

## ADDITIONAL ITEM



**Item No:** 2.9  
**Title:** Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority  
**Department:** Finance

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24 February 2020 Ordinary Council Meeting

Trim Reference: F2019/00035 - D13465167

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### Report Purpose:

At its meeting held on 8 October 2019, the Council resolved as follows;

*948/19 That Council defer consideration of the Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority to the Ordinary Meeting to be held on 11 November 2019 and note that a report will be provided for Council's consideration in the Business Paper for the meeting of 11 November 2019.*

*1086/19 That Council defer consideration of the Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority to the Ordinary Meeting to be held at a date to be determined prior to the 29 February 2020 and note that a report will be provided for Council's consideration in the Business Paper.*

The purpose of this report is for Council to consider the draft 2018-19 unaudited Financial reports for Central Coast Council and Central Coast Council Water Supply Authority.

### Recommendation:

- 1 That Council note that the draft Consolidated Financial Reports for Central Coast Council for the period from 1 July 2018 to 30 June 2019 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***

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*relevant accounting and reporting requirements of the Office of Local Government prescribed Code of Accounting Practice and Financial Reporting - Update No. 27 and Australian Accounting Standards.*

- 3 That Council note that the draft Financial Reports for Central Coast Council Water Supply Authority for the period from 1 July 2018 to 30 June 2019 is presented to Council, which is Attachment 2 to the business paper.**
- 4 That Council note that the draft Financial Reports for Central Coast Council Water Supply Authority as presented in accordance with section 41B of the Public Finance and Audit Act 1983 (PF&A Act) and the Public Finance, the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board, the Local Government Act 1993 (NSW) and the relevant accounting and reporting requirements of the Office of Local Government prescribed Code of Accounting Practice and Financial Reporting - Update No. 27 and Australian Accounting Standards.**
- 3 That Council authorise, the Mayor to execute all documents related to the draft Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Financial Reports 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 Financial Reports for Central Coast Council Water Supply Authority.**
- 8 That Council resolve, for the purposes of s. 413(1) of the LG Act, to refer the Consolidated Financial Reports for Central Coast Council and the Financial Reports for Central Coast Council Water Supply Authority for the period from 1 July 2018 to 30 June 2019 to the NSW Auditor-General, for external audit.**

- 9 That Council delegate to the Chief Executive Officer to set the date for the meeting to present the audited 2018-19 financial reports, together with the auditor's reports, to the public in accordance with s418(1)(a), (b) of the LG Act.**

**Context:**

The financial statements for the 2018-19 reporting period are the formal record of the business performance of all Council activities.

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 Consolidated 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") and the relevant accounting and reporting requirements of the Office of Local Government (OLG) prescribed Code of Accounting Practice and Financial Reporting - Update No. 27 and Australian Accounting Standards.

The draft 2018-19 Financial Reports for Council's Water Supply Authority functions are Attachment 2 to this business paper.

The Financial Reports have and has been prepared accordance with the requirements of the *Public Finance and Audit Act 1983* ("PFA Act"), *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 (OLG) prescribed Code of Accounting Practice and Financial Reporting - Update No. 27 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. Council is required to formally resolve to refer the draft financial reports to audit and then at a later date to formally present (to the Community) the final reports complete with the auditor's reports.

Council's external auditor, The Audit Office of New South Wales ("Audit Office") will sign-off and provide the formal audit opinion to Council. This is the standard practice and in accordance with legislative requirements.

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### **Proposal**

At the time of writing this report the Audit, Risk and Improvement Committee (ARIC) is set to meet and review Council's draft 2018-19 Consolidated Financial Reports and the draft 2018-19 Financial Report for Council's Water Supply Authority functions on 20 February 2020.

Should ARIC recommend any material changes to the Financial Reports this will be reported to Council at the 9 March 2020 Council meeting.

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 9 March 2020 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:

- draft 2018-19 Consolidated Financial Reports (Central Coast Council)
- draft 2018-19 Financial Reports for Council's Water Supply Authority functions

### **Completion of Audit**

Council's draft 2018-19 Consolidated Financial Reports and the draft 2018-19 Financial Reports for Council's Water Supply Authority functions 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 Council's draft 2018-19 Consolidated Financial Reports and the draft 2018-19 Financial Reports for Council's Water Supply Authority functions 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 9 March 2020, in accordance with s. 419 of the LG Act.

Once Council receives the formal audit opinion the financial statements will then be updated to include the audit opinions and notice of public meeting to be held on 9 March 2020, at which time Council can invite the external auditor, Aaron Green of the Audit Office, or his delegate to formally present the report.

Council applied to the Office of Local Government (OLG) for an extension of time to prepare and lodge the 2018-19 Financial Reports and has been granted an extension to 29 February 2020.

### **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.

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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 2018-19 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. 27 and Australian Accounting Standards.

### **Analysis – 2018-19 Financial Statements**

This analysis aims to provide an overview of the financial performance and the financial position of Central Coast Council for the reporting period from 1 July 2018 to 30 June 2019.

Key statements and notes detailed in this analysis include:

- Income statement
- Statement of financial position
- Statement of performance measures (Note 23 to the financial statements)
- Report on infrastructure assets (previously known as Special Schedule 7)

Council's primary financial statements are in the format required by accounting standards and must conform to the provisions of the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) issued by the Office of Local Government (OLG).

In this report the general purpose financial statements, special purpose financial statements and special schedules for the consolidated entity are referred to as "Consolidated Financial Statements".

Council is required to publish in the Consolidated Financial Statements the 2018-19 original budget, in line with the Local Government Code of Accounting Practice and Financial Reporting update number 27 issued in March 2019. To provide context for the actual results for the reporting period, the tables in this report also reference the original budget for 2018-19.

