

COUNCIL ORDINARY MEETING	
29 APRIL 2014	

SPECIAL PURPOSE SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014

Darryl Crees: General Manager Corporate Services

RECOMMENDATION:

That Council:

- **notes the Special Purpose Separate Financial Statements as at 31 December 2014**
- **acknowledges the contribution made by Mr Geoff Haberfeld in relation to the work undertaken by the Financial Due Diligence Working Group.**

EXECUTIVE SUMMARY:

The detailed financial analysis of the split of assets and liabilities between Douglas Shire Council and Cairns Regional Council has been completed. To record these transactions special purpose separate financial statements for the period ending 31 December 2013 have been prepared.

These financial statements have been reviewed by Grant Thornton (formerly KPMG) and their opinion is that these statements, in all material respects, are in accordance with the Transfer Committee's financial separation methodology.

BACKGROUND:

A feature of the financial process underpinning the re-establishment of the Douglas Shire Council on 1 January 2014, was the preparation, by the joint Financial Due Diligence Working Group (FDDWG), of special purpose separate financial statements (financial statements) as at 30 June 2013 and 31 December 2013, to support the allocation of assets and liabilities between the two entities.

The financial statements are comprised of an Income Statement, a Statement of Financial Position and a Statement of Cash Flows together with accompanying Notes and reflect:

- a) The results for the Cairns Regional Council, as a whole, for the period ended 31 December 2013 and its financial position as at that date which agree in aggregate to Council's financial records and management reports, and
- b) The allocation of Council's results and cash flows and its assets and liabilities between the continuing Cairns Regional Council component (Cairns) and the Douglas Shire component (Douglas).

Given the significant nature of the financial transactions underpinning the re-establishment of the Douglas Shire Council, the Transfer Committee determined that both sets of financial statements should be subject to an independent review conducted by a suitably qualified organization in accord with good practice.

The financial statements at 30 June 2013 were presented to Council at its meeting held on 14 January 2014 following the independent review conducted by KPMG (now Grant Thornton).

PROPOSAL:

The financial statements at 31 December 2013 have now been reviewed by the Cairns Office of Grant Thornton (formerly KPMG).

The review was conducted in two parts. Part A was a review of the processes and methodology followed by the FDDWG in preparing the financial statements to provide assurance that the processes were appropriate for the task and the methodology was logical, reasonable and complied with accepted accounting standards.

In relation to part A, Grant Thornton have advised, *“we are not aware of any significant matters we believe should be brought to the attention of the Douglas Shire Council Transfer Committee”*.

Part B was a review of the financial statements and accompanying notes to provide assurance that the preparation and presentation of the separate financial statements aligns with the financial separation methodology. In relation to part B, Grant Thornton has provided the following reasonable assurance opinion.

“Opinion

In our opinion, in all material respects, the financial information in the separate financial statements for the period ended 31 December 2013 has been extracted from the underlying financial records of Cairns Regional Council in accordance with the Douglas Shire Council Transfer Committee's financial separation methodology”.

The special purpose separate financial statements for the period ending 31 December 2013 are presented to council for noting.

FINANCIAL/RESOURCE IMPLICATIONS:

Due to the extended time, additional resource allocation and detailed financial analysis undertaken by the FDDWG, the final asset/liability outcome has placed Douglas in a significantly better position than originally forecast by the Queensland Treasury Corporation (QTC) in 2012.

A summary of the cash balance as at 30 June 2012 follows:

Description	\$'000
QTC's estimate of closing cash balance as at 30 June 2012	9,085
FDDWG's closing cash balance as at 30 June 2012	15,164
Difference (in favour of Douglas)	6,078

The final closing cash balance as at 31 December 2013

Description	\$'000
FDDWG's closing cash balance	19,731
Less De-amalgamation costs (paid in full but excluding redundancies paid by Douglas in 2014)	2,938
Less revenue and expenses incurred prior to 31 December 2013 and processed in 2014.	473
Opening cash balance for Douglas as at 1 January 2014	16,320

