

Additional Item



Item No: 3.15
Title: Draft 2017-18 Financial Reports for Central Coast Council
Department: Finance and Information

26 November 2018 Ordinary Council Meeting

Trim Reference: F2018/00020-05 - D13281320

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Report Purpose:

Council is required to prepare, submit to audit, adopt and present to the Community (and Office of Local Government) a set of financial statements in accordance with relevant legislation.

The process by which this occurs is dictated by legislation and the next steps are detailed below. Council is required to formally resolve the necessary actions.

The draft 2017-18 Financial Reports for Central Coast Council cover the statutory reporting period from 1 July 2017 to 30 June 2018. Central Coast Council Consolidated Financial Reports includes all of Council's business activities.

Recommendation:

- 1 That Council note that the draft Consolidated Financial Reports for Central Coast Council for the period from 1 July 2017 to 30 June 2018 are presented to Council. The Consolidated Financial Report includes the general purpose financial report, special purpose financial report and special schedules, which is attachment 1 to the business paper.**
- 2 That Council also note that the draft Consolidated Financial Reports have been prepared in accordance with the requirements of the Local Government Act 1993 ("LG Act"), the Local Government (General) Regulation 2005 ("LG Reg") and the relevant accounting and reporting requirements of the Office of Local Government prescribed Code of Accounting Practice and Financial Reporting - Update No. 26 and Australian Accounting Standards.**
- 3 That Council authorise, the Mayor to execute all documents related to the draft 2017-18 Financial Reports in accordance with s413(2)(c) of the LG Act, and cl.**

215(1)(b)(i) of the LG Reg.

- 4 That Council authorise, the Deputy Mayor to execute all documents related to the draft 2017-18 Financial Reports in accordance with s413(2)(c) of the LG Act, and cl. 215(1)(b)(ii) of the LG Reg.***
- 5 That Council authorise, the Chief Executive Officer to execute all documents related to the draft 2017-18 Financial Reports in accordance with s413(2)(c) of the LG Act, and cl. 215(1)(b)(iv) of the LG Reg.***
- 6 That Council authorise, the Responsible Accounting Officer of the Council, to execute all documents related to the draft 2017-18 Financial Reports in accordance with s413(2)(c) of the LG Act, and cl. 215(1)(b)(iii) of the LG Reg.***
- 7 That Council authorise, for the purposes of s. 41C(1C) of the Public Finance and Audit Act 1983, its Mayor, Deputy Mayor, Chief Executive Officer and Responsible Accounting Officer to execute all documents related to the draft 2017-18 Financial Reports.***
- 8 That Council resolve, for the purposes of s. 413(1) of the LG Act, to refer the Consolidated Financial Reports for the period from 1 July 2017 to 30 June 2018 to the NSW Auditor-General, for external audit.***

Context:

The draft Consolidated Financial Reports, which includes the general purpose financial report, special purpose financial report and special schedules, includes all of Council's business activities including the business activities of Council which are regulated under the *Water Management Act 2000*. The draft Consolidated Financial Reports comprise Attachment 1 to this business paper. The draft Water Supply Authority 2017-18 Financial Reports will be presented to Council at a separate Council meeting as there is a different timeline for the preparation of the Water Supply Authority financial statements.

The Financial Reports have and has been prepared accordance with the requirements of the *Local Government Act 1993* ("LG Act"), the *Local Government (General) Regulation 2005* ("LG Reg"), *Public Finance and Audit Act 1983* ("PFA Act") and the relevant accounting and reporting requirements of the Office of Local Government prescribed Code of Accounting Practice and Financial Reporting - Update No. 26 and Australian Accounting Standards.

In accordance with s. 413(1) of the LG Act, Council must prepare financial reports for each year, and must refer them for audit as soon as practicable after the end of that year.

The Proposal

At the time of writing this report the Audit, Risk and Improvement Committee is set to meet and review the draft 2017-18 Financial Reports on 30 November 2018.

Council will work with the NSW Auditor General, our external auditors, to ensure that all legislative requirements are met. Should any changes be required from the external audit these changes will be made in readiness for the Council meeting on 10 December 2018 to adopt the audited Financial Reports.

It is proposed Council authorise the Mayor, Deputy Mayor, Chief Executive Officer and Responsible Accounting Officer to execute all documents related to the draft 2017-18 Financial Reports.

Completion of Audit

The 2017-18 Financial Reports are presented to Council in draft form at this stage and are required to be audited in accordance with s. 415, 416 and 417 of the LG Act and s. 41C of the PFA Act.

