

Walcha Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2021



Special Purpose Financial Statements

for the year ended 30 June 2021

| Contents | Page |
|---|-----------|
| Statement by Councillors and Management | 3 |
| Special Purpose Financial Statements: | |
| Income Statement of water supply business activity | 4 |
| Income Statement of sewerage business activity | 5 |
| Statement of Financial Position of water supply business activity | 6 |
| Statement of Financial Position of sewerage business activity | 7 |
| Note – 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).



WALCHA COUNCIL

SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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 drawn up in accordance with:

- NSW Government Policy Statement *"Application of National Competition Policy to Local Government"*.
- Department of Local Government guidelines *"Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality"*.
- The Local Government *Code of Meeting Practice & Financial Reporting*; and
- The NSW Office of Water *"Best Practice Management of Water Supply and Sewerage"* guidelines.

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

- Present fairly the financial position and operating result for each of Council's declared Business Units for the year;
- Accord with Council's accounting and other records; and
- Present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

Signed in accordance with a resolution of Council made on 29 September 2021.

Handwritten signature of Eric Noakes in blue ink.

Clr Eric Noakes

MAYOR

Handwritten signature of Jennifer Kealey in blue ink.

Clr Jennifer Kealey

DEPUTY MAYOR

Handwritten signature of Barry Omundson in blue ink, with a large blue checkmark drawn over it.

Barry Omundson

GENERAL MANAGER

Handwritten signature of Christian Martin in blue ink.

Christian Martin

RESPONSIBLE ACCOUNTING OFFICER

Walcha Council

Income Statement of water supply business activity for the year ended 30 June 2021

| | 2021 \$ '000 | 2020 \$ '000 |
|--|-----------------|-----------------|
| Income from continuing operations | | |
| Access charges | 367 | 314 |
| User charges | 383 | 350 |
| Fees | 15 | 14 |
| Interest | 3 | 6 |
| Grants and contributions provided for non-capital purposes | — | 168 |
| Other income | 7 | 1 |
| Total income from continuing operations | 775 | 853 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 226 | 263 |
| Borrowing costs | 4 | 4 |
| Materials and services | 214 | 336 |
| Depreciation, amortisation and impairment | 322 | 319 |
| Other expenses | 119 | 138 |
| Total expenses from continuing operations | 885 | 1,060 |
| Surplus (deficit) from continuing operations before capital amounts | (110) | (207) |
| Grants and contributions provided for capital purposes | 1,064 | 161 |
| Surplus (deficit) from continuing operations after capital amounts | 954 | (46) |
| Surplus (deficit) from all operations before tax | 954 | (46) |
| Surplus (deficit) after tax | 954 | (46) |
| Plus accumulated surplus | 6,035 | 6,081 |
| Closing accumulated surplus | 6,989 | 6,035 |
| Return on capital % | (0.6)% | (1.2)% |
| Subsidy from Council | 377 | 354 |
| Calculation of dividend payable: | | |
| Surplus (deficit) after tax | 954 | (46) |
| Less: capital grants and contributions (excluding developer contributions) | (1,064) | (161) |
| Surplus for dividend calculation purposes | — | — |
| Potential dividend calculated from surplus | — | — |

Walcha Council

Income Statement of sewerage business activity for the year ended 30 June 2021

| | 2021 \$ '000 | 2020 \$ '000 |
|--|-----------------|-----------------|
| Income from continuing operations | | |
| Access charges | 322 | 322 |
| Liquid trade waste charges | 120 | 115 |
| Fees | 15 | 13 |
| Interest | 4 | 9 |
| Grants and contributions provided for non-capital purposes | — | 21 |
| Other income | 4 | 3 |
| Total income from continuing operations | 465 | 483 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 148 | 172 |
| Materials and services | 186 | 153 |
| Depreciation, amortisation and impairment | 133 | 134 |
| Other expenses | 43 | 31 |
| Total expenses from continuing operations | 510 | 490 |
| Surplus (deficit) from continuing operations before capital amounts | (45) | (7) |
| Grants and contributions provided for capital purposes | 68 | 55 |
| Surplus (deficit) from continuing operations after capital amounts | 23 | 48 |
| Surplus (deficit) from all operations before tax | 23 | 48 |
| Surplus (deficit) after tax | 23 | 48 |
| Plus accumulated surplus | 3,416 | 3,368 |
| Plus adjustments for amounts unpaid: | | |
| Closing accumulated surplus | 3,439 | 3,416 |
| Return on capital % | (0.4)% | (0.1)% |
| Subsidy from Council | 198 | 96 |
| Calculation of dividend payable: | | |
| Surplus (deficit) after tax | 23 | 48 |
| Less: capital grants and contributions (excluding developer contributions) | (68) | (55) |
| Surplus for dividend calculation purposes | — | — |
| Potential dividend calculated from surplus | — | — |

