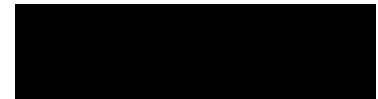


Cr Col Murray
Mayor
Tamworth Regional Council
Ray Walsh House
437 Peel Street
TAMWORTH NSW 2340



Our ref: D1825975/1792

30 October 2018

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
Tamworth Regional Council**

I have audited the general purpose financial statements of the Tamworth Regional Council (the Council) for the year ended 30 June 2018 as required by s415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2018 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2018 \$m	2017 \$m	Variance %
Rates and annual charges revenue	65.3	63.5	2.8
Grants and contributions revenue	35.3	51.9	32.0
Operating result for the year	16.7	39.6	57.8
Net operating result before capital amounts	(0.5)	16.0	103

Council’s operating result (\$16.6 million including the effect of depreciation and amortisation expense of \$32.6 million) was \$23 million lower than the 2016–17 result. The main reason driving the decrease was the significant reduction in revenue for grants and contributions that was net off by an increase in rates and user charges fees which ends up with an overall decline of \$10.7 million. Further, there was an increase in expenses of \$12.2 million attributable to net losses from the disposal of assets and increase materials and contracts expenses.

The net operating result before capital grants and contributions (loss of \$0.5 million) was \$16.5 million lower than the 2016–17 result. This was attributable to an overall reduction of \$4.3 (excluding capital grants and contributions) million in revenue and an overall increase of total expenses from continuing operations by \$12.2 million.

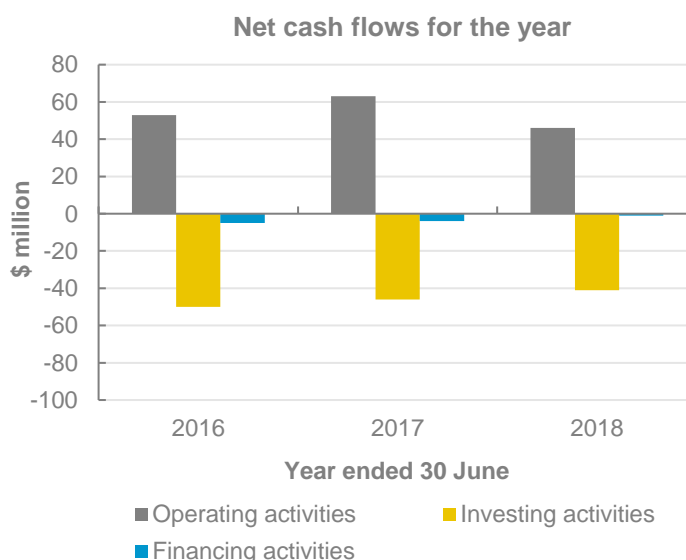
Rates and annual charges revenue (\$65.3 million) increased by \$1.8 million (2.8 per cent) in 2017–18. Reflective of rate peg uplift and increase in the number of residents and rateable properties in the 2018 financial year.

Grants and contributions revenue (\$35.3 million) decreased by \$16.6 million (32.0 per cent) in 2017–18 due to:

- In FY18 the grants for financial assistance were \$10.2 million compared to FY17 which was \$15.3 million.
- Contributions received that related to the subdivision of properties facilities costs reduced by \$8.4 million from \$12.2 million in FY17 to \$3.8 million in FY18.
- In FY18 grants related to roads to recovery and roads renewal progress were reduced by \$3.9 million from \$6.0 million in FY17 to \$2.1 million in FY18.

STATEMENT OF CASH FLOWS

- During the financial years ended 30 June 2016 and 30 June 2017, the total net cash outflows were largely due to significant purchases of investment securities, infrastructure and other PPE which exceeded the cash inflows from operating activities.
- As at 30 June 2018 the net cash from operating activities decreased compared to the prior two years and this is attributable to an overall decrease of \$755k in receipts and an overall increase in cash outflows of \$15.5 million.
- Investing activities outflows have been decreasing throughout the last three years and in FY18, there was an overall reduction of \$4.5 million, which is related to diminution of payments of investments securities.
- Finally, a decrease of \$2.6 million outflows provided by financing activities, which is attributable to the increase in receipts from borrowings and advances of \$2.7 million.