Once the draft 2017-18 Financial Reports have been referred to audit and the formal audit reports received, the Audited Financial Reports will subsequently be presented to the Council at its meeting on 10 December 2018, in accordance with s. 419 of the LG Act.

Central Coast Council General Purpose Financial Reports

In accordance with s. 413(2)(a) of the LG Act Council's Financial Reports must include General Purpose Financial Reports.

Section 413(2)(c) of the LG Act requires Council to prepare a statement in the approved form as to its opinion on the General Purpose Financial Reports.

Council's Chief Executive Officer and Responsible Accounting Officer certify that the 2017-18 General Purpose Financial Reports for Central Coast Council have been prepared in accordance with the LG Act, LG Reg, Office of Local Government prescribed Code of Accounting Practice and Financial Reporting - Update No. 26 and Australian Accounting Standards.

Income Statement

The comparison of the financial performance for Central Coast Council from the first statutory reporting period (13 May 2016 to 30 June 2017 – 13.5 months) to the 2017-18 financial year (1 July 2017 to 30 June 2018 – 12 months) is difficult due to the different time frames covered in the reporting periods and the accounting treatment for some income between Central Coast Council and the former Councils at the date of amalgamation. A summary of the impact of the first statutory reporting period is reflected in the table below.

	2017-18 Financial Year	2016-17 Statutory Reporting Period
Reporting Period Covers	1 July 2017 to 30 June 2018	13 May 2016 to 30 June 2017
Operating Income with the exception of:	12 months	13.5 months
- Rates	12 months	12 months
- Operating Grants - Financial Assistance Grant	12 months	12 months
Operating Expenditure	12 months	13.5 months
Capital Income	12 months	13.5 months

During the 2017-18 financial year Council undertook a revaluation of buildings and operational land. An external valuer was engaged to perform the valuation in accordance with Australian Accounting Standards and the Office of Local Government Code of Accounting Practice and Financial Reporting – Update No. 26. The impact of the revaluation is an increase to the value of Council's buildings of \$59.4 million (which is reflected in the asset revaluation reserve in the Statement of Financial Position) and a decrease to the value of Council's operating land of \$35.2 million (which is reflected in the Income Statement as there is no asset revaluation reserve balance to reflect the decrease in the operating land value – this is in accordance with Australian Accounting Standards). Central Coast Council does not have a balance in the asset revaluation reserve for land as the value of all assets and liabilities from the former Councils was transferred to Central Coast Council on 13 May 2016 and recognised as a gain on local government amalgamation via the Income Statement. The movement in the value of buildings and operational land is based on the assessed fair value as at 30 June 2018 and represents an unrealised gain or loss in value.

The operating deficit before capital grants and contributions for the 2017-18 financial year is \$22.7 million which is attributable to the revaluation decrement in operational land of \$35.2 million. If we exclude the revaluation decrement the operating result for the 2017-18 financial year before capital grants and contributions is \$12.5 million surplus. For further details please refer to page 4 of the General Purpose Financial Statements.

Income Statement	2017-18 Financial Year \$'000	2016-17 Statutory Reporting Period \$'000
Net Operating Result for the Period	66,214	6,860,530
Less: Adjustment for net assets transferred from former Councils		6,704,827
Less: Adjustment for Capital Grants and Contributions	88,915	90,270
Net Operating Surplus/(Deficit) for the Period before capital grants and contributions and gain on amalgamation	(22,701)	65,433
Add back the adjustment for revaluation decrement of Infrastructure, Property, Plant & Equipment (IPP&E) - Land	35,221	
Net Operating Surplus/(Deficit) for the Period before capital grants and contributions, gain on amalgamation and revaluation decrement of land	12,520	65,433

Statement of Financial Position

Council's net asset value (equity) has moved from \$6.9 billion as at 30 June 2017 to \$7.1 billion at 30 June 2018 – an increase of \$0.2 billion. This is largely attributed to an increase in cash, cash equivalents and investments which has increased by \$64.6 million and Infrastructure, Property, Plant & Equipment (IPP&E) of \$114.9 million (net \$81.2 million based on the asset revaluation and the annual indexation of water & sewer assets in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW)). Council's borrowings have decreased by \$21.0 million during the year.

	2017-18 Financial Year \$'000	2016-17 Statutory Reporting Period \$'000	Movement \$'000
Assets	7,578,722	7,387,806	190,916
Liabilities	502,040	493,815	8,225
Net Assets	7,076,682	6,893,991	182,691

For further details please refer to page 6 of the General Purpose Financial Statements.

