

# Berrigan Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2020

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*“Making an even better Berrigan Shire”*



## Special Purpose Financial Statements

for the year ended 30 June 2020

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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).

## Berrigan Shire Council

### 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 16 December 2020.



Cr. Matthew Hannan  
**Mayor**  
16 December 2020



Cr. Roger Reynoldson  
**Councillor**  
16 December 2020



Rowan Perkins  
**General Manager**  
16 December 2020



Tahlia Fry  
**Responsible Accounting Officer**  
16 December 2020

## Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
<b>Income from continuing operations</b>		
Access charges	2,028	1,947
User charges	1,199	1,247
Fees	64	82
Interest	102	193
Other income	716	827
<b>Total income from continuing operations</b>	<b>4,109</b>	<b>4,296</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	481	418
Materials and contracts	1,403	1,619
Depreciation, amortisation and impairment	709	705
Water purchase charges	144	137
Loss on sale of assets	–	44
Other expenses	276	291
<b>Total expenses from continuing operations</b>	<b>3,013</b>	<b>3,214</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>1,096</b>	<b>1,082</b>
Grants and contributions provided for capital purposes	113	175
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>1,209</b>	<b>1,257</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>1,209</b>	<b>1,257</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(301)	(298)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>908</b>	<b>959</b>
<b>Plus accumulated surplus</b>	<b>24,656</b>	<b>23,399</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	301	298
<b>Closing accumulated surplus</b>	<b>25,865</b>	<b>24,656</b>
<b>Return on capital %</b>	<b>2.3%</b>	<b>3.8%</b>
<b>Subsidy from Council</b>	<b>–</b>	<b>–</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	908	959
Less: capital grants and contributions (excluding developer contributions)	(113)	(175)
<b>Surplus for dividend calculation purposes</b>	<b>795</b>	<b>784</b>
<b>Potential dividend calculated from surplus</b>	<b>397</b>	<b>392</b>

## Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
<b>Income from continuing operations</b>		
Access charges	2,062	1,979
User charges	12	22
Fees	58	41
Interest	49	152
Other income	44	44
<b>Total income from continuing operations</b>	<b>2,225</b>	<b>2,238</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	357	312
Materials and contracts	1,032	1,163
Depreciation, amortisation and impairment	660	673
Loss on sale of assets	85	–
Calculated taxation equivalents	12	13
Other expenses	249	177
<b>Total expenses from continuing operations</b>	<b>2,395</b>	<b>2,338</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(170)</b>	<b>(100)</b>
Grants and contributions provided for capital purposes	17	20
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(153)</b>	<b>(80)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(153)</b>	<b>(80)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(153)</b>	<b>(80)</b>
<b>Plus accumulated surplus</b>	<b>10,834</b>	<b>10,914</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	12	13
<b>Less:</b>		
– Tax equivalent dividend paid	–	(13)
<b>Closing accumulated surplus</b>	<b>10,693</b>	<b>10,834</b>
<b>Return on capital %</b>	<b>(0.4)%</b>	<b>(0.5)%</b>
<b>Subsidy from Council</b>	<b>576</b>	<b>368</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	(153)	(80)
Less: capital grants and contributions (excluding developer contributions)	(17)	(20)
<b>Surplus for dividend calculation purposes</b>	<b>–</b>	<b>–</b>
<b>Potential dividend calculated from surplus</b>	<b>–</b>	<b>–</b>

## Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,829	4,135
Investments	4,000	6,000
Receivables	221	210
Inventories	109	63
<b>Total current assets</b>	<b>12,159</b>	<b>10,408</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	48,412	28,653
<b>Total non-current assets</b>	<b>48,412</b>	<b>28,653</b>
<b>TOTAL ASSETS</b>	<b>60,571</b>	<b>39,061</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	5	16
<b>Total current liabilities</b>	<b>5</b>	<b>16</b>
<b>TOTAL LIABILITIES</b>	<b>5</b>	<b>16</b>
<b>NET ASSETS</b>	<b>60,566</b>	<b>39,045</b>
<b>EQUITY</b>		
Accumulated surplus	25,865	24,656
Revaluation reserves	34,701	14,389
<b>TOTAL EQUITY</b>	<b>60,566</b>	<b>39,045</b>

## Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,108	2,516
Investments	2,000	4,000
Receivables	93	109
Inventories	17	4
<b>Total current assets</b>	<b>7,218</b>	<b>6,629</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	46,135	20,300
<b>Total non-current assets</b>	<b>46,135</b>	<b>20,300</b>
<b>TOTAL ASSETS</b>	<b>53,353</b>	<b>26,929</b>
<b><u>NET ASSETS</u></b>	<b><u>53,353</u></b>	<b><u>26,929</u></b>
<b>EQUITY</b>		
Accumulated surplus	10,693	10,834
Revaluation reserves	42,660	16,095
<b><u>TOTAL EQUITY</u></b>	<b><u>53,353</u></b>	<b><u>26,929</u></b>

## Berrigan 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 2093 (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)

**NIL**

#### Category 2

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

##### a. Berrigan Shire Council Water Supply

Supply drinking quality water to the towns of Barooga, Berrigan, Finley and Tocumwal

##### b. Berrigan Shire Council Sewerage Service

Supply of a reticulated sewerage service to the towns of Barooga, Berrigan, Finley and Tocumwal.



## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

### Note 1. Significant Accounting Policies (continued)

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#### Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures). As required by Crown Lands and Water (CLAW), the amounts shown in Note 2 and Note 3 are disclosed in whole 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 – the business activities do not reach the threshold for payroll tax to apply.

The payment of taxation equivalent charges, referred to in the NSW Office of Water Guidelines to 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 NSW Office of 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/is not the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

#### 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.

## Notes to the Special Purpose Financial Statements for the year ended 30 June 2020

### Note 1. Significant Accounting Policies (continued)

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 0.88% at 30/6/20.

#### (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.



## INDEPENDENT AUDITOR'S REPORT

### Report on the special purpose financial statements

#### Berrigan Shire Council

To the Councillors of Berrigan Shire Council

### Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Berrigan Shire Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activities declared by Council.

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2020, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 28 (LG Code).

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

## **Other Information**

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 'Permissible income for general rates'.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, appearing to read 'M. Kharzoo', with a stylized flourish at the end.

Michael Kharzoo  
Delegate of the Auditor-General for New South Wales

17 December 2020  
SYDNEY