

Muswellbrook Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

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 11 October 2016.


 Cr. M. Rush
 Mayor


 Cr. R. Scholes
 Councillor


 Mr. S. McDonald
 General manager


 Mr G. O'Leary
 Responsible accounting officer

Muswellbrook Shire Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	1,380	1,368
User charges	3,422	2,975
Fees	—	—
Interest	976	817
Grants and contributions provided for non-capital purposes	36	37
Profit from the sale of assets	9	6
Other income	241	135
Total income from continuing operations	6,064	5,338
Expenses from continuing operations		
Employee benefits and on-costs	1,007	886
Borrowing costs	171	172
Materials and contracts	2,370	2,354
Depreciation and impairment	1,482	1,458
Water purchase charges	—	111
Loss on sale of assets	—	—
Calculated taxation equivalents	—	2
Debt guarantee fee (if applicable)	—	—
Other expenses	263	416
Total expenses from continuing operations	5,293	5,399
Surplus (deficit) from continuing operations before capital amounts	771	(61)
Grants and contributions provided for capital purposes	88	315
Surplus (deficit) from continuing operations after capital amounts	859	254
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	859	254
Less: corporate taxation equivalent (30%) [based on result before capital]	(231)	—
SURPLUS (DEFICIT) AFTER TAX	628	254
Plus opening retained profits	37,711	37,455
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	—	2
– Debt guarantee fees	—	—
– Corporate taxation equivalent	231	—
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	38,570	37,711
Return on capital %	1.9%	0.2%
Subsidy from Council	161	1,396
Calculation of dividend payable:		
Surplus (deficit) after tax	628	254
Less: capital grants and contributions (excluding developer contributions)	(88)	(315)
Surplus for dividend calculation purposes	540	—
Potential dividend calculated from surplus	270	—

Muswellbrook Shire Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2016

\$ '000	Actual 2016	Actual 2015
Income from continuing operations		
Access charges	3,350	3,253
User charges	388	339
Liquid trade waste charges	42	28
Fees	—	—
Interest	557	472
Grants and contributions provided for non-capital purposes	34	33
Profit from the sale of assets	—	4
Other income	304	314
Total income from continuing operations	4,675	4,443
Expenses from continuing operations		
Employee benefits and on-costs	889	790
Borrowing costs	59	61
Materials and contracts	1,271	1,156
Depreciation and impairment	1,210	1,176
Loss on sale of assets	—	—
Calculated taxation equivalents	11	7
Debt guarantee fee (if applicable)	—	—
Other expenses	189	309
Total expenses from continuing operations	3,629	3,499
Surplus (deficit) from continuing operations before capital amounts	1,046	944
Grants and contributions provided for capital purposes	1,091	107
Surplus (deficit) from continuing operations after capital amounts	2,137	1,051
Surplus (deficit) from discontinued operations	—	—
Surplus (deficit) from all operations before tax	2,137	1,051
Less: corporate taxation equivalent (30%) [based on result before capital]	(314)	(283)
SURPLUS (DEFICIT) AFTER TAX	1,823	768
Plus opening retained profits	42,610	41,552
Plus/less: prior period adjustments	—	—
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	11	7
– Debt guarantee fees	—	—
– Corporate taxation equivalent	314	283
Less:		
– Tax equivalent dividend paid	—	—
– Surplus dividend paid	—	—
Closing retained profits	44,758	42,610
Return on capital %	2.0%	1.9%
Subsidy from Council	121	611
Calculation of dividend payable:		
Surplus (deficit) after tax	1,823	768
Less: capital grants and contributions (excluding developer contributions)	(1,091)	(107)
Surplus for dividend calculation purposes	732	661
Potential dividend calculated from surplus	366	330

