

# Snowy Valleys Council

February 2019

## Forensic Review

### Final Report



*Organisational excellence in the public sector*



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## 1 Executive Summary

### Overview

The table below provides a basic summary of changes to key balance sheet areas since merger. Apart from a slight reduction in the value of non-current assets, all measures are positive. It is noted that Council is in receipt of grants totalling \$15,000,000 relating to merger costs / activities which has provided a significant boost to cash.

Description	At merger \$,000	2018 \$,000
Current assets	45,647	54,910
Current Liabilities	10,946	8,633
<b>Net current assets</b>	<b>34,701</b>	<b>46,277</b>
Non-current assets	574,905	571,717
Non-current liabilities	12,102	9,408
<b>Total Equity</b>	<b>597,504</b>	<b>608,556</b>

Since merger Council has recorded two operational deficits. This is to be expected through the initial period of significant change.




Financial forecasts show a significant reduction in operating grants in 2019. If this change occurs, financial forecasts still show deficits being reduced gradually over the forecast period.

We are aware that Council is reviewing its operational costs and overheads with the view to ensuring that financial sustainability is maintained.

The organisation appears to be well resourced with competent staff and has established or is developing systems to deliver compliance and good business practice.

A significant challenge for Council and Management from this point on will be to continue to work on building a united, positive culture in the organisation. The reality of a forced merger is that it will take time and effort to bring staff through such significant and challenging change.

Each specific area of the review is addressed below. To assist in understanding the review outcomes we have provided a “traffic lights” general assessment of the areas audited. The colours indicate our overall assessment of each Council’s performance as follows.

Compliant	
Improvement required	
Non-compliant	
No opinion	Not Determined

## Approval processes

	Delegations	Resolution action management	Organisational structure
Tumbarumba SC	Green	Orange	Not determined
Tumut SC	Orange	Green	Not determined
Snowy Valleys	Green	Green	Green

**Tumbarumba Shire Council had appropriate delegations that were managed soundly. They recorded resolution actions in a central data base but managed and monitored them in an ad hoc manner.**

**Tumut Shire Council maintained a manual record of delegations and maintained a list of resolution actions that was provided to Council in each meeting agenda.**

**While there appears to be a significant issue with the approval of a contract and payment in relation to the Tumbarumba Caravan Park Redevelopment project, Snowy Valleys Council has established compliant and good quality systems to manage delegations and monitor Council resolution actions.**

**Snowy Valleys has a comprehensive organisational structure in place and all staff have an up to date and regularly reviewed position description.**

We can confirm that Snowy Valleys Council has established appropriate formal delegations and maintains a system to manage them to ensure staff are aware of their delegated responsibilities.

The former Tumut Shire Council maintained a formal register of Council resolution actions which was updated and presented at each Council Meeting. Resolution actions in the former Tumbarumba Shire Council were managed through “info Council” however the monitoring and reporting of progress was ad hoc. Snowy Valleys Council maintains a register of resolution actions which is updated and presented to each formal ELT meeting. This system is an appropriate means of monitoring and managing resolution actions.

Snowy Valleys Council maintains a detailed organisational structure which is well documented. All staff have a current position description which is reviewed annually as part of the staff performance review process.

## Budget Management

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Budget compliance	
Tumbarumba SC	
Tumut SC	
Snowy Valleys	

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**Both former and the current Council have maintained compliant budgetary processes.**

The former Councils maintained their budgetary processes in a compliant and as far as can be ascertained, responsible manner. Since merger up until the consolidation of the finance systems the budgetary process for Snowy Valleys Council had been effectively separate activities based on the former Council areas which were consolidated for adoption and reporting purposes. Council currently has an appropriate and compliant budgetary process that is managed and monitored in accordance with statutory requirements.

## Reserves

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Reserve management compliance	
Tumbarumba SC	
Tumut SC	
Snowy Valleys	

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**Both former and the current Council have maintained compliant reserves management. Unrealised budgeted capital funding for the Tumbarumba Caravan park has necessitated appropriations from reserves.**

There were no issues identified with the current or former Councils management of reserves.

The management of reserves by the former Councils has occurred in line with established conventions and budgeting processes. Reserve balances are clearly accounted for between 2009 to 2018 including correct recognition into the consolidated accounts of the Snowy Valleys Council.

As at the 30/6/2018, internally restricted reserve levels had been maintained since the merger and the cash and equivalents balance was in excess of total restrictions.

Reserve management in its entirety was conducted in an appropriate manner mainly based on historic arrangements meeting the needs of Council at the time.

Council does not have a reserves policy or reserve guidelines and procedures in place to formalise and direct reserve practices.

## Financial reporting

### Statutory reporting compliance

Tumbarumba SC	
Tumut SC	
Snowy Valleys	

**Both former and the current Council have maintained compliant financial reporting.**

The operation of two finance systems from merger to May 2018 presented significant financial reporting challenges, especially in the area of management reporting. The completion of the consolidation of systems should significantly improve Council's financial reporting capacity.

The annual financial statements for the year ended 30 June 2018 were signed off on the 30th November 2018.

Statutory reporting to Council is occurring as dictated by the Local Government (General) Regulation 2005 in terms of monthly reporting to Council on the status of investments, as well as the quarterly budget review statements.

Some internal reporting to management has commenced and various standard reports have been developed and are available for use.

## Sustainability indicators

### Financial sustainability

Tumbarumba SC	Not determined
Tumut SC	Not determined
Snowy Valleys	

**Council's forecast financial performance measures indicate that it is well placed to continue to be financially sustainable.**

Historically 5 of the 7 performance measures reported in Council's long-term financial plan have been in line with or exceeded benchmarks, so we have no reason to question the forecast that they are to continue in this way.

Of the two ratios that are not forecast to meet the benchmark the following comments are provided.

Operating performance ratio. - The forecast shows a significant reduction in revenue in 2019 that is projected to reduce to a level below that of the previous 8 years. A major contributor to this is the projected reduction in operational grant income.

Building and asset renewal ratio – This ratio is forecast to remain below 100% however, the forecast suggests that there is the capacity to utilise accumulated unrestricted cash to boost asset renewal which would allow Council to meet its target.

## Financial asset management

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Financial asset management	
Tumbarumba SC	Orange
Tumut SC	Orange
Snowy Valleys	Green

**Both former Councils conducted their financial asset management in a compliant manner and were working towards improving the integration of their strategic asset management and financial plans.**

**Snowy Valleys Council is making good progress in the establishment a best practice asset management system.**

Each former Council made reference to asset management in their Community Strategic Plans, however, there is no mention of how asset management priorities translate to Council's overall strategic goals or reference the hierarchy of the various plans that make up the asset management system. It was found that whilst an initiative was in place to establish an industry best practice approach to asset management, the large volume of material prepared by the former Councils existed as reference material only. Minimal integration existed between the various plans and long-term renewals forecasts.

With regards to componentisation and remaining useful lives, the former councils at times had similar structures, but at times also very different practices. These different strategies are not necessarily an indication that one was better or worse than the other. These options often related to levels of detail and were all in line with Australian Accounting Standard 116 which deal with these specific considerations in appropriate detail.

Subject to the limitations of this review we have concluded that asset data has appropriately been transferred from the former Council's asset registers and that the Snowy Valleys Council asset registers are complete.

Based on the current position and planned revaluation activity, all asset data will be maintained in the Tech One system assets module, in a standardised format by June 2020.

## Grant funding management

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Grants management	
Tumbarumba SC	Green
Tumut SC	Green
Snowy Valleys	Green

**The former and current Council's grant management was compliant.**

The former Councils relied on grants and contributions for operations with Tumut SC receiving on average 25% of its operating revenue through grants and Tumbarumba SC on average 30%.



For the period 2012 - 2016, Tumbarumba SC's percentage of combined capital grants had increased from ≈28% (\$2,480,000) to ≈86% (\$2,328,000), while Tumut's percentage decreased from ≈72% (\$6,351,000) to ≈14% (\$368,000). This is the result of a significant drop off in capital grants to the former Tumut Shire Council in 2015 and 2016.

Snowy Valleys Council was the recipient of a merger implementation grant of \$5 million in the 2016/17 financial year. A \$10 million grant was also received for Stronger Communities with projects now being allocated but as yet mostly unspent.

A centralised Grant Register is being developed and upgraded to manage grant funding and will be maintained from the start of the 2018/19 financial year.

### **TCorp assessment**

Quality of forecasts data provided to TCorp

Tumbarumba SC	
Tumut SC	

**We have no issue with the determinations made by TCorp.**

**The forecast data provided by Tumbarumba SC was generally accurate and that provided by Tumut SC was less accurate.**

Essentially the TCorp assessments carried out in 2013 are based on actual historical data contained in audited financial statements and forecasts and strategic plans. We have no concerns that the TCorp assessments at the time were comprehensive and accurate based on the information available. In conducting this review, we have the benefit of having several years of data to allow a comparison between those forecasts and what actually occurred.

This review confirms the conservative nature of the former Tumut Shire Council forecasting provided to TCorp at the time of their review. Long term financial forecasts provided to TCorp had Tumbarumba SC moving into operating deficits reasonably in line with actual outcomes, while Tumut SC forecasts of larger operating deficits, did not eventuate. This indicates that that the forecasting outcomes for Tumbarumba SC were more accurate than for Tumut SC.

There is no doubt that Tumut Shire Council was not well served by the conservative nature of their forecasts as they were relied on by TCorp to make its assessment of future sustainability. It is also clear that the attention to providing quality data to the TCorp review by Tumbarumba Shire Council ensured that determinations made were based on accurate data.

## 2 Introduction

In October 2018 Mead Perry group (MPG) was engaged by the Snowy Valleys Council to conduct a forensic audit of its operations. The project deliverables were defined by Council as follows.

*“Overall, the requirements of this review are to provide a forensic audit of both previous financial systems, practices and processes to clearly identify how both former councils operated right up until the merging of the business systems. In particular, SVC needs assurance that financial management practices have been comprehensively reviewed and documented to enable a clear reference point both now and in the future and to correct any unsound or unprofessional practices.”*

Specific areas identified for review were:

- Approval processes – including routine operations; delegations; separation of duties; and Council resolutions and how implementation of Council decisions is/was tracked and acquitted (where required)
- Budget management and processes for increasing budgets and managing variations
- Reserve management and validity of reserves
- Financial reporting including management towards optimal financial ratios
- Financial asset management; asset management plans and their integration with financial management; validity and completeness of asset registers, including componentisation, depreciation, useful life, obsolescence and any other pertinent matters
- Grant funding management
- Validation of the high-level assessments by TCorp re. sustainability of each of the former shires

In conducting the review, MPG consultants conducted two on-site visits, reviewed relevant documentation, interviewed relevant staff and interrogated Councils Corporate Business system as well as accessing publicly available information.

### 3 Summary of findings

#### **Approval processes**

- 1 - *Delegations, Council to GM and GM to Staff are in place and well managed.*
- 2 - *Council resolution implementation is effectively managed through the ELT meeting process.*
- 3 - *The Audit, Risk and Improvement Committee is well placed to monitor the areas within its charter.*
- 4 – *Due and proper process was not followed in respect of a significant project associated with the Tumbarumba caravan park redevelopment.*

#### **Budget Management**

- 5 - *The general approach to budget management was conducted in a diligent manner, particularly given the rigid statutory environment in place;*
- 6 - *Council finance staff achieved regular compliance with statutory requirements and reporting to Council;*
- 7 - *Regular monitoring of estimated income and expenditure was conducted including a process to identify the reasons for recommended variations;*
- 8 - *Decisions about budget variations were made in a prudent manner in an attempt to remain consistent with original budget allocations and performance against sustainability indicators.*
- 9 - *Snowy Valleys Council consolidated its financial system in May 2018 and has managed budget variations pursuant to current regulatory requirements.*

#### **Reserve Management**

- 10 - *The management of reserves by the former Councils has occurred in line with established conventions and budgeting processes.*
- 11 - *Reserve management in its entirety was conducted in an appropriate manner mainly based on historic arrangements meeting the needs of Council at the time.*
- 12 - *Reserves are reported in the annual financial statements in Note 6(c) Restricted cash, cash equivalents and investments.*
- 13 - *Council's finance staff have put a significant effort and due diligence into maintaining reserve balances using established methodologies.*
- 14 - *Reserve balances are clearly accounted for between 2009 to 2018 including correct recognition into the consolidated accounts of the Snowy Valleys Council.*
- 15 - *There were no identified issues with Council's management of reserves from a compliance perspective, however there are instances where unexpected reserve appropriations were*

*required to fund projects that were inadequately planned and managed. While we can be critical of the Council's planning and management of these projects, we believe that the appropriation of reserve funds to meet the unfunded costs of the projects is the correct and prudent action to take.*

*16 - A review of the reserves and cash position relating to the former Tumbarumba Shire Council in isolation at the time of the merger of the two financial systems indicates a shortfall in unrestricted cash in excess of \$3 million dollars.*

*17 - The current position is that there is no Reserves Policy and/or Reserve Guidelines or Procedures in place to formalise and direct reserve practices.*

*18 - Standard annual reserve transfers that are provided for in the LTFT have not been actioned since merger.*

## **Financial reporting**

*19 - The newly formed council had to cope for approximately two years with two separate accounting packages which impacted on reporting.*

*20 - Section 202 of the LG (General) Regulation 2005, requires Council to establish and maintain a system of budgetary control that will enable the council's actual income and expenditure to be monitored each month and to be compared with the estimate of the council's income and expenditure. To date this requirement has been met to a limited extent.*

*21 - Management reporting was problematic and limited to the mere minimum during the period May 2016 to end of May 2018.*

*22 - The consolidation of the accounting packages was completed at the end of May 2018 and should significantly improve Council's reporting capacity.*

*23 - The status of financial reporting is as follows:*

- The annual financial statements for the year ended 30 June 2018 was signed off on the 30<sup>th</sup> November 2018.*
- Statutory reporting to Council is occurring as dictated by the Local Government (General) Regulation 2005 in terms of monthly reporting to Council on the status of investments, as well as the quarterly budget review statements.*
- Some internal reporting to management has commenced and various standard reports have been developed and are available for use. These include Profit and Loss reports on a Whole of Council or Directorate/Divisional levels, while Profit and Loss reports are also available on a project basis. Transactional enquiries are also available and functional.*

*24 - Historically 5 of the 7 performance measures have been in line with or exceeded benchmarks so we have no reason to question the forecast that they are to continue in this way.*

*25 - Of the two ratios that are not forecast to meet the benchmark the following comments are provided.*

- *Operating performance ratio. - The forecast shows a significant reduction in revenue in 2019 that is projected to reduce to a level below that of the previous 8 years. A major contributor to this is the projected reduction in operational grant income.*
- *Building and asset renewal ratio – This ratio is forecast to remain below 100%. The utilisation of cash to boost asset renewal would allow Council to meet its target.*

## **Financial Asset Management**

*26 - It is observed that each former Council made reference to asset management in their CSPs, however, there is no mention of how asset management priorities translate to Council's overall strategic goals or reference the hierarchy of the various plans that make up the asset management system.*

*27 - It was found that whilst an initiative was in place to establish an industry best practice approach to asset management, the large volume of material prepared by the former Council's existed as reference material only. Minimal integration existed between the various plans and long-term renewals forecasts.*

*28 - The Tumut SC decision-making process for annual budget allocations were not driven by long-term asset priorities and financial forecasts.*

*29 - Budget deliberations by Tumut SC for future investment decisions, such as new assets or facilities, were not mature. Business cases were not prepared, nor were annual operating costs, depreciation or return on capital outcomes considered as part of an investment strategy.*

*30 - While the number of components per asset and per asset class have standardised, useful lives and remaining useful lives will remain varied.*

*31 - With regards to componentisation and remaining useful lives (RUL's) the former councils at times had similar structures, but at times also very different practices. These different strategies are not necessarily an indication that one was better or worse than the other. These options often related to levels of detail and were all in line with Australian Accounting Standard 116 which deal with these specific considerations in appropriate detail.*

*32 - For the ten-year budget period, as per the LTFP, the written down asset value remains consistent. As the assets classes have now been standardised for the former two councils in all respects, (except for roads), depreciation should now also stabilise.*

*33 - Based on the current position and planned activity, all asset data will be maintained in the Tech One system assets module, in a standardised format by June 2020.*

*34 - Subject to the limitations of this review we have concluded that asset data has appropriately transferred from the former council's registers and that the SVC asset registers are complete.*

## **Grant Funding Management**

- 35 - *The former Councils relied on grants and contributions for operations with Tumut SC receiving on average 25% of its operating revenue through grants and Tumbarumba SC on average 30%.*
- 36 - *For the period 2012 - 2016, Tumbarumba SC's percentage of combined capital grants had increased from ≈28% (\$2,480,000) to ≈86% (\$2,328,000), while Tumut's percentage decreased from ≈72% (\$6,351,000) to ≈14% (\$368,000). This is the result of a significant drop off in capital grants to the former Tumut Shire Council in 2015 and 2016.*
- 37 - *Snowy Valleys Council was the recipient of a merger implementation grant of \$5 million in the 2016/17 financial year. A \$10 million grant was also received for Stronger Communities with projects now being allocated but as yet mostly unspent.*
- 38 - *A centralised Grant Register is being developed and upgraded to manage grant funding and will be maintained from 2018/19.*
- 39 - *It appears that retaining a grants officer at the former Tumbarumba Shire Council made a significant difference to its ability to source external funding.*

## **Validation of TCorp assessment**

- 40 - *Long term financial forecasts provided to TCorp had Tumbarumba SC moving into operating deficits not dis-similar to actual figures, while Tumut SC forecasts of larger operating deficits, did not eventuate.*
- 41 - *The actual outcomes for operating results post the TCorp review indicate that the forecasting outcomes for Tumbarumba SC were more accurate than for Tumut SC.*
- 42 - *This analysis confirms the conservative nature of the forecasting provided to the TCorp at the time of the review. There is no doubt that Tumut Shire Council was not well served by the conservative nature of their forecasts as they were relied on by TCorp to make its assessment of future sustainability.*
- 43 - *It is clear that the attention to providing quality data to the TCorp review by Tumbarumba Shire Council ensured that determinations made were based on accurate data.*

## 4 Approval processes

(including routine operations; delegations; separation of duties; and Council resolutions and how implementation of Council decisions is/was tracked and acquitted (where required))

### 4.1 Introduction

This element of the project involved the review of Council meeting and Audit committee minutes, the review of Council documents and interviews with relevant staff to ascertain the position of the current and former Councils in respect of the management of approval processes.

### 4.2 Meeting minutes review and implementation testing.

The following tables list the minutes reviewed and a summary of items investigated or tested.

<b>Council Meeting Minutes reviewed</b>		
Snowy Valleys	22-Sep-16	Ordinary
Snowy Valleys	26-May-16	Extra Ordinary
Snowy Valleys	23-Feb-17	Ordinary
Snowy Valleys	22-Mar-18	Ordinary
Snowy Valleys	25-Oct-18	Ordinary
Snowy Valleys	28-Jun-18	Ordinary
Snowy Valleys	26-Apr-18	Ordinary
Snowy Valleys	24-May-18	Ordinary
Tumbarumba	17-Dec-15	Ordinary
Tumbarumba	8-Jan-16	Ordinary
Tumut	25-Aug-15	Ordinary
Tumut	24-Nov-15	Ordinary
Tumut	23-Feb-16	Ordinary
Tumut	3-May-16	Ordinary - Finance policy and strategy - last ordinary meeting

<b>Audit committee minutes reviewed</b>		
Snowy Valleys	9-May-18	Action report included
Snowy Valleys	8-Aug-18	Agenda and reports only (minutes not on website)

<b>Review items</b>	<b>Delegations to GM</b>
<b>Reference</b>	Sec 377 Act
<b>Review outcomes / Observations</b>	Current delegations Council to General Manager and Mayor adopted by resolution 23 November 2017.  Tumbarumba shire delegations Council to GM adopted 25 July 2013.

<b>Review items</b>	<b>Delegations GM to Officers</b>
<b>Reference</b>	Sec 378 Act
<b>Review outcomes / Observations</b>	Current delegations approved by GM 10 April 2018. Delegations are being managed by Pulse software package. This maintains the register which sends notifications to officers for acknowledgement when new delegations and or changes are made. GM to officers were in place for Tumbarumba SC prior to merger. Pre-merger delegations for Tumut SC were not located.

<b>Review items</b>	<b>Financial Reports</b>
<b>Reference</b>	
<b>Review outcomes / Observations</b>	Council is being provided with a summary of cash and investments on a monthly basis as per LG Reg requirements. Quarterly budget review reports provided as per mandatory requirements.

<b>Review items</b>	<b>Officers reports</b>
<b>Reference</b>	SVC 26 July 2018 Item 10.2
<b>Review outcomes / Observations</b>	Officers reports include recommendation, consideration of Options, Budget implications, Legal/statutory Implications Risk Management – Business Risk, Risk Management – WHS and public risk Council seal.

<b>Review items</b>	<b>Monitoring of resolutions</b>
<b>Reference</b>	SVC 23 June 2016 SVC 28 June 2018
<b>Review outcomes / Observations</b>	<b>Tumbarumba SC</b> "Info Council" was used to monitor resolutions. Some formal reporting back to Council but on an ad hoc or irregular basis. <b>Tumut SC</b> Provided a report to Council on resolution actions. This is not being done now. Action report presented to Tumut SC 23 February 2016 meeting. Action report presented to SC 23 June 2016 ordinary meeting.



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**Snowy Valleys C**

8 June 2018 no action report.

Action reports no longer go to Council. They are actioned through the ELT meetings with reports going to ELT with actions assigned to a Director and on to Division Manager.

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**Review items      Implementation of resolutions**

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**Reference**                      Meeting 22-Mar-2018 Res MO56/18

**Review outcomes / Observations**      That Council investigates the acquisition of the Batlow Forestry Workshop and associated land.

**Comment**                      Investigation has been carried out.

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**Review items      Implementation of resolutions**

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**Reference**                      SVC 24 May 2018

**Review outcomes / Observations**      A three year pool improvement program adopted.  
Funding for the approved plan is not identified in the budget.

**Comment**                      Approval of plan not included in budget deliberations.

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**Review items      Implementation of resolutions**

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**Reference**                      SVC 25 October 2018 Res M287/18

**Review outcomes / Observations**      Advertise proposed expenses and provision of facilities for Mayor and Councillors for 28 days.

**Comment**                      As at 10/12/2018 the policy has not been adopted and does not appear on the December 2018 agenda.

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**Review items      Implementation of resolutions**

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**Reference**                      SVC 25 October 2018 Res M290/18

**Review outcomes / Observations**      Resolution to make changes to reserve balances.

**Comment**                      Reserve balances were amended.

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<b>Review items</b>	<b>Implementation of resolutions</b>
<b>Reference</b>	SVC 23 February 2017 Res M17/17
<b>Review outcomes / Observations</b>	Resolution to accept recommendations from the Building Committee. The recommendation and resolution do not contain the name of the offeror / contractor. It appears that this decision was being actioned prior to the Building Committee meeting and Council meeting. Purchase orders were generated and invoices processed in Council's finance system and contract deposit paid before the decision was formalised.
<b>Comment</b>	The circumstances and actions relating to this resolution require a detailed review.

<b>Review items</b>	<b>Audit, risk and improvement committee</b>
<b>Reference</b>	<i>428A Local Government Amendment (Governance and Planning) Act 2016 No 38</i>
<b>Review outcomes / Observations</b>	Both former Councils had an ARIC. 15 items included in audit management report for review from prior year. 3 resolved, 4 not actioned, 8 being actioned (to be reviewed at year end). Internal auditors report provided to ARIC. Draft business rules for implementation of audit committee recommendations presented to August 2018 meeting.
<b>Comment</b>	Council working on addressing audit recommendations.

<b>Review items</b>	<b>ELT Meetings</b>
<b>Reference</b>	
<b>Review outcomes / Observations</b>	Held weekly, informal and formal alternating. They include GM Directors and Executive officer.

## 4.3 Delegations

### 4.3.1 Current state

During the review we were provided with the current delegation registers for Council to General Manager (adopted 23 November 2017) and General Manager to staff (adopted 10 April 2018).

These registers are comprehensive without being excessive and appear appropriate for a Council such as Snowy Valleys.

We were provided with a comprehensive list of officers with financial delegation. This list provides clarity for officers and supervisors as to their authority to approve orders. The listing

is in line with the expenditure threshold limits recorded in Appendix 1 of the GM to staff delegations register.

As noted above, delegations are being managed administratively through the “pulse” data base. This ensures that delegations are held in a central location and are able to be updated as required. During an interview with the Governance and Compliance officer who maintains the “Pulse” system we were shown how the system is used to advise new staff of their delegations and issues instruments of delegation as required and monitors expiry dates when they are applied.

While this system is in place and being managed, Council can be confident that its delegations are up to date and will provide appropriate authority and protection to its officers in carrying out their duties.

A number of administrative points were noted with the delegation registers that may warrant review and remedial action if required. They include;

#### **Council to GM**

In many instances the delegation does not specially identify the section of the legislation that the power has been delegated under. Having a specific reference to the legislation leaves no doubt as to the head of power relied on when exercising the delegation. It also provides a clear link to review the delegation should the legislation be amended.

#### **GM to staff**

The delegations register for the GM to staff lists authority delegated and nominates the staff member to which the delegation applies. However, in the delegations identified in the list below there is no nominated delegate.

- Staffing matters Item 7, 14 & 15.
- Governance item 9 & 14
- Operational item 12, 22 & 55

#### 4.3.2 Former Councils delegations

On site investigations identified that formal documented delegations were in place in Tumbarumba Shire prior to merger. The review was unable to locate the delegations register for the former Tumut Shire Council, however we are reliably informed that it was in place.

#### 4.4 Separation of duties

During the review we were provided with a document containing a detailed organisational structure. The document was last updated on 10 October 2018. Given this we see no reason why there should be any lack of clarity around roles and responsibilities. All Council staff have had position descriptions reviewed and updated since the merger and they are reviewed as part of Council performance review process. In addition, holding regular ELT meetings should support good communication and coordination across the organisation and be a forum to address interdepartmental issues.

## 4.5 Council resolution implementation management

### 4.5.1 Current state

Monitoring of the implementation or actioning of Council resolutions is currently done through the ELT meeting process. A list of resolutions is maintained and reviewed by the ELT on a fortnightly basis. We were provided with a spreadsheet titled “ELT Master action register” which details Council resolutions and ELT actions and records responsibilities and progress. The document confirms that the review of the actions list is up to date. The register lists 68 current action items of which 14 are shown as overdue.

Testing on the progress with the implementation of Council resolutions identified one instance where it appears that a 3-year pool improvement program was adopted but was not included in budget deliberations and is not included in the current budget.

### 4.5.2 Former Councils

The former Tumbarumba Shire Council utilised “Info Council” software to monitor resolutions. This monitoring was done on an ad hoc basis by officers. There was some formal reporting back to Council but generally was on an ad hoc or irregular basis.

The former Tumut Shire Council were provided with a report on resolution actions at each ordinary meeting. An example of this report is provided in Appendix A. Since the merger this practice has ceased.

## 4.6 Audit, Risk and Improvement Committee actions management

### 4.6.1 Current state

*Section 428A of the Local Government Amendment (Governance and Planning) Act 2016 No 38* requires Councils to appoint an Audit, Risk and Improvement Committee. The committee must keep under review the following aspects of the council’s operations:

- Compliance,
- Risk management,
- Fraud control,
- Financial management,
- Governance,
- Implementation of the strategic plan, delivery program and strategies,
- Service reviews,
- Collection of performance measurement data by the council,
- Any other matters prescribed by the regulations.
- The committee is also to provide information to the council for the purpose of improving the council’s performance of its functions.

Snowy Valleys Council has an established Audit, Risk and Improvement Committee which operates under a Committee Charter. The Committee prepares meeting agendas and minutes. Council’s website only contains two sets of business papers for the committee (9 May 2018 & 8 August 2018).

The committee has a wide range of areas to monitor and review given that new policies and frameworks are being established for the merged Council. The committee maintains an actions' register which is reviewed at each meeting.

In terms of the success of the committee in driving the resolution of external audit issues, we note that the interim management letter provided to Council by the Audit Office of NSW for the 2017/18 financial year identified the 7 items listed below. All rated as a moderate or lower risk.

#### Summary of Issues

Appendix	Detail	Likelihood	Consequence	Risk Assessment
1.1	Review of creditor masterfile changes	Likely	Medium	⚠ Moderate
1.2	Review of general journals (repeat issue)	Likely	Medium	⚠ Moderate
1.3	Legislative compliance framework (repeat issue)	Possible	High	⚠ Moderate
1.4	Audit logs of privileged access activities are not reviewed (repeat issue)	Possible	Medium	⚠ Moderate
1.5	New accounting standards not yet effective	Likely	Medium	⚠ Moderate
1.6	Timely review of payroll masterfile changes report	Likely	Low	✅ Low
1.7	Reconciliations (repeat issue)	Likely	Low	✅ Low

The interim management letter also reported on outstanding matters from previous audit management letters which included 15 items. The report shows 3 resolved, 4 not actioned, 8 being actioned (to be reviewed at year end). The final audit report dated 14/12/2018 records that 4 of these items have now been resolved. With additional items from the 2017/18 audit there remain 11 items for attention by Management. All items are rated at moderate or below risk.

#### 4.6.2 Former Councils

Both former Councils maintained Audit, Risk and Improvement Committees as required by legislation.

#### 4.7 Tumbarumba Caravan Park Redevelopment Project.

The resolution management review identified significant issues with the approval process, authorisation and payment of funds in respect of a contract for the Tumbarumba caravan park redevelopment project. Details around these issues are provided below.

1. Purchase orders (Last and Co Lawyers Trust Account) for \$546,300 and \$60,700 were processed on the 15<sup>th</sup> of February 2017.
2. An invoice (Last and Co Lawyers Trust Account) for \$60,700 was processed on the 15<sup>th</sup> of February 2017.
3. Payment of \$66,770 was made on the 15<sup>th</sup> of February 2017.
4. An invoice (Last and Co Lawyers Trust Account) for \$272,727.27 was processed on the 21<sup>st</sup> of February 2017.
5. At its meeting held on the 22<sup>nd</sup> of February 2017 the Building Committee recommended that Council accept an offer for accommodation buildings for \$607,000 ex GST.

6. At its meeting held on the 23<sup>rd</sup> of February 2017, Snowy Valleys Council adopted the Building Committee's' recommendations.
7. An invoice (Last and Co Lawyers Trust Account) for \$273,572.73 was processed on the 3<sup>rd</sup> of March 2017.

At face value, in the dealings around a contract in relation to the Tumbarumba Caravan Park Redevelopment, proper process has not been followed in that invoices were received, orders processed, and a payment made prior to formal acceptance of the tender. It is noted that this activity occurred while Council was under administration.

#### 4.8 Findings

***1 - Delegations, Council to GM and GM to Staff are in place and well managed.***

***2 - Council resolution implementation is effectively managed through the ELT meeting process.***

***3 - The Audit, Risk and Improvement Committee is well placed to monitor the areas within its charter.***

***4 – Due and proper process was not followed in respect of a significant project associated with the Tumbarumba caravan park redevelopment.***

## 5 Budget management

(process for increasing budgets and managing variations.)

### 5.1 Former Councils

An overall evaluation of the process followed by the former Councils to manage budgets and deal with subsequent variations was conducted as part of the review.

It was found that the formal process to increase or decrease approved budgets was conducted by relevant finance officers in a diligent manner, and in accordance with the requirements of section 202 of the *Local Government (General) Regulation 2005*. The Regulation requires a responsible accounting officer to maintain budget control through monthly monitoring of estimated income and expenditure and to report to Council anything materially different.

It was established from the review that this was carried out to an acceptable standard through a process of sound budget control. Generally referring to both former Councils, budget variations would be identified by regular monitoring of actual revenue and expenditure.

If variations were identified, finance staff would establish the reasons for those variations and determine if they were material and warranted a report to Council. A subsequent request to internal managers was prepared including details of the variance, together with a budget review statement in accordance with the Regulation and where applicable, the *Code of Accounting Practice and Financial Reporting*.

Generally, the former Councils took a pragmatic approach to managing budget variations such that any increases in expenditure would be matched against available savings. Such savings used to balance the overall bottom line would be sourced from a detailed review of the operating position of each unit, section, division or directorate.

Decisions about budget reviews indicated that variations were managed as closely as possible to the original budget which was prepared using performance and sustainability indicators. In an attempt to align with the indicators and remain on track with projections, changes were made on a neutral basis as much as possible. That is, changes were made across the budget to maintain the bottom line, unless there were instances of major impacts requiring more attention. For example, major or severe weather events was a reason for significant variations to budgets. However, typical of most small Council's various other circumstances occurred that prompted the need for regular budget reviews, but these were managed in line with normal quarterly budget cycles.

