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# Willoughby City Council

## SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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WILLOUGHBY CITY COUNCIL

## Special Purpose Financial Statements

for the year ended 30 June 2019

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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).

## Special Purpose Financial Statements

for the year ended 30 June 2019

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### 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,

**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 19th October 2019.**

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Gail Giles Gidney  
Mayor  
19th October 2019

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Craig Campbell  
Deputy Mayor  
19th October 2019

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[Debra Just  
Chief Executive Officer  
19th October 2019

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Stephen Naven  
Responsible Accounting Officer  
19th October 2019

**Income Statement – The Concourse Precinct**  
for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
<b>Income from continuing operations</b>		
Fees	7,161	7,063
Interest	411	347
Grants and contributions provided for non-capital purposes	204	207
Other income	10,483	7,624
<b>Total income from continuing operations</b>	<b>18,259</b>	<b>15,241</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	6,303	6,466
Borrowing costs	1,055	2,233
Materials and contracts	1,992	2,048
Depreciation, amortisation and impairment	3,422	1,785
Other expenses	4,678	4,409
<b>Total expenses from continuing operations</b>	<b>17,450</b>	<b>16,941</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>809</b>	<b>(1,700)</b>
Grants and contributions provided for capital purposes	–	36
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>809</b>	<b>(1,664)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>809</b>	<b>(1,664)</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(222)	–
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>587</b>	<b>(1,664)</b>
<b>Plus accumulated surplus</b>	<b>261,839</b>	<b>258,819</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	222	–
<b>Add:</b>		
– Subsidy paid/contribution to operations	5,870	4,684
<b>Closing accumulated surplus</b>	<b>268,518</b>	<b>261,839</b>
<b>Return on capital %</b>	<b>0.7%</b>	<b>0.2%</b>
<b>Subsidy from Council</b>	<b>1,720</b>	<b>6,442</b>

**Income Statement – Willoughby Leisure Centre**  
for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
<b>Income from continuing operations</b>		
Grants & contributions provided for non capital purposes	13	–
Fees	3,539	2,509
Other income	66	879
<b>Total income from continuing operations</b>	<b>3,618</b>	<b>3,388</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	2,609	2,415
Materials and contracts	199	365
Depreciation, amortisation and impairment	207	922
Other expenses	1,082	1,012
<b>Total expenses from continuing operations</b>	<b>4,097</b>	<b>4,714</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(479)</b>	<b>(1,326)</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(479)</b>	<b>(1,326)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(479)</b>	<b>(1,326)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(479)</b>	<b>(1,326)</b>
<b>Plus accumulated surplus</b>	<b>(4,596)</b>	<b>(2,600)</b>
<b>Plus adjustments for amounts unpaid:</b>		
<b>Closing accumulated surplus</b>	<b>(5,075)</b>	<b>(3,926)</b>
<b>Return on capital %</b>	<b>(5.7)%</b>	<b>(14.5)%</b>
<b>Subsidy from Council</b>	<b>589</b>	<b>1,566</b>

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Income Statement – Devonshire Child Care  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>Income from continuing operations</b>		
Fees	868	925
Grants and contributions provided for non-capital purposes	832	564
<b>Total income from continuing operations</b>	<u>1,700</u>	<u>1,489</u>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	1,387	1,403
Materials and contracts	96	54
Depreciation, amortisation and impairment	21	204
Other expenses	323	357
<b>Total expenses from continuing operations</b>	<u>1,827</u>	<u>2,018</u>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	(127)	(529)
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<u>(127)</u>	<u>(529)</u>
<b>Surplus (deficit) from all operations before tax</b>	(127)	(529)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<u>(127)</u>	<u>(529)</u>
<b>Plus accumulated surplus</b>	(3,252)	(2,723)
<b>Plus adjustments for amounts unpaid:</b>		
<b>Closing accumulated surplus</b>	<u>(3,379)</u>	<u>(3,252)</u>
<b>Return on capital %</b>	(12.9)%	(53.5)%
<b>Subsidy from Council</b>	140	555

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**Income Statement – Family Day Care**  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>Income from continuing operations</b>		
Other revenue from ordinary activities	10	–
Fees	199	266
Grants and contributions provided for non-capital purposes	613	485
<b>Total income from continuing operations</b>	<b>822</b>	<b>751</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	146	298
Materials and contracts	4	5
Depreciation, amortisation and impairment	7	6
Other expenses	692	622
<b>Total expenses from continuing operations</b>	<b>849</b>	<b>931</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(27)</b>	<b>(180)</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(27)</b>	<b>(180)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(27)</b>	<b>(180)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(27)</b>	<b>(180)</b>
<b>Plus accumulated surplus</b>	<b>(1,864)</b>	<b>(1,684)</b>
<b>Plus adjustments for amounts unpaid:</b>		
<b>Closing accumulated surplus</b>	<b>(1,891)</b>	<b>(1,864)</b>
<b>Return on capital %</b>	<b>(108.0)%</b>	<b>(514.3)%</b>
<b>Subsidy from Council</b>	<b>27</b>	<b>181</b>

