrcc.vic.gov.au)

**RESPONSE provided by the Chief Executive Officer, City of Kingston**



15 November 2017

Mr Andrew Greaves  
Auditor-General  
Victorian Auditor-General's Office

By Email: [LGPSANov2017@audit.vic.gov.au](mailto:LGPSANov2017@audit.vic.gov.au)

Dear Mr Greaves

Thank you for your letter dated 9 November 2017 and for the opportunity to comment on part of your report to the Victorian Parliament in respect of Found Assets.

Kingston has continued to improve the accuracy of its asset data as we progress the implementation of our Asset Management System. This has resulted in more accurate data being available on which we can make informed decisions on our asset portfolio which totals \$2.25 billion. In 2016/17 we identified found road assets to the value of \$1.2 million (0.2%) in an asset class valued at \$0.55 billion.

Please contact Paul Franklin, General Manager Corporate Services on 9581 4704 should you require further information or comment.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'John Nevins', with a long horizontal stroke extending to the right.

**John Nevins**  
CHIEF EXECUTIVE OFFICER

*community inspired leadership*

kingston.vic.gov.au  
Cheltenham 1230 Nepean Highway Chelsea 1 Chelsea Road  
1300 653 356 131 450 03 9581 4500 PO Box 1000, Mentone 3194 [info@kingston.vic.gov.au](mailto:info@kingston.vic.gov.au) [cityofkingston](https://www.facebook.com/cityofkingston) [kingstoncc](https://twitter.com/kingstoncc)

**RESPONSE provided by the Chief Executive Officer, City of Moonee Valley**

Moonee Valley City Council | 9 Kellaway Avenue Moonee Ponds  
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ABN 54 651 216 324 | DX 212139



File: FOL/15/307

Enquiries: 9243 8736

10 November 2017

Mr Andrew Greaves  
Auditor-General  
Victorian Auditor-General's Office  
Level 31, 35 Collins Street  
MELBOURNE VIC 3000

Dear Mr Greaves

**Proposed Report - Results of 2016-17 Audits: Local Government**

I am writing in response to your letter of 9 November 2017 inviting comments consistent with section 16(3)(b) of the Audit Act 1994 in relation to the above proposed report.

The VAGO Final Management letter relating to the audit performed for the year ended 30 June 2017 included four high risk findings all related to prior year IT controls, which were raised in August 2016.

All recommendations were accepted by Council with the current status as follows:

Issue	Progress	Status
User access management controls are weak	List was received from VAGO ISA team and has been reviewed with consequent actions completed by 4 August 2017	Closed
Inappropriate password management controls	Policy was updated 22 March 2017 with a copy sent to Rue Maharaj on 10 November 2017 along with evidence that the SQL database server settings have been updated to force the use of complex passwords	Closed
Patches are not applied in a timely manner	At this stage the TechOne Training environment points to the fintrain database that resides on the UAT HA SQL server cluster. Once UAT is complete for the upgrade to TechOne it will be moved to the production service cluster, which is regularly patched. This will be completed by 31 December 2017	Open
Windows software is unsupported by the vendor	Already noted as closed (effective 31 July 2017) in the VAGO final management letter	Closed

Should you require any further clarification please contact David Benallack (Chief Financial Officer) on 9243 8736.

Regards

**Bryan Lancaster**  
Chief Executive Officer

strategic thinking | communication | accountability | leadership | innovation | teamwork



**RESPONSE provided by the Chief Executive Officer, Moreland City Council**



Moreland City Council

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Victoria 3058

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Xref: D17/420938  
Doc. No. D17/420933  
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Tel: 9240 1116

Mr Andrew Greaves  
Auditor General  
Victorian Auditor-General's Office  
Level 31  
35 Collins Street  
MELBOURNE VIC 3000  
  
(enquiries@audit.vic.gov.au)

Dear Mr Greaves

**Results of 2016–17 Audits: Local Government**

The 2016–17 audit by your office has noted opportunities to make improvements relating to found assets and IT controls. These have been addressed or are in the process of being addressed. We appreciate the opportunity that the audit provides to test and improve our processes and controls.

Yours sincerely

Dr Nerina Di Lorenzo  
**CHIEF EXECUTIVE OFFICER**

17 / 11 / 2017

**Moreland Language Link**

廣東話	9280 1910	ភីធី	9280 1918
Italiano	9280 1911	普通話	9280 0750
Ελληνικά	9280 1912	မြန်မာ	9280 0751
العربية	9280 1913		
Türkçe	9280 1914	All other languages	
Tiếng Việt	9280 1915	9280 1919	

This paper is 100% recycled

**RESPONSE provided by the General Manager Corporate Services,  
City of Stonnington**



10 November 2017

Mr. Andrew Greaves  
Victorian Auditor-General  
Level 31, 35 Collins Street  
Melbourne Victoria 3000

Dear Mr. Greaves

**PROPOSED REPORT: RESULTS OF 2016–17 AUDITS: LOCAL GOVERNMENT**

I refer to your letter of 9 November 2017 to Mr. Warren Roberts, Chief Executive Officer, on your proposed report 'Results of 2016-17 Audits: Local Government'.

The report refers to 'found assets' across metropolitan Melbourne in 2016-17.

The City of Stonnington recognised the bridge in Webster Street, Malvern East in its 2016-17 financial statements at a value of \$1.09 million.

The matter is referred to in Note 20 of Council's 2016-17 financial statements.

VicRoads constructed the bridge in conjunction with the Chadstone Shopping Centre development. Unfortunately there was no hand-over of the asset from VicRoads to Council at the time of construction.

As a result the asset was not recognised in Council's accounts until 2016-17.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'Geoff Cockram'.

Geoff Cockram  
**GENERAL MANAGER CORPORATE SERVICES**

**Service Centres**

311 Glenferrie Road, Malvern  
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## Appendix B

# Audit opinions issued

Figure B1 lists the entities included in this report. It details the date an audit opinion was issued to each entity for their 2016–17 financial report and performance statement and the nature of that opinion.

**Figure B1**  
**Audit opinions issued to the local government sector for 2016–17**

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Auditor-General's report signed	Clear audit opinion issued	Auditor-General's report signed
<b>Metropolitan</b>				
Banyule City Council	✓	20 Sep 2017	✓	20 Sep 2017
Bayside City Council	✓	20 Sep 2017	✓	20 Sep 2017
Boroondara City Council	✓	7 Sep 2017	✓	7 Sep 2017
Brimbank City Council	✓	21 Sep 2017	✓	21 Sep 2017
City of Monash	✓	12 Sep 2017	✓	12 Sep 2017
City of Stonnington	✓	8 Sep 2017	✓	8 Sep 2017
• Prahran Market Pty Ltd	✓	28 Sep 2017	n/a	n/a
Darebin City Council	✓	8 Sep 2017	✓	8 Sep 2017
Frankston City Council	✓	27 Sep 2017	✓	27 Sep 2017
• Peninsula Leisure Pty Ltd	✓	15 Aug 2017	n/a	n/a
Glen Eira City Council	✓	14 Sep 2017	✓	14 Sep 2017
Greater Dandenong City Council	✓	14 Sep 2017	✓	14 Sep 2017
• Dandenong Market Pty Ltd	✓	14 Aug 2017	n/a	n/a
Hobsons Bay City Council	✓	22 Sep 2017	✓	22 Sep 2017
Kingston City Council	✓	5 Sep 2017	✓	5 Sep 2017
Knox City Council	✓	8 Sep 2017	✓	8 Sep 2017
Manningham City Council	✓	14 Sep 2017	✓	14 Sep 2017
Maribyrnong City Council	✓	15 Sep 2017	✓	15 Sep 2017
Maroondah City Council	✓	5 Sep 2017	✓	5 Sep 2017

**Figure B1**

**Audit opinions issued to the local government sector for 2016–17—continued**

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Auditor-General's report signed	Clear audit opinion issued	Auditor-General's report signed
Melbourne City Council	✓	11 Sep 2017	✓	11 Sep 2017
• Citywide Service Solutions Pty Ltd	✓	30 Aug 2017	n/a	n/a
• Queen Victoria Market Pty Ltd	✓	4 Sep 2017	n/a	n/a
• Regent Management Company Pty Ltd	✓	25 Sep 2017	n/a	n/a
• SMF Investment Management Pty Ltd	✓	4 Sep 2017	n/a	n/a
• Sustainable Melbourne Fund	✓	4 Sep 2017	n/a	n/a
Moonee Valley City Council	✓	14 Sep 2017	✓	14 Sep 2017
Moreland City Council	✓	25 Sep 2017	✓	25 Sep 2017
Port Phillip City Council	✓	12 Sep 2017	✓	12 Sep 2017
Whitehorse City Council	✓	22 Aug 2017	✓	22 Aug 2017
Yarra City Council	✓	25 Sep 2017	✓	25 Sep 2017
<b>Interface</b>				
Cardinia Shire Council	✓	19 Sep 2017	✓	19 Sep 2017
Casey City Council	✓	8 Sep 2017	✓	8 Sep 2017
City of Whittlesea	✓	12 Sep 2017	✓	12 Sep 2017
Hume City Council	✓	13 Sep 2017	✓	13 Sep 2017
Melton City Council	✓	25 Sep 2017	✓	25 Sep 2017
Mornington Peninsula Shire Council	✓	22 Sep 2017	✓	22 Sep 2017
Nillumbik Shire Council	✓	5 Sep 2017	✓	5 Sep 2017
Wyndham City Council	✓	21 Sep 2017	✓	21 Sep 2017
• Western Leisure Services Pty Ltd	✓	14 Sep 2017	n/a	n/a
Yarra Ranges Shire Council	✓	24 Aug 2017	✓	24 Aug 2017

**Figure B1****Audit opinions issued to the local government sector for 2016–17—continued**

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Auditor-General's report signed	Clear audit opinion issued	Auditor-General's report signed
<b>Regional</b>				
Ballarat City Council	✓	18 Sep 2017	✓	18 Sep 2017
Greater Bendigo City Council	✓	22 Sep 2017	✓	22 Sep 2017
Greater Geelong City Council	✓	8 Sep 2017	✓	8 Sep 2017
Greater Shepparton City Council	✓	25 Sep 2017	✓	25 Sep 2017
Horsham Rural City Council	✓	27 Sep 2017	✓	27 Sep 2017
Latrobe City Council	✓	13 Sep 2017	✓	13 Sep 2017
Mildura Rural City Council	✓	27 Sep 2017	✓	27 Sep 2017
• Mildura Airport Pty Ltd	✓	27 Sep 2017	n/a	n/a
Wangaratta Rural City Council	✓	27 Sep 2017	✓	27 Sep 2017
Warrnambool City Council	✓	25 Sep 2017	✓	25 Sep 2017
Wodonga City Council	✓	25 Sep 2017	✓	25 Sep 2017
<b>Large shire</b>				
Bass Coast Shire Council	✓	28 Sep 2017	✓	28 Sep 2017
Baw Baw Shire Council	✓	22 Sep 2017	✓	22 Sep 2017
Campaspe Shire Council	✓	25 Sep 2017	✓	25 Sep 2017
Colac-Otway Shire Council	✓	22 Sep 2017	✓	22 Sep 2017
Corangamite Shire Council	✓	27 Sep 2017	✓	27 Sep 2017
East Gippsland Shire Council	✓	19 Sep 2017	✓	19 Sep 2017
Glenelg Shire Council	✓	28 Sep 2017	✓	28 Sep 2017
Golden Plains Shire Council	✓	14 Sep 2017	✓	14 Sep 2017
Macedon Ranges Shire Council	✓	28 Sep 2017	✓	28 Sep 2017
Mitchell Shire Council	✓	21 Sep 2017	✓	21 Sep 2017
Moirā Shire Council	✓	25 Sep 2017	✓	25 Sep 2017
Moorabool Shire Council	✓	14 Sep 2017	✓	14 Sep 2017
Mount Alexander Shire Council	✓	26 Sep 2017	✓	26 Sep 2017
Moyne Shire Council	✓	27 Sep 2017	✓	27 Sep 2017

**Figure B1****Audit opinions issued to the local government sector for 2016–17—continued**

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Auditor-General's report signed	Clear audit opinion issued	Auditor-General's report signed
South Gippsland Shire Council	✓	28 Sep 2017	✓	28 Sep 2017
Southern Grampians Shire Council	✓	15 Sep 2017	✓	15 Sep 2017
Surf Coast Shire Council	✓	14 Sep 2017	✓	14 Sep 2017
Swan Hill Rural City Council	✓	27 Sep 2017	✓	27 Sep 2017
Wellington Shire Council	✓	27 Sep 2017	✓	27 Sep 2017
<b>Small shire</b>				
Alpine Shire Council	✓	25 Sep 2017	✓	25 Sep 2017
Ararat Rural City Council	✓	27 Sep 2017	✓	27 Sep 2017
Benalla Rural City Council	✓	28 Sep 2017	✓	28 Sep 2017
Borough of Queenscliffe	✓	26 Sep 2017	✓	26 Sep 2017
Buloke Shire Council	✓	19 Sep 2017	✓	19 Sep 2017
Central Goldfields Shire Council	✓	9 Nov 2017	✓	9 Nov 2017
Gannawarra Shire Council	✓	26 Sep 2017	✓	26 Sep 2017
Hepburn Shire Council	✓	26 Sep 2017	✓	26 Sep 2017
Hindmarsh Shire Council	✓	25 Sep 2017	✓	25 Sep 2017
Indigo Shire Council	✓	25 Sep 2017	✓	25 Sep 2017
Loddon Shire Council	✓	29 Aug 2017	✓	29 Aug 2017
Mansfield Shire Council	✓	20 Sep 2017	✓	20 Sep 2017
Murrindindi Shire Council	✓	28 Sep 2017	✓	28 Sep 2017
Northern Grampians Shire Council	✓	27 Sep 2017	✓	27 Sep 2017
Pyrenees Shire Council	✓	26 Sep 2017	✓	26 Sep 2017
Strathbogie Shire Council	✓	26 Sep 2017	✓	26 Sep 2017
Towong Shire Council	✓	28 Sep 2017	Qualified <sup>(a)</sup>	28 Sep 2017
West Wimmera Shire Council	✓	22 Sep 2017	✓	22 Sep 2017
Yarriambiack Shire Council	✓	27 Sep 2017	✓	27 Sep 2017

**Figure B1**

**Audit opinions issued to the local government sector for 2016–17—continued**

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Auditor-General's report signed	Clear audit opinion issued	Auditor-General's report signed
<b>Regional Library Corporations<sup>(b)</sup></b>				
Casey-Cardinia Regional Library Corporation	✓	5 Sep 2017	n/a	n/a
Corangamite Regional Library Corporation	✓	15 Sep 2017	n/a	n/a
Eastern Regional Library Corporation	✓	29 Aug 2017	n/a	n/a
Geelong Regional Library Corporation	✓	28 Aug 2017	n/a	n/a
Goulburn Valley Regional Library Corporation	✓	19 Sep 2017	n/a	n/a
North Central Goldfields Regional Library Corporation	✓	25 Sep 2017	n/a	n/a
West Gippsland Regional Library Corporation	✓	13 Sep 2017	n/a	n/a
Whitehorse-Manningham Regional Library Corporation	✓	19 Sep 2017	n/a	n/a
Wimmera Regional Library Corporation	✓	27 Sep 2017	n/a	n/a
Yarra Plenty Regional Library Corporation	✓	21 Sep 2017	n/a	n/a
<b>Associated entities</b>				
Clayton Landfill Joint Venture	✓	17 Aug 2017	n/a	n/a
MAPS Group Limited <sup>(c)</sup>	–	Not yet issued	n/a	n/a
MomentumOne Shared Services Pty Ltd	✓	13 Nov 2017	n/a	n/a
RFK Pty Ltd / Community Chef	✓	9 Oct 2017	n/a	n/a
Regional Kitchen Pty Ltd	✓	9 Oct 2017	n/a	n/a
Wimmera Development Association	✓	27 Sep 2017	n/a	n/a

(a) See Part 2 of this report for further information on the qualified audit opinion issued.