This report provides commentary on significant items in the financial statements for Central Coast Council.

### **Consolidated Financial Statements**

The comparison of the financial performance for Central Coast Council in the 2018-19 Financial Statements (1 July 2018 to 30 June 2019 – 12 months) is to the 2017-18 financial year (1 July 2017 to 30 June 2018 – 12 months).

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This is the first set of Financial Statements for Central Coast Council that has a comparative year the same length as the reporting year (as a result of amalgamation taking effect on 12 May 2016).

### Operating Result

Council's original adopted budget for 2018-19 financial year was an operating surplus of \$64,000. Council's actual operating result (excluding capital grants and contributions) is a deficit of \$5.1 million which is an unfavourable variance of \$5.2 million which is largely attributable to the following:

- \$1.3 million in electricity back charges due to incorrect electricity meter readings from August 2015 to February 2019 for the Mooney Water Treatment Plant
- \$0.9 million in work in progress written off
- \$4.2 million increase in employee costs due to back pay from the Unified Salary Scale (\$1.4 million) and industrial claims (\$2.8 million).

The operating result including capital grants and contributions (of \$67.5 million) is \$62.4 million surplus.

Income Statement	2018-19 Actual \$'000	2018-19 Original Budget \$'000	Original Budget Favourable / (Unfavourable) \$'000
Income from operations	569,728	561,536	8,192
Expenditure from operations	574,854	561,472	(13,382)
<b>Net operating result (excluding capital grants and contributions)</b>	<b>(5,126)</b>	<b>64</b>	<b>(5,190)</b>
Income from capital grants and contributions	67,523	48,386	19,137
<b>Net operating result (including capital grants and contributions)</b>	<b>62,397</b>	<b>48,450</b>	<b>13,947</b>

When comparing the operating performance between the 2018-19 financial year and the 2017-18 financial year it is important to note that in the 2017-18 year there was a revaluation decrement reflected in the Income Statement from the revaluation of operational land. The revaluation decrement was reported in the Income Statement as Council did not have any asset revaluation reserves for operational land as a newly merged Council. The revaluation decrement reported in the Income Statement for 2017-18 financial year was \$35.2 million. The revaluation decrement reflects an unrealised loss in value as Council still holds the operational land and reflects the estimated market value of the land at the date of the revaluation (30 June 2018).

When the 2017-18 operating result before capital grants and contributions is adjusted for the revaluation decrement for operational land the 2017-18 adjusted operating result before capital grants and contributions is a surplus of \$12.5 million.

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The 2018-19 operating result before capital grants and contributions is a deficit of \$5.1 million compared to a \$12.5 million operating surplus for 2017-18 which is a movement of \$17.6 million.

\$'000	2018-19 Actual	2017-18 Actual	Movement
Income from operations	569,728	562,277	7,451
Expenditure from operations	574,854	584,978	(10,124)
<b>Operating result for continuing operations (excluding capital grants and contributions)</b>	<b>(5,126)</b>	<b>(22,701)</b>	<b>17,575</b>
Add back revaluation decrement of Infrastructure, Property, Plant & Equipment (Operational Land)		35,221	(35,221)
<b>Operating result for the period (excluding capital grants and contributions)</b>	<b>(5,126)</b>	<b>12,520</b>	<b>(17,646)</b>

### Income from Operations

The following table shows income by category and is followed by explanations relating to variations between actual income to the original budget.

	2018-19		Variance to Original Budget	Variance to Original Budget
	Actual	Original Budget	Favourable / (Unfavourable)	Favourable / (Unfavourable)
Income from Operations	\$'000	\$'000	\$'000	%
Rates and Annual Charges	362,706	355,901	6,805	1.91%
User Charges and Fees	133,925	140,492	(6,567)	(4.67%)
Interest and Investment Revenue	15,106	12,618	2,488	19.72%
Other Revenues	17,373	13,369	4,004	29.95%
Grants and Contributions - Operating	40,618	36,831	3,787	10.28%
Grants and Contributions - Capital	67,523	48,386	19,137	39.55%
Net Gain from the Disposal of Assets	-	2,325	(2,325)	(100.00%)
<b>Total Income</b>	<b>637,251</b>	<b>609,922</b>	<b>27,329</b>	<b>4.48%</b>

#### Rates and annual charges

The favourable variance of \$6.8 million for rates and annual charges is largely attributable to water, sewer and drainage annual charges of \$3.3 million, domestic waste annual charges of \$2.8 million and \$0.5 million in rates income.

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### *User charges and fees*

The unfavourable variance of \$6.6 million for user fees and charges is largely attributable to underperformance in tipping fees of \$6.9 million, water usage charges of \$1.6 million, \$1.3 million in development related fees, \$0.7 million in Leisure and Lifestyle fees and charges (pools and theatres) and \$0.7 million in Child Care fees. These variances are partially offset by an additional \$5.0 million received for Roads and Maritime Services (RMS) user charges for works completed on State roads.

### *Interest and investment revenue*

The favourable variance of \$2.5 million for interest and investment revenue is attributable to tighter cash flow management resulting in higher cash and investment balances than anticipated. There was also a small movement in interest rates during the year at times of reinvestment that increased interest earnings.

### *Other revenue*

The favourable variance of \$4.0 million for other revenue is attributable to favourable variations in property and rental income \$1.6 million, insurance recoveries \$0.6 million, fines \$0.5 million, Section 355 Committee Income \$0.4 million, landfill gas royalty payments \$0.2 million and other smaller miscellaneous revenue items.