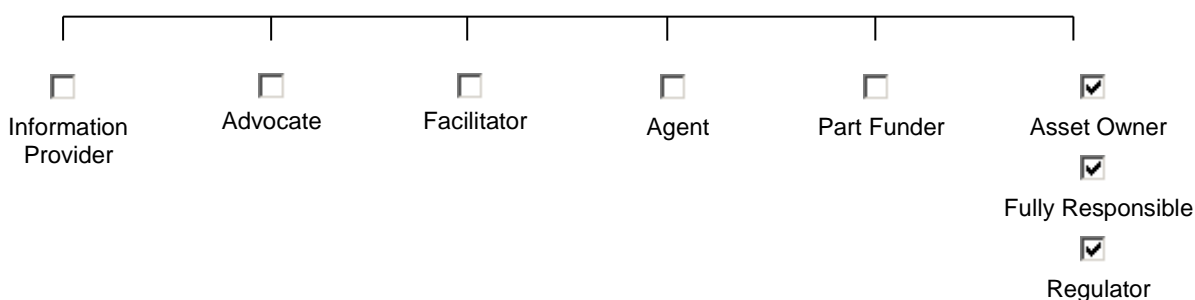
CORPORATE/OPERATIONAL PLAN, POLICY REFERENCE:

The *Local Government (De-amalgamation Implementation) Regulation 2013* and the Transfer Methodology, prepared by the Department of Local Government, provided a broad framework to undertake the de-amalgamation process. The formulation of the FDDWG to undertake the financial analysis of the asset/liability split was an initiative promoted by the Transfer Manager Douglas, Mr Jeff Tate, and endorsed by the Transfer Committee.

COUNCIL'S ROLE:

Council can play a number of different roles in certain circumstances and it is important to be clear about which role is appropriate for a specific purpose or circumstance. The implementation of actions will be a collective effort and Council's involvement will vary from information only through to full responsibility for delivery.

The following areas outline where Council has a clear responsibility to act:



Asset Owner:	Meeting the responsibilities associated with owning or being the custodian of assets such as infrastructure.
Fully Responsible:	Funding the full cost of a program or activity.
Regulator:	Meeting the responsibilities associated with regulating activities through legislation or local law.

RISK MANAGEMENT IMPLICATIONS:

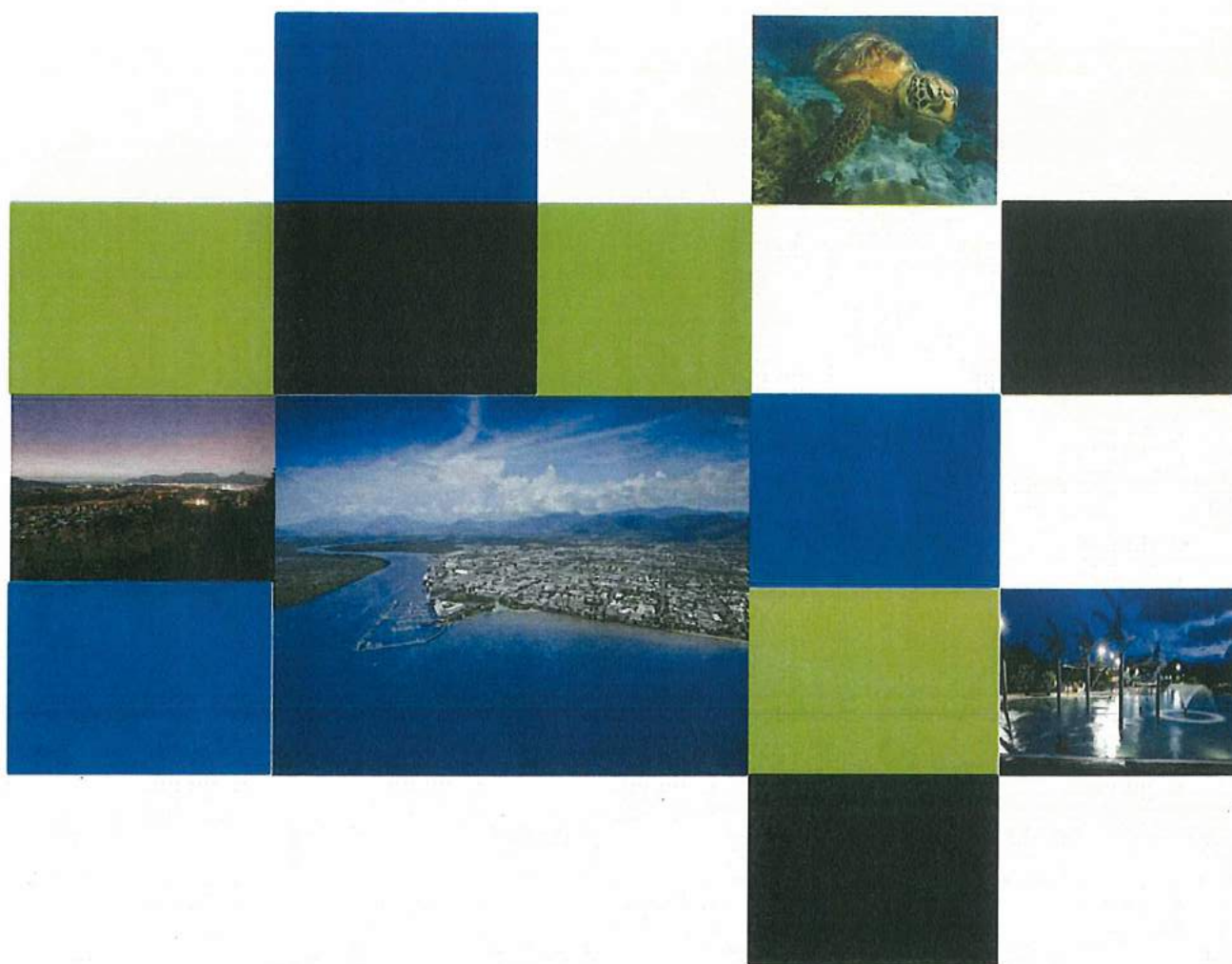
The corporate governance surrounding the principles and methodology employed by the FDDWG was based on sound risk management practices to ensure the final outcomes were fair and equitable.

