

SPECIAL COUNCIL MEETING 21 OCTOBER 2014	3.9
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FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY 2014 TO 30 JUNE 2014

Darryl Crees – General Manager Corporate Services

RECOMMENDATION:

That Council adopts the Financial Statements for the Period 1 January 2014 to 30 June 2014 and that the Mayor and Chief Executive Officer be authorised to execute the Management Certificate and Financial Sustainability Statements accordingly.

EXECUTIVE SUMMARY:

The financial statements for the period ended 30 June 2014 have been finalised and are submitted to Council for adoption.

BACKGROUND:

Council's Financial Statements have been prepared in accordance with the requirements of sections 176 to 178 of the *Local Government Regulation 2012* and have been audited by the Queensland Audit Office (QAO) in accordance with the requirements of section 212 of the *Regulation*. QAO have indicated that Council will receive an unqualified audit report and they will also be providing a management letter in due course. Council's Audit Committee reviewed a draft set of financial statements prior to audit and will be reviewing the finalised statements prior to their adoption by Council.

COMMENT:

The following comments are provided in relation to some of the key components of the financial statements:

Statement of Comprehensive Income

Includes Council's operating and capital revenue, operating expenses, gain on restructure (de-amalgamation), capital income and capital expenses for the period.

Operating Result

Council's operating result is determined by deducting operating expenditure from operating revenue and shows an operating deficit of \$5.2m compared to a budgeted operating deficit of \$3m.

This variance of \$2.2m is primarily due to the inclusion of expenditure from the prior period relating to de-amalgamation operating costs incurred by Cairns Regional Council on behalf of Douglas Shire Council (\$1.6m) and expenditure incurred during the current period on Counter Disaster Operations and Emergent Works as a result of a monsoonal event and Cyclone Ita in early 2014 (\$515k), with funding assistance for the latter expected to be provided from the Natural Disaster Relief and Recovery Arrangements (NDRRA) during the 2014/15 financial year.

The inclusion of these amounts was not anticipated at the time of the budget adoption in January 2014.

The operating deficit also includes an additional amount of depreciation expense (\$1m) that resulted from the finalisation of Council's asset register during the post de-amalgamation period.

For comparative purposes these movements can be summarised as follows:

Budgeted Operating Result - Adopted Budget January 2014		\$2,994,567
Add Unanticipated Inclusions:		
Prior period De-amalgamation operating costs	\$1,637,766	
Natural Disaster operating costs	<u>\$515,811</u>	
		<u>\$2,153,577</u>
Adjusted Operating Result		<u>\$5,148,144</u>
Actual Operating Result		\$5,201,113
Variance		-\$52,969

Gain on Restructure (De-amalgamation)

Represents the net value of assets and liabilities transferred to Council as part of the de-amalgamation process, adjusted for any changes in fair value at the beginning of the reporting period (\$339.6m).

De-amalgamation Costs

The following provides a summary of costs relating to De-amalgamation:

Operating expenditure:

Governance, planning and implementation	\$894,637
Accounting and financial due diligence	\$481,668
Information technology transition costs	\$257,179
Establishment and other costs	\$23,646
Salaries and redundancy payments	<u>\$856,353</u>
	<u>\$2,613,483</u>

Capital expenditure:

Plant and equipment	\$495,869
Intangibles	<u>\$971,143</u>
	<u>\$1,467,012</u>

Total expenditure	\$4,080,495
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	Pre 31/12/13	Post 31/12/13	Total
Operating expenditure	\$1,637,766	\$975,717	\$2,613,483
Capital expenditure	<u>\$1,327,129</u>	<u>\$139,883</u>	<u>\$1,467,012</u>
Total expenditure	<u>\$2,964,895</u>	<u>\$1,115,600</u>	<u>\$4,080,495</u>

Capital Expenses

Includes a revaluation decrement to property, plant and equipment (\$5.3m) and a loss on write-off of assets damaged by natural disaster (\$8.4m).

Statement of Financial Position

Provides details of Council's Current and Non-current Assets and Liabilities

Statement of Changes in Equity

Identifies movements in Council's Equity balance.

Statement of Cashflows

Shows the movement in Council's cash position during the period and excludes all non-cash items such as depreciation. Council's cash position at the end of the reporting period consisted of the following:

Cash and cash equivalents	\$16,062,186
Short term deposits (deposits exceeding 3 months)	<u>\$2,000,000</u>
	<u>\$18,062,186</u>

Notes to the Financial Statements

Provide details of significant accounting policies and supporting information relating to the major statements, including a detailed breakdown of property, plant and equipment.

Financial Sustainability Ratios

Council's financial sustainability ratios for the period are as follows:

Measures of Financial Sustainability	How the measure is calculated	Actual - Council	Target
Council's performance at 30 June 2014 against key financial ratios and targets:			
Operating surplus ratio	Net result (excluding capital items) divided by total operating revenue (excluding capital items)	-32%	between 0% and 10%
Asset sustainability ratio	Capital expenditure on the replacement of assets (renewals) divided by depreciation expense.	171%	greater than 90%
Net financial liabilities ratio	Total liabilities less current assets divided by total operating revenue (excluding capital items)	-56%	not greater than 60%

The Operating surplus ratio has been negatively impacted by unanticipated factors as outlined earlier in this report. The Asset sustainability ratio has been positively impacted by capitalised asset renewals transferred through de-amalgamation. The Net financial liabilities ratio indicates a healthy balance sheet.

Community Financial Report

Information relating to the financial statements will also be provided in the Community Financial Report to be included within Council's Annual Report.

PROPOSAL:

That Council adopts the financial statements and authorises the Mayor and Chief Executive Officer to execute the Management Certificate and Financial Sustainability Statements.

CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE:

The preparation of the Financial Statements aligns with Council's Corporate Plan –

Theme 5 Governance, Goal 1 “To develop a financially sustainable organisation through sound strategic planning” 5.1.1 “Establish and develop long term financial, resource and infrastructure planning to ensure ongoing capacity to fund operations and capital works programs”.

Theme 5 Governance, Goal 2 “To demonstrate leadership in local government through sound, transparent, accountable and equitable decision making” 5.2.1 “Provide Councillors and community with accurate, unbiased and factual reporting to enable accountable and transparent decision-making”.

FINANCIAL/RESOURCE IMPLICATIONS:

This report summarises the key financial/resource implications relating to the reporting period covered by the Financial Statements.

RISK MANAGEMENT IMPLICATIONS:

Ongoing operating deficits have the potential to negatively impact upon Council's future financial sustainability. Council's long term financial sustainability statement projects a move towards a balanced operating position over the next 5 years, in accordance with Council's Corporate Plan.

INTERNAL/EXTERNAL CONSULTATION:

Consultation occurred with a number of key staff in relation to various aspects of the preparation and auditing of the financial statements, including the verification and endorsement of various assumptions and processes and the provision of supporting documentation. Considerable consultation also occurred with the Queensland Audit Office.

ATTACHMENTS:

Financial Statements for the Period 1 January 2014 to 30 June 2014 – will be provided as a separate attachment