

Byron Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

*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 2020

Contents	Page
Statement by Councillors & Management	3
Special Purpose Financial Statements	
Income Statement – Water Supply Business Activity	4
Income Statement – Sewerage Business Activity	5
Income Statement – Holiday Parks	6
Statement of Financial Position – Water Supply Business Activity	7
Statement of Financial Position – Sewerage Business Activity	8
Statement of Financial Position – Holiday Parks	9
Note 1 – Significant Accounting Policies	10
Auditor's Report on Special Purpose Financial Statements	13

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 2020

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 22 October 2020.

Simon Richardson
Mayor
22 October 2020

Michael Lyon
Deputy Mayor
22 October 2020

Mark Arnold
General Manager
22 October 2020

James Brickley
Responsible Accounting Officer
22 October 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	2,474	2,369
User charges	6,924	7,353
Fees	304	327
Interest	58	104
Grants and contributions provided for non-capital purposes	77	77
Total income from continuing operations	9,837	10,230
Expenses from continuing operations		
Employee benefits and on-costs	1,045	861
Materials and contracts	3,486	3,146
Depreciation, amortisation and impairment	1,504	1,413
Water purchase charges	4,278	4,386
Loss on Sale of Assets	998	70
Calculated taxation equivalents	86	88
Other expenses	11	10
Total expenses from continuing operations	11,408	9,974
Surplus (deficit) from continuing operations before capital amounts	(1,571)	256
Grants and contributions provided for capital purposes	445	1,002
Surplus (deficit) from continuing operations after capital amounts	(1,126)	1,258
Surplus (deficit) from all operations before tax	(1,126)	1,258
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(70)
SURPLUS (DEFICIT) AFTER TAX	(1,126)	1,188
Plus accumulated surplus	43,979	42,661
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	86	88
– Corporate taxation equivalent	–	70
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	42,911	43,979
Return on capital %	(2.0)%	0.3%
Subsidy from Council	2,248	752
Calculation of dividend payable:		
Surplus (deficit) after tax	(1,126)	1,188
Less: capital grants and contributions (excluding developer contributions)	(445)	(755)
Surplus for dividend calculation purposes	–	433
Potential dividend calculated from surplus	–	216

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	11,083	10,617
User charges	4,670	5,216
Liquid trade waste charges	256	275
Fees	310	293
Interest	211	275
Grants and contributions provided for non-capital purposes	77	75
Total income from continuing operations	16,607	16,751
Expenses from continuing operations		
Employee benefits and on-costs	2,928	2,426
Borrowing costs	2,591	3,246
Materials and contracts	6,893	6,984
Depreciation, amortisation and impairment	3,143	3,076
Loss on sale of assets	192	1,471
Calculated taxation equivalents	225	228
Debt guarantee fee (if applicable)	974	1,006
Other expenses	42	48
Total expenses from continuing operations	16,988	18,485
Surplus (deficit) from continuing operations before capital amounts	(381)	(1,734)
Grants and contributions provided for capital purposes	1,249	1,982
Surplus (deficit) from continuing operations after capital amounts	868	248
Surplus (deficit) from all operations before tax	868	248
SURPLUS (DEFICIT) AFTER TAX	868	248
Plus accumulated surplus	92,802	91,348
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	225	228
– Debt guarantee fees	974	1,006
Less:		
– Tax equivalent dividend paid	(28)	(28)
Closing accumulated surplus	94,841	92,802
Return on capital %	1.6%	1.1%
Subsidy from Council	–	253
Calculation of dividend payable:		
Surplus (deficit) after tax	868	248
Less: capital grants and contributions (excluding developer contributions)	(1,249)	(182)
Surplus for dividend calculation purposes	–	66
Potential dividend calculated from surplus	–	33

Income Statement – Holiday Parks

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
Fees	3,541	4,712
Total income from continuing operations	3,541	4,712
Expenses from continuing operations		
Materials and contracts	1,653	1,974
Depreciation, amortisation and impairment	157	141
Calculated taxation equivalents	361	363
Other expenses	981	934
Total expenses from continuing operations	3,152	3,412
Surplus (deficit) from continuing operations before capital amounts	389	1,300
Surplus (deficit) from continuing operations after capital amounts	389	1,300
Surplus (deficit) from all operations before tax	389	1,300
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(107)	(358)
SURPLUS (DEFICIT) AFTER TAX	282	942
Plus accumulated surplus	9,685	9,038
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	361	363
– Corporate taxation equivalent	107	358
Less:		
– TER dividend paid	(906)	(907)
– Dividend paid	(723)	(109)
Closing accumulated surplus	8,806	9,685
Return on capital %	1.4%	4.9%

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Investments	10,744	11,442
Receivables	2,000	2,208
Total current assets	12,744	13,650
Non-current assets		
Infrastructure, property, plant and equipment	76,876	76,396
Total non-current assets	76,876	76,396
TOTAL ASSETS	89,620	90,046
NET ASSETS	89,620	90,046
EQUITY		
Accumulated surplus	42,912	43,979
Revaluation reserves	46,708	46,067
TOTAL EQUITY	89,620	90,046

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Investments	15,897	15,851
Receivables	2,007	2,341
Total current assets	17,904	18,192
Non-current assets		
Infrastructure, property, plant and equipment	134,939	133,695
Total non-current assets	134,939	133,695
TOTAL ASSETS	152,843	151,887
LIABILITIES		
Current liabilities		
Payables	128	201
Borrowings	1,150	1,761
Total current liabilities	1,278	1,962
Non-current liabilities		
Borrowings	39,422	40,897
Total non-current liabilities	39,422	40,897
TOTAL LIABILITIES	40,700	42,859
NET ASSETS	112,143	109,028
EQUITY		
Accumulated surplus	94,840	92,802
Revaluation reserves	17,303	16,226
TOTAL EQUITY	112,143	109,028

Statement of Financial Position – Holiday Parks

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Non-current assets		
Investments	3,362	3,811
Infrastructure, property, plant and equipment	27,586	26,453
Total non-current assets	30,948	30,264
TOTAL ASSETS	30,948	30,264
LIABILITIES		
Current liabilities		
Payables	564	291
Total current liabilities	564	291
TOTAL LIABILITIES	564	291
NET ASSETS	30,384	29,973
EQUITY		
Accumulated surplus	8,807	9,685
Revaluation reserves	21,577	20,288
TOTAL EQUITY	30,384	29,973

Byron Shire Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

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.

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

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Monetary amounts

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

(i) 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 (%)

Corporate income tax rate – 27.5%

Land tax – the first \$734,000 of combined land values attracts 0%. For the combined land values in excess of \$734,001 up to \$4,488,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,488,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – Water 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 DoI – Water 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 DoI – Water 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 27.5%.

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 27.5% 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.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

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 June 2019.

(iv) 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 2020 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water 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.

Special Purpose Financial Statements
for the year ended 30 June 2020