INTERNAL/EXTERNAL CONSULTATION:

The Transfer Committee appointed the Cairns office of Grant Thornton (formerly KPMG) to independently review and provide an opinion on the work undertaken by the FDDWG in splitting the assets and liabilities associated with the de-amalgamation of Douglas from Cairns Regional Council.

ATTACHMENTS:

Special Purpose Separate Financial Statements for the period ending 31 December 2013.



Cairns Regional Council
SPECIAL PURPOSE SEPARATE
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2013

CAIRNS REGIONAL COUNCIL

Special purpose separate financial statements

For the six months ended 31 December 2013

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Cairns Regional Council
Income Statements
For the six months ended 31 December 2013

	Unaudited Cairns Regional Council 2013 \$	Unaudited Cairns 2013 \$	Unaudited Douglas 2013 \$
Income			
Recurrent revenue			
Rates, levies and charges	127,694,610	113,596,712	14,097,897
Fees and charges	11,613,914	9,248,329	2,365,585
Interest received	3,297,973	2,755,774	542,199
Other recurrent revenue	5,581,682	5,089,540	492,142
Grants, subsidies, contributions and donations	2,395,127	2,140,714	254,414
	<u>150,583,306</u>	<u>132,831,068</u>	<u>17,752,238</u>
Capital revenue			
Grants, subsidies, contributions and donations	10,967,536	10,202,709	764,827
Total revenue	<u>161,550,843</u>	<u>143,033,778</u>	<u>18,517,065</u>
Total income	<u>161,550,843</u>	<u>143,033,778</u>	<u>18,517,065</u>
Expenses			
Recurrent expenses			
Employee benefits	52,040,021	46,175,672	5,864,349
Materials and services	42,660,659	35,833,745	6,826,914
Finance costs	3,289,209	3,181,827	107,382
Depreciation and amortisation	45,347,933	45,347,933	-
	<u>143,337,822</u>	<u>130,539,177</u>	<u>12,798,645</u>
Capital expenses	-	-	-
Total expenses	<u>143,337,822</u>	<u>130,539,177</u>	<u>12,798,645</u>
Net result	<u>18,213,021</u>	<u>12,494,601</u>	<u>5,718,420</u>

The above statements should be read in conjunction with the accompanying notes and Significant Accounting Policies.

