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Goulburn Mulwaree 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 03 September 2019.

Cr Bob Kirk
Mayor
03 September 2019

Cr Peter Walker
Councillor
03 September 2019

Warwick Bennett
General Manager
03 September 2019

Brendan Hollands
Responsible Accounting Officer
03 September 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	2,297	2,240
User charges	7,469	7,217
Fees	95	105
Interest	869	745
Grants and contributions provided for non-capital purposes	176	93
Profit from the sale of assets	(7)	–
Other income	95	101
Total income from continuing operations	10,994	10,501
Expenses from continuing operations		
Employee benefits and on-costs	1,596	1,619
Borrowing costs	972	1,187
Materials and contracts	2,964	3,183
Depreciation, amortisation and impairment	3,187	3,115
Loss on sale of assets	–	160
Other expenses	333	307
Total expenses from continuing operations	9,052	9,571
Surplus (deficit) from continuing operations before capital amounts	1,942	930
Grants and contributions provided for capital purposes	1,846	5,283
Surplus (deficit) from continuing operations after capital amounts	3,788	6,213
Surplus (deficit) from all operations before tax	3,788	6,213
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(534)	(256)
SURPLUS (DEFICIT) AFTER TAX	3,254	5,957
Plus accumulated surplus	83,521	77,308
Less:		
– Corporate taxation equivalent	534	256
Plus adjustments for amounts unpaid:		
Closing accumulated surplus	87,309	83,521
Return on capital %	1.4%	1.0%
Subsidy from Council	–	3,402
Calculation of dividend payable:		
Surplus (deficit) after tax	3,254	5,957
Less: capital grants and contributions (excluding developer contributions)	(1,846)	(2,306)
Surplus for dividend calculation purposes	1,408	3,651
Potential dividend calculated from surplus	704	1,826

Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	9,095	8,961
User charges	1,672	1,555
Liquid trade waste charges	364	322
Fees	10	91
Interest	884	784
Grants and contributions provided for non-capital purposes	88	90
Other income	119	134
Total income from continuing operations	12,232	11,937
Expenses from continuing operations		
Employee benefits and on-costs	1,731	1,710
Borrowing costs	275	652
Materials and contracts	3,225	2,333
Depreciation, amortisation and impairment	1,640	1,759
Loss on sale of assets	129	357
Other expenses	617	314
Total expenses from continuing operations	7,617	7,125
Surplus (deficit) from continuing operations before capital amounts	4,615	4,812
Grants and contributions provided for capital purposes	2,369	13,277
Surplus (deficit) from continuing operations after capital amounts	6,984	18,089
Surplus (deficit) from all operations before tax	6,984	18,089
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(1,269)	(1,323)
SURPLUS (DEFICIT) AFTER TAX	5,715	16,766
Plus accumulated surplus	88,007	69,918
– Corporate taxation equivalent	1,269	1,323
Plus adjustments for amounts unpaid:		
Less:		
Closing accumulated surplus	94,991	88,007
Return on capital %	4.0%	4.6%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	5,715	16,766
Less: capital grants and contributions (excluding developer contributions)	(2,369)	(9,528)
Surplus for dividend calculation purposes	3,346	7,238
Potential dividend calculated from surplus	1,673	3,619

Income Statement –
for the year ended 30 June 2019

\$ '000	2019	2018
Plus adjustments for amounts unpaid:		
Add:		
Less:		
Closing accumulated surplus	-	-

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Income Statement – Domestic Waste Management

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	3,613	3,459
Interest	87	65
Grants and contributions provided for non-capital purposes	314	338
Profit from the sale of assets	–	18
Other income	39	50
Total income from continuing operations	4,053	3,930
Expenses from continuing operations		
Employee benefits and on-costs	815	697
Materials and contracts	3,393	2,922
Depreciation, amortisation and impairment	1	1
Other expenses	2	118
Total expenses from continuing operations	4,211	3,738
Surplus (deficit) from continuing operations before capital amounts	(158)	192
Surplus (deficit) from continuing operations after capital amounts	(158)	192
Surplus (deficit) from all operations before tax	(158)	192
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(53)
SURPLUS (DEFICIT) AFTER TAX	(158)	139
Plus accumulated surplus	2,122	1,930
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	53
Add:		
Less:		
Closing accumulated surplus	1,964	2,122
Return on capital %	(877.8)%	1,010.5%
Subsidy from Council	158	–

