

ITEM NO. 6

FILE NO: PSC2010-03190

REMOVAL OF BUSINESS UNITS FROM COUNCIL'S ACCOUNTING SYSTEM

REPORT OF: TIM HAZELL - FINANCIAL SERVICES SECTION MANAGER
GROUP: CORPORATE SERVICES

RECOMMENDATION IS THAT COUNCIL:

- 1) Resolve to declassify business units within Council. Specifically; Property Development, Holiday Parks, Civil Works, and Newcastle Airport;
- 2) That the declassification be effective from the 2014-2015 financial year;
- 3) Following declassification, no Special Purpose Annual Financial Reports be prepared.

BACKGROUND

In July 1997 the Department of Local Government released a publication called "Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality". The aim of this document was to assist councils on applying the principle of competitive neutrality as part of the Competition Principles Agreement.

These policy statements set out a small number of activities which are classified by the Australian Bureau of Statistics as business activities. Council was required therefore to regard these activities as businesses. These activities are:

- Water Supply;
- Sewerage Services;
- Abattoirs;
- Gas Production and Reticulation.

Council was also required to proactively look at other functions to determine whether or not it had any other activity that should be classified as a 'business'.

There are a number of issues that Council has to consider in determining whether an activity should be classified as a business.

These include but are not limited to:

- Is the activity intended to make a profit?
Clearly, if the intention is to run the activity at a profit, this suggests a clear business activity link;
- Does the Council bid for external contracts?
An activity that bids for external contracts again, is more likely to be considered a business activity than one which is entirely internally focused;
- What economic impact does the activity have?

For example, a small scale activity included as part of a larger scale function may not have a significant impact on the local or regional economy. It may also be inefficient to separate it from the larger function;

- What is the nature of the activity and how important is it to the local community?

Some activities that have a clear community service focus may be extremely difficult to consider as a business activity no matter how large the turnover.

The fact that a function satisfies one or more of the criterion above does not necessarily in and of itself mean that Council is carrying on a business. Council was also required to examine a cost benefit analysis in determining whether or not it discloses and reports on business units.

Once council had determined what activities it would treat as businesses, Council then needed to look at what category of business the activity will fall into for the purposes of competitive neutrality. The categories are based upon the annual sales turnover (annual gross operating income) of the activity:

- Business activities grossing over \$2M per year had to be treated as Category 1 businesses;
- Businesses under this threshold were Category 2 businesses.

The \$2M threshold has been set as a rule of thumb measure of the significance of those activities for the purpose of applying a corporatisation model and pricing requirements.

Council in determining which business units would be created was then required to prepare Special Purpose Financial Reports detailing the operations of the business unit.

In determination of the above criterion, Council determined to classify the following activities as a "Category 2 business":

- Property Development;
- Holiday Parks;
- Civil Works;
- Newcastle Airport.

FINANCIAL/RESOURCE IMPLICATIONS

The current process of reporting on the existing four (4) business units being Property Development, Holiday Parks, Civil Works and the Newcastle Airport is 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 Council's financial statements.

Whilst Council is not liable to pay taxes such as land tax and payroll tax, for the purpose of these "business unit" reports, Council must "self-assess" the impact of these taxes and deduct the amount in the financial statements. Council must also

calculate a notional subsidy received by the "business" based on a notional return on Property Plant and Equipment, including any taxes but excluding any interest payments. Such calculations are contrived, and lead members of the public to think that Council is "propping up" a business, which may in effect, be making a profit.

It is also contended that the current classification of business units is no longer relevant to the operation of Council due to a number of significant organisational movements.

Property Development - No longer a standalone section of Council, now integrated within the Property Services Section with a number of Council Policies and Management Directives to determine the overall direction of the commercial property.

Holiday Parks – Contains a mixture of parks that are operated on behalf of the Crown and some that are wholly owned and operated by Council. Reporting is done on a re-organised basis with those parks operated on behalf of the Crown subject to a separate reporting regime through the Trust Managers to the Crown. Council owned and operated parks can and will be separately reported on a basic profit/loss statement level and that information is to be publically available on an annual basis.

Civil Works – No separate unit of Council exists to fit with earlier definition. All capital works are included in the Community Strategic plan and are reported as required by legislation typically included with each formal quarterly budget review.