### 5.2 Process for operating and capital budget variations

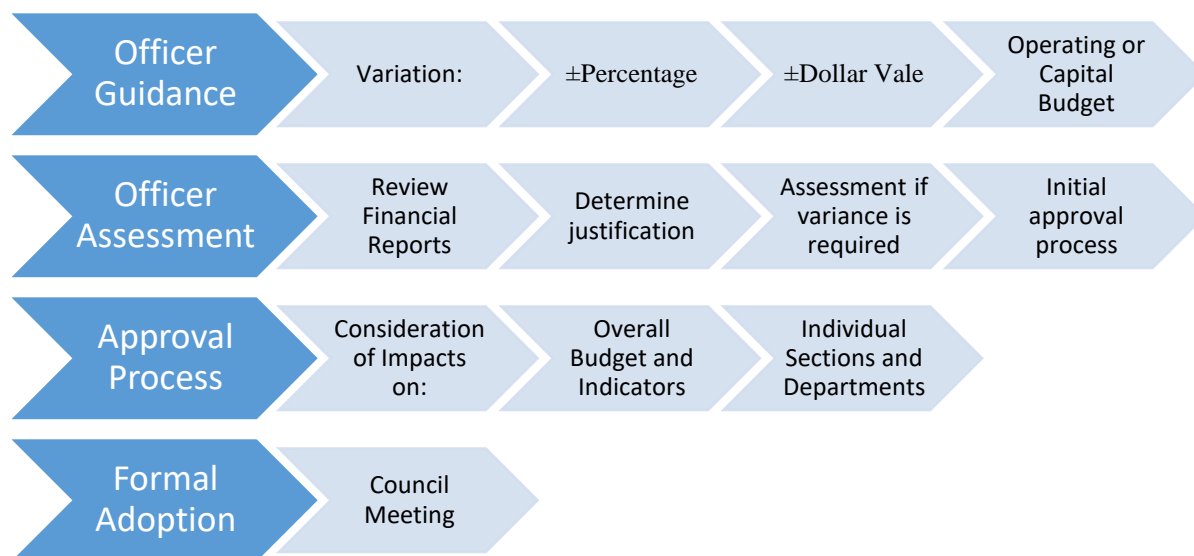
Whilst the statutory process to change an approved budget is well defined in legislation, officers required guidance on how to recognise a variation for operating and capital budgets. Generally, this is a  $\pm$  percentage or dollar value and would be displayed online or in the standard financial management reports.

If the variance criteria are met, officers would determine the reason(s) for budget variation and initiate a request to vary the budget by normal internal budget approval hierarchy.

Operating budgets changes and the options available to management revolve around an analysis of the overall operating position across Council.

In terms of Capital budgets, reliance was placed on the project, its intended outcomes and more specifically, the revenue source, such as funding. Over expenditure on capital items was dealt with through normal budget review cycles. Generally speaking, most capital projects require completion so similar to operating budgets, these were managed within the capital element of the budget.

The chart below depicts the general process followed for budget variations up to formal adoption by Council.



### 5.3 Snow Valleys

The approach to budgeting and managing variations mentioned above was generally used by the Snowy Valleys Council. Budgets for the 2016/17 and 2017/18 were formulated by the former Councils using separate financial systems. Once completed, they were combined for final adoption. Throughout those preceding financial years the methodologies for reviewing and adjusting variations largely stemmed from the process followed by the former Councils, albeit managed by a centralised finance team. Source material and financial records used to review budgets and manage variations was sourced from separate accounting systems.

In the 2018/19 budget, financial records were consolidated into Technology One and presented as a combined budget with variations being managed accordingly. The overall review found that 2018/19 budget indicated that the former Councils were well considered and represented. At the operational level, previous budgets and actual results formed the basis for decisions about Snowy Valleys ongoing budget management. Ongoing compliance with the regulatory framework was in place through since the merger.



## 5.4 Findings

The following observations regarding budget management in the former Councils and Snowy Valleys Council have been established:

***5 - The general approach to budget management was conducted in a diligent manner, particularly given the rigid statutory environment in place;***

***6 - Council finance staff achieved regular compliance with statutory requirements and reporting to Council;***

***7 - Regular monitoring of estimated income and expenditure was conducted including a process to identify the reasons for recommended variations;***

***8 - Decisions about budget variations were made in a prudent manner in an attempt to remain consistent with original budget allocations and performance against sustainability indicators.***

***9 - Snowy Valleys Council consolidated its financial system in May 2018 and has managed budget variations pursuant to current regulatory requirements.***

## 6 Reserve management and validity of reserves

### 6.1 Introduction

There are two major categories of reserves. The first is reserves held which are subject to external restrictions. Examples include:

- Water, Sewerage and General Developer Contributions which are limited as to the use these funds may be put to.
- Water, Sewerage and Domestic Waste which are regulated by unexpended funding as well as financial outcomes, where future use is limited or restricted to those specific business units.
- Unexpended funding received, yet to be expensed, e.g. merger funding.

The second category of reserve funds is internally restricted reserves which are subject to internal practices and guidelines. These consist of a long list of individual internal reserves, with some major ones being Plant & Vehicle Replacement, Employee Entitlements, Carry-over Works, Capital Projects Reserve, Private Works Contingencies, Quarry Reserves and the combined SWS / IWD reserves line items.

### 6.2 Pre-merger reserve management

To the date of merger, being 12 May 2016, the former Councils each had at least one dedicated officer to maintain financial records and to record movements for reserve accounts. These officers were often also responsible for various calculations applicable to the reserves.

Post-merger this arrangement mostly continued for the period to 30 June 2018. The budget review reports, annual financial statements and other reports and functionalities were the source of relevant information which was consolidated into one report.

Since 1 July 2018 the two separate sources have been consolidated. Data and information can now be sourced from a single database, and changes to reserves are processed within this single source. This has simplified reporting and access to information, although mostly the same officers still maintain the reserve accounts and movements within Technology One.

### 6.3 Control of reserves

#### 6.3.1 External reserves

Externally restricted funds are generally regulated by specific funding arrangements. These arrangements would identify the reporting requirements of Council, if the funds are not spent in the year received.

There were no identified issues with Council's management of external reserves.

#### 6.3.2 Internal reserves

Internal reserves are an area where Council has the authority to make decisions regarding their usage.

The current procedures and practices in place have carried over from the former Councils. It is understood that they evolved over time rather than being directed by formal guidelines or

procedures. Whilst these practices are mostly sound, Council would be well served through the adoption of a comprehensive framework to regulate various aspects of internal reserves.

The current position is that there is no Reserves Policy and/or Reserve Guidelines or Procedures in place to formalise and direct reserve practices.

#### 6.4 Reserve accounting

The reserve structure is detailed in the 2018-28 Long Term Financial Plan (LTFP) along with some definition of the general purposes and aims of reserves. These include the funding of nominated strategies to fund future operational and capital works.

During the annual budget process, attention is given to prioritise works and projects to include in the budget, while existing reserves are considered and evaluated as possible or appropriate sources of funding for the works program. After the initial budget adoption process, the monitoring and reporting process for reserves utilisation are reported to Council on a regular basis by operational areas of Council. These Council reports regarding works progress and reserve movements and utilisation are monitored by finance officers and included in the quarterly budget review and as such consolidated and approved at budget level.

Variations of the reserve accounts and movements are therefore specifically approved by Council during the budget and budget review process. The budget review process only occurs for the first three quarters of the financial year, as it would be mostly impractical to do budget amendments in arrears or after the close of the financial year. Some reserve movements are only calculated on an annual basis at or after year-end. Such reserve movements therefore miss the normal budget review scrutiny, jointly with standard monthly calculations and movements for at least the period April, May and June of each year.

There are also some other reserve movements which, as per current practice, are not included in the budget review cycles. Examples of these are Plant & Fleet Replacement movements which are regulated by established methodology, employee entitlements (directed by budget approved formula), etc.

Council may also from time to time make specific reserve budget resolutions outside the cycles described above. A recent example occurred in October 2018 where Council approved various reserve changes, mostly due to the changed circumstances of Snowy Works and Services (SWS) as well as funding considerations.

#### 6.5 Reserves observations

##### 6.5.1 Comparison with reserve list included in LTFP

The list of reserve balances were compared to the specified reserve lists as per the LTFP and it was found that there is a good correlation between them. However, the numerous categories that form part of the analysis of the former and merged Councils do not appear on the LTFP. Some of these variances could possibly be justified as umbrella or definition issues, while some were merely not categorised. This is not necessarily critical at all, but a proper reserve policy or procedure will clarify whether such variances are appropriate or not.

### 6.5.2 Analysis of reserves leading up to merger and current status

A detailed analysis of reserve balances was compiled for the former Councils from 2009 to merger and for Snowy Valleys Council (SVC) to the period ending 30 June 2018. According to the analysis, year-end reserve balances for Tumbarumba SC consisted of eight categories of externally restricted cash and nineteen categories of internally restricted cash. In 2009, restricted cash (Reserves) was \$8.2 million and by 2016 they were \$11.5 million.

Year-end reserve balances for Tumut SC consisted of eight categories of externally restricted cash and seventy categories of internally restricted cash. In 2009, restricted cash (Reserves) was \$8.7 million and by 2016 they were \$16.1 million.

Following merger, and completion of consolidated balances for SVC, reserve balances can be summarised as follows:

Category of Reserve Balances	Tumbarumba SC	Tumut SC	Combined balances	SVC	
	2016 '000	2016 '000	2016 '000	2017 '000	2018 '000
Externally restricted	4,537	6,329	10,866	26,400	28,200
Internally restricted	7,005	9,782	16,787	20,300	17,000
<b>Total</b>	<b>11,542</b>	<b>16,111</b>	<b>27,653</b>	<b>46,700</b>	<b>45,200</b>

The significant increase in reserve balances for SVC in 2017 occurred due to the \$15 million merger grant. The minor decrease in 2018 was due to reductions across various categories such as Plant (\$875k), Private Works (\$400k) and uncompleted works (\$1.2million).

It was noted from the review that there were a large numbers of very small reserves. The balances were summarised for a ten year period and there are certain balances that did not change or were subject to minor changes only.

A reserve policy or procedure would provide enhance transparency and guidance to staff on materiality, category definition, qualification status or timeframes etc.

### 6.5.3 Standard annual allocations to reserves

The LTFP, in the Reserves section, mentions annual transfers into the following reserves:

Reserve	Description	Amount
Aerodrome Reserve	Aerodrome projects and reseals	\$25,000
Open Space Strategy Reserve	Future capital projects	\$40,000
Playground Strategy Reserve	Future capital projects	\$40,000
Public Amenities Reserve	Future capital projects	\$50,000
Swimming Pools Reserve	Future works Tumut swimming pool	\$100,000

These were standard annual transfers for Tumut SC but have not occurred since merger.

### 6.5.4 Developer contributions

Developer contributions for Tumut SC have been accumulating over the years, and this has continued since merger. Very few of these funds have been utilised during this ten-year

period (2011 General \$70k and Water \$284k and 2014 General \$121k). General Developers Contributions refers to Open Space and Parks & Gardens.

The following documentation mostly regulates developer contributions for SVC:

- Tumut SC Water Supply and Sewerage Developer Charges Policy - adopted March 2001 and to be reviewed;
- Tumut SC Financial Plans for Water Supply and Sewerage - Hydrosience report adopted April 2016;
- 2016 Developer Charges Guideline for Water Supply, Sewerage and Stormwater - NSW Government and issued by the Department of Primary Industries.

The regulations regarding the collection of funds are well documented for Water and Sewerage, while the application of these funds are restricted to significant related asset class project works. There were in all probability more opportunities to apply some of these funds in the past. No specific plan or direction was found for the application of these funds into the future.

#### 6.5.5 Use and transfer of Reserve funding (outside approved budget)

##### 6.5.5.1 Khancoban Rose Garden upgrade

From a reserves point of view the position is that this project is funded from seven smaller reserve balances which due to unbudgeted expenditure required the appropriation of these reserves to fund the rose garden project.

##### 6.5.5.2 Tumbarumba Caravan Park

As detailed in the "Project Status Report- Tumbarumba Caravan Park Redevelopment Project" which was provided to Council at its December 2018 meeting, there were significant issues identified that impacted on project funding which necessitated the appropriation of significant reserve funds to meet the shortfall in funding. The report included findings of an independent review of the project which included;

- *The project however was not adequately scoped, priced or adequately resourced prior to Councils commitment of significant current and future funding. The Project planning appears to have stalled at a feasibility estimate level of +/- 30%;*
- *In October 2017 there was an opportunity for the project to be paused and fully scoped, costed, programmed and risks assessed. This did not occur and the project has since been rushed without adequate/any planning;*
- *The haste, the lack of consultation and possibly the lack of project support within Council has resulted in very significant procurement shortcuts;*
- *The lack of proper project governance and project oversight has had significant impact on delivering to the original budget and delivery of a fit for purpose outcome;*

The outcomes of that review clearly determine that this project was not well planned or managed.

The report to Council on page 99 of the agenda states *'The original budget for the caravan park project was \$2,037,000 sourced from a combination of Government Grant Funding, private investment and a bank loan which have not been realised.'*

On this project alone, the fact that only \$104, 000 of an anticipated \$2,000,000 (approx.) external funding had been realised at the end of 2018, meant that there was a shortfall in funding of project costs to a value of \$1,894,980.50, as reported to Council at its December 2018 Council meeting.

#### 6.5.5.3 Reserve appropriations

The implication in instances of unbudgeted expenditure or the failure to realise anticipated external funding is that the shortfalls must be funded through the appropriation of reserves.

Accordingly, at its meeting held on the 25 October 2018, Council resolved to reduce its reserve balances by \$2,560,843 to provide funding for projects that were not budgeted or had revenue shortfalls and to ensure its unrestricted cash was at an acceptable level.

While we can be critical of the Council's planning and management of these projects, we believe that the appropriation of reserve funds to meet the unfunded costs of the projects is the correct and prudent action to take.

The re-instatement of some of these reserve accounts may still have to be resolved if anticipated funding is received and the consolidation of balances may well be considered should a reserve policy or procedure be considered for the future.

#### 6.5.6 Approval of Reserve movements

As discussed previously, various reserve movements are not approved during budget cycles, or may occur for an ad-hoc reason. A Reserves Policy would ensure that all reserve movements should be subject to formal processes.

#### 6.5.7 Remaining Reserves Snowy Works & Services

Three line item reserves are still in place for this former activity, being:

Description	(\$'000)
SWS surplus holding account	456
SWS plant dividend	464
SWS dividend reserve	538
Total	<b>1,458</b>

As Snowy Works and Services no longer exists the names of these reserves in Council records has been amended to IWD. As far as can be established there has been no formal change of application approved by Council.

#### 6.5.8 Reserves position at May 2018

In light of the decision by Council to reduce reserves in October 2018, we were requested to review and report on the position of unrestricted cash levels and reserves established by the former Tumbarumba Shire Council as at May 2018. As detailed in other sections of this report, up until that point, financial management and reporting systems for the former Councils had

generally continued to operate independently. The data made available due to these circumstances have allowed this analysis to be carried out.

We can confirm that at the time of the merger of the two financial systems that the reserves and cash position relating to the former Tumbarumba Shire Council were as follows.

Internal Reserves	\$4,989,772
External Reserves	\$6,985,807
<b>Total Reserves</b>	<b>\$11,975,579</b>
Cash	\$7,521,733
Receivables	\$1,349,815
<b>Total Cash and Receivables</b>	<b>\$8,871,548</b>
<b>Unrestricted cash</b>	<b>(\$3,104,031)</b>

The shortfall in unrestricted cash represents approximately 35% of total reported cash and receivables and approximately 26% of total reserves and approximately 62% of internal reserves.

The changes approved in October 2018 reduced reserves established by the former Tumbarumba Shire Council by \$1,520,267, which is in the order of 50% of the shortfall in unrestricted cash.

As reported in the 2017/18 financial statements, the Snowy Valleys Council in totality did have unrestricted cash at the time of the financial system consolidation, however we make this observation as it would have relevance in the event of a De-merger of the Council.

## 6.6 Findings

This review addressed reserve management and validity of reserves. It included an analysis of how such reserves were managed by the former Councils. The following findings are presented:

***10 - The management of reserves by the former Councils has occurred in line with established conventions and budgeting processes.***

***11 - Reserve management in its entirety was conducted in an appropriate manner mainly based on historic arrangements meeting the needs of Council at the time.***

***12 - Reserves are reported in the annual financial statements in Note 6(c) Restricted cash, cash equivalents and investments.***

***13 - Council's finance staff have put a significant effort and due diligence into maintaining reserve balances using established methodologies.***

***14 - Reserve balances are clearly accounted for between 2009 to 2018 including correct recognition into the consolidated accounts of the Snowy Valleys Council.***

***15 - There were no identified issues with Council's management of reserves from a compliance perspective, however there are instances where unexpected reserve appropriations were required to fund projects that were inadequately planned and managed. While we can be critical of the Council's planning and management of these***

*projects, we believe that the appropriation of reserve funds to meet the unfunded costs of the projects is the correct and prudent action to take.*

*16 - A review of the reserves and cash position relating to the former Tumbarumba Shire Council in isolation, at the time of the merger of the two financial systems indicates a shortfall in unrestricted cash in excess of \$3 million dollars.*

*17 - The current position is that there is no Reserves Policy and/or Reserve Guidelines or Procedures in place to formalise and direct reserve practices.*

*18 - Standard annual reserve transfers that are provided for in the LTFT have not been actioned since merger.*



## 7 Financial reporting (and management towards optimal financial ratios)

### 7.1 Introduction

Financial reporting is one of the core and most important functions of any organisation. This reporting can indicate the progress, outcomes and position of the organisation at any given time. These timeframes could be annual reports, monthly reports and/or ad hoc reports. Financial reports would normally be measured against an approved budget to determine how the organisation is progressing in terms of its financial planning and expectations. This process should occur frequently to ensure that management is aware of financial progress, developments and variations, thereby allowing intervention as and where necessary.

Financial outcomes and reports would normally also be measured by industry benchmarks as well as various performance and sustainability indicators. There are numerous performance indicators, those included in the audited annual financial statements.

### 7.2 Types of financial reporting for local government

#### 7.2.1 Statutory Reporting

Statutory financial reporting can be separated into two main categories, being annual financial statements and secondly other financial reporting to Council.

Annual Financial Statements are rigidly regulated in terms of format and information to be included, timeframes for completion as well as being subject to external audit. The reason why these statements are so important is that they are generally recognised as the most reliable source of financial information for Council by its numerous stakeholders.

These statements are regulated through three sources. The first is the Australian Accounting Standards which sets detailed expectations and requirements to be met during the preparation and presentation of annual financial statements. These accounting standards apply to all Australian financial reporting entities in order to set standards for content, quality and comparable standardisation.

The former Councils were consistently receiving unqualified audits.

The second statutory requirement to be met is local government specific for NSW, being the *Local Government Act 1993 No 30* as part of NSW Government Legislation. *Chapter 13, Part 3, Division 2 and Clauses 412-421* of the Act supply detailed direction for annual financial statements in terms of accounting records, financial reports and auditing.

The third statutory requirement to be met is also local government specific for NSW, being the *Local Government (General) Regulation 2005*. This regulation dictates more frequent reporting expectations for local governments.

### 7.2.2 Management reporting

It is vital that Council officers have a good and up to date understanding of financial processing, progress and outcomes within their area of responsibility. Some officers will have an interest in the total financial function of council, but most will have interest only in their own area(s) of involvement or operations, and likely at a detailed level. It is important that financial reporting is appropriate for the various internal requirements experienced by council and council officers. As is discussed below, Council has to date been challenged with establishing quality consolidated management reporting.

### 7.3 Financial reporting prior to merger

Tumut Shire Council changed from Practical Computer System (PCS) during 2015 to Technology One. This change-over in accounting packages was still uncompleted when the merger occurred, with effective date 12 May 2016. While this change presented challenges, Tumut SC was able to establish effective reporting and enquiry functionality and staff were trained in the system use.

Tumbarumba Shire Council changed from Practical Computer System (PCS) during 2014 to Authority. The change-over went relatively smoothly and was completed by the date of the merger, with the exception of the asset module that was never implemented.

Both Councils completed their final financial statements for the period 1 July 2015 to 12 May 2016 in their own financial systems of the time, and for all practical purposes using their own financial officers / resources. Both sets of statements received an unqualified audit.

### 7.4 Financial reporting for the period 13 May 2016 to 31 May 2018

Snowy Valleys Council was noticeably inconvenienced by having two separate financial systems, which complicated financial actions and reporting at most levels. Added to this were the numerous other priorities of the merger process, with its substantial workload and challenges which delayed the development of financial reporting.

At the same time, planning and preparations were underway to transition the financial activities from the former Tumbarumba SC accounting system to Technology One. This was a substantial project, which required meticulous attention and effort from numerous officers, and which resulted in one single consolidated accounting package from 1 June 2018.

This huge effort also ensured that the development of financial reporting remained a lower priority. It would be fair to say that management reporting was problematic and limited to the mere minimum during the period May 2016 to end of May 2018. Despite all the factors and circumstances mentioned in this report the annual financial statements for the period 13 May 2016 to 30 June 2017 for SVC was duly approved and signed off by Council and the Audit Office of NSW late October 2017 with no qualifications.

## 7.5 Findings

**19 - The newly formed council had to cope for approximately two years with two separate accounting packages which impacted on reporting.**

**20 - Section 202 of the LG (General) Regulation 2005, requires Council to establish and maintain a system of budgetary control that will enable the council's actual income and expenditure to be monitored each month and to be compared with the estimate of the council's income and expenditure. To date this requirement has been met to a limited extent.**

**21 - Management reporting was problematic and limited to the mere minimum during the period May 2016 to end of May 2018.**

**22 - The consolidation of the accounting packages was completed at the end of May 2018 and should significantly improve Council's reporting capacity.**

**23 - The status of financial reporting is as follows:**

- **The annual financial statements for the year ended 30 June 2018 was signed off on the 30<sup>th</sup> November 2018.**
- **Statutory reporting to Council is occurring as dictated by the Local Government (General) Regulation 2005 in terms of monthly reporting to Council on the status of investments, as well as the quarterly budget review statements.**
- **Some internal reporting to management has commenced and various standard reports have been developed and are available for use. These include Profit and Loss reports on a Whole of Council or Directorate/Divisional levels, while Profit and Loss reports are also available on a project basis. Transactional enquiries are also available and functional.**

## 7.6 Management towards optimal financial ratios

### 7.6.1 Introduction

The Local Government code of accounting practice and financial reporting issued by the NSW Office of Local Government prescribes the reporting on six performance measures. Although no longer required we have included the building and asset renewal ratio as Council retains it in their long-term forecast.

A review of the historical and forecast outcomes for each measure is provided below. In reviewing forecasts, we have utilised data from the “Planned Scenario” in Council’s 2018-2028 Long Term Financial Plan (LTFP) which was adopted 28 June 2018. Commentary on the forecast regarding indicators is included in the following extract.

#### Indicators

The following ratios are calculated from the Planned Scenario:

##### Operating Performance Ratio – Benchmark > 0%

In the planned scenario, Council does not reach the benchmark until 2025/26. This indicates that Council will not have the required funding to renew assets adequately until that year.

##### Own Source Revenue – Benchmark > 60%

The benchmark is only just achieved in the planned scenario but improves throughout the 10 year period to be at 64% in the General Fund by the end of the forecast period.

##### Building and Infrastructure Renewals Ratio – Benchmark 100%

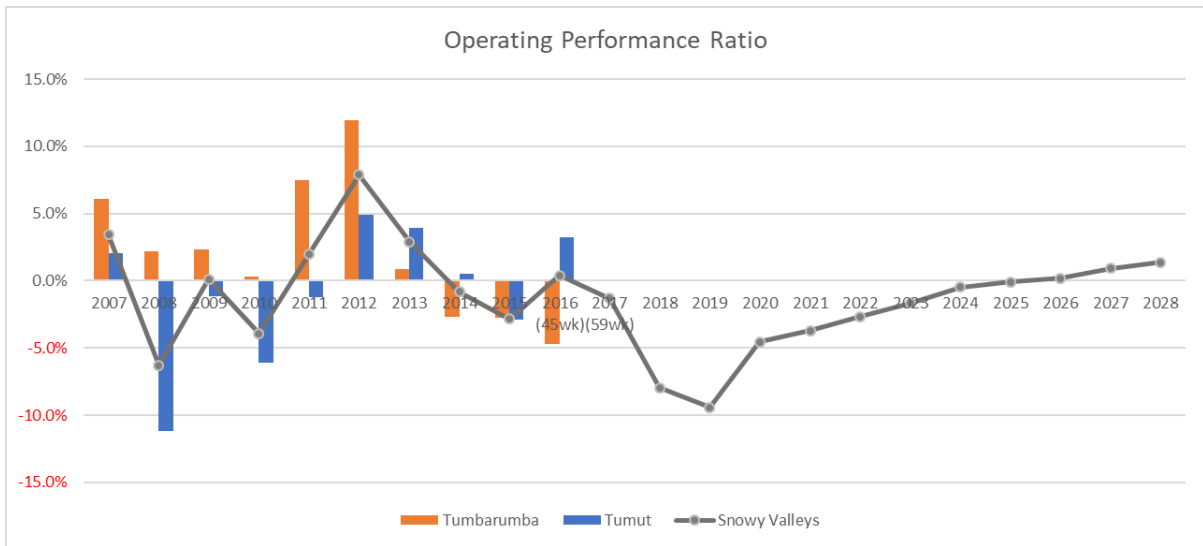
Due to the number of capital grants that have been and will be received Council will not meet this benchmark in the planned scenario. Once the Stronger Communities Infrastructure Fund has been completed Council will endeavour to achieve this benchmark.

### 7.6.2 Operating Performance Ratio

The Operating Performance Ratio indicates an operating surplus or loss on a percentage basis. The benchmark is zero or above which would indicate a surplus.

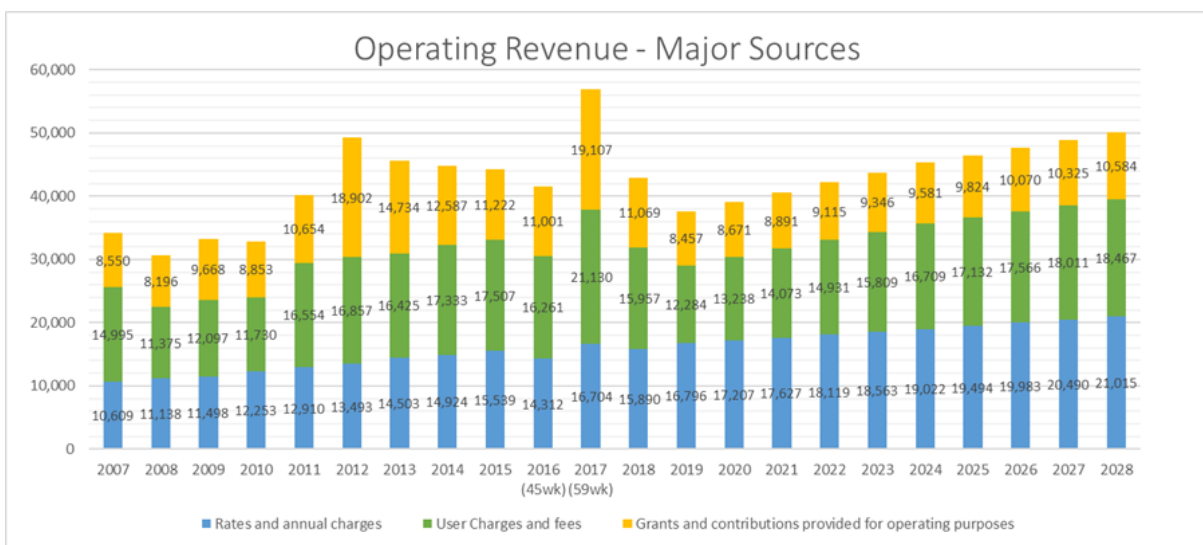
The table and graph below shows the various results for the former Councils and SVC to date. In addition, the forecast results for SVC from 2019 are shown in the graph. The LTFP shows a significant drop in the 2019 financial year followed by a significant recovery in 2020 and subsequent gradual improvement until the benchmark is reached in 2024.

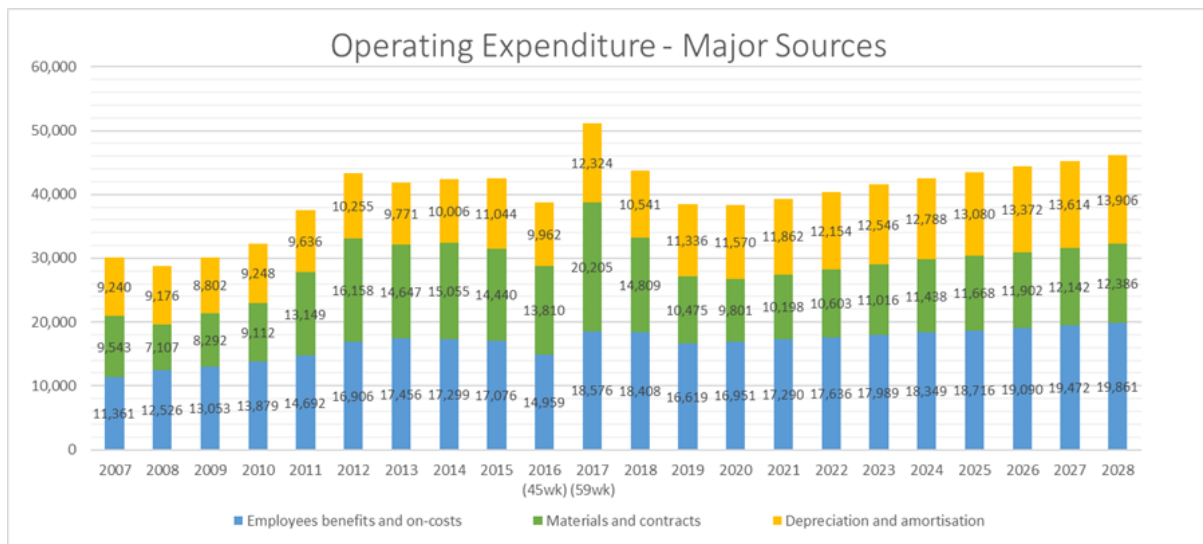
Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	3.4%	-6.3%	0.1%	-3.9%	2.0%	7.9%	2.9%	-0.8%	-2.8%	0.4%	-1.3%	-7.9%
Tumbarumba	6.1%	2.2%	2.3%	0.3%	7.5%	11.9%	0.9%	-2.7%	-2.8%	-4.7%		
Tumut	2.1%	-11.2%	-1.1%	-6.1%	-1.2%	4.9%	4.0%	0.5%	-2.9%	3.2%		



Snowy Valleys	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Rates and annual charges	10,609	11,138	11,498	12,253	12,910	13,493	14,503	14,924	15,539	14,312	16,704	15,890
User Charges and fees	14,995	11,375	12,097	11,730	16,554	16,857	16,425	17,333	17,507	16,261	21,130	15,957
Interest and Investment revenue	1,592	-423	632	1,198	1,622	1,618	2,061	1,832	1,012	983	1,513	1,364
Other Revenues	932	740	904	1,216	1,294	832	802	1,074	880	797	1,019	1,307
Grants and contributions provided for operating purposes	8,550	8,196	9,668	8,853	10,654	18,902	14,734	12,587	11,222	11,001	19,107	11,069
<b>Operating Revenue</b>	<b>36,678</b>	<b>31,026</b>	<b>34,799</b>	<b>35,250</b>	<b>43,034</b>	<b>51,702</b>	<b>48,525</b>	<b>47,750</b>	<b>46,160</b>	<b>43,354</b>	<b>59,473</b>	<b>45,587</b>
Employees benefits and on-costs	11,361	12,526	13,053	13,879	14,692	16,906	17,456	17,299	17,076	14,959	18,576	18,408
Borrowing Costs	69	285	361	96	207	305	752	1,439	626	723	800	649
Materials and contracts	9,543	7,107	8,292	9,112	13,149	16,158	14,647	15,055	14,440	13,810	20,205	14,809
Depreciation and amortisation	9,240	9,176	8,802	9,248	9,636	10,255	9,771	10,006	11,044	9,962	12,324	10,541
Other expenses	5,204	3,879	4,255	4,299	4,499	4,007	4,488	4,337	4,285	3,728	8,344	4,803
<b>Operating Expenditure</b>	<b>35,417</b>	<b>32,973</b>	<b>34,763</b>	<b>36,634</b>	<b>42,183</b>	<b>47,631</b>	<b>47,114</b>	<b>48,136</b>	<b>47,471</b>	<b>43,182</b>	<b>60,249</b>	<b>49,210</b>
<b>Operating Result</b>	<b>1,261</b>	<b>-1,947</b>	<b>36</b>	<b>-1,384</b>	<b>851</b>	<b>4,071</b>	<b>1,411</b>	<b>-386</b>	<b>-1,311</b>	<b>172</b>	<b>-776</b>	<b>-3,623</b>

The graph below shows that the projected operating revenue reduced to a level below that of the previous 8 years. A major contributor to this is the projected reduction in operational grant income. In terms of managing this ratio Council should continue to monitor and manage both revenue and expenditure with a view to attaining a surplus position before 2024.