Cairns Regional Council
Statements of Financial Position
as at 31 December 2013

	Unaudited Cairns Regional Council 2013 \$	Unaudited Cairns 2013 \$	Unaudited Douglas 2013 \$
Current assets			
Cash and cash equivalents	44,158,967	35,002,600	9,156,367
Short term deposits	51,000,000	40,425,145	10,574,855
Trade and other receivables	44,312,140	39,573,551	4,738,589
Inventories	1,162,829	1,103,345	59,484
Total current assets	140,633,936	116,104,641	24,529,295
Non-current assets			
Property, plant and equipment	3,302,277,376	2,970,969,855	331,307,521
Intangibles	2,167,370	1,789,408	377,962
Total non-current assets	3,304,444,746	2,972,759,263	331,685,483
Total assets	3,445,078,682	3,088,863,904	356,214,778
Current liabilities			
Trade and other payables	30,078,743	28,672,351	1,406,392
Provisions	2,382,589	2,208,851	173,738
Borrowings	9,200,957	8,968,777	232,180
Other	797,370	705,419	91,951
Total current liabilities	42,459,659	40,555,398	1,904,261
Non-current liabilities			
Trade and other payables	3,310,634	2,906,648	403,986
Provisions	23,937,964	12,199,868	11,738,096
Borrowings	77,817,667	75,767,354	2,050,313
Total non-current liabilities	105,066,265	90,873,870	14,192,395
Total liabilities	147,525,924	131,429,268	16,096,656
Net community assets	3,297,552,758	2,957,434,636	340,118,122
Total community equity	3,297,552,758	2,957,434,636	340,118,122

The above statements should be read in conjunction with the accompanying notes and Significant Accounting Policies.

Cairns Regional Council
Statements of Cash Flows
For the six months ended 31 December 2013

	Unaudited Cairns Regional Council 2013 \$	Unaudited Cairns 2013 \$	Unaudited Douglas 2013 \$
Cash flows from operating activities			
Receipts			
General rates and utility charges	129,707,848	113,105,396	16,602,452
Rental and levies, fees and charges	11,139,678	8,758,516	2,381,162
Operating grants, subsidies and contributions	4,195,333	3,931,619	263,714
Interest received	3,306,861	2,761,073	545,788
Other revenue	4,765,022	4,425,012	340,010
Payments			
Payments to suppliers	(56,651,383)	(47,063,843)	(9,587,540)
Payments to employees	(52,541,265)	(46,491,365)	(6,049,900)
Interest expense	(2,970,253)	(2,893,342)	(76,911)
Net cash inflow (outflow) from operating activities	40,951,842	36,533,067	4,418,775
Cash flows from investing activities			
Grants, subsidies, contributions and donations for capital acquisitions:			
Capital contributions	4,868,702	3,906,050	962,652
Government subsidies and grants	8,731,542	8,207,301	524,241
Payments for property, plant and equipment	(54,920,932)	(53,004,329)	(1,916,603)
Proceeds from the disposal of capital assets	432,331	398,356	33,975
Net movement in short term deposits	(16,000,000)	(11,115,856)	(4,884,144)
Net cash inflow (outflow) from investing activities	(56,888,357)	(51,608,478)	(5,279,879)
Cash flows from financing activities			
Repayment of borrowings	(1,814,491)	(1,765,908)	(48,583)
Net cash inflow (outflow) from financing activities	(1,814,491)	(1,765,908)	(48,583)
Net increase (decrease) in cash and cash equivalents held	(17,751,006)	(16,841,319)	(909,687)
Cash and cash equivalents as at 30 June 2013	61,909,973	51,843,920	10,066,054
Cash and cash equivalents as at 31 December 2013	44,158,967	35,002,600	9,156,367

The above statements should be read in conjunction with the accompanying notes and Significant Accounting Policies.

Cairns Regional Council
Notes to the special purpose separate financial statements
For the six months ended 31 December 2013

1 Special purpose separate financial statements

In March 2008, the former Cairns City Council amalgamated with the former Douglas Shire Council to form the new Cairns Regional Council (Council).

As a result of the *Local Government (De-amalgamation Implementation) Regulation 2013* (the Regulation) the Douglas Shire Council was re-established on 1 January 2014, based on the boundaries as they existed immediately prior to the 2008 amalgamation. On 1 January 2014, the Douglas Shire Council commenced operations and the continuing Cairns Regional Council now operates independently of the excised Douglas Shire component.

