

Douglas Shire Council Transfer Committee Minutes – Meeting Number 13

3991167v14

Date	Monday 18 November 2013	Start Time: 9.48am	Finish Time: 10.00am	Location:	Cairns Regional Council, Spence Street, Cairns
Attendees	Cairns Regional Council – Peter Tabulo (CEO), and Douglas Shire Council - Jeff Tate (Transfer Manager)				

Actions and Agreements

No	What	Who	When	Completed
1	<p>Opening of Meeting – Attendance and Apologies</p> <p><i>No apologies.</i></p>			
2	<p>Minutes of previous Transfer Committee Meeting Decision</p> <p><i>The minutes of Transfer Committee Meeting Number 12 held on 28 October 2013 were noted.</i></p>			
3	<p>Matters for decision</p> <p>a) Revenue and Expenditure attribution principles The Transfer Committee had been asked by the Financial Due Diligence Working Group to approve the updated principles to underpin the attribution of revenues and expenditures between the new Douglas Shire Council and the “continuing” Cairns Regional Council as detailed in document #4178954 (attached).</p> <p><i>Approved.</i></p> <p>b) Balance and cash flow attribution principles The Transfer Committee had been asked by the Financial Due Diligence Working Group to approve the principles that underpin the attribution of the Balance Sheet and Cash Flow between the new Douglas Shire Council and the “continuing” Cairns Regional Council as detailed in document #4186311 (attached).</p> <p><i>Approved.</i></p>			

	<p>c) Quality Assurance Framework The Transfer Committee had been asked by the Financial Due Diligence Working Group to approve the Quality Assurance Framework as detailed in document #4186875 (attached).</p> <p><i>Approved.</i></p>			
4	<p>Other Business Nil</p>			
5	<p>Next Meeting To be determined</p>			
6	<p>Closure of meeting 10.00 am</p>			

Signed as a true and correct copy of the minutes of the Transfer Committee meeting held on Monday 18 November 2013.

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Peter Tabulo
Chief Executive Officer – Cairns Regional Council

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Jeff Tate
Transfer Manager – Douglas

**To: CRC/Douglas Transfer Committee
Through De Amalgamation Working Group**

From: Financial Due Diligence Working Group

Date: 15 November 2013

Re: Updated Revenue and Expenditure Attribution Principles

Recommendation

1. That the Douglas Shire Council Transfer Committee approves updated principles to underpin the attribution of revenues and expenditures between the new Douglas Shire Council and the "continuing" CRC as detailed below.

Background

2. At meeting no 4, held 23 August 2013, the Transfer Committee approved a set of revenue/expenditure attribution principles to underpin the separate reporting of Douglas and CRC financial results for each of the 5 financial years to June 2013, together with the 6 months to December 2013. Please refer to [LIVE-#4083202-FDDWG - Revenue & Cost Attribution Principles](#)
3. The process of separating revenues and expenditures for the 5 years to June 2013 is well advanced and is expected to be finalized shortly. As the attribution process has progressed, the original approach has been refined where appropriate to ensure both the process and the outcomes are as fair, equitable and transparent as possible. Amended principles are set out below.

Key Principles

4. Revenues and expenditures are attributed at the function level (branch or responsibility) rather than at the lower level of natural account.
5. Where separate information is required at the natural account level, for example to understand variations between the FDDWG results and QTC projections, the necessary detail, can be extracted from the work sheets at natural account level, using the % split for the relevant function
6. Revenues and expenditures are attributed directly wherever practical. Where this is not practical a clear driver is used. One driver only per function is used
7. Where neither approach is practical, for example in the case of high level management activities, attribution will generally be based on Douglas/CRC share of total revenue or expenditure relating to that function.
8. Four methods are applied to determine the % split of revenues and expenditures between Douglas and the "continuing" CRC.
 - a) Direct Allocation. Where the revenue or expenditure can be readily identified with a specific activity or physical location (i.e.) Daintree Ferry operations, Tobruk Pool. Identified in work papers as DirectC or DirectD

- b) Direct Splitting. Where individual revenue or expenditure transactions can be readily identified as Douglas or CRC at the function level. They are usually held in specific applications or sub ledgers. (i.e.) general rates, water rates, beach services and facilities, local parks, work order direct water and waste water. Identified in work papers as direct expenditure splitting (DES)
- c) Clear Driver. Where the level of function activity is directly related to a specific driver. Examples: the no of computer terminals is used as the driver to attribute IT expenditures, the no of health licenses is used to attribute both revenues from the issue of health licenses and the related administrative expenditures. Identified in work papers as a numbered driver.

A listing of 2012/13 Drivers is attached.

- d) Overhead Splitting. Where it is not practical to attribute directly or using a driver a total cost index or total revenue index will be applied. The expenditures of the various functions comprising the Parks and Leisure Branch are allocated directly on a geographic basis. Parks and Leisure branch *management* expenditures are allocated on CRC/Douglas share of the total Parks and Leisure Branch expenditures. – see also Management Functions and Branch Exceptions below. Identified in the work papers as a total cost or total revenue index.

