



SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2018

---

**“Australia's Wool & Cotton Capital”**

## Warren Shire Council

### Special Purpose Financial Statements for the year ended 30 June 2018

| Contents   | Page |
|--|------|
| <b>1. Statement by Councillors and Management</b>                | 2    |
| <b>2. Special Purpose Financial Statements:</b>                  |      |
| Income Statement – Water Supply Business Activity                | 3    |
| Income Statement – Sewerage Business Activity                    | 4    |
| Statement of Financial Position – Water Supply Business Activity | 5    |
| Statement of Financial Position – Sewerage Business Activity     | 6    |
| <b>3. Notes to the Special Purpose Financial Statements</b>      | 7    |
| <b>4. Auditor’s Report</b>                                       |      |

---

#### 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).
-

## Warren Shire Council

### Special Purpose Financial Statements for the year ended 30 June 2018

### 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:**

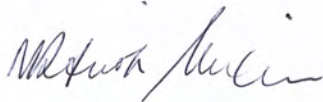
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

**To the best of our knowledge and belief, these financial statements:**

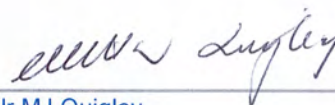
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

**We are not aware of any matter that would render these statements false or misleading in any way.**

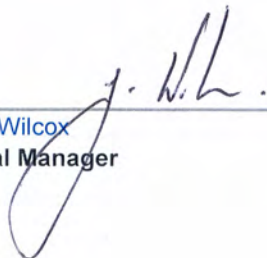
**Signed in accordance with a resolution of Council made on 23 August 2018.**



Clr NRF (Rex) Wilson  
Mayor



Clr MJ Quigley  
Councillor



Mr GA Wilcox  
General Manager



Mr DJ Arthur  
Responsible Accounting Officer

## Warren Shire Council

Income Statement of Council's Water Supply Business Activity  
for the year ended 30 June 2018

| \$ '000  | 2018         | 2017         |
|--|--------------|--------------|
| <b>Income from continuing operations</b>                                   |              |              |
| Access charges   | 395          | 342          |
| User charges   | 358          | 324          |
| Fees   | 4            | 2            |
| Interest   | 8            | 18           |
| Grants and contributions provided for non-capital purposes                 | 9            | 13           |
| Profit from the sale of assets   | -            | -            |
| Share of profit from equity accounted investment                           | -            | -            |
| Other income   | -            | 10           |
| <b>Total income from continuing operations</b>                             | <b>774</b>   | <b>709</b>   |
| <b>Expenses from continuing operations</b>                                 |              |              |
| Employee benefits and on-costs   | 257          | 272          |
| Borrowing costs  | -            | -            |
| Materials and contracts  | 362          | 300          |
| Depreciation, amortisation and impairment                                  | 253          | 204          |
| Water purchase charges   | 27           | 27           |
| Loss on sale of assets   | 1            | -            |
| Calculated taxation equivalents  | -            | -            |
| Debt guarantee fee (if applicable)   | -            | -            |
| Share of loss from equity accounted investment                             | -            | -            |
| Other expenses   | -            | -            |
| <b>Total expenses from continuing operations</b>                           | <b>900</b>   | <b>803</b>   |
| <b>Surplus (deficit) from continuing operations before capital amounts</b> | <b>(126)</b> | <b>(94)</b>  |
| Grants and contributions provided for capital purposes                     | 349          | 352          |
| <b>Surplus (deficit) from continuing operations after capital amounts</b>  | <b>223</b>   | <b>258</b>   |
| Surplus (deficit) from discontinued operations                             | -            | -            |
| <b>Surplus (deficit) from all operations before tax</b>                    | <b>223</b>   | <b>258</b>   |
| Less: corporate taxation equivalent (30%) [based on result before capital] | -            | -            |
| <b>SURPLUS (DEFICIT) AFTER TAX</b>   | <b>223</b>   | <b>258</b>   |
| <b>Plus opening retained profits</b>                                       | 5,151        | 4,893        |
| <b>Plus/less: prior period adjustments</b>                                 |              | -            |
| <b>Plus/less: other adjustments (details here...)</b>                      |              | -            |
| <b>Plus adjustments for amounts unpaid:</b>                                |              |              |
| - Taxation equivalent payments   | -            | -            |
| - Debt guarantee fees  | -            | -            |
| - Corporate taxation equivalent  | -            | -            |
| <b>Less:</b>   |              |              |
| - Tax equivalent dividend paid   |              | -            |
| - Surplus dividend paid  |              | -            |
| <b>Closing retained profits</b>  | <b>5,374</b> | <b>5,151</b> |
| <b>Return on capital %</b>   | <b>-1.4%</b> | <b>-1.2%</b> |
| <b>Subsidy from Council</b>  | <b>374</b>   | <b>288</b>   |
| <b>Calculation of dividend payable:</b>                                    |              |              |
| Surplus (deficit) after tax  | 223          | 258          |
| Less: capital grants and contributions (excluding developer contributions) | (349)        | (352)        |
| <b>Surplus for dividend calculation purposes</b>                           | <b>-</b>     | <b>-</b>     |
| <b>Potential dividend calculated from surplus</b>                          | <b>-</b>     | <b>-</b>     |

