

MARRICKVILLE council

**SUPPLEMENTARY
BUSINESS PAPER
1**

for

**COUNCIL
MEETING
08/06**

**6.30 PM, TUESDAY,
19 SEPTEMBER, 2006**

Distributed 15 September, 2006

**GM 86 - DRAFT FINANCIAL REPORTS FOR THE YEAR ENDED
30 JUNE 2006
For Decision**

File Ref: 1908

General Manager reports:

Synopsis

Council's Financial Reports for the year ended 30 June 2006, comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Changed in Equity, Statement of Cash Flows, Notes to the Financial Statements, Special Purpose Financial Reports and Special Schedules have been completed and presented to Council. Due to unexpected delays the issue of the Final Audit Certificate has not been finalised, but is expected by the end of the week.

Background

Legislative Requirements:

Section 413 of the Local Government Act 1993 requires that Council must prepare financial reports for each year and refer them for audit.

Subsection (2) of section 413 also requires that the financial reports must include:

- (a) a general purpose financial report;
- (b) any other matter prescribed by the regulations; and
- (c) a statement in the approved form by the Council as to its opinion on the general purpose financial report.

Clause 215 of the Local Government (General) Regulation 2005 provides that the statement required by section 413(2)(c) of the Act must:

- (a) be made by resolution of the Council; and
- (b) be signed by:
 - the Mayor;
 - at least one other member of Council;
 - the responsible accounting officer; and
 - the General Manager

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Clause 215 provides that the financial statement must indicate:

- (a) whether or not the Council's annual financial reports have been drawn up in accordance with:
 - the Act and the regulations;
 - the Local Government Code of Accounting Practice and Financial Reporting; and
 - the Australian Accounting Standards issued by the Australian Account Standards Board.
- (b) whether or not those reports present fairly Council's financial position and operating result for the year;
- (c) whether or not those reports accord with the Council's accounting and other records; and
- (d) whether or not the signatories know of anything that would make those reports false or misleading in any way, and include such information and explanations as will prevent those reports from being misleading because of any qualification that is included in the statement.

Section 415 provides that Council's auditor must audit the Council's financial reports as soon as practicable after they are referred for audit. Section 416(1) requires the audit to be completed within four months of the end of the year. Section 418 provides that as soon as practicable after Council receives a copy of the auditor's reports:

- (a) it must fix a date for the meeting at which it proposes to present its audited financial reports, together with the auditor's reports, to the public; and
- (b) it must give public notice of the date so fixed.

Section 418 also provides that the date fixed for the meeting must be at least 7 days after the date on which the notice is given but not more than five weeks after the auditor's reports are given to Council.

Discussion

1. 2005/06 Financial Reports

The Financial Reports for the year ended 30 June 2006 are comprised of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Notes to the Financial Statements, Special Purpose Financial Reports and Special Schedules.

The Special Purpose Financial Reports comprise Income Statements and Balance Sheets for Council's businesses. At Meeting 10/98 held on 19 November 1998, in considering Item GM 132, Council resolved that it did not operate any businesses. A note to this effect has been included in the Financial Reports.

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The Original Budget figures are included on the Income Statement. It is important to note that they are the original budget and **do not** take into account any of the variations adopted by Council as part of its monthly budget review process. Where the Original Budget varied from the actual result by more than 10% an explanation is provided at Note 16.

Council's Accounts have been prepared for the first time in accordance with the Australian Equivalent International Financial Reporting Standards (AIFRS)

1.1 Council's Statement

To enable the Financial Reports to be formally submitted for audit it is necessary for Council, by resolution, to make the statement required by Section 413(2)(c) of the Act as to its opinion on the General Purpose Financial Reports.

To assist Council in making that statement it is advised that the annual financial reports have been drawn up in accordance with the requirements of the Local Government Act 1993 (as amended) and the Regulations made thereunder, Code of Accounting Practice and Financial Reporting, the Australian Accounting Standards and professional pronouncements.

Following the audit, the auditors are required to make the statements prescribed by Section 417(2) of the Act which must be included in the financial reports, including that in the opinion of the auditor the financial reports:

- have been prepared in accordance with the requirements of Division 2 of Part 3 of the Act;
- are consistent with Council's accounting records;
- present fairly Council's financial position and the results of its operations;
- whether any information relevant to the conduct of the audit has been unobtainable by the auditor; and
- a statement setting out any material deficiency in the accounting records or financial reports that has come to light in the course of the audit.

It is recommended that Council, by resolution, make the statement required by Section 413(2)(c) of the Act, which will be attached to the annual financial reports. The statement will then be signed by the persons mentioned in Clause 215(1)(b) of the Regulation, as stated above.

It is recommended that Council set the meeting to be held on 17 October 2006 as the meeting at which the financial reports will be presented to the public.

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A copy of the Financial Reports will be tabled at the meeting and distributed to normal Business Paper distribution points.

It should be noted that Council's Auditor, PriceWaterhouseCoopers, will undertake a detailed audit of the tabled financial reports and will present their opinion in relation to those accounts at the October 2006 meeting of Council. Council's auditor will be available in the 3rd Floor Function Room from 5.00pm on 17 October 2006 prior to the Council meeting to answer any questions Councillors may have in relation to the final accounts to be presented at the meeting.

2. Analysis of Financial Position at 30 June 2006

When Council considers the report from its auditors at its meeting on 17 October 2006, this will include an analysis of Council's financial position at 30 June 2006.

