

Byron Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2022

Byron Shire is a 'meeting place' - Where people can come together to connect, share, grow, inspire, and create positive change.



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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).

Byron Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2022

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 24 November 2022.

Michael Lyon
Mayor
24 November 2022

Sarah Ndiaye
Deputy Mayor
24 November 2022

Mark Arnold
General Manager
24 November 2022

James Brickley
Responsible Accounting Officer
24 November 2022

Byron Shire Council

Income Statement of water supply business activity

for the year ended 30 June 2022

\$ '000	2022	2021
Income from continuing operations		
Access charges	2,653	2,544
User charges	7,125	7,611
Fees	295	250
Interest and investment income	41	51
Grants and contributions provided for operating purposes	71	75
Total income from continuing operations	10,185	10,531
Expenses from continuing operations		
Employee benefits and on-costs	1,419	1,246
Materials and services	4,268	3,361
Depreciation, amortisation and impairment	1,451	1,439
Water purchase charges	4,825	4,480
Net loss on disposal of assets	1,543	335
Calculated taxation equivalents	164	168
Total expenses from continuing operations	13,670	11,029
Surplus (deficit) from continuing operations before capital amounts	(3,485)	(498)
Grants and contributions provided for capital purposes	267	743
Surplus (deficit) from continuing operations after capital amounts	(3,218)	245
Surplus (deficit) from all operations before tax	(3,218)	245
Surplus (deficit) after tax	(3,218)	245
Plus accumulated surplus	43,297	42,912
Plus/less: prior period adjustments	2,518	2,518
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	164	168
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	42,733	45,815
Return on capital %	(4.3)%	(0.6)%
Calculation of dividend payable:		
Surplus (deficit) after tax	(3,218)	245
Less: capital grants and contributions (excluding developer contributions)	(267)	(743)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Byron Shire Council

Income Statement of sewerage business activity

for the year ended 30 June 2022

\$ '000	2022	2021
Income from continuing operations		
Access charges	16,208	15,587
User charges	1,524	1,933
Liquid trade waste charges	235	349
Fees	430	321
Interest and investment income	82	124
Grants and contributions provided for operating purposes	68	72
Total income from continuing operations	18,547	18,386
Expenses from continuing operations		
Employee benefits and on-costs	3,069	3,049
Borrowing costs	1,924	2,054
Materials and services	7,808	7,715
Depreciation, amortisation and impairment	3,136	3,070
Net loss on disposal of assets	1,945	585
Calculated taxation equivalents	527	531
Debt guarantee fee (if applicable)	865	1,307
Total expenses from continuing operations	19,274	18,311
Surplus (deficit) from continuing operations before capital amounts	(727)	75
Grants and contributions provided for capital purposes	2,348	2,229
Surplus (deficit) from continuing operations after capital amounts	1,621	2,304
Surplus (deficit) from all operations before tax	1,621	2,304
Less: corporate taxation equivalent (25%) [based on result before capital]	–	(20)
Surplus (deficit) after tax	1,621	2,284
Plus accumulated surplus	98,954	94,840
Plus/less: prior period adjustments	2,673	2,673
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	527	531
– Debt guarantee fees	865	1,307
– Corporate taxation equivalent	–	20
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	104,612	101,627
Return on capital %	0.7%	1.3%
Calculation of dividend payable:		
Surplus (deficit) after tax	1,621	2,284
Less: capital grants and contributions (excluding developer contributions)	(2,348)	(2,229)
Surplus for dividend calculation purposes	–	55
Potential dividend calculated from surplus	–	28

Byron Shire Council

Income Statement of Holiday Parks Business Activity

for the year ended 30 June 2022

\$ '000	2022 Category 1	2021 Category 1
Income from continuing operations		
Fees	3,024	4,055
Total income from continuing operations	3,024	4,055
Expenses from continuing operations		
Calculated taxation equivalents	475	528
Depreciation, amortisation and impairment	186	153
Net loss from the disposal of assets	120	121
Materials and services	1,608	1,977
Other expenses	618	568
Total expenses from continuing operations	3,007	3,347
Surplus (deficit) from continuing operations before capital amounts	17	708
Surplus (deficit) from continuing operations after capital amounts	17	708
Surplus (deficit) from all operations before tax	17	708
Less: corporate taxation equivalent (25%) [based on result before capital]	(9)	(184)
Surplus (deficit) after tax	8	524
Plus accumulated surplus	7,858	8,533
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	475	528
– Corporate taxation equivalent	8	184
Less:		
– TER dividend paid	(1,206)	(1,206)
– Dividend paid	(649)	(705)
Closing accumulated surplus	6,494	7,858
Return on capital %	0.0%	1.8%
Subsidy from Council	1,742	–

