

Warrumbungle Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019



Special Purpose Financial Statements

for the year ended 30 June 2019

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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 2019

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 17 October 2019.



Clr Denis Todd
Mayor
17 October 2019



Clr Aniello Iannuzzi
Councillor
17 October 2019



Roger Bailey
General Manager
17 October 2019



Khurram Javed
Responsible Accounting Officer
17 October 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	1,539	1,340
User charges	1,433	1,467
Fees	3	8
Interest	46	79
Grants and contributions provided for non-capital purposes	55	39
Other income	10	10
Total income from continuing operations	3,086	2,943
Expenses from continuing operations		
Employee benefits and on-costs	1,006	1,101
Borrowing costs	28	28
Materials and contracts	670	643
Depreciation, amortisation and impairment	1,389	1,275
Other expenses	1,056	976
Total expenses from continuing operations	4,149	4,023
Surplus (deficit) from continuing operations before capital amounts	(1,063)	(1,080)
Grants and contributions provided for capital purposes	1,329	1,065
Surplus (deficit) from continuing operations after capital amounts	266	(15)
Surplus (deficit) from all operations before tax	266	(15)
SURPLUS (DEFICIT) AFTER TAX	266	(15)
Plus accumulated surplus	20,197	20,213
Plus/less: other adjustments	–	(1)
Closing accumulated surplus	20,463	20,197
Return on capital %	(2.5)%	(2.6)%
Subsidy from Council	1,581	2,106
Calculation of dividend payable:		
Surplus (deficit) after tax	266	(15)
Less: capital grants and contributions (excluding developer contributions)	(1,329)	(1,065)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	1,485	1,232
User charges	95	104
Liquid trade waste charges	48	64
Interest	91	106
Grants and contributions provided for non-capital purposes	29	28
Other income	5	6
Total income from continuing operations	1,753	1,540
Expenses from continuing operations		
Employee benefits and on-costs	513	530
Materials and contracts	111	163
Depreciation, amortisation and impairment	637	596
Other expenses	599	542
Total expenses from continuing operations	1,860	1,831
Surplus (deficit) from continuing operations before capital amounts	(107)	(291)
Grants and contributions provided for capital purposes	34	51
Surplus (deficit) from continuing operations after capital amounts	(73)	(240)
Surplus (deficit) from all operations before tax	(73)	(240)
SURPLUS (DEFICIT) AFTER TAX	(73)	(240)
Plus accumulated surplus	11,464	11,704
Closing accumulated surplus	11,391	11,464
Return on capital %	(0.6)%	(1.6)%
Subsidy from Council	341	757
Calculation of dividend payable:		
Surplus (deficit) after tax	(73)	(240)
Less: capital grants and contributions (excluding developer contributions)	(34)	(51)
Surplus for dividend calculation purposes	-	-
Potential dividend calculated from surplus	-	-

Income Statement – Warrumbungle Quarry

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
User charges	567	1,102
Profit from the sale of assets	74	–
Total income from continuing operations	641	1,102
Expenses from continuing operations		
Employee benefits and on-costs	155	191
Borrowing costs	10	12
Materials and contracts	143	187
Depreciation, amortisation and impairment	62	–
Other expenses	651	839
Total expenses from continuing operations	1,021	1,229
Surplus (deficit) from continuing operations before capital amounts	(380)	(127)
Grants and contributions provided for capital purposes	256	–
Surplus (deficit) from continuing operations after capital amounts	(124)	(127)
Surplus (deficit) from all operations before tax	(124)	(127)
SURPLUS (DEFICIT) AFTER TAX	(124)	(127)
Plus accumulated surplus	312	439
Closing accumulated surplus	188	312
Return on capital %	(77.7)%	(36.9)%
Subsidy from Council	376	123

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	1,036	2,180
Receivables	1,064	905
Inventories	6	6
Total current assets	2,106	3,091
Non-current assets		
Infrastructure, property, plant and equipment	41,380	40,057
Total non-current assets	41,380	40,057
TOTAL ASSETS	43,486	43,148
LIABILITIES		
Current liabilities		
Payables	5	6
Income received in advance	—	413
Borrowings	86	82
Provisions	190	181
Total current liabilities	281	682
Non-current liabilities		
Borrowings	366	451
Provisions	—	2
Total non-current liabilities	366	453
TOTAL LIABILITIES	647	1,135
NET ASSETS	42,839	42,013
EQUITY		
Accumulated surplus	20,463	20,197
Revaluation reserves	22,376	21,816
TOTAL EQUITY	42,839	42,013

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,795	2,711
Receivables	574	456
Total current assets	3,369	3,167
Non-current assets		
Receivables	1,059	1,069
Infrastructure, property, plant and equipment	17,731	17,732
Total non-current assets	18,790	18,801
TOTAL ASSETS	22,159	21,968
LIABILITIES		
Current liabilities		
Provisions	81	73
Total current liabilities	81	73
Non-current liabilities		
Provisions	–	1
Total non-current liabilities	–	1
TOTAL LIABILITIES	81	74
NET ASSETS	22,078	21,894
EQUITY		
Accumulated surplus	11,391	11,464
Revaluation reserves	10,687	10,430
TOTAL EQUITY	22,078	21,894

Statement of Financial Position – Warrumbungle Quarry
as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Receivables	41	35
Inventories	316	316
Total current assets	357	351
Non-current assets		
Infrastructure, property, plant and equipment	476	312
Total non-current assets	476	312
TOTAL ASSETS	833	663
LIABILITIES		
Current liabilities		
Due to General Fund	294	—
Payables	71	28
Borrowings	45	43
Total current liabilities	410	71
Non-current liabilities		
Borrowings	235	280
Total non-current liabilities	235	280
TOTAL LIABILITIES	645	351
NET ASSETS	188	312
EQUITY		
Accumulated surplus	188	312
TOTAL EQUITY	188	312

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

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)

Warrumbungle Shire Council Combined Water Supply

All individual Water Funds are now combined into one entity known as Warrumbungle Water Fund. This entity incorporates the previous individual Operations and Net Assets of the Water Supply Systems of the towns of Baradine, Binnaway, Coonabarabran, Coolah, Dunedoo and Mendooran.

Category 2

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

a. Warrumbungle Shire Council Sewerage Service

All individual Sewerage Services are now combined into one entity known as Warrumbungle Sewerage Fund. This entity incorporates the previous individual Operations and Net Assets of the Sewerage Treatment and Reticulation Systems of the towns Baradine, Coonabarabran, Coolah and Dunedoo.

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

b. Warrumbungle Quarry

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%

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/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 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 2019

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 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:

- 550% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 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.



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Warrumbungle Shire Council

To the Councillors of the Warrumbungle Shire Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Warrumbungle Shire Council's (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2019, the Statement of Financial Position of each Declared Business Activity as at 30 June 2019, Note 1 Significant accounting policies 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
- Warrumbungle Quarry.

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 2019, 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 27 (LG Code).

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

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.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 2019 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, unless it is not appropriate to do so.

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.

My opinion does not 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.



Cathy Wu

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY