

**By email:**

9th March 2015

To: All PSC Councillors, General Manager PSC

**Re: Agenda item No.6, Ordinary Council Meeting, 10 March 2015****REMOVAL OF BUSINESS UNITS FROM COUNCIL'S ACCOUNTING SYSTEM**

Dear Councillors,

The Tomaree Ratepayers and Residents Association Inc (TRRA Inc.) made a submission to Council dated 3 December 2014 on the PSC Annual financial Statements for 2013-2014 in which it strongly objected to the failure to include business units as part of Council's Annual Financial Statements.

Our concern was that these businesses **are** substantial and exceed the criterion of grossing over \$2 million as used in the National Competition Policy framework for defining business activities. We contend that these businesses **are very significant in the overall commitment of ratepayer's money and to the financial performance of the Council.**

TRRA Inc argued that in the absence of such reports, the community and Councillors are unable to properly scrutinize Council's activities. Our submission (copy attached) challenged the arguments presented to PSC on 8th April 2014 for removing these reports.

TRRA Inc also wrote to the Minister for Local Government drawing his attention to Council's decision on this matter and requested that PSC "**not be allowed to abrogate its responsibility to users of their Financial Statements**".

On 12 January the Minister responded (copy attached) advising that staff from the Office of Local Government had met with officers from PSC in December 2014 and that they had **given an undertaking "to prepare special purpose financial statements for 2013/14 and to make them available each year"**.

The Briefing for Agenda item 6 makes no reference to the Minister's recent intervention on this matter or to the PSC officer's undertaking.

On 3 February TRRA was advised that Council was preparing Special Purpose Financial Statements following the meeting with state officers and that they would be made available to TRRA.



**WE ARE NOW SURPRISED BY THE RECOMMENDATION in Agenda Item 6  
“TO REMOVE BUSINESS UNITS FROM COUNCIL’S ACCOUNTING  
SYSTEM” .**

**This recommendation would be totally inconsistent with the Minister’s intervention and would appear to go further towards hiding the measures of performance of Council’s Businesses.**

TRRA Inc is not at all reassured by the claims on page 64 that certain businesses are now Integrated with Council Administrative Sections e.g. Property Services and that this provides sufficient disclosure, or that Holiday Parks performances are already reported through Trust Managers. There is no assurance that financial statements are actually prepared for each of these business undertakings, whether they are individually audited, or that they will be accessible to the public or to Councillors.

The same arguments are made to support this recommendation as were in the briefing for the 8 April 2014 PSC meeting such as “a reduction in the time taken to audit the financial statements” and “to remove an area of great complexity from the interpretation of the results of the business units”.

TRRA Inc has already successfully dismissed these claims and believes that, like any other organization, PSC should prepare separate financial statements for each of its businesses so that it is easy for stakeholders to make an assessment of their contribution or burden on the overall PSC financial position.

For example, TRRA considers it entirely reasonable that the accounts of an operation such as Samurai Beach Resort (now TreEscape) should have separate accounts and be publicly reported as part of Council’s overall annual financial statements. How else can stakeholders be informed of problems such as the apparent losses totaling in the order of \$15 million in recent years? **If it is removed from Council’s Accounting System on what system will it be reported and to whom?**

If Council approves the recommendation in Agenda Item 6 TRRA will have no option other than to make further representations to the Minister for Local Government and, in the interim, to the Director, Office of Local Government.

**Recommendation**

**We urge Councillors to reject the proposed removal of Business Units from Council’s Accounting System and to reinstate the previous reporting practices for Special Purpose Financial Statements in the Annual Report with additional detail for each business entity e.g. TreEscape Holiday Park.**



Yours sincerely  
Margaret Wilkinson (via email)  
Hon Secretary  
Tomaree Ratepayers and Residents Association Inc

**Attachments:**

Letter from the Hon Paul Toole MP, Minister for Local Government 12.2.15  
Submission to Minister from TRRA – 3<sup>rd</sup> December 2014





**The Hon Paul Toole MP**  
Minister for Local Government

Ref:  
MIN: 2014-798409  
Doc ID: A404631



Mr Terry Wall  
President  
Tomaree Ratepayers and Residents Assoc Inc.  
PO Box 290  
NELSON BAY NSW 2135

12 JAN 2015

Dear Mr Wall

Thank you for your letter of 21 November 2014 on behalf of the Tomaree Ratepayers and Residents Association Inc. (TRRA) about Port Stephens Council's decision to not report on its business units in its financial statements for 2013/14.

In light of your concerns, staff from the Office of Local Government met with Officers from Port Stephens Council on 17 December 2014. I am advised that the Officers provided an undertaking at that meeting that the Council will prepare the Special Purpose Financial Statements for 2013/14 and it will make them available early next year.

Thank you again for taking the time to write to me on this matter and I trust the above addresses the Association's concerns.

Yours sincerely

Paul Toole MP  
Minister





**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.**