(b) High Country Library Corporation ceased operations in 2016. An audit opinion had not been issued at the date of this report.

(c) MAPS Group Limited has a 30 September balance date. The 2016 audit opinion was issued on 6 December 2016. The 2017 audit opinion has not been issued as at the date of this report.

Note: n/a = not applicable.

Source: VAGO.



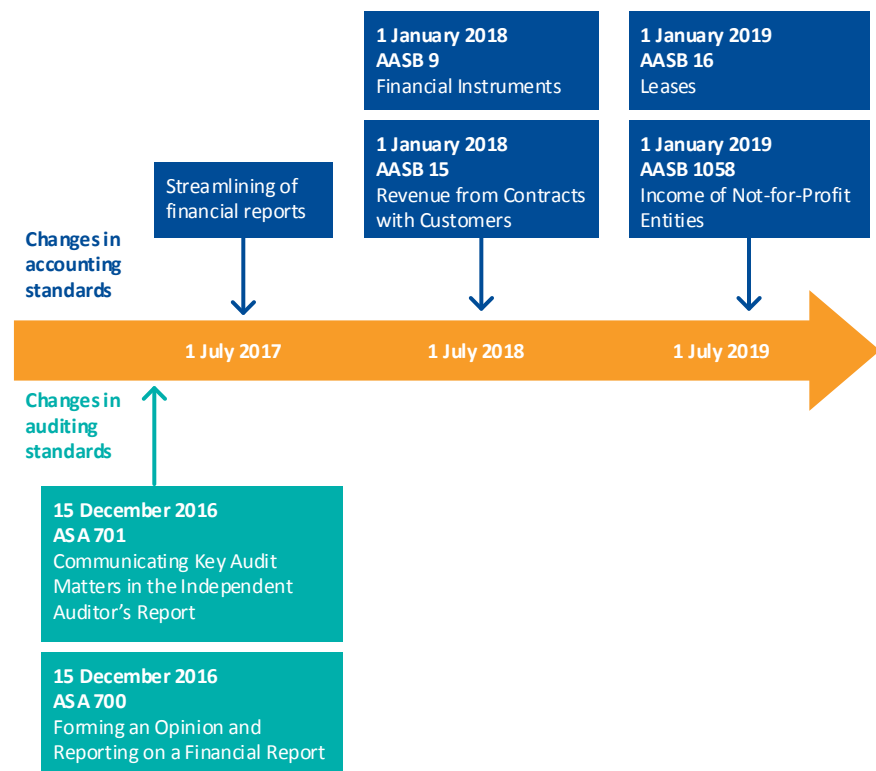
# Appendix C

## Upcoming changes to financial reporting

Upcoming changes accounting standards over the next three years may require substantial adjustments by not-for-profit organisations, including councils.

Figure C1 shows a time line of changes impacting the sector.

**Figure C1**  
**Time line of upcoming changes in accounting and auditing standards**



Source: VAGO.

## What do councils need to do?

### 2017–18—Streamlining of financial reports

Councils should look at simplification of financial reporting as a real opportunity to use financial reports to engage with various stakeholders in a more meaningful manner. We encourage councils to:

- implement effective internal systems and governance structures to enable accurate and timely month end and year end reporting
- explain significant judgements and complex calculations impacting any material information presented through the financial report
- fully communicate any financial risks including complex transactions, impairment and any financial sustainability risks
- highlight and include commentary on unusual transactions
- inform the reader through meaningful analysis of key balances and transactions
- incorporate easy-to-read design features and plain English
- remove irrelevant disclosures and notes
- include only disclosures that are material to the entity.

### 2018–19—AASB 9 *Financial Instruments*

This new accounting standard will apply from financial year 2018–19 and replaces the existing rules-based approach to financial instruments with simplified principles. A deeper understanding of how an entity manages its financial instruments will be required to apply this standard. Depending on circumstances, subsequent measurement of financial instruments will more likely be at fair value.

This standard is not likely to have a significant impact in the local government sector.

### 2018–19—AASB 15 *Revenue from Contracts with Customers* (2019–20 for not-for-profit entities including councils)

While these new requirements are not mandatory for the not-for-profit sector until 1 January 2019, they represent a major change in how the sector recognises revenue.

This standard shifts the focus from transaction-level accounting to a contract-based accounting approach. This accounting standard will have a significant impact on council profit and loss statements, with revenue from grants or donations recognised only when the specific performance obligation to provide the goods or services is satisfied.

### 2019–20—AASB 16 *Leases*

The accounting standard on leases will apply from 2019–20, and entities can elect not to restate comparatives.

This accounting standard will have a significant impact on council balance sheets with various contractual arrangements including asset-dependent service contracts (such as waste management contracts) potentially triggering lease accounting requirements.

### 2019–20—AASB 1058 *Income of Not-for-profit Entities*

This standard applies to all income that is not captured by AASB 15 *Revenue from Contracts with Customers* and will apply from 2019–20. Earlier application is permitted, provided entities also apply AASB 15 to the same period.

This standard is likely to have a significant impact on councils in two key areas:

- volunteer services—if fair value of the services can be reliably measured and would otherwise be purchased, the entity must elect to recognise the services as an expense and recognise a corresponding revenue
- grant income—revenue recognition will depend on the nature of the grant and, in particular, if the grant agreement places specific, clear performance obligations on the council.

### Exposure draft on Reporting Service Performance Information

This exposure draft establishes principles and requirements for an entity to report service performance information. Councils, through existing performance reporting activities, may achieve the objective of the standard.



# Appendix D

## Management letter risk ratings

Figure D1 shows the risk ratings applied to management letter issues raised during a financial audit.

**Figure D1**

**Definitions of risk ratings for issues reported in audit management letters**

Rating	Definition	Management action required
<b>Extreme</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a control weakness which could cause or is causing <b>severe</b> disruption of the process or severe adverse effect on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a <b>material</b> misstatement in the financial report has occurred.</li> </ul>	<p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p> <p>Requires executive management to correct the material misstatement in the financial report as a matter of urgency to avoid a modified audit opinion.</p>
<b>High</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a control weakness which could have or is having a <b>major</b> adverse effect on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a <b>material</b> misstatement in the financial report that is likely to occur.</li> </ul>	<p>Requires prompt management intervention with a detailed action plan implemented within two months.</p> <p>Requires executive management to correct the material misstatement in the financial report to avoid a modified audit opinion.</p>
<b>Medium</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a control weakness which could have or is having a <b>moderate</b> adverse effect on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a misstatement in the financial report that is not material and has occurred.</li> </ul>	<p>Requires management intervention with a detailed action plan implemented within three to six months.</p>
<b>Low</b>	<p>The issue represents:</p> <ul style="list-style-type: none"> <li>a <b>minor</b> control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a misstatement in the financial report that is likely to occur but is not expected to be material, or</li> <li>an opportunity to improve an existing process or internal control.</li> </ul>	<p>Requires management intervention with a detailed action plan implemented within six to 12 months.</p>

Source: VAGO.



# Appendix E

## IT control deficiencies

Figure E1 shows the IT control deficiencies for each council.

**Figure E1**  
**IT control deficiencies for each council**

Council Name	Unsupported systems and software	User access controls	Patch management controls	Other IT controls
Ballarat City Council	–	2	1	–
Bayside City Council	–	–	1	2
Boroondara City Council	–	–	2	–
Borough of Queenscliff	–	1	–	–
Cardinia Shire Council	1	–	1	–
Casey City Council	–	–	–	1
Central Goldfields Shire Council	–	–	–	1
Greater Dandenong City Council	1	–	2	–
Greater Geelong City Council	1	–	1	–
Hobsons Bay City Council	–	–	2	–
Moonee Valley City Council	1	2	1	–
Moreland City Council	–	1	–	–
Port Phillip City Council	–	–	1	–
South Gippsland Shire Council	1	–	–	1
Southern Grampians Shire Council	–	1	–	–
West Wimmera Shire Council	–	–	–	1
Whitehorse City Council	1	2	1	–
Wodonga City Council	–	2	–	–
<b>Total</b>	<b>6</b>	<b>11</b>	<b>13</b>	<b>6</b>

Source: VAGO.



# Appendix F

## Financial sustainability risk indicators

Figure F1 lists the indicators used in assessing the financial sustainability risks of local councils in Part 4 of this report. These indicators should be considered collectively, and are more useful when assessed over time as part of a trend analysis.

Our analysis of financial sustainability risk in this report reflects on the position of each local council.

**Figure F1**  
**Financial sustainability risk indicators**

Indicator	Formula	Description
Net result (%)	Net result / Total revenue	<p>A positive result indicates a surplus, and 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>The net result and total revenue are obtained from the comprehensive operating statement.</p>
Adjusted underlying result <sup>(a)</sup>	Adjusted underlying surplus (or deficit) / Adjusted underlying revenue	Indicator of the broad objective that an adjusted underlying surplus should be generated in the ordinary course of business. A surplus or increasing surplus suggests an improvement in the operating position.
Liquidity (ratio)	Current assets / Current liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio of one or more means there are more cash and liquid assets than short-term liabilities.</p>
Internal financing (%)	Net operating cash flow / Net capital expenditure	<p>This measures the ability of an entity to finance capital works from generated cash flow.</p> <p>The higher the percentage, the greater the ability for the entity to finance capital works from their own funds.</p> <p>Net operating cash flow and net capital expenditure are obtained from the cash flow statement.</p>
Indebtedness (%)	Non-current liabilities / own-sourced revenue	<p>Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the percentage, the less the entity is 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 grants or contributions.</p>

**Figure F1****Financial sustainability risk indicators—*continued***

Indicator	Formula	Description
Capital replacement (ratio)	Cash outflows for property, plant and equipment / Depreciation	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. 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. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive operating statement.
Renewal gap (ratio)	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 faster 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. Renewal and upgrade expenditure are taken from the statement of capital works. Depreciation is taken from the comprehensive operating statement.</p>

(a) This is a new financial sustainability risk indicator in this report. The calculation is consistent with councils' performance statements.

Source: VAGO.

## Financial sustainability risk assessment criteria

The financial sustainability risk of each local council has been assessed using the criteria outlined in Figure F2.

**Figure F2**

**Financial sustainability risk indicators—risk assessment criteria**

Risk	Net result	Adjusted underlying result	Liquidity	Internal financing	Indebtedness	Capital replacement	Renewal gap
<b>High</b>	<b>Less than negative 10%</b>  Insufficient revenue is being generated to fund operations and asset renewal.	<b>Less than 0%</b>  Insufficient surplus being generated to fund operations	<b>Less than 0.75</b>  Immediate sustainability issues with insufficient current assets to cover liabilities.	<b>Less than 75%</b>  Limited cash generated from operations to fund new assets and asset renewal.	<b>More than 60%</b>  Potentially long-term concern over ability to repay debt levels from own-source revenue.	<b>Less than 1.0</b>  Spending on capital works has not kept pace with consumption of assets.	<b>Less than 0.5</b>  Spending on existing assets has not kept pace with consumption of these assets.
<b>Medium</b>	<b>Negative 10%–0%</b>  A risk of long-term run down to cash reserves and inability to fund asset renewals.	<b>0%–5%</b>  Surplus being generated to fund operations	<b>0.75–1.0</b>  Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	<b>75–100%</b>  May not be generating sufficient cash from operations to fund new assets.	<b>40–60%</b>  Some concern over the ability to repay debt from own-source revenue.	<b>1.0–1.5</b>  May indicate spending on asset renewal is insufficient.	<b>0.5–1.0</b>  May indicate insufficient spending on renewal of existing assets.
<b>Low</b>	<b>More than 0%</b>  Generating surpluses consistently.	<b>More than 5%</b>  Generating strong surpluses to fund operations	<b>More than 1.0</b>  No immediate issues with repaying short-term liabilities as they fall due.	<b>More than 100%</b>  Generating enough cash from operations to fund new assets.	<b>40% or less</b>  No concern over the ability to repay debt from own-source revenue.	<b>More than 1.5</b>  Low risk of insufficient spending on asset renewal.	<b>More than 1.0</b>  Low risk of insufficient spending on asset base.

Source: VAGO.

The financial sustainability risk for each council, for the financial years ended 30 June 2013 to 2020, are shown in Figures F3 to F37. For consolidated financial statements, amounts obtained for calculating financial sustainability indicators only relate to council.