## Warren Shire Council

Income Statement of Council's Sewerage Business Activity  
for the year ended 30 June 2018

| \$ '000  | 2018         | 2017         |
|--|--------------|--------------|
| <b>Income from continuing operations</b>                                   |              |              |
| Access charges   | 483          | 445          |
| User charges   | 46           | 61           |
| Liquid trade waste charges   | –            | –            |
| Fees   | 2            | –            |
| Interest   | 73           | 65           |
| Grants and contributions provided for non-capital purposes                 | 8            | 9            |
| Profit from the sale of assets   | –            | –            |
| Share of profit from equity accounted investment                           | –            | –            |
| Other income   | –            | 4            |
| <b>Total income from continuing operations</b>                             | <b>612</b>   | <b>584</b>   |
| <b>Expenses from continuing operations</b>                                 |              |              |
| Employee benefits and on-costs   | 200          | 234          |
| Borrowing costs  | –            | –            |
| Materials and contracts  | 138          | 175          |
| Depreciation, amortisation and impairment                                  | 225          | 260          |
| Loss on sale of assets   | 370          | –            |
| Calculated taxation equivalents  | –            | –            |
| Debt guarantee fee (if applicable)   | –            | –            |
| Share of loss from equity accounted investment                             | –            | –            |
| Other expenses   | –            | –            |
| <b>Total expenses from continuing operations</b>                           | <b>933</b>   | <b>669</b>   |
| <b>Surplus (deficit) from continuing operations before capital amounts</b> | <b>(321)</b> | <b>(85)</b>  |
| Grants and contributions provided for capital purposes                     | 231          | 53           |
| <b>Surplus (deficit) from continuing operations after capital amounts</b>  | <b>(90)</b>  | <b>(32)</b>  |
| Surplus (deficit) from discontinued operations                             | –            | –            |
| <b>Surplus (deficit) from all operations before tax</b>                    | <b>(90)</b>  | <b>(32)</b>  |
| Less: corporate taxation equivalent (30%) [based on result before capital] | –            | –            |
| <b>SURPLUS (DEFICIT) AFTER TAX</b>   | <b>(90)</b>  | <b>(32)</b>  |
| Plus opening retained profits  | 4,200        | 4,232        |
| Plus/less: prior period adjustments  | –            | –            |
| Plus/less: other adjustments ( <a href="#">details here...</a> )           | –            | –            |
| Plus adjustments for amounts unpaid:                                       |              |              |
| – Taxation equivalent payments   | –            | –            |
| – Debt guarantee fees  | –            | –            |
| – Corporate taxation equivalent  | –            | –            |
| Less:  |              |              |
| – Tax equivalent dividend paid   | –            | –            |
| – Surplus dividend paid  | –            | –            |
| <b>Closing retained profits</b>  | <b>4,110</b> | <b>4,200</b> |
| <b>Return on capital %</b>   | <b>-3.8%</b> | <b>-1.0%</b> |
| <b>Subsidy from Council</b>  | <b>554</b>   | <b>278</b>   |
| <b>Calculation of dividend payable:</b>                                    |              |              |
| Surplus (deficit) after tax  | (90)         | (32)         |
| Less: capital grants and contributions (excluding developer contributions) | (231)        | (53)         |
| <b>Surplus for dividend calculation purposes</b>                           | <b>–</b>     | <b>–</b>     |
| <b>Potential dividend calculated from surplus</b>                          | <b>–</b>     | <b>–</b>     |

