

Warren Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2017

“Australia's Wool & Cotton Capital”



Warren Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

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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).
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Warren Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

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 financial statements:

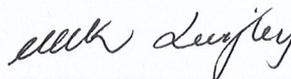
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

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

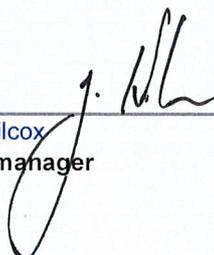
Signed in accordance with a resolution of Council made on 27 July 2017.



Clr NRF Wilson OAM
Mayor



Clr MJ Quigley
Councillor



Mr GA Wilcox
General manager



Mr DJ Arthur
Responsible accounting officer

Warren Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	342	324
User charges	324	335
Fees	2	3
Interest	18	16
Grants and contributions provided for non-capital purposes	13	9
Profit from the sale of assets	–	–
Share of profit from equity accounted investment	–	–
Other income	10	–
Total income from continuing operations	709	687
Expenses from continuing operations		
Employee benefits and on-costs	272	236
Borrowing costs	–	–
Materials and contracts	300	286
Depreciation, amortisation and impairment	204	199
Water purchase charges	27	29
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Share of loss from equity accounted investment	–	–
Other expenses	–	–
Total expenses from continuing operations	803	750
Surplus (deficit) from continuing operations before capital amounts	(94)	(63)
Grants and contributions provided for capital purposes	352	548
Surplus (deficit) from continuing operations after capital amounts	258	485
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	258	485
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–
SURPLUS (DEFICIT) AFTER TAX	258	485
Plus opening retained profits	4,893	4,408
Plus/less: prior period adjustments	–	–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	–	–
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
Closing retained profits	5,151	4,893
Return on capital %	-1.2%	-0.9%
Subsidy from Council	288	221
Calculation of dividend payable:		
Surplus (deficit) after tax	258	485
Less: capital grants and contributions (excluding developer contributions)	(352)	(548)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Warren Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2017

\$ '000	Actual 2017	Actual 2016
Income from continuing operations		
Access charges	445	423
User charges	61	61
Liquid trade waste charges	–	–
Fees	–	–
Interest	65	69
Grants and contributions provided for non-capital purposes	9	9
Profit from the sale of assets	–	4
Share of profit from equity accounted investment	–	–
Other income	4	–
Total income from continuing operations	584	566
Expenses from continuing operations		
Employee benefits and on-costs	234	233
Borrowing costs	–	–
Materials and contracts	175	147
Depreciation, amortisation and impairment	260	257
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	–	–
Share of loss from equity accounted investment	–	–
Other expenses	–	–
Total expenses from continuing operations	669	637
Surplus (deficit) from continuing operations before capital amounts	(85)	(71)
Grants and contributions provided for capital purposes	53	–
Surplus (deficit) from continuing operations after capital amounts	(32)	(71)
Surplus (deficit) from discontinued operations	–	–
Surplus (deficit) from all operations before tax	(32)	(71)
Less: corporate taxation equivalent (30%) [based on result before capital]	–	–
SURPLUS (DEFICIT) AFTER TAX	(32)	(71)
Plus opening retained profits	4,232	4,303
Plus/less: prior period adjustments		–
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	–	–
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
Closing retained profits	4,200	4,232
Return on capital %	-1.0%	-1.5%
Subsidy from Council	278	171
Calculation of dividend payable:		
Surplus (deficit) after tax	(32)	(71)
Less: capital grants and contributions (excluding developer contributions)	(53)	–
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Warren Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	343	241
Investments	–	–
Receivables	415	484
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	758	725
Non-current assets		
Investments	–	–
Receivables	22	10
Inventories	–	–
Infrastructure, property, plant and equipment	8,147	7,293
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	8,169	7,303
TOTAL ASSETS	8,927	8,028
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	8	8
Income received in advance	–	–
Borrowings	–	–
Provisions	17	9
Total current liabilities	25	17
Non-current liabilities		
Payables	–	–
Income received in advance	–	–
Borrowings	–	–
Provisions	4	8
Total non-current liabilities	4	8
TOTAL LIABILITIES	29	25
NET ASSETS	8,898	8,003
EQUITY		
Retained earnings	5,151	4,893
Revaluation reserves	3,747	3,110
TOTAL EQUITY	8,898	8,003

