

# **MAYORAL MINUTES**

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ITEM NO. 1

FILE NO: PSC2005-4217

## ANNUAL FINANCIAL REPORTS 2013-2014

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### THAT COUNCIL:

- 1) That the submission be noted.
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### BACKGROUND

As required by the Local Government Act 1993, Council is required to formally adopt its Annual Financial Reports. These reports are also required to be exhibited publically, with public submissions sought. Port Stephens Council formally adopted the 2013-2014 Annual Financial Reports on 25 November 2014. Public submissions were sought and at the close of the exhibition period one submission had been received from the Tomaree Ratepayers and Residents Association.

The submission requested that Council reconsider the past practice of separately reporting on four business units, being the Civil Works, Property Development, Holiday Parks and Newcastle Airport. Council has discretion on the categorisation of business units and had resolved to establish these following the implementation of the 1993 Local Government Act. In a report to Council in April 2014 it was outlined that these business units were no longer applicable and the mandatory format of these units served little purpose. Council formally resolved to discontinue the categorisation of these units.

The TRRA contends that information contained within these reports was useful and served a specific purpose, particularly in relation to the Holiday Parks. It is suggested that contact will be made with the TRRA to provide a high level of financial analysis to assist them in their enquiries.

The submission has been forwarded to Council's external auditor as required by legislation.

A copy of the submission has been provided to Councillors under separate cover.



**By email:**  
**The General Manager**  
**Port Stephens Council**  
**council@portstephens.nsw.gov.au**  
3 December 2014

Dear Mr. Wallis  
**RE: Submission – Port Stephens Council Annual Financial Statement.**

Tomaree Ratepayers and Residents Association Inc. makes the following submission in accordance with Section 420 of the Local Government Act, 1993 submission in respect of the Annual Financial Statements 2013-2014 of Port Stephens Council.

In 2013, Port Stephens Council published their 2013 General Purpose Financial Statements. At the back of the statements was a set of Special Purpose Financial Statements which gave vital information to the community on the Council's various Business Units. For example, they showed that PSC lost \$856,000 running their Holiday Parks in 2013. This is a vital piece of information as is the other information contained in these accounts.

This information and similar data from previous Annual Reports has been scrutinised by the Tomaree Ratepayers and Residents Association Inc. leading to detailed submissions which queried the commercial strategies of PSC and called for specific actions to improve returns to the Port Stephens community from these Businesses. We succeeded in prompting a rethink of the business and operating strategy for Samurai Beach Resort which had been losing up to \$700,000 per annum for a number of years and a restructure of the financial arrangements of the Newcastle Airport Corporation which has resulted in a more favourable delivery of dividends to the Council. We also believe that TRRA's queries also secured major reforms in the management of Holiday Park profits to ensure that the associated Trust Funds were made available for improvements on Crown Reserves and not channelled into in Council's general accounts.

On 8 April 2014, PSC voted to no longer produce Special Purpose Financial Statements for Business Units. TRRA notes that the 2013-2014 Annual Financial Statements have been prepared in accordance with this decision of Council. As a consequence, all of the vital information in these Statements in respect of council's Business Units is now hidden in the General Purpose Financial Statements.



Accordingly, it is virtually impossible for Councillors or the community to be informed on the performance of the Business Units and to query these operations as TRRA Inc. has done in the past.

We also note that PSC changed auditors in 2014 from Price Waterhouse Coopers to Pitcher Partners. The new auditors report makes no reference to the performance or financial management of its Business Units. Pitcher Partners make no comment on Council's decision to dispense with Special Purpose Financial Statements. TRRA Inc. would appreciate your advice as to:

1. Whether there are separate 2013-2014 Annual Financial Statements for each of the Council's Business Units?
2. Whether these are audited by Pitcher Partners or some other auditor?
3. Whether these Statements (if produced) are reported to Councillors?
4. Whether these Statements are available to the ratepayers and or the general Public?

The 8 April 2014 Agenda Paper recommending the policy to no longer publish the Special Purpose Financial statements on this matter advised Councillors that "one of the main Reasons for preparing the Special Purpose Financial Reports is to satisfy the disclosure requirements under "competitive neutrality" considerations." Council was also reminded it had previously determined under the various guidelines for this obligation to classify the following activities as a "Category 2 business".

- Property Development
- Holiday Parks
- Civil works
- Newcastle Airport

The 8 April advice to Council on competitive neutrality drew attention to the fact that it was open to councils to exercise a degree of discretion in determining whether to provide Special Purpose Financial Statements for its business units. The advice did not provide any analysis of changes in circumstances relating to the criteria for these earlier determinations made by Council. **In TRRA's view no justification was offered for the declassification of any of Council's business units as "businesses" under the guidelines on "competitive neutrality".**

Having avoided serious discussion of the definitions of "business units," the advice to Councillors supported its recommendation to dispense with annual reporting on Business Unit finances on the grounds that **"the information provided was manual by nature, time consuming to prepare, confusing to the users of the financial statements and when assessed on the whole adds no benefit to the users of Councils Financial Statements".**

TRRA Inc. disputes each of these reasons for not producing the statements on the following grounds:

- *Manual by nature and time consuming to prepare.* Any decent modern accounting program will produce the base information from which to prepare these statements. They may be time consuming to prepare but this is a responsibility of running a Council. Many other Councils with comparable Business Units produce this information for users and PSC must not be allowed to abrogate their responsibility to produce full and fair accounts.  
**Most importantly TRRA would expect that PSC would, in the interests of its own prudent commercial practice, produce separate annual financial statements for each of its business units and submit these to their auditor.**
- *Confusing to users.* The Special Purpose Financial Statements are easy to understand by anyone with a good general knowledge. They include individual P&Ls and Balance Sheets for the Business Units. Without these, this information is hidden in the General Purpose Financial Statements and lacks transparency.
- *Adds no benefit to the users of Council's Financial Statements.* **Council's executive, all councillors and the community at large should have the opportunity to scrutinise the performance of each Business Unit to ensure that it is making a worthwhile contribution to the financial viability of the Council as a whole and if not, to ask why.**

Our concern is that the 8 April 2014 decision denies the community access to critical information and stands in the way of healthy public scrutiny. Lack of transparency leads to corruption and we have seen enough of this from elected representatives in recent time, particularly in the Hunter.

In addition to this submission TRRA Inc. has written to the Minister and Shadow Minister for Local Government advising of its concerns in relation to this serious reduction in transparency of PSC Annual Financial Reports and requesting their action to secure reinstatement of the Business Unit Annual Financial Statements to Council's Annual Reporting.

### Recommendations

We ask that PSC revisit its decision of 8 April on the publication of Special Purpose Financial Statements in respect of its Business Units.

Notwithstanding any decision in this regard, we also request that the Annual Financial Statements of Council's Business Units and any associated audit reports be made accessible to the public if requested.

Yours faithfully

**Terry Wall**  
**President**  
**Tomaree Ratepayers & Residents Association Inc.**

