



Office of
Local Government

**LOCAL GOVERNMENT
CODE OF ACCOUNTING PRACTICE
AND FINANCIAL REPORTING
SUPPLEMENT FOR NEW COUNCILS
FOR PERIOD FROM FORMATION TO
30 JUNE 2017**



**Supplement to Code Update No. 25
May 2017**

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Introduction

This supplement to the Local Government Code of Accounting Practice and Financial Reporting (update 25) (the Code) provides guidance to new Councils established under a Proclamation regarding the disclosures and accounting for the assets and liabilities received from the former Councils.

This supplement should be read in conjunction with the Code (update 25). **New Councils are required to complete the special purpose financial statement and special schedules in accordance with their reporting period.**

The items highlighted in **blue** and **yellow (changes made post draft release)** are the changes which affect new councils and are relevant to the Income Statement, Statement of Cash Flows, Basis of Preparation and the addition of Note 29 **and Special Schedule 8.**

When preparing General Purpose Financial Statements new councils will not be required to disclose:

- budget information
- comparatives
- Note 16 – material budget variations
- Note 28 – related party disclosures **(with the exception of Bayside Council)**

For further guidance please contact Laura Love, Senior Policy Officer at laura.love@olg.nsw.gov.au or 02 44284178

NSW Council

General purpose financial statements for the period [insert date] to 30 June 2017

Statement by Administrator/Councillors [delete which is not applicable] and Management made pursuant to Section 413 (2c) of the *Local Government Act 1993* (NSW) (as amended)

The attached general purpose financial statements have been prepared in accordance with:

- the *Local Government Act 1993* (NSW) (as amended) and the Regulations made thereunder
- the Australian Accounting Standards and professional pronouncements
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these statements:

- presents fairly the Council's operating result and financial position for the period [insert date] to 30 June 2017, and
- accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on

[delete which is not applicable]

.....
[Administrator's /Councillor's name]
Administrator/Mayor

.....
[Councillor's name]
Councillor

.....
[Interim General Manager's/ General
Manager's name]
Interim General Manager/General Manager

.....
[Responsible Accounting Officer's name]
Responsible Accounting Officer

NSW Council

Income Statement

for the period [insert date] to 30 June 2017

	Notes	Period ended 30 June 2017 \$'000
Income from continuing operations		
Revenue:		
Rates and annual charges	3a	
User charges and fees	3b	
Interest and investment revenue	3c	
Other revenues	3d	
Grants and contributions provided for operating purposes	3e,f	
Grants and contributions provided for capital purposes	3e,f	
Other Income:		
Net gain from the disposal of assets	5	
Net share of interests in joint ventures and associates using the equity method	19	
Total revenue from continuing operations		<hr/>
Expenses from continuing operations		
Employee benefits and on-costs	4a	
Borrowing costs	4b	
Materials and contracts	4c	
Depreciation and amortisation	4d	
Impairment	4d	
Other expenses	4e	
Interest and investment losses	3c	
Net loss from the disposal of assets	5	
Net share of interests in joint ventures and associates using the equity method	19	
Total expenses from continuing operations		<hr/>
Operating result from continuing operations		<hr/>
Operating result from discontinued operations	24	<hr/>
Net operating result for the period		<hr/>
AASB 3.Aus63.7 Gain on local government amalgamation	29	
<i>Assets and liabilities transferred from former councils</i>		
Net result for the period		<hr/> <hr/>
Attributable to:		
– Council		
– non-controlling interests		
Net operating result for the period before grants and contributions provided for capital purposes		<hr/>

Guidance re: Income statement

1. When assets and liabilities are transferred to a local government from another local government at no cost pursuant to legislation, the transferor government shall recognise assets and liabilities and any gain or loss (AASB 3.Aus63.1).
2. The gain **arises from assets and liabilities transferred** (i.e. Dr: Net Assets, Cr: Gain on amalgamation) to **the new council free of charge.**
3. The assets and liabilities should be brought into the new council's books at the amount recognised by the transferor council at the date of the transfer **or fair value, if different.**
4. Budget information is not required to be included.

Alignment of accounting policies

5. Where the former councils had different accounting policies, an adjustment needs to be made on day 1 of the new council to align the policies and account for similar transactions / balances on the same basis. **These adjustments will be performed as part of the assessment of the fair value of the assets and liabilities obtained.**

NSW Council

Statement of Comprehensive Income for the period [insert date] to 30 June 2017

	Notes	Period ended 30 June 2017 \$'000
Net operating result for the year – from Income Statement		
Other comprehensive income		
<i>Amounts that will not be reclassified subsequently to operating result</i>		
Gain/(loss) on revaluation of infrastructure, property, plant and equipment	20b	
<i>Amounts that will be reclassified subsequently to operating result when specific conditions are met</i>		
Gain/(loss) on revaluation of available-for-sale investments	20b	
Realised available-for-sale investment gains recognised in revenue	20b	
Total other comprehensive income for the year		<hr/>
Total comprehensive income for the year		<hr/> <hr/>
Attributable to – Council		
– non-controlling interests		-