Income Statement – Commercial Waste

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
User charges	1,346	1,246
Total income from continuing operations	1,346	1,246
Expenses from continuing operations		
Employee benefits and on-costs	241	208
Materials and contracts	849	981
Depreciation, amortisation and impairment	8	6
Other expenses	2	2
Total expenses from continuing operations	1,100	1,197
Surplus (deficit) from continuing operations before capital amounts	246	49
Surplus (deficit) from continuing operations after capital amounts	246	49
Surplus (deficit) from all operations before tax	246	49
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(68)	(13)
SURPLUS (DEFICIT) AFTER TAX	178	36
Plus accumulated surplus	548	499
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	68	13
Add:		
Less:		
Closing accumulated surplus	794	548
Return on capital %	229.9%	65.3%

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Statement of Financial Position – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,790	1,797
Investments	25,996	17,714
Receivables	1,645	1,691
Total current assets	30,431	21,202
Non-current assets		
Investments	1,624	7,222
Receivables	19	32
Infrastructure, property, plant and equipment	213,211	209,838
Total non-current assets	214,854	217,092
TOTAL ASSETS	245,285	238,294
LIABILITIES		
Current liabilities		
Payables	1,094	611
Income received in advance	420	–
Borrowings	477	457
Provisions	584	675
Total current liabilities	2,575	1,743
Non-current liabilities		
Borrowings	13,102	13,579
Provisions	64	42
Total non-current liabilities	13,166	13,621
TOTAL LIABILITIES	15,741	15,364
NET ASSETS	229,544	222,930
EQUITY		
Accumulated surplus	87,309	83,521
Revaluation reserves	142,235	139,409
TOTAL EQUITY	229,544	222,930

Statement of Financial Position – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,882	2,005
Investments	26,848	19,770
Receivables	979	971
Inventories	–	3
Internal Loan Receivable from General Fund	58	–
Total current assets	30,767	22,749
Non-current assets		
Investments	1,678	8,059
Receivables	21	39
Infrastructure, property, plant and equipment	123,195	118,090
Internal Loan Receivable from General Fund	942	–
Total non-current assets	125,836	126,188
TOTAL ASSETS	156,603	148,937
LIABILITIES		
Current liabilities		
Payables	862	116
Borrowings	507	495
Provisions	550	507
Total current liabilities	1,919	1,118
Non-current liabilities		
Borrowings	3,434	3,941
Provisions	55	27
Total non-current liabilities	3,489	3,968
TOTAL LIABILITIES	5,408	5,086
NET ASSETS	151,195	143,851
EQUITY		
Accumulated surplus	94,991	88,007
Revaluation reserves	56,204	55,844
TOTAL EQUITY	151,195	143,851

Statement of Financial Position – Domestic Waste Management

for the year ended 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	201	152
Investments	1,877	1,495
Receivables	72	97
Other	22	–
Total current assets	2,172	1,744
Non-current assets		
Investments	117	610
Receivables	4	4
Infrastructure, property, plant and equipment	18	19
Total non-current assets	139	633
TOTAL ASSETS	2,311	2,377
LIABILITIES		
Current liabilities		
Payables	71	29
Provisions	251	214
Total current liabilities	322	243
Non-current liabilities		
Provisions	25	12
Total non-current liabilities	25	12
TOTAL LIABILITIES	347	255
NET ASSETS	1,964	2,122
EQUITY		
Accumulated surplus	1,964	2,122
TOTAL EQUITY	1,964	2,122

Statement of Financial Position – Commercial Waste
for the year ended 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Receivables	687	473
Total current assets	687	473
Non-current assets		
Infrastructure, property, plant and equipment	107	75
Total non-current assets	107	75
TOTAL ASSETS	794	548
NET ASSETS	794	548
EQUITY		
Accumulated surplus	794	548
TOTAL EQUITY	794	548

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Goulburn Mulwaree Council

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)

a. Water Supply

Provide potable water for the Local Government Area.

b. Sewerage Services

Provide waste water services for the Local Government Area.

Category 2

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

a. Domestic Waste Management

Collection and disposal of domestic waste in accordance with section 504 of the Local Government Act.

b. Commercial Waste

continued on next page ...

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

Note 1. Significant Accounting Policies (continued)

Collection and disposal of commercial waste on a user pays basis.

Monetary amounts

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(i) Taxation equivalent charges

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Income tax

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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

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Special Purpose Financial Statements
for the year ended 30 June 2019

Please upift Council's Audit Report PDF (opinion) for inclusion in the SPFS report (via the Home screen).

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