



ORDINARY COUNCIL MEETING - 14 APRIL 2015

AGENDA ITEM NO 10 : REMOVAL OF BUSINESS UNITS FROM COUNCIL'S ACCOUNTING SYSTEM

Submission by Tomaree Ratepayers and Residents Association Inc.

Background

This item was considered at Council's 10 March meeting. TRRA Inc. wrote to Councillors on that occasion strongly urging that the recommendation to "remove business units from Council's accounting system" be rejected.

TRRA argued that the Annual Financial Reporting on Council's activities should be comprehensive and not exclude the performance of its Business Units which represent a very substantial investment of ratepayers funds (e.g. Holiday Parks **alone** account for a written down Value of Property, Plant and Equipment of \$29,299,293 - (see Attachment 1 to Agenda Paper).

TRRA also queried the claim that "**the current process of reporting on the existing four Business Units is manual, time consuming to prepare and confusing to the users**".

TRRA raised serious concern that businesses of such large scale **should have readily available professionally sourced accounts capable of being reported to Council management, Councillors and SHAREHOLDERS (the ratepayers)**. We also queried the claim that costs associated with auditing were a reason for axing these reports. This also prompted a query as to whether there is formal independent auditing of the business unit accounts. This has not been answered in the 14 April Agenda Paper.

At the 10 March meeting, after discussion, Councillors deferred a decision on this item.

In November 2014 TRRA Inc. had written 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 advising that staff from the Office of Local Government had met with officers from PSC in December 2014 who had **given an**

undertaking “to prepare special purpose financial statements for 2013/14 and to make them publically available”. TRRA assumed that Council would take on board this protocol in its future annual reporting.

Recommendation to the 14 April Meeting

TRRA is astounded that, except for the addition of Recommendation 3 relating to Holiday Parks, the same proposal to drop Business Unit reporting has again been placed before Councillors. The same questionable arguments have been repeated to justify this bid to make it more difficult for key stakeholders to be informed on the performance of Council’s business operations.

TRRA’s first concern is that the process as proposed may not adequately inform Councillors and Council’s senior executive on the performance of its business units. Our second concern is that the recommendation certainly reduces the visibility and access of shareholders (Ratepayers and Residents) to the key indicators of success or failure of the Business Units.

There is no better illustration of the inexcusable result of poor accountability than the Council’s Business adventure in Samurai Beach Resort. This business was allowed to continue operations for 12 years behind closed doors with escalating capital investments but with consistent substantial financial losses. TRRA became concerned following press reports on this business failure and researched Council’s Annual Financial Reports on its operating results. While aggregated results for Holiday Parks were available showing a net loss of \$856,000 for 2012/2013, there was no information relating to individual parks. TRRA called for urgent action to stem the losses being incurred by Samurai resulting in its closure in 2014 and Council’s decision to unload this investment.

To confirm its concerns, TRRA was forced to lodge a GIPPA (Freedom of Information) request to obtain firm data on the performance of the business . TRRA does not believe that stakeholders should be required to resort to such costly and bureaucratic means to uncover information which should have been published annually in Council’s Financial Statements.

The attached **Summary** (obtained through GIPPA) **of Samurai Beach Resort Financial Results 2002 to 2015** (Appendix 1) show a net operating loss of \$6,125,541, depreciation of \$2,150, 838, and Capital Costs of \$7,103,620.

TRRA firstly asks why Council’s Executive, and Councillors allowed this debacle to continue over such a long period. Were Councillors aware of these financial results? Ratepayers were definitely shielded from the mounting liability.

Recommendation 3 (in the Agenda paper) to remedy this problem, proposes a “Holiday Parks and Investment Property Report” (see example shown in Attachment 1 To the Agenda Item). TRRA asks where this Report will be publicised? Inclusion in the Council’s Annual Financial Report would be essential to achieve the necessary public exposure.

