

Byron Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2023

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



Special Purpose Financial Statements

for the year ended 30 June 2023

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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 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:

- 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*,
- Sections 3 and 4 of the NSW Department of Planning and Environment *Water 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 26 October 2023.

Michael Lyon
Mayor
26 October 2023

Sarah Ndiaye
Deputy Mayor
26 October 2023

Mark Arnold
General Manager
26 October 2023

James Brickley
Responsible Accounting Officer
26 October 2023

Byron Shire Council

Income Statement of water supply business activity

for the year ended 30 June 2023

\$ '000	2023	2022
Income from continuing operations		
Access charges	2,800	2,653
User charges	7,786	7,125
Fees	375	295
Interest and investment income	123	41
Grants and contributions provided for operating purposes	67	71
Total income from continuing operations	11,151	10,185
Expenses from continuing operations		
Employee benefits and on-costs	2,428	1,419
Materials and services	3,057	4,268
Depreciation, amortisation and impairment	1,562	1,451
Water purchase charges	4,536	4,825
Net loss on disposal of assets	1	1,543
Calculated taxation equivalents	213	164
Total expenses from continuing operations	11,797	13,670
Surplus (deficit) from continuing operations before capital amounts	(646)	(3,485)
Grants and contributions provided for capital purposes	212	267
Surplus (deficit) from continuing operations after capital amounts	(434)	(3,218)
Surplus (deficit) from all operations before tax	(434)	(3,218)
Surplus (deficit) after tax	(434)	(3,218)
Plus accumulated surplus	42,733	43,297
Plus/less: prior period adjustments	–	2,518
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	213	164
Less:		
– Tax equivalent dividend paid	(29)	(28)
Closing accumulated surplus	42,483	42,733
Return on capital %	(0.7)%	(4.3)%
Calculation of dividend payable:		
Surplus (deficit) after tax	(434)	(3,218)
Less: capital grants and contributions (excluding developer contributions)	(212)	(267)
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 2023

\$ '000	2023	2022 Restated
Income from continuing operations		
Access charges	16,950	16,208
User charges	1,960	1,524
Liquid trade waste charges	344	235
Fees	482	430
Interest and investment income	219	82
Grants and contributions provided for operating purposes	64	68
Other Income	108	—
Total income from continuing operations	20,127	18,547
Expenses from continuing operations		
Employee benefits and on-costs	3,019	3,069
Borrowing costs	1,785	1,924
Materials and services	9,303	7,808
Depreciation, amortisation and impairment	3,353	3,136
Net loss on disposal of assets	5	1,945
Calculated taxation equivalents	806	527
Debt guarantee fee (if applicable)	805	865
Total expenses from continuing operations	19,076	19,274
Surplus (deficit) from continuing operations before capital amounts	1,051	(727)
Grants and contributions provided for capital purposes	1,981	1,581
Surplus (deficit) from continuing operations after capital amounts	3,032	854
Surplus (deficit) from all operations before tax	3,032	854
Surplus (deficit) after tax	3,032	854
Plus accumulated surplus	103,845	98,954
Plus/less: prior period adjustments	—	2,673
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	806	527
– Debt guarantee fees	805	865
Less:		
– Tax equivalent dividend paid	(29)	(28)
Closing accumulated surplus	108,459	103,845
Return on capital %	1.5%	0.7%
Calculation of dividend payable:		
Surplus (deficit) after tax	3,032	854
Less: capital grants and contributions (excluding developer contributions)	(1,981)	(1,581)
Surplus for dividend calculation purposes	1,051	—
Potential dividend calculated from surplus	526	—