## Warren Shire Council

Statement of Financial Position – Council's Water Supply Business Activity  
as at 30 June 2018

| \$ '000  | 2018         | 2017         |
|--|--------------|--------------|
| <b>ASSETS</b>                                  |              |              |
| <b>Current assets</b>                          |              |              |
| Cash and cash equivalents                      | 144          | 343          |
| Investments                                    | –            | –            |
| Receivables                                    | 253          | 415          |
| Inventories                                    | –            | –            |
| Other  | –            | –            |
| Non-current assets classified as held for sale | –            | –            |
| <b>Total current assets</b>                    | <b>397</b>   | <b>758</b>   |
| <b>Non-current assets</b>                      |              |              |
| Investments                                    | –            | –            |
| Receivables                                    | 24           | 22           |
| Inventories                                    | –            | –            |
| Infrastructure, property, plant and equipment  | 8,881        | 8,147        |
| Investments accounted for using equity method  | –            | –            |
| Investment property                            | –            | –            |
| Intangible assets                              | –            | –            |
| Other  | –            | –            |
| <b>Total non-current assets</b>                | <b>8,905</b> | <b>8,169</b> |
| <b>TOTAL ASSETS</b>                            | <b>9,302</b> | <b>8,927</b> |
| <b>LIABILITIES</b>                             |              |              |
| <b>Current liabilities</b>                     |              |              |
| Bank overdraft                                 | –            | –            |
| Payables                                       | 15           | 8            |
| Income received in advance                     | –            | –            |
| Borrowings                                     | –            | –            |
| Provisions                                     | 3            | 17           |
| <b>Total current liabilities</b>               | <b>18</b>    | <b>25</b>    |
| <b>Non-current liabilities</b>                 |              |              |
| Payables                                       | –            | –            |
| Income received in advance                     | –            | –            |
| Borrowings                                     | –            | –            |
| Provisions                                     | 6            | 4            |
| <b>Total non-current liabilities</b>           | <b>6</b>     | <b>4</b>     |
| <b>TOTAL LIABILITIES</b>                       | <b>24</b>    | <b>29</b>    |
| <b>NET ASSETS</b>                              | <b>9,278</b> | <b>8,898</b> |
| <b>EQUITY</b>                                  |              |              |
| Accumulated surplus                            | 5,374        | 5,151        |
| Revaluation reserves                           | 3,904        | 3,747        |
| Other reserves                                 | –            | –            |
| Council equity interest                        | 9,278        | 8,898        |
| Non-controlling equity interest                | –            | –            |
| <b>TOTAL EQUITY</b>                            | <b>9,278</b> | <b>8,898</b> |

## Warren Shire Council

## Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2018

| \$ '000  | 2018          | 2017          |
|--|---------------|---------------|
| <b>ASSETS</b>                                  |               |               |
| <b>Current assets</b>                          |               |               |
| Cash and cash equivalents                      | 2,271         | 2,430         |
| Investments                                    | –             | –             |
| Receivables                                    | 58            | 72            |
| Inventories                                    | –             | –             |
| Other  | –             | –             |
| Non-current assets classified as held for sale | –             | –             |
| <b>Total current Assets</b>                    | <b>2,329</b>  | <b>2,502</b>  |
| <b>Non-current assets</b>                      |               |               |
| Investments                                    | –             | –             |
| Receivables                                    | 7             | 8             |
| Inventories                                    | –             | –             |
| Infrastructure, property, plant and equipment  | 8,357         | 8,123         |
| Investments accounted for using equity method  | –             | –             |
| Investment property                            | –             | –             |
| Intangible assets                              | –             | –             |
| Other  | –             | –             |
| <b>Total non-current assets</b>                | <b>8,364</b>  | <b>8,131</b>  |
| <b>TOTAL ASSETS</b>                            | <b>10,693</b> | <b>10,633</b> |
| <b>LIABILITIES</b>                             |               |               |
| <b>Current liabilities</b>                     |               |               |
| Bank overdraft                                 | –             | –             |
| Payables                                       | –             | –             |
| Income received in advance                     | –             | –             |
| Borrowings                                     | –             | –             |
| Provisions                                     | 23            | 28            |
| <b>Total current liabilities</b>               | <b>23</b>     | <b>28</b>     |
| <b>Non-current liabilities</b>                 |               |               |
| Payables                                       | –             | –             |
| Income received in advance                     | –             | –             |
| Borrowings                                     | –             | –             |
| Provisions                                     | 5             | 4             |
| <b>Total non-current liabilities</b>           | <b>5</b>      | <b>4</b>      |
| <b>TOTAL LIABILITIES</b>                       | <b>28</b>     | <b>32</b>     |
| <b>NET ASSETS</b>                              | <b>10,665</b> | <b>10,601</b> |
| <b>EQUITY</b>                                  |               |               |
| Accumulated surplus                            | 4,110         | 4,200         |
| Revaluation reserves                           | 6,555         | 6,401         |
| Other reserves                                 | –             | –             |
| Council equity interest                        | 10,665        | 10,601        |
| Non-controlling equity interest                | –             | –             |
| <b>TOTAL EQUITY</b>                            | <b>10,665</b> | <b>10,601</b> |