Performance Measures

Council has achieved all of the financial performance measures as set out in Note 24(a) with the exception of the following:

1. Unrestricted current ratio at 1.45 compared to a ratio of 1.50 – Council's investment portfolio has moved from current to non-current during the year impacting this ratio. Council has sufficient current cash and investments to meet Council's short-term obligations as they fall due.

2. Rates, annual charges, interest and extra charges outstanding percentage is 7.82% compared to 5.00% for Metro councils – Council's position for collecting outstanding rates and charges is to use socially responsible debt management practices to reduce long term outstanding debts. Council will continue to work with rate payers to reduce this ratio over the next 2 years.

Infrastructure asset performance indicators as set out in Special Schedule 7:

- A. Change in calculation for the buildings and infrastructure renewals ratio for 2017-18 as asset renewals no longer include Work In Progress (WIP). Two calculations have been provided for comparative purposes:
 - a. 104.77% including WIP compared to the benchmark of 100.00%. 2016-17 ratio has been calculated using this method based on the prior year Code of Accounting Practice and Financial Reporting
 - b. 72.26% excluding WIP compared to the benchmark of 100.00%
- B. Both the infrastructure backlog ratio and cost to bring assets to agreed service level have improved from 2016-17 with both ratios reducing in 2017-18.
- C. Asset maintenance ratio at 91.44% which is below the benchmark of 100.00%. Council is focussed on asset management and will continue to work to improve on all infrastructure asset performance indicators.

Amendments to Draft 2017-18 Consolidated Financial Statements

Subsequent to the release of Council's Draft 2017-18 Consolidated Financial Statements a number of minor amendments have been required to be made to several Notes within the Statements. These amendments have no impact of the financial results for 2017-18. They include reclassifications between Financial Statement lines and the correction of some minor typographical errors. A summary of the changes is provided below and are shaded in yellow in the Draft 2017-18 Consolidated Financial Statements attached to this report.

Summary of changes between Financial Statement lines is as follows:

- A. Reclassification of Cash and Cash Equivalents to Investments. Initially \$59 million classified as Cash and Cash Equivalents on the basis that these investments would mature within 91 days from year end, however the maturity term of the investment should be used to determine whether and investment is classified as Cash and Cash Equivalents or Investments. This change is a movement between the current asset lines Cash and Cash Equivalents and Investments. There is no change in current assets, total assets or net assets.
- B. Reclassification of non-cash developer contributions from cash contributions to non-cash contributions. This change is only to the Statement of Cash Flows as the correction is reflected in Note 3(f) Income from continuing operations – Contributions.

The two changes above have resulted in changes in the following pages of Council's Draft 2017-18 Consolidated Financial Statements

Table 1: Amendments made to Financial Statement lines

Change Number	Note	Page No.	Original Amount \$'000	Amended Amount \$'000	Change +ve Incr. (-ve) Decr. \$'000	Reason for Amendment
1	Statement of Financial Position – Cash and Cash Equivalents	6	118,502	59,502	(59,000)	A
2	Statement of Financial Position – Investments	6	79,453	138,453	59,000	A
3	Statement of Cash Flows – Grants and Contributions	8	140,004	130,554	(9,450)	B
4	Statement of Cash Flows – Net cash provided (or used in) operating activities	8	274,133	264,683	(9,450)	B
5	Statement of Cash Flows – Purchase of Investment Securities	8	(275,453)	(334,453)	59,000	A
6	Statement of Cash Flows – Purchase of Infrastructure, Property, Plant and Equipment (IPP&E)	8	188,674	179,224	(9,450)	B
7	Statement of Cash Flows – Net cash provided (or used) in investing activities	8	(134,252)	(183,802)	49,550	A and B
8	Statement of Cash Flows – Net Cash increase/ (decrease) in cash and cash equivalents	8	115,905	56,905	(59,000)	A
9	Statement of Cash Flows – Cash and Cash Equivalents – end of year	8	118,502	59,502	(59,000)	A
10	Statement of Cash Flows – Total Cash and Cash Equivalents	8	358,203	417,203	59,000	A
11	Note 6(a) – Total Cash and Cash Equivalents	33	118,502	59,502	(59,000)	A
12	Note 6(b) - Investments Held to Maturity, Total Investments and Long Term Deposits	33	79,453	138,453	59,000	A
13	Note 14 Statement of Cash Flows – additional information Total Cash and Cash Equivalents and Balance as per the Statement of Cash Flows	51	118,502	59,502	(59,000)	A

