

Tweed Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

Living and loving the Tweed



Special Purpose Financial Statements

for the year ended 30 June 2019

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
Income Statement – Commercial Waste	7
Statement of Financial Position – Water Supply Business Activity	8
Statement of Financial Position – Sewerage Business Activity	9
Statement of Financial Position – Holiday Parks	10
Statement of Financial Position – Commercial Waste	11
Correction of Prior Period Errors - Tweed Coast Holiday Parks	12
Note 1 – Significant Accounting Policies	13
Auditor's Report on Special Purpose Financial Statements	16

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 2019

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 21 November 2019.

Katie Milne
Mayor
21 November 2019

Chris Cherry
Councillor
21 November 2019

Troy Green
General Manager
21 November 2019

Michael Chorlton
Responsible Accounting Officer
21 November 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	6,017	5,820
User charges	24,156	23,582
Interest	1,667	1,629
Grants and contributions provided for non-capital purposes	424	371
Other income	168	370
Total income from continuing operations	32,432	31,772
Expenses from continuing operations		
Employee benefits and on-costs	5,082	5,058
Borrowing costs	4,243	4,355
Materials and contracts	9,504	9,509
Depreciation, amortisation and impairment	7,549	7,432
Loss on sale of assets	3,971	1,754
Calculated taxation equivalents	942	937
Debt guarantee fee (if applicable)	296	304
Other expenses	1,356	1,461
Total expenses from continuing operations	32,943	30,810
Surplus (deficit) from continuing operations before capital amounts	(511)	962
Grants and contributions provided for capital purposes	3,369	5,200
Surplus (deficit) from continuing operations after capital amounts	2,858	6,162
Surplus (deficit) from all operations before tax	2,858	6,162
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(265)
SURPLUS (DEFICIT) AFTER TAX	2,858	5,897
Plus accumulated surplus	212,695	205,400
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	942	937
– Debt guarantee fees	296	304
– Corporate taxation equivalent	–	265
Less:		
– Tax equivalent dividend paid	(109)	(108)
Closing accumulated surplus	216,682	212,695
Return on capital %	0.7%	0.9%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	2,858	5,897
Less: capital grants and contributions (excluding developer contributions)	(457)	(980)
Surplus for dividend calculation purposes	2,401	4,917
Potential dividend calculated from surplus	1,201	2,459

Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	29,614	28,717
Liquid trade waste charges	3,069	3,057
Fees	572	573
Interest	2,899	2,379
Grants and contributions provided for non-capital purposes	571	555
Other income	9	93
Total income from continuing operations	36,734	35,374
Expenses from continuing operations		
Employee benefits and on-costs	7,213	7,125
Borrowing costs	2,259	2,457
Materials and contracts	9,197	8,483
Depreciation, amortisation and impairment	11,773	11,516
Loss on sale of assets	467	438
Calculated taxation equivalents	1,116	1,102
Debt guarantee fee (if applicable)	123	137
Other expenses	2,200	2,423
Total expenses from continuing operations	34,348	33,681
Surplus (deficit) from continuing operations before capital amounts	2,386	1,693
Grants and contributions provided for capital purposes	3,132	4,787
Surplus (deficit) from continuing operations after capital amounts	5,518	6,480
Surplus (deficit) from all operations before tax	5,518	6,480
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(656)	(466)
SURPLUS (DEFICIT) AFTER TAX	4,862	6,014
Plus accumulated surplus	250,176	242,560
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	1,116	1,102
– Debt guarantee fees	123	137
– Corporate taxation equivalent	656	466
Less:		
– Tax equivalent dividend paid	(109)	(103)
Closing accumulated surplus	256,824	250,176
Return on capital %	0.8%	0.7%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	4,862	6,014
Less: capital grants and contributions (excluding developer contributions)	(1,698)	(2,539)
Surplus for dividend calculation purposes	3,164	3,475
Potential dividend calculated from surplus	1,582	1,738