NSW Council
Statement of Cash Flows
for the period [insert date] to 30 June 2017

	Notes	Period ended 30 June 2017 \$'000
Cash flows from operating activities		
Receipts:		
Rates and annual charges		
User charges and fees		
Investment revenue and interest		
Grants and contributions		
Deposits and retentions received		
Other		
Payments:		
Employee benefits and on-costs		
Materials and contracts		
Borrowing costs		
Deposits and retentions refunded		
Other		
Net cash provided (or used in) operating activities	11(b)	
Cash flows from investing activities		
Receipts:		
Sale of investments		
Sale of infrastructure, property, plant and equipment		
Sale of interests in joint ventures/associates		
Proceeds from boundary adjustment		
Other		
Payments:		
Purchase of investments		
Purchase of infrastructure, property, plant and equipment		
Purchase of interests in joint ventures/associates		
Other		
Net cash provided by (or used in) investing activities		
Cash flows from financing activities		
Receipts:		
Borrowings and advances		
Other		
Payments:		
Borrowings and advances		
Lease liabilities		
Other		
Net cash provided by (or used in) financing activities		
Net increase/(decrease) in cash and cash equivalents		
Cash transferred on amalgamation of councils	29	
Cash and cash equivalents at end of reporting period	11(a)	

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Basis of preparation in accounting policies (extract)

The local government {insert relevant proclamation} ('the Proclamation') under the *Local Government Act 1993* (NSW) transferred the assets and liabilities of the former councils [insert council names] to NSW Council as at [insert relevant date].

Pursuant to the Proclamation, financial statements have been prepared for the period commencing on the date of establishment of NSW Council, being [insert commencement date] and ending on 30 June 2017. Future reporting periods will be from 1 July to 30 June of the relevant years.

Assets and liabilities of [insert names of former councils/acquired as a result of amalgamation/boundary changes] have been recognised by the NSW Council at [the carrying amount recorded by the former council/fair value]. NSW Council [believes the carrying amounts are not materially different from their fair values/has, as a result of a comprehensive revaluation recognised former councils' assets at their fair value] as at the date of transfer [insert date]. The fair value of the net assets has been shown as a gain on local government amalgamation in the income statement and further information is provided in Note 29.

Guidance

1. The above paragraphs should be inserted at the start of the basis of preparation note in Note 1(a)
2. New councils are required to assess whether the current book values in the former councils are at fair value. If they are, the assets may be recognised at their current book value. If the current book value is materially different from fair value then a revaluation is needed and the former councils' assets are recorded in the new council's book at the revalued amount on the amalgamation date.
3. In assessing the fair value of the assets and liabilities acquired, the following should be considered where they are differences between the former and new councils:
 - asset capitalisation thresholds, where different between former and new councils
 - inconsistent methodologies in determining fair values of liabilities such as rehabilitation provisions
 - completeness of assets / liabilities
 - date of last external valuation – valuation methodology since that date
 - valuation methodology – Valuer General v depreciated replacement cost.

Note 29: Local Government amalgamation

The local government (insert relevant proclamation) ('the Proclamation') under the *Local Government Act 1993* (NSW) transferred the assets and liabilities of the former councils [insert council names] to NSW Council as at [insert relevant date].

Gain on local government amalgamation

Assets and liabilities transferred from former councils
Accounting policy adjustments

\$'000

(a)
(b)

(a) Assets and liabilities transferred from former councils

(i) Carrying amount of assets and liabilities transferred

Assets and liabilities of [insert names of former councils/acquired as a result of amalgamation/boundary changes] have been recognised by the NSW Council at [the carrying amount recorded by the former council/fair value]. NSW Council [believes the carrying amounts are not materially different from their fair values/has, as a result of a comprehensive revaluation recognised former councils' assets at their fair value] as at the date of transfer [insert date]. The fair value of the net assets has been shown as a gain on local government amalgamation in the income statement and further information is provided below:

	Former Council 1 \$'000	Former Council 2 \$'000	Former Council 3 \$'000	¹ Gain on local government amalgamation \$'000
Current assets				
Cash and cash equivalents				
Investments				
Receivables				
Inventories				
Other				
Non-current assets classified as held for sale				
Total current assets				
Non-current assets				
Investments				
Receivables				

	Former Council 1 \$'000	Former Council 2 \$'000	Former Council 3 \$'000	¹Gain on local government amalgamation \$'000
Infrastructure, property, plant and equipment				
Investments accounted for using equity method				
Investment property				
Intangible assets				
Inventories				
Total non-current assets				
Total assets				
LIABILITIES				
Current liabilities				
Payables				
Borrowings				
Provisions				
Income received in advance				
Total current liabilities				
Non-current liabilities				
Payables				
Borrowings				
Provisions				
Total non-current liabilities				
Total liabilities				
Net assets transferred				

¹The gain on amalgamation column is the total of the net assets acquired

(ii) Adjustments between former council carrying amount of assets and fair values recognised in NSW Council

The following adjustments were made to the carrying amount of the assets and liabilities received as part of the amalgamation in order to recognise them at fair value at the proclamation date.

