

Upper Lachlan Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020



Special Purpose Financial Statements

for the year ended 30 June 2020

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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).

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, 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 15 October 2020.

John Stafford

Mayor

15 October 2020

John Searl

Councillor

15 October 2020

Colleen Worthy

General Manager

15 October 2020

Andrew Croke

Responsible Accounting Officer

15 October 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	900	840
User charges	1,119	1,025
Fees	8	13
Interest	43	68
Grants and contributions provided for non-capital purposes	19	18
Total income from continuing operations	2,089	1,964
Expenses from continuing operations		
Employee benefits and on-costs	640	584
Borrowing costs	40	45
Materials and contracts	727	673
Depreciation, amortisation and impairment	492	575
Other expenses	233	183
Total expenses from continuing operations	2,132	2,060
Surplus (deficit) from continuing operations before capital amounts	(43)	(96)
Grants and contributions provided for capital purposes	111	9
Surplus (deficit) from continuing operations after capital amounts	68	(87)
Surplus (deficit) from all operations before tax	68	(87)
SURPLUS (DEFICIT) AFTER TAX	68	(87)
Plus accumulated surplus	25,495	25,582
Plus adjustments for amounts unpaid:		
Closing accumulated surplus	25,563	25,495
Return on capital %	0.0%	(0.2)%
Subsidy from Council	224	384
Calculation of dividend payable:		
Surplus (deficit) after tax	68	(87)
Less: capital grants and contributions (excluding developer contributions)	(111)	(9)
Surplus for dividend calculation purposes	-	-
Potential dividend calculated from surplus	-	-

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	1,197	1,116
User charges	297	260
Fees	1	4
Interest	78	121
Grants and contributions provided for non-capital purposes	17	16
Total income from continuing operations	1,590	1,517
Expenses from continuing operations		
Employee benefits and on-costs	388	372
Borrowing costs	14	17
Materials and contracts	403	375
Depreciation, amortisation and impairment	494	476
Loss on sale of assets	–	(2)
Other expenses	157	160
Total expenses from continuing operations	1,456	1,398
Surplus (deficit) from continuing operations before capital amounts	134	119
Grants and contributions provided for capital purposes	101	143
Surplus (deficit) from continuing operations after capital amounts	235	262
Surplus (deficit) from all operations before tax	235	262
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(37)	(33)
SURPLUS (DEFICIT) AFTER TAX	198	229
Plus accumulated surplus	15,354	15,092
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	37	33
Closing accumulated surplus	15,589	15,354
Return on capital %	1.0%	0.9%
Subsidy from Council	–	67
Calculation of dividend payable:		
Surplus (deficit) after tax	198	229
Less: capital grants and contributions (excluding developer contributions)	(101)	(143)
Surplus for dividend calculation purposes	97	86
Potential dividend calculated from surplus	49	43

Income Statement – Domestic Waste Management

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
Access charges	1,165	1,092
User charges	1	1
Interest	26	62
Grants and contributions provided for non-capital purposes	27	61
Other income	1	–
Total income from continuing operations	1,220	1,216
Expenses from continuing operations		
Employee benefits and on-costs	211	234
Materials and contracts	784	799
Depreciation, amortisation and impairment	137	132
Other expenses	2	3
Total expenses from continuing operations	1,134	1,168
Surplus (deficit) from continuing operations before capital amounts	86	48
Grants and contributions provided for capital purposes	26	27
Surplus (deficit) from continuing operations after capital amounts	112	75
Surplus (deficit) from all operations before tax	112	75
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(24)	(13)
SURPLUS (DEFICIT) AFTER TAX	88	62
Plus accumulated surplus	3,030	2,955
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	24	13
Closing accumulated surplus	3,142	3,030
Return on capital %	6.7%	3.4%

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Investments	2,962	2,551
Receivables	159	130
Total current assets	3,121	2,681
Non-current assets		
Receivables	4	35
Infrastructure, property, plant and equipment	25,081	25,236
Total non-current assets	25,085	25,271
TOTAL ASSETS	28,206	27,952
LIABILITIES		
Current liabilities		
Payables	13	14
Borrowings	114	74
Provisions	188	158
Total current liabilities	315	246
Non-current liabilities		
Borrowings	443	557
Total non-current liabilities	443	557
TOTAL LIABILITIES	758	803
NET ASSETS	27,448	27,149
EQUITY		
Accumulated surplus	25,564	25,495
Revaluation reserves	1,884	1,654
TOTAL EQUITY	27,448	27,149

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Investments	5,395	4,771
Receivables	96	105
Total current assets	5,491	4,876
Non-current assets		
Receivables	6	8
Infrastructure, property, plant and equipment	15,065	15,358
Total non-current assets	15,071	15,366
TOTAL ASSETS	20,562	20,242
LIABILITIES		
Current liabilities		
Payables	4	4
Borrowings	56	42
Provisions	148	152
Total current liabilities	208	198
Non-current liabilities		
Borrowings	128	184
Total non-current liabilities	128	184
TOTAL LIABILITIES	336	382
NET ASSETS	20,226	19,860
EQUITY		
Accumulated surplus	15,590	15,354
Revaluation reserves	4,636	4,506
TOTAL EQUITY	20,226	19,860

Statement of Financial Position – Domestic Waste Management

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Investments	1,772	1,498
Receivables	81	90
Total current assets	1,853	1,588
Non-current assets		
Receivables	4	5
Infrastructure, property, plant and equipment	1,281	1,419
Total non-current assets	1,285	1,424
TOTAL ASSETS	3,138	3,012
LIABILITIES		
Current liabilities		
Provisions	115	101
Total current liabilities	115	101
TOTAL LIABILITIES	115	101
NET ASSETS	3,023	2,911
EQUITY		
Accumulated surplus	3,142	3,030
Revaluation reserves	(119)	(119)
TOTAL EQUITY	3,023	2,911

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 1993 (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)

Council has no Category 1 businesses.

Category 2

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

a. Water Supply

Provision of reticulated water supply to the townships of Crookwell, Gunning, Taralga and Dalton.

b. Sewerage Services

Provision of sewerage service to the townships of Crookwell, Gunning and Taralga

c. Domestic Waste Management

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Provision of Domestic Waste disposal services for the townships of Crookwell, Gunning, Taralga and villages.

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 \$4,231,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,231,000 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.

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

Note 1. Significant Accounting Policies (continued)

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.

(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 1.32% at 30/6/19.

(iv) Dividends

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

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2020 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.

Special Purpose Financial Statements
for the year ended 30 June 2020