Muswellbrook Shire Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2016

			Commercial Buildings Category 2	
			Actual 2016	Actual 2015
\$ '000				
Income from continuing operations				
Access charges			—	—
User charges			1,239	1,073
Fees			—	—
Interest			20	—
Grants and contributions provided for non-capital purposes			—	—
Profit from the sale of assets			—	—
Other income			—	33
Total income from continuing operations			1,259	1,106
Expenses from continuing operations				
Employee benefits and on-costs			—	—
Borrowing costs			174	91
Materials and contracts			332	430
Depreciation and impairment			14	14
Loss on sale of assets			—	280
Calculated taxation equivalents			—	—
Debt guarantee fee (if applicable)			—	6
Other expenses			2,689	657
Total expenses from continuing operations			3,209	1,478
Surplus (deficit) from continuing operations before capital amounts			(1,950)	(372)
Grants and contributions provided for capital purposes			—	405
Surplus (deficit) from continuing operations after capital amounts			(1,950)	33
Surplus (deficit) from discontinued operations			—	—
Surplus (deficit) from all operations before tax			(1,950)	33
Less: corporate taxation equivalent (30%) [based on result before capital]			—	—
SURPLUS (DEFICIT) AFTER TAX			(1,950)	33
Plus opening retained profits			18,210	16,177
Plus/less: prior period adjustments			—	—
Plus adjustments for amounts unpaid:				
– Taxation equivalent payments			—	—
– Debt guarantee fees			—	6
– Corporate taxation equivalent			—	—
Add:				
– Subsidy paid/contribution to operations			(402)	1,994
Less:				
– TER dividend paid			—	—
– Dividend paid			—	—
Closing retained profits			15,858	18,210
Return on capital %			-17.2%	-2.6%
Subsidy from Council			2,001	610

Muswellbrook Shire Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	–	–
Investments	4,685	5,230
Receivables	668	501
Inventories	–	3
Other	–	–
Non-current assets classified as held for sale	–	–
Total current assets	5,353	5,734
Non-current assets		
Investments	14,312	13,756
Receivables	1,497	1,493
Inventories	–	–
Infrastructure, property, plant and equipment	50,834	49,892
Investments accounted for using equity method	–	–
Investment property	–	–
Intangible assets	–	–
Other	–	–
Total non-current assets	66,643	65,141
TOTAL ASSETS	71,996	70,875
LIABILITIES		
Current liabilities		
Bank overdraft	–	–
Payables	411	638
Borrowings	257	242
Provisions	372	381
Total current liabilities	1,040	1,261
Non-current liabilities		
Payables	–	–
Borrowings	2,213	2,470
Provisions	–	–
Total non-current liabilities	2,213	2,470
TOTAL LIABILITIES	3,253	3,731
NET ASSETS	68,743	67,144
EQUITY		
Retained earnings	37,570	37,711
Revaluation reserves	31,173	29,433
Council equity interest	68,743	67,144
Non-controlling equity interest	–	–
TOTAL EQUITY	68,743	67,144

Muswellbrook Shire Council

Statement of Financial Position – Council's Sewerage Business Activity

as at 30 June 2016

\$ '000	Actual 2016	Actual 2015
ASSETS		
Current assets		
Cash and cash equivalents	—	—
Investments	3,019	3,303
Receivables	454	379
Inventories	—	—
Other	—	—
Non-current assets classified as held for sale	—	—
Total Current Assets	3,473	3,682
Non-current assets		
Investments	9,236	8,731
Receivables	—	—
Inventories	—	—
Infrastructure, property, plant and equipment	56,492	53,521
Investments accounted for using equity method	—	—
Investment property	—	—
Intangible assets	—	—
Other	—	—
Total non-current assets	65,728	62,252
TOTAL ASSETS	69,201	65,934
LIABILITIES		
Current liabilities		
Bank overdraft	—	—
Payables	648	236
Borrowings	63	59
Provisions	236	225
Total current liabilities	947	520
Non-current liabilities		
Payables	—	—
Borrowings	788	851
Provisions	—	—
Total non-current liabilities	788	851
TOTAL LIABILITIES	1,735	1,371
NET ASSETS	67,466	64,563
EQUITY		
Retained earnings	44,758	42,610
Revaluation reserves	22,708	21,953
Council equity interest	67,466	64,563
Non-controlling equity interest	—	—
TOTAL EQUITY	67,466	64,563

