

Byron Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2021

*Culturally rich and thriving communities living in harmony,
responding positively to the challenges of our world, and
leading by example.*



Special Purpose Financial Statements

for the year ended 30 June 2021

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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 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 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 28 October 2021.

Michael Lyon
Mayor
28 October 2021

Sarah Ndiaye
Deputy Mayor
28 October 2021

Mark Arnold
General Manager
28 October 2021

James Brickley
Responsible Accounting Officer
28 October 2021

Byron Shire Council

Income Statement of Water Supply Business Activity

for the year ended 30 June 2021

\$ '000	2021	2020
Income from continuing operations		
Access charges	2,544	2,474
User charges	7,611	6,924
Fees	250	304
Interest	51	58
Grants and contributions provided for non-capital purposes	75	77
Total income from continuing operations	10,531	9,837
Expenses from continuing operations		
Employee benefits and on-costs	1,246	1,045
Materials and services	3,361	3,486
Depreciation, amortisation and impairment	1,439	1,504
Water purchase charges	4,480	4,278
Loss on Sale of Assets	335	998
Calculated taxation equivalents	168	86
Other expenses	–	11
Total expenses from continuing operations	11,029	11,408
Surplus (deficit) from continuing operations before capital amounts	(498)	(1,571)
Grants and contributions provided for capital purposes	743	445
Surplus (deficit) from continuing operations after capital amounts	245	(1,126)
Surplus (deficit) from all operations before tax	245	(1,126)
Surplus (deficit) after tax	245	(1,126)
Plus accumulated surplus	42,912	43,979
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	168	86
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	43,297	42,911
Return on capital %	(0.6)%	(2.0)%
Calculation of dividend payable:		
Surplus (deficit) after tax	245	(1,126)
Less: capital grants and contributions (excluding developer contributions)	(743)	(445)
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 2021

\$ '000	2021	2020
Income from continuing operations		
Access charges	15,587	11,083
User charges	1,933	4,670
Liquid trade waste charges	349	256
Fees	321	310
Interest	124	211
Grants and contributions provided for non-capital purposes	72	77
Total income from continuing operations	18,386	16,607
Expenses from continuing operations		
Employee benefits and on-costs	3,049	2,928
Borrowing costs	2,054	2,591
Materials and services	7,715	6,893
Depreciation, amortisation and impairment	3,070	3,143
Loss on sale of assets	585	192
Calculated taxation equivalents	531	225
Debt guarantee fee (if applicable)	1,307	974
Other expenses	–	42
Total expenses from continuing operations	18,311	16,988
Surplus (deficit) from continuing operations before capital amounts	75	(381)
Grants and contributions provided for capital purposes	2,229	1,249
Surplus (deficit) from continuing operations after capital amounts	2,304	868
Surplus (deficit) from all operations before tax	2,304	868
Less: corporate taxation equivalent [based on result before capital]	(20)	–
Surplus (deficit) after tax	2,284	868
Plus accumulated surplus	94,840	92,802
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	531	225
– Debt guarantee fees	1,307	974
– Corporate taxation equivalent	20	–
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	98,954	94,841
Return on capital %	1.4%	1.6%
Calculation of dividend payable:		
Surplus (deficit) after tax	2,285	868
Less: capital grants and contributions (excluding developer contributions)	(2,229)	(1,249)
Surplus for dividend calculation purposes	56	–
Potential dividend calculated from surplus	28	–

Byron Shire Council

Income Statement of Holiday Parks Business Activity

for the year ended 30 June 2021

\$ '000	2021 Category 1	2020 Category 1
Income from continuing operations		
Fees	4,055	3,541
Total income from continuing operations	4,055	3,541
Expenses from continuing operations		
Calculated taxation equivalents	528	361
Depreciation, amortisation and impairment	153	157
Loss on sale of assets	121	—
Materials and services	1,977	1,653
Other expenses	568	981
Total expenses from continuing operations	3,347	3,152
Surplus (deficit) from continuing operations before capital amounts	708	389
Surplus (deficit) from continuing operations after capital amounts	708	389
Surplus (deficit) from all operations before tax	708	389
Less: corporate taxation equivalent [based on result before capital]	(184)	(107)
Surplus (deficit) after tax	524	282
Plus accumulated surplus	8,533	9,685
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	528	361
– Corporate taxation equivalent	184	107
Less:		
– TER dividend paid	(1,206)	(906)
– Dividend paid	(705)	(996)
Closing accumulated surplus	7,858	8,533
Return on capital %	1.8%	1.4%

Byron Shire Council

Statement of Financial Position of Water Supply Business Activity

as at 30 June 2021

\$ '000	2021	2020
ASSETS		
Current assets		
Investments	11,437	10,744
Receivables	2,459	2,000
Total current assets	13,896	12,744
Non-current assets		
Infrastructure, property, plant and equipment	81,161	76,876
Total non-current assets	81,161	76,876
Total assets	95,057	89,620
Net assets	95,057	89,620
EQUITY		
Accumulated surplus	43,297	42,912
Revaluation reserves	51,760	46,708
Total equity	95,057	89,620

Byron Shire Council

Statement of Financial Position of Sewerage Business Activity

as at 30 June 2021

\$ '000	2021	2020
ASSETS		
Current assets		
Investments	13,221	15,897
Receivables	2,106	2,007
Total current assets	15,327	17,904
Non-current assets		
Infrastructure, property, plant and equipment	155,753	134,939
Total non-current assets	155,753	134,939
Total assets	171,080	152,843
LIABILITIES		
Current liabilities		
Payables	120	128
Borrowings	2,501	2,372
Total current liabilities	2,621	2,500
Non-current liabilities		
Borrowings	35,699	38,200
Total non-current liabilities	35,699	38,200
Total liabilities	38,320	40,700
Net assets	132,760	112,143
EQUITY		
Accumulated surplus	98,954	94,840
Revaluation reserves	33,806	17,303
Total equity	132,760	112,143

Byron Shire Council

Statement of Financial Position of Holiday Parks Business Activity

as at 30 June 2021

\$ '000	2021 Category 1	2020 Category 1
ASSETS		
Non-current assets		
Investments	2,617	3,089
Infrastructure, property, plant and equipment	39,119	27,586
Total non-current assets	41,736	30,675
Total assets	41,736	30,675
LIABILITIES		
Current liabilities		
Payables	741	564
Total current liabilities	741	564
Total liabilities	741	564
Net assets	40,995	30,111
EQUITY		
Accumulated surplus	7,858	8,534
Revaluation reserves	33,137	21,577
Total equity	40,995	30,111

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 – **26%** (19/20 27.5%)

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 **1.6% + \$100**. 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 (DoPIE) – 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 DoPIE – 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 DoPIE – 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 corporate income tax rate, currently 26% (19/20 27.50%)

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 26% 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 1.49% at 30 June 2021.

(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 2021 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 (DoPIE) – 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 2021