### 7.6.3 Own Source Revenue

Benchmark for this ratio is greater than 60%.

As can be seen, the former Tumut SC maintained outcomes in line with the benchmark, while Tumbarumba SC was consistently below target. The consolidated results and those for SVC are in line with the benchmark. Forecasts project this ratio to remain in excess of the benchmark.

Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	61.8%	64.2%	65.4%	69.1%	64.8%	58.2%	62.9%	58.5%	66.8%	70.3%	56.4%	66.8%
Tumbarumba	50.2%	47.1%	48.5%	46.8%	41.0%	39.5%	37.6%	36.3%	35.5%	36.1%		
Tumut	58.9%	61.3%	63.5%	69.5%	63.7%	66.3%	68.3%	59.5%	78.6%	76.1%		

An alternative indicator is the percentage of Annual Rates and Changes as a percentage of total operating revenue.

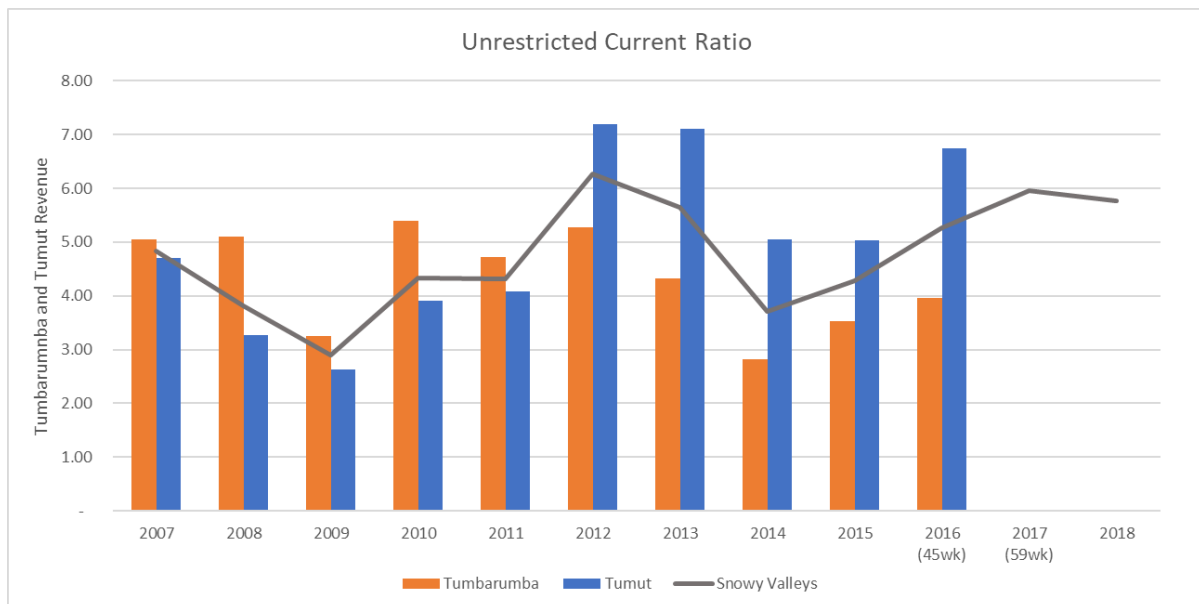
Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	23.3%	31.3%	29.9%	32.1%	25.8%	23.9%	27.0%	24.8%	29.7%	31.1%	23.3%	30.8%
Tumbarumba	18.0%	23.9%	22.2%	23.7%	17.4%	13.6%	17.8%	14.9%	16.0%	20.5%		
Tumut	25.9%	35.2%	34.0%	36.3%	31.0%	32.2%	32.4%	31.6%	40.8%	37.8%		

### 7.6.4 Current Ratio - Unrestricted

Current ratio – unrestricted indicates liquidity and ability to satisfy obligations in the short term. The benchmark for this ratio is greater than 1.5 times.

As can be seen below both former Councils have maintained historical ratios in excess of the benchmark and the merged Council continues to do so.

Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	4.83	3.80	2.90	4.33	4.32	6.27	5.64	3.70	4.28	5.27	5.95	5.77
Tumbarumba	5.04	5.10	3.26	5.39	4.71	5.27	4.33	2.82	3.53	3.97		
Tumut	4.70	3.27	2.63	3.91	4.08	7.19	7.10	5.05	5.03	6.75		



### 7.6.5 Debt Service Cover Ratio

The Debt Service Cover measures the ability of Council to service debt. The benchmark for this ratio is greater than 2.0. The calculation methodology changed in 2014 and is reflected in the table below. As can be seen, the former Councils and SVC have exceeded the target. Forecasts show this target being exceeded for the forecast period.

Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	0.7%	0.5%	0.5%	0.5%	1.4%	2.6%	3.3%					
Snowy Valleys								3.83	5.98	6.19	7.37	4.12
Tumberumba	0.8%	1.5%	1.3%	1.2%	1.0%	1.4%	1.8%					
Tumberumba								9.20	6.94	5.70		
Tumut	0.6%	0.0%	0.1%	0.2%	1.7%	3.3%	4.0%					
Tumut								3.05	5.60	6.42		

### 7.6.6 Rates, annual charges, outstanding

Benchmark for this ratio is less than 10%.

Historical and forecast outcomes for rates and charges outstanding are below the maximum percentage set in the benchmark. The only exception to this is the 2016 result where the financial year was cut short as the result of the merger and rates that had been levied were not yet due and therefore the reported outstanding rates and charges levels were much higher than usual. As is shown in normalised results in subsequent years this result was purely a timing issue.

Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	6.3%	6.6%	8.2%	4.6%	8.1%	7.7%	7.3%	6.8%	5.3%	21.3%	4.2%	3.2%
Tumberumba	5.2%	5.3%	4.9%	1.4%	7.7%	9.1%	10.8%	11.6%	9.7%	20.5%		
Tumut	6.7%	7.0%	9.3%	8.9%	8.2%	7.2%	6.1%	5.1%	3.7%	21.6%		

### 7.6.7 Cash Expense cover

Benchmark for this ratio is greater than 3 months

This ratio establishes how many months of expenditure is represented in cash held.

Historical (for both former Councils) and forecast ratios are well in excess of the 3 months cash holdings target.

Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys											12.0	13.6
Tumbarumba	0.0	0.0	11.7	7.4	10.0	8.9	12.4	6.7	8.8	12.2		
Tumut	7.1	11.6	6.2	7.0	9.2	8.5	8.1	8.8	9.4	9.9		

### 7.6.8 Building and Asset Renewal Ratio

This ratio is no longer prescribed however Council includes it in their long-term forecast. The target ratio is 100%. Council has provided a comment on the target in the introduction. We note that there is a significant increase in cash over the forecast period. The utilisation of cash to boost asset renewal would allow Council to meet its target.

Council	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	191.2%	153.6%	103.2%	61.8%	69.7%	77.9%	87.4%					
Tumbarumba		116.0%	141.3%	113.2%	110.7%	176.1%	131.9%					
Tumut	191.2%	163.2%	94.3%	48.5%	53.9%	29.9%	60.2%					

## 7.7 Findings

**24 - Historically 5 of the 7 performance measures have been in line with or exceeded benchmarks so we have no reason to question the forecast that they are to continue in this way.**

**25 - Of the two ratios that are not forecast to meet the benchmark the following comments are provided.**

- **Operating performance ratio. - The forecast shows a significant reduction in revenue in 2019 that is projected to reduce to a level below that of the previous 8 years. A major contributor to this is the projected reduction in operational grant income.**
- **Building and asset renewal ratio – This ratio is forecast to remain below 100%. The utilisation of cash to boost asset renewal would allow Council to meet its target.**



## 8 Financial asset management

(asset management plans and their integration with financial management; validity and completeness of asset registers, including componentisation, depreciation, useful life, obsolescence and any other pertinent matters.)

Financial asset management generally refers to the management of assets from a financial perspective and how this integrates with budgets, long-term financial planning and decisions about renewals expenditure.

### 8.1 Asset Management and Community Strategic Plans

The former Tumut Shire Council Community Strategic Plan (CSP) 2013-2023 formed part of the Integrated Planning and Reporting (IP&R) Framework. The CSP was developed through community consultation which involved a rating by respondents of the importance and satisfaction of both Infrastructure and Services. Through this process, priority areas for improvement were identified being those items with high importance and low satisfaction. These included Roads, Public Toilets and Footpaths.

The top four priorities established as a result of the consultation process were as follows:

1. Tourism
2. Roads
3. Public Toilets
4. Footpaths

Ten key directions were set out under the quadruple bottom line principle which involved various strategies to provide well planned infrastructure, construction and operation and related services to the community. There is no actual mention of asset plans or how financial management of assets is linked to Tumut SC's strategic outcomes.

Similarly, Tumbarumba Shire Council's Community Strategic Plan 2030, prepared in 2013 includes four themes also linked to the quadruple bottom line being 1. Social – Maintaining our Strong Community, 2. Economic – Economic Development, 3. Environment - Sustainability of the Environment and 4. Civic – Action through Leadership.

Various sub-plans are referenced in the CSP and notably, the Asset Management Plan 2013-2023 is relevant to assets. High priorities were established through consultation and these were assigned under the four themes.

There are references to assets such as infrastructure and utilities being included under the theme social inclusion. Roads, transport and utilities are included under the economic theme.

It is observed that each former Council made reference to asset management in their CSPs, however, there is no mention of how asset management priorities translate to Council's overall strategic goals or reference the hierarchy of the various plans that make up the asset management system.

## 8.2 Asset Management Plans – Integration with Financial Management

A series of asset management plans were in place for Tumut SC and Tumbarumba SC. A summary of those plans adopted by the former Council's and the Snowy Valley Council are as follows:

Description	Snowy Valleys Council	Tumut SC	Tumbarumba SC
Strategic Asset Mgt Plan (SAMP)	June 2018	Dec 2008	Sep 2011
Building, Recreational Facilities Infrastructure	In progress	-	June 2013
Stormwater	In progress	August 2012	June 2013
Transport	In progress	-	June 2013
Water	In progress	August 2015	June 2013
Waste Water	In progress	August 2015	June 2013
Roads	In progress	June 2011	-
Bridges	In progress	June 2011	-
Footpaths	In progress	July 2012	-
Kerb	In progress	July 2012	-

The asset plans adopted by the former Councils were prompted by the NSW Department of Local Government Position Paper – Asset Management Planning for NSW 2006. The Department also established the Local Government Integrated Planning and Reporting (IP&R) Guidelines.

In the case of Tumut SC an Asset Management Strategy (2008) was established which over a 5 year timeframe set service levels and performance targets funded by the Long Term Financial Plan. An Improvement Plan was also established, as recommended by the Department, which aimed to integrate asset management into Council operations. The Improvement Plan included the following features:

- 10 year Long-term Term Financial Plan;
- lifecycle costing;
- establish asset sub-plans;
- risk management;
- decision support system with the aim of achieving advanced asset status.

Tumbarumba SC also established an Asset Management Strategy (2011) under the same framework which included various strategies including a longer-term plan covering, as a minimum, the following:

- bringing together asset management and long-term financial plans;
- demonstrating how council intends to resource the plan, and
- consulting with communities on the plan.

The aim was to enable the annual budget to show the connection to Council's strategic objectives, ensure Council decisions were based on accurate asset data and explain to the community any variations between budget and actual results.

It was found that whilst an initiative was in place to establish an industry best practice approach to asset management, the large volume of material prepared by the former Council's existed as reference material only. Minimal integration existed between the various plans and long-term renewals forecasts.

The plans are now relatively outdated, particularly in light of the new ISO55000 Asset Management standards. These standards have a stronger emphasis on the role of leadership by elected members and top-management. It is expected that, amongst other things, Council's organisational objectives translate into asset management objectives, creating a more integrated and strategic approach.

### 8.3 Linkages to Budgets and capital investment planning

Whilst the existing asset management strategic plans refer to long-term financial plans and informed decisions for capital renewals and priorities, a review of the budgeting process indicates that each Council had distinctly differing approaches.

#### 8.3.1 Tumut Shire Council

A review of the Tumut SC decision-making process for annual budget allocations were not driven by long-term asset priorities and financial forecasts.

The budget process for capital expenditure for roads involved an asset officer retrieving a list of roads from the Conquest asset system. The list was based on useful life or a condition status. Roads were selected with a condition of 4 or 5, from an overall scale of 1 to 5 with 5 being the worst. If an accurate condition assessment didn't exist, a useful life calculation was used. Both methods could be relied upon to compile a reasonable list for budget review by senior officers. Fortunately, overall asset data was considered mature when formulating lists.

When compiled, those lists were provided to senior staff for review or shortlisting if required. Such lists were simple working papers or spreadsheets that would later become part of project schedules for budgeting purposes.

Once a senior officer or Director had completed a schedule, decisions about budget allocations were based on round table discussions between executive staff during a budget pre-planning process. Such discussions were not necessarily based on asset management priorities.

In other cases such as buildings, an annual allocation was in place whereby priorities were based on available funds. Budgets were a fixed amount and there is no evidence of asset renewal priorities or forecasts being used.

Councillors were presented with itemised lists and budget allocations and generally accepted officer recommendations. No strict moderation process appears to have existed and councillors had faith in the proposals presented by staff.

Water and sewerage expenditure was based on the Financial Plan for Water and Sewerage prepared by *HydroScience* which includes 30 year projections.

Plant and machinery purchases were delegated to the Fleet Manager and the General Manager, however, budget allocations were approved by Council. A Plant Policy and 10 year

replacement program was in place, with renewals based on age, condition and performance with a 10 year cycle for heavy plant and 5 years for small plant.

Evidence gathered from senior officers as part of the review indicated that budget deliberations for future investment decisions, such as new assets or facilities, were not mature. Business cases were not prepared, nor were annual operating costs, depreciation or return on capital outcomes considered as part of an investment strategy.

### 8.3.2 Tumbarumba Shire Council

Tumbarumba SC was highly engaged in the IP&R framework, with asset management being an element thereof. The budget process included detailed reports about renewals, particularly roads, which was based on mature asset data.

Council utilised the Maloney Asset Management System (MAMS) for asset data (roads). The budgeting process was based on compiling a proposed schedule of renewals using various criteria as follows:

- a proposed renewal schedule derived from MAMS with 20 year projections;
- condition assessment based on a scale of 0 to 10 (eg. scale of 7 may be selected);
- renewal proposals include reference to components such as seal, pavement, kerb etc.
- roads further filtered based on other criteria such as class of road, traffic type, school bus routes etc.
- officers would also take a risk based approach using local knowledge.

Once compiled and reviewed by officers, a one page summary report on each road was prepared for consideration at budget workshops. The report included detail about the road, chainage and classification. It included the condition score, reason to support the score together with a brief description about the consequences of the identified defects, such as greater maintenance costs. Photos and an area map were included.

Councillors would review and deliberate on the reports and in some cases undertake their own inspections. The outcomes from this scrutiny can never be guaranteed, however, the data supporting the decision process was integral.

If for some reason Council was able to allocate more funds to roads, a lower condition rating could be applied, for example a 6.8 rating, these proposals were modelled and further reviewed by Council.

Once reports were reviewed and decided upon, final lists were completed and formed part of budget papers. Council's approach to this method of budgeting worked well because both asset and finance staff were aligned during the process.

Water and waste water allocations were an aged based. The Asset Management Plans for water and waste water included a projected 10 year capital renewals program. There were no new or predicted upgrades for budgeting purposes.

Plant replacement decisions appeared ad-hoc given that no fleet manager existed. The responsibility for preparing a replacement program fell across various staff members and Councillors got heavily involved. Replacement programs existed, yet plant performance

records were not well kept. Internal recording of hours and mileage was poorly kept which distorted performance data. This made assessing replacement programs inconsistent.

Future investment decisions, while limited, were mainly conducted by finance and economic development staff. Industry standards were used in this respect as much as possible.

## 8.4 Implications for Snowy Valley Council asset management

### **Approach going forward**

SVC has embarked on establishing an Asset Management System (AMS) consisting of interacting elements that achieve corporate objectives. Council's SAMP was adopted in June 2018 which aims to meet national sustainability requirements, compliance with ISO 55000 and the IP&R guidelines.

Key to the success of this approach is a hierarchy of objectives that link Council plans and policies under a complete AMS. In an attempt to integrate and improve, Council has rated its current maturity across various aspects and set targets that remain a strong focus going forward.

### **Asset Management Plans & Improvement Plan**

The SAMP includes an Asset Management Maturity Improvement Plan that includes various tasks assigned to officers, target dates and budget.

To achieve alignment with ISO requirements, Council has established asset management objectives that align with the four key themes from ISO 55000 being Value, Alignment, Leadership and Assurance.

Together with a hierarchy of objectives that are anchored in Council's adopted policies and strategic objectives Council is translating its organisational objectives into the AMS thus establishing a solid framework and progressive integration.

### **Service Review and Community Consultation**

In addition to the positive structural make-up of the AMS, Council is currently undertaking a detailed Service Review Project using Common Thread Consulting. This process started just prior to the merger but continues for all services. It is intended to engage all stakeholders and the outcomes may inform a revised set of IP&R documents.

Various opportunities exist from the review such as Councillors being able to think strategically and appreciate the bigger picture. Staff may have a clearer line of sight between required outcomes, whilst understanding performance standards, responsibilities and future direction.

Community members will help shape Council's plans and service delivery, what actual services are provided, the costs and how performance is measured.

Critical to the aims of the project is performance reporting to the State Government and the importance of infrastructure reporting through the IP&R framework.

## Asset Registers and data integrity

SVC is currently consolidating asset data into Technology One. Asset data is being sourced from the former asset systems, being MAMS and Conquest. Australis Asset Advisory Group is progressively re-valuing asset data by class and this forms the basis for consolidated data including condition assessments and componentisation.

The importance of the asset data cannot be underestimated as it has formed an important part of budget priorities up to now, particularly roads. Whilst Asset Management Plans are in place, they have not been integral to long term asset renewal forecasts.

### 8.5 Validity of asset registers

#### 8.5.1 Pre-merger asset accounting practices

The annual financial reporting for assets is regulated by various external regulations and guidelines, most importantly the Australian Accounting Standards. This is beneficial in that asset reporting was similar for the former councils and remains so for Snowy Valleys Council as per the Infrastructure, Property, Plant and Equipment note in the annual statements. It is noted however that, the data was kept in subtly different manners for the former councils, including different levels of structuring and detail. The most significant difference in the five years leading up merger of the former councils was the outcome of asset revaluations.

The revaluation outcomes for Tumbarumba SC in general involved larger upward revaluation variances and revaluation accounting entries, when compared to Tumut SC for this five year period. This applied especially to the Roads, Bridges and Stormwater revaluations for Tumbarumba SC completed in 2015, and to a lesser extent to Buildings (2013) and Water (2012). Large upward revaluation movements would normally also have impacts on depreciation, but depreciation for Tumbarumba SC for the period 2012 to 2016 maintained a fairly constant upwards curve. If anything, depreciation for Tumut SC experienced slightly more volatility during this period.

#### 8.5.2 Current policies, procedures and other guidelines

The day to day financial functions and expectations of asset management in terms of maintaining asset registers are mostly regulated by various Australian Accounting Standards. These address numerous considerations including separate asset class expectations, fundamental expectations regarding componentisation, capitalisation requirements, valuation requirements, impairment and/or obsolescence, etc.

Other internal directives include the SVC 2018-2028 Asset Management Plan, the Roads Management Policy adopted June 2018 as well as various other policies and plans in the process of development. Numerous other internal directives are also in different stages of development.

### 8.5.3 Asset revaluations

The review of the revaluation program as shown below confirms that Council is meeting the 5 year revaluation cycle required by AASB 116.

Asset Class	Revaluation date
Transport - roads and associated	2018/19
Water Supply	2016/17 and by 30 June 2022
Waste Water Services	2016/17 and by 30 June 2022
Stormwater - urban and drainage	By 30 June 2020
Buildings and Facilities	2017/18
Parks, Recreation, Open Space	2017/18
Plant, Fleet and Equipment	2017/18
Land	By 30 June 2021
Waste Management	As per dates Transport, Buildings & Other Structures, Fleet

### 8.5.4 Componentisation and Remaining Useful Lives

With regards to componentisation and remaining useful lives (RUL's) the former councils at times had similar structures, but at times also very different practices. These different strategies is not necessarily an indication that one was better or worse than the other. These options often related to levels of detail and were all in line with Australian Accounting Standard 116 which deal with these specific considerations in appropriate detail.

In order to demonstrate some of the former and current practices, four of the main asset classes were selected, and then individual assets from within those asset classes to show the level of detail used.

The asset classes selected were buildings, roads, water and sewerage.

#### **Buildings**

Seven major buildings (Library, RHB, Batlow Institute / Library, Batlow Amenities, Boys Club Community Hall, Radio Offices and Community Support Offices) in the former Tumut SC area were originally intended to have separate management plans. As such componentisation for them were completed at a very detailed level, allowing for a maximum of forty-seven components for each. This componentisation was completed for all but the RHB building, before the original decision for separate asset management plans were reversed. Componentisation for buildings in the Tumut area ranged from up to forty-seven components for the mentioned major buildings, to between 8-13 for all other buildings.

Buildings in the Tumbarumba area had varied outcomes for the two examples chosen. Khancoban Community Hall was just a single line entry for the whole building, while the Khancoban Information Centre consisted of four components. The result of the 2017/18 revaluation for buildings, completed by Australis Asset Advisory Group, now have a maximum of seven components for each building asset for SVC.

## Roads

The position for roads is relatively easy. Roads for the Tumbarumba area have a maximum of three components, being earthworks (formation), pavement and seals. Roads for the Tumut area have a maximum of four components, being earthworks (formation), pavement subbase, pavement base and seals. The revaluation for roads is occurring this financial year and as part of the valuation it has been decided to standardise the components for roads for Snowy Valleys Council into the current four components of the Tumut area. This implies that seals should remain the same, as a component, for the Tumbarumba area, but the former two components of earthworks and pavements will have to be evaluated and separated into three components. Remaining useful lives assigned to these new components may have some depreciation variation outcomes, which in all probability will not be significant.

## Water and Sewerage

The position for water and sewerage assets for the two areas are more complicated. As an indication, for the Tumut area the Water Treatment Plant components increased from 16 to 36 components during the Australis Asset Advisory Group revaluation, while Sewer Treatment Plant components increased from 32 to 58 components. For the Tumbarumba area the components for the Tumbarumba Water Treatment Plant increased from 3 to 37 components, while components for the Sewer Treatment Plant increased from 8 to 43 components.

The above can be summarised as follows:

Asset	Components	SVC components (after revaluation)
Seven major buildings Tumut area	up to 47	up to 7
All other buildings Tumut area	8-13	up to 7
Buildings Tumbarumba area	varied	up to 7
Roads Tumut area	4	4 (to be finalised)
Roads Tumbarumba area	3	4 (to be finalised)
Water Treatment Plant Tumut area	16	36
Water Treatment Plant Tumbarumba area	3	37
Sewerage Treatment Plant Tumut area	32	58
Sewerage Treatment Plant Tumbarumba area	8	43

While the number of components per asset and per asset class have standardised, useful lives and remaining useful lives will remain varied.

### 8.5.5 Depreciation

When reviewing consolidated historical data over the last ten year period, depreciation has only increased from \$8,802,000 to \$10,541,000 despite the written down value of assets having increased from \$399,867,000 to \$571,559,000. It is clear that revaluations have included changes to asset RULs which has reduced depreciation compared to asset value. This should be a reflection of improved valuation techniques and quality of data. The decrease in depreciation for 2018 is more than likely linked to improved standardisation of all asset classes except Transport.



## Actual Depreciation

Depreciation	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valley	8,802	9,248	9,636	10,255	9,771	10,006	11,044	9,962	12,324	10,541
Tumbarumba	2,136	2,288	2,894	3,082	3,339	3,530	3,654	3,572		
Tumut	6,666	6,960	6,742	7,173	6,432	6,476	7,390	6,390		

## Actual net carrying amount of assets

Net Assets	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Combined	399,869	457,367	460,261	476,818	493,272	512,176	572,022	574,747	568,416	571,559

## Forecast Depreciation

Snowy Valley	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Depreciation	11,336	11,570	11,862	12,154	12,546	12,788	13,080	13,372	13,614	13,906
Net Assets	604,738	609,457	610,994	611,812	612,356	611,115	610,237	608,776	609,510	608,762

For the ten-year budget period, as per the LTFP, the written down asset value remains consistent. As the assets classes have now been standardised for the former two councils in all respects, (except for roads), depreciation should now also stabilise. From this perspective depreciation should be slightly lower than budgeted based on the capital works budget. This will however have to be tested for another year or two after the completion of the roads and related asset class revaluation.

### 8.5.6 Asset registers

Asset data for Tumbarumba SC was effectively held in two data bases. Engineering asset officers kept detailed spreadsheets complete with componentisation, RUL's as well as depreciation calculations all the way up to merger and beyond, i.e. until asset classes were consolidated into Technology One. The Finance section kept an abbreviated version of this with no componentisation or RUL's in Practical Computer Systems up to 30 June 2014. From July 2014 they also maintained spreadsheets in preparation for the change in accounting systems from PCS to Authority. Assets was the only module never to be implemented in Authority due to the pending merger. Engineering calculated depreciation was duplicated by Finance.

Assets for Tumut SC were maintained in Conquest up to 2015, after which it was transferred to Technology One as part of the change in accounting systems.

The current position regarding asset register maintenance for SVC is:

### Transport

Currently detailed in Technology One for the former Tumut SC and abbreviated in Technology One for the former Tumbarumba SC. As this asset class is being revalued during 2018/19 all assets for this asset class should be similarly recorded in Technology One in terms of standardised overall outcomes at 30 June 2019.

## **Water Supply**

Detailed in Technology One since the comprehensive consolidated revaluation performed during the 2016/17 financial year.

## **Waste Water Services**

Detailed in Technology One since the comprehensive consolidated revaluation performed during the 2016/17 financial year.

## **Stormwater**

Currently detailed in Technology One for the former Tumut SC and abbreviated in Technology One for the former Tumbarumba SC. As the revaluation for this asset class will be finalised during 2019/20 all assets should be similarly recorded in Technology One in terms of standardised overall outcomes at 30 June 2020.

## **Buildings and Facilities**

Detailed in Technology One since the comprehensive consolidated revaluation performed during the 2017/18 financial year.

## **Parks, Recreation, Open Space**

Detailed in Technology One since the comprehensive consolidated revaluation performed during the 2017/18 financial year.

## **Plant, Fleet and Equipment**

Detailed in Technology One since 2017/18 financial year.

## **Waste Management**

In Technology One but distributed across various asset classes including Transport, Buildings & Facilities, Fleet.

Based on the current position and planned activity, all asset data will be maintained in the Technology One system assets module, in a standardised format by June 2020.

### 8.5.7 Useful lives of assets

When an asset is capitalised for the first time a useful life is assigned to the asset. That then becomes a key judgement as it is one of the two major influences for determining depreciation for that asset (depreciation = value divided by useful life). At any future revaluation, the remaining useful life becomes more important, as it is then used in the depreciation calculation. Useful lives will always remain important to maintain as correctly as possible, as this that information will in the future remain a basis for improved asset data.

As discussed earlier, as revaluations occur any discrepancies between former Councils useful lives determination methodology will be addressed become consistent.

## 8.6 Completeness of asset registers and obsolescence

Subject to the limitations of this review we have concluded that asset data has appropriately transferred from the former council's registers and that the SVC asset registers are complete.

Asset officers have confirmed that recognition of assets not previously recognised, the de-recognition of current assets and impairment and obsolescence have and will be addressed through the revaluation process.

## 8.7 Findings

- 26 - It is observed that each former Council made reference to asset management in their CSPs, however, there is no mention of how asset management priorities translate to Council's overall strategic goals or reference the hierarchy of the various plans that make up the asset management system.**
- 27 - It was found that whilst an initiative was in place to establish an industry best practice approach to asset management, the large volume of material prepared by the former Council's existed as reference material only. Minimal integration existed between the various plans and long-term renewals forecasts.**
- 28 - The Tumut SC decision-making process for annual budget allocations were not driven by long-term asset priorities and financial forecasts.**
- 29 - Budget deliberations by Tumut SC for future investment decisions, such as new assets or facilities, were not mature. Business cases were not prepared, nor were annual operating costs, depreciation or return on capital outcomes considered as part of an investment strategy.**
- 30 - While the number of components per asset and per asset class have standardised, useful lives and remaining useful lives will remain varied.**
- 31 - With regards to componentisation and remaining useful lives (RUL's) the former councils at times had similar structures, but at times also very different practices. These different strategies are not necessarily an indication that one was better or worse than the other. These options often related to levels of detail and were all in line with Australian Accounting Standard 116 which deal with these specific considerations in appropriate detail.**
- 32 - For the ten-year budget period, as per the LTFP, the written down asset value remains consistent. As the assets classes have now been standardised for the former two councils in all respects, (except for roads), depreciation should now also stabilise.**
- 33 - Based on the current position and planned activity, all asset data will be maintained in the Tech One system assets module, in a standardised format by June 2020.**
- 34 - Subject to the limitations of this review we have concluded that asset data has appropriately transferred from the former council's registers and that the SVC asset registers are complete.**

## 9 Grant Funding Management

### 9.1 Operating Grants

#### 9.1.1 Former Tumut Shire Council

Grants and contributions on average represents approximately 25% of operating income for the former Tumut Shire Council. Council relied on this source of income, particularly Financial Assistance Grants (FAGs) and Transport grants such as Roads to Recovery and other Road and Bridge grants.

An analysis of operating grant revenue for the ten years prior to merger is presented below, which indicates that on average, one quarter of Council's operating revenue is made up of grants and contributions.

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Grants and contributions for operating pu	6,149	5,265	6,411	5,668	7,358	9,035	8,878	6,906	5,592	6,381
<b>Operating Revenue</b>	<b>24,084</b>	<b>19,643</b>	<b>22,383</b>	<b>23,231</b>	<b>27,143</b>	<b>29,739</b>	<b>31,978</b>	<b>28,072</b>	<b>28,273</b>	<b>27,830</b>
% Op Grants of Revenue	26%	27%	29%	24%	27%	30%	28%	25%	20%	23%

Recurring grants were sourced through normal operations and form a regular level of operating income. Non-recurrent grants were obtained by Council's departmental staff based on priorities and available funding. Finance staff maintain a Grants Register which serves as a central list of grants that also provides for annual reconciliation and reporting in the financial statements.

Roads to Recovery funding, which was treated as operating income, remained as an income source during the period leading up to the merger. FAGs also remained steady, despite prepayment of those grants which were recognised in the year they were received.

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Federal Assistance Grant (FAGs)							3,179	1,624	3,302	3,289
Roads to Recovery							474	318	164	1,052

There is a wide variety of specific purpose recurrent grants received by Council which are listed in the annual financial statements. These grants include activities such as bushfire and emergency services, Community services, vehicle usage contributions for example which go towards Council operations or other government priorities.

Reliance on grants was influenced by the existence of Snowy Works and Services (SWS). Whilst undertaking Council's civil works, SWS actively sourced external contract works to supplement income, thus achieving a level of self sufficiency.

### 9.1.2 Former Tumbarumba Shire Council

Operating grants and contributions on average represents approximately 30% of operating income for the former Tumbarumba Shire Council. Council's ongoing sustainability was dependant on this source of income which existed to support ongoing operations.

An analysis of operating grant revenue for the ten years prior to merger is presented below, including the percentage of Council's operating revenue made up of grants and contributions.

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Grants and contributions for operating pu	2,401	2,931	3,257	3,185	3,296	9,867	5,856	5,681	5,630	4,620
<b>Operating Revenue</b>	<b>12,594</b>	<b>11,383</b>	<b>12,416</b>	<b>12,019</b>	<b>15,891</b>	<b>21,963</b>	<b>16,547</b>	<b>19,678</b>	<b>17,887</b>	<b>15,524</b>
% Op Grants of revenue	19%	26%	26%	26%	21%	45%	35%	29%	31%	30%

Tumbarumba SC operated from two main sources of grants, firstly, ongoing operating income for community-based services such as children's/community services and other Council operations, together with non-recurrent grants from State and Federal Government. These funds helped deliver government priorities through spending on localised projects.

Roads to Recovery funding, which was treated as operating income, remained as a revenue source during the period leading up to the merger. FAGs also remained steady, despite prepayment of those grants which were recognised in the year they were received.