### *Grants and contributions - Operating*

The favourable variance of \$3.8 million for operating grants and contributions income is due to additional grant funds being received throughout the year. Council only includes grants and contributions budgets in the original budget if funding agreements have been received at the time that the operational plan including Council's budgets are adopted. This is to ensure the appropriate grant income is recognised in each financial year. Grants confirmed after the original budget has been developed and adopted are included as adjustments in quarterly budget reviews.

During 2018-19 additional grant funds of \$2.3 million for Bushfire and Emergency Services and \$1.0 million for Stronger Community Fund programs were received that were not in the original budget adopted in June 2018.

### *Grants and contributions - Capital*

The favourable variance of \$19.1 million for capital grants and contributions income is due to additional confirmed capital grants of \$4.8 million, contributed and donated assets and miscellaneous contributions of \$19.6 million and Somersby Industrial Park contributions of \$2.0 million which is partially offset by lower than expected S64 and S7.11 developer contributions of \$7.3 million.

Budget estimates for developer contributions are based on developments in the pipeline – the timing of capital contributions will be dependent on the progress of each development which makes budgeting for capital contributions difficult. For developer contributions collected under the *Environmental Planning and Assessment Act 1979* Council collected \$7.5 million less than what was originally budgeted in 2018-19.



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Developer contributions collected under the *Local Government Act 1993* for water and sewer infrastructure were \$0.2 million over the 2018-19 original budget forecast.

As for operating grants, capital grants are included in the budget when Council has received the grant funding agreement. During the year as part of the quarterly budget review process additional grants are recognised in the revised budget. During 2018-19 the additional capital grants were mostly for Open Space and Recreation projects including the final payment for stage 1 of the Central Coast Regional Sporting Complex of \$4 million.

*Net Gain from the Disposal of Assets*

Income from Gain on Sale was not realised due to the timing of land sales identified for 2018-19.

**Expenditure from Operations**

The following table shows expenditure by category and is followed by explanations relating to variations between actual expenses compared to the 2018-19 original budget.

Expenditure from Operations	2018-19	2018-19	Variance to	Variance to
	Actual	Original Budget	Original Budget	Original Budget
	\$'000	\$'000	Favourable / (Unfavourable)	Favourable / (Unfavourable)
			\$'000	%
Employee benefits and on-costs	198,785	184,213	(14,572)	(7.91%)
Borrowing costs	18,909	18,703	(206)	(1.10%)
Materials and contracts	118,648	131,038	12,390	9.46%
Depreciation and amortisation	145,649	128,539	(17,110)	(13.31%)
Other expenses	89,836	98,979	9,143	9.24%
Net losses from the disposal of assets	3,027	-	(3,027)	N/A
<b>Total Expenditure</b>	<b>574,854</b>	<b>561,472</b>	<b>(13,382)</b>	<b>(2.4%)</b>

*Employee costs*

Employee costs remain Council's largest expenditure type representing one third of operational costs. The unfavourable variance of \$14.6 million in employee costs is attributable to salaries and wages \$8.8 million (including lower than expected reductions in overdue leave balances, back payments made in accordance with Council's Unified Salary Scale and industrial claims), capitalisation of salaries and wages was less than originally budgeted by \$2.7 million, additional superannuation costs of \$1.8 million, additional miscellaneous employee costs including workers compensation of \$2.0 million, partially offset by a favourable variation in training costs of \$0.7 million.

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The Unified Salary Scale (USS) process enabled Council to more closely align salaries paid for jobs of equal value. Whilst provisions were made as June 2018 for the remaining estimated back pays the actual amounts paid during the year exceeded the provision. The unbudgeted cost of USS in 2018-19 was approximately \$1.4 million.

The Local Government (State) Award 2017, (*The Award*), allows provision for full-time ordinary hours of work to be either 35 hours or 38 hours per week depending upon the functions of a position. During 2018-19 Council received a large number of industrial claims from employees engaged as 38 hours per week seeking a review of position classification of hours and claims have been approved based on positions being reviewed and classified as 35 hours per week as administrative or technical in nature in accordance with *The Award*. The unbudgeted cost of these industrial claims in 2018-19 approximated \$2.8 million.

### *Borrowing costs*

The unfavourable variance of \$0.2 million is attributable to non-cash interest expense from the amortisation of the discount for tip remediation.

### *Materials and contracts*

The favourable variance of \$12.4 million in materials and contracts is due to underspend in material purchases, consultants and general contracts across the organisation.

The material favourable variations were in Environment and Planning \$3.6 million, Connected Communities \$3.3 million, Water and Sewer \$2.1 million, Governance \$1.0 million and CEO \$1.0 million, offset by unfavourable variances in Plant and Fleet \$2.6 million, People and Culture \$0.8 million and Roads Transport Drainage and Waste of \$0.5 million. In addition there was a favourable variance in internal service provision of \$3.5 million, which is recognised in Materials and Contracts. This represents the additional income for internal services (mostly Plant and Fleet costs) charged to capital projects, when compared to the original budget.

Work in progress (WIP) of \$0.9 million was written off during the year which represents costs previously charged to water and sewer capital works projects which could not be capitalised.

### *Depreciation*

Depreciation is a "non-cash" expense reflecting the economic use of fixed assets.

The \$17.1 million variance in depreciation expense is due to the large number of completed projects that were capitalised throughout the 2018-19 financial year and increase in the gross replacement cost for buildings revalued as at 30 June 2018 which was post development of the 2018-19 financial year budget (approximately \$4.9 million).