## Warren Shire Council

### Special Purpose Financial Statements for the year ended 30 June 2018

#### Contents of the notes accompanying the financial statements

| Note | Details  | Page |
|------|--|------|
| 1    | Summary of significant accounting policies                             | 8    |
| 2    | Water Supply Business Best-Practice Management disclosure requirements | 12   |
| 3    | Sewerage Business Best-Practice Management disclosure requirements     | 14   |



## Warren Shire Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

#### 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, 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.

#### 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**

## Warren Shire Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

#### Note 1. Significant accounting policies (continued)

##### Category 2

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

##### a. Warren Shire Council Water Supply

Comprising the whole of the operations and assets of the water supply systems servicing the towns of Warren, Nevertire and Collie which is established as a Special Rate Fund.

##### b. Warren Shire Council Sewerage Service

Comprising the whole of the operations and assets of the sewerage reticulation and treatment systems servicing the towns of Warren and Nevertire which is established as a Special Rate Fund.

##### 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 – 30%

Land tax – the first \$629,000 of combined land values attracts **0%**. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$3,846,000 a premium marginal rate of **2.0%** applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

In accordance with Crown Lands and Water (CLAW), 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 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*.

## Warren Shire Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

#### Note 1. Significant accounting policies (continued)

---

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 30%.

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 30% 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.

##### **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)*

## Warren Shire Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

#### Note 1. Significant accounting policies (continued)

---

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:

$$\frac{\text{Operating result before capital income + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.79% at 30/6/18.

#### *(iv) Dividends*

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

## Warren Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2018Note 2. Water supply business  
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

**1. Calculation and payment of tax-equivalents**

[all local government local water utilities must pay this dividend for tax equivalents]

|       |  |   |
|-------|--|---|
| (i)   | Calculated tax equivalents                                   | - |
| (ii)  | Number of assessments multiplied by \$3/assessment           | - |
| (iii) | Amounts payable for tax equivalents [lesser of (i) and (ii)] | - |
| (iv)  | Amounts actually paid for tax equivalents                    | - |

**2. Dividend from surplus**

|       |  |           |
|-------|--|-----------|
| (i)   | 50% of surplus before dividends<br>[calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]                     | -         |
| (ii)  | Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment  | -         |
| (iii) | Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016 | (283,000) |

|              |           |               |          |               |          |
|--------------|-----------|---------------|----------|---------------|----------|
| 2018 Surplus | (126,000) | 2017 Surplus  | (94,000) | 2016 Surplus  | (63,000) |
|              |           | 2017 Dividend | -        | 2016 Dividend | -        |

|      |   |     |
|------|---|-----|
| (iv) | Maximum dividend from surplus [least of (i), (ii) and (iii) above]                            | n/a |
| (v)  | Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]  | -   |
| (vi) | Are the overhead reallocation charges to the water business fair and reasonable? <sup>a</sup> | YES |