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Federal Assistance Grant (FAGs)	1,333	1,404	1,923	1,604	1,760	2,296	1,834	946	1,934	1,926
Transport (other roads and bridges funding)					2,024	4,992	2,296	1,153		

Tumbarumba SC has a unique series of community grants that support various services not available or offered by other service providers. There is a reliance by the community on these services which is supported by Council or occurs through cost shifting.

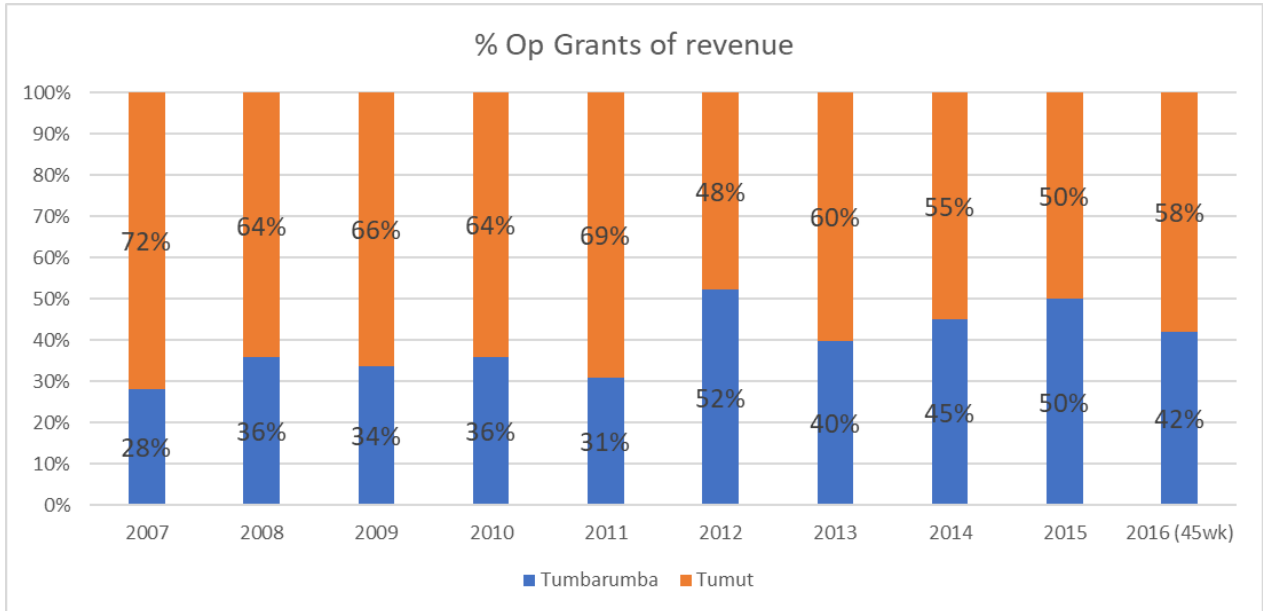
The table below lists the funding sources which covers a range of activities such as day care centre, mobile pre-school, pre-school and toy library.

Description	Operating		Capital	
	2017/18	2016/17	2017/18	2016/17
Community Care	1,342	370	883	
Library		24		
Khancoban preschool		129		
Before and after school care		84		
Multi Service Outlet (MSO) Grant		344		
Mobile pre-school grant		372		
Carcoola Children's Centre		537		
	<b>1,342</b>	<b>1,860</b>	<b>883</b>	<b>0</b>

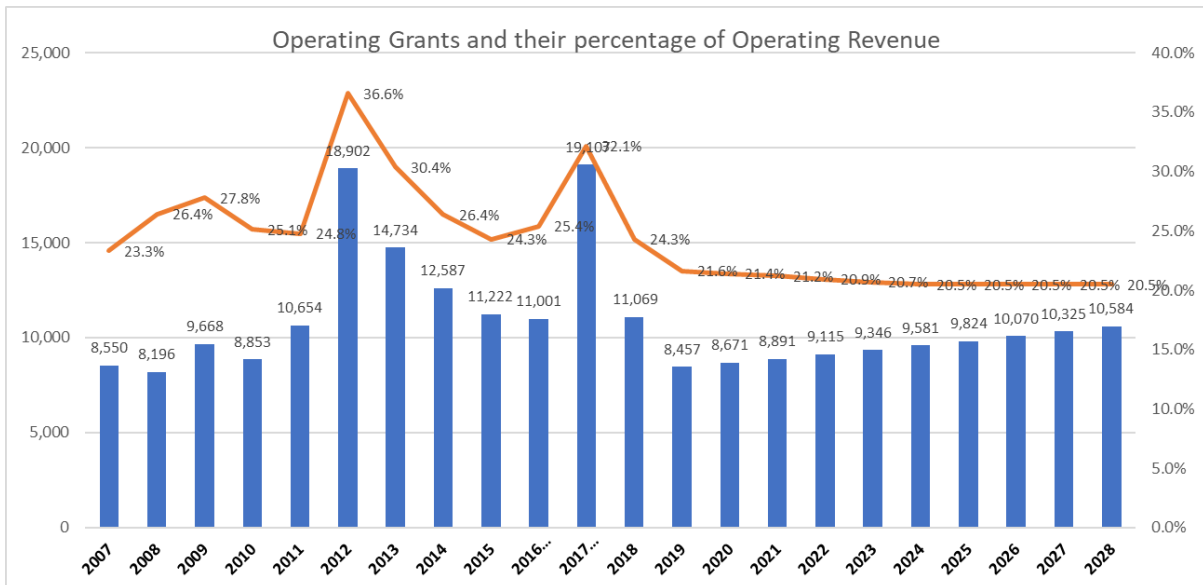
This funding is substantial, is specific to Tumbarumba SC and generally operates on a surplus basis. The reporting of these grants may need review as it appears no funds were received for some categories in the 2017/18 year, however, this funding is ongoing.

### 9.1.3 Combined Council Data

When the total operating grants are combined and displayed graphically, it can be seen that since 2012, the percentage of Tumbarumba S C percentage of the combined operating grants has increased from ≈34% to ≈45%, while Tumut S C's percentage decreased from ≈66% to ≈55%.



Historically operating grants were 25-30% of operating revenue for the individual councils. Future forecasts indicate a reduction for operating grants to around 21% of operating revenue. This reduction in operating grants will impact on Council achieving an operating surplus.



## 9.2 Capital Grants

### 9.2.1 Former Tumut Shire Council

Capital grants have typically represented funding for specific purposes to support capital expenditure or Natural Disasters. Other Contributions mainly consist of developer contributions and to a lesser degree, RMS contributions for roads.

The table below depicts a notable reduction in capital grants for the year's 2014/15 and 2015/16 owing to the completion of natural disaster funding that needed to be claimed by June 2014. Other reasons for a reduction in capital grants was that no opportunities were identified by Council staff for capital funding. Also, the funded timber bridge replacement program was completed prior to 2014/15.

Capital Grants-Tumut	2012/13 '000	2013/14 '000	2014/15 '000	2015/16 '000
Heritage & Cultural	3	4		
Pines Boat Ramp				23
Recreation and culture		982		75
Transport - Other	28	50		68
Natural Disaster	1,357	5,276		
Energy Efficient Program		702	175	
Other	16	49		
Other Contributions	418	459	404	202
	<b>1,822</b>	<b>7,522</b>	<b>579</b>	<b>368</b>

Tumut did not have an established grants officer position. Funding was sourced by departmental officers with finance staff having a general oversight of all grants, including acquittals. The existence of a specifically appointed grants officer may have highlighted the opportunities realised through external funding opportunities.

The chart below depicts capital grants as a percentage of total Grants and contributions, which reduces over the period. This is compared to the Net Operating Result, which is impacted as a result of capital grants.

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Grants and contributions for capital purposes	6351	3795	2757	2,042	3,908	1,488	1,822	7,522	579	368
Net Gains from disposal of assets										
Net Losses from disposal of assets	125	2493	1289	533	11379				861	1,561
<b>Net Operating Result (incl Capital)</b>	<b>6,723</b>	<b>-892</b>	<b>1,213</b>	<b>90</b>	<b>-7,807</b>	<b>2,939</b>	<b>3,090</b>	<b>7,659</b>	<b>-1,099</b>	<b>-291</b>
% of Snowy Valleys Cap Grants	72%	84%	76%	69%	56%	32%	35%	61%	9%	14%

### 9.2.2 Former Tumbarumba Shire Council

Tumbarumba SC had been very active in securing capital funding for various asset improvement programs. Reference was made to this in the TCorp (2013) financial assessment report where it was identified that Council had completed a program to replace all wooden bridges and the infrastructure backlog had been consistently decreasing.

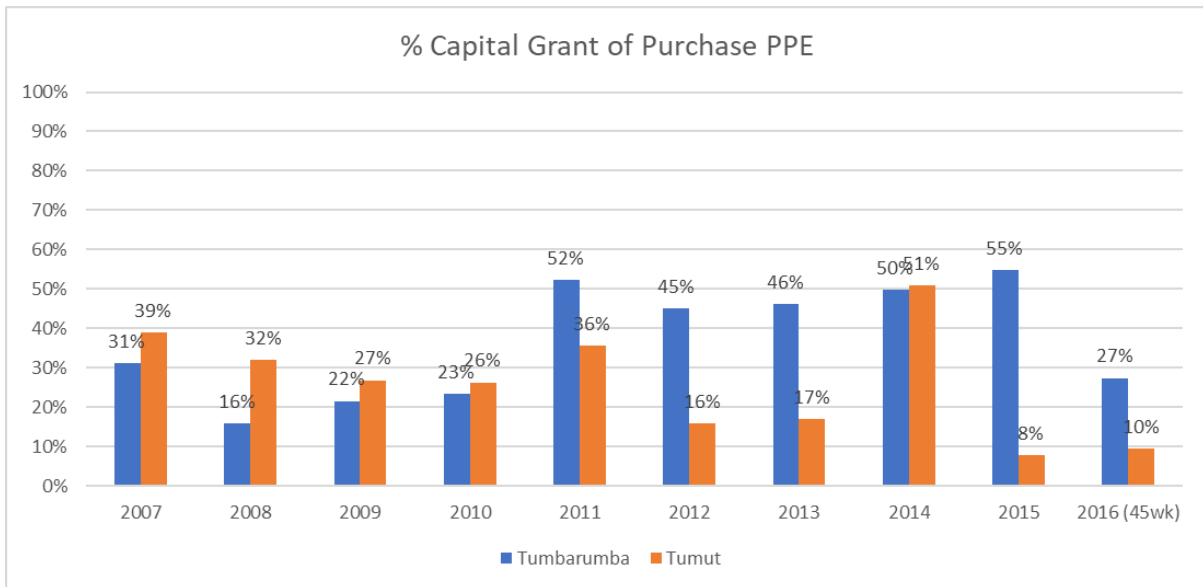
The table below depicts other significant capital funded projects including the Mannus Dam Restoration, Street lighting, Transport – Other (Wooden Bridges replacement), and the sewer treatment plant.

Capital Grants-Tumbarumba S C	2012/13 '000	2013/14 '000	2014/15 '000	2015/16 '000
Energy Efficient Upgrade-Khancoban		46		
Bus Bay	23			
Library	6	5		
Main Street Upgrade	22			
Mannus Dam Restoration	698	2,386	3,194	12
NSW Rural Fire Services	276		231	14
Recreation and culture	14	27	33	6
Street lighting			1,477	
Sports Hub		316	34	
Transport - Other	1,553	1,938		
Sewer Treatment Plant				2,038
Water Treatment Plant	383		392	50
Other		10		
Other Contributions	359	158	231	208
	<b>3,334</b>	<b>4,886</b>	<b>5,592</b>	<b>2,328</b>

Significant grant funding for Tumbarumba SC may have occurred owing to a grants officer being available. This officer appears to have been active in securing grant funding and then provided a hand-over to departmental officers for ongoing management and acquittals. Council was reliant on these grants, as the funding represented a significant proportion of the overall spend, as depicted in the table and graph below.

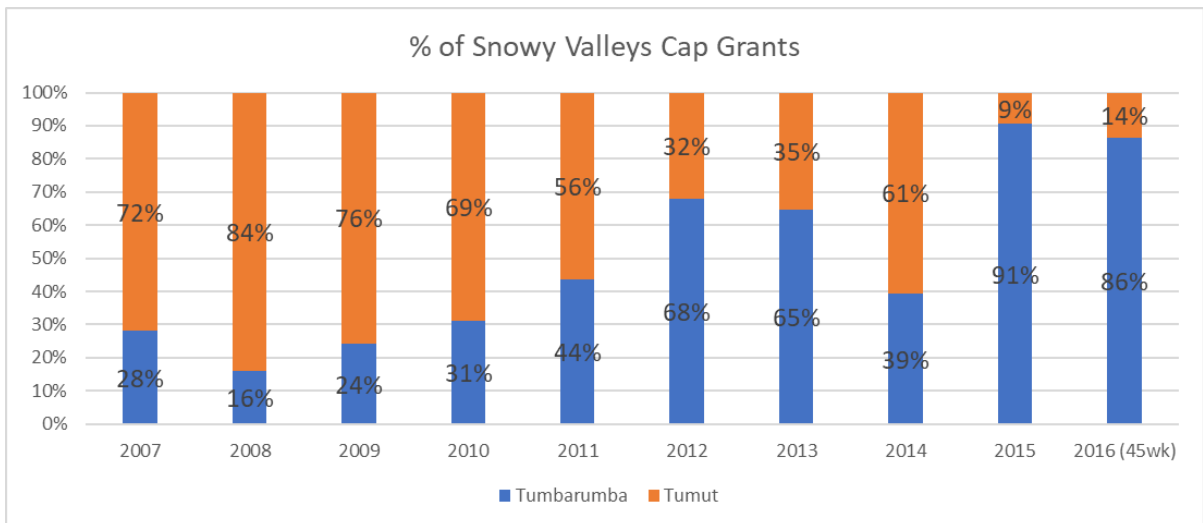
Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Grants and contributions for capital purposes	2480	730	884	927	3,022	3,177	3,334	4,886	5,592	2,328
Net Gains from disposal of assets	47	129	247	219	232					33
Net Losses from disposal of assets						868	736	245		
<b>Net Operating Result (incl Capital)</b>	<b>3,291</b>	<b>1,106</b>	<b>1,422</b>	<b>1,181</b>	<b>4,441</b>	<b>4,929</b>	<b>2,741</b>	<b>4,118</b>	<b>5,098</b>	<b>1,631</b>
% of Snowy Valleys Cap Grants	28%	16%	24%	31%	44%	68%	65%	39%	91%	86%



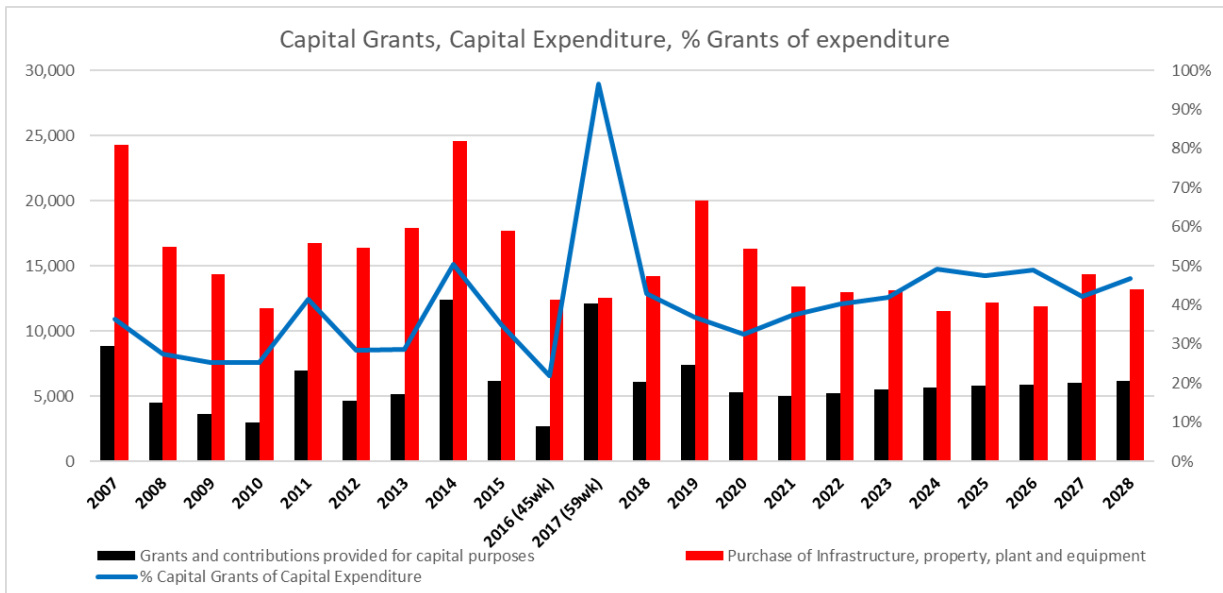


### 9.2.3 Combined Council Data

When capital grants data for the two former Councils is combined and displayed graphically, it can be seen, that for the period 2012 - 2016, Tumbarumba SC's percentage of combined capital grants had increased from  $\approx 28\%$  (\$2,480,000) to  $\approx 86\%$  (\$2,328,000), while Tumut's percentage decreased from  $\approx 72\%$  (\$6,351,000) to  $\approx 14\%$  (\$368,000).



Historically capital grants contributed around 35% (blue line) of capital spend for the individual councils. Future forecasts indicate an increase in this percentage to 45% of capital spend, while the capital expenditure (red bar) is forecast to drop from above \$15M to less than \$15M.



### 9.3 Findings

**35 - The former Councils relied on grants and contributions for operations with Tumut SC receiving on average 25% of its operating revenue through grants and Tumbarumba SC on average 30%.**

**36 - For the period 2012 - 2016, Tumbarumba SC's percentage of combined capital grants had increased from ≈28% (\$2,480,000) to ≈86% (\$2,328,000), while Tumut's percentage decreased from ≈72% (\$6,351,000) to ≈14% (\$368,000). This is the result of a significant drop off in capital grants to the former Tumut Shire Council in 2015 and 2016.**

**37 - Snowy Valleys Council was the recipient of a merger implementation grant of \$5 million in the 2016/17 financial year. A \$10 million grant was also received for Stronger Communities with projects now being allocated but as yet mostly unspent.**

**38 - A centralised Grant Register is being developed and upgraded to manage grant funding and will be maintained from 2018/19.**

**39 – It appears that retaining a grants officer at the former Tumbarumba Shire Council made a significant difference to its ability to source external funding.**

## 10 Validation of high level assessments by TCorp (regarding sustainability of each of the former Councils)

### 10.1 Introduction

The final decision to merge Tumut and Tumbarumba Shire Councils was the result of a four year process to research, consult and evaluate options in relation to NSW Local Government sustainability.

In March 2012 the Minister for Local Government announced the establishment of an independent Local Government Review Panel (ILGRP) with the aim of improving and strengthening local government in NSW. The work carried out by the NSW Treasury Corporation (TCorp) was at the request of the Division of Local Government (DLG) and was done to assist the DLG and ILGRP in their consideration of the of each NSW Council.

TCorp completed reports for Tumut SC on the 26<sup>th</sup> March 2013 and for Tumbarumba SC on the 3 April 2013 at the request of ILGRP, who in turn finalised their report to State Government during 2013.

The overall approach implemented by TCorp resulting in the above outcomes were:

- A review of Council's four most recent years of audited consolidated annual accounts (2009, 2010, 2011 and 2012).
- A review of Council's 10 year consolidated and General Fund financial forecasts. The review included assessment of key assumptions that underpin the financial forecast.
- Identified significant changes to future financial forecasts from existing financial performance, and highlighted risks associated with such forecasts.
- Discussions with Council management to understand overall strategy and management experience.
- Benchmarking and comparisons with other Councils.
- Conducting an analysis of each Council's financial sustainability.

The Financial Sustainability Rating (FSR) for Tumbarumba SC was strong with a negative outlook, while the outcome for Tumut SC was moderate with a neutral outlook.

The Independent Pricing and Regulatory Tribunal (IPART) tabled a report in 2015 as part of the "Fit for the Future" reform program. The tribunal considered 4 criteria for each council, being Scale and Capacity, Sustainability, Infrastructure and lastly Efficiency. The purpose was to establish potential Council merger preferences, determine community views and also to ensure that the unique needs and characteristics of each region was considered and responded to.

Both councils satisfied the Sustainability, Infrastructure & Service Management as well as the Efficiencies criteria, but experienced different outcomes with regards to the Scale and Capacity criteria.

As it satisfied the Scale and Capacity criteria Tumbarumba SC was assessed as "Fit for the Future" as a Rural Council, with the provision that it would require a Joint Organisation to perform most of council's higher level functions. IPART noted that if Tumbarumba SC's

regulatory and compliance burden was not reduced it was likely that the council would not be fit as a standalone council.

Tumut SC was assessed as “Not Fit for the Future “as a standalone council by the IPART, as it did not satisfy the Scale and Capacity criteria. It found that council had not adequately explored the merger option, council's proposal to stand alone was not as good as the ILGRP's preferred option to merge with Gundagai, and that a merged council was more likely to improve capabilities and have a more robust revenue base, a greater scope to undertake new functions and projects as well as improved integrated planning and regional collaboration outcomes.

## 10.2 Data used in the TCorp assessments

Essentially the TCorp assessments are based on actual historical data contained in audited financial statements and forecasts and strategic plans. We have no concerns that the TCorp assessments at the time were comprehensive and accurate based on the information available. In conducting this review we have the benefit of having several years of data to allow a comparison between those forecasts and what actually occurred.

## 10.3 Actual data

We have made some observations based on the review of the information available to TCorp at the time of the assessment. These are:

1. Although the figures for the years 2009 to 2012 are based on factual audited figures, these figures include some weaknesses for this purpose. Some FAGS were received in advance, various grant funds were received but not yet expensed and flood disaster expenditure and revenue does often not align well in the same financial years. In short, these inconsistencies between revenue and expenses across different financial years could have had some marginal impact on outcomes, however this was the case for both Councils.
2. Tumbarumba Shire Council had surpluses in all four years under review, while Tumut Shire Council had recorded 2 years of deficits and 2 years of surpluses during this period. Both Councils had reasonable cash and cash equivalents balances, while the infrastructure backlog was better for Tumbarumba Shire Council (2012 - \$5.4 million) when compared to Tumut Shire Council (2012 - \$12 million). It is noted that Tumbarumba Shire Council had recently completed flood restoration works that would have positively impacted on their infrastructure renewal backlog.
3. Tumut Shire Council had forecast operating grants and contributions at much lower levels than had been received historically. As a result, Council forecasted to remain consistently in deficit for the remainder of the forecast period.
4. In the Tumbarumba Shire Council assessment report there is the following statement "In completing the report, TCorp worked closely with Council management to analyse and understand the information gathered. The Council was given a draft copy of the report for their review and comment. Based on our discussions with Council, Council agreed with the findings of the report." There is no similar wording in the TCorp assessment report for Tumut Shire Council.

5. The assessment report stated that Tumbarumba Shire Council was a well managed Council during the four year review period, while for Tumut Shire Council the wording was satisfactorily managed. One of the differences mentioned is wages control over the 4 year period where Tumbarumba SC had an average wage of \$58,724 for 2012, compared to the average of \$76,903 for Tumut SC. This would have contributed to improved operational outcomes for Tumbarumba SC over the review period.

## 10.4 Forecast

We have made some observations based on the review of forecast and actual results that clarify the position of each Council in the period between the TCorp assessment and merger. These are:

### 10.4.1 Operating Result

The TCorp review in 2012 was completed on actual data from the previous four years. For this review, comparative financial information has been obtained back to the 2006-07 financial year. Reviewing historical information over a longer period, may highlight any discrepancies that may occur in an individual year.

As shown in the table below, Tumbarumba SC had operating (result excluding capital items) surpluses through to the 2012-13 financial year, while Tumut SC, had operating surpluses for three of the seven years.

Since the 2012 review, Tumbarumba SC recorded one surplus before moving into deficit for the last three years, while Tumut SC, recorded surpluses in three of the four years.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumbarumba	Operating Result (excl capital)	764	247	291	35	1,187	2,620	143	-523	-494	-730
Tumut	Operating Result (excl capital)	497	-2,194	-255	-1,419	-336	1,451	1,268	137	-817	902

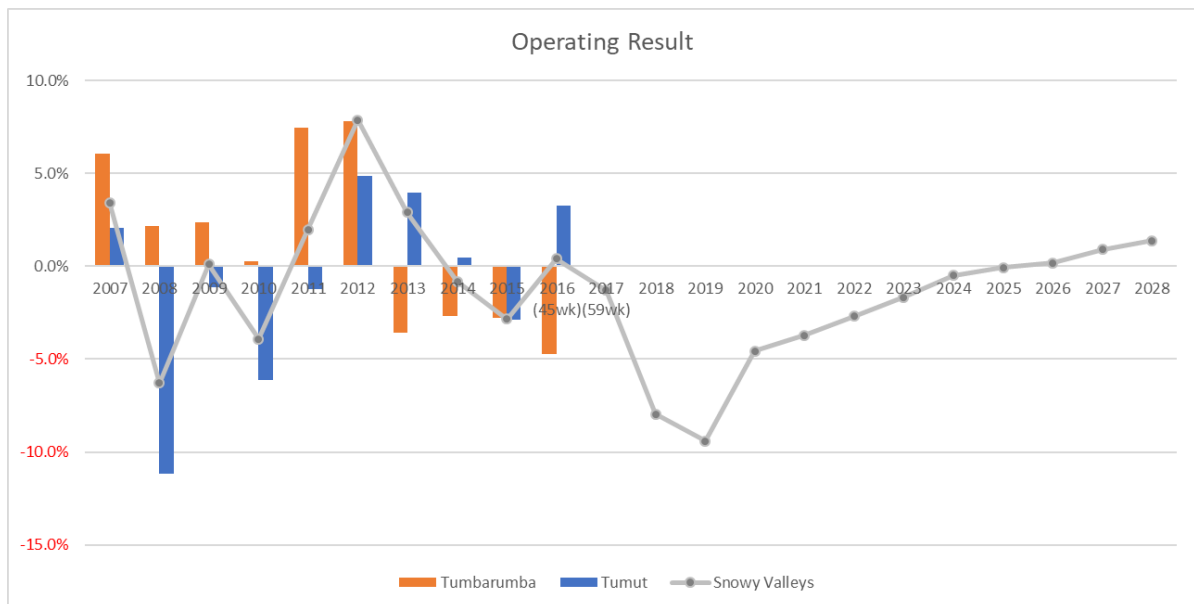
The operating result for the combined councils and the new Snowy Valleys Council includes a larger deficit in 2018.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (est)	2017 (Est)	2018
Snowy Valleys	Operating Result	1,261	-1,947	36	-1,384	851	4,071	1,411	-386	-1,311	197	-690	-3,623

Long term financial forecasts shown below which were provided to TCorp had Tumbarumba SC moving into operating deficits not dis-similar to actual figures, while Tumut SC forecasts of larger operating deficits, did not eventuate.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (est)	2017 (Est)	2018
Tumbarumba	Operating Result Forecast from 2012							384	143	-560	-497	-485	-371
Tumut	Operating Result Forecast from 2012							-2,139	-2,010	-1,901	-1,948	-1,863	-1,546

The actual outcomes for operating results post the TCorp review indicate that the forecasting outcomes for Tumbarumba SC were more accurate than for Tumut SC.



### 10.4.2 Operating Revenue and Expenditure

Note: 2016 figures are for 45 weeks.

#### Tumbarumba Shire Council

Operating revenues and expenditures for Tumbarumba SC are shown below. Factors influencing operating results from 2013 include the timing of Federal Assistance Grants (FAGs) and increases in depreciation due to new water and sewerage treatment plant.

2014 NDRRA event increased revenue (user charges & fees) and expenditure (materials & contracts).

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumbarumba	Federal Assistance Grant (FAGs)	1,333	1,404	1,923	1,604	1,760	2,296	1,834	946	1,934	1,926
Tumbarumba	Transport (other roads and bridges funding)					2,024	4,992	2,296	1,153		

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumbarumba	Rates and annual charges	2,717	2,892	2,958	3,073	3,285	3,427	3,545	3,662	3,768	3,653
Tumbarumba	User Charges and fees	6,806	4,766	5,329	4,861	8,182	7,491	6,301	9,597	7,876	6,620
Tumbarumba	Interest and Investment revenue	472	657	632	440	485	692	529	455	358	369
Tumbarumba	Other Revenues	198	137	240	460	643	486	316	283	255	262
Tumbarumba	Grants and contributions provided for	2,401	2,931	3,257	3,185	3,296	9,867	5,856	5,681	5,630	4,620
Tumbarumba	<b>Operating Revenue</b>	<b>12,594</b>	<b>11,383</b>	<b>12,416</b>	<b>12,019</b>	<b>15,891</b>	<b>21,963</b>	<b>16,547</b>	<b>19,678</b>	<b>17,887</b>	<b>15,524</b>
Tumbarumba	Employees benefits and on-costs	3,654	3,865	4,176	4,612	4,980	5,755	6,247	6,555	6,264	6,051
Tumbarumba	Borrowing Costs	50	285	353	70	69	112	131	203	241	326
Tumbarumba	Materials and contracts	5,233	3,823	4,311	3,938	5,519	9,363	5,536	8,847	7,029	5,229
Tumbarumba	Depreciation and amortisation	1,992	2,253	2,136	2,288	2,894	3,082	3,339	3,530	3,654	3,572
Tumbarumba	Other expenses	901	910	1,149	1,076	1,242	1,031	1,151	1,066	1,193	1,076
Tumbarumba	<b>Operating Expenditure</b>	<b>11,830</b>	<b>11,136</b>	<b>12,125</b>	<b>11,984</b>	<b>14,704</b>	<b>19,343</b>	<b>16,404</b>	<b>20,201</b>	<b>18,381</b>	<b>16,254</b>
Tumbarumba	<b>Operating Result (excl capital)</b>	<b>764</b>	<b>247</b>	<b>291</b>	<b>35</b>	<b>1,187</b>	<b>2,620</b>	<b>143</b>	<b>-523</b>	<b>-494</b>	<b>-730</b>

## Tumut Shire Council

The figures supporting the Operating Result for Tumut SC are shown below. The results are influenced by strong increases in rates and annual charges and changes to the depreciation charged.

Note: 2007-08, Interest and Investment Revenue was negative \$1,080.