Muswellbrook Shire Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2016

			Commercial Buildings	
			Category 2	
			Actual	Actual
\$ '000			2016	2015
ASSETS				
Current assets				
Cash and cash equivalents			—	—
Investments			—	—
Receivables			—	—
Inventories			—	—
Other			—	—
Non-current assets classified as held for sale			—	—
Total Current Assets			—	—
Non-current assets				
Investments			3	13
Receivables			—	—
Inventories			1,947	1,948
Infrastructure, property, plant and equipment			10,350	10,909
Investments accounted for using equity method			—	—
Investment property			20,675	8,681
Intangible assets			—	—
Other			—	—
Total non-current assets			32,975	21,551
TOTAL ASSETS			32,975	21,551
LIABILITIES				
Current liabilities				
Bank overdraft			—	—
Payables			—	—
Borrowings			—	—
Provisions			—	—
Total current liabilities			—	—
Non-current liabilities				
Payables			—	—
Borrowings			17,117	3,341
Provisions			—	—
Other Liabilities			—	—
Total non-current liabilities			17,117	3,341
TOTAL LIABILITIES			17,117	3,341
NET ASSETS			15,858	18,210
EQUITY				
Retained earnings			15,858	18,210
Revaluation reserves			—	—
Council equity interest			15,858	18,210
Non-controlling equity interest			—	—
TOTAL EQUITY			15,858	18,210

Muswellbrook Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2016

Contents of the notes accompanying the financial statements

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Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 1. Significant accounting policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Office of Local Government.

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in the SPFS, unless otherwise stated, 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 the SPFS 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 also prepared on an accruals basis, based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

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' to 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 government policy statement, *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 standards for disclosure. 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)

Water Supplies

Provision of potable water for the communities of Muswellbrook, Denman and Sandy Hollow

Sewerage Services

Provision of sewage treatment for the communities of Muswellbrook and Denman.

Category 2

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

Commercial Buildings

The provision of residential and commercial properties for lease and the sale of both development ready and surplus vacant land

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, with the exception of some figures disclosed in Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by the NSW Office of Water (Department of Primary Industries) the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

(i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties in undertaking its business activities. Where this is the case, they are disclosed in these statements as a cost of operations just like all other costs.

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council-nominated business activities and are reflected in these 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 **\$482,000** of combined land values attracts **0%**. For that valued from \$482,001 to \$2,947,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,947,000, 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 the Best-Practice Management of Water Supply and Sewerage Guidelines, 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 in the Best-Practice Management of Water Supply and Sewerage Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance against the Best-Practice Management of Water Supply and Sewerage 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 each reported business activity.

While 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 or 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 positive gain/(loss) from ordinary activities before capital amounts has been achieved.

Since this 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 Council's General Purpose Financial Statements.

The 30% rate applied is the equivalent company tax rate prevalent as at balance 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.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 1. Significant accounting policies (continued)

(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 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 rate of return on capital 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 2.17% at 30 June 2016.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

(iv) Dividends

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

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

The dividend, calculated and approved in accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, must not exceed either:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2016 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best-Practice Management of Water Supply and Sewerage Guidelines, a Dividend Payment Form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the NSW Office of Water prior to making the dividend and only after it has approved the payment.

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 2. Water supply business
best-practice management disclosure requirements

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

2016

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	18,555
(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 [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	269,850
(ii) Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	185,550
(iii) Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	861,600

2016 Surplus	539,700	2015 Surplus	(61,000)	2014 Surplus	382,900
		2015 Dividend	—	2014 Dividend	—

(iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above]	185,550
(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? ^a	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 [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]	NO
(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

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 2. Water supply business
best-practice management disclosure requirements (continued)

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

2016

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	5,196
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	69.52%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	50,659
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	3,576
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	1,684
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	0.27%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	—

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 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.
 - refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2016

Note 3. Sewerage business best-practice management disclosure requirements

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

2016

1. Calculation and payment of tax-equivalents

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

(i) Calculated tax equivalents	11,000
(ii) Number of assessments multiplied by \$3/assessment	18,096
(iii) Amounts payable for tax equivalents [lesser of (i) and (ii)]	11,000
(iv) Amounts actually paid for tax equivalents	

2. Dividend from surplus

(i) 50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	366,100
(ii) Number of assessments x (\$30 less tax equivalent charges per assessment)	169,960
(iii) Cumulative surplus before dividends for the 3 years to 30 June 2016, less the cumulative dividends paid for the 2 years to 30 June 2015 and 30 June 2014	2,310,000

2016 Surplus	732,200	2015 Surplus	660,800	2014 Surplus	917,000
		2015 Dividend	—	2014 Dividend	—

(iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above]	169,960
(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? ^a	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 [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

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2016

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	4,270
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	56,453
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	2,336
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	3,415
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	1.28%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	960

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

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	9,475
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	0.72%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	5,099
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	0.80%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Muswellbrook Shire Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2016Note 3. Sewerage business
best-practice management disclosure requirements (continued)

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

2016

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

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-21.23%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		> 100
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	2,036
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	68

- 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



MUSWELLBROOK SHIRE COUNCIL

SPECIAL PURPOSE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying special purpose financial statements of Muswellbrook Shire Council, which comprises the Statement of Financial Position as at 30 June 2016, Income Statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Statement by Councillors and Management.

Responsibility of Council for the Financial Statements

The Council is responsible for the preparation and fair presentation of the financial statements in accordance with the Local Government Act 1993 and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial statements, are appropriate to meet the financial reporting requirements of the Division of Local Government. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. Our audit responsibility does not extend to the best practice management disclosures in Notes 2 and 3 and, accordingly, no opinion is expressed on these disclosures.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements. Our audit did not involve an analysis of the prudence of business decisions made by Council or management.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In our opinion, the special purpose financial statements of the Council are presented fairly in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the financial reporting requirements of the Office of Local Government. As a result, the financial statements may not be suitable for another purpose.

HILL ROGERS



BRETT HANGER

Partner

Dated at Sydney this 27th day of October 2016

Muswellbrook Shire Council
Special Schedules

for year ended 30 June 2016



**muswellbrook
shire council**

Muswellbrook Shire Council

Special Schedules

for the year ended 30 June 2016

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¹ Special Schedules are not audited (with the exception of Special Schedule 8).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Muswellbrook Shire Council

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	410	–	–	(410)
Administration	5,504	151	–	(5,353)
Public order and safety				
Fire service levy, fire protection, emergency services	751	247	19	(485)
Beach control	–	–	–	–
Enforcement of local government reg's	–	–	–	–
Animal control	250	45	–	(205)
Other	–	–	–	–
Total Public order and safety	1,001	292	19	(690)
Health	–	–	–	–
Environment				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	595	432	–	(163)
Solid waste management	4,881	4,252	–	(629)
Street cleaning	201	–	–	(201)
Drainage	–	–	–	–
Stormwater management	865	–	–	(865)
Total Environment	6,542	4,684	–	(1,858)
Community services and education				
Administration and education	615	49	–	(566)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	–	–	–	–
Children's services	–	–	–	–
Total Comm. services and education	615	49	–	(566)
Housing and community amenities				
Public cemeteries	116	61	–	(55)
Public conveniences	51	–	–	(51)
Street lighting	380	57	–	(323)
Town planning	682	443	–	(239)
Other community amenities	–	2,277	–	2,277
Total Housing and community amenities	1,229	2,838	–	1,609
Water supplies	4,537	6,145	–	1,608
Sewerage services	3,131	5,898	960	3,727

Muswellbrook Shire Council

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2016

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	923	192	67	(664)
Museums	—	—	—	—
Art galleries	410	39	—	(371)
Community centres and halls	997	202	—	(795)
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	—	—	—	—
Sporting grounds and venues	—	38	—	38
Swimming pools	1,351	612	18	(721)
Parks and gardens (lakes)	2,175	49	795	(1,331)
Other sport and recreation	—	—	—	—
Total Recreation and culture	5,856	1,132	880	(3,844)
Fuel and energy	—	—	—	—
Agriculture	—	—	—	—
Mining, manufacturing and construction				
Building control	—	—	—	—
Other mining, manufacturing and const.	—	—	—	—
Total Mining, manufacturing and const.	—	—	—	—
Transport and communication				
Urban roads (UR) – local	2,527	609	73	(1,845)
Urban roads – regional	652	1,727	6,472	7,547
Sealed rural roads (SRR) – local	5,138	1,215	2,109	(1,814)
Sealed rural roads (SRR) – regional	717	1,533	—	816
Unsealed rural roads (URR) – local	—	—	—	—
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	—	—	—	—
Bridges on URR – local	675	—	—	(675)
Bridges on regional roads	—	—	—	—
Parking areas	118	—	—	(118)
Footpaths	85	—	—	(85)
Aerodromes	—	—	—	—
Other transport and communication	2,253	177	—	(2,076)
Total Transport and communication	12,165	5,261	8,654	1,750
Economic affairs				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	2,935	1,314	4,647	3,026
Total Economic affairs	2,935	1,314	4,647	3,026
Totals – functions	43,925	27,764	15,160	(1,001)
General purpose revenues ⁽¹⁾		15,805		15,805
Share of interests – joint ventures and associates using the equity method	—	2		2
NET OPERATING RESULT ⁽²⁾	43,925	43,571	15,160	14,806

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose (2) As reported in the Income Statement grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges

Muswellbrook Shire Council

Special Schedule 2(a) – Statement of Long Term Debt (all purpose)

for the year ended 30 June 2016

\$'000

Classification of debt	Principal outstanding at beginning of the year		New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current		Total	From revenue			Sinking funds	Current	Non-current
Loans (by source)										
Commonwealth government	—	—	—						—	—
Treasury corporation	95	685	780	156				92	532	624
Other state government	—	—	—						—	—
Public subscription	—	—	—						—	—
Financial institutions	780	13,144	13,924	812			635	695	25,917	26,612
Other	2,050	—	2,050	1,801				200	49	249
Total loans	2,925	13,829	16,754	2,769	—	—	635	987	26,498	27,485
Other long term debt										
Ratepayers advances	—	—	—						—	—
Government advances	—	—	—						—	—
Finance leases	—	—	—						—	—
Deferred payments	—	—	—						—	—
Total long term debt	—	—	—	—	—	—	—	—	—	—
Total debt	2,925	13,829	16,754	2,769	—	—	635	987	26,498	27,485

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

Muswellbrook Shire Council

Special Schedule 2(b) – Statement of Internal Loans [Section 410(3) of the *Local Government Act 1993*] for the year ended 30 June 2016

\$'000

Summary of internal loans

Borrower (by purpose)	Amount originally raised	Total repaid during the year (principal and interest)	Principal outstanding at end of year
General Water Sewer Domestic waste management Gas	1,750	136	1,542
Totals	1,750	136	1,542

Note: the summary of internal loans (above) represents the total of Council's internal loans categorised according to the borrower.

Details of individual internal loans

Borrower (by purpose)	Lender (by purpose)	Date of minister's approval	Date raised	Term (years)	Dates of maturity	Rate of interest	Amount originally raised	Total repaid during year (princ. and int.)	Principal outstanding at end of year
General Fund	Water Fund	10/08/10	11/08/10	25	10/08/35	6.00%	1,750		
Totals							1,750	-	-

Muswellbrook Shire Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income Expenses		
1. Management expenses		
a. Administration	775	753
b. Engineering and supervision	498	365
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	–
b. Maintenance expenses	–	–
– Mains		
c. Operation expenses	11	12
d. Maintenance expenses	233	173
– Reservoirs		
e. Operation expenses	6	15
f. Maintenance expenses	20	32
– Pumping stations		
g. Operation expenses (excluding energy costs)	6	6
h. Energy costs	199	231
i. Maintenance expenses	143	146
– Treatment		
j. Operation expenses (excluding chemical costs)	48	59
k. Chemical costs	313	284
l. Maintenance expenses	789	990
– Other		
m. Operation expenses	121	79
n. Maintenance expenses	264	383
o. Purchase of water	150	111
3. Depreciation expenses		
a. System assets	1,437	1,408
b. Plant and equipment	44	50
4. Miscellaneous expenses		
a. Interest expenses	171	172
b. Revaluation decrements	–	–
c. Other expenses	64	95
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	35
5. Total expenses	5,292	5,399

Muswellbrook Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges		
a. Access (including rates)	1,008	1,000
b. Usage charges	2,299	1,930
7. Non-residential charges		
a. Access (including rates)	372	368
b. Usage charges	1,122	1,046
8. Extra charges	30	28
9. Interest income	946	789
10. Other income	240	135
10a. Aboriginal Communities Water and Sewerage Program	—	—
11. Grants		
a. Grants for acquisition of assets	—	—
b. Grants for pensioner rebates	34	33
c. Other grants	—	5
12. Contributions		
a. Developer charges	—	114
b. Developer provided assets	89	201
c. Other contributions	2	—
13. Total income	6,142	5,649
14. Gain (or loss) on disposal of assets	9	6
15. Operating result	859	256
15a. Operating result (less grants for acquisition of assets)	859	256