### *Other expenses*

The favourable variance of \$9.1 million in other expenses is made up of favourable variances in insurance costs \$3.4 million, EPA waste levy payments of \$3.0 million (as a result of a reduction in tipping revenue), a credit of \$1.8 million that relates to the re-statement of

future tip rehabilitation costs, \$1.7 million in software and communication expenditure, \$1.2 million in stationery, printing and subscription costs, \$1.1 million in event and promotion expenses and \$0.6 million in postage costs.

The favourable variances are partially offset by unfavourable variances in a number of expenditure types including \$1.3 million of electricity costs which relates to the back charging for a faulty meter at Mooney Mooney Water Pump station for the period from August 2015 to December 2016 that Council was obligated to make good in 2018-19. Other unfavourable variances were recorded in bad and doubtful debts \$1.1 million, bank charges \$0.4 million, advertising costs \$0.4 million and Section 355 Committee expenditure of \$0.3 million, (offset by additional income in Other Revenue).

*Net losses on disposal of assets*

The net losses from the disposal of assets relates to the write down of plant and equipment assets in water, sewer, stormwater drainage and building asset categories that were not included in the original budget forecast.

**Statement of Financial Position**

The Statement of Financial Position, also commonly known as the Balance Sheet, lists the best estimate of the value of what Council owns ("assets") and what Council owes ("liabilities"). Within these headings, "current" means that an amount is due to be paid or likely to be paid within the next 12 months. "Non-current" indicates an asset or liability that is longer term in nature.

For the movement between financial years a positive movement means that the values have increased from 30 June 2018 to 30 June 2019. A negative movement means that the values have decreased from 30 June 2018 to 30 June 2019.

Overall assets have increased and liabilities have decreased from 30 June 2018 to 30 June 2019. Council's net asset value (equity) has moved from \$7.1 billion as at 30 June 2018 to \$7.2 billion at 30 June 2019 – an increase of \$104 million. This is largely attributed to an increase in Infrastructure, Property, Plant and Equipment (IPP and E) of \$80.7 million (\$41.8 million of this increase is based on the annual indexation of water and sewer assets in accordance with the Rates Reference Manual issued by NSW Department of Planning, Industry and Environment) and a decrease in Borrowings of \$31.7 million in line with loan repayment schedules.

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Statement of Financial Position	30 June 2019 \$'000	30 June 2018 \$'000	Movement \$'000
<b>Assets</b>			
Current Assets	460,477	302,108	158,369
Non-Current Assets	7,186,293	7,276,614	(90,321)
<b>Total Assets</b>	<b>7,646,770</b>	<b>7,578,722</b>	<b>68,048</b>
<b>Liabilities</b>			
Current Liabilities	207,221	195,166	12,055
Non-Current Liabilities	258,621	306,874	(48,253)
<b>Total Liabilities</b>	<b>465,842</b>	<b>502,040</b>	<b>(36,198)</b>
<b>Net Assets</b>			
Accumulated Surplus	6,989,141	6,926,744	62,397
Revaluation Reserve	191,787	149,938	41,849
<b>Net Equity</b>	<b>7,180,928</b>	<b>7,076,682</b>	<b>104,246</b>

#### *Current assets*

Current assets increased by \$158.4 million due to an increase in investments. The increase in current investments of \$189.3 million is offset by a decrease in non-current investments by \$172.0 million. Cash and cash equivalents reduced by \$15.4 million during the year.

Inventories and prepayments increased by \$1.8 million and current receivables reduced by \$17.3 million during the 2018-19 financial year.

#### *Non-current assets*

Non-current assets decreased by \$90.3 million, which is predominantly due to the decrease in non-current investments of \$172.0 million mentioned above in current assets and an increase in Infrastructure, Property, Plant and Equipment of \$80.7 million.

Water supply network and sewerage network assets have been indexed by 2.1% in accordance with Rates Reference Manual issued by NSW Department of Planning, Industry and Environment resulting in an increase in the asset value by \$41.8 million.

Council's overall investment portfolio as at 30 June 2019 totalled \$434.5 million compared to \$417.2 million at 30 June 2018 an increase of \$17.3 million.

#### *Current Liabilities*

Current liabilities increased by \$12.1 million due to increases in current borrowings of \$14.8 million and income received in advance of \$9.5 million and decreases in payables of \$9.4 million and current provisions of \$2.8 million.

#### *Non-Current Liabilities*

Non-current liabilities decreased by \$48.3 million largely due to repayment of borrowings and movement to current liabilities of \$46.5 million. Income received in advance also decreased by \$2.7 million and provisions increased by \$0.9 million.

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Consolidated external debt stood at \$233.2 million at 30 June 2019 compared to \$264.9 million at 30 June 2018 a reduction of \$31.7 million.

**Statement of Performance Measures (Note 23(a))**

Note 23 (a) Statement of Performance Measures – includes various indicators mandated by the Office of Local Government (OLG). The following indicators provide a ‘snap shot’ of financial performance and comparability between councils. Council has exceeded the OLG benchmark for the reporting period ended 30 June 2019 with the exception of the Operating Performance Ratio and Rates, Annual Charges, Interest Outstanding Percentage.

Local Government Industry Indicators	2018-19	OLG Benchmark	Result
Operating Performance Ratio	(0.37)%	> 0.00%	x
Own Source Operating Revenue Ratio	82.11%	> 60.00%	✓
Unrestricted Current Ratio	1.68	> 1.50	✓
Debt Service Cover Ratio	3.21x	> 2.00x	✓
Rates, Annual Charges, Interest Outstanding Percentage	6.53%	< 5.00%	x
Cash Expense Cover Ratio	9.8 months	> 3 months	✓

The “target” figures for the indicators reported represent the OLG’s benchmarks. In evaluating performance against these targets consideration should be given to Council’s situation as a multi-purpose authority with continuing and significant green field development.