Adjustments made to recognise net assets at fair value **\$'000**

- write-off of assets where original cost is below NSW Council capitalisation threshold
- recognition of assets not recorded by former council
- changes in asset values due to comprehensive valuation process
- changes in liabilities due to methodology differences
- other adjustments (please specify).

Total adjustments

=====

Guidance

1. New councils are required to assess whether the current book values in the former councils are at fair value. If they are, the assets may be recognised at their current book value. If the current book value is materially different from fair value then a revaluation is needed and the former councils' assets are recorded in the new council's book at the revalued amount on the proclamation date.
2. In assessing the fair value of the assets and liabilities acquired, the following should be considered where there were differences between the former and new councils:
 - asset capitalisation thresholds, where different between former and new councils
 - inconsistent methodologies in determining fair values of liabilities such as rehabilitation provisions
 - completeness of assets / liabilities
 - date of last external valuation – valuation methodology since that date
 - valuation methodology – Valuer General v depreciated replacement cost.
3. Changes in accounting estimates will be accounted for on a prospective basis in the financial statements of the new councils, rather than being an adjustment on the proclamation date.

(iii) Rates and Non-Reciprocal Grants income

The rates and non-reciprocal grants revenue for the period from [commencement date] to 30 June 2016 were recorded in the financial statements of the former councils in accordance with AASB 1004 *Contributions*. The assets transferred to NSW Council include a portion of rates and non-reciprocal grants that were received but related to the period after the former councils ceased to exist.

Guidance

1. New councils should consider the accounting policies in place at the former councils and consider any which are not consistent with the accounting policies at the new council. Adjustments should be made to the carrying amounts of assets and liabilities transferred at the proclamation date.
2. Changes in accounting estimates will be accounted for on a prospective basis in the financial statements of the new councils rather than being an adjustment on the proclamation date.

Special Schedule 8 – Permissible income for general rates

2017-18	Former Entity Name \$'000	Former Entity Name \$'000	Former Entity Name \$'000	Former Entity Name \$'000	New Entity Name \$'000
Notional general income calculation(1)					
Last year notional income yield	\$				\$
Plus/minus adjustments (2)	\$				\$
Notional general income	\$				\$
Permissible income calculation					
Special variation (3)	%				%
OR Rate peg	%				%
OR Crown land adjustment incl. rate peg	%				%
Less expiring special variations amount	\$				\$
Plus special variation amount	\$				\$
OR plus rate peg amount	\$				\$
OR plus crown land adjustment and rate peg amount	\$				\$
Sub-total	\$				\$
Plus or minus last year's carry forward total	\$				\$
Less valuation objections claimed in previous year	\$				\$
Sub-total	\$				\$
Total permissible income	\$				\$
Less notional income yield	\$				\$
Catch up or (excess) result	\$				\$
Plus income lost due to valuation objections claimed (4)	\$				\$
Less unused catch up (5)	\$				\$
Carry forward to next year(6)	\$				\$

Notes:

- The 'notional general income' will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis, which includes amounts that relate to prior years' rates income.
- Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916* (NSW).
- The 'special variation percentage' is inclusive of the rate peg percentage and where applicable, the Crown land adjustment.
- Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- Unused catch-up amounts will be deducted if they are not caught up within two years. Usually, councils will have a nominal carry-forward figure. These amounts can be adjusted for when setting the rates in a future year.
- Carry-forward amounts which are in excess (an amount that exceeds the permissible income) require Ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Act. The OLG will extract these amounts from councils' Special Schedule 8 in the Financial Data Return (FDR) to administer this process. Please check that data are transferred accurately to the Special Schedule 8 of the Financial Statements and FDR.

7.

COMMENTARY – Permissible income for general rates

Under the provisions of the Act, all councils are required to calculate their annual permissible rates income based on the adjusted notional general income from the previous year.

Special Schedule 8 has been developed to improve reporting and accountability to the community. The addition of SS8 to the Financial Statements and FDR also streamlines both the external audit process and councils' annual reporting processes.

As part of their reporting processes councils will first need to complete the Special Schedule 8 Permissible Income Work papers to calculate the annual permissible income. The General Manager and Responsible Accounting Officer must sign the Statement of Compliance (included in the Work papers) confirming that the calculation complies with the Act. A summary of the calculation is then transferred to SS8 in the Financial Statements and the FDR.

The signed Statement of Compliance is submitted to the auditors together with the Work papers and Financial Statements. The auditor completes a compliance checklist for the permissible income calculation and signs the Independent Auditor's Report. The checklist is returned to council and the Auditor's Report is lodged as part of the Financial Statements.

Councils must comply with Chapter 15 of the Act, which includes compliance with the maximum permissible general income for a year within the rate-peg limit and any approved variations to the rate-peg that may be applied.

When councils calculate rates above the permissible amount, the rates go into an 'excess' result, which is a contravention of the Act.

Under section 512 of the Act, councils with excess results require an exemption by the Minister to validate the rates. The exemption is published in the *New South Wales Government Gazette*. The OLG will capture the council's excess results for reporting to the Minister through the Financial Statements and the FDR process.

SS8 is forward-looking, and also calculates the total amount available (starting point) to calculate the following year's rates.