Newcastle Airport – Has been corporately restructured and now separate accounts on airport operations are available in the public arena.

By eliminating the classification of business units this will have a reduction in the time taken to complete the financial statements, a reduction in the time taken to audit the financial statements, and remove an area of great complexity from the interpretation of the result of the business units.

Source of Funds	Yes/No	Funding (\$)	Comment
Existing budget	Yes		Cost savings would need to be analysed over a cycle of preparing and auditing statements.
Reserve Funds	No		
Section 94	No		
External Grants	No		
Other	No		

LEGAL, POLICY AND RISK IMPLICATIONS

Risk	Risk Ranking	Proposed Treatments	Within Existing Resources?
There is a risk that Council's auditors may disagree with the proposed treatment.	Low	Liaise with external auditors as to the rationale behind the proposal.	Yes
There is a risk that members of the public may comment unfavourably regarding the removal of business units.	Medium	Prepare a communication plan detailing the key points. Highlight that nearly all information contained in the Special Purpose statements is contained in other areas of the financial statements.	Yes

SUSTAINABILITY IMPLICATIONS

Includes Social, Economic and Environmental Implications

Nil.

CONSULTATION

- 1) The Office of Local Government;
- 2) The Productivity Commission of Australia.

OPTIONS

- 1) Adopt the recommendations;
- 2) Amend the recommendations;
- 3) Reject the recommendations.

ATTACHMENTS

Nil.

COUNCILLORS ROOM

Nil.

TABLED DOCUMENTS

Nil.

ITEM NO. 7

FILE NO: PSC2005-4217

2013-2014 SPECIAL PURPOSE FINANCIAL REPORTS

REPORT OF: TIM HAZELL – FINANCIAL SERVICES SECTION MANAGER
GROUP: CORPORATE SERVICES

RECOMMENDATION IS THAT COUNCIL:

- 1) Ratify the referring of the draft 2013-2014 Special Purpose Financial Reports for audit;
- 2) Sign the statement on the Special Purpose Financial Reports.

BACKGROUND

The purpose of this report is to advise that the draft Special Purpose Financial Reports for the period ended 30 June 2014 have been prepared and are to be submitted for external audit.

Under Section 413 of the *Local Government Act 1993*, Council is required to submit, with the Special Purpose Financial Reports, a statement by Councillors and Management as to its opinion on the reports (**ATTACHMENT 1**).

FINANCIAL/RESOURCE IMPLICATIONS

The 2013-2014 Special Purpose Financial Reports for have been prepared in compliance with the *Local Government Act 1993*, The Local Government Code of Accounting Practice and Financial Reporting, and the Australian Accounting Standards.

All revenues received for 2013-2014 have been recognised together with any revenues due but not yet received, which have been raised as debtors for the period.

All expenditure incurred for the period has been recognised.

Provision has been made for all unpaid creditors.

Funds received for specific purposes but not expended during the period have been identified as either an external or internal restriction.

All known assets of Council have been recognised and brought to account.

All known assets acquired during the period have been recognised at actual cost, or at fair value in line with the staged implementation of Fair Value Accounting for assets.

ORDINARY COUNCIL – 10 MARCH 2015

All known liabilities incurred during the period have been recognised at actual or committed cost.

Source of Funds	Yes/No	Funding (\$)	Comment
Existing budget	Yes		All activities are managed within existing resources.
Reserve Funds	No		
Section 94	No		
External Grants	No		
Other	No		

LEGAL, POLICY AND RISK IMPLICATIONS

Signing of the Statement giving Council's opinion on the financial reports will comply with Section 413 of the *Local Government Act 1993*.

Risk	Risk Ranking	Proposed Treatments	Within Existing Resources?
There is a risk that failure to sign the Financial Statements will result in non-compliance with legislative requirements leading to potential reputational and financial loss.	Low	Adopt the recommendations and sign the Financial Statements.	Yes

SUSTAINABILITY IMPLICATIONS

Includes Social, Economic and Environmental Implications

Nil.

CONSULTATION

- 1) Pitcher Partners – Council's External Auditor;
- 2) The Office of Local Government.

OPTIONS

- 1) Accept the recommendations;
- 2) Amend the recommendations;
- 3) Reject the recommendations.

ATTACHMENTS

- 1) Special Purpose Financial Statements – Statement by Councillors and Management.