A listing of 2012/13 total cost and total revenue indices is attached.

9. Management function expenditures are attributed on the basis of

- Department – CRC/Douglas share of total branch costs for that department
- Branch – CRC/Douglas share of total function costs for that branch.

10. The Cairns Works, Technical Support and Cairns Fleet branches are standalone businesses operating on a full cost recovery basis. For these branches only, the NET value of revenues and costs are allocated on the basis of the CRC/Douglas share of total works charged for Cairns Works and Technical Support and All Council cost index for Fleet

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	Driver No.	Driver Description	DSC %	
Driver	1	Number of Computer Terminals	12.88%	
	2	Number of rate assessments	11.65%	
	3	Development Assessment revenue	12.94%	
	4	Value of Capital jobs Water & Waste	9.43%	
	5	Volume of recyclables	9.74%	
	6	Value of Cairns Works jobs (including Capital)	14.09%	
	7	Population	6.76%	
	8	Budgeted salaries for Local Law Compliance	13.47%	
	9	Net book value of Drainage Assets	5.89%	
	10	Value of rates revenue	10.08%	
	11	Headcount (FTE)	11.78%	
	13	Number of Health licences	18.21%	
	14	Building Services revenue	9.76%	
	15	Value of assets	9.70%	
	16	Number of division 10 voters in Douglas	71.08%	
	18	Value of Capital jobs BOC	2.30%	
	19	Value of Facilities Maintenance jobs (including Capital)	10.42%	
	20	Value of General Purpose Grants	15.24%	
	21	Value of Cleansing Rates Levied	11.88%	
	Overhead Splitting	T1	All Council Total Cost Index*	13.14%
		T2	Operations Water & Waste Branch Total Cost Index*	11.67%
T3		Waste Branch Total Cost Index*	14.22%	
T4		Libraries Total Cost index*	11.11%	
T5		Libraries & Community Development Branch Total Cost Index*	13.93%	
T6		CS & CS Department Total Cost Index*	9.35%	
T7		Parks and leisure Branch Total Cost Index*	10.34%	
T8		Infrastructure Management Branch Total Cost Index*	20.26%	
T9		Infrastructure Services Total Cost Index*	19.00%	
T10		P&E Department Total Cost Index*	11.11%	
T11		Environment Assessment Branch Total Cost Index*	8.11%	
T12		Water and Waste Department Total Cost Index*	12.20%	
T13		Financial Services Department Total Cost Index*	10.73%	
T14		Corporate Services Department Total Cost Index*	14.34%	
	TR1	All Council Total Revenue Index*	11.30%	

**To: CRC/Douglas Transfer Committee
Through De Amalgamation Working Group**

From: Financial Due Diligence Working Group

Date: 15 November 2013

Re: Attribution Principles – Balance Sheet and Cash Flow

Recommendation

1. That the Douglas Shire Council Transfer Committee approve the principles that underpin the attribution of the Balance Sheet and Cash Flow between the new Douglas Shire Council and the “continuing” CRC as detailed below.

Background

2. At its meeting on 28 October 2013, the Transfer Committee approved a set of high level attribution principles to underpin the separate reporting of Douglas and CRC financial results for each of the 5 financial years to June 2013, together with the 6 months to December 2013. This included direct attribution of the Balance Sheet and Cash Flow where practical and use of relevant revenue and expenditure attribution percentages where it was not. Refer [Attribution of Financial Results 2009 to 2011](#)
3. The process of separating the Balance Sheet and Cash Flow is well progressed and is expected to be finalised shortly. As the attribution process has progressed, the original approach has been refined where appropriate to ensure both the process and the outcomes are as fair, equitable and transparent as possible. Current principles are set out below.

Key Principles

Balance Sheet

4. Opening Balances for the Balance Sheet are already directly attributed based on the closing balances for the two former Councils as at 14 March 2008.
5. *At 30 June 2009, 2010 and 2011.* Direct attribution for the majority of balances was not achievable given time and resource constraints. As a result, the attribution percentage from the related revenue or expenditure item is proposed. Property, Plant and Equipment for 2011/12 was attributed based on a direct split of the Asset Register as at 30 June 2012.
6. *At 30 June 2012 and 2013.* Direction attribution was achieved for the majority of the Balance Sheet accounts. As per the prior years, where this was not practical, the relevant revenue or expense attribution percentage was used.
7. A summary of Balance Sheet accounts and the assigned attribution methods is below.