FINANCIAL POSITION

Cash and Investments

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	121.6	111.3	<ul style="list-style-type: none"> External restrictions increased by \$10.3 million from the prior year mainly due to an increase in the overall external restrictions included in liabilities (Loans for General, Water and Sewer) of \$1.9 million and an increase of \$8.3 million from other external restrictions. The overall internal restrictions decrease of \$4.5 million from FY17 reflects that in FY18 there are no amounts related to non-current restrictions. Finally, there was a decrease of \$1.5 million in unrestricted cash that is attributable to the decline in the operating profit from FY18.
Internal restrictions	39.5	44.0	
Unrestricted	2.3	3.8	
Cash and investments	163.4	159.1	

PERFORMANCE RATIOS

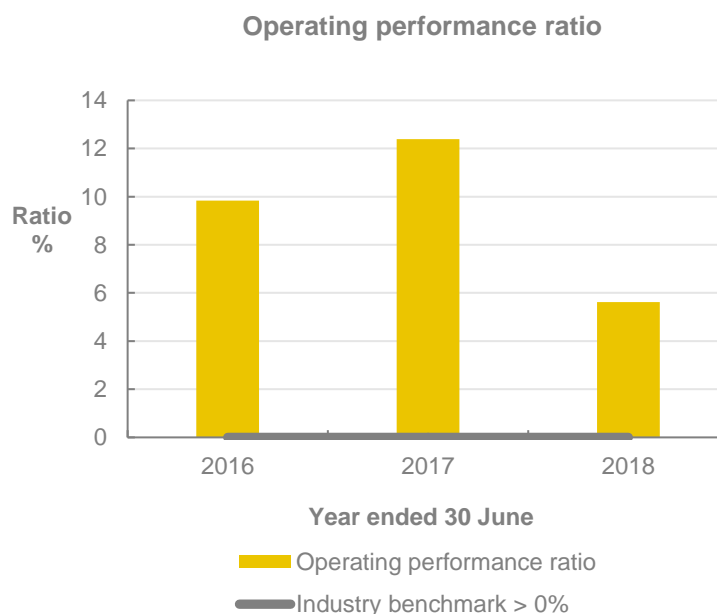
The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 26 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

Operating performance ratio

Council has exceeded the benchmark of more than zero per cent for the last three years. However, in FY18 the operating performance ratio decreased by 55% from FY17. The main reasons driving the movement are:

- The decrease in grants and contributions for operating purposes of \$10.2 million from FY17.
- The increase in expenses from continuing operations mainly relating to materials and contracts.

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

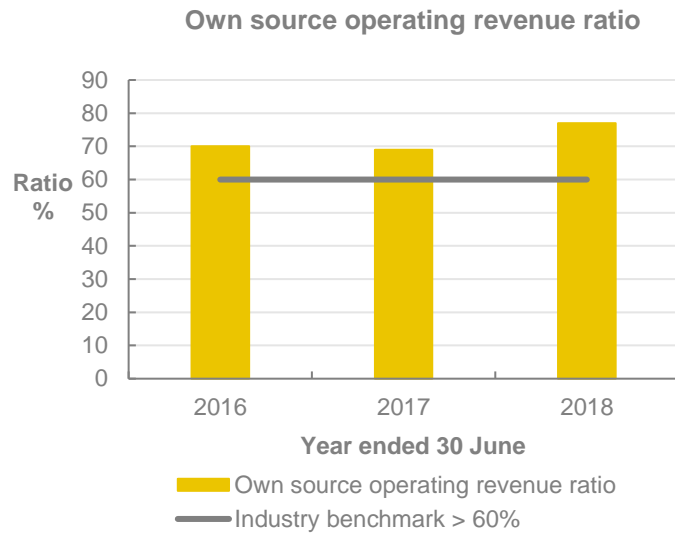


Own source operating revenue ratio

Council has consistently exceeded the benchmark of 60 per cent in recent years.

Council's result is materially consistent with the prior year.