COUNCILLORS ROOM

Nil.

TABLED DOCUMENTS

Nil.

ATTACHMENT 1

Port Stephens

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2014

*"A great lifestyle
in a treasured environment"*

Port Stephens
C·O·U·N·C·I·L
... a community partnership

Port Stephens

Special Purpose Financial Statements
for the financial year ended 30 June 2014

Contents	Page
1. Statement by Councillors & Management	2
2. Special Purpose Financial Statements:	
Income Statement - Other Business Activities	3
Statement of Financial Position - Other Business Activities	5
3. Notes to the Special Purpose Financial Statements	7
4. Auditor's Report	11

Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division of Local Government in fulfilling their requirements under National Competition Policy.
 - (ii) The principle of competitive neutrality is based on the concept of a "level playing field" between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, State or Local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality & public reporting applies only to declared business activities.

These include (a) those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation and (b) those activities with a turnover of over \$2 million that Council has formally declared as a Business Activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self classified Category 1 businesses and ABS defined activities, councils must (a) adopt a corporatisation model and (b) apply full cost attribution including tax equivalent regime payments & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).
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Special Purpose Financial Statements
for the financial year ended 30 June 2014

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- The NSW Government Policy Statement "Application of National Competition Policy to Local Government".
- The Division of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality".
- The Local Government Code of Accounting Practice and Financial Reporting.
- The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

To the best of our knowledge and belief, these Financial Statements:

- Present fairly the Operating Result and Financial Position for each of Council's declared Business Activities for the year, and
- Accord with Council's accounting and other records.

We are not aware of any matter that would render these Statements false or misleading in any way.

Signed in accordance with a resolution of Council made on dd/mm/yy.

Bruce MacKenzie
MAYOR

COUNCILLOR

Wayne Wallis
GENERAL MANAGER

Tim Hazell
RESPONSIBLE ACCOUNTING OFFICER

Port Stephens

Income Statement of Council's Other Business Activities
for the financial year ended 30 June 2014

	Civil Works		Property Development	
	Category 1		Category 1	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
\$ '000				
Income from continuing operations				
Access charges	-	-	-	-
User charges	6,242	6,372	2,688	2,634
Fees	-	-	-	-
Interest	-	-	-	-
Grants and contributions provided for non capital purposes	23,618	19,059	-	-
Profit from the sale of assets	-	-	-	-
Other income	388	-	929	57
Total income from continuing operations	30,248	25,431	3,617	2,691
Expenses from continuing operations				
Employee benefits and on-costs	8,041	7,942	615	466
Borrowing costs	-	-	37	18
Materials and contracts	19,350	17,513	841	766
Depreciation and impairment	-	-	232	374
Loss on sale of assets	-	-	-	-
Calculated taxation equivalents	397	395	473	595
Debt guarantee fee (if applicable)	-	-	-	-
Other expenses	468	418	352	304
Total expenses from continuing operations	28,256	26,268	2,550	2,523
Surplus (deficit) from Continuing Operations before capital amounts	1,992	(837)	1,067	168
Grants and contributions provided for capital purposes	-	-	-	-
Surplus (deficit) from Continuing Operations after capital amounts	1,992	(837)	1,067	168
Surplus (deficit) from discontinued operations	-	-	-	-
Surplus (deficit) from ALL Operations before tax	1,992	(837)	1,067	168
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(598)	-	(320)	(50)
SURPLUS (DEFICIT) AFTER TAX	1,394	(837)	747	118
plus Opening Retained Profits	(6,363)	(5,921)	39,422	38,734
plus/less: Prior Period Adjustments	-	-	-	(75)
plus Adjustments for amounts unpaid:				
- Taxation equivalent payments	397	395	473	595
- Debt guarantee fees	-	-	-	-
- Corporate taxation equivalent	598	-	320	50
add:				
- Disolution of business unit (*)	-	-	-	-
less:				
- TER dividend paid	-	-	-	-
- Dividend paid	-	-	-	-
Closing Retained Profits	(3,974)	(6,363)	40,962	39,422
Return on Capital %	n/a	n/a	7.8%	1.4%
Subsidy from Council	-	837	-	446

* Refer to Note 1 - Declared Business Activities

Port Stephens

Income Statement of Council's Other Business Activities
for the financial year ended 30 June 2014