**3. Required outcomes for 6 criteria**

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

|       |   |     |
|-------|---|-----|
| (i)   | Completion of strategic business plan (including financial plan)  | YES |
| (ii)  | Full cost recovery, without significant cross subsidies<br>[refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines] | YES |
|       | – Complying charges [item 2 (b) in table 1]   | YES |
|       | – DSP with commercial developer charges [item 2 (e) in table 1]   | YES |
|       | – If dual water supplies, complying charges [item 2 (g) in table 1]   | YES |
| (iii) | Sound water conservation and demand management implemented  | YES |
| (iv)  | Sound drought management implemented  | YES |
| (v)   | Complete performance reporting form (by 15 September each year)   | YES |
| (vi)  | a. Integrated water cycle management evaluation   | YES |
|       | b. Complete and implement integrated water cycle management strategy  | YES |

## Warren Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2018Note 2. Water supply business  
best-practice management disclosure requirements (continued)

---

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018


---

## National Water Initiative (NWI) financial performance indicators

|                |   |        |        |
|----------------|---|--------|--------|
| <b>NWI F1</b>  | Total revenue (water)<br>Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9)<br>– Aboriginal Communities W&S Program income (w10a)  | \$'000 | 768    |
| <b>NWI F4</b>  | Revenue from residential usage charges (water)<br>Income from residential usage charges (w6b) x 100 divided by the sum of<br>[income from residential usage charges (w6a) + income from residential<br>access charges (w6b)]  | %      | 47.59% |
| <b>NWI F9</b>  | Written down replacement cost of fixed assets (water)<br>Written down current cost of system assets (w47)   | \$'000 | 8,595  |
| <b>NWI F11</b> | Operating cost (OMA) (water)<br>Management expenses (w1) + operational and maintenance expenses (w2)  | \$'000 | 616    |
| <b>NWI F14</b> | Capital expenditure (water)<br>Acquisition of fixed assets (w16)  | \$'000 | 819    |
| <b>NWI F17</b> | Economic real rate of return (water)<br>[total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) –<br>operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by<br>[written down current cost of system assets (w47) + plant and equipment (w33b)] | %      | -1.13% |
| <b>NWI F26</b> | Capital works grants (water)<br>Grants for the acquisition of assets (w11a)   | \$'000 | 349    |

- Notes:
1. References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
  2. The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

## Warren Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2018Note 3. Sewerage business  
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

**1. Calculation and payment of tax-equivalents**

[all local government local water utilities must pay this dividend for tax equivalents]

|  |   |
|--|---|
| (i) Calculated tax equivalents                                     | - |
| (ii) Number of assessments multiplied by \$3/assessment            | - |
| (iii) Amounts payable for tax equivalents [lesser of (i) and (ii)] | - |
| (iv) Amounts actually paid for tax equivalents                     | - |

**2. Dividend from surplus**

|  |           |
|--|-----------|
| (i) 50% of surplus before dividends<br>[calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]                       | -         |
| (ii) Number of assessments x (\$30 less tax equivalent charges per assessment)   | -         |
| (iii) Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 30 June 2016 | (477,000) |

|              |           |               |          |               |          |
|--------------|-----------|---------------|----------|---------------|----------|
| 2018 Surplus | (321,000) | 2017 Surplus  | (85,000) | 2016 Surplus  | (71,000) |
|              |           | 2017 Dividend | -        | 2016 Dividend | -        |

|  |     |
|--|-----|
| (iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above]                            | n/a |
| (v) Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]   | -   |
| (vi) Are the overhead reallocation charges to the sewer business fair and reasonable? <sup>a</sup> | YES |

**3. Required outcomes for 4 criteria**

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

|   |     |
|---|-----|
| (i) Completion of strategic business plan (including financial plan)  | YES |
| (ii) Pricing with full cost-recovery, without significant cross subsidies<br>[refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines] | YES |
| Complying charges (a) Residential [item 2 (c) in table 1]   | YES |
| (b) Non-residential [item 2 (c) in table 1]   | YES |
| (c) Trade waste [item 2 (d) in table 1]   | YES |
| DSP with commercial developer charges [item 2 (e) in table 1]   | YES |
| Liquid trade waste approvals and policy [item 2 (f) in table 1]   | YES |
| (iii) Complete performance reporting form (by 15 September each year)   | YES |
| (iv) a. Integrated water cycle management evaluation  | YES |
| b. Complete and implement integrated water cycle management strategy  | YES |

## Warren Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2018Note 3. Sewerage business  
best-practice management disclosure requirements (continued)