The notes to this proposed report indicate that the figures in this example are “the original budgetted figures for the financial year 2014/2015”. TRRA believes that these figures should be the **actual final audited results** for the year and show a comparison with the previous year.

TRRA believes that it is reasonable to expect publication of a full detailed Profit and Loss Statement for each park, so that the community can see what is going on. A Detailed Balance Sheet should also be published as well.

For the Crown land parks, we need access to the reports produced through the separate reporting regime through the Trust Managers to the Crown.

Contested claims in “Financial/ Resource Implications”

Much is made of the claim that **“the current process of reporting on the existing four Business Units is manual, time consuming to prepare and confusing to the users.”**

This suggests that considerable additional staff time is involved in generating the information which is the usually expected content of Annual Financial Reports. TRRA queries this claim on two counts. Firstly, information obtained through GIPPA on Samurai Resort indicates that annual financial accounts are already generated at individual park level, at least in recent years. Ultimately, this was provided to tenders for Treescape, after some resistance. Even the schedule in Attachment 1 to Item 10 of the Agenda papers confirms that such data is already on the books.

It is TRRA’s contention that by publicising the results of its Business Units in its Annual Financial Statements, **it can also have a strongly positive impact on Council’s public image,** especially where performances are strong as is the situation with Newcastle Airport. Why not capitalize on such successes in your Annual Report, even though they may be reported elsewhere by the Airport Corporation. Such remote reports do not necessarily catch the eye of the Council’s stakeholders (rate payers).

TRRA rejects the claim that **“the current classification of Business Units is no longer relevant to the operation of Council due to a number of significant organisational movements”** and this justifies removal of these units from the Accounting System. Accountability for sound financial management ,in our view, is what reporting is all about – it matters little where the Business Unit sits in the

organization chart, except that its relevant Divisional Manager must shoulder responsibility for its performance.

Other NSW Councils maintaining Responsible Reporting

Councillors' attention is drawn to **examples** of some other Councils' Annual Financial Statements, (Newcastle, Wyong, Wollongong) which maintain the proper commitment to transparency on Business Unit reporting. Links to examples follow :

http://www.newcastle.nsw.gov.au/_data/assets/pdf_file/0018/250434/Final_2014_Statements3.pdf
http://www.newcastle.nsw.gov.au/_data/assets/pdf_file/0018/250434/Final_2014_Statements3.pdf

<http://www.wyong.nsw.gov.au/getmedia/3591efde-add2-474f-a3e9-ec63ae610ff5/2013-14-Annual-Report.pdf.aspx>

<http://www.wollongong.nsw.gov.au/council/publicdocuments/Documents/Annual%20Report%20-%20Attachment%20www20C%20Special%20Purpose%20Financial%20Statements.pdf>

RECOMMENDED ACTION FOR COUNCILLORS

TRRA requests that Councillors reject the recommendations for this Agenda Item and seek further advice from Council staff for a more accountable and transparent financial reporting on Business Units, modelled on the cited examples of other councils such as Newcastle.

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Submission Prepared by Finance Sub-Committee

Appendix 1 – Port Stephens Council – Samurai Beach Resort – 2002-2015:

Port Stephens Council - Samurai Beach Resort

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Totals
Income	73,359	171,635	6,627	329,080	732,660	665,100	642,235	650,504	657,784	765,689	694,292	584,448	0	0	5,973,413
Expenditure	203,696	326,632	243,381	1,193,921	1,408,714	1,278,174	1,204,963	1,189,179	1,311,296	1,156,241	1,108,500	934,974	296,259	243,024	12,098,954
Net Result - Loss	130,337	154,997	236,754	864,841	676,054	613,074	562,728	538,675	653,512	390,552	414,208	350,526	296,259	243,024	6,125,541
Depreciation	53,576	53,455	47,572	53,573	153,356	194,168	193,700	265,289	222,850	239,291	240,339	239,121	194,548		2,150,838
Capital Costs	2,003,341	112,181	1,313,587	3,407,075					184,177		58,299		24,960		7,103,620

2/03/2015