

The Comprehensive Income Account. Bayside City Council 2014.

This chart, in “proper accounts”, essentially accounts for all sources of income and matches them with all forms of expenditure during the year. Bayside Council confuses value with cost and attempts to deal with the concept of profit, which is not of interest.

The fundamental error is to expense \$12,596 (000) for depreciation and amortisation. (See attached account) The enterprise obtains its capital goods from current income. Depreciation is only expensed if the payment for capital goods is from balance sheet capital. Goods paid for out of income enter the balance sheet at zero cost, hence there is nothing to depreciate. Another item of value which has been deducted but not been paid out is the \$925(000) for loss on disposal of PP&E.

These errors “crowd out” a correct deduction of \$19,252 for current capital expenditure which is stated in the budget to be supplied from “the rates”. (This would drop the surplus to a \$4million deficit if added to the depreciation).

Other expenditure made but not recorded in the account is \$1,166(000) as repayment of borrowings and various amounts transferred to a range of provision accounts (shown in the Balance Sheet as “Other Reserves”). These reserves show movement in the year but there is nothing in the Income/Expenditure sector to indicate this.

The position of the capital reserves is interesting as it shows movement into and out of an “accumulated surplus”. The accompanying note indicates that this may be a relocation exercise rather than a real cash transaction. However, as the transactions dealing with the purchase of capital goods are not shown, an attempt to link to the supply source is futile. It does indicate where the previous year surpluses have been accumulated and hidden - amongst two billion dollars of revaluations.

Given that we have been trying to follow this hidden money for more than five years, we are certain that more exists. Indeed at the beginning of the 2014 year, we estimated from the cash flow that about \$21million had been accumulated. Only a net \$5.3million has been moved over to identified reserves. In addition, the 2014 result supplies an unallocated surplus contribution of more than 9.2 million - suggesting more than \$30million of irregularly obtained funds to draw on. There is more than \$15million yet to be exposed. The newly created financial assets need some better explanation than “deposits with a term greater than 3 months”.

A proper understanding of the financial position of the City of Bayside is not possible without a competent forensic examination. Their forward planning shows the intent to continue to accumulate cash reserves and accelerate the intergenerational imbalance. This is not appropriate in a fee for service organisation. The expansion of services made possible by the accumulated funds, has been spent on administration. The administration cost (and staff numbers) is now well beyond the cost limit of 25% of operational funding, as set by the LGA. This percentage is now around 58%.

In summary, Bayside collected about \$9 million in the 2014 year, over and above the cost of running the city, for that year. This is about 14% of the General Rate bill. In the past it has

concealed this money rather than repaying it to the donors as “surplus to requirements”. Bayside continues to conceal the extent of the money improperly retained, in its accounts. It avoids showing what it does with the money and continues to conceal the extent of its non-allocated holdings. In July it had about \$38million of spare cash. With \$11 million of restricted funds and \$13million of borrowings, there is at least \$14million of hidden funds left, able to be used to drop the rate bill, yet having paid off all debt. There is likely to be another \$10million surplus “in the pipeline” by June 2015.

A rate reduction (in 2014 money) of 25% in 2015/16 (from stored cash) is possible and a continuous lowering of the rate take by 15% of the 2014 level is possible thereafter. Further implementation of the limit of 25% of the General Rate, as an administration charge, will allow further real reductions in the rate burden without any reduction in necessary services.

[Author note. It is difficult to provide precise figures showing where the money is, as the account is distorted. The information used is obtained by looking at imbalances between the cash flow statement and the balance sheet. It is only possible to give a general overview of the practice in the City of Bayside].

Overview.

Bayside collected about \$65million in rates in 2013/14. It spent what was called for on operating expenses and paid the total of the cost of capital – about \$19million – out of the revenue for the year. It also paid \$2million capital and interest on its loans. It appeared to end the year with more than \$9million which had been collected “without purpose” which could well have reduced the rate call by 14%. Hence:

- The rates in 2014/15 could be reduced to the equivalent of \$56million without any lowering of service, and
- The rates could be reduced by a further \$17million by paying for capital by a ten year loan repayment schedule **as the capital is utilised** (remove the intergenerational transfer effect)
- Further permanent reductions in rates could be achieved by removing half of the administration (return staffing levels to year 2000 numbers) by implementing the “municipal charge = 20% of (general rate + municipal charge)” limit in the LGA.

The magnitude of the improper burden placed on the ratepayers in Bayside is immense. The forward plans show the process is scheduled to accelerate.

End of document; Author George Reynolds. The Comprehensive Income Statement. Date 200115. Rev 1. Attachment 1. Comprehensive Income Account – Bayside City Council 2014.

Attachment 1 Comprehensive Income account – Bayside City Council 2014.

Bayside City Council
 2013/2014 Financial Report

**Comprehensive Income Statement
 For the Year Ended 30 June 2014**

	Note	2014 \$'000	2013 \$'000
Income			
Rates and charges	2	74,883	71,281
User charges, fees and fines	3	21,808	19,831
Grants - Operating (recurrent)	4(a)	9,034	10,177
Grants - Operating (non recurrent)	4(c)	185	28
Grants - Capital (recurrent)	4(b)	247	247
Grants - Capital (non recurrent)	4(d)	471	2,879
Interest	5	1,704	1,945
Total income		108,332	106,388
Expenses			
Employee costs	6	(36,591)	(34,266)
Materials and services	7	(42,011)	(43,336)
Depreciation and amortisation	8	(12,596)	(11,969)
Finance costs	9	(1,004)	(1,094)
Net loss on disposal of property, infrastructure, plant and equipment	10	(925)	(833)
Total expenses		(93,127)	(91,498)
Surplus		15,205	14,890
Other comprehensive income			
Items that will not be reclassified to surplus or deficit in future periods			
Net asset revaluation decrement	21(a)	(92,515)	-
Impairment loss	21(a)	(28)	(2,754)
Total comprehensive result		(77,338)	12,136

The above comprehensive income statement should be read in conjunction with the accompanying notes.