*Operating Performance Ratio* - measures how well Council contained operating expenditure within operating revenue. Council will continue to review its operations to look for innovative ways to deliver services and take advantage of efficiencies to achieve the benchmark.

*Own Source Operating Revenue Ratio* - measures Council’s fiscal flexibility and the degree of reliance on external funding sources such as operating grants and contributions.

*Unrestricted Current Ratio* – measures the adequacy of working capital and Council’s ability to satisfy obligations in the short term for the unrestricted activities of Council.

*Debt Service Cover Ratio* - measures the availability of operating cash to service debt including interest, principal and lease payments

*Rates, annual charges and interest outstanding percentage* - assesses the impact of uncollected rates and annual charges on Council’s liquidity and the adequacy of debt recovery efforts.

OLG benchmark is ≤ 5% for metro Councils and ≤10% for regional or rural Councils. For this ratio Council has been benchmarked as a metro Council.

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For Council this includes the annual charges for water, sewerage and stormwater drainage services which the majority of other NSW Councils will not have. Most other Councils will only have rates and domestic waste management annual charges to issue and collect.

Council's annual rates notices are issued in July in accordance with the Local Government Act 1993 with the option to pay quarterly in August, November, February and May. This means that the ratio calculation reflects the amounts overdue as the rates should be paid in full by the end of May.

Council's water notices contain a portion of the annual charges for water and sewerage (the annual charge for water and sewerage is split over the quarterly billing cycle) as well as usage charges for water and sewer where applicable.

Council's water meters are read on a rolling schedule as part of our water meter reading program. Council issues water notices after the water meter has been read. Payment terms for water notices are 30 days. Outstanding in this ratio calculation does not mean overdue which means the timing of when water notices are issued and when the amounts are due is important for the calculation of this ratio. If the water notices are issued in June then they are not due for payment until July (next reporting period) and most customers do not pay their bills before they are due. Which means the majority of the annual charges billed in June under the water notices will be included in the ratio calculation although they are not overdue.

Water meter reading and billing schedules have been brought forward marginally to ensure all water notices are issued and are due payable prior to 30 June. This has had a positive impact on (reduction in) the Rates and Annual Charges Outstanding Ratio which is 6.53% at 30 June 2019 which has reduced from 7.82% as at 30 June 2018.

Council staff will work with our ratepayers on financially affordable payment plans in accordance with the Policy for Debt Recovery and Hardship to move towards achieving industry benchmark for this measure.

*Cash Expense Cover Ratio* - this liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

### **Report on Infrastructure Assets as at 30 June 2019**

The report on infrastructure assets (previously known as Special Schedule 7) provides information on Council's assets in addition to that contained in Note 9 Infrastructure, Property, Plant and Equipment. The nature of the information in the report on infrastructure assets is related to the condition, maintenance and renewal of infrastructure assets. It should be noted that this is not an audited schedule.

<b>Report on Infrastructure Assets</b>	<b>Estimated Cost to bring to satisfactory 2018-19 \$'000</b>	<b>Required Annual Maintenance Expense \$'000</b>	<b>Actual Annual Maintenance Expense \$'000</b>	<b>Annual Maintenance over / (under) \$'000</b>
Buildings	2,348	16,809	9,129	(7,680)
Other Structures	244	545	199	(346)
Roads	84,591	16,202	18,012	1,810
Water Supply Network	20,199	25,837	19,322	(6,515)
Sewerage Network	21,997	13,860	22,389	8,529
Stormwater Drainage	10,564	8,372	6,074	(2,298)
Open Space / Recreational	967	1,931	4,614	2,683
Other Assets	1,702	642	86	(556)
<b>Total</b>	<b>142,612</b>	<b>84,198</b>	<b>79,825</b>	<b>(4,373)</b>

*Estimated cost to bring assets to a satisfactory standard*

The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard. Satisfactory is defined as "satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate". Satisfactory standard does not reflect any changes in functionality the Community may now require since the asset was purchased or constructed.

This estimated cost is a measure of the funding gap, also known as the infrastructure backlog.

Funds received from the Special Rate Variation in the former Wyong local government area is allocated to asset backlog projects identified during the Special Rate Variation application to IPART. Council remains committed to maintaining financial sustainability and decreasing the infrastructure backlog.

*Estimated cost to bring to the agreed service level set by Council*

As Council has not undertaken community engagement to determine service levels, the estimated cost to bring to the agreed level of service set by Council is equal to the estimated cost to bring assets to a satisfactory standard.

*Required annual maintenance expense*

The required annual maintenance expense is "what should be spent to maintain assets in a satisfactory standard". The expenditure is to ensure that the asset reaches its estimated useful life. This expenditure is considered an operating expense.

## 2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)

### *Actual maintenance*

Actual maintenance is the amount spent in the current year to maintain the assets. This may be higher or lower than the required annual maintenance due to the timing of when the maintenance actually occurs.

### *Asset condition*

Asset condition assessment is the process of continuous or periodic inspection, assessment, measurement and interpretation of the data to indicate the condition of a specific asset so as to determine the need for some preventative or remedial action.

### **Infrastructure asset performance indicators**

The Office of Local Government has a number of prescribed indicators in relation to infrastructure asset management, as presented in the table below.