## Metropolitan councils

**Figure F3**  
**Metropolitan councils, net result 2013–2020**

Metropolitan councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Banyule City Council	3.69%	1.65%	10.96%	8.86%	11.79%	7.39%	2.70%	3.32%	4.52%
Bayside City Council	14.00%	13.92%	17.15%	21.88%	23.94%	18.18%	17.17%	13.25%	15.32%
Boroondara City Council	12.34%	11.75%	14.48%	18.48%	13.77%	14.16%	11.69%	16.08%	14.03%
Brimbank City Council	7.32%	3.12%	15.42%	10.01%	19.75%	11.12%	9.72%	12.20%	16.59%
Darebin City Council	8.53%	8.55%	3.50%	12.47%	12.60%	9.13%	7.52%	8.52%	9.64%
Frankston City Council	14.19%	15.25%	8.39%	14.41%	18.42%	14.13%	19.71%	12.77%	12.09%
Glen Eira City Council	8.29%	9.50%	9.19%	7.72%	16.76%	10.29%	10.00%	10.85%	11.52%
Greater Dandenong City Council	19.53%	25.49%	22.46%	22.24%	23.28%	22.60%	16.88%	19.54%	18.72%
Hobsons Bay City Council	8.14%	6.96%	9.71%	9.18%	17.12%	10.22%	11.00%	10.80%	10.14%
Kingston City Council	12.13%	10.46%	13.26%	22.11%	19.89%	15.57%	9.89%	7.15%	6.69%
Knox City Council	5.55%	3.54%	10.75%	14.89%	11.19%	9.18%	2.48%	6.37%	1.82%
Manningham City Council	12.99%	11.31%	11.80%	18.64%	25.78%	16.10%	13.28%	12.88%	12.62%
Maribyrnong City Council	7.28%	1.82%	15.03%	14.76%	10.99%	9.97%	5.00%	6.59%	4.02%
Maroondah City Council	2.70%	13.85%	13.49%	3.40%	16.50%	9.99%	5.02%	12.40%	4.59%
Melbourne City Council	12.49%	7.82%	17.95%	13.06%	19.27%	14.12%	6.54%	7.21%	6.85%
Monash City Council	0.48%	9.17%	9.92%	12.43%	12.62%	8.93%	8.93%	9.19%	4.02%
Moonee Valley City Council	4.78%	6.33%	11.25%	9.05%	11.34%	8.55%	6.57%	3.81%	3.42%
Moreland City Council	10.40%	9.30%	18.35%	11.66%	18.40%	13.62%	12.95%	13.77%	15.12%
Port Phillip City Council	8.76%	17.49%	2.11%	4.91%	14.57%	9.57%	-2.98%	7.53%	6.42%
Stonnington City Council	16.61%	14.98%	19.46%	19.39%	22.89%	18.67%	20.08%	19.42%	21.92%
Whitehorse City Council	11.91%	8.49%	13.15%	25.26%	21.29%	16.02%	13.86%	18.28%	14.76%
Yarra City Council	4.98%	8.02%	6.04%	5.86%	9.69%	6.92%	4.90%	5.58%	6.98%
<b>Average</b>	<b>9.41%</b>	<b>9.94%</b>	<b>12.45%</b>	<b>13.67%</b>	<b>16.90%</b>	<b>12.47%</b>	<b>9.68%</b>	<b>10.80%</b>	<b>10.08%</b>

Source: VAGO.

**Figure F4**

**Metropolitan councils, adjusted underlying result 2015–2020**

Metropolitan councils	2014–15	2015–16	2016–17	Average	Forecast		
					2017–18	2018–19	2019–20
Banyule City Council	9.00%	6.63%	8.58%	8.07%	-0.55%	1.60%	2.82%
Bayside City Council	14.69%	17.42%	19.05%	17.05%	12.32%	11.75%	11.41%
Boroondara City Council	11.70%	14.20%	11.20%	12.37%	8.80%	13.40%	12.90%
Brimbank City Council	8.23%	4.74%	15.06%	9.34%	5.88%	4.32%	4.86%
Darebin City Council	-1.90%	8.00%	8.60%	4.90%	3.10%	3.30%	4.40%
Frankston City Council	3.40%	8.90%	15.00%	9.10%	14.20%	12.30%	11.70%
Glen Eira City Council	9.00%	7.00%	16.00%	10.67%	9.00%	10.00%	10.00%
Greater Dandenong City Council	4.25%	1.87%	12.82%	6.31%	8.44%	8.17%	7.57%
Hobsons Bay City Council	9.53%	8.04%	15.89%	11.15%	9.92%	10.26%	9.65%
Kingston City Council	9.68%	19.77%	18.22%	15.89%	7.66%	6.08%	6.24%
Knox City Council	7.05%	13.59%	10.31%	10.32%	-0.91%	2.91%	0.64%
Manningham City Council	7.00%	9.70%	11.40%	9.37%	8.40%	8.40%	8.60%
Maribyrnong City Council	12.93%	6.88%	8.00%	9.27%	5.00%	6.59%	4.02%
Maroondah City Council	3.65%	-0.77%	8.10%	3.66%	3.60%	3.75%	4.22%
Melbourne City Council	6.24%	9.53%	16.11%	10.63%	1.38%	2.15%	1.82%
Monash City Council	4.67%	11.20%	11.57%	9.15%	6.52%	7.75%	4.03%
Moonee Valley City Council	9.70%	5.65%	10.14%	8.50%	3.94%	3.21%	2.83%
Moreland City Council	11.15%	8.30%	17.78%	12.41%	12.09%	13.23%	14.04%
Port Phillip City Council	-0.64%	1.03%	1.25%	0.55%	-9.28%	3.51%	3.74%
Stonnington City Council	14.29%	13.89%	15.48%	14.55%	15.25%	14.71%	14.90%
Whitehorse City Council	12.33%	15.25%	20.84%	16.14%	13.38%	18.28%	14.76%
Yarra City Council	2.11%	1.70%	6.31%	3.37%	2.44%	3.21%	4.71%
<b>Average</b>	<b>7.64%</b>	<b>8.75%</b>	<b>12.62%</b>	<b>9.67%</b>	<b>6.39%</b>	<b>7.68%</b>	<b>7.27%</b>

Source: VAGO.

Figure F5

Metropolitan councils, liquidity 2013–2020

Metropolitan councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Banyule City Council	2.80	4.09	3.97	4.26	3.04	3.63	3.21	2.93	2.84
Bayside City Council	1.86	2.20	2.59	2.98	3.57	2.64	3.15	2.98	2.86
Boroondara City Council	1.45	1.76	1.91	2.44	2.84	2.08	1.93	1.74	1.75
Brimbank City Council	1.18	0.94	2.01	1.45	2.19	1.55	1.44	1.50	1.49
Darebin City Council	1.80	1.64	1.60	2.30	2.60	1.98	1.77	1.63	1.30
Frankston City Council	1.63	1.80	1.64	2.24	3.35	2.13	2.89	3.01	3.29
Glen Eira City Council	0.82	0.96	0.99	0.99	1.24	1.00	1.18	1.13	1.08
Greater Dandenong City Council	2.10	1.51	1.72	1.79	2.02	1.83	1.65	1.62	1.76
Hobsons Bay City Council	1.22	0.99	1.45	2.09	2.42	1.64	1.95	1.93	1.94
Kingston City Council	1.33	1.43	1.95	2.85	3.49	2.21	2.46	1.97	2.23
Knox City Council	1.43	1.56	1.81	2.30	2.36	1.89	1.10	1.03	0.93
Manningham City Council	1.83	1.90	2.06	2.17	1.99	1.99	1.73	1.75	1.96
Maribyrnong City Council	2.90	2.62	2.98	2.95	3.14	2.92	2.09	2.25	2.24
Maroondah City Council	2.60	1.61	1.96	1.72	1.86	1.95	1.66	1.57	1.60
Melbourne City Council	1.63	1.33	1.65	1.41	2.30	1.67	1.27	0.41	0.34
Monash City Council	0.74	1.54	1.49	1.93	2.28	1.60	2.16	1.86	1.55
Moonee Valley City Council	1.37	1.61	2.00	2.16	2.48	1.92	2.69	2.60	2.54
Moreland City Council	1.39	1.49	1.38	2.42	2.67	1.87	2.94	3.11	3.50
Port Phillip City Council	1.71	1.59	2.21	2.43	2.32	2.05	2.02	2.13	2.17
Stonnington City Council	2.09	2.10	2.68	2.91	3.22	2.60	2.36	2.14	2.17
Whitehorse City Council	1.68	2.13	2.79	2.84	4.21	2.73	4.48	3.98	4.11
Yarra City Council	0.96	1.07	1.05	1.03	1.51	1.12	1.07	1.05	1.10
<b>Average</b>	<b>1.66</b>	<b>1.72</b>	<b>2.00</b>	<b>2.26</b>	<b>2.59</b>	<b>2.05</b>	<b>2.15</b>	<b>2.02</b>	<b>2.03</b>

Source: VAGO.

**Figure F6**

**Metropolitan councils, internal financing 2013–2020**

Metropolitan councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Banyule City Council	63%	57%	725%	1607%	207%	532%	114%	91%	103%
Bayside City Council	124%	172%	210%	217%	172%	179%	88%	96%	99%
Boroondara City Council	77%	84%	156%	144%	155%	123%	104%	82%	108%
Brimbank City Council	39%	93%	146%	60%	188%	105%	97%	115%	108%
Darebin City Council	71%	123%	134%	162%	134%	125%	73%	78%	81%
Frankston City Council	114%	75%	125%	92%	261%	133%	131%	135%	130%
Glen Eira City Council	95%	140%	117%	121%	157%	126%	106%	104%	104%
Greater Dandenong City Council	95%	61%	156%	158%	256%	145%	123%	105%	100%
Hobsons Bay City Council	119%	146%	162%	104%	154%	137%	109%	105%	108%
Kingston City Council	140%	119%	152%	231%	165%	161%	96%	82%	124%
Knox City Council	122%	76%	133%	298%	157%	157%	48%	71%	67%
Manningham City Council	190%	86%	122%	141%	102%	128%	99%	133%	128%
Maribyrnong City Council	129%	124%	125%	111%	137%	125%	73%	120%	112%
Maroondah City Council	107%	69%	70%	94%	133%	94%	113%	109%	102%
Melbourne City Council	71%	93%	111%	65%	141%	96%	260%	44%	39%
Monash City Council	47%	576%	149%	179%	146%	220%	99%	73%	105%
Moonee Valley City Council	128%	150%	181%	141%	203%	161%	104%	104%	105%
Moreland City Council	110%	58%	148%	210%	270%	159%	116%	130%	157%
Port Phillip City Council	82%	57%	134%	115%	155%	109%	82%	118%	137%
Stonnington City Council	107%	92%	182%	136%	131%	130%	65%	72%	110%
Whitehorse City Council	59%	87%	202%	158%	201%	141%	130%	540%	98%
Yarra City Council	106%	61%	107%	105%	99%	96%	96%	107%	114%
<b>Average</b>	<b>100%</b>	<b>118%</b>	<b>170%</b>	<b>211%</b>	<b>169%</b>	<b>154%</b>	<b>106%</b>	<b>119%</b>	<b>106%</b>

Source: VAGO.

**Figure F7**

**Metropolitan councils, indebtedness 2013–2020**

Metropolitan councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Banyule City Council	32.82%	56.67%	45.36%	43.25%	29.89%	41.60%	27.32%	24.91%	23.24%
Bayside City Council	15.47%	12.37%	8.28%	2.95%	0.90%	7.99%	1.27%	1.44%	1.59%
Boroondara City Council	33.01%	33.66%	31.14%	26.08%	23.34%	29.45%	14.09%	13.09%	12.05%
Brimbank City Council	21.09%	16.45%	33.50%	43.39%	38.97%	30.68%	40.06%	38.08%	35.68%
Darebin City Council	1.10%	1.24%	1.10%	1.23%	1.22%	1.18%	1.17%	1.14%	1.10%
Frankston City Council	1.37%	23.29%	18.86%	27.66%	25.02%	19.24%	23.88%	18.98%	18.29%
Glen Eira City Council	22.74%	17.97%	19.99%	19.13%	15.72%	19.11%	13.08%	10.35%	7.59%
Greater Dandenong City Council	51.86%	47.03%	46.86%	39.94%	34.54%	44.05%	31.68%	32.60%	36.66%
Hobsons Bay City Council	10.10%	0.88%	9.65%	13.71%	12.96%	9.46%	13.10%	12.83%	12.59%
Kingston City Council	14.97%	14.00%	13.01%	9.73%	9.65%	12.27%	4.90%	1.60%	0.77%
Knox City Council	14.19%	12.96%	14.41%	12.36%	4.54%	11.69%	23.90%	32.53%	38.61%
Manningham City Council	9.23%	8.39%	8.17%	7.50%	7.19%	8.10%	7.29%	4.09%	3.99%
Maribyrnong City Council	6.35%	4.53%	3.34%	0.83%	0.76%	3.16%	1.02%	1.10%	1.18%
Maroondah City Council	1.24%	1.65%	25.24%	21.60%	19.07%	13.76%	17.69%	16.05%	14.50%
Melbourne City Council	0.76%	0.85%	0.76%	8.18%	7.19%	3.55%	9.25%	21.17%	59.09%
Monash City Council	10.72%	7.92%	2.91%	2.70%	2.08%	5.26%	3.00%	2.95%	2.89%
Moonee Valley City Council	12.03%	6.99%	2.13%	1.33%	1.21%	4.74%	4.33%	3.00%	1.80%
Moreland City Council	32.49%	35.74%	25.83%	31.44%	24.73%	30.05%	29.09%	27.56%	26.14%
Port Phillip City Council	1.52%	2.52%	6.64%	6.29%	5.85%	4.57%	5.84%	5.65%	5.50%
Stonnington City Council	2.95%	11.09%	10.45%	8.46%	7.06%	8.00%	16.86%	23.61%	22.39%
Whitehorse City Council	1.71%	5.70%	6.81%	5.75%	5.10%	5.01%	5.18%	2.10%	2.17%
Yarra City Council	10.98%	24.05%	23.87%	22.89%	29.39%	22.24%	27.92%	26.50%	25.00%
<b>Average</b>	<b>14.03%</b>	<b>15.73%</b>	<b>16.29%</b>	<b>16.20%</b>	<b>13.93%</b>	<b>15.23%</b>	<b>14.63%</b>	<b>14.60%</b>	<b>16.04%</b>

Source: VAGO.