Income Statement – Holiday Parks

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
Fees	9,912	8,171
Interest	298	385
Other income	400	121
Total income from continuing operations	10,610	8,677
Expenses from continuing operations		
Employee benefits and on-costs	492	480
Materials and contracts	2,965	2,413
Depreciation, amortisation and impairment	440	703
Loss on sale of assets	297	117
Calculated taxation equivalents	582	563
Other expenses	4,156	3,424
Total expenses from continuing operations	8,932	7,700
Surplus (deficit) from continuing operations before capital amounts	1,678	977
Surplus (deficit) from continuing operations after capital amounts	1,678	977
Surplus (deficit) from all operations before tax	1,678	977
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(461)	(269)
SURPLUS (DEFICIT) AFTER TAX	1,217	708
Plus accumulated surplus	31,328	32,254
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	582	563
– Corporate taxation equivalent	461	269
Less:		
– Dividend paid	(1,260)	(2,466)
Closing accumulated surplus	32,328	31,328
Return on capital %	3.2%	1.9%

Income Statement – Commercial Waste

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
Access charges	2,915	2,772
User charges	3,259	3,933
Other income	377	8
Total income from continuing operations	6,551	6,713
Expenses from continuing operations		
Employee benefits and on-costs	392	248
Borrowing costs	210	82
Materials and contracts	2,475	2,679
Depreciation, amortisation and impairment	98	145
Loss on sale of assets	19	–
Calculated taxation equivalents	58	61
Other expenses	158	296
Total expenses from continuing operations	3,410	3,511
Surplus (deficit) from continuing operations before capital amounts	3,141	3,202
Surplus (deficit) from continuing operations after capital amounts	3,141	3,202
Surplus (deficit) from all operations before tax	3,141	3,202
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(864)	(881)
SURPLUS (DEFICIT) AFTER TAX	2,277	2,321
Plus accumulated surplus	19,484	16,221
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	58	61
– Corporate taxation equivalent	864	881
Closing accumulated surplus	22,683	19,484
Return on capital %	57.2%	58.5%

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	–	3
Investments	27,000	19,000
Receivables	3,581	3,283
Other	37	34
Total current assets	30,618	22,320
Non-current assets		
Investments	40,000	41,000
Infrastructure, property, plant and equipment	568,428	562,632
Intangible assets	15	23
Total non-current assets	608,443	603,655
TOTAL ASSETS	639,061	625,975
LIABILITIES		
Current liabilities		
Bank overdraft	4,184	667
Payables	454	691
Borrowings	1,640	1,552
Total current liabilities	6,278	2,910
Non-current liabilities		
Borrowings	57,558	59,197
Total non-current liabilities	57,558	59,197
TOTAL LIABILITIES	63,836	62,107
NET ASSETS	575,225	563,868
EQUITY		
Accumulated surplus	216,682	212,695
Revaluation reserves	358,543	351,173
TOTAL EQUITY	575,225	563,868

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	1,485	–
Investments	62,000	31,000
Receivables	2,921	2,348
Other	75	46
Total current assets	66,481	33,394
Non-current assets		
Investments	37,000	60,000
Infrastructure, property, plant and equipment	604,706	605,976
Total non-current assets	641,706	665,976
TOTAL ASSETS	708,187	699,370
LIABILITIES		
Current liabilities		
Bank overdraft	–	278
Payables	400	327
Borrowings	2,830	2,533
Total current liabilities	3,230	3,138
Non-current liabilities		
Borrowings	21,639	24,572
Total non-current liabilities	21,639	24,572
TOTAL LIABILITIES	24,869	27,710
NET ASSETS	683,318	671,660
EQUITY		
Accumulated surplus	256,824	250,176
Revaluation reserves	426,494	421,484
TOTAL EQUITY	683,318	671,660

