

Dubbo Regional Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2023



Dubbo Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2023

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Dubbo Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2023

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 26 October 2023.

Mathew Dickerson
Mayor
26 October 2023

Richard Ivey
Deputy Mayor
26 October 2023

Murray Wood
Chief Executive Officer
26 October 2023

Jane Bassingthwaighe
Responsible Accounting Officer
26 October 2023

Dubbo Regional Council

Income Statement of water supply business activity

for the year ended 30 June 2023

\$ '000	2023	2022
Income from continuing operations		
Access charges	8,672	8,438
User charges	14,889	12,990
Interest and investment income	1,423	687
Grants and contributions provided for operating purposes	134	–
Other income	55	86
Gain on Sale of Asset	–	–
Total income from continuing operations	25,173	22,201
Expenses from continuing operations		
Employee benefits and on-costs	5,926	5,285
Borrowing costs	1,306	1,379
Materials and services	9,472	7,753
Depreciation, amortisation and impairment	7,116	5,248
Net loss from the disposal of assets	403	944
Calculated taxation equivalents	134	153
Total expenses from continuing operations	24,357	20,762
Surplus (deficit) from continuing operations before capital amounts	816	1,439
Grants and contributions provided for capital purposes	8,644	10,036
Surplus (deficit) from continuing operations after capital amounts	9,460	11,475
Surplus (deficit) from all operations before tax	9,460	11,475
Less: corporate taxation equivalent (25%) [based on result before capital]	(204)	(360)
Surplus (deficit) after tax	9,256	11,115
Plus accumulated surplus	259,737	248,109
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	134	153
– Corporate taxation equivalent	204	360
Closing accumulated surplus	269,331	259,737
Return on capital %	0.6%	0.8%
Subsidy from Council	12,678	9,608
Calculation of dividend payable:		
Surplus (deficit) after tax	9,256	11,115
Less: capital grants and contributions (excluding developer contributions)	(8,644)	(10,036)
Surplus for dividend calculation purposes	612	1,079
Dividend calculated from surplus	306	540

Dubbo Regional Council

Income Statement of sewerage business activity

for the year ended 30 June 2023

\$ '000	2023	2022
Income from continuing operations		
Access charges	14,524	14,015
User charges	4,920	4,472
Liquid trade waste charges	35	28
Fees	429	233
Interest and investment income	1,991	603
Grants and contributions provided for operating purposes	116	–
Other income	170	74
Gain on Sale of Assets	2,037	–
Total income from continuing operations	24,222	19,425
Expenses from continuing operations		
Employee benefits and on-costs	4,153	3,915
Borrowing costs	534	638
Materials and services	3,872	3,828
Depreciation, amortisation and impairment	5,561	4,341
Net loss from the disposal of assets	–	1,645
Calculated taxation equivalents	198	213
Total expenses from continuing operations	14,318	14,580
Surplus (deficit) from continuing operations before capital amounts	9,904	4,845
Grants and contributions provided for capital purposes	1,978	3,070
Surplus (deficit) from continuing operations after capital amounts	11,882	7,915
Surplus (deficit) from all operations before tax	11,882	7,915
Less: corporate taxation equivalent (25%) [based on result before capital]	(2,476)	(1,211)
Surplus (deficit) after tax	9,406	6,704
Plus accumulated surplus	270,205	262,077
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	198	213
– Corporate taxation equivalent	2,476	1,211
Closing accumulated surplus	282,285	270,205
Return on capital %	3.6%	2.0%
Subsidy from Council	1,111	4,348
Calculation of dividend payable:		
Surplus (deficit) after tax	9,406	6,704
Less: capital grants and contributions (excluding developer contributions)	(1,978)	(3,070)
Surplus for dividend calculation purposes	7,428	3,634
Dividend calculated from surplus	3,714	1,817

Dubbo Regional Council

Income Statement of Dubbo Regional Airport

for the year ended 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
Income from continuing operations		
User charges	3,936	2,105
Grants and contributions provided for operating purposes	721	1,006
Other income	419	354
Total income from continuing operations	5,076	3,465
Expenses from continuing operations		
Employee benefits and on-costs	821	689
Borrowing costs	29	70
Materials and services	2,945	2,148
Depreciation, amortisation and impairment	2,443	3,432
Net loss from the disposal of assets	111	5
Calculated taxation equivalents	139	143
Total expenses from continuing operations	6,488	6,487
Surplus (deficit) from continuing operations before capital amounts	(1,412)	(3,022)
Grants and contributions provided for capital purposes	629	962
Surplus (deficit) from continuing operations after capital amounts	(783)	(2,060)
Surplus (deficit) from all operations before tax	(783)	(2,060)
Surplus (deficit) after tax	(783)	(2,060)
Plus accumulated surplus	80,607	82,524
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	139	143
Closing accumulated surplus	79,963	80,607
Return on capital %	(1.3)%	(3.0)%
Subsidy from Council	5,718	6,585