The de-amalgamation was conducted in accordance with the Regulation and the Department of Local Government, Community Recovery and Resilience *De-amalgamation Transfer Methodology*. In accordance with the Regulation, a Transfer Manager was appointed and a Transfer Committee established. The Transfer Manager was responsible for managing the formation of the Douglas Shire Council. The Transfer Committee comprises the Transfer Manager and Council's Chief Executive Officer and is responsible for making decisions on matters such as the transfer of assets and liabilities to Douglas Shire Council, establishment of joint agreements to ensure continuity of business and deciding on de-amalgamation costs. On 10 March 2014, Douglas Shire Council appointed a Chief Executive Officer, replacing the Transfer Manager on the Transfer Committee.

These special purpose separate financial statements have been prepared in order to provide financial information in respect of the two de-amalgamating components of Cairns Regional Council to assist with:

- identifying the impact that transactions reasonably attributable to the Douglas Shire component have had on the Cairns Regional Council financial statements for the period 1 July 2013 to 31 December 2013; and
- establishing the assets and liabilities which Council will transfer to the new Douglas Shire Council on 1 January 2014.

2 Basis of preparation

(a) Statement of compliance

The special purpose separate financial statements comprise:

- Income Statements for the six months ended 31 December 2013;
- Statements of Financial Position as at 31 December 2013; and
- Statements of Cash Flows for the six months ended 31 December 2013.

The special purpose separate financial statements reflect:

- a) the results and cash flows for the Cairns Regional Council as a whole for the six months ended 31 December 2013 and its financial position as at that date, and
- b) the allocation of Council's results and cash flows and its assets and liabilities between the continuing Cairns Regional Council component (Cairns) and the Douglas Shire component (Douglas).

The financial information in these special purpose separate financial statements in respect of the whole of Council has been extracted from and agrees with Council's unaudited management accounts and Council's underlying financial records. The financial information is unaudited. As these separate financial statements are special purpose financial statements, they do not comply with Australian Accounting Standards.

Cairns Regional Council
Notes to the special purpose separate financial statements
For the six months ended 31 December 2013

2 Basis of preparation (continued)

(b) Basis of measurement

The financial information for the whole of Council has been extracted from Council's management accounts which are prepared under the historical cost convention except for some classes of non-current assets where the revaluation method under AASB 116 has been applied.

(c) Presentation framework

Since March 2008, Cairns Regional Council has operated as one integrated business and transactions relating to the previous Douglas Shire Council area were not separately identified or segregated in Council's accounting system. Most of Council's services operate seamlessly across the Douglas region and remaining Council area. Therefore, it has been necessary for the Transfer Committee to determine a financial separation methodology to allocate revenue and expenses, and assets and liabilities between the two components of Council, i.e. Cairns and Douglas.

The Transfer Committee has ensured that the financial separation methodology adopted is both appropriate in the circumstances, and is in accordance with the methodology contained in the De-amalgamation Transfer Methodology document published by the Department of Local Government, Community Recovery and Resilience (and which can be accessed at the Department's website).

An overview of the Transfer Committee's financial separation methodology and assumptions in respect of the allocations made is set out below.

Revenue and expenses

Revenue allocated to Douglas comprises rates, levies, charges and fees collected from residents in the Douglas area, together with income arising from assets that will be transferred to Douglas as well as other revenue, including interest on term deposits. The balance of Council revenue is therefore allocated to Cairns.

Expenses allocated to Douglas include expenses that can be attributed to the assets that have been allocated to Douglas, as well as other operating expenses. The balance of Council expenses is therefore allocated to Cairns.

Revenue and expenses allocated to Douglas have been allocated from Council's underlying financial information on a direct basis wherever possible. The direct basis is where the revenue or expenses can be directly associated with a specific activity or physical location associated with the Douglas area. Where direct attribution is not practicable, revenue and expenses have been allocated using either (a) a clear driver that is readily identifiable and is an appropriate basis on which to allocate, or (b) by applying an appropriate ratio to the revenue or expenses across the whole of Council area and then apportioning them on that basis between Douglas and Cairns.

Assets and liabilities

Assets and liabilities have been directly attributed to Douglas based on the specific assets and liabilities transferred on 1 January 2014 wherever possible. Cash has been apportioned based on the opening balances inherited by Council on amalgamation and the reconstruction of the cash flows for the period of amalgamation. Similarly, loans and borrowings have been allocated based on the opening balances on amalgamation and the direct allocation of new borrowings and repayments over the period of amalgamation.