Infrastructure Asset Performance Indicators	2018-19	OLG Benchmark	Result
Building, infrastructure and Other Structures Renew	132.56%	> 100.00%	✓
Infrastructure Backlog Ratio	2.41%	< 2.00%	x
Asset Maintenance Ratio	94.81%	> 100.00%	x
Cost to bring assets to agreed service level	1.56%	no benchmark yet set	

*Building and infrastructure renewal ratio* - assesses the rate at which these assets are being renewed against the rate at which they are depreciating.

*Infrastructure Backlog Ratio* - shows what proportion the backlog is against the total value of a Council's infrastructure.

Whilst this ratio at 2.41% exceeds the OLG benchmark of < 2.00% there has been a small improvement from 30 June 2018 where the ratio was at 2.43%.

*Asset maintenance ratio* - compares actual annual maintenance against required annual asset maintenance. A ratio of above 100.00% indicates that the Council is investing enough funds within the year to stop the infrastructure backlog from growing.

For 2018-19 the asset maintenance ratio is below the 100.00% benchmark at 94.81%. Council is focussed on asset management and will continue to work to improve on all infrastructure asset performance indicators.

*Cost to bring assets to agreed service level* - provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.



## 2.9 **Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)**

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This ratio has improved during 2018-19 dropping to 1.56% as at 30 June 2019 from 1.59% as at 30 June 2018.

### **Central Coast Council Special Purpose Financial Reports**

The Office of Local Government Code of Accounting Practice and Financial Reporting – Update No. 27 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 2018-19 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. 27, the NSW Office of Water guidelines and Australian Accounting Standards.

### **Central Coast Council Water Supply Authority Financial Statements**

In addition to the General Purpose and the Special Purpose Reports a separate set of financial statements as required by the *Public Finance and Audit Act 1983* have been prepared for Central Coast Council Water Supply Authority functions. The PFA Act requires Council to make a statement as to their opinion on the financial statements.

Council’s Chief Executive Officer and Responsible Accounting Officer certify that the financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, applicable Australian Accounting Standards, the requirements of the *Water Management Act 2000* and other mandatory professional reporting requirements.

### **Water Supply Authority (WSA) Financial Statements**

#### **Operating Result**

Council’s original adopted budget for 2018-19 financial year was an operating surplus of \$11.6 million. Council’s actual operating result (excluding capital grants and contributions) is an operating surplus of \$5.4 million which is an unfavourable variance of \$6.1 million which is largely attributable to the following:

- \$3.0 million net loss on the disposal of assets
- \$1.3 million in electricity back charges due to incorrect electricity meter readings from August 2015 to February 2019 for the Mooney Water Treatment Plant
- \$0.9 million in work in progress written off
- Increased depreciation from capitalisation of completed projects

Below is a table comparing the 2018-19 actual results to the original budget adopted.

## 2.9

**Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council  
and Central Coast Council Water Supply Authority (contd)**

Income Statement	2018-19 Actual \$'000	2018-19 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000
Income from operations	201,473	200,102	1,371
Expenditure from operations	196,032	188,526	(7,506)
<b>Net operating result (excluding capital grants and contributions)</b>	<b>5,441</b>	<b>11,576</b>	<b>(6,135)</b>
Income from capital grants and contributions	25,877	11,169	14,708
<b>Net operating result (including capital grants and contributions)</b>	<b>31,318</b>	<b>22,745</b>	<b>8,573</b>

When comparing the operating performance between the 2018-19 financial year and the 2017-18 financial year it is important to note that in the 2017-18 year there was a revaluation decrement reflected in the Income Statement from the revaluation of operational land. The revaluation decrement was reported in the Income Statement as Council did not have any asset revaluation reserves for operational land as a newly merged Council. The revaluation decrement reported in the Income Statement for 2017-18 financial year was \$26.0 million. The revaluation decrement reflects an unrealised loss in value as Council still holds the operational land and reflects the estimated market value of the land at the date of the revaluation (30 June 2018).

When the 2017-18 operating result before capital grants and contributions is adjusted for the revaluation decrement for operational land the 2017-18 adjusted operating result before capital grants and contributions is a surplus of \$18.0 million.

The 2018-19 operating result before capital grants and contributions is a surplus of \$5.4 million compared to a \$18.0 million operating surplus for 2017-18 which is a movement of \$12.6 million.

\$'000	2018-19 Actual	2017-18 Actual	Movement
Income from operations	201,473	204,070	(2,597)
Expenditure from operations	196,032	212,046	(16,014)
<b>Net operating result (excluding capital grants and contributions)</b>	<b>5,441</b>	<b>(7,976)</b>	<b>13,417</b>
Add back revaluation decrement of Infrastructure, Property, Plant & Equipment (Operational Land)		26,007	(26,007)
<b>Net operating result (excluding capital grants and contributions)</b>	<b>5,441</b>	<b>18,031</b>	<b>(12,590)</b>

**2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)**

**Income from Operations**

The following table shows income by category and is followed by explanations relating to variations between actual income to the original budget.

	2018-19 Actual \$'000	2018-19 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000	Variance to Original Budget Favourable / (Unfavourable) %
Annual Charges	125,048	124,199	849	0.68%
User Charges and Fees	69,526	70,568	(1,042)	(1.48%)
Interest and Investment Revenue	5,839	3,931	1,908	48.54%
Other Revenues	250	424	(174)	(41.04%)
Grants and Contributions - Operating	810	980	(170)	(17.35%)
Grants and Contributions - Capital	25,877	11,169	14,708	131.69%
Net Gain from the Disposal of Assets	-	-	-	N/A
<b>Total Income</b>	<b>227,350</b>	<b>211,271</b>	<b>16,079</b>	<b>7.61%</b>

*Rates and annual charges*

The favourable variance of \$0.8 million for rates and annual charges is due to favourable variances in water supply annual charges of \$1.2 million, drainage annual charges of \$0.3 million, partially offset by an unfavourable variance in sewer annual charges of \$0.7 million.