**Figure F8**

**Metropolitan councils, capital replacement 2013–2020**

Metropolitan councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Banyule City Council	1.56	2.46	1.15	1.22	1.86	1.65	1.23	1.54	1.45
Bayside City Council	1.70	1.53	1.34	1.58	1.84	1.60	2.66	1.98	2.05
Boroondara City Council	2.73	1.98	1.75	1.81	1.51	1.95	2.02	3.07	2.20
Brimbank City Council	1.73	1.27	1.59	2.82	1.38	1.76	1.69	1.52	1.87
Darebin City Council	1.01	1.08	1.25	1.08	1.39	1.16	2.28	2.19	2.42
Frankston City Council	1.51	2.65	1.60	2.02	0.87	1.73	1.86	1.34	1.33
Glen Eira City Council	1.92	1.28	1.62	1.72	1.58	1.62	1.73	1.81	1.87
Greater Dandenong City Council	1.79	2.36	1.29	1.26	1.54	1.65	1.43	1.61	1.62
Hobsons Bay City Council	1.42	1.12	1.10	1.55	1.45	1.33	1.87	1.78	1.69
Kingston City Council	1.73	1.62	1.35	1.61	1.66	1.59	1.81	1.80	1.15
Knox City Council	1.31	1.25	1.47	1.55	1.52	1.42	2.54	2.36	2.05
Manningham City Council	1.47	1.43	1.48	1.72	2.30	1.68	1.99	1.42	1.45
Maribyrnong City Council	0.85	1.67	1.95	1.82	1.59	1.57	1.91	1.24	1.22
Maroondah City Council	1.13	2.44	3.07	1.73	1.66	2.01	1.29	1.87	1.26
Melbourne City Council	2.11	1.90	1.52	2.50	1.27	1.86	2.09	3.61	4.20
Monash City Council	1.13	0.97	1.22	1.00	1.35	1.13	1.81	2.92	2.04
Moonee Valley City Council	1.21	0.93	1.00	1.28	1.05	1.09	1.70	1.47	1.42
Moreland City Council	1.80	1.83	1.67	1.14	1.28	1.55	2.04	1.70	1.48
Port Phillip City Council	2.37	1.40	1.25	1.48	1.42	1.58	1.48	1.59	1.59
Stonnington City Council	1.71	2.48	1.59	2.33	2.77	2.18	4.60	3.99	2.99
Whitehorse City Council	2.43	1.76	1.14	1.56	1.41	1.66	1.65	2.39	2.22
Yarra City Council	1.54	2.27	1.51	1.56	1.68	1.71	1.60	1.46	1.47
<b>Average</b>	<b>1.64</b>	<b>1.71</b>	<b>1.50</b>	<b>1.65</b>	<b>1.56</b>	<b>1.61</b>	<b>1.97</b>	<b>2.03</b>	<b>1.87</b>

Source: VAGO.

**Figure F9**

**Metropolitan councils, renewal gap 2013–2020**

Metropolitan councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Banyule City Council	0.75	0.83	0.96	0.75	1.66	0.99	1.12	1.50	1.41
Bayside City Council	1.04	1.11	1.13	1.28	1.52	1.22	1.58	1.33	1.40
Boroondara City Council	2.47	1.73	1.64	1.43	1.19	1.69	1.45	1.52	1.43
Brimbank City Council	0.90	0.90	0.76	0.77	0.87	0.84	0.82	0.84	1.07
Darebin City Council	1.21	1.26	0.89	0.87	0.91	1.03	1.58	1.28	1.57
Frankston City Council	0.86	0.96	1.14	1.13	0.68	0.95	1.36	1.05	1.15
Glen Eira City Council	1.75	1.15	1.21	1.42	1.24	1.35	1.29	1.67	1.69
Greater Dandenong City Council	0.92	0.90	0.79	1.09	1.05	0.95	0.78	0.80	0.86
Hobsons Bay City Council	1.15	0.98	1.14	1.13	1.15	1.11	1.42	1.47	1.65
Kingston City Council	1.80	1.55	1.35	1.60	1.57	1.57	1.52	1.42	1.11
Knox City Council	1.22	1.19	1.38	1.28	1.39	1.29	2.14	1.97	1.72
Manningham City Council	1.00	1.01	0.85	0.93	1.41	1.04	1.16	1.09	1.09
Maribyrnong City Council	1.11	1.99	1.62	1.22	0.96	1.38	1.66	1.11	1.09
Maroondah City Council	0.76	1.87	2.07	1.16	1.29	1.43	1.13	1.18	1.15
Melbourne City Council	1.06	1.98	0.73	0.67	0.87	1.06	1.39	2.14	2.81
Monash City Council	0.95	0.93	1.09	1.00	1.09	1.01	1.45	1.60	1.18
Moonee Valley City Council	0.96	0.54	0.72	1.09	0.85	0.83	1.54	0.97	0.97
Moreland City Council	1.34	1.01	0.94	0.86	0.80	0.99	1.68	1.50	1.25
Port Phillip City Council	0.65	1.04	0.89	0.91	1.15	0.93	1.22	1.26	1.23
Stonnington City Council	1.55	1.51	1.37	1.99	1.33	1.55	1.86	1.68	1.53
Whitehorse City Council	1.58	1.29	0.91	1.07	1.09	1.19	1.10	1.71	1.51
Yarra City Council	1.26	1.32	0.95	1.04	1.15	1.14	1.28	1.43	1.46
<b>Average</b>	<b>1.19</b>	<b>1.23</b>	<b>1.11</b>	<b>1.12</b>	<b>1.15</b>	<b>1.16</b>	<b>1.39</b>	<b>1.39</b>	<b>1.38</b>

Source: VAGO.

## Interface councils

**Figure F10**

### Interface councils, net result 2013–2020

Interface councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Cardinia Shire Council	26.17%	22.04%	35.90%	41.63%	43.59%	33.87%	6.84%	1.82%	1.76%
Casey City Council	35.46%	20.78%	31.14%	40.33%	42.70%	34.08%	25.23%	22.71%	24.01%
Hume City Council	23.88%	20.79%	31.29%	37.49%	48.85%	32.46%	36.19%	32.11%	29.23%
Melton City Council	45.09%	31.79%	28.57%	45.23%	47.09%	39.55%	38.02%	35.52%	35.28%
Mornington Peninsula Shire Council	8.26%	3.24%	7.16%	8.81%	9.91%	7.48%	6.47%	4.66%	3.36%
Nillumbik Shire Council	1.87%	7.87%	16.41%	4.92%	16.99%	9.61%	8.25%	17.94%	22.31%
Whittlesea City Council	30.19%	29.00%	34.36%	37.10%	36.69%	33.47%	39.49%	38.59%	37.69%
Wyndham City Council	31.36%	25.30%	26.67%	38.21%	45.44%	33.39%	36.52%	39.22%	33.90%
Yarra Ranges Shire Council	6.17%	-1.51%	11.11%	7.01%	14.36%	7.43%	10.90%	8.04%	7.72%
<b>Average</b>	<b>23.16%</b>	<b>17.70%</b>	<b>24.73%</b>	<b>28.97%</b>	<b>33.96%</b>	<b>25.70%</b>	<b>23.10%</b>	<b>22.29%</b>	<b>21.69%</b>

Source: VAGO.

**Figure F11**

### Interface councils, adjusted underlying result 2015–2020

Interface councils	2014–15	2015–16	2016–17	Average	Forecast		
					2017–18	2018–19	2019–20
Cardinia Shire Council	4.29%	3.88%	13.09%	7.09%	2.17%	-0.09%	0.60%
Casey City Council	19.57%	10.26%	19.90%	16.58%	3.68%	5.32%	6.47%
Hume City Council	11.00%	11.81%	24.34%	15.72%	18.06%	13.87%	11.91%
Melton City Council	2.78%	1.81%	13.69%	6.09%	2.73%	4.27%	5.78%
Mornington Peninsula Shire Council	5.21%	2.66%	5.12%	4.33%	2.58%	3.80%	2.51%
Nillumbik Shire Council	9.79%	-12.92%	8.46%	1.78%	4.07%	4.31%	5.15%
Whittlesea City Council	5.15%	-6.58%	13.72%	4.10%	4.65%	6.58%	4.99%
Wyndham City Council	-4.00%	-1.20%	7.80%	0.87%	3.30%	4.60%	4.30%
Yarra Ranges Shire Council	6.51%	2.46%	5.93%	4.97%	8.07%	6.97%	7.21%
<b>Average</b>	<b>6.70%</b>	<b>1.35%</b>	<b>12.45%</b>	<b>6.83%</b>	<b>5.48%</b>	<b>5.51%</b>	<b>5.44%</b>

Source: VAGO.

**Figure F12**

### Interface councils, liquidity 2013–2020

Interface councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Cardinia Shire Council	2.25	1.97	1.98	2.36	2.92	2.30	1.43	1.24	1.15
Casey City Council	3.14	3.95	4.18	4.11	4.42	3.96	4.81	4.75	4.76
Hume City Council	1.42	1.20	1.91	2.20	3.12	1.97	3.12	3.84	4.50
Melton City Council	1.65	1.62	1.88	3.05	5.85	2.81	3.44	4.72	5.57
Mornington Peninsula Shire Council	1.14	1.31	1.51	1.90	1.99	1.57	1.41	1.40	1.32
Nillumbik Shire Council	2.23	2.23	2.66	3.51	3.53	2.83	2.36	2.64	3.61
Whittlesea City Council	3.69	3.36	3.03	3.16	3.79	3.41	3.58	3.26	3.28
Wyndham City Council	2.88	1.78	2.97	3.73	4.90	3.25	5.23	4.51	4.47
Yarra Ranges Shire Council	2.04	1.44	2.18	2.28	2.28	2.04	1.73	1.40	1.09
<b>Average</b>	<b>2.27</b>	<b>2.10</b>	<b>2.48</b>	<b>2.92</b>	<b>3.64</b>	<b>2.68</b>	<b>3.01</b>	<b>3.09</b>	<b>3.30</b>

Source: VAGO.

**Figure F13**

**Interface councils, internal financing 2013–2020**

Interface councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Cardinia Shire Council	110%	67%	99%	219%	476%	194%	109%	91%	108%
Casey City Council	218%	124%	175%	165%	136%	164%	87%	129%	141%
Hume City Council	82%	88%	187%	155%	184%	139%	102%	131%	154%
Melton City Council	93%	131%	117%	235%	216%	158%	107%	105%	160%
Mornington Peninsula Shire Council	139%	111%	143%	193%	135%	144%	109%	100%	101%
Nilumbik Shire Council	93%	99%	254%	172%	125%	149%	112%	134%	190%
Whittlesea City Council	115%	85%	141%	142%	113%	119%	115%	88%	95%
Wyndham City Council	70%	103%	92%	150%	204%	124%	93%	88%	108%
Yarra Ranges Shire Council	45%	76%	131%	115%	125%	98%	84%	80%	77%
<b>Average</b>	<b>107%</b>	<b>98%</b>	<b>149%</b>	<b>172%</b>	<b>191%</b>	<b>143%</b>	<b>102%</b>	<b>105%</b>	<b>126%</b>

Source: VAGO.

**Figure F14**

**Interface councils, indebtedness 2013–2020**

Interface councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Cardinia Shire Council	61.01%	50.92%	71.28%	61.10%	58.21%	60.50%	53.43%	50.07%	45.90%
Casey City Council	29.38%	32.99%	30.90%	19.46%	29.24%	28.40%	40.28%	34.30%	29.01%
Hume City Council	16.85%	15.75%	35.75%	21.71%	15.07%	21.02%	13.06%	13.18%	12.28%
Melton City Council	21.98%	20.22%	25.06%	21.79%	18.53%	21.52%	16.94%	13.60%	11.15%
Mornington Peninsula Shire Council	19.43%	21.93%	17.94%	12.99%	9.48%	16.35%	9.19%	6.83%	5.59%
Nilumbik Shire Council	34.25%	32.61%	27.93%	28.11%	26.81%	29.94%	25.47%	22.82%	21.12%
Whittlesea City Council	26.05%	23.00%	22.11%	19.85%	16.15%	21.43%	22.62%	29.24%	32.31%
Wyndham City Council	12.46%	11.77%	33.89%	34.15%	33.21%	25.10%	34.40%	32.75%	31.08%
Yarra Ranges Shire Council	13.24%	10.96%	23.27%	19.92%	16.56%	16.79%	17.28%	22.93%	25.31%
<b>Average</b>	<b>26.07%</b>	<b>24.46%</b>	<b>32.02%</b>	<b>26.57%</b>	<b>24.81%</b>	<b>26.78%</b>	<b>25.85%</b>	<b>25.08%</b>	<b>23.75%</b>

Source: VAGO.

**Figure F15**

**Interface councils, capital replacement 2013–2020**

Interface councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Cardinia Shire Council	2.16	2.10	3.83	1.40	1.20	2.14	2.05	1.48	1.24
Casey City Council	1.26	1.40	2.07	2.54	3.57	2.17	2.93	2.03	1.90
Hume City Council	1.64	1.92	1.26	1.39	1.75	1.59	2.32	1.56	1.14
Melton City Council	1.81	1.36	1.52	1.08	1.12	1.38	1.77	1.86	1.43
Mornington Peninsula Shire Council	1.13	1.09	1.31	1.12	1.63	1.26	1.45	1.30	1.28
Nilumbik Shire Council	0.75	1.58	1.34	1.99	2.32	1.60	2.23	2.98	3.15
Whittlesea City Council	0.95	1.73	1.97	1.85	2.26	1.75	2.19	2.86	2.42
Wyndham City Council	2.23	1.71	1.79	1.24	1.16	1.63	2.07	2.66	1.87
Yarra Ranges Shire Council	1.48	1.67	1.33	1.42	1.54	1.49	2.20	2.16	2.16
<b>Average</b>	<b>1.49</b>	<b>1.62</b>	<b>1.82</b>	<b>1.56</b>	<b>1.84</b>	<b>1.67</b>	<b>2.13</b>	<b>2.10</b>	<b>1.84</b>

Source: VAGO.

