

Snowy Monaro Regional Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2023



Snowy Monaro Regional Council

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 use by both the 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).

Snowy Monaro Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2023

Statement by Councillors and Management

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:

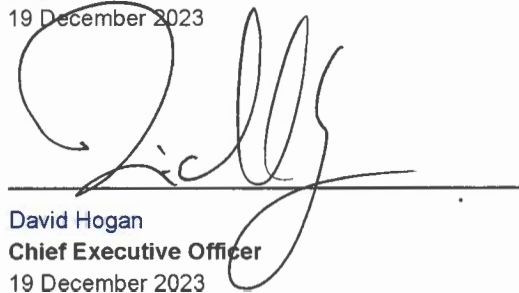
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records,
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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 30 November 2023.



Chris Hanna
Mayor
19 December 2023



David Hogan
Chief Executive Officer
19 December 2023



Tanya Higgins
Councillor
19 December 2023



Simon Rennie
Responsible Accounting Officer
19 December 2023

Snowy Monaro Regional Council

Income Statement of water supply business activity

for the year ended 30 June 2023

\$ '000	2023	2022 Restated
Income from continuing operations		
Access charges	2,931	2,814
User charges	5,416	4,717
Interest and investment income	824	265
Net gain from the disposal of assets	–	12
Other income	179	90
Total income from continuing operations	9,350	7,898
Expenses from continuing operations		
Employee benefits and on-costs	2,534	2,388
Borrowing costs	–	1
Materials and services	3,664	3,141
Depreciation, amortisation and impairment	4,127	2,244
Net loss from the disposal of assets	152	–
Other expenses	48	21
Total expenses from continuing operations	10,525	7,795
Surplus (deficit) from continuing operations before capital amounts	(1,175)	103
Grants and contributions provided for capital purposes	3,930	1,524
Surplus (deficit) from continuing operations after capital amounts	2,755	1,627
Surplus (deficit) from all operations before tax	2,755	1,627
Less: corporate taxation equivalent (25%) [based on result before capital]	–	(26)
Surplus (deficit) after tax	2,755	1,601
Plus accumulated surplus	106,378	102,177
Plus/less: prior period adjustments	–	2,577
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	23
Closing accumulated surplus	109,133	106,378
Return on capital %	(0.6)%	0.1%
Subsidy from Council	8,779	6,125
Calculation of dividend payable:		
Surplus (deficit) after tax	2,755	1,601
Less: capital grants and contributions (excluding developer contributions)	(3,930)	(1,524)
Surplus for dividend calculation purposes	–	77
Potential dividend calculated from surplus	–	39

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Income Statement of sewerage business activity

for the year ended 30 June 2023

\$ '000	2023	2022 Restated
Income from continuing operations		
Access charges	7,224	7,003
User charges	1,880	1,571
Interest and investment income	295	132
Grants and contributions provided for operating purposes	4	–
Other income	22	59
Total income from continuing operations	9,425	8,765
Expenses from continuing operations		
Employee benefits and on-costs	2,068	2,074
Materials and services	5,033	5,416
Depreciation, amortisation and impairment	3,083	1,546
Net loss from the disposal of assets	–	6
Other expenses	133	–
Total expenses from continuing operations	10,317	9,042
Surplus (deficit) from continuing operations before capital amounts	(892)	(277)
Grants and contributions provided for capital purposes	5,520	562
Surplus (deficit) from continuing operations after capital amounts	4,628	285
Surplus (deficit) from all operations before tax	4,628	285
Surplus (deficit) after tax	4,628	285
Plus accumulated surplus	105,231	104,934
Plus/less: prior period adjustments	–	14
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	(2)
Closing accumulated surplus	109,859	105,231
Return on capital %	(0.7)%	(0.3)%
Subsidy from Council	5,871	4,325
Calculation of dividend payable:		
Surplus (deficit) after tax	4,628	285
Less: capital grants and contributions (excluding developer contributions)	(5,520)	(562)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Income Statement of Waste Management business activity