	Holiday Parks		Newcastle Airport	
	Category 1		Category 1	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
\$ '000				
Income from continuing operations				
Access charges	-	-	-	-
User charges	9,867	9,601	11,155	10,848
Fees	-	-	-	-
Interest	-	-	325	356
Grants and contributions provided for non capital purposes	4	-	-	-
Profit from the sale of assets	-	52	-	-
Other income	60	118	24	96
Total income from continuing operations	9,931	9,771	11,504	11,300
Expenses from continuing operations				
Employee benefits and on-costs	3,462	3,910	2,090	1,918
Borrowing costs	170	276	323	439
Materials and contracts	3,238	3,286	-	-
Depreciation and impairment	1,386	1,757	1,561	1,504
Loss on sale of assets	-	-	2	2
Calculated taxation equivalents	308	356	-	-
Debt guarantee fee (if applicable)	-	-	-	-
Other expenses	1,004	1,042	5,335	5,062
Total expenses from continuing operations	9,568	10,627	9,311	8,925
Surplus (deficit) from Continuing Operations before capital amounts	363	(856)	2,193	2,375
Grants and contributions provided for capital purposes	-	-	-	-
Surplus (deficit) from Continuing Operations after capital amounts	363	(856)	2,193	2,375
Surplus (deficit) from discontinued operations	-	-	-	-
Surplus (deficit) from ALL Operations before tax	363	(856)	2,193	2,375
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(109)	-	(658)	(713)
SURPLUS (DEFICIT) AFTER TAX	254	(856)	1,535	1,663
plus Opening Retained Profits	139	639	24,355	21,980
plus/less: Prior Period Adjustments	-	-	-	-
plus Adjustments for amounts unpaid:				
- Taxation equivalent payments	308	356	-	-
- Debt guarantee fees	-	-	-	-
- Corporate taxation equivalent	109	-	658	713
add:				
- Subsidy Paid/Contribution To Operations	-	-	-	-
less:				
- TER dividend paid	-	-	-	-
- Dividend paid	-	-	(593)	-
Closing Retained Profits	810	139	25,955	24,355
Return on Capital %	1.9%	-2.1%	10.5%	11.8%
Subsidy from Council	474	1,646	-	-

Port Stephens

Statement of Financial Position - Council's Other Business Activities
as at 30 June 2014

\$ '000	Civil Works		Property Development	
	Category 1		Category 1	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
ASSETS				
Current Assets				
Cash and cash equivalents	-	-	-	-
Investments	-	-	3,709	-
Receivables	2,291	1,619	315	260
Inventories	-	-	1,827	291
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
Total Current Assets	2,291	1,619	5,851	551
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	653
Inventories	-	-	16,193	17,338
Infrastructure, property, plant and equipment	-	-	14,220	13,162
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	19,911	18,910
Other	-	-	-	-
Total Non-Current Assets	-	-	50,324	50,063
TOTAL ASSETS	2,291	1,619	56,175	50,614
LIABILITIES				
Current Liabilities				
Bank Overdraft	-	-	-	-
Payables	2,123	1,597	155	100
Interest bearing liabilities	-	-	402	-
Provisions	2,692	3,500	73	72
Total Current Liabilities	4,815	5,097	630	172
Non-Current Liabilities				
Payables	1,305	2,713	-	-
Interest bearing liabilities	-	-	3,585	-
Provisions	145	173	2	4
Other Liabilities	-	-	-	-
Total Non-Current Liabilities	1,450	2,886	3,567	4
TOTAL LIABILITIES	6,265	7,983	4,197	176
NET ASSETS	(3,974)	(6,364)	51,978	50,438
EQUITY				
Retained earnings	(3,974)	(6,364)	40,962	39,442
Revaluation reserves	-	-	11,016	11,016
Council equity interest	(3,974)	(6,364)	51,978	50,458
Non-controlling equity interest	-	-	-	-
TOTAL EQUITY	(3,974)	(6,364)	51,978	50,458

Port Stephens

Statement of Financial Position - Council's Other Business Activities
as at 30 June 2014