Byron Shire Council

Income Statement of Holiday Parks Business Activity

for the year ended 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
Income from continuing operations		
Fees	4,697	3,024
Total income from continuing operations	4,697	3,024
Expenses from continuing operations		
Calculated taxation equivalents	638	475
Depreciation, amortisation and impairment	126	186
Net loss from the disposal of assets	–	120
Materials and services	2,233	1,608
Other expenses	836	618
Total expenses from continuing operations	3,833	3,007
Surplus (deficit) from continuing operations before capital amounts	864	17
Surplus (deficit) from continuing operations after capital amounts	864	17
Surplus (deficit) from all operations before tax	864	17
Less: corporate taxation equivalent (25%) [based on result before capital]	(216)	(8)
Surplus (deficit) after tax	648	9
Plus accumulated surplus	6,495	7,858
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	638	475
– Corporate taxation equivalent	216	8
Less:		
– TER dividend paid	(1,306)	(1,206)
– Dividend paid	(646)	(649)
Closing accumulated surplus	6,045	6,495
Return on capital %	1.6%	0.0%
Subsidy from Council	1,363	1,742

Byron Shire Council

Statement of Financial Position of water supply business activity

as at 30 June 2023

\$ '000	2023	2022
ASSETS		
Current assets		
Investments	7,423	10,799
Receivables	3,208	2,253
Total current assets	10,631	13,052
Non-current assets		
Infrastructure, property, plant and equipment	89,187	80,396
Total non-current assets	89,187	80,396
Total assets	99,818	93,448
Net assets	99,818	93,448
EQUITY		
Accumulated surplus	42,483	42,733
Revaluation reserves	57,335	50,715
Total equity	99,818	93,448

Byron Shire Council

Statement of Financial Position of sewerage business activity

as at 30 June 2023

\$ '000	2023	2022 Restated
ASSETS		
Current assets		
Investments	10,553	11,545
Receivables	3,285	2,324
Total current assets	13,838	13,869
Non-current assets		
Infrastructure, property, plant and equipment	190,758	174,097
Total non-current assets	190,758	174,097
Total assets	204,596	187,966
LIABILITIES		
Current liabilities		
Contract liabilities	273	767
Payables	103	110
Borrowings	2,789	2,642
Total current liabilities	3,165	3,519
Non-current liabilities		
Borrowings	30,268	33,057
Total non-current liabilities	30,268	33,057
Total liabilities	33,433	36,576
Net assets	171,163	151,390
EQUITY		
Accumulated surplus	108,459	103,845
Revaluation reserves	62,704	47,545
Total equity	171,163	151,390

Byron Shire Council

Statement of Financial Position of Holiday Parks Business Activity

as at 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
ASSETS		
Non-current assets		
Investments	1,563	1,669
Infrastructure, property, plant and equipment	55,407	48,057
Total non-current assets	56,970	49,726
Total assets	56,970	49,726
LIABILITIES		
Current liabilities		
Payables	1,230	1,012
Total current liabilities	1,230	1,012
Total liabilities	1,230	1,012
Net assets	55,740	48,714
EQUITY		
Accumulated surplus	6,045	6,495
Revaluation reserves	49,695	42,219
Total equity	55,740	48,714

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%** (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 Department of Planning & 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 *Local Government Act, 1993*.

Achievement of substantial compliance with 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%.

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 4.02% at 30 June 2023.

(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 Section 4 of DPE – Water regulatory and assurance framework and must not exceed:

- 50% of this 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 the DPE - Water.

Prior Period Error - Sewerage Business Activity

Nature of prior period error

Council was provided a grant of \$1.2million from NSW Public Works Advisory in response to the declared February/March 2022 flood events (declared event AGRN 1012) for the repair and betterment of sewerage infrastructure.

Council recognised this grant as capital grant revenue in full in the 2021/2022 financial year but should have only recognised the revenue portion of the grant it had actually expended. At 30 June 2022, \$767,000 of this grant remained unexpended and should have been disclosed as a contract liability in the Statement of Financial Position for the Sewerage Business Activity. The error has meant that accumulated surplus (equity) and net assets were overstated by \$767,000 whereas current liabilities and total liabilities were understated by \$767,000.

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
Total assets	187,966	–	187,966
Contract Liabilities	–	767	767
Total current liabilities	2,752	767	3,519
Total liabilities	35,809	767	36,576
Net assets	152,157	(767)	151,390
Accumulated Surplus	104,612	(767)	103,845
Total equity	152,157	(767)	151,390

Byron Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2023