for the year ended 30 June 2023

	2023	2022
\$ '000		Restated
Income from continuing operations		
Annual charges	5,662	5,522
User charges	3,053	2,845
Interest and investment income	130	110
Grants and contributions provided for operating purposes	–	43
Other income	243	1,994
Total income from continuing operations	9,088	10,514
Expenses from continuing operations		
Employee benefits and on-costs	2,694	2,755
Borrowing costs	946	663
Materials and services	3,940	3,310
Depreciation, amortisation and impairment	1,762	1,821
Other expenses	50	192
Total expenses from continuing operations	9,392	8,741
Surplus (deficit) from continuing operations before capital amounts	(304)	1,773
Grants and contributions provided for capital purposes	166	7
Surplus (deficit) from continuing operations after capital amounts	(138)	1,780
Surplus (deficit) from all operations before tax	(138)	1,780
Less: corporate taxation equivalent (25%) [based on result before capital]	–	(668)
Surplus (deficit) after tax	(138)	1,112
Plus accumulated surplus	2,538	1,732
Plus/less: prior period adjustments	–	(981)
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	675
Closing accumulated surplus	2,400	2,538
Return on capital %	2.4%	9.8%
Subsidy from Council	446	–

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Income Statement of Residential Aged Care business activity

for the year ended 30 June 2023

	2023	2022
\$ '000		Restated
Income from continuing operations		
User charges	220	308
Fees	1,147	805
Interest and investment income	105	36
Grants and contributions provided for operating purposes	3,396	2,607
Other income	8	3
Total income from continuing operations	4,876	3,759
Expenses from continuing operations		
Employee benefits and on-costs	3,684	3,688
Materials and services	3,837	3,288
Depreciation, amortisation and impairment	438	428
Total expenses from continuing operations	7,959	7,404
Surplus (deficit) from continuing operations before capital amounts	(3,083)	(3,645)
Grants and contributions provided for capital purposes	24	453
Surplus (deficit) from continuing operations after capital amounts	(3,059)	(3,192)
Surplus (deficit) from all operations before tax	(3,059)	(3,192)
Less: corporate taxation equivalent (25%) [based on result before capital]	–	–
Surplus (deficit) after tax	(3,059)	(3,192)
Plus accumulated surplus	(1,722)	1,565
Plus/less: prior period adjustments	–	(95)
Plus adjustments for amounts unpaid:		
Closing accumulated surplus	(4,781)	(1,722)
Return on capital %	(20.0)%	(49.1)%
Subsidy from Council	3,702	3,920

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Statement of Financial Position of water supply business activity

as at 30 June 2023

\$ '000	2023	2022 Restated
ASSETS		
Current assets		
Cash and cash equivalents	4,000	23,054
Investments	26,956	3,647
Receivables	3,755	3,745
Total current assets	34,711	30,446
Non-current assets		
Infrastructure, property, plant and equipment	189,145	172,779
Total non-current assets	189,145	172,779
Total assets	223,856	203,225
LIABILITIES		
Current liabilities		
Contract liabilities	1,794	—
Payables	340	340
Total current liabilities	2,134	340
Total liabilities	2,134	340
Net assets	221,722	202,885
EQUITY		
Accumulated surplus	109,133	106,377
Revaluation reserves	112,590	96,508
Total equity	221,723	202,885

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Statement of Financial Position of sewerage business activity

as at 30 June 2023

\$ '000	2023	2022 Restated
ASSETS		
Current assets		
Cash and cash equivalents	8,578	7,757
Receivables	3,539	4,092
Total current assets	12,117	11,849
Non-current assets		
Infrastructure, property, plant and equipment	123,846	110,605
Total non-current assets	123,846	110,605
Total assets	135,963	122,454
LIABILITIES		
Current liabilities		
Contract liabilities	1,128	—
Total current liabilities	1,128	—
Total liabilities	1,128	—
Net assets	134,835	122,454
EQUITY		
Accumulated surplus	109,859	105,231
Revaluation reserves	24,976	17,223
Total equity	134,835	122,454

