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

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] [Councillor’s name]
Administrator/Mayor Councillor

[Interim General Manager’s/ General Manager’s name] [Responsible Accounting Officer’s name]
Interim General Manager/General Manager Responsible Accounting Officer
# NSW Council

## Income Statement

**for the period [insert date] to 30 June 2017**

<table>
<thead>
<tr>
<th>Period ended 30 June 2017</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td></td>
</tr>
</tbody>
</table>

### 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

### 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

### Operating result from continuing operations

### Operating result from discontinued operations 24

### Net operating result for the period 29

<table>
<thead>
<tr>
<th>AASB 3.Aus63.7</th>
<th>Gain on local government amalgamation 29</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets and liabilities transferred from former councils</td>
<td></td>
</tr>
</tbody>
</table>

### Net result for the period

Attributable to:
- Council
- non-controlling interests

### Net operating result for the period before grants and contributions provided for capital purposes
### 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

<table>
<thead>
<tr>
<th>Period ended 30 June 2017</th>
<th>Notes</th>
<th>$’000</th>
</tr>
</thead>
</table>

- **Net operating result for the year** – from Income Statement

- **Other comprehensive income**

- **Amounts that will not be reclassified subsequently to operating result**
  - Gain/(loss) on revaluation of infrastructure, property, plant and equipment 20b

- **Amounts that will be reclassified subsequently to operating result when specific conditions are met**
  - 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**

- **Total comprehensive income for the year**

- **Attributable to – Council**
  - – non-controlling interests -
NSW Council
Statement of Cash Flows
for the period [insert date] to 30 June 2017

<table>
<thead>
<tr>
<th>Period ended 30 June 2017</th>
<th>Notes</th>
<th>$'000</th>
</tr>
</thead>
</table>

### 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
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].

<table>
<thead>
<tr>
<th>Gain on local government amalgamation</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets and liabilities transferred from former councils</td>
<td>(a)</td>
</tr>
<tr>
<td>Accounting policy adjustments</td>
<td>(b)</td>
</tr>
</tbody>
</table>

(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:

<table>
<thead>
<tr>
<th>Current assets</th>
<th>Former Council 1</th>
<th>Former Council 2</th>
<th>Former Council 3</th>
<th>Gain on local government amalgamation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets classified as held for sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| Non-current assets |                  |                  |                  |                                       |
| Investments        |                  |                  |                  |                                       |
| Receivables        |                  |                  |                  |                                       |</p>
<table>
<thead>
<tr>
<th></th>
<th>Former Council 1 $'000</th>
<th>Former Council 2 $'000</th>
<th>Former Council 3 $'000</th>
<th>Gain on local government amalgamation $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure, property, plant and equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for using equity method</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment property</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**LIABILITIES**

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th>Payables</th>
<th>Borrowings</th>
<th>Provisions</th>
<th>Income received in advance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-current liabilities</th>
<th>Payables</th>
<th>Borrowings</th>
<th>Provisions</th>
<th>Total non-current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets transferred</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The 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 they 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

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

### Notional general income calculation (1)

<table>
<thead>
<tr>
<th></th>
<th>Former Entity Name</th>
<th>Former Entity Name</th>
<th>Former Entity Name</th>
<th>Former Entity Name</th>
<th>New Entity Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last year notional income yield</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus/minus adjustments (2)</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Notional general income</strong></td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Permissible income calculation

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
<th>$'000</th>
<th>$'000</th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special variation (3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OR Rate peg</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OR Crown land adjustment incl. rate peg</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less expiring special variations amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus special variation amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OR plus rate peg amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OR plus crown land adjustment and rate peg amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus or minus last year's carry forward total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less valuation objections claimed in previous year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total permissible income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Less notional income yield

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catch up or (excess) result</td>
<td></td>
</tr>
</tbody>
</table>

### Plus income lost due to valuation objections claimed (4)

<table>
<thead>
<tr>
<th></th>
<th>$'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less unused catch up (5)</td>
<td></td>
</tr>
<tr>
<td>Carry forward to next year(6)</td>
<td></td>
</tr>
</tbody>
</table>

### Notes:

1. 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.

2. 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)*.

3. The ‘special variation percentage’ is inclusive of the rate peg percentage and where applicable, the Crown land adjustment.

4. 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.

5. 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.

6. 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.
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 Workpapers to calculate the annual permissible income. The General Manager and Responsible Accounting Officer must sign the Statement of Compliance (included in the Workpapers) 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 Workpapers 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.