**Figure F16**

**Interface councils, renewal gap 2013–2020**

Interface councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Cardinia Shire Council	0.76	0.79	0.65	0.60	0.47	0.66	1.07	0.69	0.67
Casey City Council	0.73	0.97	0.74	0.75	0.89	0.81	1.19	1.32	1.21
Hume City Council	1.19	0.83	0.80	0.53	0.55	0.78	1.10	0.75	0.65
Melton City Council	0.34	0.29	0.57	0.38	0.57	0.43	0.67	0.53	0.54
Mornington Peninsula Shire Council	0.84	0.97	1.16	0.92	1.29	1.03	1.04	0.95	0.93
Nilumbik Shire Council	0.55	1.49	1.15	1.24	1.91	1.27	1.53	1.45	2.84
Whittlesea City Council	0.55	1.08	0.63	0.86	1.04	0.83	1.16	1.15	0.82
Wyndham City Council	1.08	0.97	1.29	0.75	0.51	0.92	0.90	0.73	0.38
Yarra Ranges Shire Council	1.64	1.29	1.07	0.98	1.11	1.22	1.57	1.86	1.80
<b>Average</b>	<b>0.85</b>	<b>0.96</b>	<b>0.90</b>	<b>0.78</b>	<b>0.93</b>	<b>0.88</b>	<b>1.14</b>	<b>1.05</b>	<b>1.09</b>

Source: VAGO.

## Regional city councils

**Figure F17**  
**Regional city councils, net result 2013–2020**

Regional councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Ballarat City Council	20.25%	12.80%	20.29%	17.25%	22.16%	18.55%	16.81%	15.12%	14.38%
Greater Bendigo City Council	16.56%	11.64%	5.41%	19.71%	20.32%	14.73%	12.06%	16.48%	16.96%
Greater Geelong City Council	18.06%	12.54%	20.52%	15.50%	11.32%	15.59%	10.77%	13.72%	8.90%
Greater Shepparton City Council	12.68%	4.75%	5.64%	0.07%	19.60%	8.55%	5.63%	16.58%	14.03%
Horsham Rural City Council	13.18%	6.11%	17.13%	2.71%	14.93%	10.81%	8.26%	1.86%	1.24%
Latrobe City Council	8.21%	6.38%	17.48%	9.08%	21.60%	12.55%	7.82%	10.93%	10.21%
Mildura Rural City Council	16.59%	2.27%	18.18%	6.53%	16.19%	11.95%	4.52%	3.08%	2.91%
Wangaratta Rural City Council	4.68%	-2.51%	10.13%	0.17%	9.80%	4.45%	5.78%	6.30%	0.71%
Warrnambool City Council	8.44%	12.22%	10.56%	15.32%	13.92%	12.09%	11.63%	10.22%	8.75%
Wodonga City Council	28.00%	5.22%	25.79%	7.69%	15.06%	16.35%	6.93%	6.79%	6.53%
<b>Average</b>	<b>14.67%</b>	<b>7.14%</b>	<b>15.11%</b>	<b>9.40%</b>	<b>16.49%</b>	<b>12.56%</b>	<b>9.02%</b>	<b>10.11%</b>	<b>8.46%</b>

Source: VAGO.

**Figure F18**  
**Regional city councils, adjusted underlying result 2015–2020**

Regional councils	2014–15	2015–16	2016–17	Average	Forecast		
					2017–18	2018–19	2019–20
Ballarat City Council	13.58%	4.02%	-1.67%	5.31%	2.29%	0.94%	1.11%
Greater Bendigo City Council	-6.35%	-5.40%	-12.44%	-8.06%	-0.80%	6.92%	7.77%
Greater Geelong City Council	5.74%	0.32%	-3.54%	0.84%	-2.46%	3.02%	1.75%
Greater Shepparton City Council	-6.00%	-9.00%	14.00%	-0.33%	-0.50%	8.00%	8.00%
Horsham Rural City Council	6.00%	-11.00%	6.00%	0.33%	-4.00%	-8.00%	-8.00%
Latrobe City Council	5.80%	-1.10%	13.20%	5.97%	2.00%	1.50%	0.90%
Mildura Rural City Council	9.52%	-3.26%	10.84%	5.70%	-6.39%	0.27%	0.17%
Wangaratta Rural City Council	3.00%	-6.00%	2.00%	-0.33%	-7.00%	-1.00%	-2.00%
Warrnambool City Council	-0.26%	-3.21%	-2.32%	-1.93%	0.74%	-1.56%	0.23%
Wodonga City Council	2.34%	-2.61%	9.09%	2.94%	6.93%	6.79%	6.53%
<b>Average</b>	<b>3.34%</b>	<b>-3.72%</b>	<b>3.52%</b>	<b>1.04%</b>	<b>-0.92%</b>	<b>1.69%</b>	<b>1.65%</b>

Source: VAGO.

**Figure F19**  
Regional city councils, liquidity 2013–2020

Regional councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Ballarat City Council	1.90	2.33	2.01	2.64	2.64	2.30	1.24	1.04	1.02
Greater Bendigo City Council	1.92	2.06	1.67	2.52	2.37	2.11	1.32	1.48	1.57
Greater Geelong City Council	1.62	1.42	1.32	1.26	1.47	1.42	1.15	1.13	1.07
Greater Shepparton City Council	2.33	2.24	2.35	1.87	2.49	2.25	1.74	1.83	1.85
Horsham Rural City Council	2.74	2.73	2.29	2.45	2.98	2.64	2.10	2.00	1.94
Latrobe City Council	1.57	1.50	2.09	2.71	3.02	2.18	2.44	1.85	2.41
Mildura Rural City Council	1.73	1.56	2.63	2.51	2.67	2.22	1.37	1.40	1.43
Wangaratta Rural City Council	1.49	1.52	1.42	1.48	2.54	1.69	1.49	1.56	1.15
Warrnambool City Council	1.61	1.46	1.38	1.25	1.44	1.43	1.08	1.19	1.26
Wodonga City Council	2.66	1.74	1.55	2.10	2.69	2.15	1.11	1.11	1.16
<b>Average</b>	<b>1.96</b>	<b>1.86</b>	<b>1.87</b>	<b>2.08</b>	<b>2.43</b>	<b>2.04</b>	<b>1.50</b>	<b>1.46</b>	<b>1.49</b>

Source: VAGO.

**Figure F20**  
Regional city councils, internal financing 2013–2020

Regional councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Ballarat City Council	73%	97%	102%	99%	126%	99%	93%	89%	92%
Greater Bendigo City Council	88%	106%	136%	101%	102%	106%	84%	121%	109%
Greater Geelong City Council	54%	73%	92%	111%	139%	94%	47%	53%	69%
Greater Shepparton City Council	108%	130%	104%	84%	103%	106%	71%	94%	106%
Horsham Rural City Council	143%	130%	107%	76%	154%	122%	104%	95%	99%
Latrobe City Council	136%	78%	165%	107%	190%	135%	105%	98%	110%
Mildura Rural City Council	73%	82%	180%	119%	121%	115%	81%	115%	113%
Wangaratta Rural City Council	106%	72%	125%	77%	221%	120%	62%	72%	81%
Warrnambool City Council	115%	92%	96%	93%	123%	104%	104%	113%	104%
Wodonga City Council	109%	68%	122%	251%	187%	147%	75%	125%	138%
<b>Average</b>	<b>100%</b>	<b>93%</b>	<b>123%</b>	<b>112%</b>	<b>147%</b>	<b>115%</b>	<b>83%</b>	<b>98%</b>	<b>102%</b>

Source: VAGO.

**Figure F21**  
Regional city councils, indebtedness 2013–2020

Regional councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Ballarat City Council	8.46%	28.35%	22.01%	36.77%	35.13%	26.14%	38.70%	38.17%	40.59%
Greater Bendigo City Council	27.29%	31.84%	33.35%	33.28%	36.94%	32.54%	39.29%	38.04%	36.53%
Greater Geelong City Council	20.85%	20.19%	22.88%	17.74%	13.42%	19.02%	23.04%	32.82%	35.48%
Greater Shepparton City Council	20.02%	18.25%	21.24%	26.44%	27.04%	22.60%	29.88%	34.51%	33.92%
Horsham Rural City Council	24.11%	19.03%	14.70%	24.74%	26.45%	21.81%	27.78%	29.71%	35.06%
Latrobe City Council	33.09%	27.63%	36.91%	42.91%	30.20%	34.15%	35.11%	23.81%	25.64%
Mildura Rural City Council	41.97%	42.98%	39.88%	48.17%	43.27%	43.25%	45.57%	42.47%	39.39%
Wangaratta Rural City Council	49.56%	56.91%	45.78%	56.32%	57.62%	53.24%	60.52%	70.91%	58.36%
Warrnambool City Council	19.27%	19.47%	19.93%	16.63%	13.51%	17.76%	14.55%	13.05%	13.55%
Wodonga City Council	80.68%	73.90%	67.26%	58.91%	51.84%	66.52%	48.76%	44.07%	39.41%
<b>Average</b>	<b>32.53%</b>	<b>33.85%</b>	<b>32.39%</b>	<b>36.19%</b>	<b>33.54%</b>	<b>33.70%</b>	<b>36.32%</b>	<b>36.76%</b>	<b>35.79%</b>

Source: VAGO.

**Figure F22**  
Regional city councils, capital replacement 2013–2020

Regional councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Ballarat City Council	1.91	1.89	1.86	1.64	2.07	1.87	1.33	1.33	1.30
Greater Bendigo City Council	1.64	1.46	1.44	1.46	2.57	1.71	1.83	1.47	1.66
Greater Geelong City Council	1.36	1.45	2.16	1.62	1.41	1.60	1.93	2.06	1.49
Greater Shepparton City Council	1.25	1.16	1.21	1.70	1.89	1.44	1.75	2.12	1.76
Horsham Rural City Council	1.79	1.14	1.92	1.33	1.18	1.47	1.53	1.25	1.28
Latrobe City Council	1.21	1.09	1.35	1.46	0.99	1.22	1.14	1.49	1.38
Mildura Rural City Council	2.08	1.41	1.64	1.50	1.42	1.61	1.71	1.12	1.13
Wangaratta Rural City Council	1.28	0.90	1.12	1.42	0.68	1.08	2.19	1.52	1.08
Warrnambool City Council	1.02	2.04	2.14	1.55	1.37	1.62	1.68	1.53	1.52
Wodonga City Council	2.52	1.86	2.07	1.14	1.20	1.76	2.15	1.28	1.14
<b>Average</b>	<b>1.61</b>	<b>1.44</b>	<b>1.69</b>	<b>1.48</b>	<b>1.48</b>	<b>1.54</b>	<b>1.72</b>	<b>1.52</b>	<b>1.38</b>

Source: VAGO.

**Figure F23**  
**Regional city councils, renewal gap 2013–2020**

Regional councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Ballarat City Council	0.91	0.97	0.91	1.26	0.85	0.98	1.12	0.96	0.94
Greater Bendigo City Council	1.28	1.25	1.17	0.84	1.21	1.15	1.12	1.05	1.08
Greater Geelong City Council	0.79	0.61	0.67	0.85	0.70	0.72	0.54	n/a	n/a
Greater Shepparton City Council	0.98	0.89	0.83	0.96	1.23	0.98	1.38	1.27	1.06
Horsham Rural City Council	1.54	0.95	1.45	1.01	0.86	1.16	0.94	0.72	0.88
Latrobe City Council	1.01	0.93	0.92	0.69	0.86	0.88	0.83	0.71	0.71
Mildura Rural City Council	1.49	1.16	1.08	1.02	1.02	1.15	0.95	0.98	0.99
Wangaratta Rural City Council	0.86	0.54	0.84	0.84	0.54	0.72	1.09	0.87	0.63
Warrnambool City Council	0.90	1.61	1.19	0.90	1.27	1.18	1.55	1.43	1.43
Wodonga City Council	0.46	0.57	0.73	0.69	0.59	0.61	1.59	0.82	0.77
<b>Average</b>	<b>1.02</b>	<b>0.95</b>	<b>0.98</b>	<b>0.91</b>	<b>0.91</b>	<b>0.95</b>	<b>1.11</b>	<b>0.98</b>	<b>0.94</b>

n/a = not able to provide an indicator result

Source: VAGO.

## Large shire councils

Figure F24

### Large shire councils, net result 2013–2020

Large shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Bass Coast Shire Council	9.68%	3.72%	9.12%	-1.78%	14.83%	7.11%	5.15%	3.36%	2.23%
Baw Baw Shire Council	14.24%	8.41%	22.94%	11.10%	17.81%	14.90%	24.36%	17.43%	24.19%
Campaspe Shire Council	10.51%	0.49%	2.66%	0.60%	12.37%	5.33%	9.59%	1.21%	0.03%
Colac-Otway Shire Council	3.82%	6.19%	22.29%	3.58%	21.67%	11.51%	13.60%	9.55%	11.48%
Corangamite Shire Council	3.14%	1.55%	9.42%	0.03%	11.32%	5.09%	11.98%	24.16%	7.41%
East Gippsland Shire Council	17.12%	16.84%	15.56%	2.57%	11.91%	12.80%	7.70%	9.35%	7.69%
Glenelg Shire Council	-38.30%	13.41%	-6.46%	-13.84%	-0.28%	-9.10%	3.31%	3.05%	2.81%
Golden Plains Shire Council	26.85%	12.84%	16.08%	4.72%	11.12%	14.32%	7.42%	7.54%	6.75%
Macedon Ranges Shire Council	24.23%	17.27%	12.47%	11.76%	25.43%	18.23%	21.83%	18.83%	18.45%
Mitchell Shire Council	17.09%	5.73%	21.73%	10.74%	30.05%	17.07%	19.94%	12.62%	17.11%
Moir Shire Council	-7.89%	9.51%	7.55%	4.55%	16.46%	6.04%	-6.55%	6.15%	5.81%
Moorabool Shire Council	14.88%	3.68%	14.47%	14.97%	23.17%	14.23%	16.71%	12.38%	12.76%
Mount Alexander Shire Council	21.67%	-0.22%	5.07%	0.50%	11.77%	7.76%	5.19%	17.62%	15.63%
Moyne Shire Council	13.09%	3.37%	22.87%	5.08%	22.01%	13.28%	7.89%	4.34%	2.12%
South Gippsland Shire Council	2.92%	-3.49%	15.04%	6.70%	17.53%	7.74%	2.48%	5.84%	9.92%
Southern Grampians Shire Council	14.54%	-11.66%	8.42%	-6.65%	-8.14%	-0.70%	34.79%	17.91%	-2.26%
Surf Coast Shire Council	8.34%	4.73%	17.96%	20.36%	19.95%	14.27%	16.88%	18.13%	20.89%
Swan Hill Rural City Council	5.06%	1.50%	11.84%	3.89%	13.53%	7.17%	12.13%	8.00%	12.87%
Wellington Shire Council	8.93%	0.19%	13.80%	13.45%	25.12%	12.30%	13.84%	14.21%	12.11%
<b>Average</b>	<b>8.94%</b>	<b>4.95%</b>	<b>12.78%</b>	<b>4.86%</b>	<b>15.67%</b>	<b>9.44%</b>	<b>12.01%</b>	<b>11.14%</b>	<b>9.89%</b>

Source: VAGO.