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Statement of Financial Position of Waste Management business activity

as at 30 June 2023

	2023	2022
\$ '000		Restated
ASSETS		
Current assets		
Cash and cash equivalents	3	3
Investments	10,564	10,533
Receivables	825	703
Total current assets	11,392	11,239
Non-current assets		
Receivables	108	168
Infrastructure, property, plant and equipment	27,077	24,809
Total non-current assets	27,185	24,977
Total assets	38,577	36,216
LIABILITIES		
Current liabilities		
Contract liabilities	201	–
Borrowings	13	27
Total current liabilities	214	27
Non-current liabilities		
Borrowings	–	12
Provisions	34,445	33,614
Total non-current liabilities	34,445	33,626
Total liabilities	34,659	33,653
Net assets	3,918	2,563
EQUITY		
Accumulated surplus	2,400	2,538
Revaluation reserves	1,518	25
Total equity	3,918	2,563

(*) Restatement has occurred in comparatives.

Snowy Monaro Regional Council

Statement of Financial Position of Residential Aged Care business activity

as at 30 June 2023

	2023	2022
\$ '000		Restated
ASSETS		
Current assets		
Contract assets and contract cost assets	–	285
Receivables	90	18
Total current assets	90	303
Non-current assets		
Infrastructure, property, plant and equipment	15,396	7,425
Intangible assets	117	233
Total non-current assets	15,513	7,658
Total assets	15,603	7,961
LIABILITIES		
Current liabilities		
Overdraft ^{1.}	7,040	5,316
Payables	4,083	3,259
Total current liabilities	11,123	8,575
Total liabilities	11,123	8,575
Net assets	4,480	(614)
EQUITY		
Accumulated surplus	(4,781)	(1,721)
Revaluation reserves	9,261	1,107
Total equity	4,480	(614)

(*) Restatement has occurred in comparatives.

(1.) The business does not have its own separate bank account and the reported overdraft amount reflects the notional bank account balance as if the business had its own account. This cash facility is provided through Councils operating bank account within the General Fund.

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* (Act), the *Local Government (General) Regulation 2021* (Regulation) 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, fair value 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, and returns 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. Water Supply

Water supply services for residential and commercial activities

b. Sewerage Service

Sewerage reticulation, treatment and associated activities

c. Waste Management

Collection and disposal of garbage for residential and commercial activities

d. Residential Aged Care

Combined services offered at Yallambee Lodge and Snowy River Hostel

Note – Significant Accounting Policies (continued)

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. 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 of Department of Planning and 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 Act.

Achievement of substantial compliance to 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% (21/22 25%).

Income tax is only applied where a gain from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional – that is, it is payable to the '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 for all Category 1 businesses has been applied to all 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. Subsidies occur where Council provides services on a less than cost recovery basis. This option is exercised on a

Note – Significant Accounting Policies (continued)

range of services in order for Council to meet its community service obligations. The overall effect of subsidies is contained within the Income Statements of business activities.

(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'.

Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the 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 30/6/23.

(iii) Dividends

Council is not required to pay dividends to either itself as owner of a range of businesses, or to any external entities.

A local government water supply and sewerage business is permitted to pay annual dividends from their water supply or sewerage business surpluses. Each dividend must be calculated and approved in accordance with section 4 of DPE – Water's regulatory and assurance framework and must not exceed 50% of the relevant 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).



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Snowy Monaro Regional Council

To the Councillors of Snowy Monaro Regional Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Snowy Monaro Regional 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 2023, the Statement of Financial Position of each Declared Business Activity as at 30 June 2023 and Significant accounting policies note.

The Declared Business Activities of the Council are:

- Water supply
- Sewerage
- Waste Management
- Aged Care

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 2023, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in the Significant accounting policies note and the Local Government Code of Accounting Practice and Financial Reporting 2022–23 (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).

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

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 the Significant accounting policies note 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 2023 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 the Significant accounting policies note 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. 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 dark ink, appearing to read 'Sue Prichard', with a stylized, cursive script.

Sue Prichard
Delegate of the Auditor-General for New South Wales

19 December 2023
SYDNEY