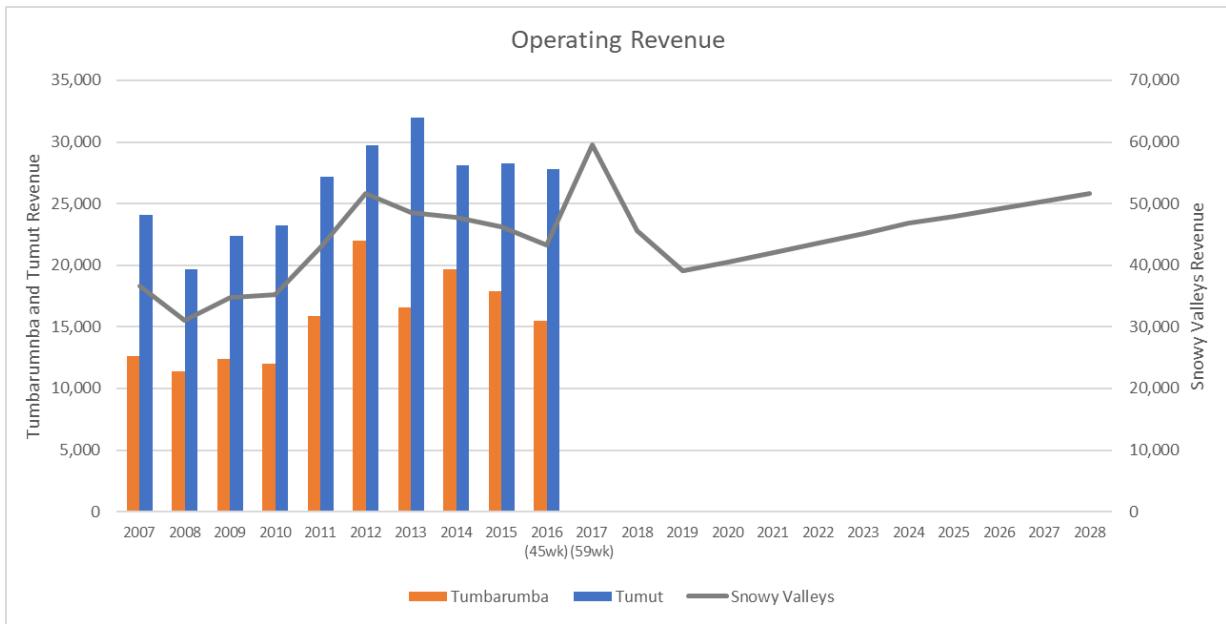
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumut	Rates and annual charges (% increase)		4.5%	3.6%	7.5%	4.8%	4.6%	8.9%	2.8%	4.5%	-9.4%
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumut	Rates and annual charges	7,892	8,246	8,540	9,180	9,625	10,066	10,958	11,262	11,771	10,659
Tumut	User Charges and fees	8,189	6,609	6,768	6,869	8,372	9,366	10,124	7,736	9,631	9,641
Tumut	Interest and Investment revenue	1,120	-1,080	0	758	1,137	926	1,532	1,377	654	614
Tumut	Other Revenues	734	603	664	756	651	346	486	791	625	535
Tumut	Grants and contributions provided for	6,149	5,265	6,411	5,668	7,358	9,035	8,878	6,906	5,592	6,381
Tumut	<b>Operating Revenue</b>	<b>24,084</b>	<b>19,643</b>	<b>22,383</b>	<b>23,231</b>	<b>27,143</b>	<b>29,739</b>	<b>31,978</b>	<b>28,072</b>	<b>28,273</b>	<b>27,830</b>
Tumut	Employees benefits and on-costs	7,707	8,661	8,877	9,267	9,712	11,151	11,209	10,744	10,812	8,908
Tumut	Borrowing Costs	19	0	8	26	138	193	621	1,236	385	397
Tumut	Materials and contracts	4,310	3,284	3,981	5,174	7,630	6,795	9,111	6,208	7,411	8,581
Tumut	Depreciation and amortisation	7,248	6,923	6,666	6,960	6,742	7,173	6,432	6,476	7,390	6,390
Tumut	Other expenses	4,303	2,969	3,106	3,223	3,257	2,976	3,337	3,271	3,092	2,652
Tumut	<b>Operating Expenditure</b>	<b>23,587</b>	<b>21,837</b>	<b>22,638</b>	<b>24,650</b>	<b>27,479</b>	<b>28,288</b>	<b>30,710</b>	<b>27,935</b>	<b>29,090</b>	<b>26,928</b>
Tumut	<b>Operating Result (excl capital)</b>	<b>497</b>	<b>-2,194</b>	<b>-255</b>	<b>-1,419</b>	<b>-336</b>	<b>1,451</b>	<b>1,268</b>	<b>137</b>	<b>-817</b>	<b>902</b>

## Snowy Valleys Council

The table below displays results from combined Tumbarumba SC and Tumut SC. Note - 2016 is 45 weeks and 2017 is 59 weeks. 2018 figures are as provided on the 12<sup>th</sup> November 2018. Compared to previous full years, 2018 has

- Lower revenue from rates and annual charges and user charges and fees.
- Higher expenditure in employee benefits and on-costs
- Lower expenditure in depreciation and amortisation.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valley	Rates and annual charges	10,609	11,138	11,498	12,253	12,910	13,493	14,503	14,924	15,539	14,312	16,704	15,890
Snowy Valley	User Charges and fees	14,995	11,375	12,097	11,730	16,554	16,857	16,425	17,333	17,507	16,261	21,130	15,957
Snowy Valley	Interest and Investment revenue	1,592	-423	632	1,198	1,622	1,618	2,061	1,832	1,012	983	1,513	1,364
Snowy Valley	Other Revenues	932	740	904	1,216	1,294	832	802	1,074	880	797	1,019	1,307
Snowy Valley	Grants and contributions provided for	8,550	8,196	9,668	8,853	10,654	18,902	14,734	12,587	11,222	11,001	19,107	11,069
Snowy Valley	<b>Operating Revenue</b>	<b>36,678</b>	<b>31,026</b>	<b>34,799</b>	<b>35,250</b>	<b>43,034</b>	<b>51,702</b>	<b>48,525</b>	<b>47,750</b>	<b>46,160</b>	<b>43,354</b>	<b>59,473</b>	<b>45,587</b>
Snowy Valley	Employees benefits and on-costs	11,361	12,526	13,053	13,879	14,692	16,906	17,456	17,299	17,076	14,959	18,576	18,408
Snowy Valley	Borrowing Costs	69	285	361	96	207	305	752	1,439	626	723	800	649
Snowy Valley	Materials and contracts	9,543	7,107	8,292	9,112	13,149	16,158	14,647	15,055	14,440	13,810	20,205	14,809
Snowy Valley	Depreciation and amortisation	9,240	9,176	8,802	9,248	9,636	10,255	9,771	10,006	11,044	9,962	12,324	10,541
Snowy Valley	Other expenses	5,204	3,879	4,255	4,299	4,499	4,007	4,488	4,337	4,285	3,728	8,344	4,803
Snowy Valley	<b>Operating Expenditure</b>	<b>35,417</b>	<b>32,973</b>	<b>34,763</b>	<b>36,634</b>	<b>42,183</b>	<b>47,631</b>	<b>47,114</b>	<b>48,136</b>	<b>47,471</b>	<b>43,182</b>	<b>60,249</b>	<b>49,210</b>
Snowy Valley	<b>Operating Result</b>	<b>1,261</b>	<b>-1,947</b>	<b>36</b>	<b>-1,384</b>	<b>851</b>	<b>4,071</b>	<b>1,411</b>	<b>-386</b>	<b>-1,311</b>	<b>172</b>	<b>-776</b>	<b>-3,623</b>



### 10.4.3 Rates and Annual Charges

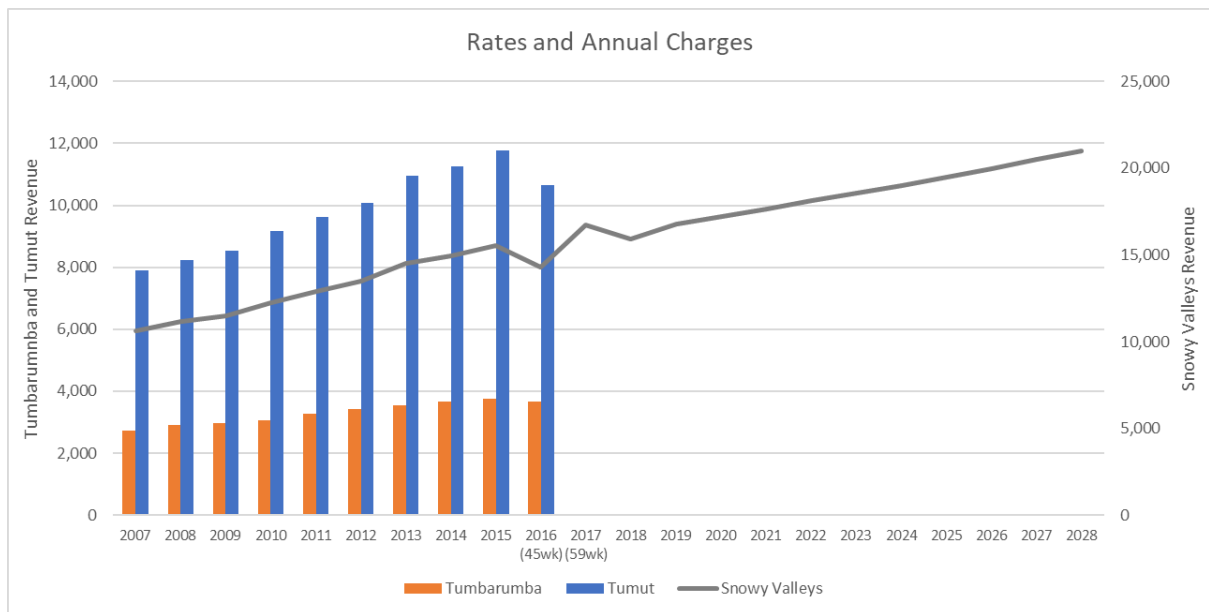
From 2007 to 2018, rates and annual charges have cumulatively on average increased by 3.7% each year. This increase was 4.9% to 2015, but reduced to 3.7% in the 2018 financial year.

Council	Description	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Va	Rates and annual charges (% increase)	5.0%	3.2%	6.6%	5.4%	4.5%	7.5%	2.9%	4.1%	-7.9%	16.7%	-4.9%
Snowy Va	Cumulative Rates and annual charges (% increase)	5.0%	4.1%	4.9%	5.0%	4.9%	5.3%	5.0%	4.9%	3.4%	4.6%	3.7%
Tumberun	Tumba Rates and annual charges (% increase)	6.4%	2.3%	3.9%	6.9%	4.3%	3.4%	3.3%	2.9%	-3.1%		
Tumut	Tumut Rates and annual charges (% increase)	4.5%	3.6%	7.5%	4.8%	4.6%	8.9%	2.8%	4.5%	-9.4%		

The 2018 figures included lower revenue from Business, Domestic Waste and Water.

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Residential	2,595	2,774	2,849	3,040	3,152	3,285	3,323	3,430	3,440	3,666	3,752	3,895
Farmland	2,981	3,080	3,132	3,197	3,320	3,443	3,480	3,394	3,534	3,601	3,861	3,840
Business	786	821	768	774	774	819	850	938	1,075	1,188	876	948
Domestic Waste Management	1,127	1,199	1,350	1,425	1,512	1,380	1,795	1,868	1,956	1,712	2,414	1,828
Water Supply Services	814	828	788	862	1,006	1,112	1,513	1,531	1,623	803	1,292	1,062
Sewerage Services	2,137	2,351	2,524	2,748	2,978	3,086	3,341	3,554	3,786	3,237	4,359	4,104
Stormwater Management												35
Waste Management (non-domestic)												484
Less Pensioner rebates												-306
<b>sum</b>	<b>10,440</b>	<b>11,053</b>	<b>11,411</b>	<b>12,046</b>	<b>12,742</b>	<b>13,125</b>	<b>14,302</b>	<b>14,715</b>	<b>15,414</b>	<b>14,207</b>	<b>16,554</b>	<b>15,890</b>
Residential		6.9%	2.7%	6.7%	3.7%	4.2%	1.2%	3.2%	0.3%	6.6%	2.3%	3.8%
Farmland		3.3%	1.7%	2.1%	3.8%	3.7%	1.1%	-2.5%	4.1%	1.9%	7.2%	-0.5%
Business		4.5%	-6.5%	0.8%	0.0%	5.8%	3.8%	10.4%	14.6%	10.5%	-26.3%	8.2%
Domestic Waste Management Serv		6.4%	12.6%	5.6%	6.1%	-8.7%	30.1%	4.1%	4.7%	-12.5%	41.0%	-24.3%
Water Supply Services		1.7%	-4.8%	9.4%	16.7%	10.5%	36.1%	1.2%	6.0%	-50.5%	60.9%	-17.8%
Sewerage Services		10.0%	7.4%	8.9%	8.4%	3.6%	8.3%	6.4%	6.5%	-14.5%	34.7%	-5.8%





Council	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Tumbarun	Residential	354	395	422	444	470	489	521	539	537	572
Tumbarun	Farmland	1,273	1,295	1,338	1,374	1,416	1,455	1,474	1,516	1,542	1,413
Tumbarun	Business	101	104	108	110	103	104	127	132	157	309
Tumbarun	Domestic Waste Management	215	249	315	341	375	195	431	439	451	377
Tumbarun	Water Supply Services	382	411	323	327	397	419	391	400	420	377
Tumbarun	Sewerage Services	313	353	365	383	424	472	491	524	547	506
Tumbarun	Drainage	25	26	34	25	25	25	25	25	25	22
Tumbarun	Waste Management Services	54	59	63	69	78	78	85	87	89	77
Tumut	Residential	2,241	2,379	2,427	2,596	2,682	2,796	2,802	2,891	2,903	3,094
Tumut	Farmland	1,708	1,785	1,794	1,823	1,904	1,988	2,006	1,878	1,992	2,188
Tumut	Business	685	717	660	664	671	715	723	806	918	879
Tumut	Domestic Waste Management	912	950	1,035	1,084	1,137	1,185	1,364	1,429	1,505	1,335
Tumut	Water Supply Services	432	417	465	535	609	693	1,122	1,131	1,203	426
Tumut	Sewerage Services	1,824	1,998	2,159	2,365	2,554	2,614	2,850	3,030	3,239	2,731
Tumut	Section 611	0	0	0	0	77	77	91	97	98	0
Tumut	Stormwater									11	6

From 2007 to 2018, employee benefits and on-costs have on average increased by 4.5% each year. Note: These figures are affected by roads works including RMS and NDRRA works and the addition of child care centre staff.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	Employees benefits and on-costs		10.3%	4.2%	6.3%	5.9%	15.1%	3.3%	-0.9%	-1.3%	-12.4%	24.2%	-0.9%
Snowy Valleys	Cumulative Employees benefits and on-costs		10.3%	7.2%	6.9%	6.6%	8.3%	7.4%	6.2%	5.2%	3.1%	5.0%	4.5%
Tumbarumba	Employees benefits and on-costs		5.8%	8.0%	10.4%	8.0%	15.6%	8.5%	4.9%	-4.4%	-3.4%		
Tumut	Employees benefits and on-costs		12.4%	2.5%	4.4%	4.8%	14.8%	0.5%	-4.1%	0.6%	-17.6%		

From 2007 to 2018, depreciation and amortisation have on average increased by 1.2% each year.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys	Depreciation and amortisation		-0.7%	-4.1%	5.1%	4.2%	6.4%	-4.7%	2.4%	10.4%	-9.8%	23.7%	-14.5%
Snowy Valleys	Cumulative Depreciation and amortisation		-0.7%	-2.4%	0.0%	1.1%	2.1%	0.9%	1.1%	2.3%	0.8%	2.9%	1.2%
Tumbarumba	Depreciation and amortisation		13.1%	-5.2%	7.1%	26.5%	6.5%	8.3%	5.7%	3.5%	-2.2%		
Tumut	Depreciation and amortisation		-4.5%	-3.7%	4.4%	-3.1%	6.4%	-10.3%	0.7%	14.1%	-13.5%		

#### 10.4.4 Employee Benefits

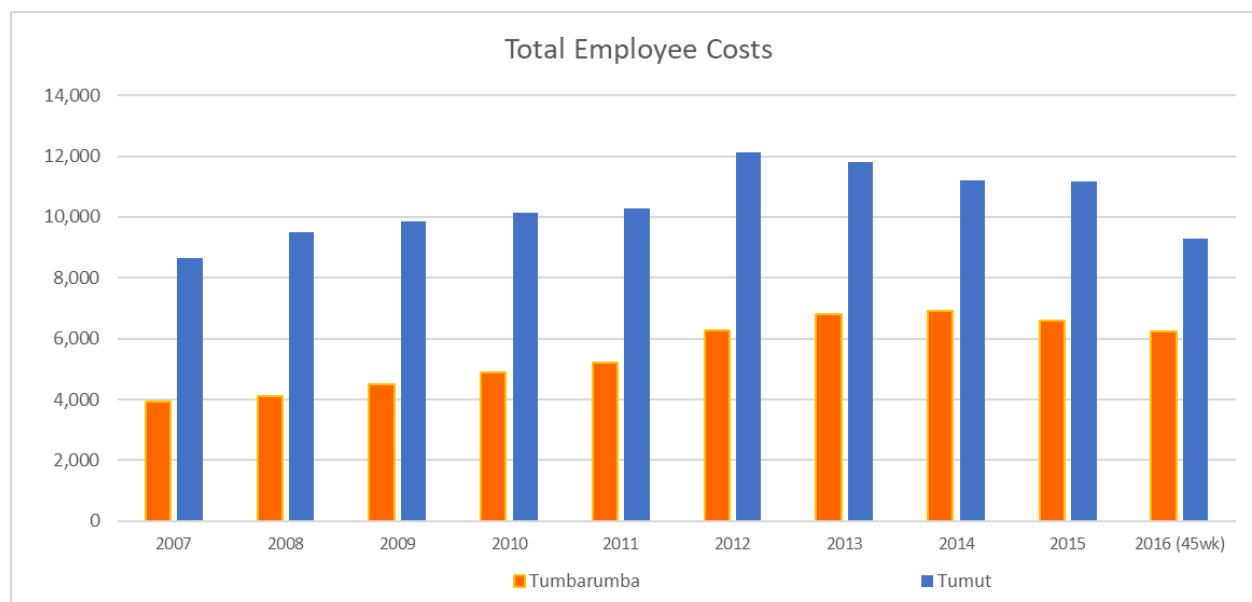
Employee costs increased for Tumbarumba SC in 2012, with addition of Carcoola Child Care Centre staff.

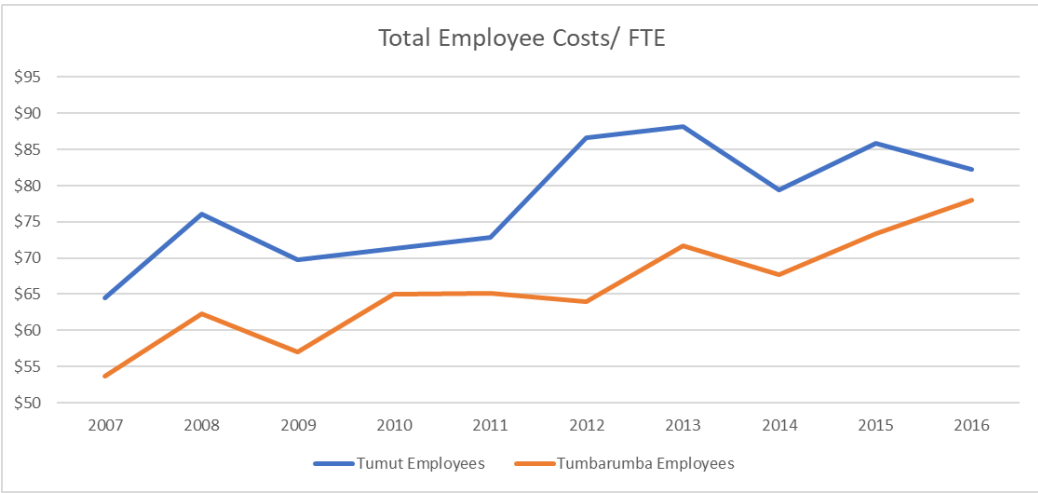
\$ '000	2012 Budget	2012 Actual	2012 ----- Variance* -----	
<b>EXPENSES</b>				
<b>Employee Benefits &amp; On-Costs</b>	<b>5,046</b>	<b>5,755</b>	<b>(709)</b>	<b>(14%) U</b>
New operation of Carcoola Children's centre \$459K and increased work load required to complete Flood damage repair \$250K				

It was noted the Councils took different approaches when calculating employee leave entitlements. If total employee costs were utilised to determine an average FTE cost, there were significant differences between the two former council areas.

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumbarumba	Salaries and Wages	3,099	3,290	3,324	3,458	4,023	4,953	5,071	5,256	5,081	4,840
Tumbarumba	Employee Leave Entitlements (ELE)	346	357	472	570	429	495	671	633	494	470
Tumbarumba	Total Employee Costs	3,921	4,114	4,502	4,872	5,214	6,270	6,807	6,903	6,606	6,222
Tumbarumba	FTEs	73	66	79	75	80	98	95	102	90	92
Tumbarumba	Total Employee Costs / FTEs	\$54	\$62	\$57	\$65	\$65	\$64	\$72	\$68	\$73	\$78

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Tumut	Salaries and Wages	6,150	6,480	6,539	6,585	6,637	8,236	8,371	7,844	8,267	6,105
Tumut	Employee Leave Entitlements	1,123	1,145	1,528	1,359	1,321	1,621	1,525	1,414	1,361	1,510
Tumut	Total Employee Costs	8,635	9,502	9,840	10,134	10,268	12,120	11,815	11,199	11,160	9,272
Tumut	FTEs	134	125	141	142	141	140	134	141	130	130
Tumut	Total Employee Costs / FTEs	\$64	\$76	\$70	\$71	\$73	\$87	\$88	\$79	\$86	\$82



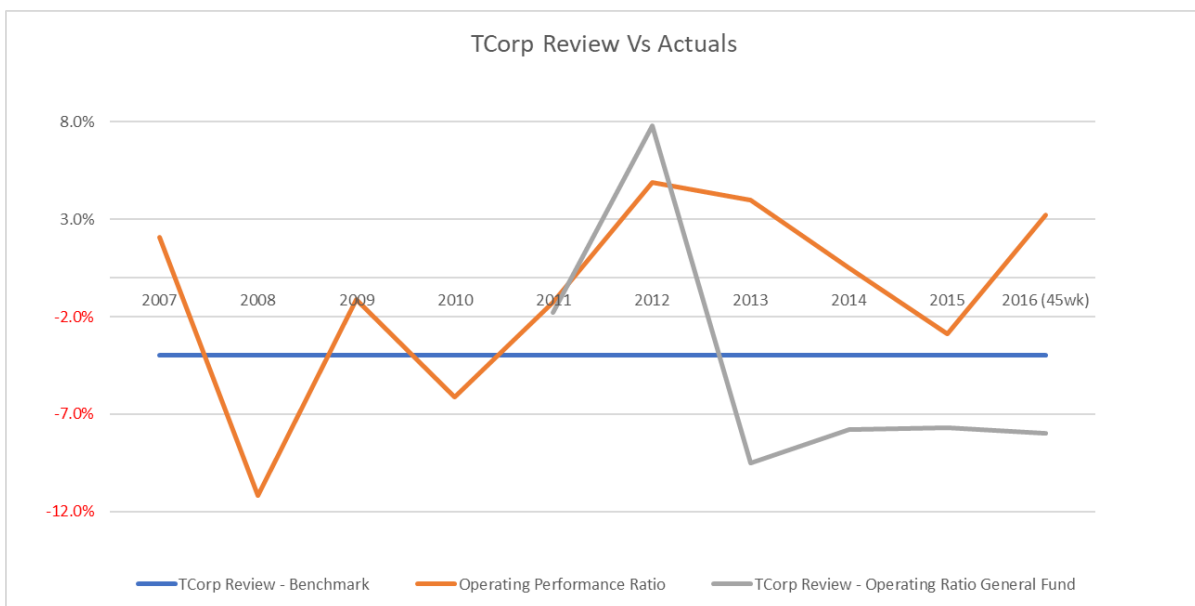
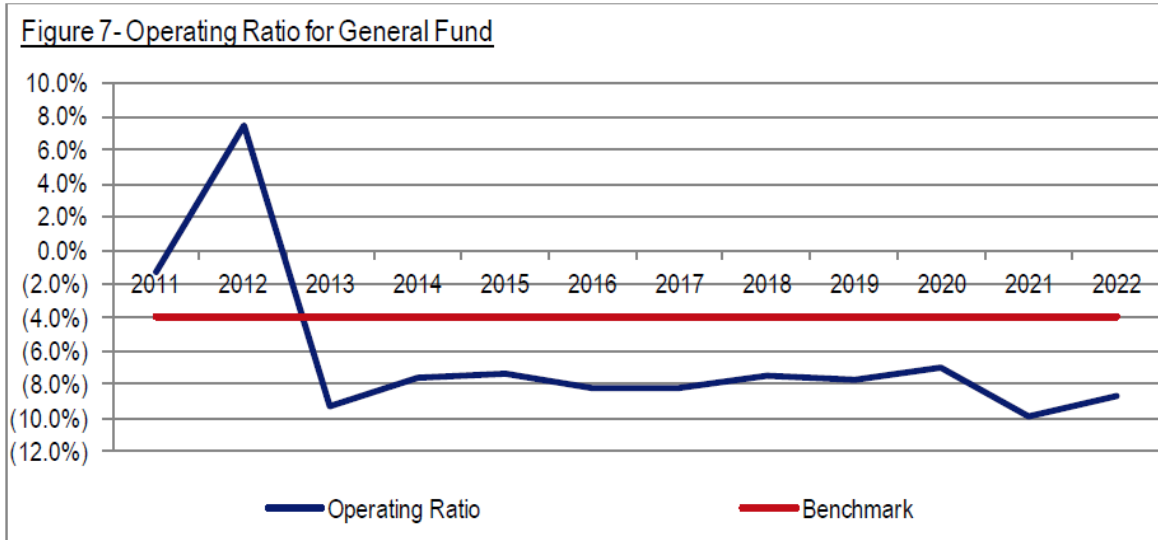


### 10.4.5 TCorp report v actual

In addition to the analysis on the operating result we have provided the following graphs which show the forecast ratios which were included in the TCorp report against the actual result.

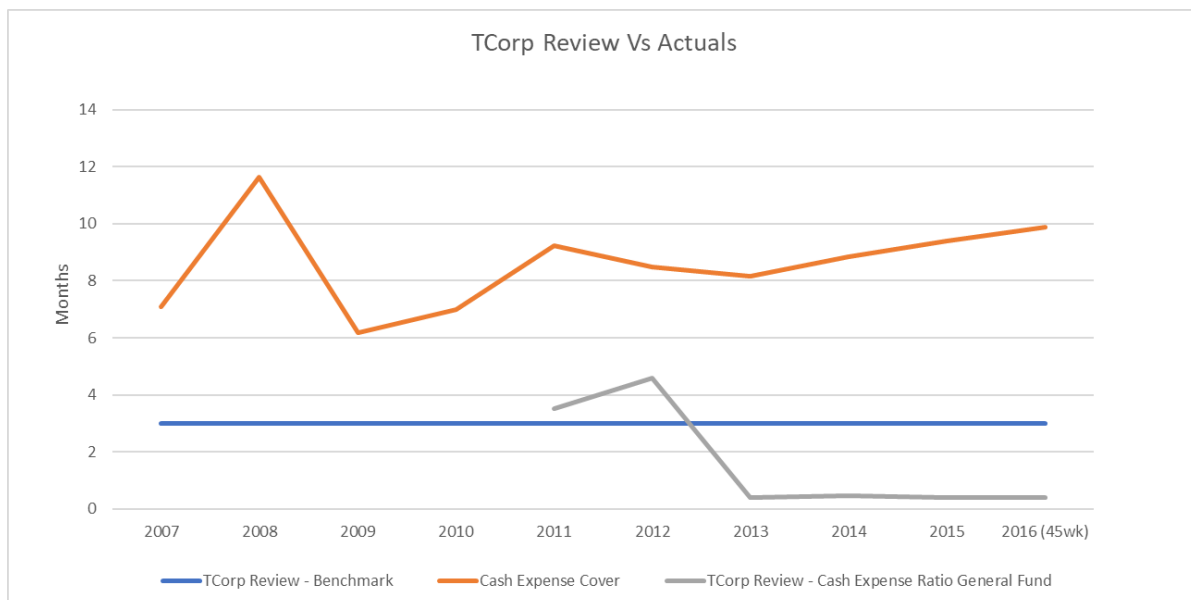
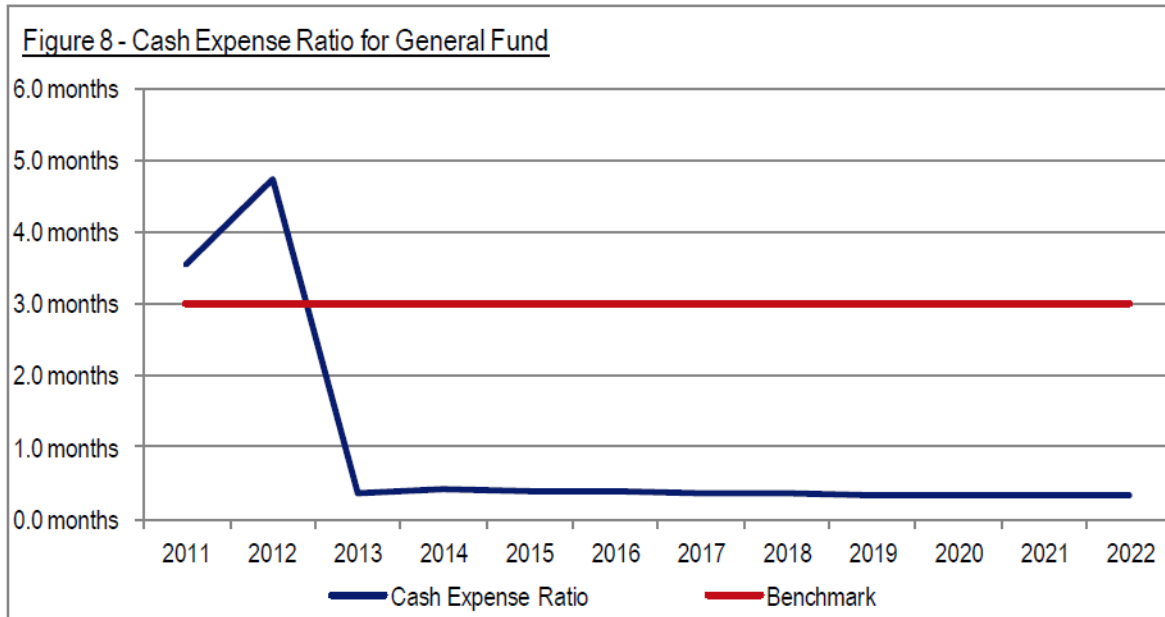
## Tumut Shire Council

### Operating Ratio



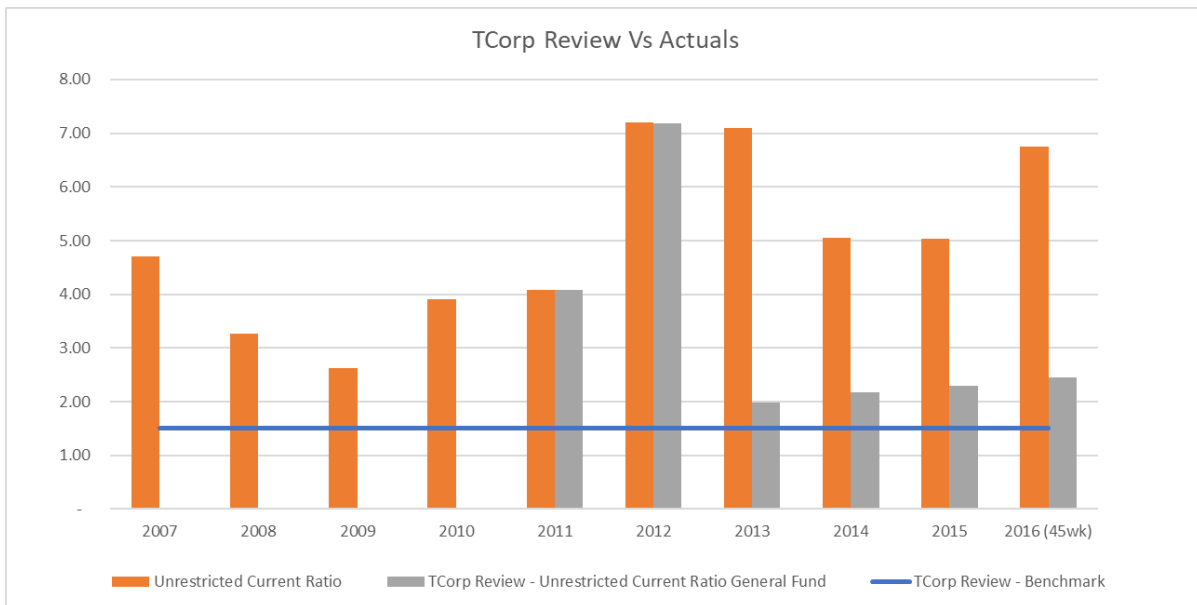
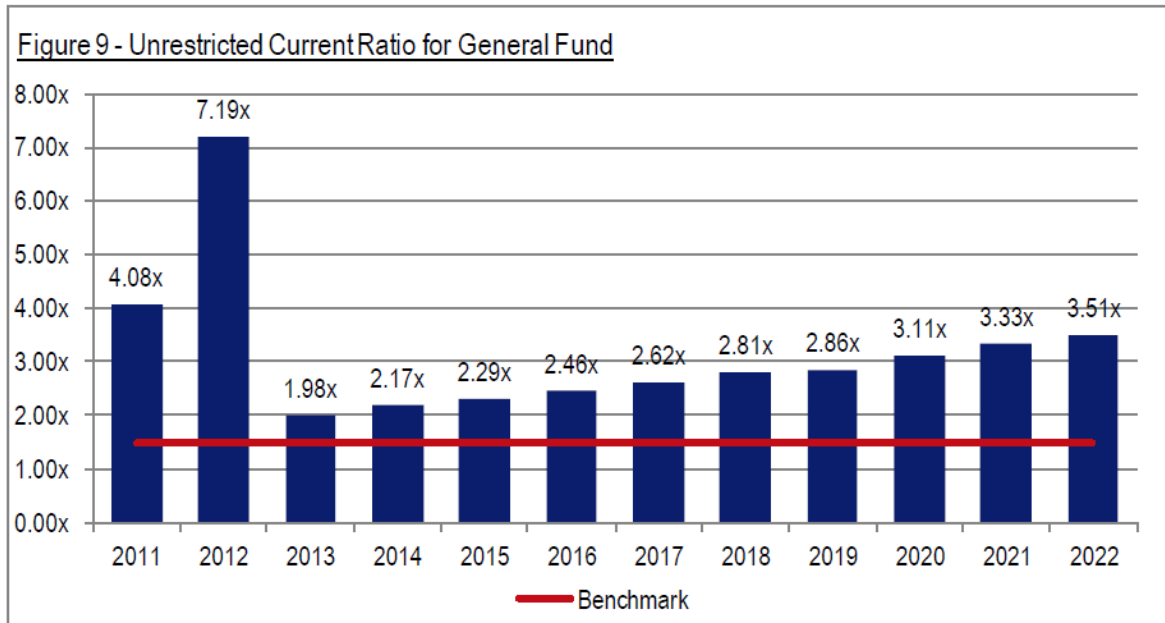
- The actual operating ratio forecast is greater than the forecast and remained in excess of the benchmark up until merger.
- A large decrease was forecast in 2013 which did not eventuate.
- The forecast change in 2013 is due to a forecast decrease in operating grants and contributions. This is raised earlier and mentioned in the TCorp report.

