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Walcha Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2023



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Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Walcha Council

Special Purpose Financial Statements

for the year ended 30 June 2023

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government *Code of Accounting Practice and Financial Reporting*,
- the NSW Office of *Water Best-Practice Management of Water and Sewerage Guidelines*.

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

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

Signed in accordance with a resolution of Council made on 30 August 2023.

Eric Noakes
Mayor
30 August 2023

Scott Kermod
Deputy Mayor
30 August 2023

Phillip Hood
General Manager
30 August 2023

Rosemary Strobel
Responsible Accounting Officer
30 August 2023

Walcha Council

Income Statement of water supply business activity

for the year ended 30 June 2023

	2023 \$ '000	2022 \$ '000
Income from continuing operations		
Access charges	498	397
User charges	524	482
Fees	26	15
Interest and investment income	66	11
Other income	3	7
Total income from continuing operations	1,117	912
Expenses from continuing operations		
Employee benefits and on-costs	194	288
Borrowing costs	3	3
Materials and services	247	208
Depreciation, amortisation and impairment	385	316
Other expenses	152	189
Total expenses from continuing operations	981	1,004
Surplus (deficit) from continuing operations before capital amounts	136	(92)
Grants and contributions provided for capital purposes	5,395	1,224
Surplus (deficit) from continuing operations after capital amounts	5,531	1,132
Surplus (deficit) from all operations before tax	5,531	1,132
Less: corporate taxation equivalent (25%) [based on result before capital]	(34)	–
Surplus (deficit) after tax	5,497	1,132
Plus accumulated surplus	8,121	6,989
– Corporate taxation equivalent	34	–
Closing accumulated surplus	13,652	8,121
Return on capital %	0.5%	(0.4)%
Subsidy from Council	934	826
Calculation of dividend payable:		
Surplus (deficit) after tax	5,497	1,132
Less: capital grants and contributions (excluding developer contributions)	(5,395)	(1,224)
Surplus for dividend calculation purposes	102	–
Potential dividend calculated from surplus	51	–

Walcha Council

Income Statement of sewerage business activity

for the year ended 30 June 2023

	2023 \$ '000	2022 \$ '000
Income from continuing operations		
Access charges	385	328
Liquid trade waste charges	133	130
Fees	17	15
Interest and investment income	19	3
Total income from continuing operations	554	476
Expenses from continuing operations		
Employee benefits and on-costs	115	170
Materials and services	288	223
Depreciation, amortisation and impairment	151	133
Other expenses	65	72
Total expenses from continuing operations	619	598
Surplus (deficit) from continuing operations before capital amounts	(65)	(122)
Grants and contributions provided for capital purposes	–	17
Surplus (deficit) from continuing operations after capital amounts	(65)	(105)
Surplus (deficit) from all operations before tax	(65)	(105)
Surplus (deficit) after tax	(65)	(105)
Plus accumulated surplus	3,335	3,439
Plus adjustments for amounts unpaid:		
Closing accumulated surplus	3,270	3,334
Return on capital %	(0.7)%	(1.4)%
Subsidy from Council	446	452
Calculation of dividend payable:		
Surplus (deficit) after tax	(65)	(105)
Less: capital grants and contributions (excluding developer contributions)	–	(17)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Walcha Council

Statement of Financial Position of water supply business activity

as at 30 June 2023

	2023 \$ '000	2022 \$ '000
ASSETS		
Current assets		
Contract assets and contract cost assets	185	–
Cash and cash equivalents	837	4,411
Receivables	160	78
Total current assets	1,182	4,489
Non-current assets		
Infrastructure, property, plant and equipment	26,682	20,133
Total non-current assets	26,682	20,133
Total assets	27,864	24,622
LIABILITIES		
Current liabilities		
Contract liabilities	–	3,710
Payables	14	116
Borrowings	11	10
Total current liabilities	25	3,836
Non-current liabilities		
Borrowings	35	46
Total non-current liabilities	35	46
Total liabilities	60	3,882
Net assets	27,804	20,740
EQUITY		
Accumulated surplus	13,652	8,121
Revaluation reserves	14,152	12,619
Total equity	27,804	20,740

Walcha Council

Statement of Financial Position of sewerage business activity

as at 30 June 2023

	2023 \$ '000	2022 \$ '000
ASSETS		
Current assets		
Contract assets and contract cost assets	93	93
Cash and cash equivalents	567	502
Receivables	69	44
Total current assets	729	639
Non-current assets		
Infrastructure, property, plant and equipment	9,472	9,010
Total non-current assets	9,472	9,010
Total assets	10,201	9,649
LIABILITIES		
Current liabilities		
Payables	12	8
Total current liabilities	12	8
Total liabilities	12	8
Net assets	10,189	9,641
EQUITY		
Accumulated surplus	3,270	3,334
Revaluation reserves	6,919	6,307
Total equity	10,189	9,641

Note – Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the special purpose financial statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these special purpose financial statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with the *Local Government Act 1993 (Act)*, the *Local Government (General) Regulation 2005 (Regulation)* and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, fair value of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 NSW Government Policy statement titled 'Application of National Competition Policy to Local Government'. *The Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, and returns on investments (rate of return and dividends paid).

Declared business activities

In accordance with Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

Nil

Category 2

(where gross operating turnover is less than \$2 million)

1. Walcha Council Combined Water Supplies

Comprising the operations and net assets of the water supply systems servicing the town of Walcha.

2. Walcha Council Sewerage Service

Comprising the operations and net assets of the sewer reticulation and treatment system servicing the town of Walcha.

Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs. However, where Council does not pay some taxes, which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in special purpose financial statements. For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – **25%** (20/21 26%)

Note – Significant Accounting Policies (continued)

Land tax – the first \$822,000 of combined land values attracts **0%**. For the combined land values in excess of \$822,000 up to \$5,026,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$5,026,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **4.85%** on the value of taxable salaries and wages in excess of \$1,210,000.

In accordance with the Department of Planning, Industry & Environment – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the Best Practice Management of Water Supply and Sewer Guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the Act.

Achievement of substantial compliance to the DPIE – Water guidelines is not a prerequisite for the payment of the tax equivalent charges; however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level – gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 25% (20/21 26%).

Income tax is only applied where a gain from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional – that is, it is payable to the 'Council' as the owner of business operations – it represents an internal payment and has no effect on the operations of the Council.

Accordingly, there is no need for disclosure of internal charges in the SPFS. The rate applied of 25% is/is not the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all assets owned, or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that Council business activities face 'true' commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(i) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations. The overall effect of subsidies is contained within the Income Statements of business activities.

(ii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Income Statement.

(iii) Dividends

Council is not required to pay dividends to either itself as owner of a range of businesses, or to any external entities.

A local government water supply and sewerage business is permitted to pay annual dividends from their water supply or sewerage business surpluses. Each dividend must be calculated and approved in accordance with the DPIE – Water guidelines

Note – Significant Accounting Policies (continued)

and must not exceed 50% of the relevant surplus in any one year, or the number of water supply or sewerage assessments at 30 June 2023 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best Practice Management of Water Supply and Sewer Guidelines, a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are submitted to DPIE – Water.

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Special Purpose Financial Statements
for the year ended 30 June 2023

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