Dubbo Regional Council

Income Statement of Livestock Markets

for the year ended 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
Income from continuing operations		
User charges	3,407	2,611
Other income	40	38
Total income from continuing operations	3,447	2,649
Expenses from continuing operations		
Employee benefits and on-costs	786	651
Materials and services	1,648	1,672
Depreciation, amortisation and impairment	1,753	1,801
Net loss from the disposal of assets	943	67
Calculated taxation equivalents	29	30
Total expenses from continuing operations	5,159	4,221
Surplus (deficit) from continuing operations before capital amounts	(1,712)	(1,572)
Grants and contributions provided for capital purposes	10	–
Surplus (deficit) from continuing operations after capital amounts	(1,702)	(1,572)
Surplus (deficit) from all operations before tax	(1,702)	(1,572)
Surplus (deficit) after tax	(1,702)	(1,572)
Plus accumulated surplus	23,815	25,357
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	29	30
Closing accumulated surplus	22,142	23,815
Return on capital %	(5.6)%	(5.6)%
Subsidy from Council	2,935	2,603

Dubbo Regional Council

Income Statement of Property Development

for the year ended 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
Income from continuing operations		
Interest and investment income	–	31
Net gain from the disposal of assets	–	3,790
Other income	71	134
Total income from continuing operations	71	3,955
Expenses from continuing operations		
Employee benefits and on-costs	594	486
Materials and services	419	311
Depreciation, amortisation and impairment	34	27
Calculated taxation equivalents	163	162
Total expenses from continuing operations	1,210	986
Surplus (deficit) from continuing operations before capital amounts	(1,139)	2,969
Surplus (deficit) from continuing operations after capital amounts	(1,139)	2,969
Surplus (deficit) from all operations before tax	(1,139)	2,969
Less: corporate taxation equivalent (25%) [based on result before capital]	–	(742)
Surplus (deficit) after tax	(1,139)	2,227
Plus accumulated surplus	22,091	18,960
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	163	162
– Corporate taxation equivalent	–	742
Closing accumulated surplus	21,115	22,091
Return on capital %	(156.0)%	489.1%
Subsidy from Council	1,168	–

Dubbo Regional Council

Income Statement of Rainbow Cottage

for the year ended 30 June 2023

\$ '000	2023 Category 2	2022 Category 2
Income from continuing operations		
User charges	551	502
Grants and contributions provided for operating purposes	883	793
Total income from continuing operations	1,434	1,295
Expenses from continuing operations		
Employee benefits and on-costs	1,245	1,239
Materials and services	345	289
Depreciation, amortisation and impairment	76	77
Calculated taxation equivalents	8	10
Total expenses from continuing operations	1,674	1,615
Surplus (deficit) from continuing operations before capital amounts	(240)	(320)
Surplus (deficit) from continuing operations after capital amounts	(240)	(320)
Surplus (deficit) from all operations before tax	(240)	(320)
Surplus (deficit) after tax	(240)	(320)
Plus accumulated surplus	(601)	(291)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	8	10
Closing accumulated surplus	(833)	(601)
Return on capital %	(16.3)%	(27.3)%
Subsidy from Council	299	363

Dubbo Regional Council

Statement of Financial Position of water supply business activity

as at 30 June 2023

\$ '000	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	4,219	6,502
Investments	45,000	34,000
Receivables	5,807	4,624
Inventories	130	190
Other	21	40
Total current assets	55,177	45,356
Non-current assets		
Investments	14,000	19,000
Infrastructure, property, plant and equipment	368,165	339,496
Other	44	44
Total non-current assets	382,209	358,540
Total assets	437,386	403,896
LIABILITIES		
Current liabilities		
Contract liabilities	–	1
Payables	422	414
Borrowings	1,412	1,335
Employee benefit provisions	1,012	1,231
Total current liabilities	2,846	2,981
Non-current liabilities		
Borrowings	18,491	19,902
Employee benefit provisions	79	69
Total non-current liabilities	18,570	19,971
Total liabilities	21,416	22,952
Net assets	415,970	380,944
EQUITY		
Accumulated surplus	269,470	259,880
Revaluation reserves	146,500	121,064
Total equity	415,970	380,944

Dubbo Regional Council

Statement of Financial Position of sewerage business activity

as at 30 June 2023

\$ '000	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	6,864	6,371
Investments	10,500	3,000
Receivables	2,935	2,311
Other	38	33
Total current assets	20,337	11,715
Non-current assets		
Investments	56,296	53,390
Infrastructure, property, plant and equipment	287,283	268,603
Total non-current assets	343,579	321,993
Total assets	363,916	333,708
LIABILITIES		
Current liabilities		
Contract liabilities	-	1
Payables	201	227
Borrowings	2,432	2,324
Total current liabilities	2,633	2,552
Non-current liabilities		
Borrowings	6,361	8,792
Total non-current liabilities	6,361	8,792
Total liabilities	8,994	11,344
Net assets	354,922	322,364
EQUITY		
Accumulated surplus	282,285	270,205
Revaluation reserves	72,637	52,159
Total equity	354,922	322,364