## Cash expense Ratio



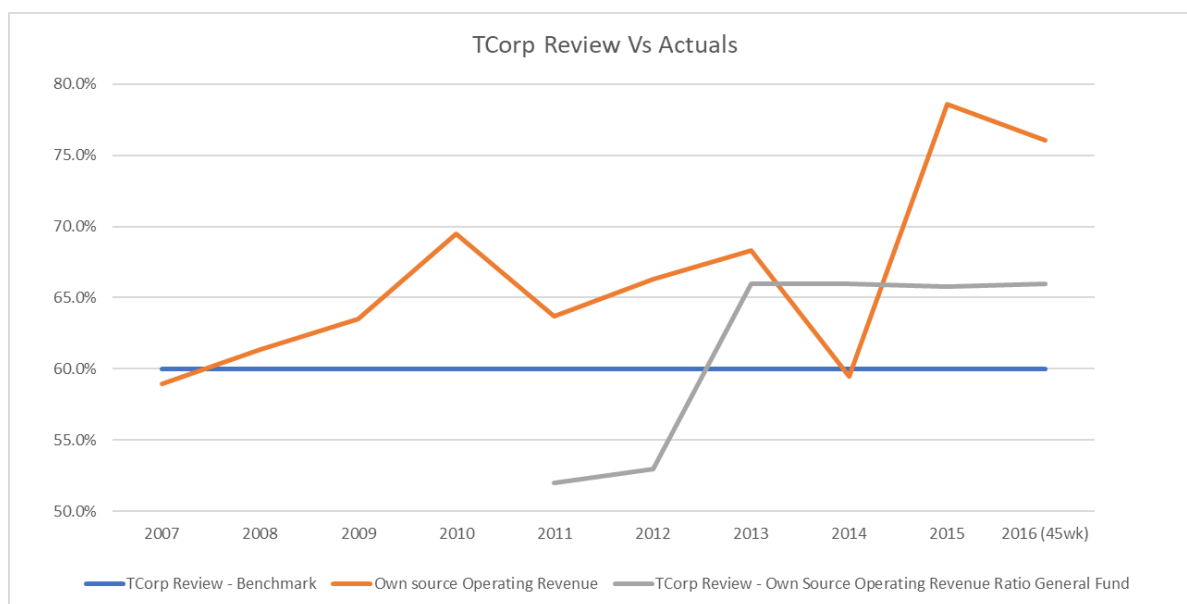
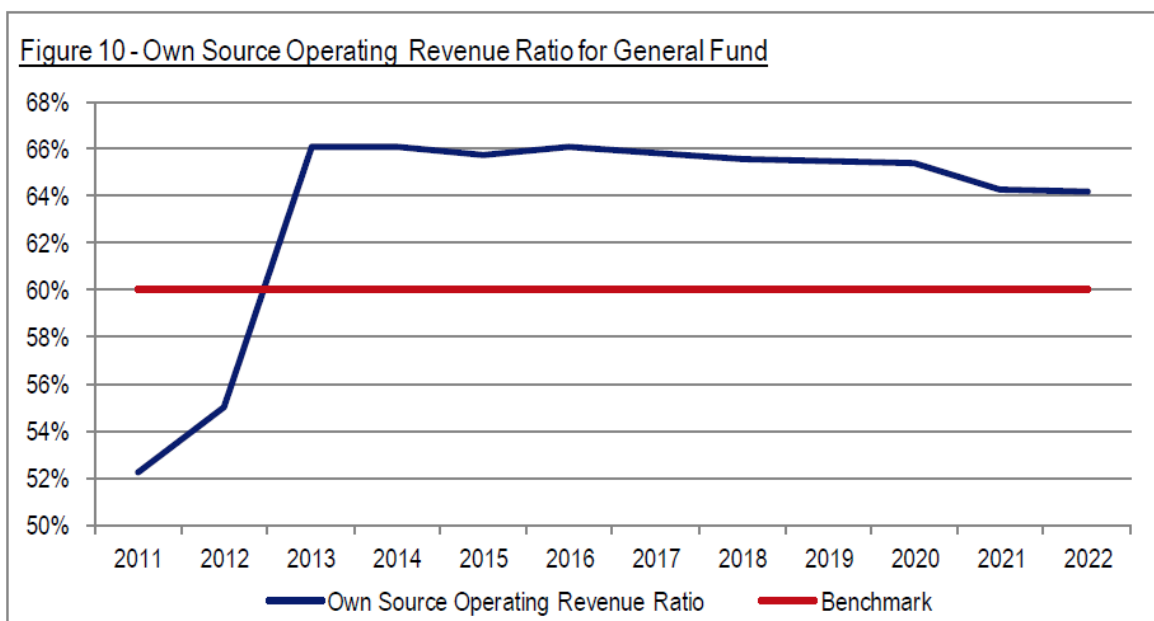
- The actual cash expense ratio is greater than the forecast and remained in excess of the benchmark up until merger.

## Unrestricted Current Ratio



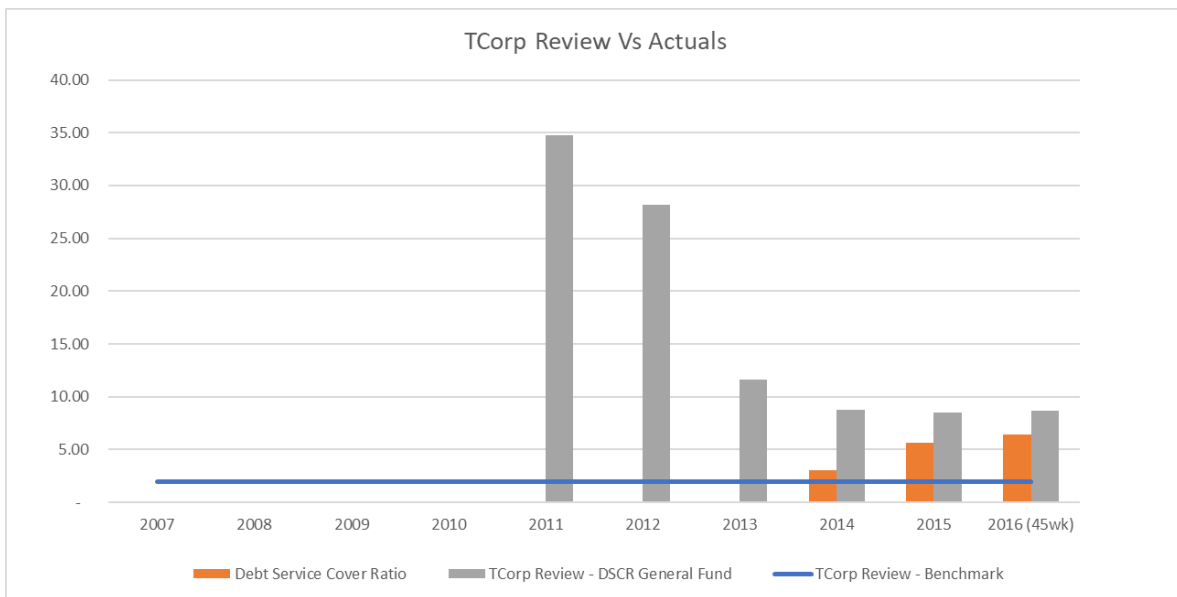
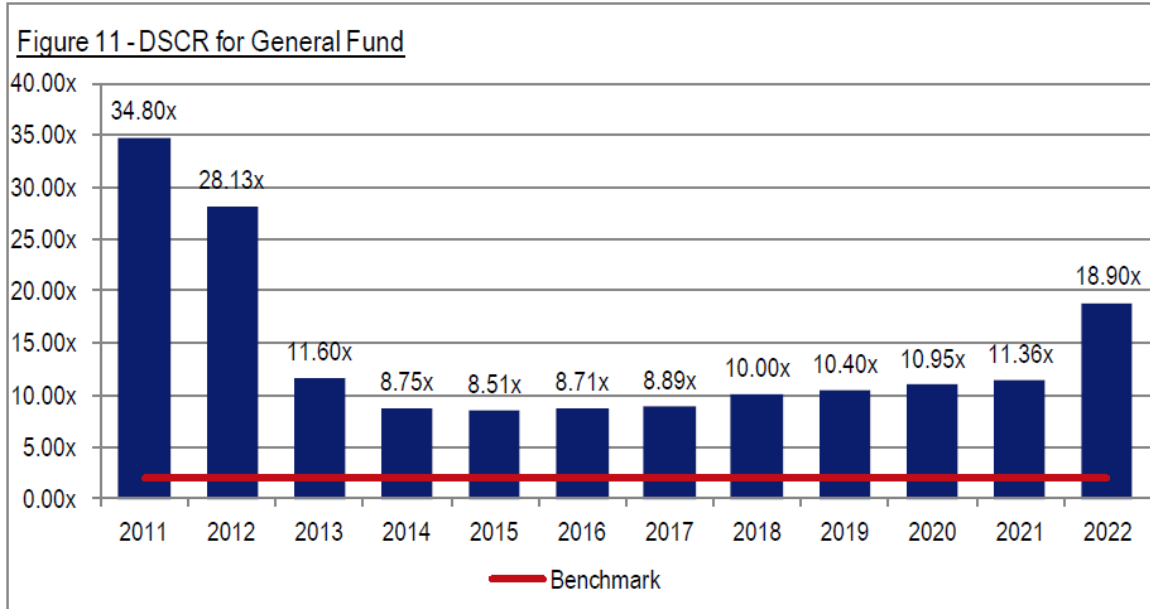
- The actual unrestricted current ratio is greater than the forecast and remained in excess of the benchmark up until merger.
- This indicates that Council had sufficient liquidity to meet its short-term obligations.

## Own Source Revenue Ratio



- Apart from 2014 the actual Own Source Operating Revenue Ratio is always above the forecast ratio.
- The forecast ratio increase in 2013 is due to the operating and capital grants being predicted to be lower than historically levels.
- Since 2007, the actual own source revenue ratio has been above the benchmark of 60%, apart being marginally below in 2007 and 2014.

## Debt Service Cover Ratio

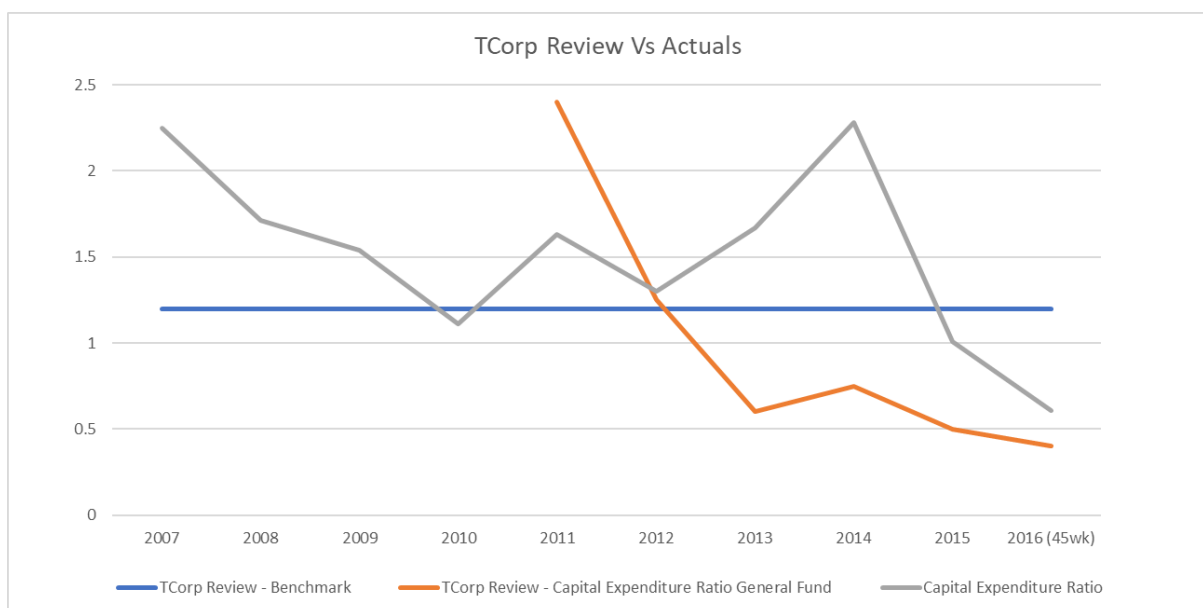
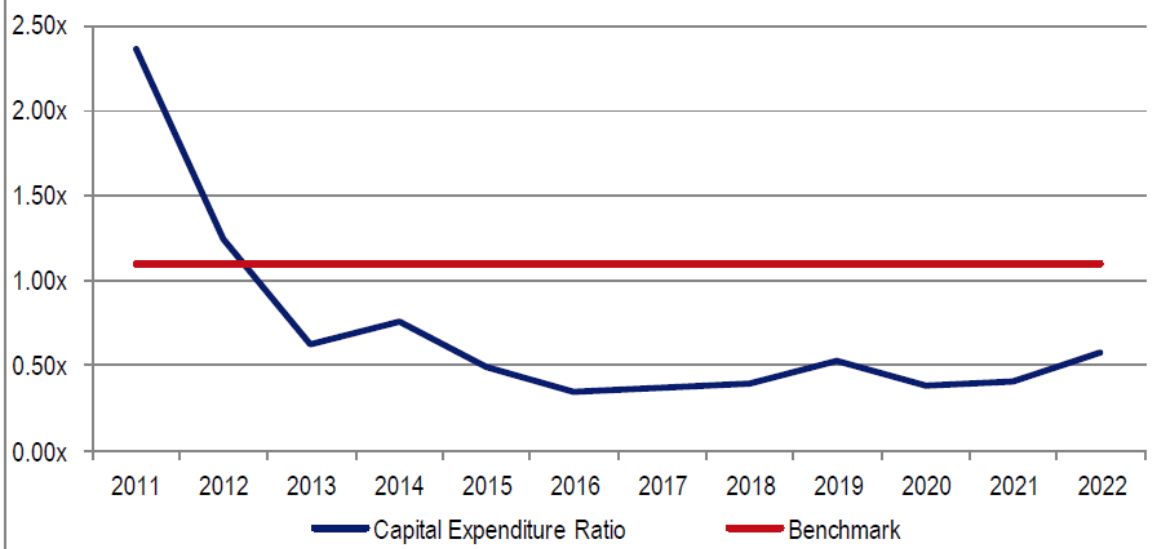


- The actual Debt Service Cover Ratio is below the forecast ratio in 2014, 2015 and 2016.
- Both the actual and forecast ratios remained above the benchmark of 2x.



## Capital Expenditure Ratio

Figure 13 - Capital Expenditure Ratio for General Fund

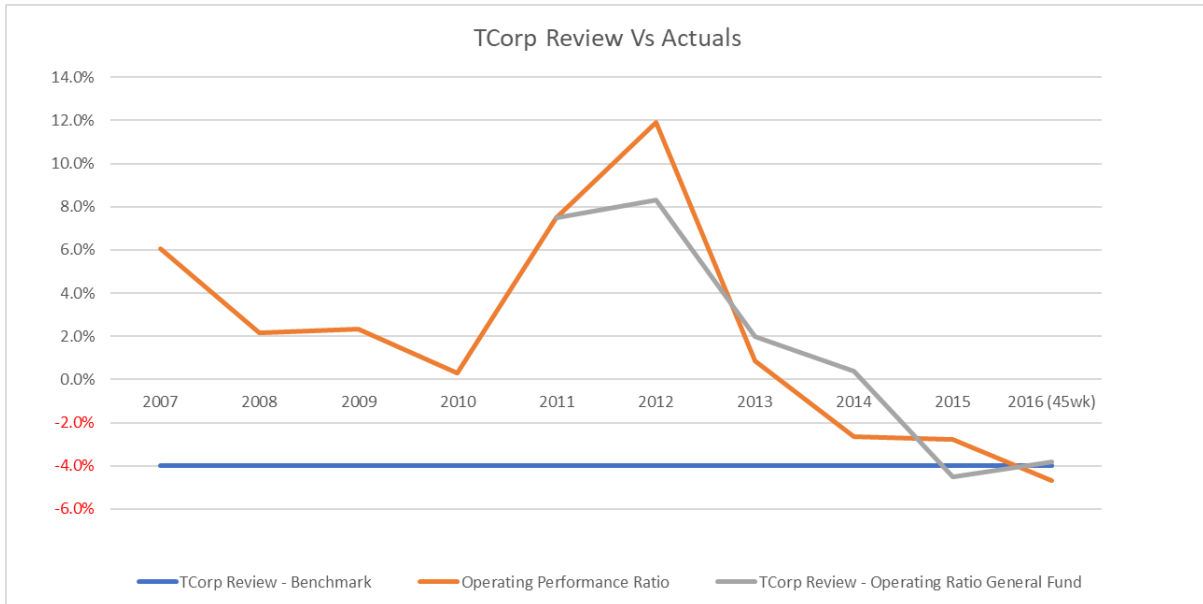
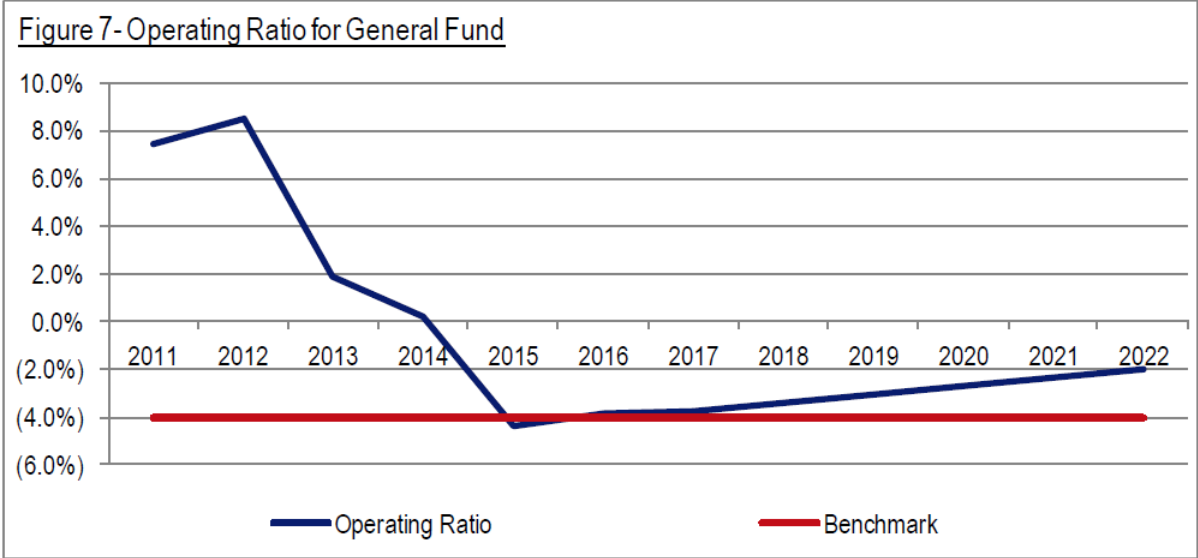


- This graph demonstrates a significant reduction in capital expenditure by Tumut SC leading into the merger.
- Actual results are again significantly divergent from the forecast.

This analysis confirms the inaccuracy of the forecasting provided to the TCorp at the time of the review. There is no doubt that Tumut Shire Council was not well served by the inaccuracy of their forecasts as they were relied on by TCorp to make its assessment of future sustainability.

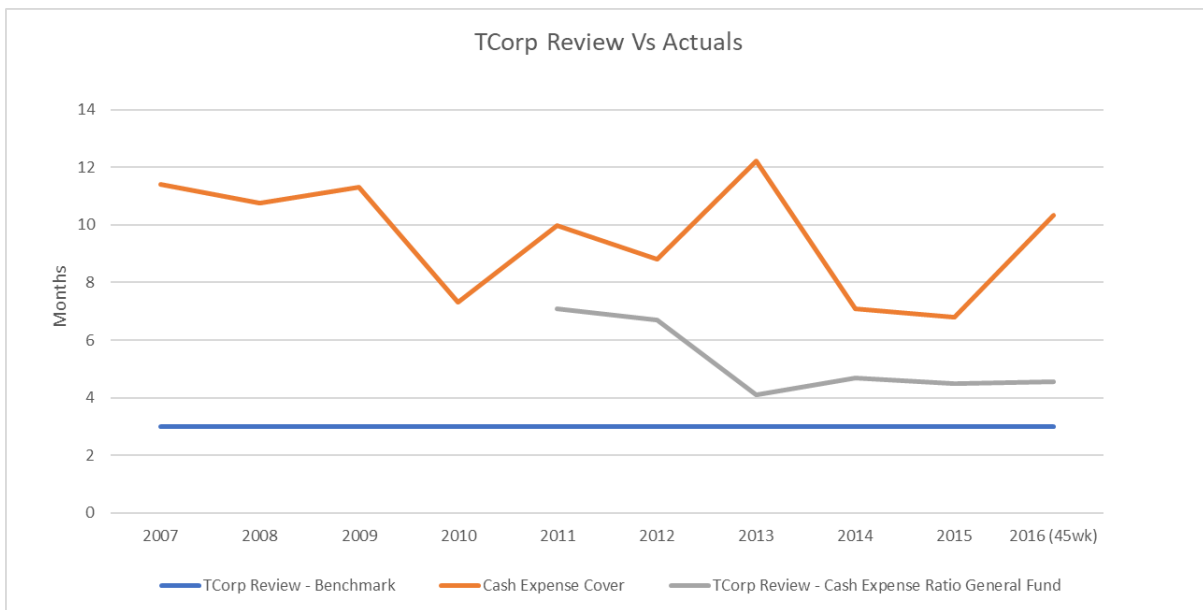
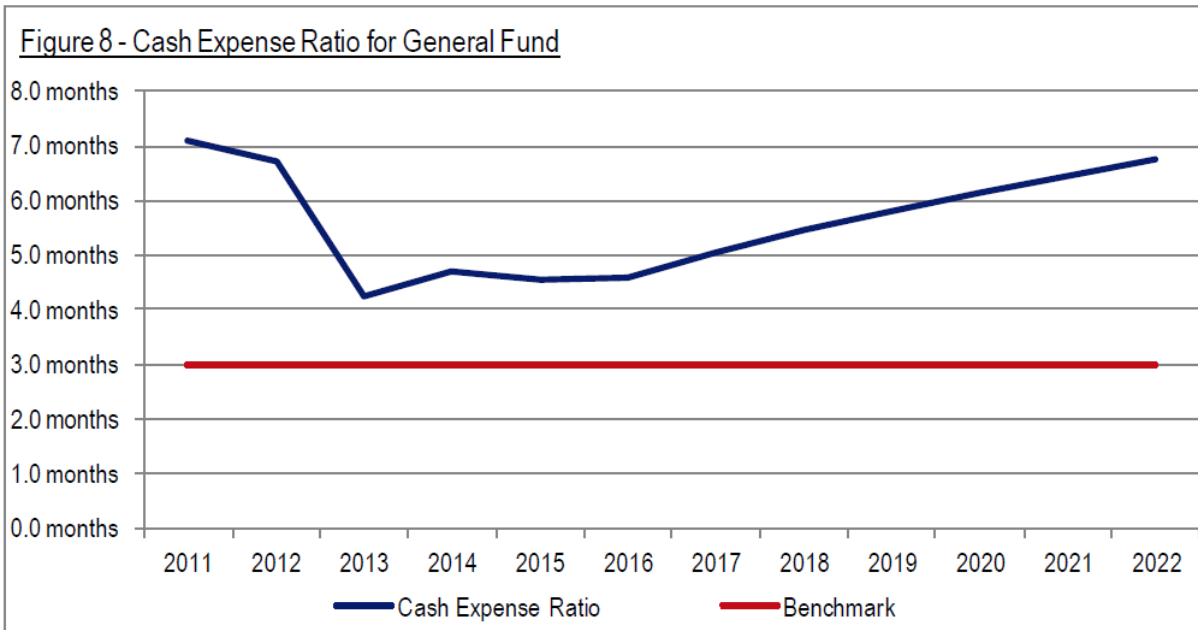
**Tumbarumba Shire Council**

**Operating Ratio**



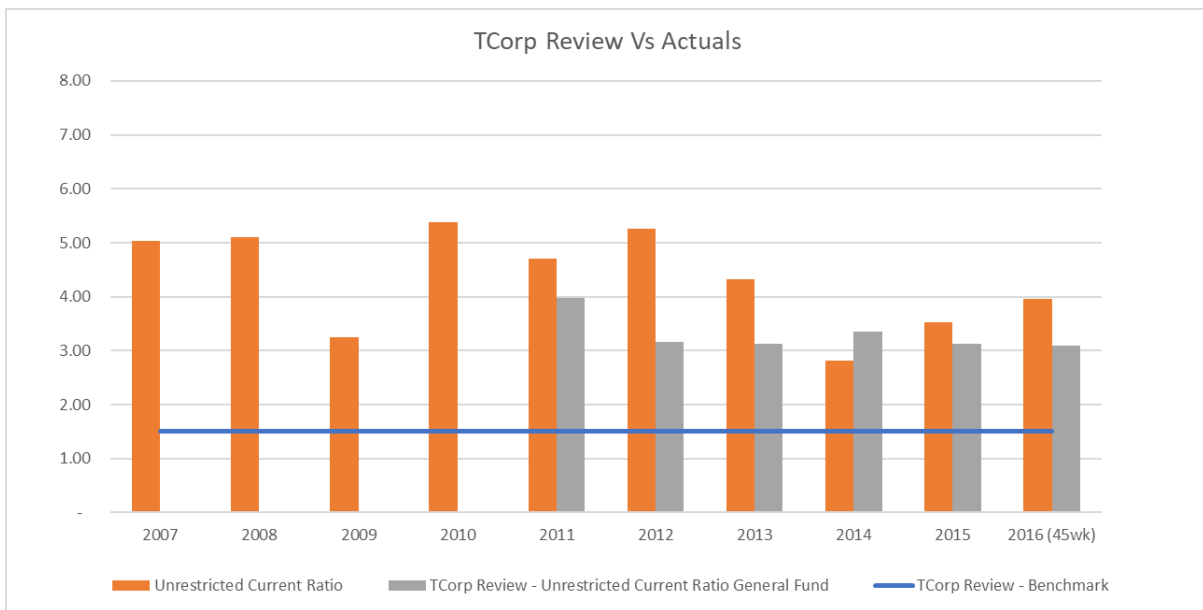
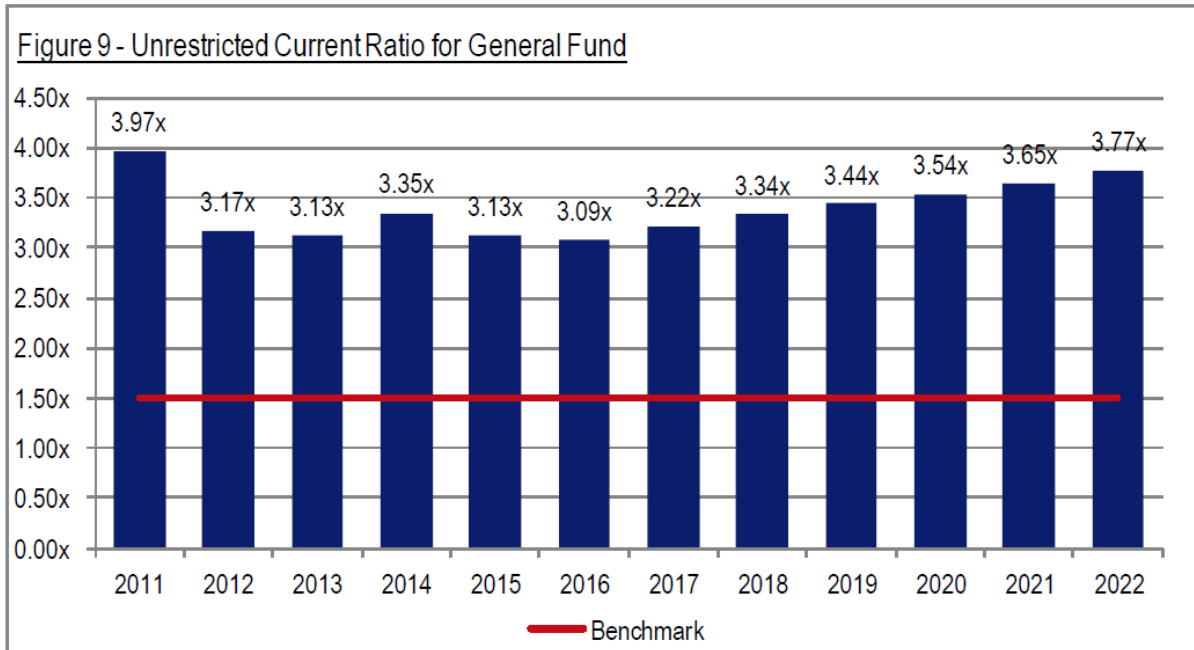
- The forecast by Tumbarumba SC proved to be accurate for the period up to merger.
- The move to a point below the benchmark is consistent with it delivering operating deficits from 2014 on.

## Cash Expense Ratio



- Both the forecast and actual cash expense ratios are remained above the benchmark with the actual result in excess of the forecast and demonstrating that Council remained in a strong liquidity position.

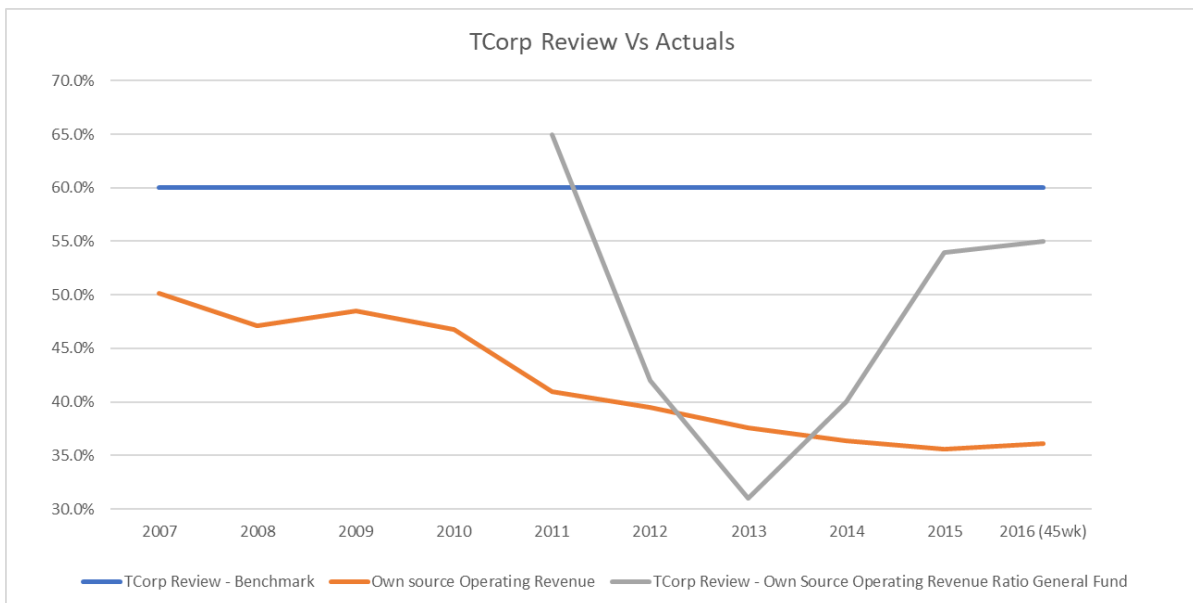
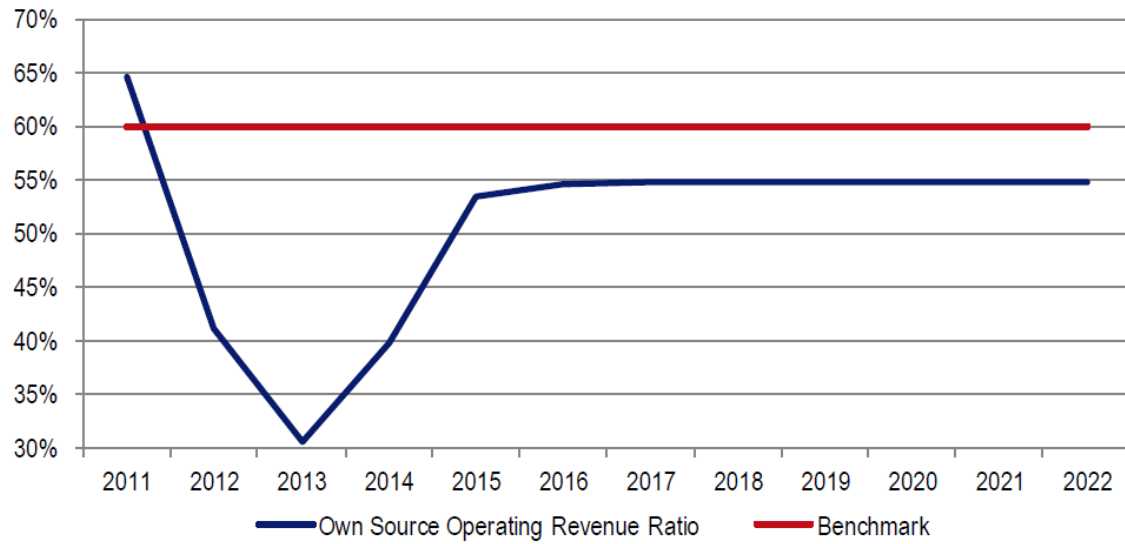
## Unrestricted Current Ratio



- This graph again demonstrates accuracy in the forecasts with actuals exceeding the benchmark right up to merger.