Change Number	Note	Page No.	Original Amount \$'000	Amended Amount \$'000	Change +ve Incr. (-ve) Decr. \$'000	Reason for Amendment
14	Note 14 Statement of Cash Flows – additional information Non-Cash capital grants and contributions, Other Dedications and Total non-cash investing and financing activities	51	(4,883)	(9,450)	4,567	B
15	Note 18 Financial Risk Management Cash and Cash Equivalents	58	118,502	59,502	(59,000)	A
16	Note 18 Financial Risk Management Held to Maturity	58	358,203	417,203	59,000	A
17	Note 19 Material Budget Variations Cash Flows from Investing Activities 2018 Actual	63	274,133	264,683	(9,450)	B
18	Note 19 Material Budget Variations Cash Flows from Investing Activities 2018 Variance	63	109,087	99,637	(9,450)	B
19	Note 19 Material Budget Variations Cash Flows from Investing Activities 2018 % Variance	63	66.1%	60.4%	(5.7%)	B
20	Note 19 Material Budget Variations Cash Flows from Investing Activities 2018 Actual	63	(134,252)	(183,802)	49,550	A
21	Note 19 Material Budget Variations Cash Flows from Investing Activities 2018 Variance	63	4,954	(44,596)	49,550	A
22	Note 19 Material Budget Variations Cash Flows from Investing Activities % Variance	63	3.6%	32.0%	28.4%	A

Table 2: Minor Typographical Amendments

Change No.	Note	Page No.	Amendment
1	Note 4	25	In commentary for Superannuation Plans – reference to <i>Note 19</i> – amended to <i>Note 17</i> as a result of change to Note numbering.
2	Note 17	56	In commentary for Developer Contributions reference to <i>Note 23</i> – amended to <i>Note 22</i> as a result of change to Note numbering.

Central Coast Council Special Purpose Financial Reports

The Office of Local Government Code of Accounting Practice and Financial Reporting – Update No. 26 requires Council to make a statement as to its opinion on Council's Special Purpose Financial Reports.

Council's Chief Executive Officer and Responsible Accounting Officer certify that the 2017-18 Special Purpose Financial Reports for Central Coast Council have been prepared in accordance with the NSW Government Policy Statement "Application of National Competition Policy to Local Government", the Division of Local Government Guidelines "Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality", the Office of Local Government prescribed Code of Accounting Practice and Financial Reporting - Update No. 26, the NSW Office of Water guidelines and Australian Accounting Standards.

Consultation

All areas of Council contribute to the information contained within the draft 2017-18 Consolidated Financial Reports.

Options

The adoption and referral of the draft 2017-18 Financial Reports to audit is a legislative requirement.

Financial Impact

These draft 2017-18 Consolidated Financial Reports set out the financial position of Central Coast Council as at 30 June 2018 and the financial performance and cash flows for the reporting period 1 July 2017 to 30 June 2018. Comparatives for the first statutory reporting period for Central Coast Council, 13 May 2016 to 30 June 2017 (13.5 months) are included in accordance with requirements set down by the NSW Office of Local Government.

Link to Community Strategic Plan

Theme 4: Responsible

Goal G: Good governance and great partnerships

R-G2: Communicate openly and honestly with the community to build a relationship based on transparency, understanding, trust and respect.

Risk Management

Council will work with the NSW Auditor General to meet our reporting requirements.

Critical Dates or Timeframes

Council must adopt and refer the draft 2017-18 Financial Reports before the External Auditor will provide their formal opinion to enable Council to lodge the 2017-18 Financial Reports for Central Coast Council with the OLG by 30 November 2018. Council applied for and was granted an extension of time to prepare, audit and lodge the 2017-18 financial statements to 30 November 2018 due to the completion of the 2016-17 financial statements in March 2018 and the implementation of the new Enterprise Resource Planning (ERP) implemented during 2017-18 has extended the preparation time for this reporting period. A further extension has been requested due to the complexity of the financial statements to December 2018.

Conclusion

The draft 2017-18 Consolidated Financial Reports represent Central Coast Council's financial performance from 1 July 2017 and financial position to 30 June 2018, including a consolidated deficit of \$22.7 million (before capital grants and contributions revenue and including the revaluation decrement for land). Excluding the revaluation decrement (which is a non-operating non-cash item which is based on the asset revaluation of land) the operating result for the 2017-18 financial year before capital grants and contributions is \$12.5 million surplus.

The net assets for Central Coast Council at the 30 June 2018 total \$7.1 billion.

Presentation of Financial Reports is a statutory requirement.

Attachments

- 1 Central Coast Council Draft 2017-18 Consolidated Financial Statements - D13396480
Updated 22 November 2018