

Warren Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



Special Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
Statement by Councillors & Management	3
Special Purpose Financial Statements	
Income Statement – Water Supply Business Activity	4
Income Statement – Sewerage Business Activity	5
Statement of Financial Position – Water Supply Business Activity	6
Statement of Financial Position – Sewerage Business Activity	7
Note 1 – Significant Accounting Policies	8
Auditor's Report on Special Purpose Financial Statements	11

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).

Special Purpose Financial Statements

for the year ended 30 June 2020

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:

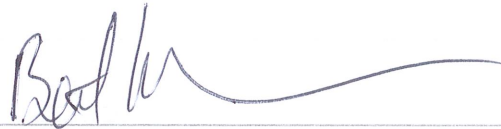
- present fairly the operating result and financial position for each of Council's declared business activities for the year,
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

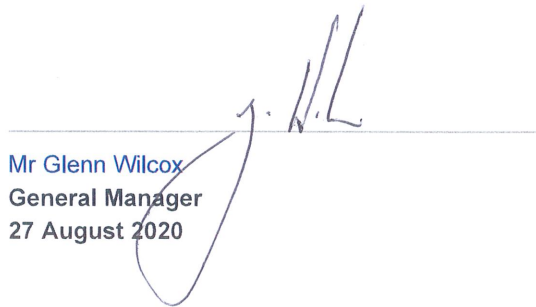
Signed in accordance with a resolution of Council made on 27 August 2020.



Dr Milton Quigley
Mayor
27 August 2020



Mr Brett Williamson
Councillor
27 August 2020



Mr Glenn Wilcox
General Manager
27 August 2020



Mr Darren Arthur
Responsible Accounting Officer
27 August 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

	2020 \$ '000	2019 \$ '000
Income from continuing operations		
Access charges	466	444
User charges	272	339
Fees	8	4
Interest	13	9
Grants and contributions provided for non-capital purposes	425	429
Profit from the sale of assets	14	–
Other income	–	1
Total income from continuing operations	1,198	1,226
Expenses from continuing operations		
Employee benefits and on-costs	272	256
Materials and contracts	330	327
Depreciation, amortisation and impairment	258	230
Water purchase charges	27	18
Other expenses	4	5
Total expenses from continuing operations	891	836
Surplus (deficit) from continuing operations before capital amounts	307	390
Grants and contributions provided for capital purposes	232	–
Surplus (deficit) from continuing operations after capital amounts	539	390
Surplus (deficit) from all operations before tax	539	390
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(84)	(107)
SURPLUS (DEFICIT) AFTER TAX	455	283
Plus accumulated surplus	5,771	5,381
Plus/less: other adjustments - Adoption of AASB1058	(235)	–
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	84	107
Closing accumulated surplus	6,075	5,771
Return on capital %	3.2%	4.3%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	455	283
Less: capital grants and contributions (excluding developer contributions)	(232)	–
Surplus for dividend calculation purposes	223	283
Potential dividend calculated from surplus	111	141

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

	2020 \$ '000	2019 \$ '000
Income from continuing operations		
Access charges	509	483
User charges	37	51
Fees	1	3
Interest	45	63
Grants and contributions provided for non-capital purposes	9	8
Profit from the sale of assets	4	–
Total income from continuing operations	605	608
Expenses from continuing operations		
Employee benefits and on-costs	194	186
Materials and contracts	194	101
Depreciation, amortisation and impairment	236	200
Other expenses	5	6
Total expenses from continuing operations	629	493
Surplus (deficit) from continuing operations before capital amounts	(24)	115
Grants and contributions provided for capital purposes	37	99
Surplus (deficit) from continuing operations after capital amounts	13	214
Surplus (deficit) from all operations before tax	13	214
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(32)
SURPLUS (DEFICIT) AFTER TAX	13	182
Plus accumulated surplus	4,568	4,354
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	32
Closing accumulated surplus	4,581	4,568
Return on capital %	(0.3)%	1.4%
Subsidy from Council	97	–
Calculation of dividend payable:		
Surplus (deficit) after tax	13	182
Less: capital grants and contributions (excluding developer contributions)	(37)	(99)
Surplus for dividend calculation purposes	–	83
Potential dividend calculated from surplus	–	42

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

	2020	2019
	\$ '000	\$ '000
ASSETS		
Current assets		
Cash and cash equivalents	395	556
Receivables	233	252
Total current assets	628	808
Non-current assets		
Receivables	53	31
Infrastructure, property, plant and equipment	9,566	8,986
Total non-current assets	9,619	9,017
TOTAL ASSETS	10,247	9,825
LIABILITIES		
Current liabilities		
Payables	13	11
Provisions	1	2
Total current liabilities	14	13
Non-current liabilities		
Provisions	13	10
Total non-current liabilities	13	10
TOTAL LIABILITIES	27	23
NET ASSETS	10,220	9,802
EQUITY		
Accumulated surplus	6,075	5,771
Revaluation reserves	4,145	4,031
TOTAL EQUITY	10,220	9,802

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

	2020	2019
	\$ '000	\$ '000
ASSETS		
Current assets		
Cash and cash equivalents	2,615	2,441
Receivables	46	81
Total current assets	2,661	2,522
Non-current assets		
Receivables	28	14
Infrastructure, property, plant and equipment	8,298	8,492
Total non-current assets	8,326	8,506
TOTAL ASSETS	10,987	11,028
LIABILITIES		
Current liabilities		
Provisions	37	26
Total current liabilities	37	26
Non-current liabilities		
Provisions	–	7
Total non-current liabilities	–	7
TOTAL LIABILITIES	37	33
NET ASSETS	10,950	10,995
EQUITY		
Accumulated surplus	4,581	4,568
Revaluation reserves	6,369	6,427
TOTAL EQUITY	10,950	10,995

Warren Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

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 2093 (NSW), the *Local Government (General) Regulation 2005*, 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.

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, 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 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 separate Fund

b. Warren Shire 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 Fund.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

(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 – 27.5%

Land tax – the first \$692,000 of combined land values attracts 0%. For the combined land values in excess of \$692,001 up to \$4,321,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,321,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – 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 DoI – Water guidelines 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 DoI – 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 27.5%.

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 27.5% 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.

Notes to the Special Purpose Financial Statements for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

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.

(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 0.88% at 30/6/20.

(iv) Dividends

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



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 by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activities declared by Council.

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 2020, 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 – update number 28 (LG Code).

My opinion should be read in conjunction with the rest of this report.

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 the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 'Permissible income for general rates'.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities 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 are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities 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: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- 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.



Manuel Moncada

Delegate of the Auditor-General for New South Wales

5 November 2020
SYDNEY