Muswellbrook Shire Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	424	1,162
c. Renewals	1,260	1,023
d. Plant and equipment	—	171
17. Repayment of debt	241	227
18. Totals	1,925	2,583
Non-operating funds employed		
19. Proceeds from disposal of assets	—	—
20. Borrowing utilised	—	—
21. Totals	—	—
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	5,330	5,317
b. Residential (unoccupied, ie. vacant lot)	282	277
c. Non-residential (occupied)	471	459
d. Non-residential (unoccupied, ie. vacant lot)	102	106
23. Number of ETs for which developer charges were received	— ET	— ET
24. Total amount of pensioner rebates (actual dollars)	\$ 62,627	\$ 59,708

Muswellbrook Shire Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
25. Cash and investments			
a. Developer charges	1,431	4,730	6,161
b. Special purpose grants	—	—	—
c. Accrued leave	372	—	372
d. Unexpended loans	—	—	—
e. Sinking fund	—	—	—
f. Other	2,882	9,582	12,464
26. Receivables			
a. Specific purpose grants	—	—	—
b. Rates and availability charges	88	—	88
c. User charges	532	—	532
d. Other	48	1,497	1,545
27. Inventories	—	—	—
28. Property, plant and equipment			
a. System assets	—	50,659	50,659
b. Plant and equipment	—	175	175
29. Other assets	—	—	—
30. Total assets	5,353	66,643	71,996
LIABILITIES			
31. Bank overdraft	—	—	—
32. Creditors	411	—	411
33. Borrowings	257	2,213	2,470
34. Provisions			
a. Tax equivalents	—	—	—
b. Dividend	—	—	—
c. Other	372	—	372
35. Total liabilities	1,040	2,213	3,253
36. NET ASSETS COMMITTED	4,313	64,430	68,743
EQUITY			
37. Accumulated surplus			37,486
38. Asset revaluation reserve			31,257
39. TOTAL EQUITY			68,743
Note to system assets:			
40. Current replacement cost of system assets			88,784
41. Accumulated current cost depreciation of system assets			(38,125)
42. Written down current cost of system assets			50,659

Muswellbrook Shire Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	513	497
b. Engineering and supervision	502	451
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	–	–
b. Maintenance expenses	296	226
– Pumping stations		
c. Operation expenses (excluding energy costs)	59	63
d. Energy costs	101	113
e. Maintenance expenses	239	199
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	117	78
g. Chemical costs	21	44
h. Energy costs	–	–
i. Effluent management	–	–
j. Biosolids management	–	–
k. Maintenance expenses	384	374
– Other		
l. Operation expenses	60	57
m. Maintenance expenses	44	47
3. Depreciation expenses		
a. System assets	1,196	1,157
b. Plant and equipment	14	19
4. Miscellaneous expenses		
a. Interest expenses	59	61
b. Revaluation decrements	–	–
c. Other expenses	22	10
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	96
5. Total expenses	3,627	3,492

Muswellbrook Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
Income		
6. Residential charges (including rates)	3,194	3,102
7. Non-residential charges		
a. Access (including rates)	155	151
b. Usage charges	389	339
8. Trade waste charges		
a. Annual fees	—	—
b. Usage charges	34	21
c. Excess mass charges	—	—
d. Re-inspection fees	—	—
9. Extra charges	23	20
10. Interest income	534	452
11. Other income	311	321
11a. Aboriginal Communities Water and Sewerage Program	—	—
12. Grants		
a. Grants for acquisition of assets	960	—
b. Grants for pensioner rebates	34	33
c. Other grants	—	—
13. Contributions		
a. Developer charges	128	107
b. Developer provided assets	—	—
c. Other contributions	2	—
14. Total income	5,764	4,546
15. Gain (or loss) on disposal of assets	—	4
16. Operating result	2,137	1,058
16a. Operating result (less grants for acquisition of assets)	1,177	1,058

Muswellbrook Shire Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2016

\$'000	Actuals 2016	Actuals 2015
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	—	—
b. New assets for growth	1,982	1,021
c. Renewals	1,420	433
d. Plant and equipment	13	76
18. Repayment of debt	59	55
19. Totals	3,474	1,585
Non-operating funds employed		
20. Proceeds from disposal of assets	—	—
21. Borrowing utilised	—	—
22. Totals	—	—
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	5,400	5,388
b. Residential (unoccupied, ie. vacant lot)	238	229
c. Non-residential (occupied)	344	332
d. Non-residential (unoccupied, ie. vacant lot)	50	49
24. Number of ETs for which developer charges were received	— ET	— ET
25. Total amount of pensioner rebates (actual dollars)	\$ 62,431	\$ 59,883