*User charges and fees*

The favourable variance of \$1.0 million for user fees and charges relates to water usage income.

*Interest and investment revenue*

The favourable variance of \$1.9 million for interest and investment revenue is attributable to tighter cash flow management resulting in higher cash and investment balances that resulted in \$1.6 million additional income and interest on overdue rates and charges \$0.3 million.

*Other revenue*

The minor unfavourable variance of \$0.2 million in other revenue is attributable to commercial rental income in water supply.

*Grants and contributions - Operating*

The minor unfavourable variance of \$0.2 million in operating grants and contributions is attributable to floodplain management grants in the drainage fund that were not received during 2018-19.

## 2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)

### *Grants and contributions - Capital*

The favourable variance of \$14.7 million for capital grants and contributions income is due to contributed and donated assets and miscellaneous contributions of \$15.7 million, favourable variances in S64 and S7.11 developer contributions of \$0.8 million, partially offset by reduced capital grants received for drainage upgrade programs of \$1.8 million.

For developer contributions collected under the *Environmental Planning and Assessment Act 1979* Council collected a \$0.6 million more than what was originally budgeted in 2018-19. Developer contributions collected under the *Local Government Act 1993* for water and sewer infrastructure was also \$0.2 million over the 2018-19 original budget.

### *Net Gain from the Disposal of Assets*

No budget or actuals reported in 2018-19 for gain from the disposal of assets in the Water Supply Authority accounts.

### **Expenditure from Operations**

The following table shows expenditure by category and is followed by explanations relating to variations between actual expenses compared to the 2018-19 original budget.

Expenditure from Operations	2018-19	2018-19	Variance to	Variance to
	Actual	Original Budget	Original Budget	Original Budget
	\$'000	\$'000	Favourable / (Unfavourable)	Favourable / (Unfavourable)
			\$'000	%
Employee benefits and on-costs	34,765	28,247	(6,518)	(23.08%)
Borrowing costs	17,228	17,333	105	0.61%
Materials and contracts	22,991	26,813	3,822	14.25%
Depreciation and amortisation	76,651	73,206	(3,445)	(4.71%)
Other expenses	41,383	42,927	1,544	3.60%
Net losses from the disposal of assets	3,014	-	(3,014)	N/A
<b>Total Expenditure</b>	<b>196,032</b>	<b>188,526</b>	<b>(7,506)</b>	<b>(3.98%)</b>

### *Employee costs*

The unfavourable variance of \$6.5 million in employee costs is attributable to capitalisation of salaries and wages was less than originally budgeted by \$4.5 million, additional miscellaneous employee costs including workers compensation of \$1.3 million, variance in salaries and wages of \$0.4 million and payroll tax variation of \$0.3 million.

### *Borrowing costs*

The minor favourable variance of \$0.1 million in other borrowing costs is due to timing differences on loan repayments due to weekends, public holidays etc which has a minor impact on the interest payable on the loans.

## **2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)**

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### *Materials and contracts*

The favourable variance of \$3.8 million in materials and contracts is due to underspend in accounts such as consultants and general contracts in all funds (water, sewer and drainage).

### *Depreciation*

Depreciation is a "non-cash" expense reflecting the economic use of fixed assets.

The \$3.4 million variance in depreciation expense is due to the large number of completed projects that were capitalised throughout the 2018-19 financial year.

### *Other expenses*

The favourable variance of \$1.5 million in other expenses includes favourable variances in overheads allocated to the WSA of \$1.3 million, software expenses \$0.7 million and plant and fleet hire of \$0.4 million. These are partially offset by an unfavourable variance in electricity and gas charges of \$1.3 million. The electricity variance relates to the back charging for a faulty meter at Mooney Mooney Water Pump station for the period from August 2015 to December 2016 that Council was obligated to make good in 2018-19.

### *Net losses on disposal of assets*

The net losses from the disposal of assets relates to the write down of plant and equipment assets in water, sewer, stormwater drainage that were not included in the original budget forecast.

## **Statement of Financial Position**

The Statement of Financial Position, also commonly known as the Balance Sheet, lists the best estimate of the value of what Council owns ("assets") and what Council owes ("liabilities").

Within these headings, "current" means that an amount is due to be paid or likely to be paid within the next 12 months. "Non-current" indicates an asset or liability that is longer term in nature.

For the movement between financial years a positive movement means that the values have increased from 30 June 2018 to 30 June 2019. A negative movement means that the values have decreased from 30 June 2018 to 30 June 2019.

Overall assets have increased and liabilities have decreased from 30 June 2018 to 30 June 2019. The Water Supply Authority's net asset value (equity) has moved from \$3.55 billion as at 30 June 2018 to \$3.62 billion at 30 June 2019 – an increase of \$73 million. This is largely attributed to an increase in Infrastructure, Property, Plant and Equipment (IPP and E) of \$42.3 million (\$41.8 million of this increase is due to the annual indexation of water and sewer assets in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW)). Council's borrowings have decreased by \$32.3 million during the year.