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**Income Statement – Before/After School Care**  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>Income from continuing operations</b>		
Fees	684	972
Grants and contributions provided for non-capital purposes	593	465
<b>Total income from continuing operations</b>	<b>1,277</b>	<b>1,437</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	730	744
Materials and contracts	115	97
Other expenses	158	182
<b>Total expenses from continuing operations</b>	<b>1,003</b>	<b>1,023</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>274</b>	<b>414</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>274</b>	<b>414</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>274</b>	<b>414</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(75)	(114)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>199</b>	<b>300</b>
<b>Plus accumulated surplus</b>	<b>1,866</b>	<b>1,452</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	75	114
<b>Closing accumulated surplus</b>	<b>2,140</b>	<b>1,866</b>

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## Income Statement – Dougherty Food Services

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>Income from continuing operations</b>		
Fees	154	314
Other income	116	106
<b>Total income from continuing operations</b>	<b>270</b>	<b>420</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	268	323
Materials and contracts	101	163
Depreciation, amortisation and impairment	6	3
Other expenses	26	63
<b>Total expenses from continuing operations</b>	<b>401</b>	<b>552</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(131)</b>	<b>(132)</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(131)</b>	<b>(132)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(131)</b>	<b>(132)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(131)</b>	<b>(132)</b>
<b>Plus accumulated surplus</b>	<b>(1,716)</b>	<b>(1,584)</b>
<b>Plus adjustments for amounts unpaid:</b>		
<b>Closing accumulated surplus</b>	<b>(1,847)</b>	<b>(1,716)</b>
<b>Return on capital %</b>	<b>(3.7)%</b>	<b>(4.0)%</b>
<b>Subsidy from Council</b>	<b>178</b>	<b>219</b>

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Statement of Financial Position – The Concourse Precinct  
for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
<b>ASSETS</b>		
<b>Current assets</b>		
Receivables	96	–
Investments	16,090	15,065
Other	64	64
<b>Total current assets</b>	<b>16,250</b>	<b>15,129</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	271,489	265,204
Investment property	49,903	43,908
<b>Total non-current assets</b>	<b>321,392</b>	<b>309,112</b>
<b>TOTAL ASSETS</b>	<b>337,642</b>	<b>324,241</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	262	395
Borrowings	1,036	999
Provisions	1,022	917
<b>Total current liabilities</b>	<b>2,320</b>	<b>2,311</b>
<b>Non-current liabilities</b>		
Borrowings	38,040	39,518
Provisions	15	21
<b>Total non-current liabilities</b>	<b>38,055</b>	<b>39,539</b>
<b>TOTAL LIABILITIES</b>	<b>40,375</b>	<b>41,850</b>
<b>NET ASSETS</b>	<b>297,267</b>	<b>282,391</b>
<b>EQUITY</b>		
Accumulated surplus	268,518	261,839
Revaluation reserves	28,749	20,552
<b>TOTAL EQUITY</b>	<b>297,267</b>	<b>282,391</b>

## Statement of Financial Position – Willoughby Leisure Centre

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
<b>ASSETS</b>		
<b>Current assets</b>		
Receivables	171	42
<b>Total current assets</b>	<b>171</b>	<b>42</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	8,370	9,120
<b>Total non-current assets</b>	<b>8,370</b>	<b>9,120</b>
<b>TOTAL ASSETS</b>	<b>8,541</b>	<b>9,162</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	46	49
Provisions	120	92
<b>Total current liabilities</b>	<b>166</b>	<b>141</b>
<b>Non-current liabilities</b>		
Borrowings	13,301	12,927
Provisions	22	20
<b>Total non-current liabilities</b>	<b>13,323</b>	<b>12,947</b>
<b>TOTAL LIABILITIES</b>	<b>13,489</b>	<b>13,088</b>
<b>NET ASSETS</b>	<b>(4,948)</b>	<b>(3,926)</b>
<b>EQUITY</b>		
Asset Revaluation Reserve	127	–
Accumulated surplus	(5,075)	(3,926)
<b>TOTAL EQUITY</b>	<b>(4,948)</b>	<b>(3,926)</b>

Statement of Financial Position – Devonshire Child Care  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>ASSETS</b>		
<b>Current assets</b>		
Receivables	3	–
<b>Total current assets</b>	<b>3</b>	<b>–</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	986	988
<b>Total non-current assets</b>	<b>986</b>	<b>988</b>
<b>TOTAL ASSETS</b>	<b>989</b>	<b>988</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	14	11
Provisions	210	195
<b>Total current liabilities</b>	<b>224</b>	<b>206</b>
<b>Non-current liabilities</b>		
Borrowings	4,112	4,022
Provisions	6	7
Other Liabilities	6	5
<b>Total non-current liabilities</b>	<b>4,124</b>	<b>4,034</b>
<b>TOTAL LIABILITIES</b>	<b>4,348</b>	<b>4,240</b>
<b>NET ASSETS</b>	<b>(3,359)</b>	<b>(3,252)</b>
<b>EQUITY</b>		
Asset Revaluation Reserve	20	–
Accumulated surplus	(3,379)	(3,252)
<b>TOTAL EQUITY</b>	<b>(3,359)</b>	<b>(3,252)</b>