The following indicates Council's anticipated Working Funds Position at 30 June 2006 as presented to Council in the report on the May 2006 budget review:

Available Working Funds from 2004/2005 Auditors Report	\$'000 10,646
Less Revotes to 2005/06 Budget	1,658
Less Budget Deficit in 2005/06	99
Projected Working Funds Position at 30 June 2006	8,889
Benchmark at 30 June 2005	1,172

Council's Working Funds position at 30 June 2006 was determined after making appropriate provision for doubtful debts, legal settlements in relation to the surrender of billboard licences on Council lands at Tempe and the payment of part of the interest on the deposit held by Council over Lot 201 at Tempe. Provision for legal settlements has been made totalling \$806,000 in 2005/06. The terms of settlement in relation to Lot 201 are still to be finalised and are required to remain confidential. The legal settlement in relation to interest is proposed to be funded from Council's Property Reserve.

Council's 2005/06 and 2006/07 Budgets have been premised on a continuing ability to transfer funds to the Community Facilities Reserve from the surplus in Working Funds at year end.

The following amounts, totalling \$610,450, have been transferred to Council's Community Facilities Reserve at 30 June 2006:

- \$346,750 to fund planned 2006/07 projects;
- \$100,000 to fund budget variations approved as part of the 2005/06 budget review process that are additional to the funds identified as originally required in the initial Condition Audit of Community Facilities; and

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- \$163,700 to fund projects identified in the 2006/07 Budget process for Children & Family Services premises which are additional to those in the initial Condition Audit of Community Facilities, resulting in \$1,910,600 allocated by Council between 2003/04 and 2006/07, with \$2,503,750 to be allocated in future years and to be completed in 2012/13.

Council's current Employee Leave Entitlement (ELE) Reserve balance at 30 June 2006 is \$1,473,000. This represents 16.7% of Council's total ELE liability. It is proposed to increase the ELE Reserve by \$200,000 to \$1,673,000, which represents 18.9% of Council's liability.

After making the provisions and transfers to Reserves, and based on the financial reports presented for audit, Council's draft Working Funds position at 30 June 2006 was as follows:

Net Current Assets	\$'000 30,073
Less Internal and External Restrictions	<u>21,172</u> 8,901
Projected Working Funds Position	8,889
Surplus	12
Draft Benchmark at 30 June 2006	1,234

As advised in Property Services reports to the Technical Services Committee during 2005/06, works in relation to the leachate treatment system and associated costs exceeded budget by \$508,000 at 30 June 2006. This overrun has been funded from unexpended loan funds available at year end (\$157,000) arising from savings in other projects and by withdrawing \$351,000 from Council's Property Reserve. Further costs will be incurred in 2006/07, which will be the subject of further reports to Council.

Council's Road Reserve contains funds from the sale of public roads following closure and are used to fund road related projects. As the closure and sale of Warne Place was not finalised at 30 June 2006, the Road Reserve would have been in deficit by \$198,075. An amount of \$198,075 has been transferred from Council's Property Reserve to meet this deficit. The monies will be returned to the Property Reserve when the Warne Place sale is completed.

The component of revoted projects previously funded from Working Funds is also proposed to be transferred to a new Works-in-Progress Reserve and released to revoted projects during 2006/07. This totals \$1,996,168 as reported to Council (Item GM 73) at its meeting 07/06 on 17 August 2006.

When Council adopted its suite of Major Projects, funding for the Library/Civic Centre was to include \$18m from Council funds represented by \$13m from the Property Reserve and \$5m from Working Funds. The balance of \$8.6m was to flow from the sale of Lots 21 and 22 on the Marrickville Hospital site and the sale of the current Fisher Street site.

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The \$5m from Working Funds required to support the 2007/08 budget can no longer be characterised as Working Capital. Accordingly, it is proposed to transfer this amount to Council's Property Reserve.

Council's revised Working Funds position of \$3,901,900 is still well above the benchmark of \$1,234,000.

Council's Property and Equipment Reserve at 30 June 2006 comprises:

	\$'000
Plant Replacement Reserve	875
Information Technology Replacement Reserve	534
Graffiti Management Reserve	150
SAFE Projects Reserve	67
Community Facilities Reserve	1,502
Insurance Reserve	135
Property General (funding Tempe Lands Remediation)	(3,918)
Major Projects	<u>5,000</u>
	<u>4,345</u>

The Property Reserve balance will be significantly enhanced following exchange of contracts on Lots 200 and 201 at Tempe and on settlement.

RECOMMENDATION:

THAT:

1. Council, by resolution, make the statement required by Section 413(2)(c) of the Act that in its opinion:
 - (a) the accompanying general purpose financial reports of the Council for the year ended 30 June 2006 have been drawn up to present fairly the Council's financial position and operating result for the year;
 - (b) the general purpose financial reports are in accordance with the accounting and other records of the Council;
 - (c) the general purpose financial reports are drawn up in accordance with the Local Government Act and Regulations, the Local Government Code of Accounting Practice and Financial Reporting, the Australian Accounting Standards and professional pronouncements; and
 - (d) no circumstances have arisen which would make the reports false or misleading in any way.

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2. the statement be signed by the Mayor, a Councillor, the General Manager and the Responsible Accounting Officer, and attached to the Financial Reports;
3. the Financial Reports be submitted to Council's auditor in accordance with section 413(1) of the Act;
4. in anticipation of receiving the Auditor's Report, the meeting to be held on 17 October 2006 be set as the meeting at which the annual financial reports will be presented to the public; and
5. Council adopt the Reserve provisions proposed.

TABLED:

Draft Financial Reports for the year ended 30 June 2006

These documents will be distributed to Council's regular Business Paper distribution points.

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