Muswellbrook Shire Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2016

\$'000	Actuals Current	Actuals Non-current	Actuals Total
ASSETS			
26. Cash and investments			
a. Developer charges	2,246	7,423	9,669
b. Special purpose grants	—	—	—
c. Accrued leave	235	—	235
d. Unexpended loans	—	—	—
e. Sinking fund	—	—	—
f. Other	538	1,813	2,351
27. Receivables			
a. Specific purpose grants	—	—	—
b. Rates and availability charges	381	—	381
c. User charges	—	—	—
d. Other	73	—	73
28. Inventories	—	—	—
29. Property, plant and equipment			
a. System assets	—	56,453	56,453
b. Plant and equipment	—	39	39
30. Other assets	—	—	—
31. Total assets	3,473	65,728	69,201
LIABILITIES			
32. Bank overdraft	—	—	—
33. Creditors	648	—	648
34. Borrowings	63	788	851
35. Provisions			
a. Tax equivalents	—	—	—
b. Dividend	—	—	—
c. Other	236	—	236
36. Total liabilities	947	788	1,735
37. NET ASSETS COMMITTED	2,526	64,940	67,466
EQUITY			
38. Accumulated surplus			44,741
39. Asset revaluation reserve			22,725
40. TOTAL EQUITY			67,466
Note to system assets:			
41. Current replacement cost of system assets			90,001
42. Accumulated current cost depreciation of system assets			(33,548)
43. Written down current cost of system assets			56,453

Muswellbrook Shire Council

Notes to Special Schedules 3 and 5

for the year ended 30 June 2016

Administration ⁽¹⁾

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Other technical and supervision staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.

Operational expenses (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

Maintenance expenses (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

Other expenses (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

Impairment losses (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

Aboriginal Communities Water and Sewerage Program (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

Residential charges ⁽²⁾ (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

Non-residential charges ⁽²⁾ (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

Other income (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

Other contributions (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*

Notes:

⁽¹⁾ Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

⁽²⁾ To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016
as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Administration	179		93	90	4,850	5,493	21%	75%	1%	0%	3%
	Public Order and Safety	72		18	17	3,273	3,584	43%	49%	8%	0%	0%
	Community Services/Education	–		88	38	20,026	17,540	75%	25%	0%	0%	0%
	Housing and Community	57		16	9	2,712	3,262	0%	93%	7%	0%	0%
	Recreation and Culture	65		131	49	19,479	26,138	67%	32%	1%	0%	0%
	Economic Affairs	–		3	5	562	683	19%	81%	0%	0%	0%
	Transport and Communication	–		1	–	114	122	68%	32%	0%	0%	0%
	Other					–						
	Sub-total	373	–	350	208	51,016	56,822	59.1%	39.2%	1.5%	0.0%	0.3%
Roads	Rural	2,066		1,429	1,101	141,207	184,755	94%	3%	2%	1%	0%
	Urban	2,267		338	415	99,026	132,741	74%	7%	11%	8%	0%
	Regional	–		219	202	21,952	27,011	71%	24%	5%	0%	0%
	Unsealed	742		356	250	9,086	11,870	25%	30%	35%	10%	0%
	Bridges	180		80	61	43,207	59,745	29%	56%	15%	0%	0%
	Footpaths	63		85	85	10,918	14,328	27%	28%	37%	6%	2%
	Carparks	61		115	115	5,019	6,723	86%	13%	1%	0%	0%
	Other											
	Sub-total	5,379	–	2,622	2,229	324,724	437,173	73.4%	14.5%	8.7%	3.3%	0.1%