Balance Sheet Category	Attribution Method		
	2013	2012	2009-2011
Cash and cash equivalents	Calculation	Calculation	Calculation
Trade and other receivables	Sundry Debtors - Revenue % Split Rates Debtors - Direct	Sundry Debtors - Revenue % Split Rates Debtors - Direct	Sundry Debtors - Revenue % Split Rates Debtors - Direct
Inventories	Direct	Based on 2013 %	Based on 2013 %
Property, plant and equipment	Direct	Direct	2013/2012 Weighted Average % by Asset Class
Intangible assets	Direct	Direct	# Computer Terminals
Trade and other payables	Direct Employee Costs % Split	Direct Employee Costs % Split	Direct Employee Costs % Split
Provisions	Direct Employee Costs % Split	Direct Employee Costs % Split	Direct Employee Costs % Split
Borrowings	Direct	Direct	Direct
Other	Direct	Based on 2013 %	Based on 2013 %

Cash Flow

8. 2013 - For operating activities, attributions were calculated based on the relevant revenue and expenditure attribution together with the relevant receivable/payable accounts movements from the Balance Sheet. For the prior years, the cash flow figures have been attributed in line with the proportion of the relevant revenue and expenditure attribution, as it was not possible to split the relevant receivable/payable account movements for prior years.
9. Investing activities have been calculated based on a direct attribution exercise carried out on the Capital Expenditure Source of Funds document for each year.
10. Cash flows from financing activities have been calculated based on a direct attribution exercise carried out on Council's loan statements.

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**To: CRC/Douglas Transfer Committee
Through De Amalgamation Working Group**

From: Financial Due Diligence Working Group

Date: 15 November 2013

Re: FDDWG Quality Assurance Framework

Recommendation

1. That the Douglas Shire Council Transfer Committee approves the FDDWG Quality Assurance (QA) Framework as detailed below.

Background and Discussion

2. At meeting no 8 held 23 September 2013 the Transfer Committee noted the FDDWG Risk Assessment. The risk assessment identified several exposures including the possibility of different outcomes from QTC, the integrity of those outcomes, and the potential for lack of public confidence in those outcomes.
3. The assessment also determined treatments to address these exposures including good practice internal working papers and QA processes together with review of our process and final outcomes by a suitably qualified independent professional firm.
4. The Transfer Committee subsequently approved the engagement of KPMG to conduct the independent review. The review is scheduled to commence on 25 November 2013. This paper outlines the QA framework that has been established for the project.
5. The attribution process underpinning the preparation of separate financial statements for Douglas and the "continuing" Cairns at June 2012, June 2013 and December 2013 is based on linked excel work sheets.
6. Spreadsheets bring with them inherent risks, namely risks to the integrity of the spreadsheets, the data and the linkages. To address these risks the FDDWG has established a QA framework supported by good practice work papers. Each component is discussed below.

Team Structure

7. The team has been structured to separate accountabilities. Responsibility for the detailed day to day QA process rests with a contract employee with appropriate external audit experience, specifically engaged for the task.
8. Responsibility for the development of revenue, expenditure and balance sheet work sheets has been separated through the establishment of a separate team for each. Care has been taken to ensure where possible contractors have audit experience
9. FDDWG members working directly on the project exercise oversight including application of high level reconciliations
10. Each member of the FDDWG and the supporting project team has signed a probity statement as recommended by the Internal Auditor.

Revenue and Expenditure Integrity

11. The attribution of revenue and expenditure for the 5 years March 2008 to June 2013 is based on 6 key work sheets linked to a range of supporting work sheets with further linkages to a range of CRC financial applications. The work sheets attribute revenues and costs at the responsibility center level.
12. The QA officer performs work sheet, data and linkage integrity checks and completeness checks on a regular basis. The integrity of the 6 key work sheets is assured by an initial line by line review followed by a weekly check by the QA officer using formula scripts to identify any changes which are followed up and an audit trail kept.
13. The revenue and expenditure attribution process is based on % split at function level derived from a range of drivers and total cost and total revenue indexes all spreadsheet based. The derivation of each driver and index and the forward linkage to the key work sheets has been verified by the QA officer. A separate listing of drivers and indices showing %split by year and \$ allocated is used as a control

Completeness

14. For material line items such as general rate revenue and Cairns works expenditures, sampling techniques will be applied to ensure completeness of data is to ensure it is properly carried forward from source systems to the 6 key work sheets. Line item details of material amounts are also reviewed on a random basis.

Reconciliations

15. Work sheet line items are checked to ensure alignment with the appropriate range of GL accounts and management reports
16. The work sheet summaries for each year are reconciled with the general ledger, the financial statements and appropriate management reports Comparison is also made with QTC outcomes.

Balance Sheet and Cash Flow

17. The QA officer will review Balance Sheet attribution and re-constructed Cash flow worksheets and related work papers on a regular basis. This will include performing work sheet, data and linkage integrity checks and completeness checks similar to these conducted for the revenue and expenditure worksheets

Access

18. Access to the FDDWG suite of work papers has been recently limited to FDDWG members and the supporting project team. All of whom have signed probity statements. Limited members of the CRC Finance team require access for the purpose of finalizing the 2013 financial statements. Such access is limited to read only and requires a probity statement.
19. On completion of the attribution component (financial years 2008/09 to 2012/13) of the project, access to all relevant work sheets will be further limited to read only, for the QA Officer and one other

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