

Special Purpose Financial Statements

For the year ended 30 June 2023



Murrumbidgee
COUNCIL

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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 2023

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 Planning and Environment, Water's *Regulatory and assurance framework for local water utilities*.

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 21 November 2023.

Ruth McRae OAM
Mayor
21 November 2023

Robert Black
Councillor
21 November 2023

John Scarce
General Manager
21 November 2023

Kaitlin Salzke
Responsible Accounting Officer
21 November 2023

Murrumbidgee Council

Income Statement of water supply business activity

for the year ended 30 June 2023

\$ '000	2023	2022 Restated
Income from continuing operations		
Access charges	470	447
User charges	472	442
Fees	304	290
Interest and investment income	128	22
Grants and contributions provided for operating purposes	27	68
Total income from continuing operations	1,401	1,269
Expenses from continuing operations		
Employee benefits and on-costs	297	279
Materials and services	543	601
Depreciation, amortisation and impairment	396	322
Net loss from the disposal of assets	15	–
Total expenses from continuing operations	1,251	1,202
Surplus (deficit) from continuing operations before capital amounts	150	67
Surplus (deficit) from continuing operations after capital amounts	150	67
Surplus (deficit) from all operations before tax	150	67
Less: corporate taxation equivalent (25%) [based on result before capital]	(38)	(23)
Surplus (deficit) after tax	112	44
Opening accumulated surplus	11,893	11,480
Plus/less: prior period adjustments	–	346
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	38	23
Less:		
Closing accumulated surplus	12,043	11,893
Return on capital %	0.9%	0.7%
Subsidy from Council	521	237
Calculation of dividend payable:		
Surplus (deficit) after tax	113	44
Surplus for dividend calculation purposes	113	44
Potential dividend calculated from surplus	56	22

Murrumbidgee Council

Income Statement of sewerage business activity

for the year ended 30 June 2023

\$ '000	2023	2022 Restated
Income from continuing operations		
Access charges	690	643
User charges	4	4
Liquid trade waste charges	6	4
Interest and investment income	164	21
Total income from continuing operations	864	672
Expenses from continuing operations		
Employee benefits and on-costs	266	246
Materials and services	271	202
Depreciation, amortisation and impairment	501	364
Total expenses from continuing operations	1,038	812
Surplus (deficit) from continuing operations before capital amounts	(174)	(140)
Surplus (deficit) from continuing operations after capital amounts	(174)	(140)
Surplus (deficit) from all operations before tax	(174)	(140)
Surplus (deficit) after tax	(174)	(140)
Opening accumulated surplus	17,649	13,836
Plus/less: prior period adjustments	–	3,954
Plus adjustments for amounts unpaid:		
Less:		
Closing accumulated surplus	17,475	17,650
Return on capital %	(0.8)%	(1.0)%
Subsidy from Council	1,050	440
Calculation of dividend payable:		
Surplus (deficit) after tax	(174)	(140)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Murrumbidgee Council

Statement of Financial Position of water supply business activity

as at 30 June 2023

	2023	2022 Restated
\$ '000		
ASSETS		
Current assets		
Cash and cash equivalents	4,975	4,345
Investments	497	497
Receivables	288	269
Contract assets and contract cost assets	23	141
Inventories	28	27
Total current assets	5,811	5,279
Non-current assets		
Infrastructure, property, plant and equipment	16,681	9,304
Intangible assets	1,035	1,024
Total non-current assets	17,716	10,328
Total assets	23,527	15,607
LIABILITIES		
Current liabilities		
Contract liabilities	1,963	1,963
Total current liabilities	1,963	1,963
Total liabilities	1,963	1,963
Net assets	21,564	13,644
EQUITY		
Accumulated surplus	12,043	11,892
Revaluation reserves	9,521	1,752
Total equity	21,564	13,644

Murrumbidgee Council

Statement of Financial Position of sewerage business activity

as at 30 June 2023

	2023	2022 Restated
\$ '000		
ASSETS		
Current assets		
Cash and cash equivalents	3,529	3,215
Investments	1,136	1,136
Receivables	147	136
Other	19	25
Total current assets	4,831	4,512
Non-current assets		
Infrastructure, property, plant and equipment	21,791	14,444
Other	–	19
Total non-current assets	21,791	14,463
Total assets	26,622	18,975
Net assets	26,622	18,975
EQUITY		
Accumulated surplus	17,475	17,650
Revaluation reserves	9,147	1,325
Total equity	26,622	18,975

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 2021* (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 – Significant Accounting Policies (continued)

Corporate income tax rate – **25%** (21/22 25%)

Land tax – the first \$969,000 of combined land values attracts **0%**. For the combined land values in excess of \$969,000 up to \$5,925,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$5,925,000 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% (21/22 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.