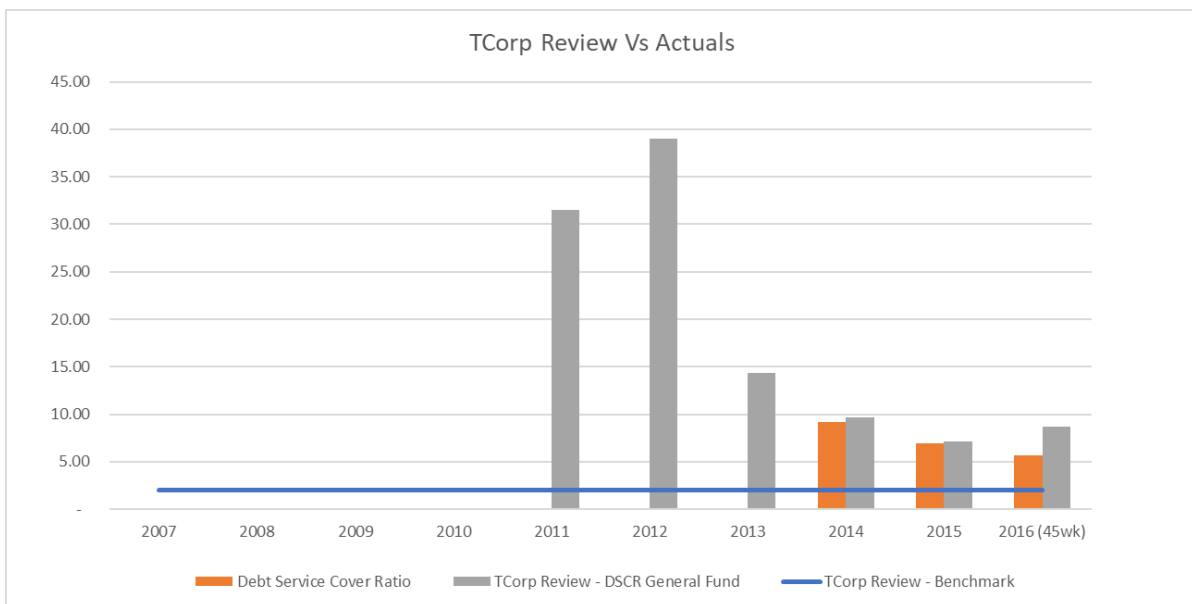
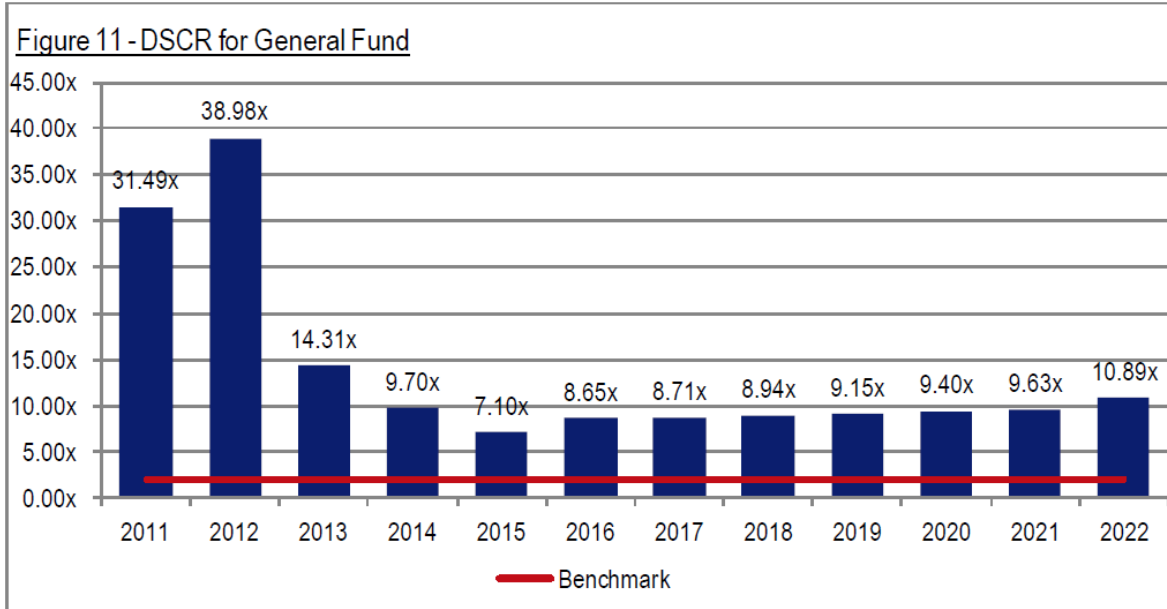
## Own Source Operating Revenue Ratio

Figure 10 - Own Source Operating Revenue Ratio for General Fund



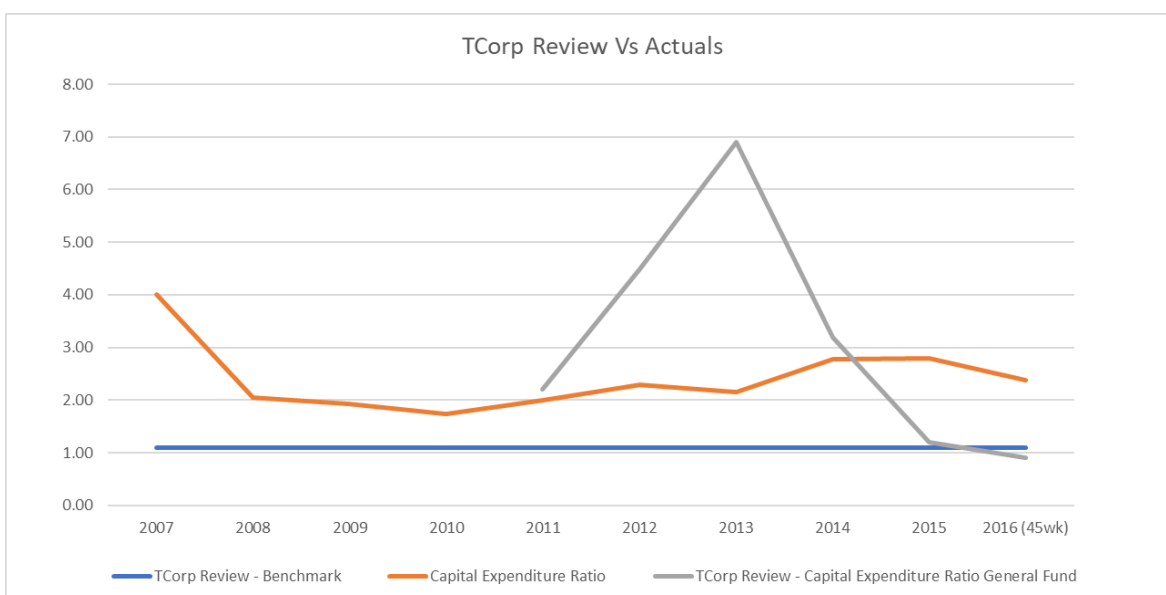
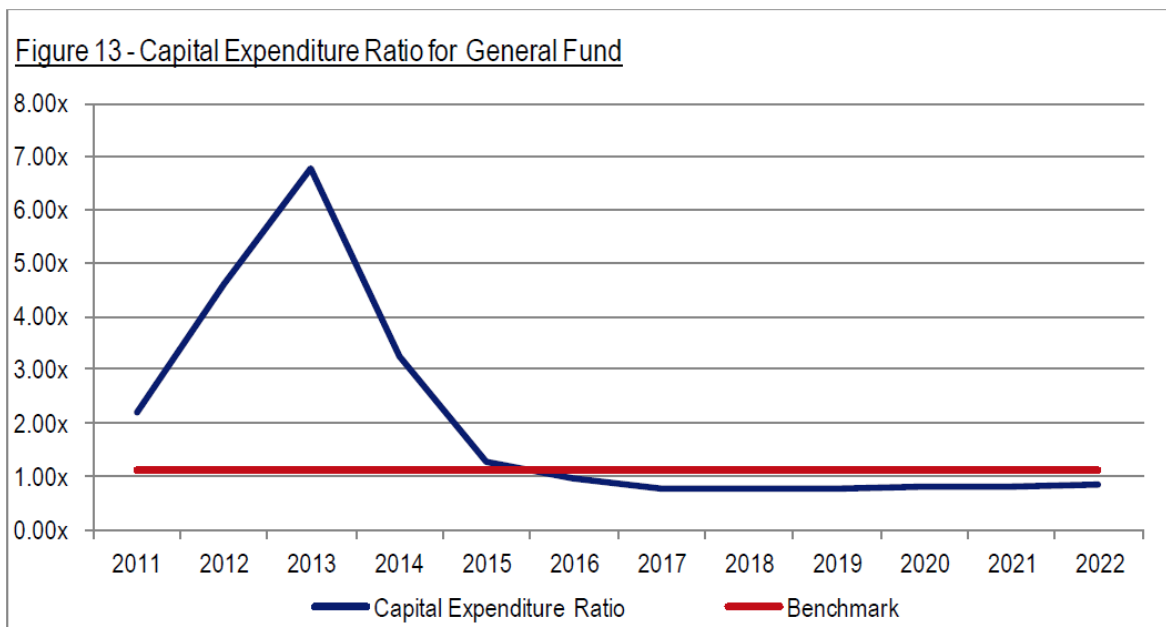
- The actual result for the Own Source Revenue Ratio is below the benchmark as forecast.
- This ratio confirms Council's reliance on external grants and contributions.

## Debt Service Cover Ratio



- Both the forecast and actual Debt Service Cover Ratios are above the benchmark for the period.
- This ratios shows that Council was in a position to increase the level of debt if required.

## Capital Expenditure Ratio



- Both the forecast and actual capital expenditure ratios are above the benchmark.
- The actual result shows the capital expenditure has been relatively stable since 2008.

It is clear that the attention to providing quality data to the TCorp review by Tumbarumba Shire Council ensured that determinations made were based on accurate data.

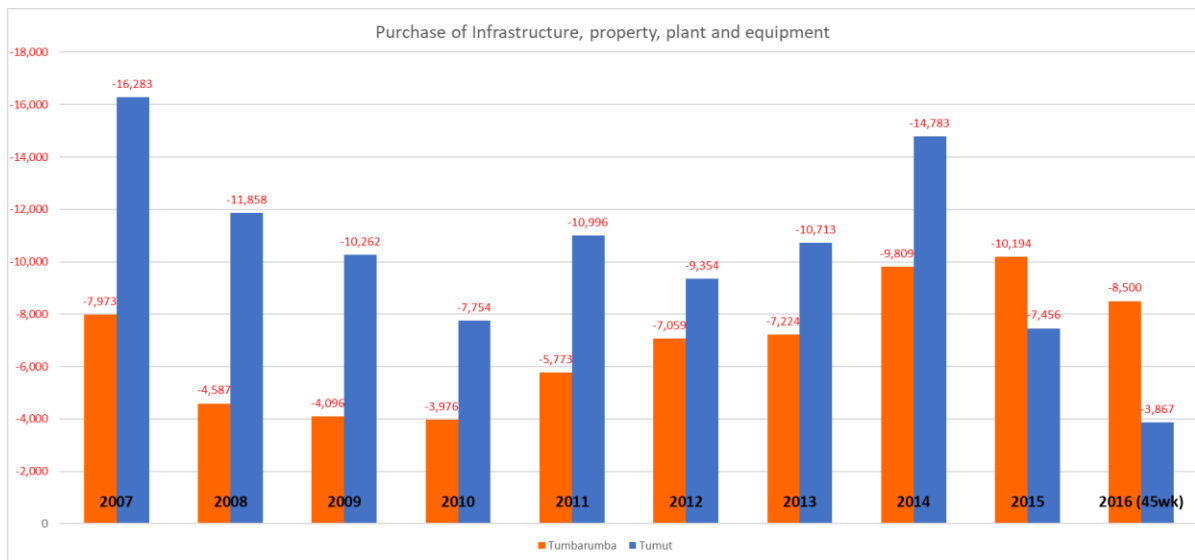
#### 10.4.6 Cashflow Statements

It is noted that in 2015 and 2016, Tumbarumba SC had a higher capital spend compared to Tumut SC.

	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Income Statement</b>												
Tumbarumba	Grants and contributions provided for	27,360	2480	730	884	927	3,022	3,177	3,334	4,886	5,592	2,328
Tumbarumba	Net Gains from disposal of assets		47	129	247	219	232					33
Tumbarumba	Net Losses from disposal of assets						868	736	245			
<b>Cashflow Statement</b>												
Tumbarumba	<b>Net Cash - Operating Activities</b>		<b>3440</b>	<b>4264</b>	<b>3,977</b>	<b>70</b>	<b>7,626</b>	<b>8,176</b>	<b>7,398</b>	<b>4,305</b>	<b>11,132</b>	<b>6,226</b>
Tumbarumba	Sale of Investment securities		4,000	6,173	1,000			750		4,010		
Tumbarumba	Sale of Real Estate Assets		615	656	230	272	39	47		43	30	158
Tumbarumba	Sales of Infrastructure, property, plant and equipment			167	419	229	1,179	471	183	213	524	925
Tumbarumba	Purchase of investment securities		-2,561	0	-15	-12	-31	-148	-745	-12	-1,521	-2,487
Tumbarumba	Purchase of Infrastructure, property	-69,191	-7,973	-4,587	-4,096	-3,976	-5,773	-7,059	-7,224	-9,809	-10,194	-8,500
Tumbarumba	<b>Net Cash - Investing Activities</b>		<b>-5,919</b>	<b>2,409</b>	<b>-2,462</b>	<b>-3,487</b>	<b>-4,586</b>	<b>-5,939</b>	<b>-7,786</b>	<b>-5,555</b>	<b>-11,161</b>	<b>-9,904</b>
Tumbarumba												
Tumbarumba	<b>Net Cash - Financing Activities</b>		<b>454</b>	<b>-87</b>	<b>-76</b>	<b>-79</b>	<b>867</b>	<b>-97</b>	<b>999</b>	<b>1,154</b>	<b>-124</b>	<b>3,150</b>
Tumbarumba												
Tumbarumba	<b>Total Cash, cash equivalents and investments</b>		<b>9,358</b>	<b>7,971</b>	<b>9,410</b>	<b>5,914</b>	<b>9,821</b>	<b>11,961</b>	<b>13,317</b>	<b>9,211</b>	<b>10,578</b>	<b>12,537</b>

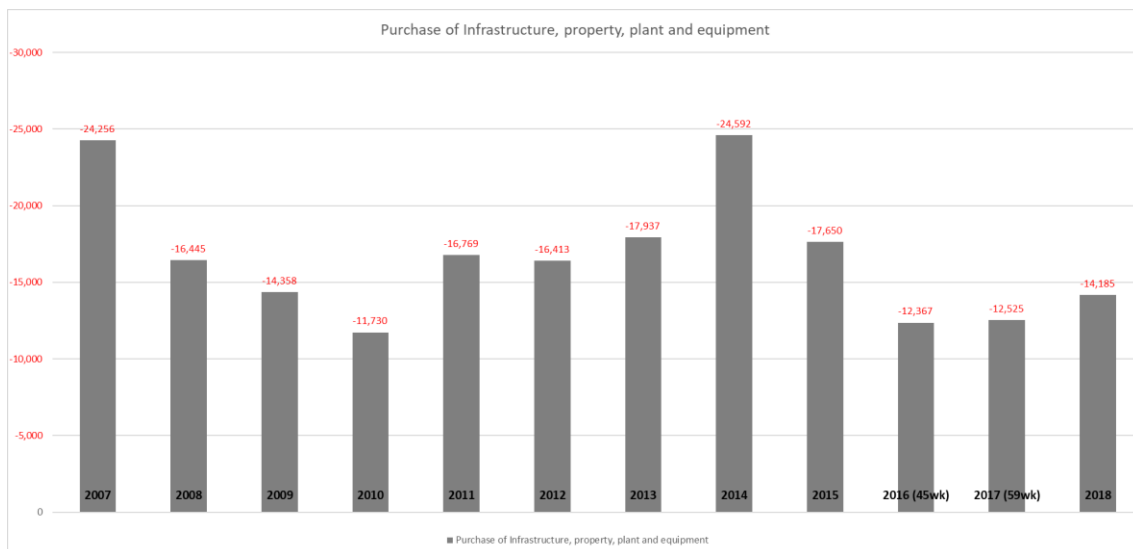
	Total	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
<b>Income Statement</b>												
Tumut	Grants and contributions provided for	30,632	6351	3795	2757	2,042	3,908	1,488	1,822	7,522	579	368
Tumut	Net Gains from disposal of assets											
Tumut	Net Losses from disposal of assets		125	2493	1289	533	11379				861	1,561
<b>Cashflow Statement</b>												
Tumut	<b>Net Cash - Operating Activities</b>		<b>10,590</b>	<b>14,199</b>	<b>9,367</b>	<b>6,854</b>	<b>11,124</b>	<b>5,993</b>	<b>11,457</b>	<b>11,600</b>	<b>8,573</b>	<b>4,009</b>
Tumut	Sale of Investment securities		4525			750	1,963	11,850	8,661	9,583	11,976	11,039
Tumut	Sale of Real Estate Assets								1,363			
Tumut	Sales of Infrastructure, property, plant and equipment		1,471	362	380	324	218	415	883	789	714	489
Tumut	Purchase of investment securities					-52	-7,113	-8,735	-9,169	-11,176	-11,682	-14,345
Tumut	Purchase of Infrastructure, property	-103,326	-16,283	-11,858	-10,262	-7,754	-10,996	-9,354	-10,713	-14,783	-7,456	-3,867
Tumut	<b>Net Cash - Investing Activities</b>		<b>-10,287</b>	<b>-11,496</b>	<b>-9,882</b>	<b>-6,732</b>	<b>-15,928</b>	<b>-5,824</b>	<b>-10,338</b>	<b>-14,224</b>	<b>-6,448</b>	<b>-6,684</b>
Tumut												
Tumut	<b>Net Cash - Financing Activities</b>		<b>-108</b>	<b>-1</b>	<b>-16</b>	<b>1,004</b>	<b>5,513</b>	<b>1,637</b>	<b>-208</b>	<b>-210</b>	<b>-858</b>	<b>-807</b>
Tumut												
Tumut	<b>Total Cash, cash equivalents and investments</b>		<b>10,876</b>	<b>14,844</b>	<b>9,051</b>	<b>11,279</b>	<b>17,852</b>	<b>16,663</b>	<b>18,550</b>	<b>17,881</b>	<b>18,854</b>	<b>18,678</b>

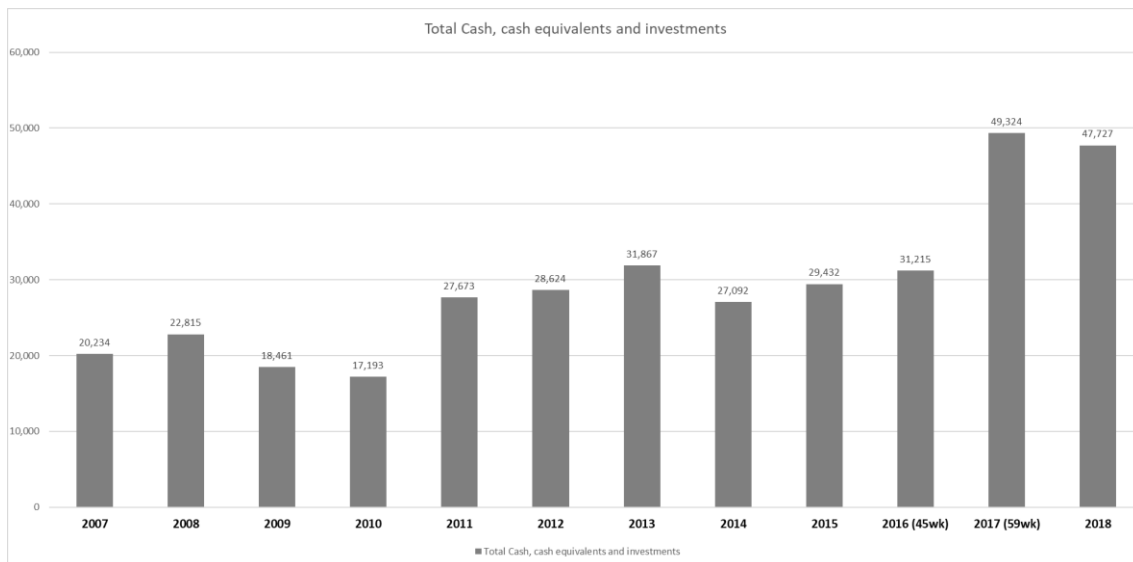




	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
<b>Income Statement</b>												
Snowy Valleys: Grants and contributions provided for	8,831	4,525	3,641	2,969	6,930	4,665	5,156	12,408	6,171	2,696	12,098	6,082
Snowy Valleys: Net Gains from disposal of assets	47	129	247	219	232	0	0	0	0	33		
Snowy Valleys: Net Losses from disposal of assets	125	2,493	1,289	533	11,379	868	736	245	861	1,561	2,271	8,185
<b>Cashflow Statement</b>												
Snowy Valleys: <b>Net Cash - Operating Activities</b>	<b>14,030</b>	<b>18,463</b>	<b>13,344</b>	<b>6,924</b>	<b>18,750</b>	<b>14,169</b>	<b>18,855</b>	<b>15,905</b>	<b>19,705</b>	<b>10,235</b>	<b>31,261</b>	<b>12,654</b>
Snowy Valleys: Sale of Investment securities	8,525	6,173	1,000	750	1,963	12,600	8,661	13,593	11,976	11,039	13,509	31,491
Snowy Valleys: Sale of Real Estate Assets	615	656	230	272	39	47	0	1,406	30	158		201
Snowy Valleys: Sales of Infrastructure, property, plant and equipment	1,471	529	799	553	1,397	886	1,066	1,002	1,238	1,414	627	832
Snowy Valleys: Purchase of investment securities	-2,561	0	-15	-64	-7,144	-8,883	-9,914	-11,188	-13,203	-16,832	-23,875	-22,266
Snowy Valleys: Purchase of Infrastructure, property, plant and equipment	-24,256	-16,445	-14,358	-11,730	-16,769	-16,413	-17,937	-24,592	-17,650	-12,367	-12,525	-14,185
Snowy Valleys: <b>Net Cash - Investing Activities</b>	<b>-16,206</b>	<b>-9,087</b>	<b>-12,344</b>	<b>-10,219</b>	<b>-20,514</b>	<b>-11,763</b>	<b>-18,124</b>	<b>-19,779</b>	<b>-17,609</b>	<b>-16,588</b>	<b>-22,264</b>	<b>-3,927</b>
Snowy Valleys: <b>Net Cash - Financing Activities</b>	<b>346</b>	<b>-88</b>	<b>-92</b>	<b>925</b>	<b>6,380</b>	<b>1,540</b>	<b>791</b>	<b>944</b>	<b>-982</b>	<b>2,343</b>	<b>-1,254</b>	<b>-1,189</b>
Snowy Valleys: <b>Total Cash, cash equivalents and investments</b>	<b>20,234</b>	<b>22,815</b>	<b>18,461</b>	<b>17,193</b>	<b>27,673</b>	<b>28,624</b>	<b>31,867</b>	<b>27,092</b>	<b>29,432</b>	<b>31,215</b>	<b>49,324</b>	<b>47,727</b>

There has been a reduction in capital expenditure since 2015. This combined with 2017's \$12.098M grant which has not been fully spent, has resulted in an increase in the cash position.



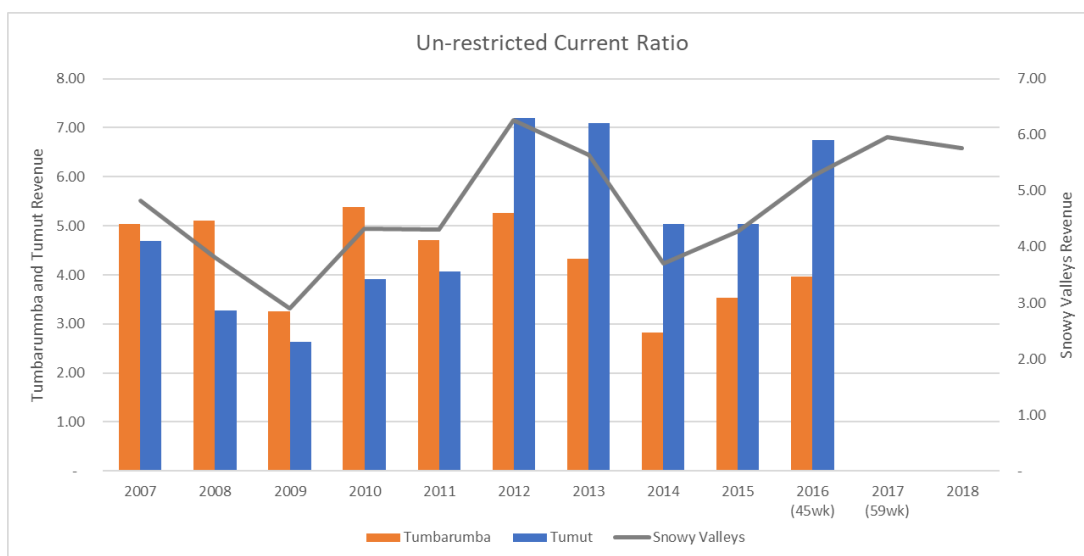


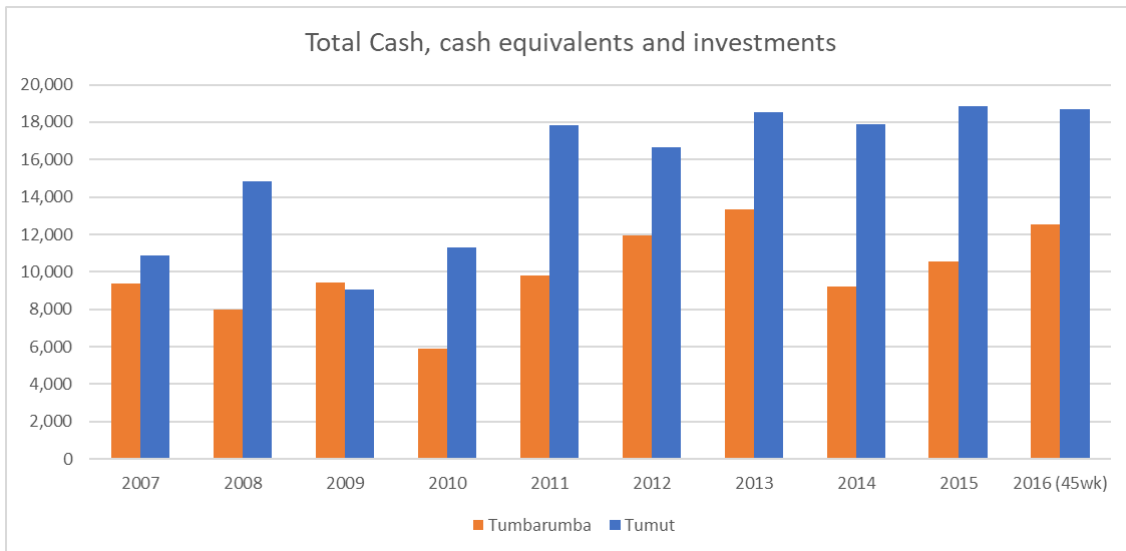
## 10.5 Ratios

### 10.5.1 Current Ratio (including Unrestricted)

As at 12 May 2016 Tumarumba SC had \$5.344M (or 30%) of current assets with restrictions. Tumut had \$8.764M (or 32%) of current assets with restrictions.

Council	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Tumarun	Current Assets	12,658	10,155	12,017	10,198	14,836	16,840	18,128	19,959	16,917	17,974
Tumarun	Current Liabilities	1,983	1,870	3,043	1,954	2,856	3,030	3,833	6,267	4,520	4,933
Tumarun	<b>Current Ratio</b>	<b>6.38</b>	<b>5.43</b>	<b>3.95</b>	<b>5.22</b>	<b>5.19</b>	<b>5.56</b>	<b>4.73</b>	<b>3.18</b>	<b>3.74</b>	<b>3.64</b>
Tumarumba											
Tumarun	Current Assets (less Restrictions)	6,954	6,561	7,580	6,411	9,595	11,308	11,525	13,328	10,870	12,630
Tumarun	Current Liabilities (less Specific)	1,379	1,287	2,328	1,190	2,036	2,147	2,663	4,733	3,078	3,185
Tumarun	<b>Unrestricted Current Ratio</b>	<b>5.04</b>	<b>5.10</b>	<b>3.26</b>	<b>5.39</b>	<b>4.71</b>	<b>5.27</b>	<b>4.33</b>	<b>2.82</b>	<b>3.53</b>	<b>3.97</b>
Council	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Tumut	Current Assets	12,163	11,477	10,578	12,339	19,644	23,779	22,673	20,457	22,377	27,673
Tumut	Current Liabilities	2,653	1,573	757	1,855	9,620	8,270	9,011	8,198	10,404	15,210
Tumut	<b>Current Ratio</b>	<b>4.58</b>	<b>7.30</b>	<b>13.97</b>	<b>6.65</b>	<b>2.04</b>	<b>2.88</b>	<b>2.52</b>	<b>2.50</b>	<b>2.15</b>	<b>1.82</b>
Tumut	Current Assets (less Restrictions)	10,351	10,250	7,814	11,635	13,620	16,704	16,994	15,813	15,522	18,909
Tumut	Current Liabilities (less Specific)	2,203	3,132	2,975	2,978	3,342	2,322	2,393	3,134	3,084	2,801
Tumut	<b>Unrestricted Current Ratio</b>	<b>4.70</b>	<b>3.27</b>	<b>2.63</b>	<b>3.91</b>	<b>4.08</b>	<b>7.19</b>	<b>7.10</b>	<b>5.05</b>	<b>5.03</b>	<b>6.75</b>





Current ratio for combined Snowy Valleys Council at merger was 4.17, current financial forecast has this increasing to 9.82 in 2028.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018
Snowy Valleys Current Assets	24,821	21,632	22,595	22,537	34,480	40,619	40,801	40,416	39,294	45,647	56,731	54,910
Snowy Valleys Current Liabilities	5,920	6,037	7,691	6,493	7,609	7,521	8,412	11,933	10,149	10,946	9,088	8,663
Snowy Valleys Current Ratio	4.19	3.58	2.94	3.47	4.53	5.40	4.85	3.39	3.87	4.17	6.24	6.34
Snowy Valleys Current Assets (less Restrictions)	0	16,811	15,394	18,046	23,215	11,308	28,519	29,141	26,392	31,539	27,825	
Snowy Valleys Current Liabilities (less Specific)	0	4,419	5,303	4,168	5,378	2,147	5,056	7,867	6,162	5,986	4,673	
Snowy Valleys Unrestricted Current Ratio		3.80	2.90	4.33	4.32	5.27	5.64	3.70	4.28	5.27	5.95	

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Snowy Valleys Current Assets	54,910	52,662	50,391	51,254	53,369	56,445	62,411	68,469	75,470	80,831	88,016
Snowy Valleys Current Liabilities	8,663	8,088	8,283	8,492	8,633	8,409	8,412	8,397	8,582	8,769	8,960
Snowy Valleys Current Ratio	6.34	6.51	6.08	6.04	6.18	6.71	7.42	8.15	8.79	9.22	9.82

### 10.5.2 Rates and Annual Charges

Council	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Tumbarumba	Rates and Annual Charges	2,717	2,892	2,958	3,073	3,285	3,427	3,545	3,662	3,768	3,653
Tumbarumba	Income from continuing Operations	15,074	12,113	13,300	12,946	18,913	25,140	19,881	24,564	23,479	17,852
Tumbarumba	Rates and Annual Charges Ratio	18.0%	23.9%	22.2%	23.7%	17.4%	13.6%	17.8%	14.9%	16.0%	20.5%
Tumbarumba	Outstanding Rates	149	162	153	183	269	339	427	487	422	845
Tumbarumba	Collectable Rates	2,871	3,052	3,134	13,165	3,491	3,743	3,957	4,189	4,340	4,119
Tumbarumba	Rates, annual charges, outstanding	5.2%	5.3%	4.9%	1.4%	7.7%	9.1%	10.8%	11.6%	9.7%	20.5%
Tumut	Rates and Annual Charges	7,892	8,246	8,540	9,180	9,625	10,066	10,958	11,262	11,771	10,659
Tumut	Income from continuing Operations	30,435	23,438	25,140	25,273	31,051	31,227	33,800	35,594	28,852	28,198
Tumut	Rates and Annual Charges Ratio	25.9%	35.2%	34.0%	36.3%	31.0%	32.2%	32.4%	31.6%	40.8%	37.8%
Tumut	Outstanding Rates	561	621	858	893	869	798	718	612	466	2,413
Tumut	Collectable Rates	8,357	8,866	9,238	9,994	10,584	11,008	11,822	12,034	12,526	11,178
Tumut	Rates, annual charges, outstanding	6.7%	7.0%	9.3%	8.9%	8.2%	7.2%	6.1%	5.1%	3.7%	21.6%

## 10.6 Assets - Roads

Included in council assets was a figure called Bulk Earthworks which was non-depreciable. While this figure is a component of roads, there are potential differences in valuation approaches:

- Bulk Earthworks:
  - Tumut SC: \$98.261M
  - Tumbarumba SC \$8.807M
- Road Network (includes Roads, Bridges, Footpaths, Kerb & Gutter)
  - Tumut SC \$140.604M 635.5km roads and 83 Bridges
  - Tumbarumba SC \$194.657M 476.2km roads and 41 bridges
- Depreciation (2015 Fin Year)
  - Tumut SC: \$2.423M
  - Tumbarumba SC \$1.566M
- Average remaining useful life (years) (WDV/Deprecation), without/with Bulk Earthworks.
  - In 2012, when the bulk earthworks are included, the average remaining useful lives for roads was 56 and 57 years.
  - Changes through to 12/5/2016, increased these figures to 78 and 98 years. Asset staff supported the view that Tumbarumba SC roads were in better condition than Tumut SC roads.