Walcha Council

Statement of Financial Position of water supply business activity

as at 30 June 2021

| | 2021 \$ '000 | 2020 \$ '000 |
|---|-----------------|-----------------|
| ASSETS | | |
| Current assets | | |
| Contract assets and contract cost assets | 483 | 274 |
| Cash and cash equivalents | 58 | 143 |
| Receivables | 58 | 47 |
| Total current assets | 599 | 464 |
| Non-current assets | | |
| Infrastructure, property, plant and equipment | 18,208 | 17,130 |
| Total non-current assets | 18,208 | 17,130 |
| Total assets | 18,807 | 17,594 |
| LIABILITIES | | |
| Current liabilities | | |
| Contract liabilities | – | 118 |
| Payables | 238 | – |
| Borrowings | 10 | 9 |
| Total current liabilities | 248 | 127 |
| Non-current liabilities | | |
| Borrowings | 56 | 66 |
| Total non-current liabilities | 56 | 66 |
| Total liabilities | 304 | 193 |
| Net assets | 18,503 | 17,401 |
| EQUITY | | |
| Accumulated surplus | 6,989 | 6,035 |
| Revaluation reserves | 11,514 | 11,366 |
| Total equity | 18,503 | 17,401 |

Walcha Council

Statement of Financial Position of sewerage business activity

as at 30 June 2021

| | 2021 \$ '000 | 2020 \$ '000 |
|---|-----------------|-----------------|
| ASSETS | | |
| Current assets | | |
| Contract assets and contract cost assets | 76 | 147 |
| Cash and cash equivalents | 563 | 482 |
| Receivables | 44 | 34 |
| Total current assets | 683 | 663 |
| Non-current assets | | |
| Infrastructure, property, plant and equipment | 10,276 | 10,144 |
| Total non-current assets | 10,276 | 10,144 |
| Total assets | 10,959 | 10,807 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 41 | — |
| Total current liabilities | 41 | — |
| Total liabilities | 41 | — |
| Net assets | 10,918 | 10,807 |
| EQUITY | | |
| Accumulated surplus | 3,439 | 3,416 |
| Revaluation reserves | 7,479 | 7,391 |
| Total equity | 10,918 | 10,807 |

Note – Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

Declared business activities

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

Category 1

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

Nil

Category 2

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

1. Walcha Council Combined Water Supplies

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

2. Walcha Council Sewerage Service

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

Taxation equivalent charges

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

Notional rate applied (%)

Corporate income tax rate – **26%** (19/20 27.5%)

Note – Significant Accounting Policies (continued)

Land tax – the first \$755,000 of combined land values attracts **0%**. For the combined land values in excess of \$755,000 up to \$4,616,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$4,616,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **4.85%** on the value of taxable salaries and wages in excess of \$1,200,000.

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

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

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

Income tax

An income tax equivalent has been applied on the profits of the business activities. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level – gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 26% (19/20 27.5%).

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

Accordingly, there is no need for disclosure of internal charges in the SPFS. The rate applied of 26% 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 for all Category 1 businesses has been applied to all assets owned, or exclusively used by the business activity.

Loan and debt guarantee fees

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

(i) Subsidies

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

(ii) Return on investments (rate of return)

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

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

(iii) Dividends

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

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

Note – Significant Accounting Policies (continued)

and must not exceed 50% of the relevant surplus in any one year, or the number of water supply or sewerage assessments at 30 June 2021 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Walcha Council

To the Councillors of Walcha Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Walcha 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 2021, the Statement of Financial Position of each Declared Business Activity as at 30 June 2021 and the Significant accounting policies note.

The Declared Business Activities of the Council are:

- Water Supply
- Sewerage.

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 2021, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in the Significant accounting policies note and the Local Government Code of Accounting Practice and Financial Reporting 2020–21 (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 (including Independence Standards)' (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 the Significant accounting policies note 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 2021 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 the Significant accounting policies note 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.

A handwritten signature in black ink, appearing to read 'CHarper', with a long, sweeping horizontal line extending to the right.

Chris Harper
Director, Financial Audit

Delegate of the Auditor General for New South Wales

28 October 2021
SYDNEY