Warren Shire Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2017

\$ '000	Actual 2017	Actual 2016
ASSETS		
Current assets		
Cash and cash equivalents	2,430	2,369
Investments	–	–
Receivables	72	25
Inventories	–	–
Other	–	–
Non-current assets classified as held for sale	–	–
Total current Assets	2,502	2,394
Non-current assets		
Investments	–	–
Receivables	8	11
Inventories	–	–
Infrastructure, property, plant and equipment	8,123	4,592
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	8,131	4,603
TOTAL ASSETS	10,633	6,997
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	–	–
Income received in advance	–	–
Borrowings	–	–
Provisions	28	24
Total current liabilities	28	24
Non-current liabilities		
Payables	–	–
Income received in advance	–	–
Borrowings	–	–
Provisions	4	2
Total non-current liabilities	4	2
TOTAL LIABILITIES	32	26
NET ASSETS	10,601	6,971
EQUITY		
Retained earnings	4,200	4,232
Revaluation reserves	6,401	2,739
TOTAL EQUITY	10,601	6,971

Warren Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2017

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Warren Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2017

Note 1. 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 (NSW), the Local Government (General) 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, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

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, return 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)

a. Warren Shire Council Water Supply

Comprising the whole of the operations and assets of the water supply systems servicing the towns of Warren, Nevertire and Collie which is established as a Special Rate Fund.

b. Warren Shire Council Sewerage Service

Comprising the whole of the operations and assets of the sewerage reticulation and treatment systems servicing the towns of Warren and Nevertire which is established as a Special Rate Fund.

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

Warren Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2017

Note 1. Significant accounting policies (continued)

(i) 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 – 30%

Land tax – the first **\$549,000** of combined land values attracts **0%**. For the combined land values in excess of \$549,001 up to \$3,357,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,357,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

In accordance with the Department of Primary Industries Water (DPIW), 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 NSW Office of Water Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the NSW Office of 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 30%..

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to 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 30% is 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 payable on all category 1 businesses has been applied to all land 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.

Warren Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

Note 1. Significant accounting policies (continued)

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when 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.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) 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'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.38% at 30/6/17.

(iv) Dividends

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

Warren Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	-
(ii)	Number of assessments multiplied by \$3/assessment	3,132
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	-
(iv)	Amounts actually paid for tax equivalents	-

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	-
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	31,320
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	(143,700)

2017 Surplus	(94,000)	2016 Surplus	(63,000)	2015 Surplus	13,300
		2016 Dividend	-	2015 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	-
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	YES
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	YES
(iii)	Sound water conservation and demand management implemented	YES
(iv)	Sound drought management implemented	YES
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Warren Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2017

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	692
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	47.29%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	7,675
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	576
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	377
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	-1.08%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	352

- Notes:
1. References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 2. The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Warren Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	-
(ii)	Number of assessments multiplied by \$3/assessment	2,688
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	-
(iv)	Amounts actually paid for tax equivalents	-

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	-
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	26,880
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2017, less the cumulative dividends paid for the 2 years to 30 June 2016 and 30 June 2015	(248,000)

2017 Surplus	(85,000)	2016 Surplus	(71,000)	2015 Surplus	(92,000)
		2016 Dividend	-	2015 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	-
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	YES
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges	
	(a) Residential [item 2 (c) in table 1]	YES
	(b) Non-residential [item 2 (c) in table 1]	YES
	(c) Trade waste [item 2 (d) in table 1]	YES
	DSP with commercial developer charges [item 2 (e) in table 1]	YES
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	YES
	b. Complete and implement integrated water cycle management strategy	YES

Warren Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2017

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	521
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	7,642
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	398
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	105
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	-1.69%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	53

**National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)**

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	1,213
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	1.57%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	482
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	-1.38%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Warren Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2017Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2017

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-14.22%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		- 225 80
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	(179)
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	19

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
 - refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Warren Shire Council

To the Councillors of Warren Shire Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Warren Shire Council's (the Council) Declared Business Activities, which comprise the statement of financial position of each Declared Business Activity as at 30 June 2017, the income statement of each Declared Business Activity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2017, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (LG Code).

My opinion should be read in conjunction with the rest of this report and in particular, the Emphasis of Matter referring to the basis of accounting.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note (1) to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

The Councillors' Responsibility for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting, as it affects the Council's Declared Business Activities.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

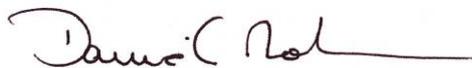
A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the best practice management disclosures in Notes 2 and 3 of the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



David Nolan
Director, Financial Audit Services

17 October 2017
SYDNEY