**2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)**

Statement of Financial Position	30 June 2019 \$'000	30 June 2018 \$'000	Movement \$'000
<b>Assets</b>			
Current Assets	219,728	182,076	37,652
Non-Current Assets	3,696,912	3,688,953	7,959
<b>Total Assets</b>	<b>3,916,640</b>	<b>3,871,029</b>	<b>45,611</b>
<b>Liabilities</b>			
Current Liabilities	91,865	76,198	15,667
Non-Current Liabilities	201,335	244,558	(43,223)
<b>Total Liabilities</b>	<b>293,200</b>	<b>320,756</b>	<b>(27,556)</b>
<b>Net Assets</b>			
Retained Earnings	3,496,873	3,465,555	31,318
Revaluation Reserve	126,567	84,718	41,849
<b>Net Equity</b>	<b>3,623,440</b>	<b>3,550,273</b>	<b>73,167</b>

*Current assets*

Current assets increased by \$37.7 million due to an increase in investments. The increase in current investments of \$69.5 million is offset by a decrease in non-current investments of \$34.2 million. Cash and cash equivalents reduced by \$21.9 million and current receivables reduced by \$9.9 million during the 2018-19 financial year.

*Non-current assets*

Non-current assets increased by \$8.0 million, which is due to an increase in Infrastructure, Property, Plant and Equipment of \$42.3 million, partially offset by the decrease in non-current investments of \$34.2 million mentioned above in current assets and non-current receivables of \$0.1 million.

Water supply network and sewerage network assets have been indexed by 2.1% in accordance with Rates Reference Manual issued by NSW Department of Planning, Industry and Environment resulting in an increase in the asset value by \$41.8 million.

The Water Supply Authority's overall investment portfolio as at 30 June 2019 totalled \$183.0 million compared to \$147.7 million at 30 June 2018 an increase of \$47.6 million.

*Current Liabilities*

Current liabilities increased by \$15.7 million due to increases in current borrowings of \$11.8 million, payables of \$3.1 million and income received in advance of \$2.0 million partially offset by a reduction in current provisions of \$1.2 million.

*Non-Current Liabilities*

Non-current liabilities decreased by \$43.2 million largely due to repayment of borrowings and movement to current liabilities of \$44.1 million. Income received in advance increased by

## **2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)**

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\$2.0 million, provisions increased by \$1.3 million and non-current payables decreased by \$2.4 million.

Total borrowings for the WSA stood at \$239.2 million at 30 June 2019 compared to \$271.5 million at 30 June 2018 a reduction of \$32.3 million.

### **Consultation**

All areas of Council contribute to the information contained within the draft 2018-19 Consolidated Financial Reports.

### **Options**

The referral of the draft 2018-19 Financial Reports to audit is a legislative requirement.

### **Financial Impact**

The draft 2018-19 Consolidated Financial Reports set out the financial position of Central Coast Council and Central Coast Council Water Supply Authority as at 30 June 2019 and the financial performance and cash flows for the reporting period 1 July 2018 to 30 June 2019.

The draft 2018-19 Consolidated Financial Reports represent Central Coast Council's financial performance from 1 July 2018 and financial position to 30 June 2019, including a consolidated operating deficit of \$5.1 million (before capital grants and contributions income).

The net assets for Central Coast Council as at 30 June 2019 total \$7.2 billion.

The draft 2018-19 Consolidated Financial Reports represent Central Coast Council Water Supply Authority's financial performance from 1 July 2018 and financial position to 30 June 2019, including an operating surplus of \$5.4 million (before capital grants and contributions income).

The net assets for Central Coast Council Water Supply Authority as at 30 June 2019 total \$3.6 billion.

### **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 has worked with the Audit Office of New South Wales to meet our legislative reporting requirements.

The Financial Statements are audited by the Audit Office of New South Wales who, amongst other things, form an opinion on the Financial Statements whether:

- the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 part 3 Division 2; and
- the Financial Statements:
  - have been presented in accordance with the requirements of this Division;
  - are consistent with the Council's accounting records;
  - present fairly the Council's financial position, the results of its operations and its cash flows; and
  - are in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia.
- all information relevant to the conduct of the audit has been obtained; and
- there are no material deficiencies in the accounting records or financial statements that the auditors have become aware of during the course of the audit.

### **Critical Dates or Timeframes**

Council must refer the draft 2018-19 Financial Reports before the External Auditor will provide their formal opinion to enable Council to lodge the 2018-19 Financial Reports for Central Coast Council with the OLG by 29 February 2020.

Council applied for and was granted an extension of time to prepare, audit and lodge the 2018-19 financial statements to 29 February 2020 due to ongoing issues associated with the merger and the additional testing and samples required relating to implementation of a single IT system and Council's controls. This has extended the preparation time for this reporting period.

### **Conclusion**

The preparation of Financial Reports is a legislative requirement under the *Local Government Act 1993* ("LG Act"), the *Local Government (General) Regulation 2005* ("LG Reg") and *Public Finance and Audit Act 1983* ("PFA Act")

The Financial Reports have been prepared in accordance with the legalisation listed above and the relevant accounting and reporting requirements of the Office of Local Government (OLG) prescribed Code of Accounting Practice and Financial Reporting - Update No. 27 and Australian Accounting Standards.



## **2.9 Deferred Item - Draft 2018-19 Financial Reports for Central Coast Council and Central Coast Council Water Supply Authority (contd)**

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Comparatives for the statutory reporting period 1 July 2017 to 30 June 2018 (12 months) are included in accordance with requirements set down by the NSW Office of Local Government.

The presentation of the draft Financial Reports and referral to audit is a statutory requirement.

Once the Audit Reports are received a further report will be prepared for Council and is scheduled for the ordinary meeting on the 9 March 2020.

### **Attachments**

<b>1</b>	Central Coast Council Draft 2018-19 Consolidated Financial Statements	Provided Under Separate Cover	D13820078
<b>2</b>	Central Coast Council Water Supply Authority Draft 2018-19 Consolidated Financial Statements	Provided Under Separate Cover	D13819986