Council	Asset	Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)
Tumbarumba	Bulk Earthworks	Cost of Assets	16,513	16,513	16,513	8,807	8,807	8,807	8,807	8,807	8,807	8,807
Tumbarumba	Roads	Cost of Assets	105,250	106,813	108,991	153,691	154,534	156,914	143,524	146,852	193,272	194,657
Tumbarumba	Roads	Acc Dep	-67,380	-68,238	-69,119	-70,018	-71,647	-73,301	-58,580	-50,119	-55,694	-57,259
Tumbarumba	Roads	WDV	37,870	38,575	39,872	83,673	82,887	83,613	84,944	86,733	137,580	137,398
Tumbarumba	Roads	<b>Cost/WDV</b>	<b>36.0%</b>	<b>36.1%</b>	<b>36.6%</b>	<b>54.4%</b>	<b>53.6%</b>	<b>53.3%</b>	<b>59.2%</b>	<b>59.1%</b>	<b>71.2%</b>	<b>70.6%</b>
Tumbarumba	Roads	Depreciation and amortisation	846	858	881	899	1,629	1,654	1,600	1,655	1,702	1,566
Tumbarumba	Roads	Av. Remaining Useful Life	44.8	45.0	45.3	93.1	50.9	50.6	53.1	52.4	80.8	87.7
Tumbarumba	Roads	Av. Remain Life (With WDV + Bulk)	64.3	64.2	64.0	102.9	56.3	55.9	58.6	57.7	86.0	93.4
Tumut	Bulk Earthworks	Cost of Assets	99,307	99,776	100,560	100,342	95,833	95,996	96,561	97,073	97,386	98,261
Tumut	Roads	Cost of Assets	107,582	112,807	127,590	139,430	133,672	136,132	136,766	143,853	143,853	140,604
Tumut	Roads	Acc Dep	-38,230	-41,041	-47,464	-44,280	-43,980	-46,785	-48,074	-45,853	-45,852	-57,982
Tumut	Roads	WDV	69,352	71,766	80,126	95,160	89,692	89,220	88,692	98,000	98,001	91,622
Tumut	Roads	<b>Cost/WDV</b>	<b>64.5%</b>	<b>63.6%</b>	<b>62.8%</b>	<b>68.2%</b>	<b>67.1%</b>	<b>65.5%</b>	<b>64.8%</b>	<b>68.1%</b>	<b>68.1%</b>	<b>65.2%</b>
Tumut	Roads	Depreciation and amortisation	4314	3411	3,479	3,358	2,973	3,222	2,614	2,413	2,914	2,423
Tumut	Roads	Av. Remaining Useful Life	16.1	21.0	23.0	28.3	30.2	27.7	33.9	40.6	33.6	37.8
Tumut	Roads	Av. Remain Life (With WDV + Bulk)	39	50	52	58	62	57	71	81	67	78

## 10.7 Findings

**40 - Long term financial forecasts provided to TCorp had Tumbarumba SC moving into operating deficits not dis-similar to actual figures, while Tumut SC forecasts of larger operating deficits, did not eventuate.**

**41 - The actual outcomes for operating results post the TCorp review indicate that the forecasting outcomes for Tumbarumba SC were more accurate than for Tumut SC.**

- 42 - This analysis confirms the conservative nature of the forecasting provided to the TCorp at the time of the review. There is no doubt that Tumut Shire Council was not well served by the conservative nature of their forecasts as they were relied on by TCorp to make its assessment of future sustainability.***
- 43 - It is clear that the attention to providing quality data to the TCorp review by Tumbarumba Shire Council ensured that determinations made were based on accurate data.***

## 11 Appendix A - Resolution monitoring

### ORDINARY MEETING ACTION REPORT

THURSDAY, 23 JUNE, 2016

#### ACTION REPORT – Ordinary Meeting 27 April 2016

Director	Report Title	Action Required	Action Taken	Action Date
<b>COMMITTEE REPORTS</b>				
B Stewart	General Business: SnowyWS Meeting 12 April 2016	<b>166 RESOLVED</b> that the Snowy Works and Services 2016-2020 Workforce Plan be adopted by Tumut Shire Council.  Cr S Stevenson/Cr G Pritchard	Noted <b>COMPLETED</b>	2/5/2016
M Christensen	General Business: Tree Relocation and vegetation removal	<b>169 RESOLVED</b> that Council investigate the tree directly north of the Church windows/path near the bench seat. Also to enhance viewing from the same bench seat to remove native vegetation on bank down to edge of Miles Franklin Drive.  Cr T Thomson /Cr M Isselmann	13-06-16 – Tree relocated.	<b>COMPLETED</b> 13-06-2016
<b>CORRESPONDENCE</b>				
B Stewart	Redistribution of Federal Electorate Boundaries	<b>172 RESOLVED</b> that Council note the correspondence from Michael McCormack regarding the redistribution of Federal Electorate Boundaries.  Cr S Stevenson/Cr M Isselmann	Noted <b>COMPLETED</b>	2/5/2016
A Tonkin	Sponsorship Adelong Antique Fair	<b>173 RESOLVED</b> that Council provide sponsorship of \$1,000.00 for the Adelong Antique Fair and Auction from the Sec. 356 budget.  Cr T Thomson /Cr S Stevenson	Sponsorship provided. <b>COMPLETED</b>	2/5/2016
B Stewart	Sustainable Future for the Region	<b>174 RESOLVED</b> that Council note the correspondence from Bob Erskine regarding a Sustainable Future for the Region and have available for the Finance, Policy and Strategy Meeting 3 May 2016.  Cr M Isselmann/Cr S Stevenson	Included in Finance, Policy & Strategy Mtg – 3/5/2016 <b>COMPLETED</b>	3/5/2016
A Tonkin	Reimbursement for hire of Boys Club Hall	<b>175 RESOLVED</b> that Council reimburse the Boys Club Hall booking fee for students completing an exam as part of their HSC as requested from the Sec. 356 budget.  Cr T Thomson/Cr S Stevenson	Reimbursement provided. <b>COMPLETED</b>	2/5/2016
A Tonkin	Sponsorship for	<b>176 RESOLVED</b> that Council	Sponsorship	2/5/2016

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**ACTION REPORT – Audit, Risk & Improvement Committee (ARI) - 9 May 2018**

Meeting Date	Resolution Number	Resolution	Action required	Date for completion	Responsible Officer	Current Status / Comment
31.10.2017	Resolution Topic 4.5.2 Committee	"That Council staff immediately advertise for expressions of interest for the additional external independent members of the Audit, Risk and Improvement committee with a view to Council making appointments at its December meeting."	This was not advertised and will be added to the Action List. It is understood that David Maxwell, Glenyce Francis and Alyson Forsyth have been appointed until 31 March following the next election		Coordinator of Governance and Exec Support	<b>In progress</b> - An expression of interest was advertised for an Audit Risk & Improvement Committee member with Council receiving one application for the role. An interview with the candidate is scheduled on the 9 <sup>th</sup> May 2018. After the interview, a report will be drafted to Council for their consideration and approval.
7.02.2018	ARI.03 Risk Management Policy	That the committee endorse the policy with amendments	Policy to be amended Policy to General Manager for endorsement		Coordinator of Governance and Exec Services	<b>Complete 7.2.2018</b>
7.02.2018	ARI.04 Section 355 Committees & Volunteers	That the Committee receive and note the report and endorse management responses and proposed action.	Management to respond and propose actions.		Coordinator of Governance and Exec Services	<b>Complete</b> . Actions have now been incorporated onto the Matrix action plan
7.02.2018	ARI.05 SVC Matrix Report	That the Committee note the report and the proposed scheduling be reviewed.	Review the scheduling	2 May 2018	Coordinator of Governance and Exec Services and DM People Culture and Governance	<b>Reviewed Matrix attached.</b>
7.02.2018	ARI.08 Infrastructure Grants	That the Committee request an out of session report with a risk analysis relating to Infrastructure Grants be presented prior to next meeting in May.	Report to be prepared.	Prior to the next meeting	Director Internal Services	<b>Postponed</b> - A report will be prepared and circulated out of session prior to the next meeting

APPENDIX 2

REVIEW OF MATTERS RAISED IN PRIOR YEAR MANAGEMENT LETTERS

The issues in this appendix were raised in previous management letters but remain relevant in the current year. For each of these issues, I have determined:

- how management has addressed the issue in the current year
- what management still needs to do to address unresolved issues.

Prior Issues Raised	Assessment of Action Taken	Recommendation
<b>Interim Management Letter</b>		
Policies and procedures	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Related party disclosure policy	The matter has been addressed by management	Nil as matter addressed
Review of general journals	Recommendation has not been actioned	Refer to Appendix 1.2
IT user access	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Review of payroll masterfile changes	The matter has been addressed by management	Nil as matter addressed
Finance system integration	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Legislative compliance framework	Recommendation has not been actioned	Refer to Appendix 1.3
Risk management	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Reconciliations	Further issues identified this year	Refer to Appendix 1.7



Prior Issues Raised	Assessment of Action Taken	Recommendation
<b>Final Management Letter</b>		
Financial statement close process	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Non-IT staff have inappropriate access to create and amend user IDs	The matter has been addressed by management	Nil as matter addressed
Audit logs of privileged access activities are not reviewed	Recommendation has not been actioned	Refer to Appendix 1.4
Review of water and sewerage valuation	It was agreed with management to have this issue addressed by 31 May 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Fair value assessments of infrastructure, property, plant and equipment	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures
Accounting for interests in other entities	It was agreed with management to have this issue addressed by 30 June 2018	We will assess whether the recommendation has been actioned as part of the year-end audit procedures

**ACTION REPORT – Audit, Risk & Improvement Committee (8 August 2018)**

Meeting Date	Resolution Number Topic	Resolution	Action required	Date for completion	Responsible Officer	Current Status
7.02.2018	ARI.05 SVC Matrix Report	That the Committee note the report and the proposed scheduling be reviewed.	Review the scheduling	2 May 2018	Coordinator of Governance and Exec Services and DM People Culture and Governance	
7.02.2018	ARI.08 Infrastructure Grants	That the Committee request an out of session report with a risk analysis relating to Infrastructure Grants be presented prior to next meeting in May.	Report to be prepared.	2 May 2018	Director Internal Services	
9.05.2018	ARI.12 Internal Audit Risk Assessment Report	1. The committee note the report and accept it as the Interim Audit Program to be reviewed when the Corporate Risk Register is complete. 2. That the list of priorities for 2018/19 are IT Security, Fraud & Corruption Control and Cost Allocation; and the 2019/20 priorities be: Risk Management, Contact and Project Management and Sundry Debtors.	Review the report when the Corporate Risk Register is complete.			
9.05.2018	ARI.13 Minutes of Safety Risk & Quality Committee Meeting held 15 February, 15 March & 19 April 2018	1. The Minutes of the Safety Risk & Quality Committee meeting held 15 February, 15 March and 19 April 2018 be received and noted. 2. The Audit Risk and Improvement Committee request a Quarterly report summarising the minutes from the Safety Risk and Quality Committee meetings	Prepare a quarterly report summarising the minutes from the Safety Risk and Quality Committee meetings in lieu of minutes.	25 July 2018	Division Manager People, Culture & Governance	

**ACTION REPORT – Audit, Risk & Improvement Committee (8 August 2018)**

Meeting Date	Resolution Number Topic	Resolution	Action required	Date for completion	Responsible Officer	Current Status
9.05.2018	ARI.14 Risk Management Report	in lieu of minutes. That the committee note the Risk Management report.	Risk Management Framework	25 July 2018 (reports due for next meeting)		





Snowy Valleys	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45wk)	2017 (59wk)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Rates and annual charges	10,609	11,138	11,498	12,253	12,910	13,493	14,503	14,924	15,539	14,312	16,704	15,890	16,796	17,207	17,627	18,119	18,563	19,022	19,494	19,983	20,490	21,015
User Charges and fees	14,995	11,375	12,097	11,730	16,554	16,857	16,425	17,333	17,507	16,261	21,130	15,957	12,284	13,238	14,073	14,931	15,809	16,709	17,132	17,566	18,011	18,467
Interest and Investment revenue	1,592	-423	632	1,198	1,622	1,618	2,061	1,832	1,012	983	1,513	1,364	821	701	610	603	615	629	638	647	656	665
Other Revenues	932	740	904	1,216	1,294	832	802	1,074	880	797	1,019	1,307	740	758	777	797	816	837	858	879	901	924
Grants and contributions - operating	8,550	8,196	9,668	8,853	10,654	18,902	14,734	12,587	11,222	11,001	19,107	11,069	8,457	8,671	8,891	9,115	9,346	9,581	9,824	10,070	10,325	10,584
<b>Operating Revenue</b>	<b>36,678</b>	<b>31,026</b>	<b>34,799</b>	<b>35,250</b>	<b>43,034</b>	<b>51,702</b>	<b>48,525</b>	<b>47,750</b>	<b>46,160</b>	<b>43,354</b>	<b>59,473</b>	<b>45,587</b>	<b>39,099</b>	<b>40,575</b>	<b>41,978</b>	<b>43,564</b>	<b>45,150</b>	<b>46,777</b>	<b>47,946</b>	<b>49,146</b>	<b>50,383</b>	<b>51,655</b>
Employees benefits and on-costs	11,361	12,526	13,053	13,879	14,692	16,906	17,456	17,299	17,076	14,959	18,576	18,408	16,619	16,951	17,290	17,636	17,989	18,349	18,716	19,090	19,472	19,861
Borrowing Costs	69	285	361	96	207	305	752	1,439	626	723	800	649										
Materials and contracts	9,543	7,107	8,292	9,112	13,149	16,158	14,647	15,055	14,440	13,810	20,205	14,809	10,475	9,801	10,198	10,603	11,016	11,438	11,668	11,902	12,142	12,386
Depreciation and amortisation	9,240	9,176	8,802	9,248	9,636	10,255	9,771	10,006	11,044	9,962	12,324	10,541	11,336	11,570	11,862	12,154	12,546	12,788	13,080	13,372	13,614	13,906
Other expenses	5,204	3,879	4,255	4,299	4,499	4,007	4,488	4,337	4,285	3,728	8,344	4,803	4,347	4,102	4,182	4,339	4,347	4,431	4,518	4,691	4,696	4,788
<b>Operating Expenditure</b>	<b>35,417</b>	<b>32,973</b>	<b>34,763</b>	<b>36,634</b>	<b>42,183</b>	<b>47,631</b>	<b>47,114</b>	<b>48,136</b>	<b>47,471</b>	<b>43,182</b>	<b>60,249</b>	<b>49,210</b>	<b>42,777</b>	<b>42,425</b>	<b>43,533</b>	<b>44,732</b>	<b>45,898</b>	<b>47,006</b>	<b>47,981</b>	<b>49,055</b>	<b>49,924</b>	<b>50,941</b>
<b>Operating Result</b>	<b>1,261</b>	<b>-1,947</b>	<b>36</b>	<b>-1,384</b>	<b>851</b>	<b>4,071</b>	<b>1,411</b>	<b>-386</b>	<b>-1,311</b>	<b>172</b>	<b>-776</b>	<b>-3,623</b>	<b>-3,679</b>	<b>-1,850</b>	<b>-1,555</b>	<b>-1,168</b>	<b>-748</b>	<b>-229</b>	<b>-35</b>	<b>91</b>	<b>459</b>	<b>714</b>
<b>Capital Items</b>																						
Grants and contributions provided	8,831	4,525	3,641	2,969	6,930	4,665	5,156	12,408	6,171	2,696	12,098	6,082	7,365	5,310	5,015	5,220	5,475	5,680	5,785	5,840	6,045	6,150
Net Gains from disposal of assets	47	129	247	219	232	0	0	0	0	33												
Net Losses from disposal of assets	125	2,493	1,289	533	11,379	868	736	245	861	1,561	2,271	8,185										
<b>Net Operating Result</b>	<b>10,014</b>	<b>214</b>	<b>2,635</b>	<b>1,271</b>	<b>-3,366</b>	<b>7,868</b>	<b>5,831</b>	<b>11,777</b>	<b>3,999</b>	<b>1,340</b>	<b>9,051</b>	<b>-5,726</b>	<b>3,686</b>	<b>3,460</b>	<b>3,460</b>	<b>4,052</b>	<b>4,727</b>	<b>5,451</b>	<b>5,750</b>	<b>5,931</b>	<b>6,504</b>	<b>6,864</b>
<b>Cashflow Statement</b>																						
<b>Net Cash - Operating Activities</b>	<b>14,030</b>	<b>18,463</b>	<b>13,344</b>	<b>6,924</b>	<b>18,750</b>	<b>14,169</b>	<b>18,855</b>	<b>15,905</b>	<b>19,705</b>	<b>10,235</b>	<b>31,261</b>	<b>12,654</b>	<b>15,161</b>	<b>15,001</b>	<b>15,293</b>	<b>16,176</b>	<b>17,242</b>	<b>18,208</b>	<b>18,798</b>	<b>19,270</b>	<b>20,085</b>	<b>20,736</b>
<b>Net Cash - Investing Activities</b>	<b>-16,206</b>	<b>-9,087</b>	<b>-12,344</b>	<b>-10,219</b>	<b>-20,514</b>	<b>-11,763</b>	<b>-18,124</b>	<b>-19,779</b>	<b>-17,609</b>	<b>-16,588</b>	<b>-22,264</b>	<b>-3,927</b>	<b>-20,027</b>	<b>-16,289</b>	<b>-13,399</b>	<b>-12,972</b>	<b>-13,090</b>	<b>-11,547</b>	<b>-12,202</b>	<b>-11,911</b>	<b>-14,348</b>	<b>-13,158</b>
<b>Net Cash - Financing Activities</b>	<b>346</b>	<b>-88</b>	<b>-92</b>	<b>925</b>	<b>6,380</b>	<b>1,540</b>	<b>791</b>	<b>944</b>	<b>-982</b>	<b>2,343</b>	<b>-1,254</b>	<b>-1,189</b>	<b>-1,083</b>	<b>-1,255</b>	<b>-1,262</b>	<b>-1,282</b>	<b>-1,230</b>	<b>-809</b>	<b>-613</b>	<b>-396</b>	<b>-374</b>	<b>-352</b>
<b>Cash Movement</b>	<b>-1,830</b>	<b>9,288</b>	<b>908</b>	<b>-2,370</b>	<b>4,616</b>	<b>3,946</b>	<b>1,522</b>	<b>-2,930</b>	<b>1,114</b>	<b>-4,010</b>	<b>7,743</b>	<b>7,538</b>	<b>-5,949</b>	<b>-2,543</b>	<b>632</b>	<b>1,922</b>	<b>2,922</b>	<b>5,852</b>	<b>5,983</b>	<b>6,963</b>	<b>5,363</b>	<b>7,226</b>

Snowy Valleys Council - Operational Results - 2007 to 2018 actuals, 2019 to 2028 budgets																						
(former councils consolidated and capital revenue excluded)																						
Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45 wks)	2017 (59 wks)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Rates and annual charges	10,609	11,138	11,498	12,253	12,910	13,493	14,503	14,924	15,539	14,312	16,704	15,890	16,796	17,207	17,627	18,119	18,563	19,022	19,494	19,983	20,490	21,015
User Charges and fees	14,995	11,375	12,097	11,730	16,554	16,857	16,425	17,333	17,507	16,261	21,130	15,957	12,284	13,238	14,073	14,931	15,809	16,709	17,132	17,566	18,011	18,467
Interest and Investment revenue	1,592	-423	632	1,198	1,622	1,618	2,061	1,832	1,012	983	1,513	1,364	821	701	610	603	615	629	638	647	656	665
Other Revenues	932	740	904	1,216	1,294	832	802	1,074	880	797	1,019	1,307	740	758	777	797	816	837	858	879	901	924
Grants and contributions provided for operating purposes	8,550	8,196	9,668	8,853	10,654	18,902	14,734	12,587	11,222	11,001	19,107	11,069	8,457	8,671	8,891	9,115	9,346	9,581	9,824	10,070	10,325	10,584
<b>Total Operating Revenue</b>	<b>36,678</b>	<b>31,026</b>	<b>34,799</b>	<b>35,250</b>	<b>43,034</b>	<b>51,702</b>	<b>48,525</b>	<b>47,750</b>	<b>46,160</b>	<b>43,354</b>	<b>59,473</b>	<b>45,587</b>	<b>39,099</b>	<b>40,575</b>	<b>41,978</b>	<b>43,564</b>	<b>45,150</b>	<b>46,777</b>	<b>47,946</b>	<b>49,146</b>	<b>50,383</b>	<b>51,655</b>
Employees benefits and on-costs	11,361	12,526	13,053	13,879	14,692	16,906	17,456	17,299	17,076	14,959	18,576	18,408	16,619	16,951	17,290	17,636	17,989	18,349	18,716	19,090	19,472	19,861
Borrowing Costs	69	285	361	96	207	305	752	1,439	626	723	800	649										
Materials and contracts	9,543	7,107	8,292	9,112	13,149	16,158	14,647	15,055	14,440	13,810	20,205	14,809	10,475	9,801	10,198	10,603	11,016	11,438	11,668	11,902	12,142	12,386
Depreciation and amortisation	9,240	9,176	8,802	9,248	9,636	10,255	9,771	10,006	11,044	9,962	12,324	10,541	11,336	11,570	11,862	12,154	12,546	12,788	13,080	13,372	13,614	13,906
Other expenses	5,204	3,879	4,255	4,299	4,499	4,007	4,488	4,337	4,285	3,728	8,344	4,803	4,347	4,102	4,182	4,339	4,347	4,431	4,518	4,691	4,696	4,788
<b>Total Operating Expenditure</b>	<b>35,417</b>	<b>32,973</b>	<b>34,763</b>	<b>36,634</b>	<b>42,183</b>	<b>47,631</b>	<b>47,114</b>	<b>48,136</b>	<b>47,471</b>	<b>43,182</b>	<b>60,249</b>	<b>49,210</b>	<b>42,777</b>	<b>42,425</b>	<b>43,533</b>	<b>44,732</b>	<b>45,898</b>	<b>47,006</b>	<b>47,981</b>	<b>49,055</b>	<b>49,924</b>	<b>50,941</b>
<b>Net Operating Surplus / (Deficit)</b>	<b>1,261</b>	<b>(1,947)</b>	<b>36</b>	<b>(1,384)</b>	<b>851</b>	<b>4,071</b>	<b>1,411</b>	<b>(386)</b>	<b>(1,311)</b>	<b>172</b>	<b>(776)</b>	<b>(3,623)</b>	<b>(3,679)</b>	<b>(1,850)</b>	<b>(1,555)</b>	<b>(1,168)</b>	<b>(748)</b>	<b>(229)</b>	<b>(35)</b>	<b>91</b>	<b>459</b>	<b>714</b>
Capital Grants not included above													7,364	5,310	5,015	5,220	5,475	5,680	5,785	5,840	6,045	6,150
Capital Works not included above													(20,027)	(16,289)	(13,399)	(12,972)	(13,090)	(11,547)	(12,202)	(11,911)	(14,348)	(13,158)
Cashflow positive impact of depreciation													11,336	11,570	11,862	12,154	12,546	12,788	13,080	13,372	13,614	13,906
Net cashflow improvement / (deterioration)													(5,006)	(1,259)	1,923	3,234	4,183	6,692	6,628	7,392	5,770	7,612

(the above calculation will not be hundred percent correct because of other non cash transactions and positive cashflow from sale of assets, but this calculation would be materially correct)

## Snowy Valleys Council - Operational Results - 2007 to 2018 actuals, 2019 to 2028 budgets

(Same as appendix 2, but with the addition of percentages for some income and expense rows)

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (45 wks)	2017 (59 wks)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Rates and annual charges	10,609	11,138	11,498	12,253	12,910	13,493	14,503	14,924	15,539	14,312	16,704	15,890	16,796	17,207	17,627	18,119	18,563	19,022	19,494	19,983	20,490	21,015
<i>* as % of total revenue</i>	28.92%	35.90%	33.04%	34.76%	30.00%	26.10%	29.89%	31.25%	33.66%	33.01%	28.09%	34.86%	42.96%	42.41%	41.99%	41.59%	41.11%	40.67%	40.66%	40.66%	40.67%	40.68%
User Charges and fees	14,995	11,375	12,097	11,730	16,554	16,857	16,425	17,333	17,507	16,261	21,130	15,957	12,284	13,238	14,073	14,931	15,809	16,709	17,132	17,566	18,011	18,467
<i>* as % of total revenue</i>	40.88%	36.66%	34.76%	33.28%	38.47%	32.60%	33.85%	36.30%	37.93%	37.51%	35.53%	35.00%	31.42%	32.63%	33.52%	34.27%	35.01%	35.72%	35.73%	35.74%	35.75%	35.75%
Interest and Investment revenue	1,592	-423	632	1,198	1,622	1,618	2,061	1,832	1,012	983	1,513	1,364	821	701	610	603	615	629	638	647	656	665
Other Revenues	932	740	904	1,216	1,294	832	802	1,074	880	797	1,019	1,307	740	758	777	797	816	837	858	879	901	924
Grants and contributions provided for operating purposes	8,550	8,196	9,668	8,853	10,654	18,902	14,734	12,587	11,222	11,001	19,107	11,069	8,457	8,671	8,891	9,115	9,346	9,581	9,824	10,070	10,325	10,584
<i>* as % of total revenue</i>	23.31%	26.42%	27.78%	25.11%	24.76%	36.56%	30.36%	26.36%	24.31%	25.37%	32.13%	24.28%	21.63%	21.37%	21.18%	20.92%	20.70%	20.48%	20.49%	20.49%	20.49%	20.49%
<b>Total Operating Revenue</b>	<b>36,678</b>	<b>31,026</b>	<b>34,799</b>	<b>35,250</b>	<b>43,034</b>	<b>51,702</b>	<b>48,525</b>	<b>47,750</b>	<b>46,160</b>	<b>43,354</b>	<b>59,473</b>	<b>45,587</b>	<b>39,099</b>	<b>40,575</b>	<b>41,978</b>	<b>43,564</b>	<b>45,150</b>	<b>46,777</b>	<b>47,946</b>	<b>49,146</b>	<b>50,383</b>	<b>51,655</b>
Employees benefits and on-costs	11,361	12,526	13,053	13,879	14,692	16,906	17,456	17,299	17,076	14,959	18,576	18,408	16,619	16,951	17,290	17,636	17,989	18,349	18,716	19,090	19,472	19,861
<i>* as % of total expense</i>	32.08%	37.99%	37.55%	37.89%	34.83%	35.49%	37.05%	35.94%	35.97%	34.64%	30.83%	37.41%	38.85%	39.96%	39.72%	39.43%	39.19%	39.04%	39.01%	38.92%	39.00%	38.99%
Borrowing Costs	69	285	361	96	207	305	752	1,439	626	723	800	649										
Materials and contracts	9,543	7,107	8,292	9,112	13,149	16,158	14,647	15,055	14,440	13,810	20,205	14,809	10,475	9,801	10,198	10,603	11,016	11,438	11,668	11,902	12,142	12,386
<i>* as % of total expense</i>	26.94%	21.55%	23.85%	24.87%	31.17%	33.92%	31.09%	31.28%	30.42%	31.98%	33.54%	30.09%	24.49%	23.10%	23.43%	23.70%	24.00%	24.33%	24.32%	24.26%	24.32%	24.31%
Depreciation and amortisation	9,240	9,176	8,802	9,248	9,636	10,255	9,771	10,006	11,044	9,962	12,324	10,541	11,336	11,570	11,862	12,154	12,546	12,788	13,080	13,372	13,614	13,906
<i>* as % of total expense</i>	26.09%	27.83%	25.32%	25.24%	22.84%	21.53%	20.74%	20.79%	23.26%	23.07%	20.46%	21.42%	26.50%	27.27%	27.25%	27.17%	27.33%	27.21%	27.26%	27.26%	27.27%	27.30%
Other expenses	5,204	3,879	4,255	4,299	4,499	4,007	4,488	4,337	4,285	3,728	8,344	4,803	4,347	4,102	4,182	4,339	4,347	4,431	4,518	4,691	4,696	4,788
<b>Total Operating Expenditure</b>	<b>35,417</b>	<b>32,973</b>	<b>34,763</b>	<b>36,634</b>	<b>42,183</b>	<b>47,631</b>	<b>47,114</b>	<b>48,136</b>	<b>47,471</b>	<b>43,182</b>	<b>60,249</b>	<b>49,210</b>	<b>42,777</b>	<b>42,425</b>	<b>43,533</b>	<b>44,732</b>	<b>45,898</b>	<b>47,006</b>	<b>47,981</b>	<b>49,055</b>	<b>49,924</b>	<b>50,941</b>
<b>Net Operating Surplus / (Deficit)</b>	<b>1,261</b>	<b>(1,947)</b>	<b>36</b>	<b>(1,384)</b>	<b>851</b>	<b>4,071</b>	<b>1,411</b>	<b>(386)</b>	<b>(1,311)</b>	<b>172</b>	<b>(776)</b>	<b>(3,623)</b>	<b>(3,679)</b>	<b>(1,850)</b>	<b>(1,555)</b>	<b>(1,168)</b>	<b>(748)</b>	<b>(229)</b>	<b>(35)</b>	<b>91</b>	<b>459</b>	<b>714</b>
Capital Grants not included above													7,364	5,310	5,015	5,220	5,475	5,680	5,785	5,840	6,045	6,150
Capital Works not included above													(20,027)	(16,289)	(13,399)	(12,972)	(13,090)	(11,547)	(12,202)	(11,911)	(14,348)	(13,158)
Cashflow positive impact of depreciation													11,336	11,570	11,862	12,154	12,546	12,788	13,080	13,372	13,614	13,906
Net cashflow improvement / (deterioration)													(5,006)	(1,259)	1,923	3,234	4,183	6,692	6,628	7,392	5,770	7,612

(the above calculation will not be hundred percent correct because of other non cash transactions and positive cash flow from sale of assets, but it is considered to be materially correct)