---

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018


---

**National Water Initiative (NWI) financial performance indicators**

|                |  |        |        |
|----------------|--|--------|--------|
| <b>NWI F2</b>  | Total revenue (sewerage)<br>Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10)<br>– Aboriginal Communities W&S Program income (w10a)   | \$'000 | 541    |
| <b>NWI F10</b> | Written down replacement cost of fixed assets (sewerage)<br>Written down current cost of system assets (s48)   | \$'000 | 7,784  |
| <b>NWI F12</b> | Operating cost (sewerage)<br>Management expenses (s1) + operational and maintenance expenses (s2)  | \$'000 | 328    |
| <b>NWI F15</b> | Capital expenditure (sewerage)<br>Acquisition of fixed assets (s17)  | \$'000 | 679    |
| <b>NWI F18</b> | Economic real rate of return (sewerage)<br>[total income (s14) – interest income (s10) – grants for acquisition of assets (s12a)<br>– operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by<br>[written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)] | %      | -0.14% |
| <b>NWI F27</b> | Capital works grants (sewerage)<br>Grants for the acquisition of assets (12a)  | \$'000 | 231    |

---

**National Water Initiative (NWI) financial performance indicators  
Water and sewer (combined)**

|                |   |        |        |
|----------------|---|--------|--------|
| <b>NWI F3</b>  | Total income (water and sewerage)<br>Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15)<br>minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)  | \$'000 | 938    |
| <b>NWI F8</b>  | Revenue from community service obligations (water and sewerage)<br>Community service obligations (NWI F25) x 100 divided by total income (NWI F3)   | %      | 1.81%  |
| <b>NWI F16</b> | Capital expenditure (water and sewerage)<br>Acquisition of fixed assets (w16 + s17)   | \$'000 | 1,498  |
| <b>NWI F19</b> | Economic real rate of return (water and sewerage)<br>[total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets<br>(w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100<br>divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10)<br>+ plant and equipment (w33b + s34b)] | %      | -0.65% |
| <b>NWI F20</b> | Dividend (water and sewerage)<br>Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)   | \$'000 | –      |
| <b>NWI F21</b> | Dividend payout ratio (water and sewerage)<br>Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)  | %      | 0.00%  |



## Warren Shire Council

Notes to the Special Purpose Financial Statements  
for the year ended 30 June 2018Note 3. Sewerage business  
best-practice management disclosure requirements (continued)

---

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018


---

National Water Initiative (NWI) financial performance indicators  
Water and sewer (combined)

|                |   |        |         |
|----------------|---|--------|---------|
| <b>NWI F22</b> | Net debt to equity (water and sewerage)<br>Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31)<br>x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]   | %      | -12.11% |
| <b>NWI F23</b> | Interest cover (water and sewerage)<br>Earnings before interest and tax (EBIT) divided by net interest<br><br>Earnings before interest and tax (EBIT): <span style="border: 1px solid black; padding: 0 10px;">(112)</span><br>Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10)<br>– gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c)<br><br>Net interest: <span style="border: 1px solid black; padding: 0 10px;">(77)</span><br>Interest expense (w4a + s4a) – interest income (w9 + s10) |        | -       |
| <b>NWI F24</b> | Net profit after tax (water and sewerage)<br>Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))  | \$'000 | (447)   |
| <b>NWI F25</b> | Community service obligations (water and sewerage)<br>Grants for pensioner rebates (w11b + s12b)  | \$'000 | 17      |

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
  - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



## INDEPENDENT AUDITOR'S REPORT

### Report on the special purpose financial report

#### Warren Shire Council

To the Councillors of the Warren Shire Council

### Opinion

I have audited the accompanying special purpose financial report (the financial report) of Warren Shire Council's (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, notes comprising a summary of significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2018, and its 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 (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 Report' 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' (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 report which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial report may not be suitable for another purpose.

## **Other Information**

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report 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 report 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 2 - Permissible income for general rates.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Report**

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, 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, unless it is not appropriate to do so.

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

My objectives are to:

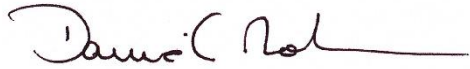
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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 report.

A description of my responsibilities for the audit of the financial report 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.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the best practice management disclosures in Notes 2 and 3 of the financial report
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in dark ink, appearing to read "David Nolan", with a long horizontal flourish extending to the right.

David Nolan  
Director, Financial Audit Services

16 October 2018  
SYDNEY