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)
as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Water supply network	Mains	3,335		454	232	27,731	45,775	1%	23%	57%	13%	6%
	Reservoirs	50		192	–	10,307	19,267	34%	28%	1%	34%	2%
	Pumping Stations	–		99	157	2,273	3,962	50%	0%	36%	13%	0%
	Treatment Infrastructure	1,650		419	614	8,512	17,301	0%	93%	7%	0%	0%
	Other					–						
	Sub-total	5,035	–	1,164	1,003	48,823	86,305	10.5%	37.3%	33.5%	14.9%	3.5%
Sewerage network	Mains	6,144		563	249	41,559	56,258	1%	40%	39%	7%	14%
	Pumping Stations	950		221	145	5,223	8,856	72%	23%	2%	2%	0%
	Treatment Infrastructure	30,598		377	325	4,010	15,595	0%	36%	0%	64%	0%
	Effluent Re-Use	40		46	46	2,596	4,302	0%	71%	19%	0%	10%
	Other					–						
	Sub-total	37,732	–	1,207	765	53,388	85,011	7.9%	39.0%	27.1%	16.6%	9.5%

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)
as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Urban Drainage	511		77	65	38,284	58,083	30%	20%	50%	0%	0%
	Other											
	Sub-total	511	–	77	65	38,284	58,083	30.0%	20.0%	50.0%	0.0%	0.0%
Open space/ recreational assets	Swimming pools	2,256		209	82	4,291	–	62%	11%	0%	7%	20%
	Playgrounds/Sporting Field	356		617	617	5,887	8,334	37%	35%	23%	1%	4%
	Other											

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2016 (continued)
as at 30 June 2016

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2015/16 Required maintenance ^a	2015/16 Actual maintenance	Carrying value	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
	TOTAL – ALL ASSETS	51,642	–	6,246	4,969	526,413	731,728	53.4%	22.6%	16.6%	5.7%	1.6%

Notes:

a Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

1	Excellent	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Average	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Muswellbrook Shire Council

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2016

\$ '000	Amounts 2016	Indicator 2016	Prior periods 20152014	
Infrastructure asset performance indicators * consolidated				
1. Infrastructure renewals ratio				
Asset renewals ⁽¹⁾	10,273	116.49%	162.76%	123.06%
Depreciation, amortisation and impairment	8,819			
2. Infrastructure backlog ratio				
Estimated cost to bring assets to a satisfactory standard	51,642	9.81%	2.58%	3.95%
Carrying value of infrastructure assets	526,413			
3. Asset maintenance ratio				
Actual asset maintenance	4,969	0.80	0.77	0.85
Required asset maintenance	6,246			
4. Capital expenditure ratio				
Annual capital expenditure	25,773	2.61	2.55	2.86
Annual depreciation	9,874			

Notes

* All asset performance indicators are calculated using the asset classes identified in the previous table.

⁽¹⁾ Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Muswellbrook Shire Council

Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2017

\$'000		Calculation 2015/16	Calculation 2016/17
Notional general income calculation ⁽¹⁾			
Last year notional general income yield	a	11,369	11,814
Plus or minus adjustments ⁽²⁾	b	169	124
Notional general income	c = (a + b)	11,538	11,938
Permissible income calculation			
Special variation percentage ⁽³⁾	d	0.00%	0.00%
Or rate peg percentage	e	2.40%	1.80%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	—	—
Plus special variation amount	h = d x (c - g)	—	—
Or plus rate peg amount	i = c x e	277	215
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—
Sub-total	k = (c + g + h + i + j)	11,815	12,153
Plus (or minus) last year's carry forward total	l	6	7
Less valuation objections claimed in the previous year	m	—	—
Sub-total	n = (l + m)	6	7
Total permissible income	o = k + n	11,821	12,160
Less notional general income yield	p	11,814	12,154
Catch-up or (excess) result	q = o - p	7	6
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	—	—
Less unused catch-up ⁽⁵⁾	s	—	(5)
Carry forward to next year	t = q + r - s	7	1

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.



MUSWELLBROOK SHIRE COUNCIL

SPECIAL SCHEDULE NO. 8

INDEPENDENT AUDITORS' REPORT

REPORT ON SPECIAL SCHEDULE NO. 8

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Muswellbrook Shire Council for the year ending 30 June 2017.

Responsibility of Council for Special Schedule No. 8

The Council is responsible for the preparation and fair presentation of Special Schedule No. 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 24. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on Special Schedule No. 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No. 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 8.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In our opinion, Special Schedule No. 8 of Muswellbrook Shire Council for 2016/17 is properly drawn up in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

Basis of Accounting

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.

HILL ROGERS



BRETT HANGER

Partner

Dated at Sydney this 27th day of October 2016