Figure F25

Large shire councils, adjusted underlying result 2015–2020

Large shire councils	2014–15	2015–16	2016–17	Average	Forecast		
					2017–18	2018–19	2019–20
Bass Coast Shire Council	-3.02%	-8.06%	3.76%	-2.44%	2.03%	2.67%	0.89%
Baw Baw Shire Council	7.20%	-5.90%	7.60%	2.97%	1.20%	-0.60%	0.00%
Campaspe Shire Council	0.93%	-7.93%	9.00%	0.67%	0.32%	-1.47%	-2.63%
Colac-Otway Shire Council	10.34%	1.88%	9.27%	7.16%	0.26%	3.47%	1.73%
Corangamite Shire Council	4.49%	-11.85%	5.55%	-0.60%	2.56%	2.68%	2.51%
East Gippsland Shire Council	3.62%	-6.31%	7.25%	1.52%	-0.68%	5.72%	4.20%
Glenelg Shire Council	-15.47%	-21.21%	-11.25%	-15.98%	-8.51%	-8.50%	-8.56%
Golden Plains Shire Council	11.12%	-3.48%	6.85%	4.83%	-0.23%	0.22%	-0.54%
Macedon Ranges Shire Council	-2.53%	-2.40%	11.10%	2.06%	4.96%	5.72%	6.01%
Mitchell Shire Council	1.76%	-13.43%	12.19%	0.17%	-7.41%	-1.74%	-1.95%
Moirā Shire Council	-0.87%	0.20%	14.30%	4.54%	-8.82%	4.58%	2.31%
Moorabool Shire Council	-0.43%	-2.64%	7.44%	1.46%	1.68%	2.45%	-0.64%
Mount Alexander Shire Council	-5.62%	-16.63%	9.27%	-4.33%	-6.69%	4.04%	4.19%
Moyne Shire Council	9.53%	0.34%	15.48%	8.45%	5.00%	1.21%	1.03%
South Gippsland Shire Council	12.36%	0.99%	12.11%	8.49%	-6.94%	4.97%	3.76%
Southern Grampians Shire Council	1.63%	-13.07%	-24.46%	-11.97%	-5.40%	-0.19%	-7.45%
Surf Coast Shire Council	6.17%	3.59%	6.70%	5.49%	-3.89%	2.96%	7.21%
Swan Hill Rural City Council	6.50%	-7.21%	11.65%	3.65%	2.25%	4.92%	5.33%
Wellington Shire Council	8.46%	3.63%	16.82%	9.64%	1.89%	6.61%	7.85%
<b>Average</b>	<b>2.96%</b>	<b>-5.76%</b>	<b>6.88%</b>	<b>1.36%</b>	<b>-1.39%</b>	<b>2.09%</b>	<b>1.33%</b>

Source: VAGO.

Figure F26

Large shire councils, liquidity 2013–2020

Large shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Bass Coast Shire Council	1.79	1.53	1.97	2.33	2.79	2.08	1.40	1.53	1.55
Baw Baw Shire Council	1.51	1.38	2.06	1.95	2.29	1.84	1.60	1.74	1.95
Campaspe Shire Council	2.46	1.54	3.20	3.49	2.45	2.63	2.58	2.52	2.45
Colac-Otway Shire Council	2.67	1.93	2.05	1.97	3.48	2.42	1.56	1.32	1.43
Corangamite Shire Council	1.71	1.90	2.84	2.77	2.96	2.44	2.65	2.57	2.58
East Gippsland Shire Council	3.21	2.18	2.28	1.88	3.04	2.52	1.84	1.97	2.03
Glenelg Shire Council	2.83	2.23	2.22	1.50	1.54	2.07	0.79	0.50	0.47
Golden Plains Shire Council	3.16	2.72	2.84	2.19	2.34	2.65	1.88	1.98	1.81
Macedon Ranges Shire Council	1.51	1.65	1.71	1.67	2.30	1.77	1.67	1.42	1.69
Mitchell Shire Council	1.42	1.23	1.55	1.90	2.57	1.74	1.71	2.11	1.93
Moirā Shire Council	1.32	2.15	3.32	3.34	3.99	2.82	2.55	2.97	2.87
Moorabool Shire Council	1.36	0.93	1.83	1.95	1.64	1.54	2.22	2.42	2.64
Mount Alexander Shire Council	2.80	1.77	1.84	1.59	1.94	1.99	2.28	1.93	1.36
Moyne Shire Council	1.47	1.48	1.87	1.62	2.18	1.72	1.26	1.27	1.36
South Gippsland Shire Council	1.70	1.23	2.70	2.40	2.82	2.17	2.16	1.57	1.97
Southern Grampians Shire Council	2.72	1.99	2.28	1.93	3.07	2.40	1.80	3.56	3.54
Surf Coast Shire Council	1.85	1.91	2.62	2.53	2.70	2.32	3.42	3.37	2.82
Swan Hill Rural City Council	1.33	1.63	2.29	1.84	2.93	2.00	2.09	2.54	2.78
Wellington Shire Council	2.41	2.92	3.21	3.83	4.16	3.31	3.62	2.88	3.48
<b>Average</b>	<b>2.06</b>	<b>1.80</b>	<b>2.35</b>	<b>2.25</b>	<b>2.70</b>	<b>2.23</b>	<b>2.06</b>	<b>2.11</b>	<b>2.14</b>

Source: VAGO.

**Figure F27**

**Large shire councils, internal financing 2013–2020**

Large shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Bass Coast Shire Council	49%	72%	179%	130%	200%	126%	96%	113%	117%
Baw Baw Shire Council	168%	60%	139%	79%	148%	119%	88%	124%	114%
Campaspe Shire Council	108%	58%	135%	92%	184%	115%	106%	97%	97%
Colac-Otway Shire Council	80%	109%	115%	95%	196%	119%	80%	99%	107%
Corangamite Shire Council	67%	98%	198%	80%	161%	121%	109%	99%	102%
East Gippsland Shire Council	94%	56%	136%	126%	160%	114%	66%	99%	100%
Glenelg Shire Council	74%	64%	211%	52%	63%	93%	69%	103%	115%
Golden Plains Shire Council	127%	95%	118%	89%	143%	114%	128%	81%	76%
Macedon Ranges Shire Council	82%	63%	129%	87%	169%	106%	97%	118%	108%
Mitchell Shire Council	51%	22%	170%	190%	164%	119%	55%	113%	113%
Moirā Shire Council	76%	64%	249%	120%	159%	134%	72%	113%	98%
Moorabool Shire Council	98%	90%	145%	85%	104%	105%	125%	112%	125%
Mount Alexander Shire Council	98%	81%	116%	83%	142%	104%	65%	75%	87%
Moyne Shire Council	108%	66%	131%	83%	135%	105%	108%	104%	109%
South Gippsland Shire Council	47%	60%	177%	92%	147%	105%	63%	101%	110%
Southern Grampians Shire Council	97%	41%	165%	79%	251%	127%	80%	102%	95%
Surf Coast Shire Council	127%	127%	195%	157%	171%	155%	77%	112%	131%
Swan Hill Rural City Council	66%	105%	110%	98%	198%	115%	100%	132%	115%
Wellington Shire Council	162%	52%	150%	118%	168%	130%	79%	99%	106%
<b>Average</b>	<b>94%</b>	<b>73%</b>	<b>156%</b>	<b>102%</b>	<b>161%</b>	<b>117%</b>	<b>87%</b>	<b>105%</b>	<b>107%</b>

Source: VAGO.

**Figure F28**

**Large shire councils, indebtedness 2013–2020**

Large shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Bass Coast Shire Council	16.05%	23.77%	26.47%	26.87%	27.04%	24.04%	22.63%	21.42%	19.36%
Baw Baw Shire Council	18.95%	10.71%	24.33%	29.05%	31.74%	22.96%	30.66%	29.22%	28.55%
Campaspe Shire Council	17.74%	15.80%	20.92%	18.54%	15.95%	17.79%	13.14%	13.98%	14.78%
Colac-Otway Shire Council	30.32%	26.49%	28.11%	35.99%	30.32%	30.25%	17.85%	12.76%	10.43%
Corangamite Shire Council	21.85%	30.28%	31.99%	27.63%	20.30%	26.41%	20.45%	20.02%	19.56%
East Gippsland Shire Council	33.72%	24.19%	29.87%	26.43%	25.48%	27.94%	14.33%	13.94%	11.51%
Glenelg Shire Council	76.18%	56.04%	66.44%	73.03%	73.52%	69.04%	91.68%	64.52%	47.76%
Golden Plains Shire Council	25.80%	32.07%	32.96%	37.60%	40.63%	33.81%	35.76%	53.35%	59.63%
Macedon Ranges Shire Council	15.38%	17.55%	20.83%	24.76%	25.95%	20.90%	28.08%	18.61%	22.35%
Mitchell Shire Council	29.25%	50.15%	50.34%	40.80%	41.65%	42.44%	33.90%	34.35%	28.02%
Moirā Shire Council	44.37%	38.68%	50.54%	39.97%	37.28%	42.17%	38.31%	38.04%	36.71%
Moorabool Shire Council	33.97%	30.40%	41.11%	42.32%	33.80%	36.32%	43.13%	47.73%	49.43%
Mount Alexander Shire Council	31.24%	33.23%	28.84%	20.99%	23.66%	27.59%	22.51%	31.00%	28.72%
Moyne Shire Council	5.08%	7.63%	7.04%	6.99%	5.78%	6.50%	6.48%	4.70%	3.91%
South Gippsland Shire Council	2.60%	3.10%	10.85%	10.66%	12.62%	7.96%	11.75%	3.23%	3.27%
Southern Grampians Shire Council	22.19%	21.93%	22.13%	18.39%	13.57%	19.64%	22.40%	34.29%	40.25%
Surf Coast Shire Council	57.26%	63.26%	60.18%	49.85%	44.94%	55.10%	49.38%	46.14%	37.34%
Swan Hill Rural City Council	16.23%	17.20%	29.34%	27.19%	23.29%	22.65%	25.33%	25.21%	24.67%
Wellington Shire Council	18.68%	26.70%	20.36%	17.32%	18.81%	20.37%	19.13%	15.27%	15.88%
<b>Average</b>	<b>27.20%</b>	<b>27.85%</b>	<b>31.72%</b>	<b>30.23%</b>	<b>28.75%</b>	<b>29.15%</b>	<b>28.78%</b>	<b>27.78%</b>	<b>26.43%</b>

Source: VAGO.

**Figure F29**

**Large shire councils, capital replacement 2013–2020**

Large shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Bass Coast Shire Council	1.27	1.12	0.76	0.73	0.86	0.95	1.52	1.22	1.10
Baw Baw Shire Council	1.03	1.95	1.63	2.21	1.72	1.71	2.30	1.27	1.78
Campaspe Shire Council	1.81	2.41	1.15	1.10	1.14	1.52	1.38	1.10	1.05
Colac-Otway Shire Council	1.32	1.70	2.18	1.39	1.06	1.53	2.16	1.53	1.50
Corangamite Shire Council	1.08	0.95	1.19	1.38	1.09	1.14	1.48	2.25	1.33
East Gippsland Shire Council	1.45	1.73	1.40	1.20	0.99	1.35	1.53	1.19	1.17
Glenelg Shire Council	1.59	1.78	1.14	1.71	1.27	1.50	1.75	1.06	0.83
Golden Plains Shire Council	1.76	1.95	1.45	1.51	1.41	1.62	1.10	1.66	1.77
Macedon Ranges Shire Council	1.58	1.16	1.26	1.71	1.24	1.39	1.81	1.24	1.37
Mitchell Shire Council	1.72	1.55	0.85	0.65	1.53	1.26	1.94	0.91	1.12
Moirā Shire Council	0.90	0.75	0.94	1.02	1.26	0.97	1.02	1.37	1.62
Moorabool Shire Council	1.68	1.50	1.19	1.84	2.76	1.79	1.49	1.35	1.25
Mount Alexander Shire Council	2.33	1.56	1.10	1.03	1.05	1.42	1.98	2.94	2.50
Moyne Shire Council	1.45	1.40	1.33	1.42	1.52	1.43	1.22	1.13	1.02
South Gippsland Shire Council	1.29	1.24	1.04	1.57	1.61	1.35	1.92	1.35	1.45
Southern Grampians Shire Council	1.34	0.96	1.05	1.17	0.88	1.08	3.68	1.90	1.08
Surf Coast Shire Council	1.51	1.61	1.08	1.27	1.21	1.34	1.56	1.43	1.41
Swan Hill Rural City Council	1.84	1.19	1.78	1.46	0.92	1.44	2.13	1.32	1.70
Wellington Shire Council	0.87	1.10	1.08	1.14	1.28	1.10	2.16	1.66	1.37
<b>Average</b>	<b>1.46</b>	<b>1.45</b>	<b>1.24</b>	<b>1.34</b>	<b>1.31</b>	<b>1.36</b>	<b>1.80</b>	<b>1.47</b>	<b>1.39</b>

Source: VAGO.