Statement of Financial Position – Holiday Parks

as at 30 June 2019

\$ '000	2019 Category 1	2018 ¹ Category 1 Restated
ASSETS		
Current assets		
Cash and cash equivalents	5,647	2,319
Investments	8,859	10,621
Receivables	96	150
Inventories	12	182
Other	67	180
Total current assets	<u>14,681</u>	<u>13,452</u>
Non-current assets		
Infrastructure, property, plant and equipment	53,232	51,531
Total non-current assets	<u>53,232</u>	<u>51,531</u>
TOTAL ASSETS	<u>67,913</u>	<u>64,983</u>
LIABILITIES		
Current liabilities		
Payables	4,615	3,051
Total current liabilities	<u>4,615</u>	<u>3,051</u>
TOTAL LIABILITIES	<u>4,615</u>	<u>3,051</u>
NET ASSETS	<u>63,298</u>	<u>61,932</u>
EQUITY		
Accumulated surplus	32,328	31,328
Revaluation reserves	30,970	30,604
TOTAL EQUITY	<u>63,298</u>	<u>61,932</u>

(1) See prior period error note for details

Statement of Financial Position – Commercial Waste

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	818	1,718
Investments	20,035	15,843
Total current assets	20,853	17,561
Non-current assets		
Infrastructure, property, plant and equipment	5,858	5,615
Total non-current assets	5,858	5,615
TOTAL ASSETS	26,711	23,176
LIABILITIES		
Current liabilities		
Payables	123	133
Total current liabilities	123	133
Non-current liabilities		
Provisions	1,379	1,169
Total non-current liabilities	1,379	1,169
TOTAL LIABILITIES	1,502	1,302
NET ASSETS	25,209	21,874
EQUITY		
Accumulated surplus	22,683	19,484
Revaluation reserves	2,526	2,390
TOTAL EQUITY	25,209	21,874

Tweed Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2019

Prior period error – Tweed Coast Holiday Parks

\$ '000

Nature of prior-period error

Tweed Coast Holiday Parks has retrospectively applied restrictions (discounting) to valuations of Crown land.

Provisions for employee entitlements have been removed as liabilities are extinguished on payment of monthly invoices to Tweed Shire Council.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2017) and taking the adjustments through to equity 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. Council does not deem it necessary to disclose a third Statement of Financial Position.

Changes to the opening Statement of Financial Position at 1 July 2017

	Original Balance 1 July, 2017	Impact Increase/ (decrease)	Restated Balance 1 July, 2017
Statement of Financial Position			
Land	94,927	(71,889)	23,038
Infrastructure, property, plant and equipment	112,796	(71,889)	40,907
Total Assets	130,389	(71,889)	58,500
Provisions	382	(382)	–
Total Liabilities	2,552	(382)	2,170
Accumulated surplus	31,878	(382)	31,496
Revaluation reserves	95,959	(71,889)	24,070
Total equity	127,837	(72,271)	56,330

Adjustments to the comparative figures for the year ended 30 June 2018

	Original Balance 1 July, 2018	Impact Increase/ (decrease)	Restated Balance 1 July, 2018
Statement of Financial Position			
Land	101,460	(71,889)	29,571
Infrastructure, property, plant and equipment	123,419	(71,889)	51,530
Total assets	136,870	(71,889)	64,981
Provisions	376	(376)	–
Total liabilities	3,427	(376)	3,051
Accumulated surplus	30,951	376	31,328
Revaluation reserves	102,493	(71,889)	30,604
Total equity	133,443	(71,513)	61,932

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

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.

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, 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. Tweed Water
Supply of water
- b. Tweed Sewerage
Sewerage Services
- c. Tweed Coast Holiday Parks
Holiday/Caravan parks
- d. Commercial Waste
Non-domestic solid waste collection and disposal

Category 2

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

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Nil

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 \$692,000 of combined land values attracts 0%. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,231,000 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. No adjustments have been made for variations that have occurred during the year.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

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.

(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 30/6/19.

(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 2019 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 2019

Please upift Council's Audit Report PDF (opinion) for inclusion in the SPFS report (via the Home screen).