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.

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

Note – Significant Accounting Policies (continued)

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 4.02% at 30/6/23.

(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 2023 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.

Correction of errors (water supply business activity)

Nature of prior period error

It has been identified that water supply assets valued at \$340,148 (as at 30 June 2022) controlled by Council were not previously capitalised.

In addition, a contract liability totalling \$1,962,557 and corresponding cash relating to funds received from the Stronger Communities Fund for upgrades to Council's water treatment plants was not previously recognised in the special purpose financial statements.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2021) and taking the adjustment through to accumulated surplus at that date.

Comparatives have been changed to reflect the correction of errors. The impact on each line item is shown in the tables below.

Changes to the opening Statement of Financial Position at 1 July 2021

Statement of Financial Position

\$ '000	Original Balance 1 July, 2021	Impact Increase/ (decrease)	Restated Balance 1 July, 2021
Cash and cash equivalents	2,099	1,963	4,062
Total current assets	2,989	1,963	4,952
Infrastructure, property, plant and equipment	8,749	346	9,095
Total non-current assets	9,538	346	9,884
Total assets	12,527	2,309	14,836
Contract liabilities	–	1,963	1,963
Total current liabilities	–	1,963	1,963
Total liabilities	–	1,963	1,963
Net assets	12,527	346	12,873
Accumulated surplus	11,480	346	11,826
Total equity	12,527	346	12,873

Adjustments to the comparative figures for the year ended 30 June 2022

Correction of errors (water supply business activity) (continued)

Statement of Financial Position

\$ '000	Original Balance 30 June, 2022	Impact Increase/ (decrease)	Restated Balance 30 June, 2022
Cash and cash equivalents	2,383	1,963	4,346
Total current assets	3,317	1,963	5,280
Infrastructure, property, plant and equipment	8,963	340	9,303
Total non-current assets	9,987	340	10,327
Total assets	13,304	2,303	15,607
Contract liabilities	–	1,963	1,963
Total current liabilities	–	1,963	1,963
Total liabilities	–	1,963	1,963
Net assets	13,304	340	13,644
Accumulated surplus	11,571	322	11,893
Revaluation reserves	1,733	18	1,751
Total equity	13,304	340	13,644

Income Statement

\$ '000	Original Balance 30 June, 2022	Impact Increase/ (decrease)	Restated Balance 30 June, 2022
Total income from continuing operations	1,269	–	1,269
Depreciation, amortisation and impairment	298	24	322
Total expenses from continuing operations	1,178	24	1,202
Net operating result for the year	91	(24)	67

Correction of errors (sewerage business activity)

Nature of prior period error

It has been identified that sewerage network assets valued at \$4,097,360 (as at 30 June 2022) controlled by Council were not previously capitalised.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2021) and taking the adjustment through to accumulated surplus at that date.

Comparatives have been changed to reflect the correction of errors. The impact on each line item is shown in the tables below.

Changes to the opening Statement of Financial Position at 1 July 2021

Statement of Financial Position

\$ '000	Original Balance 1 July, 2021	Impact Increase/ (decrease)	Restated Balance 1 July, 2021
Infrastructure, property, plant and equipment	10,002	3,954	13,956
Total non-current assets	10,046	3,954	14,000

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Correction of errors (sewerage business activity) (continued)

\$ '000	Original Balance 1 July, 2021	Impact Increase/ (decrease)	Restated Balance 1 July, 2021
Total assets	14,392	3,954	18,346
Net assets	14,392	3,954	18,346
Accumulated surplus	13,836	3,954	17,790
Total equity	14,392	3,954	18,346

Adjustments to the comparative figures for the year ended 30 June 2022

Statement of Financial Position

\$ '000	Original Balance 30 June, 2022	Impact Increase/ (decrease)	Restated Balance 30 June, 2022
Infrastructure, property, plant and equipment	10,347	4,097	14,444
Total non-current assets	10,366	4,097	14,463
Total assets	14,878	4,097	18,975
Net assets	14,878	4,097	18,975
Accumulated surplus	13,775	3,875	17,650
Revaluation reserves	1,103	222	1,325
Total equity	14,878	4,097	18,975

Income Statement

\$ '000	Original Balance 30 June, 2022	Impact Increase/ (decrease)	Restated Balance 30 June, 2022
Depreciation, amortisation and impairment	285	79	364
Total expenses from continuing operations	733	79	812
Net operating result for the year	(61)	(79)	(140)

Murrumbidgee Council

Special Purpose Financial Statements for the year ended 30 June 2023

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