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

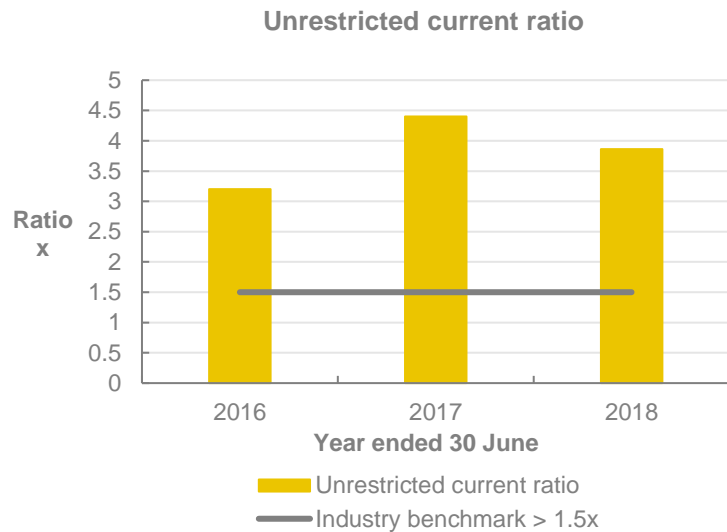


Unrestricted current ratio

Council has consistently exceeded the benchmark of 1.5 times (x) in recent years.

The decrease in this ratio has been primarily driven by an increase in current liabilities less specific purpose liabilities that was not followed by a comparable increase in current assets less all external restrictions.

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



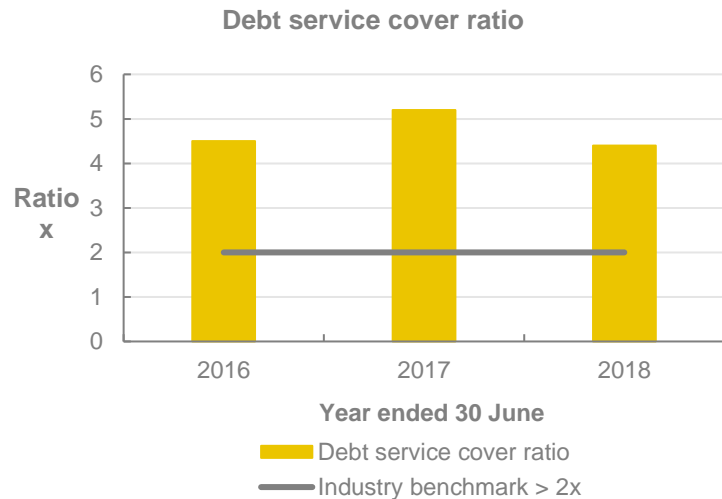
Debt service cover ratio

Council has met the benchmark of 2 times (x) in the 2018 financial year.

Council's reduced result has been primarily driven by:

- The reduced in operating result.

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.

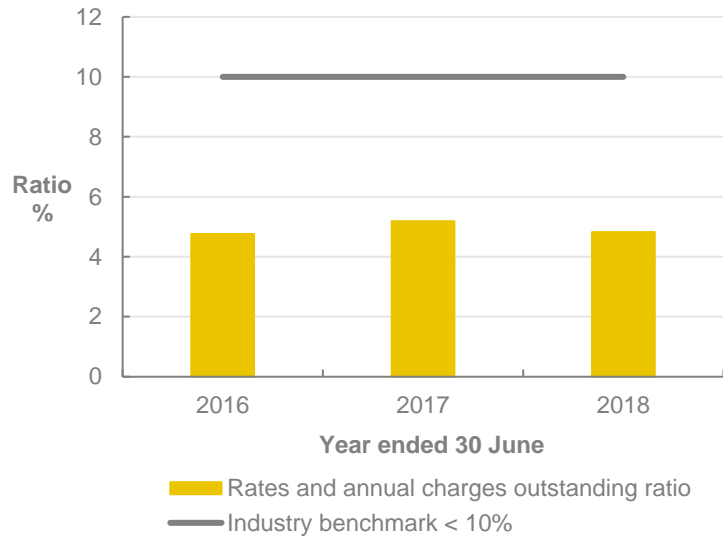


Rates and annual charges outstanding ratio

The ratio achieved by Council falls below the 10% benchmark and has been relatively consistent in recent years. This ratio has been achieved by Council through continued monitoring of receivable balances as well as continuously improving debt recovery procedures.

The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.