Cairns Regional Council
Notes to the special purpose separate financial statements
For the six months ended 31 December 2013

3 Significant accounting policies

The financial information for the whole of Council has been extracted from and agrees with Council's general ledger and supporting documentation.

The financial information has been prepared on the same basis and applying the same accounting policies as Council's annual statutory financial statements for the year ended 30 June 2013, with the exception of the following items which Council only updates annually for the annual financial statements and are not expected to have a material impact on these separate financial statements for the purposes defined by the Transfer Committee:

- Council has not updated its assessment of the landfill restoration provision as at 31 December 2013; and
- Council has not undertaken a revaluation of its property, plant and equipment held as at 31 December 2013.

4 Cash and short term deposits

	Cairns Regional Council 2013 \$	Cairns 2013 \$	Douglas 2013 \$
Cash and cash equivalents	44,158,967	35,002,600	9,156,367
Short term deposits	51,000,000	40,425,145	10,574,855
	95,158,967	75,427,745	19,731,222

All short term deposits are in Australian dollars. Short term deposits are held in Bank of Queensland, Bendigo Bank, ME Bank, ECU, Cairns Penny Bank and National Australia Bank and are considered to be low risk investments.

5 Trust funds held for outside parties

	Cairns Regional Council 2013 \$	Cairns 2013 \$	Douglas 2013 \$
Monies collected or held on behalf of other entities yet to be paid out to or on behalf of those entities	194,816	194,816	-
Security deposits	2,984,321	2,479,203	505,117
Unclaimed monies	32,397	32,397	-
	3,211,534	2,706,417	505,117

Cairns Regional Council performs only a custodial role in respect of these monies. As the monies cannot be used for Council purposes, they are not brought to account in these financial statements. The cash is held with the Commonwealth Bank and the deposits bear floating interest rates.

Cairns Regional Council
Notes to the special purpose separate financial statements
For the six months ended 31 December 2013

6 Events after the reporting date

Cairns Regional Council remains responsible for the settlement of all liabilities that arose for the period up to 31 December 2013, regardless of whether the liability related to the continuing Cairns Regional Council component or the de-amalgamated Douglas Shire component. It is reasonable to expect that there are invoices that have not yet been recognised in these separate financial statements, for which the expenses relate to the amalgamated period which are attributable to the Douglas component. Whilst these amounts are not expected to be material to either the Cairns or Douglas component, there is no means to reliably quantify these potential transactions and as such the expenses have not been recognised in the separate financial statements. As these invoices are received, Cairns Regional Council will recognise the expense, finalise payment to the supplier and recover the funds from the new Douglas Shire Council. The impact of these transactions will impact the opening position of the new Douglas Shire Council.

In addition to the above, Cairns Regional Council is negotiating the settlement of past claims made under disaster relief provisions with the Queensland Reconstruction Authority. These claims included amounts of \$581,274 attributable to the Douglas component. To the extent that the amounts ultimately recovered by Cairns Regional Council differ from this amount, the new Douglas Shire Council will either be compensated for the excess received, or will compensate Cairns Regional Council for the shortfall.

7 Property, plant and equipment

Following the finalisation of the 30 June 2013 separate financial statements, the property, plant and equipment closing balance allocation between the Cairns and Douglas components was subject to further review. A reconciliation performed post finalisation of the 30 June 2013 separate financial statements identified asset transactions which were not correctly allocated resulting in an increase to the Douglas property, plant and equipment allocation of \$13,274,898 as at 30 June 2013 and a corresponding reduction in the Cairns component by the same amount. The Douglas component of property, plant and equipment at 30 June 2013 was increased to \$329,682,880 from \$316,407,982 as previously reported. Respectively, the Cairns component of property, plant and equipment at 30 June 2013 was decreased to \$2,889,072,534 from \$2,902,347,432 as previously reported.

As the Douglas component property, plant and equipment assets have not been subject to depreciation with effect from 31 March 2013, the impact on the depreciation charged in the Cairns component for the period from 1 April 2013 to 30 June 2013 is not considered to be material to the separate income statements presented for the period to 30 June 2013 and these have consequently not been adjusted.