**Figure F30**

**Large shire councils, renewal gap 2013–2020**

Large shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Bass Coast Shire Council	0.90	0.94	0.64	0.64	0.81	0.79	1.07	0.92	1.05
Baw Baw Shire Council	1.31	1.78	1.62	1.82	1.28	1.56	1.73	0.83	0.84
Campaspe Shire Council	1.42	0.54	1.06	0.91	0.95	0.98	1.31	1.19	1.24
Colac-Otway Shire Council	0.97	1.34	1.86	1.23	0.99	1.28	1.38	1.53	1.50
Corangamite Shire Council	1.06	0.90	1.11	1.08	0.93	1.01	1.40	1.56	1.25
East Gippsland Shire Council	1.13	0.95	0.99	1.02	0.90	1.00	1.07	1.09	1.12
Glenelg Shire Council	1.06	1.09	1.01	1.13	1.13	1.09	1.31	0.84	0.71
Golden Plains Shire Council	1.13	1.38	0.85	0.89	1.13	1.07	0.70	0.62	0.57
Macedon Ranges Shire Council	1.29	0.89	0.86	1.19	0.97	1.04	1.46	1.19	1.17
Mitchell Shire Council	1.02	0.90	0.64	0.40	0.68	0.73	0.74	0.56	0.52
Moirā Shire Council	0.80	0.64	0.80	0.71	0.97	0.78	0.87	1.03	1.06
Moorabool Shire Council	1.62	1.43	1.07	1.55	1.51	1.43	1.23	1.11	1.03
Mount Alexander Shire Council	1.34	1.01	0.58	0.78	0.82	0.91	1.62	2.11	1.69
Moyne Shire Council	1.07	1.04	1.25	1.29	1.48	1.23	1.18	1.13	1.02
South Gippsland Shire Council	1.08	1.18	0.98	1.23	1.43	1.18	1.59	1.28	1.05
Southern Grampians Shire Council	0.92	0.94	0.92	0.82	0.74	0.87	3.30	1.82	0.82
Surf Coast Shire Council	0.72	0.91	0.82	0.65	0.56	0.73	1.03	0.96	1.07
Swan Hill Rural City Council	1.37	1.02	1.07	0.93	0.79	1.03	1.22	0.96	1.30
Wellington Shire Council	0.84	1.01	1.01	1.07	1.17	1.02	1.79	1.47	1.28
<b>Average</b>	<b>1.11</b>	<b>1.05</b>	<b>1.01</b>	<b>1.02</b>	<b>1.01</b>	<b>1.04</b>	<b>1.37</b>	<b>1.17</b>	<b>1.07</b>

Source: VAGO.

## Small shire councils

**Figure F31**

**Small shire councils, net result 2013–2020**

Small shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Alpine Shire Council	-2.35%	-1.48%	23.32%	-0.76%	26.72%	9.09%	9.90%	12.93%	1.14%
Ararat Rural City Council	6.99%	4.68%	12.73%	-0.41%	14.43%	7.68%	6.37%	-8.15%	-9.87%
Benalla Rural City Council	7.28%	-1.77%	-6.02%	0.76%	7.85%	1.62%	-4.78%	-4.09%	-5.12%
Borough of Queenscliffe	15.50%	17.92%	5.73%	1.71%	2.45%	8.66%	18.36%	34.75%	2.96%
Buloke Shire Council	11.25%	56.50%	17.70%	-0.38%	23.86%	21.78%	15.48%	10.61%	10.89%
Central Goldfields Shire Council	23.79%	1.06%	3.18%	1.86%	13.84%	8.75%	9.67%	6.11%	7.68%
Gannawarra Shire Council	21.75%	7.55%	17.26%	2.58%	18.69%	13.57%	1.78%	4.26%	10.08%
Hepburn Shire Council	33.90%	0.01%	16.12%	15.77%	10.48%	15.26%	11.45%	8.52%	15.33%
Hindmarsh Shire Council	42.75%	-4.49%	10.70%	-3.57%	20.86%	13.25%	-8.43%	-2.66%	-4.44%
Indigo Shire Council	12.15%	9.57%	14.65%	-6.90%	15.72%	9.04%	0.60%	11.22%	5.18%
Loddon Shire Council	-3.87%	-16.67%	16.74%	-1.25%	13.30%	1.65%	-26.85%	7.70%	-9.81%
Mansfield Shire Council	5.52%	2.67%	14.75%	8.83%	32.10%	12.77%	-0.85%	18.61%	12.20%
Murrindindi Shire Council	15.73%	4.06%	14.05%	2.07%	9.15%	9.01%	-1.64%	-1.05%	-1.02%
Northern Grampians Shire Council	23.80%	-9.45%	15.31%	-14.44%	5.10%	4.06%	8.11%	-9.52%	-5.37%
Pyrenees Shire Council	-20.93%	-43.12%	2.36%	-11.03%	12.65%	-12.01%	-5.31%	-9.44%	-8.29%
Strathbogie Shire Council	7.18%	4.87%	15.70%	-1.22%	16.12%	8.53%	-0.85%	5.13%	3.19%
Towong Shire Council	28.46%	5.69%	32.02%	10.63%	34.62%	22.28%	-0.89%	8.11%	3.17%
West Wimmera Shire Council	11.27%	-10.92%	7.55%	-2.76%	4.05%	1.84%	23.57%	0.99%	-6.79%
Yarriambiack Shire Council	-3.90%	-22.05%	7.62%	-2.44%	13.36%	-1.48%	1.17%	-7.88%	-8.67%
<b>Average</b>	<b>12.44%</b>	<b>0.24%</b>	<b>12.71%</b>	<b>-0.05%</b>	<b>15.54%</b>	<b>8.18%</b>	<b>2.99%</b>	<b>4.53%</b>	<b>0.66%</b>

Source: VAGO.

**Figure F32**

**Small shire councils, adjusted underlying result 2015–2020**

Small shire councils	2014–15	2015–16	2016–17	Average	Forecast		
					2017–18	2018–19	2019–20
Alpine Shire Council	12.00%	-5.00%	12.00%	6.33%	0.00%	2.00%	0.00%
Ararat Rural City Council	5.00%	-13.97%	3.90%	-1.69%	-6.33%	-8.15%	-9.87%
Benalla Rural City Council	-12.00%	-3.00%	5.00%	-3.33%	-5.00%	-4.00%	-5.00%
Borough of Queenscliffe	-2.00%	-2.00%	2.00%	-0.67%	-8.00%	-7.00%	-3.00%
Buloke Shire Council	5.40%	-3.67%	7.42%	3.05%	-1.82%	-1.56%	-1.06%
Central Goldfields Shire Council	-7.10%	-6.99%	-1.01%	-5.03%	-10.00%	6.11%	7.25%
Gannawarra Shire Council	9.69%	-2.92%	12.56%	6.44%	-5.09%	1.49%	4.24%
Hepburn Shire Council	9.90%	3.00%	7.60%	6.83%	7.60%	4.30%	4.70%
Hindmarsh Shire Council	5.90%	-10.40%	10.80%	2.10%	-2.60%	-5.30%	-11.30%
Indigo Shire Council	8.13%	-10.18%	11.08%	3.01%	-15.20%	-5.82%	-5.82%
Loddon Shire Council	10.82%	-37.73%	2.18%	-8.24%	-36.16%	-2.08%	-36.11%
Mansfield Shire Council	5.00%	-5.00%	15.00%	5.00%	-4.00%	7.00%	2.00%
Murrindindi Shire Council	3.51%	-2.55%	6.25%	2.40%	-2.24%	-1.66%	-1.61%
Northern Grampians Shire Council	14.80%	-21.40%	2.40%	-1.40%	-2.60%	-9.50%	-5.40%
Pyrenees Shire Council	-10.53%	-39.98%	10.47%	-13.35%	-6.35%	-14.51%	-14.27%
Strathbogie Shire Council	10.24%	-16.00%	11.41%	1.88%	-4.78%	4.47%	2.51%
Towong Shire Council	26.57%	8.64%	29.87%	21.69%	-8.81%	4.20%	-0.18%
West Wimmera Shire Council	3.06%	-5.22%	-24.91%	-9.02%	-7.20%	-4.94%	-7.75%
Yarriambiack Shire Council	5.00%	-5.00%	10.00%	3.33%	-12.00%	-13.00%	-14.00%
<b>Average</b>	<b>5.44%</b>	<b>-9.44%</b>	<b>7.05%</b>	<b>1.02%</b>	<b>-6.87%</b>	<b>-2.52%</b>	<b>-4.98%</b>

Source: VAGO.

**Figure F33**

**Small shire councils, liquidity 2013–2020**

Small shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Alpine Shire Council	2.40	1.85	2.89	2.31	2.85	2.46	1.82	1.34	1.47
Ararat Rural City Council	3.40	2.52	3.49	3.84	4.22	3.49	3.52	3.74	3.91
Benalla Rural City Council	1.65	1.22	1.27	1.20	1.57	1.38	1.14	1.14	1.13
Borough of Queenscliffe	2.03	2.39	2.50	2.96	3.06	2.59	2.02	1.23	1.32
Buloke Shire Council	0.57	0.18	1.69	2.49	4.69	1.92	3.98	1.47	3.12
Central Goldfields Shire Council	1.52	1.23	1.31	1.52	1.47	1.41	1.13	1.21	1.22
Gannawarra Shire Council	2.63	2.63	2.99	2.36	3.10	2.74	2.62	2.59	2.55
Hepburn Shire Council	2.50	1.85	2.79	3.20	2.96	2.66	2.18	2.26	2.28
Hindmarsh Shire Council	3.30	2.02	3.56	2.88	4.14	3.18	1.44	1.38	1.06
Indigo Shire Council	2.31	2.17	1.50	1.29	2.19	1.89	1.14	1.05	1.05
Loddon Shire Council	4.54	4.12	5.88	6.41	7.90	5.77	3.84	2.90	2.18
Mansfield Shire Council	2.61	1.50	1.81	1.63	2.15	1.94	2.07	1.72	1.00
Murrindindi Shire Council	3.29	2.75	3.98	3.90	5.38	3.86	3.86	4.15	4.12
Northern Grampians Shire Council	1.90	1.64	1.97	2.12	3.01	2.13	2.38	2.27	2.11
Pyrenees Shire Council	3.57	2.25	2.33	1.97	3.09	2.64	1.64	1.55	1.41
Strathbogie Shire Council	2.12	1.61	1.98	2.04	2.44	2.04	1.38	1.54	1.51
Towong Shire Council	4.74	4.00	6.33	5.61	6.95	5.53	4.86	4.49	4.77
West Wimmera Shire Council	2.72	2.90	3.56	3.21	3.38	3.15	3.36	2.70	2.75
Yarriambiack Shire Council	1.72	0.96	1.29	0.89	1.59	1.29	1.18	1.20	1.21
<b>Average</b>	<b>2.61</b>	<b>2.09</b>	<b>2.80</b>	<b>2.73</b>	<b>3.48</b>	<b>2.74</b>	<b>2.40</b>	<b>2.10</b>	<b>2.11</b>

Source: VAGO.

**Figure F34**

**Small shire councils, internal financing 2013–2020**

Small shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Alpine Shire Council	83%	124%	175%	87%	105%	115%	89%	67%	119%
Ararat Rural City Council	80%	105%	108%	91%	175%	112%	92%	121%	117%
Benalla Rural City Council	49%	75%	119%	98%	153%	99%	92%	108%	103%
Borough of Queenscliffe	106%	109%	160%	56%	183%	123%	89%	84%	52%
Buloke Shire Council	97%	88%	136%	139%	228%	137%	121%	133%	129%
Central Goldfields Shire Council	70%	86%	139%	125%	123%	109%	87%	134%	120%
Gannawarra Shire Council	73%	89%	118%	65%	131%	95%	74%	104%	101%
Hepburn Shire Council	121%	57%	141%	91%	54%	93%	84%	110%	105%
Hindmarsh Shire Council	100%	32%	143%	80%	145%	100%	63%	95%	86%
Indigo Shire Council	110%	90%	85%	85%	197%	113%	80%	99%	108%
Loddon Shire Council	141%	62%	158%	95%	156%	122%	37%	80%	79%
Mansfield Shire Council	50%	56%	103%	91%	178%	96%	73%	92%	77%
Murrindindi Shire Council	178%	149%	218%	115%	124%	157%	124%	144%	102%
Northern Grampians Shire Council	225%	58%	133%	96%	192%	141%	188%	94%	95%
Pyrenees Shire Council	-9%	11%	135%	87%	177%	80%	101%	98%	94%
Strathbogie Shire Council	98%	120%	139%	99%	172%	126%	43%	108%	101%
Towong Shire Council	151%	61%	168%	93%	203%	135%	-18%	-10%	-15%
West Wimmera Shire Council	112%	42%	154%	99%	182%	118%	96%	79%	108%
Yarriambiack Shire Council	43%	68%	147%	80%	183%	104%	108%	105%	101%
<b>Average</b>	<b>99%</b>	<b>78%</b>	<b>141%</b>	<b>93%</b>	<b>161%</b>	<b>114%</b>	<b>85%</b>	<b>97%</b>	<b>94%</b>

Source: VAGO.

**Figure F35**

**Small shire councils, indebtedness 2013–2020**

Small shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Alpine Shire Council	31.06%	29.92%	26.10%	22.62%	16.90%	25.32%	17.16%	15.96%	15.36%
Ararat Rural City Council	2.27%	1.42%	12.78%	12.51%	12.01%	8.20%	17.08%	16.75%	16.42%
Benalla Rural City Council	50.00%	47.89%	68.37%	62.03%	57.04%	57.06%	52.99%	53.44%	52.21%
Borough of Queenscliffe	0.49%	0.59%	0.80%	2.09%	1.08%	1.01%	2.39%	5.27%	7.46%
Buloke Shire Council	11.20%	6.03%	62.78%	60.45%	57.10%	39.51%	56.54%	6.82%	6.74%
Central Goldfields Shire Council	31.38%	26.91%	19.90%	25.69%	10.75%	22.93%	18.96%	12.53%	7.00%
Gannawarra Shire Council	16.57%	14.89%	13.46%	12.24%	10.77%	13.58%	11.16%	10.48%	9.79%
Hepburn Shire Council	11.25%	12.43%	16.35%	13.66%	24.91%	15.72%	22.06%	19.61%	17.40%
Hindmarsh Shire Council	1.39%	1.52%	1.24%	2.30%	2.84%	1.86%	1.39%	1.36%	1.33%
Indigo Shire Council	20.86%	22.45%	26.66%	38.01%	35.95%	28.79%	32.31%	31.71%	29.48%
Loddon Shire Council	16.37%	20.34%	16.95%	17.73%	12.52%	16.78%	21.50%	23.84%	25.69%
Mansfield Shire Council	9.81%	23.21%	27.57%	24.14%	20.19%	20.99%	18.31%	16.75%	15.19%
Murrindindi Shire Council	25.04%	22.00%	17.60%	30.79%	29.48%	24.98%	28.82%	27.61%	26.46%
Northern Grampians Shire Council	13.88%	26.48%	17.14%	28.80%	23.43%	21.94%	21.94%	20.24%	18.76%
Pyrenees Shire Council	22.66%	19.84%	5.46%	1.59%	1.47%	10.20%	1.55%	1.56%	1.60%
Strathbogie Shire Council	16.02%	16.26%	15.08%	14.01%	9.57%	14.19%	4.35%	5.24%	4.56%
Towong Shire Council	8.41%	4.07%	5.97%	7.43%	6.66%	6.51%	10.57%	12.32%	28.37%
West Wimmera Shire Council	1.73%	5.44%	4.71%	3.86%	2.29%	3.61%	5.25%	5.12%	5.10%
Yarriambiack Shire Council	8.85%	9.58%	6.21%	4.67%	4.41%	6.74%	5.73%	5.74%	5.57%
<b>Average</b>	<b>15.75%</b>	<b>16.38%</b>	<b>19.22%</b>	<b>20.24%</b>	<b>17.86%</b>	<b>17.89%</b>	<b>18.42%</b>	<b>15.39%</b>	<b>15.50%</b>

Source: VAGO.

