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Murrumbidgee Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2024



Murrumbidgee Council

Special Purpose Financial Statements

for the year ended 30 June 2024

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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).

Murrumbidgee Council

Special Purpose Financial Statements

for the year ended 30 June 2024

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:

- NSW Government Policy Statement, *Application of National Competition Policy to Local Government*
- 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
- Sections 3 and 4 of the NSW Department of Climate Change, Energy, the Environment and Water's (DCCEE) *Regulatory and assurance framework for local water utilities, July 2022*

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; 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 these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 03 October 2024.

Ruth McRae OAM
Mayor
03 October 2024

Robert Black
Councillor
03 October 2024

John Scarce
General Manager
03 October 2024

Kaitlin Salzke
Responsible Accounting Officer
03 October 2024

Murrumbidgee Council

Income Statement of water supply business activity

for the year ended 30 June 2024

\$ '000	2024	2023
Income from continuing operations		
Access charges	498	470
User charges	658	472
Fees	328	304
Interest and investment income	221	128
Grants and contributions provided for operating purposes	75	27
Other income	1	–
Total income from continuing operations	1,781	1,401
Expenses from continuing operations		
Employee benefits and on-costs	323	297
Materials and services	526	543
Depreciation, amortisation and impairment	428	396
Net loss from the disposal of assets	37	15
Total expenses from continuing operations	1,314	1,251
Surplus (deficit) from continuing operations before capital amounts	467	150
Surplus (deficit) from continuing operations after capital amounts	467	150
Surplus (deficit) from all operations before tax	467	150
Less: corporate taxation equivalent (25%) [based on result before capital]	(116)	(38)
Surplus (deficit) after tax	351	112
Opening accumulated surplus	12,043	11,893
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	117	38
Less:		
Closing accumulated surplus	12,511	12,043
Return on capital %	2.7%	0.9%
Subsidy from Council	272	521
Calculation of dividend payable:		
Surplus (deficit) after tax	351	112
Surplus for dividend calculation purposes	351	112
Potential dividend calculated from surplus	176	56

Murrumbidgee Council

Income Statement of sewerage business activity

for the year ended 30 June 2024

\$ '000	2024	2023
Income from continuing operations		
Access charges	740	690
User charges	4	4
Liquid trade waste charges	7	6
Interest and investment income	255	164
Total income from continuing operations	1,006	864
Expenses from continuing operations		
Employee benefits and on-costs	238	266
Materials and services	221	271
Depreciation, amortisation and impairment	486	501
Net loss from the disposal of assets	1	–
Total expenses from continuing operations	946	1,038
Surplus (deficit) from continuing operations before capital amounts	60	(174)
Surplus (deficit) from continuing operations after capital amounts	60	(174)
Surplus (deficit) from all operations before tax	60	(174)
Less: corporate taxation equivalent (25%) [based on result before capital]	(15)	–
Surplus (deficit) after tax	45	(174)
Opening accumulated surplus	17,476	17,650
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	15	–
Less:		
Closing accumulated surplus	17,536	17,476
Return on capital %	0.3%	(0.8)%
Subsidy from Council	902	1,050
Calculation of dividend payable:		
Surplus (deficit) after tax	45	(174)
Surplus for dividend calculation purposes	45	–
Potential dividend calculated from surplus	23	–

Murrumbidgee Council

Statement of Financial Position of water supply business activity

as at 30 June 2024

\$ '000	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents	3,691	3,012
Investments	497	497
Receivables	400	288
Contract assets and contract cost assets	97	23
Inventories	26	28
Total current assets	4,711	3,848
Non-current assets		
Infrastructure, property, plant and equipment	17,176	16,681
Intangible assets	943	1,035
Total non-current assets	18,119	17,716
Total assets	22,830	21,564
LIABILITIES		
Current liabilities		
Contract liabilities	50	–
Total current liabilities	50	–
Total liabilities	50	–
Net assets	22,780	21,564
EQUITY		
Accumulated surplus	12,511	12,043
Revaluation reserves	10,269	9,521
Total equity	22,780	21,564

Murrumbidgee Council

Statement of Financial Position of sewerage business activity

as at 30 June 2024

\$ '000	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents	1,073	3,529
Investments	1,136	1,136
Receivables	165	147
Internal loan receivable	300	19
Total current assets	2,674	4,831
Non-current assets		
Infrastructure, property, plant and equipment	22,375	21,792
Internal loan receivable	2,700	–
Total non-current assets	25,075	21,792
Total assets	27,749	26,623
Net assets	27,749	26,623
EQUITY		
Accumulated surplus	17,536	17,476
Revaluation reserves	10,213	9,147
Total equity	27,749	26,623

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Note – Material accounting policy information

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 2022 (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)

a. Murrumbidgee Council Water Funds

Comprising the whole of the water supply operations and net assets servicing the Council area.

b. Murrumbidgee Council Sewerage Funds

Comprising the whole of the sewerage reticulation and treatment operations and net assets servicing the Council area.

Monetary amounts

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

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 (%)

Note – Material accounting policy information (continued)

Corporate income tax rate – **25%** (LY 25%)

Land tax – the first \$1,075,000 of combined land values attracts **0%**. For the combined land values in excess of \$1,075,000 up to \$6,571,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$6,571,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$1,200,000.

In accordance with section 4 of Department of Planning and Environment (DPE) – Water's regulatory and assurance framework, 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 regulatory and assurance framework as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the Act.

Achievement of substantial compliance to sections 3 and 4 of DPE – Water's regulatory and assurance framework 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 relevant corporate income tax rate, currently 25% (LY 25%).

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 25% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

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.

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 4.30% at 30/6/24.

Note – Material accounting policy information (continued)

(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 section 4 of DPE – Water's regulatory and assurance framework 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 2024 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with section 4 of DPE – Water's regulatory and assurance framework, statement of compliance and statement of dividend payment, dividend payment form and unqualified independent financial audit report are submitted to DPE – Water.

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