Byron Shire Council

Statement of Financial Position of water supply business activity

as at 30 June 2022

\$ '000	2022	2021
ASSETS		
Current assets		
Investments	10,799	11,437
Receivables	2,253	2,459
Total current assets	13,052	13,896
Non-current assets		
Infrastructure, property, plant and equipment	80,396	83,679
Total non-current assets	80,396	83,679
Total assets	93,448	97,575
Net assets	93,448	97,575
EQUITY		
Accumulated surplus	42,733	45,815
Revaluation reserves	50,715	51,760
Total equity	93,448	97,575

Byron Shire Council

Statement of Financial Position of sewerage business activity

as at 30 June 2022

\$ '000	2022	2021
ASSETS		
Current assets		
Investments	11,545	13,221
Receivables	2,324	2,106
Total current assets	13,869	15,327
Non-current assets		
Infrastructure, property, plant and equipment	174,097	158,426
Total non-current assets	174,097	158,426
Total assets	187,966	173,753
LIABILITIES		
Current liabilities		
Payables	110	120
Borrowings	2,642	2,501
Total current liabilities	2,752	2,621
Non-current liabilities		
Borrowings	33,057	35,699
Total non-current liabilities	33,057	35,699
Total liabilities	35,809	38,320
Net assets	152,157	135,433
EQUITY		
Accumulated surplus	104,612	101,627
Revaluation reserves	47,545	33,806
Total equity	152,157	135,433

Byron Shire Council

Statement of Financial Position of Holiday Parks Business Activity

as at 30 June 2022

\$ '000	2022 Category 1	2021 Category 1
ASSETS		
Non-current assets		
Investments	1,669	2,617
Infrastructure, property, plant and equipment	48,057	39,119
Total non-current assets	49,726	41,736
Total assets	49,726	41,736
LIABILITIES		
Current liabilities		
Payables	1,012	741
Total current liabilities	1,012	741
Total liabilities	1,012	741
Net assets	48,714	40,995
EQUITY		
Accumulated surplus	6,495	7,858
Revaluation reserves	42,219	33,137
Total equity	48,714	40,995

Byron Shire Council

Prior Period Error - Water Supply Business Activity

as at 30 June 2022

Nature of Prior-Period Error

During the 2021/2022 financial reporting period, Council's Water Supply Assets were subject to a comprehensive revaluation at 30 June 2022. The process of the revaluation identified a number of infrastructure assets that have been added to the asset register over time since the last comprehensive revaluation at 30 June 2017 but were not previously valued. For Water Supply infrastructure these assets included hydrants, reuse mains, reuse valves, valves and mains. Council has now updated its Capital Value Register to include these assets at appropriate values as at 30 June 2022.

It was determined that this should be treated as a prior period error as the assets should have been included in Council's Capital Value Register in a prior year.

Comparatives have been changed to reflect the correction of errors. The impact on each line item is shown in the tables below. Council does not deem it necessary to disclose a third year in the Statement of Financial Position. The Special Purpose Financial Statements have been prepared in accordance with the Special Purpose reporting framework and the requirements of AASB 101 to disclose a third year in the Statement of Financial Position have not been applied.