Statement of Financial Position – Family Day Care  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>ASSETS</b>		
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	25	35
<b>Total non-current assets</b>	<b>25</b>	<b>35</b>
<b>TOTAL ASSETS</b>	<b>25</b>	<b>35</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	1	1
Provisions	56	60
<b>Total current liabilities</b>	<b>57</b>	<b>61</b>
<b>Non-current liabilities</b>		
Borrowings	1,859	1,838
<b>Total non-current liabilities</b>	<b>1,859</b>	<b>1,838</b>
<b>TOTAL LIABILITIES</b>	<b>1,916</b>	<b>1,899</b>
<b>NET ASSETS</b>	<b>(1,891)</b>	<b>(1,864)</b>
<b>EQUITY</b>		
Accumulated surplus	(1,891)	(1,864)
<b>TOTAL EQUITY</b>	<b>(1,891)</b>	<b>(1,864)</b>

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Statement of Financial Position – Before/After School Care  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>ASSETS</b>		
<b>Current assets</b>		
Receivables	37	4
<b>Total current assets</b>	<b>37</b>	<b>4</b>
<b>Non-current assets</b>		
Receivables	2,272	2,006
<b>Total non-current assets</b>	<b>2,272</b>	<b>2,006</b>
<b>TOTAL ASSETS</b>	<b>2,309</b>	<b>2,010</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	33	12
Provisions	134	131
<b>Total current liabilities</b>	<b>167</b>	<b>143</b>
<b>Non-current liabilities</b>		
Provisions	2	1
<b>Total non-current liabilities</b>	<b>2</b>	<b>1</b>
<b>TOTAL LIABILITIES</b>	<b>169</b>	<b>144</b>
<b>NET ASSETS</b>	<b>2,140</b>	<b>1,866</b>
<b>EQUITY</b>		
Accumulated surplus	2,140	1,866
<b>TOTAL EQUITY</b>	<b>2,140</b>	<b>1,866</b>

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Statement of Financial Position – Dougherty Food Services  
for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
<b>ASSETS</b>		
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	3,583	3,313
<b>Total non-current assets</b>	<b>3,583</b>	<b>3,313</b>
<b>TOTAL ASSETS</b>	<b>3,583</b>	<b>3,313</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	–	19
Provisions	37	32
<b>Total current liabilities</b>	<b>37</b>	<b>51</b>
<b>Non-current liabilities</b>		
Provisions	1	–
Borrowings	4,538	4,291
<b>Total non-current liabilities</b>	<b>4,539</b>	<b>4,291</b>
<b>TOTAL LIABILITIES</b>	<b>4,576</b>	<b>4,342</b>
<b>NET ASSETS</b>	<b>(993)</b>	<b>(1,029)</b>
<b>EQUITY</b>		
Accumulated surplus	(1,847)	(1,716)
Revaluation reserves	854	687
<b>TOTAL EQUITY</b>	<b>(993)</b>	<b>(1,029)</b>

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## 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. The Concourse Precinct

Provision of the Chatswood library service and the management of the venue, facilities, car park, retail, urban screen and the art space at the site.

###### b. Willoughby Leisure Centre

Provision of leisure facilities including a Gymnasium & Pool. A council owned facility previously managed by a private company.

##### Category 2

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

###### c. Devonshire Street Child Care Centre

Provision of long day child care services for up to 50 places at its premises situated at 38 Devonshire St, Chatswood, from 7.30am to 6.00pm.

###### d. Family Day Care



## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

## Note 1. Significant Accounting Policies (continued)

Provision of Day care services for children in need of care from ages 0-12 years at a registered carers home.

**e. Before/After School Care/Vacation Care**

Provision of Before & After School care for children at the following centres:

- Artarmon (BSC & ASC)
- Chatswood (BSC & ASC)
- Naremburn (ASC)

Before school care hours are from 7.30am to 9.00am and after school care hours are from 3.00pm to 6.00pm.

In addition, Council in conjunction with the State Government operates Vacation Care services at the following centres during school holidays:

- Artarmon Vacation Care Centre
- Bales Park Vacation Care Centre
- Chatswood Vacation Care Centre
- Beauchamp Park Vacation Care Centre

**f. Dougherty Food Services**

Commercial food kitchen that supplies meals on a contract basis to a number of organistaions as well as catering for fuctions and the operation of a coffee shop.

**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.

**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.

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

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

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.

#### 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.

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

Note 1. Significant Accounting Policies (continued)

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