Dubbo Regional Council

Statement of Financial Position of Dubbo Regional Airport

as at 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
ASSETS		
Current assets		
Investments	654	1,237
Receivables	503	290
Total current assets	1,157	1,527
Non-current assets		
Infrastructure, property, plant and equipment	107,825	99,254
Total non-current assets	107,825	99,254
Total assets	108,982	100,781
LIABILITIES		
Current liabilities		
Payables	192	131
Borrowings	218	1,217
Employee benefit provisions	242	259
Total current liabilities	652	1,607
Non-current liabilities		
Borrowings	–	1,405
Employee benefit provisions	9	15
Total non-current liabilities	9	1,420
Total liabilities	661	3,027
Net assets	108,321	97,754
EQUITY		
Accumulated surplus	79,962	80,607
Revaluation reserves	28,359	17,147
Total equity	108,321	97,754

Dubbo Regional Council

Statement of Financial Position of Livestock Markets

as at 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
ASSETS		
Current assets		
Investments	7,002	6,062
Receivables	232	149
Total current assets	7,234	6,211
Non-current assets		
Infrastructure, property, plant and equipment	30,432	28,167
Total non-current assets	30,432	28,167
Total assets	37,666	34,378
LIABILITIES		
Current liabilities		
Payables	65	93
Employee benefit provisions	188	197
Total current liabilities	253	290
Non-current liabilities		
Employee benefit provisions	8	7
Total non-current liabilities	8	7
Total liabilities	261	297
Net assets	37,405	34,081
EQUITY		
Accumulated surplus	22,142	23,815
Revaluation reserves	15,263	10,266
Total equity	37,405	34,081

Dubbo Regional Council

Statement of Financial Position of Property Development

as at 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
ASSETS		
Current assets		
Investments	6,311	12,945
Receivables	2,568	–
Inventories	6,707	3,662
Total current assets	15,586	16,607
Non-current assets		
Inventories	4,967	4,896
Infrastructure, property, plant and equipment	730	607
Total non-current assets	5,697	5,503
Total assets	21,283	22,110
LIABILITIES		
Current liabilities		
Payables	28	19
Total current liabilities	28	19
Total liabilities	28	19
Net assets	21,255	22,091
EQUITY		
Accumulated surplus	21,115	22,091
Revaluation reserves	140	–
Total equity	21,255	22,091

Dubbo Regional Council

Statement of Financial Position of Rainbow Cottage

as at 30 June 2023

\$ '000	2023 Category 2	2022 Category 2
ASSETS		
Current assets		
Receivables	18	16
Total current assets	18	16
Non-current assets		
Infrastructure, property, plant and equipment	1,474	1,173
Total non-current assets	1,474	1,173
Total assets	1,492	1,189
LIABILITIES		
Current liabilities		
Payables	50	57
Employee benefit provisions	239	285
Total current liabilities	289	342
Non-current liabilities		
Employee benefit provisions	21	15
Borrowings	882	677
Total non-current liabilities	903	692
Total liabilities	1,192	1,034
Net assets	300	155
EQUITY		
Accumulated surplus	(833)	(601)
Revaluation reserves	1,133	756
Total equity	300	155

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 revenue is over \$2 million)

a. Water Supply Service

Comprising the whole of the water supply operations and net assets servicing the city of Dubbo, the town of Wellington and the villages of Wongarbron, Ballimore, Brocklehurst, Geurie, Mumbil and North Yeoval.

b. Sewerage Service

Comprising the whole of the sewerage reticulation and treatment operations and net assets system servicing the city of Dubbo, the town of Wellington and the villages of Wongarbron, Brocklehurst, Geurie and Mumbil.

c. Dubbo Regional Airport

Comprising the whole of the airport operations and net assets located on Coreena Road.

d. Dubbo Regional Livestock Markets

Comprising the whole of the livestock markets operations and net assets located on Bootherba Road.

e. Property Development

Council's property development function competes with other private land developers in Dubbo in the development of both industrial and residential land for purchase.

NB. The surplus on disposal of land is disclosed in the Income Statement of the Business Activities as operating revenue. In the General Purpose Financial Statements this is disclosed as gain/(loss) on disposal of assets.

Category 2

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

a. Rainbow Cottage Long Day Care Centre

Note – Significant Accounting Policies (continued)

Rainbow Cottage, located in Mitchell Street, provides day care for children aged between 0 and 5 years.

Several other long day care facilities operate within Dubbo, and Rainbow Cottage is in direct competition with these centres.

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. 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 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 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.

Note – Significant Accounting Policies (continued)

(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.

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).

In accordance with section 4 of DPE – Water's regulatory and assurance framework, statement of compliance and statement of dividend payment, dividend payment form and unqualified independent financial audit report are submitted to DPE – Water.

Dubbo Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2023