Changes to the opening Statement of Financial Position at 1 July 2020

Statement of Financial Position

\$ '000	Original Balance 1 July, 2020	Impact Increase/ (decrease)	Restated Balance 1 July, 2020
Infrastructure, property, plant and equipment	76,876	2,518	79,394
Total assets	89,620	2,518	92,138
Net assets	89,620	2,518	92,138
Accumulated surplus	42,912	2,518	45,430
Total equity	89,620	2,518	92,138

Adjustments to the comparative figures for the year ended 30 June 2021

Statement of Financial Position

\$ '000	Original Balance 30 June, 2021	Impact Increase/ (decrease)	Restated Balance 30 June, 2021
Infrastructure, property, plant and equipment	81,161	2,518	83,679
Total assets	95,057	2,518	97,575
Net assets	95,057	2,518	97,575
Accumulated surplus	43,297	2,518	45,815
Total equity	95,057	2,518	97,575

Byron Shire Council

Prior Period Error - Sewerage Business Activity

as at 30 June 2022

Nature of Prior-Period Error

During the 2021/2022 financial reporting period, Council's Sewerage Infrastructure Assets were subject to a comprehensive revaluation at 30 June 2022. The process of the revaluation identified a number of infrastructure assets that have been added to the asset register over time since the last comprehensive revaluation at 30 June 2017 but were not previously valued. For Sewerage infrastructure these assets included rising main valves, rising mains, inground structures, site features, switchboard items, pumps, pump instrumentation, pump odour control, pressure boundary valves, pressure mains, gravity mains and gravity manholes. Council has now updated it's Capital Value Register to include these assets at appropriate values as at 30 June 2022.

It was determined that this should be treated as a prior period error as the assets should have been included in Council's Capital Value Register in a prior year.

Comparatives have been changed to reflect the correction of errors. The impact on each line item is shown in the tables below. Council does not deem it necessary to disclose a third year in the Statement of Financial Position. The Special Purpose Financial Statements have been prepared in accordance with the Special Purpose reporting framework and the requirements of AASB 101 to disclose a third year in the Statement of Financial Position have not been applied.

Changes to the opening Statement of Financial Position at 1 July 2020

Statement of Financial Position

	Original Balance 1 July, 2020	Impact Increase/ (decrease)	Restated Balance 1 July, 2020
\$ '000			
Infrastructure, property, plant and equipment	134,939	2,673	137,612
Total assets	152,843	2,673	155,516
Net assets	112,143	2,673	114,816
Accumulated surplus	94,840	2,673	97,513
Total equity	112,143	2,673	114,816

Adjustments to the comparative figures for the year ended 30 June 2021

Statement of Financial Position

	Original Balance 30 June, 2021	Impact Increase/ (decrease)	Restated Balance 30 June, 2021
\$ '000			
Infrastructure, property, plant and equipment	155,753	2,673	158,426
Total assets	171,080	2,673	173,753
Net assets	132,760	2,673	135,433
Accumulated surplus	98,954	2,673	101,627
Total equity	132,760	2,673	135,433

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 (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 Finance Position includes notional assets/liabilities receivable from/payable to Council's General Fund. These balances reflect the notional inter-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. Byron Shire Council Water Supplies

Water supply operations servicing the towns of Byron Bay, Mullumbimby, Bangalow, Suffolk Park, Brunswick Heads and Ocean Shores.

b. Byron Shire Council Sewerage Service

Sewerage reticulation and treatment operations servicing the towns of Byron Bay, Mullumbimby, Bangalow, Suffolk Park, Brunswick Heads and Ocean Shores.

c. Byron Shire Council Holiday Parks

Council owned Holiday Parks operated in the Shire. The holiday parks include First Sun and Suffolk Beachfront.

Category 2

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

Nil

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.

Note – Significant Accounting Policies (continued)

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 – **25%** (20/21 26%)

Land tax – the first \$822,000 of combined land values attracts **0%**. For the combined land values in excess of \$822,000 up to \$5,026,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$5,026,000 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 (DPIE) – Best Practice Management of Water Supply and Sewerage 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 DPIE – Best Practice Management of Water Supply and Sewerage 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 DPIE – Best Practice Management of Water Supply and Sewerage 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 relevant corporate income tax rate, currently 25% (20/21 26%).

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 25% is the equivalent company tax rate prevalent at reporting date.

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.

(i) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Note – Significant Accounting Policies (continued)

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.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(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'.

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 3.66% at 30 June 2022.

(iii) 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:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2022 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Planning, Industry and Environment (DPIE) – Best Practice Management Water Supply and Sewerage 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.

Byron Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2022