Douglas Shire Council Transfer Committee's Declaration

In the opinion of the Douglas Shire Council Transfer Committee:

- (a) the special purpose separate financial statements that are set out on pages 1 to 7 present fairly the financial information which has been extracted from the underlying financial records of Cairns Regional Council; and
- (b) the separate financial statements have been prepared in accordance with the Douglas Shire Council Transfer Committee's financial separation methodology as set out in Note 2.

Signed in accordance with a resolution of the Douglas Shire Council Transfer Committee:

Dated at Cairns this 23rd day of April 2014.



Linda Cardew

Member of Douglas Shire Council Transfer Committee



Digitally signed by Peter Tabulo
DN: cn=Peter Tabulo, o=Cairns Regional
Council, ou=Chief Executive Officer,
email=p.tabulo@cairns.qld.gov.au, c=AU
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Peter Tabulo

Member of Douglas Shire Council Transfer Committee

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Independent reasonable assurance report to the Douglas Shire Council Transfer Committee

We have performed a reasonable assurance engagement in respect of the accompanying special purpose separate financial statements of the de-amalgamating Cairns Regional Council (Council) showing the financial information for whole of Council and the separate financial information of Douglas Shire Council (Douglas) and the continuing Cairns Regional Council (Cairns). The separate financial statements comprise the income statements for the period ended 31 December 2013, statements of financial position as at 31 December 2013, statements of cash flows for the period ended 31 December 2013 and notes 1 to 7.

Transfer Committees' responsibility for the separate financial statements

The Douglas Shire Council Transfer Committee (Transfer Committee) is responsible for the extraction, from Council's underlying financial records, of the financial information necessary for the preparation and presentation of the separate financial statements. This responsibility includes determining the financial separation methodology used to extract the financial information from Council's underlying financial records and its allocation to Douglas and Cairns. The Transfer Committee's responsibility also includes such controls and procedures as the Transfer Committee determines are necessary to enable the preparation of the separate financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion to the Transfer Committee on the preparation and presentation of the separate financial statements in accordance with the financial separation methodology, as set out in note 2 to the separate financial statements.

We have performed our work in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, and accordingly included such tests and procedures as we considered necessary in the

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circumstances. Our procedures included obtaining an understanding of the financial separation methodology as set out in note 2 and examination, on a test basis, of evidence supporting the separate financial statements. These procedures have been undertaken to form an opinion whether, in all material respects, the financial information in the separate financial statements for the period ended 31 December 2013 has been extracted from the underlying financial records of Cairns Regional Council in accordance with the Douglas Shire Council Transfer Committee's financial separation methodology as set out in note 2.

Our procedures did not cover the completeness or accuracy of the underlying financial records of Cairns Regional Council from which the separate financial statements have been prepared.

Inherent limitations

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our reasonable assurance engagement is not designed to detect all weaknesses in the separate financial statements, as the engagement has not been performed continuously throughout the period and the procedures performed on the separate financial statements and their compliance measures were undertaken on a test basis.

Any projection of the evaluation of the operation or outcomes in respect of the separate financial statements to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate.

The reasonable assurance opinion expressed in this report has been formed on the above basis.

Opinion

In our opinion, in all material respects, the financial information in the separate financial statements for the period ended 31 December 2013 has been extracted from the underlying financial records of Cairns Regional Council in accordance with the Douglas Shire Council Transfer Committee's financial separation methodology as set out in note 2.

Restriction on distribution and use

This report has been prepared for the Transfer Committee for the purpose of assisting the Transfer Committee in meeting the *Local Government (De-amalgamation Implementation) Regulation 2013* requirements as set out in Part 4 sections 38 and 39 of that Regulation. We disclaim any assumption of responsibility for any reliance on this report, or the separate financial statements to which it relates, to any person other than the Douglas Shire Council Transfer Committee, or for any purpose other than for which it was prepared.

Matters relating to electronic presentation

This report relates to the Transfer Committee's separate financial statements prepared in accordance with the financial separation methodology as set out in note 2. Where this report is displayed on the Douglas Shire Council or Cairns Regional Council websites, the Transfer Committee is responsible for the integrity of the websites. We have not been engaged to report on the integrity of these websites. This report is prepared only for the purpose as described above, and does not provide an opinion on any other information in the websites that is related to these separate financial statements.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Graham Coonan
Partner - Audit & Assurance

Cairns, 23 April 2014