\$ '000	Holiday Parks		Newcastle Airport	
	Category 1		Category 1	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
ASSETS				
Current Assets				
Cash and cash equivalents	43	19	9,766	8,595
Investments	4,183	6,464	-	-
Receivables	-	-	1,321	1,726
Inventories	-	-	-	-
Other	-	-	70	80
Non-current assets classified as held for sale	-	-	-	-
Total Current Assets	4,226	6,483	11,157	10,401
Non-Current Assets				
Investments	-	-	-	-
Receivables	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	28,299	28,267	23,920	23,822
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	11	15
Total Non-Current Assets	28,299	28,267	23,931	23,837
TOTAL ASSETS	32,525	34,750	35,088	34,238
LIABILITIES				
Current Liabilities				
Bank Overdraft	-	-	-	-
Payables	746	630	2,234	3,436
Interest bearing liabilities	657	1,680	230	1,627
Provisions	932	1,010	273	204
Total Current Liabilities	2,335	3,320	2,737	5,267
Non-Current Liabilities				
Payables	17,371	18,620	-	-
Interest bearing liabilities	1,022	1,679	6,318	4,557
Provisions	46	51	78	59
Other Liabilities	-	-	-	-
Total Non-Current Liabilities	18,439	20,350	6,396	4,616
TOTAL LIABILITIES	20,774	23,670	9,133	9,883
NET ASSETS	11,751	11,080	25,955	24,355
EQUITY				
Retained earnings	810	139	25,955	24,355
Revaluation reserves	10,941	10,941	-	-
Council equity interest	11,751	11,080	25,955	24,355
Non-controlling equity interest	-	-	-	-
TOTAL EQUITY	11,751	11,080	25,955	24,355

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Special Purpose Financial Statements
for the financial year ended 30 June 2014

Contents of the Notes accompanying the Financial Statements

Note	Details	Page
1	Summary of Significant Accounting Policies	8

Port Stephens

Notes to the Special Purpose Financial Statements
for the financial year ended 30 June 2014

Note 1. Significant Accounting Policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Office of Local Government.

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in these special purpose financial statements, unless otherwise stated, have been prepared in accordance with:

- the recognition and measurement criteria of relevant Australian Accounting Standards,
- other authoritative pronouncements of the Australian Accounting Standards Board (AASB) &
- Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with:

- the Local Government Act and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis, based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' to its business activities as part of the national competition policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 Government Policy statement on the "Application of National Competition Policy to Local Government".

The "Pricing & Costing for Council Businesses A Guide to Competitive Neutrality" issued by the Office of Local Government in July 1997 has also been adopted.

The pricing & costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents; council subsidies; return on investments (rate of return); and dividends paid.

Declared Business Activities

In accordance with *Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

- a. Civil Works**
To construct and maintain the community's roads and drainage infrastructure network
- b. Property Development**
The acquisition and development of property for resale and investment
- c. Holiday Parks**
Provision of tourist accommodation and associated services
- d. Newcastle Airport**
Provision of regional airport facilities

Category 2

(where gross operating turnover is less than \$2 million)

Nil

Monetary Amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest one thousand dollars.

(i) Taxation Equivalent Charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where this is the case, they are disclosed in these

Port Stephens

Notes to the Special Purpose Financial Statements
for the financial year ended 30 June 2014

Note 1. Significant Accounting Policies

statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council nominated business activities and are reflected in these financial statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all council nominated business activities (this does not include council's non-business activities):

Notional Rate Applied %

Corporate Income Tax Rate – 30%

Land Tax – The first \$412,000 of combined land values attracts 0%. From \$412,001 to \$2,519,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$2,519,000, a premium marginal rate of 2.0% applies.

Payroll Tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

Income Tax

An income tax equivalent has been applied on the profits of each reported Business Activity.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) from ordinary activities before capital amounts has been achieved.

Since this taxation equivalent is notional - that is, it is payable to the "Council" as the owner of business operations, it represents an internal payment and has no effect on the operations of the council.

Accordingly, there is no need for disclosure of internal charges in Council's General Purpose Financial Statements.

The rate applied of 30% is the equivalent company tax rate prevalent as at balance date. No adjustments have been made for variations that have occurred during the year.

Local Government Rates & Charges

A calculation of the equivalent rates and charges payable on all Category 1 businesses has been applied to all land assets owned or exclusively used by the Business Activity.

Loan & Debt Guarantee Fees

The debt guarantee fee is designed to ensure that council business activities face "true" commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, council has determined what the differential borrowing rate would have been between the commercial rate and the council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed.