Rates and annual charges outstanding ratio



Cash expense cover ratio

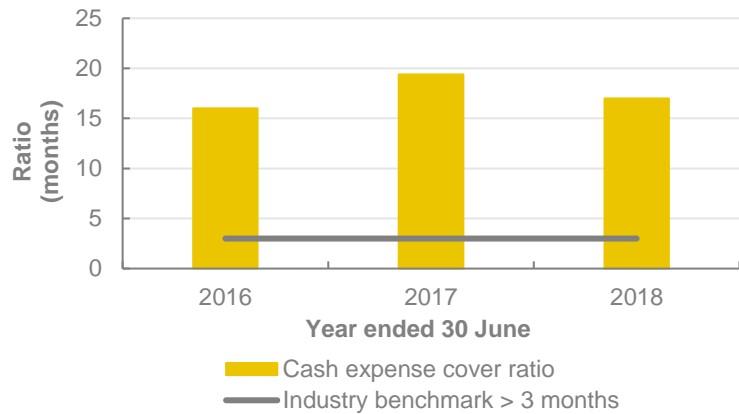
Council has consistently exceeded the benchmark of > 3 months in recent years.

Council's result in the 2018 financial year has been primarily driven by the:

- The consistency in the operating result.
- An increase in the current year's cash and cash equivalents.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

Cash expense cover ratio



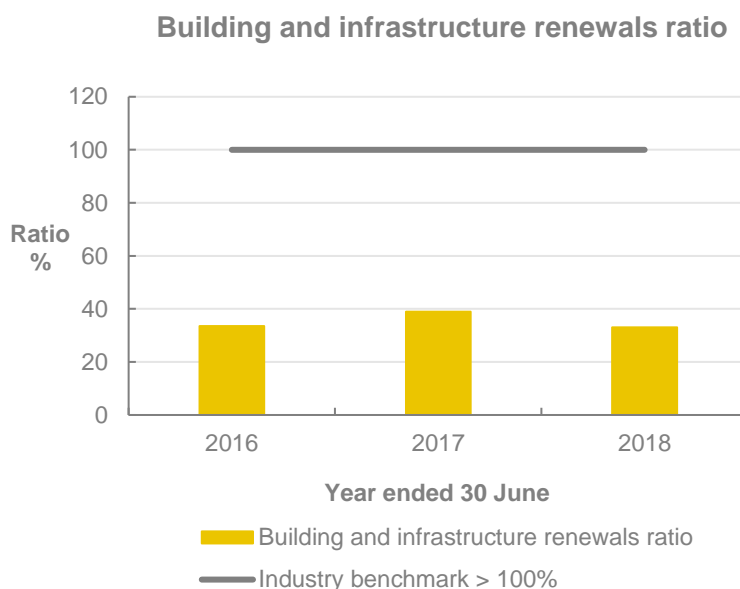
Building and infrastructure renewals ratio (unaudited)

Council has not met the benchmark of 100 per cent in recent years. Council has had a slight decrease in 2018 achieving a ratio of 33.06% for the 2018 financial year compared to 38.95% in the 2017 financial year.

The main reason for not meeting the benchmark is that the renewal requirements do not align each year with the straight-line depreciation allocations.

The 'building and infrastructure renewals ratio assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from information contained in council's Special Schedule 7 which has not been audited.



OTHER MATTERS

Correction of errors relating to previous reporting period

A review of the provision balance for tip asset remediation revealed that an error was made in the calculation of the discounted value for the estimates of future remediation costs in the 2016/17 financial year. This resulted in an adjustment to the tip remediation provision, remediation asset and revaluation reserve.

As a result, there was a \$2.3 million decrement to the carrying value of the tip remediation asset at 30 June 2017, a \$10.6 million decrement to the provision for remediation at 30 June 2017, and a net increment to the IPPE revaluation reserve of \$8.3 million at 30 June 2017.

Appropriate disclosure with respect to the remeasurement of the provision and associated balances has been included in note 15 (b) of the financial statements.

New accounting standards implemented

AASB 2016-2 'Disclosure Initiative – Amendments to AASB 107'

Effective for annual reporting periods beginning on or after 1 January 2017

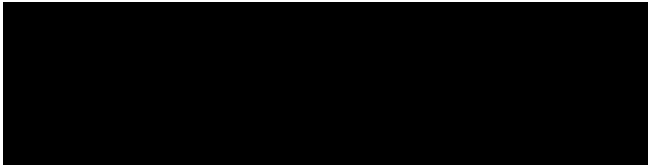
This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 1.

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



[Redacted]

Director, Financial Audit Services

cc: Cr Col Murray, Mayor

[Redacted] Chair of the Audit and Risk Committee

[Redacted], Acting Chief Executive of the Office of Local Government