**Figure F36**

**Small shire councils, capital replacement 2013–2020**

Small shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Alpine Shire Council	1.13	1.24	1.43	1.40	1.92	1.42	1.90	2.49	0.95
Ararat Rural City Council	1.10	1.42	1.49	1.07	1.01	1.22	1.40	0.65	0.64
Benalla Rural City Council	1.82	1.77	1.79	0.95	1.10	1.49	1.11	0.76	0.73
Borough of Queenscliffe	2.19	2.43	1.64	1.96	1.22	1.89	3.90	6.86	1.48
Buloke Shire Council	1.59	5.79	1.55	0.89	0.92	2.15	1.41	1.10	1.11
Central Goldfields Shire Council	2.41	1.64	1.22	0.99	1.12	1.48	2.01	1.19	1.27
Gannawarra Shire Council	2.33	1.33	1.94	1.73	1.66	1.80	1.55	1.26	1.59
Hepburn Shire Council	3.09	1.71	1.36	1.53	1.87	1.91	1.91	1.30	1.69
Hindmarsh Shire Council	4.06	2.01	1.24	1.14	1.32	1.95	1.16	0.94	1.00
Indigo Shire Council	1.33	1.61	2.51	1.31	1.05	1.56	1.36	1.67	1.16
Loddon Shire Council	0.97	1.24	0.94	1.18	0.90	1.05	0.99	1.57	0.96
Mansfield Shire Council	1.35	3.03	1.84	1.19	1.54	1.79	1.57	2.48	2.33
Murrindindi Shire Council	0.96	1.18	0.79	1.03	1.11	1.01	0.83	0.67	0.89
Northern Grampians Shire Council	0.95	1.25	1.11	0.87	0.71	0.98	0.77	0.77	0.90
Pyrenees Shire Council	1.72	0.79	0.87	0.99	0.95	1.06	0.97	0.82	0.89
Strathbogie Shire Council	1.41	1.41	1.58	1.43	1.24	1.42	2.77	1.33	1.30
Towong Shire Council	1.56	1.81	1.80	1.63	1.45	1.65	1.67	1.51	1.26
West Wimmera Shire Council	1.00	1.03	0.96	1.02	1.00	1.00	2.05	1.31	0.81
Yarriambiack Shire Council	1.51	1.17	1.12	1.33	0.97	1.22	1.08	0.80	0.79
<b>Average</b>	<b>1.71</b>	<b>1.78</b>	<b>1.43</b>	<b>1.25</b>	<b>1.21</b>	<b>1.48</b>	<b>1.60</b>	<b>1.55</b>	<b>1.14</b>

Source: VAGO.

**Figure F37**

**Small shire councils, renewal gap 2013–2020**

Small shire councils	2012–13	2013–14	2014–15	2015–16	2016–17	Average	Forecast		
							2017–18	2018–19	2019–20
Alpine Shire Council	1.10	1.08	0.98	1.21	1.78	1.23	1.81	2.49	0.95
Ararat Rural City Council	1.05	1.07	1.06	0.79	0.76	0.95	1.22	0.65	0.63
Benalla Rural City Council	1.21	1.72	1.10	0.71	0.58	1.06	0.76	0.66	0.56
Borough of Queenscliffe	1.96	0.98	1.23	1.64	0.82	1.33	2.48	4.60	1.07
Buloke Shire Council	1.31	5.97	0.84	0.74	0.89	1.95	1.13	1.09	1.11
Central Goldfields Shire Council	2.04	1.01	0.95	0.83	0.80	1.13	1.71	0.93	1.08
Gannawarra Shire Council	1.87	1.24	1.68	1.27	1.49	1.51	1.29	0.92	1.17
Hepburn Shire Council	2.74	1.08	1.26	1.46	0.93	1.49	1.50	1.21	1.44
Hindmarsh Shire Council	2.64	1.83	0.91	0.96	0.84	1.43	1.08	0.90	0.96
Indigo Shire Council	1.16	1.56	2.34	1.17	0.70	1.39	0.68	n/a	n/a
Loddon Shire Council	0.78	1.12	0.71	0.51	0.77	0.78	0.43	0.87	0.54
Mansfield Shire Council	1.05	2.58	1.54	0.96	1.01	1.43	1.31	1.69	1.85
Murrindindi Shire Council	0.64	0.82	0.69	0.62	0.92	0.74	0.72	0.62	0.57
Northern Grampians Shire Council	1.96	1.23	0.62	0.75	0.53	1.02	1.20	0.77	0.88
Pyrenees Shire Council	1.07	0.58	0.75	0.87	0.79	0.81	0.85	0.73	0.80
Strathbogie Shire Council	0.98	1.25	1.52	1.35	1.05	1.23	2.01	1.23	1.23
Towong Shire Council	2.46	1.46	1.03	1.00	1.18	1.43	1.53	0.88	0.94
West Wimmera Shire Council	0.91	0.98	0.83	0.96	0.95	0.93	1.94	3.84	1.25
Yarriambiack Shire Council	1.23	0.93	1.10	1.29	0.94	1.10	0.23	0.12	0.12
<b>Average</b>	<b>1.48</b>	<b>1.50</b>	<b>1.11</b>	<b>1.00</b>	<b>0.93</b>	<b>1.21</b>	<b>1.26</b>	<b>1.34</b>	<b>0.95</b>

Note: n/a = not able to provide an indicator result.

Source: VAGO.



# Appendix G

## Glossary

### Accountability

Responsibility of public entities to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

### Adverse opinion

An audit opinion expressed if the auditor has sufficient appropriate audit evidence and concludes that misstatements, individually and in aggregate, are both material and pervasive in the financial report.

### Amortisation

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

### Asset

An item or resource controlled by an entity that will be used to generate economic benefits.

### Asset valuation

The fair value of a non-current asset on a specified date.

### Audit Act 1994

Victorian legislation establishing the Auditor-General's operating powers and responsibilities and detailing the nature and scope of audits that the Auditor-General may carry out.

### Audit committee

Helps a governing board to fulfil its governance and oversight responsibilities and strengthen accountability of senior management.

### Audit opinion

A written expression, within a specified framework, indicating the auditor's overall conclusion about a financial (or performance) report based on audit evidence.

### Calendar year

A period of a year beginning with January 1 and ending with December 31.

### Capital expenditure

Money an entity spends on:

- new physical assets, including property, infrastructure, plant and equipment
- renewing existing physical assets to extend the service potential or life.

### Capital grant/capital purpose income

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

### Carrying value

The original cost of an asset, less the accumulated amount of any depreciation or amortisation, less the accumulated amount of any asset impairment.

### Clear audit opinion

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in keeping with the requirements of the relevant legislation and Australian Accounting Standards. Also referred to as an unqualified audit opinion.

### Control environment

Processes within an entity's governance and management structure that provide reasonable assurance about the achievement of an entity's objectives in reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

### Corporations Act 2001

Commonwealth legislation governing corporations, including their financial reporting framework.

### Credit rating

The rating that credit rating agencies assign to the bonds of an issuer.

### Current asset

An asset that will be sold or realised within 12 months of the end of the financial year being reported on, such as term deposits maturing in three months or stock items available for sale.

### Current liability

A liability that will be settled within 12 months of the end of the financial year being reported on, such as payment of a creditor for services provided to the entity.

### Debt

Money owed by one party to another party.

### Deficit

When total expenditure is more than total revenue.

### Depreciated replacement cost

Current replacement cost less accumulated depreciation to reflect the economic benefits of the assets that have been consumed.

### Depreciation

Systematic allocation of the value of an asset over its expected useful life, recorded as an expense.

### Disclaimer of opinion

Conclusion expressed if the auditor is unable to obtain sufficient appropriate audit evidence on which to base an audit opinion, and the auditor concludes that the possible effects on the financial (or performance) report of undetected misstatements, if any, could be both material and pervasive.

### Eliminations

Removing the effect of transactions between entities when preparing consolidated financial statements.

### Emphasis of matter

A paragraph included in an audit opinion of a financial report that refers to a matter appropriately presented or disclosed that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.

### Entity

A corporate or unincorporated body that has a public function to exercise on behalf of the State or is wholly owned by the State, including departments, statutory authorities, statutory corporations and government business enterprises.

### Equity or net assets

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

### Expense

The outflow of assets or the depletion of assets an entity controls during the financial year, including expenditure and the depreciation of physical assets. An expense can also be the incurrence of liabilities during the financial year, such as increases to a provision.

### Fair value

The price that would be received if an asset was sold or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Financial report

A document reporting the financial outcome and position of an entity for a financial year, which contains financial statements, including a comprehensive income statement, a balance sheet, a cash flow statement, a comprehensive statement of equity, and notes.

### Financial sustainability

An entity's ability to manage financial resources so it can meet its current and future spending commitments, while maintaining assets in the condition required to provide services.

### Financial year

A period of 12 months for which a financial report is prepared, which may be a different period to the calendar year.

### Going concern

An entity that is expected to be able to pay its debts 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 used to govern and monitor an entity's activities to achieve its strategic and operational goals.

### Impairment (loss)

The amount by which the value of an entity's asset exceeds its recoverable value.

### Income

The inflow of assets or decrease of liabilities during the financial year, including receipt of cash and the reduction of a provision.

### Income approach

A valuation technique that converts future amounts, such as cash flows or income and expense, to a single current (discounted) amount. The fair value of those future amounts is measured as the value indicated by current market expectations.

### Intangible asset

An identifiable non-financial asset, controlled by an entity, that cannot be physically seen, such as software licences or a patent.

### Internal audit

A function of an entity's governance framework that examines and reports to management on the effectiveness of the entity's risk management, internal controls and governance processes.

### Internal control

A method of directing, monitoring and measuring an entity's resources and processes to prevent and detect error and fraud.

### Investment

Public or private sector expenditure for the development and/or use of infrastructure assets, intended to result in medium- to long-term service and/or financial benefits.

### Issues

Weaknesses or other concerns in the governance structure of an entity identified during a financial audit, which are reported to the entity in a management letter.

### Liability

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

### Local Government Act 1989

An Act of the state of Victoria that establishes the:

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

#### Management letter

A letter the auditor writes to the governing body, the audit committee and the management of an entity outlining issues identified during the financial audit.

#### Material error or adjustment

An error that may result in the omission or misstatement of information, which could influence the economic decision of users taken on the basis of the financial statements.

#### Materiality

Information is material if its omission, misstatement or non-disclosure has the potential to affect the economic decisions of users of the financial report, or the discharge of accountability by management or those charged with governance. The size, value and nature of the information and the circumstances of its omission or misstatement help in deciding how material it is.

#### Modified opinion

The auditor's expressed qualified opinion, adverse opinion or disclaimer of opinion.

#### Net result

The value that an entity has earned or lost over the stated period—usually a financial year—calculated by subtracting an entity's total expenses from its total revenue for that period.

#### Non-current asset

An asset that will be sold or realised later than 12 months after the end of the financial year being reported on, such as investments with a maturity date of two years or physical assets the entity holds for long-term use.

#### Non-current liability

A liability that will be settled later than 12 months after the end of the financial year being reported on, such as repayments on a five-year loan that are not due in the next 12 months.

#### Non-reciprocal transfers

Transfers in which an entity receives assets without directly giving equal value in exchange to the other party to the transfer.

#### Other comprehensive income

Revenues, expenses, gains and losses under Australian Accounting Standards that are excluded from net income on the income statement and are instead listed after net income.

#### Performance statement

A statement detailing an entity's predetermined performance indicators and targets for the financial year, and the actual results achieved, along with explanations for any significant variations between the actual result and the target.

#### Physical asset

A non-financial asset that is a tangible item an entity controls, and that will be used by the entity for more than 12 months to generate profit or provide services, such as building, equipment or land.

#### Present value

A current estimate of the present discounted value of the future net cash flows in the normal course of business.

#### Qualified audit opinion

An opinion issued when the auditor concludes that an unqualified opinion cannot be expressed because of:

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

A qualified opinion is considered to be unqualified except for the effects of the matter that relates to the qualification.

#### Regulatory period

A statutory defined period that reflects all of the financial/operational activities that took place during that time.

#### Relevant measures and indicators

Measures and indicators an entity uses if they have a logical and consistent relationship to its objectives and are linked to the outcomes to be achieved.

#### Revaluation

The restatement of a value of non-current assets at a particular point in time.

#### Revenue

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

### Risk

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

### Risk register

A tool an entity uses to help identify, monitor and mitigate risks. The register may appear in the form of a plot graph or a table.

### Specific purpose funds/specific purpose grants

Grant funding provided by the Commonwealth to the state government for a particular area or service.

### Strategic plan

A document an entity provides to its staff and board to communicate its organisational goals, the actions needed to achieve those goals and other critical elements developed during the planning exercise.

### Unmodified opinion

The audit opinion that the auditor expresses when concluding that the financial (or performance) report is prepared, in all material respects, in keeping with the applicable reporting framework.

### Whole-of-life cost

The cost to buy or construct an asset, plus the cost of maintaining the asset over its life.

# Auditor-General's reports tabled during 2017–18

Report title	Date tabled
V/Line Passenger Services (2017–18:1)	August 2017
Internal Audit Performance (2017–18:2)	August 2017
Effectively Planning for Population Growth (2017–18:3)	August 2017
Victorian Public Hospital Operating Theatre Efficiency (2017–18:4)	October 2017
Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2016–17 (2017–18:5)	November 2017
Results of 2016–17 Audits: Water Entities (2017–18:6)	November 2017
Results of 2016–17 Audits: Public Hospitals (2017–18:7)	November 2017

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