Subsidies occur where council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for council to meet its community service obligations.

Accordingly, Subsidies disclosed (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by the council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported Business Activity.

Port Stephens

Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

Note 1. Significant Accounting Policies

(iii) Return on Investments (Rate of Return)

The Policy statement requires that councils with Category 1 businesses "would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field".

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The Rate of Return on Capital is calculated as follows:

Operating Result before Capital Income + Interest Expense

Written Down Value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 3.56% at 30/6/14.

The actual rate of return achieved by each Business Activity is disclosed at the foot of each respective Income Statement.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

ITEM NO. 8

FILE NO: PSC2013-00710

CORPORATE CATERING SUSTAINABILITY REVIEW

REPORT OF: CARMEL FOSTER – CORPORATE SERVICES GROUP MANAGER

GROUP: CORPORATE SERVICES

RECOMMENDATION IS THAT COUNCIL:

- 1) Note the information contained in the Sustainability Review – Corporate Catering Service Strategy Review presented as **(TABLED DOCUMENT 1)** and endorse the findings and actions of the review.

BACKGROUND

The purpose of this report is to present to Council the outcomes of the Sustainability Review for the Corporate Catering functions incorporating the reallocation of Corporate Catering from the General Manager's Office to the Property Services Section and seek endorsement of the recommendations contained in the Service Strategy.

A comprehensive review of this package has been undertaken in accordance with Clause 15.1 of the Community Strategic plan to ensure that services and assets delivered to the community are sustainable over the longer term.

The sustainability review comprises three key stages:

Stage 1 – reviewing what is currently delivered (service drivers);

Stage 2 – reviewing what should be delivered (service levels);

Stage 3 – reviewing how services should be best delivered (service delivery method).

Corporate Catering

Corporate Catering functions within Council exist to provide catering to Council and other meetings such as Reserve Trust, other high level meetings and Civic functions and ceremonies.

In addition, Corporate Catering undertakes other functions such as the servicing and replenishing of the tea stations throughout the Administration Building and the provision of other catering activities such as staff farewells and milestone occasions.

Historically, these functions have reported to the General Manager's Office, however the review of these operations has determined that this structure does not reflect the best organisational solution. The review recommends the relocation of the Corporate Catering function to the Property Services Section centralising the Administration Building service functions of cleaning, maintenance, facilities operations and corporate catering all in one team.

Benchmarking Data

In undertaking the review the Corporate Catering functions were benchmarked against external providers and the findings indicate that Council receives a greater level of value for the services currently provided.

FINANCIAL/RESOURCE IMPLICATIONS

The net cost for an additional position in the building administration team will be circa \$17,000. The efficiencies gained by existing staff not having to constantly induct and train labour hire staff will enable existing staff to complete other tasks during the working week.

There is no requirement to increase the Property Services budget. Structural review will result in savings overall as discussed and outlined in **(TABLED DOCUMENT 1)**.

Source of Funds	Yes/No	Funding (\$)	Comment
Existing budget	Yes	17,000	Resources used to conduct the Sustainability review and structure review are covered within the existing budget.
Reserve Funds	No		
Section 94	No		
External Grants	No		
Other	No		

LEGAL, POLICY AND RISK IMPLICATIONS

In accordance with Clause 15.1 of the Community Strategic Plan Council is required to ensure that services and assets delivered to the community are sustainable over the longer term.

Risk	Risk Ranking	Proposed Treatments	Within Existing Resources?
There is a risk that costs may not be contained should services to the Administration Building not be centralised providing a one team approach.	Medium	Accept the findings and actions arising from the review.	Yes

SUSTAINABILITY IMPLICATIONS

Includes Social, Economic and Environmental Implications

Centralising the operations of all Administration Building services functions in the Property Services section in accordance with the structural changes proposed will ensure sustainability of these functions into the future.

CONSULTATION

- 1) Councillors;
- 2) Executive Leadership Team;
- 3) Section Managers.

OPTIONS

- 1) Adopt the recommendation;
- 2) Amend the recommendation;
- 3) Reject the recommendation.

ATTACHMENTS

Nil.

COUNCILLORS ROOM

Nil.

TABLED DOCUMENTS

- 1) Corporate Catering Service Strategy Review.