

# Special purpose financial statements – Local Government Code of Accounting – Section 3

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## Requirements

Councils must complete special purpose financial statements (SPFS) for all declared business activities.

Councils' declared business activities must be nominated as either Category 1 (gross operating turnover over \$2 million) or Category 2 (gross operating turnover less than \$2 million).

Where a council has 'no business activities', the special purpose financial statements are not required.

All councils shall complete a 'Statement by Councillors and Management' on their special purpose financial statements. The council statement must be made by resolution of council, and signed by:

- a the mayor
- b at least one other elected member of the council
- c the responsible accounting officer, and
- d the general manager (if not the responsible accounting officer).

The Statement by Councillors and Management must indicate whether or not the council's special purpose financial statements have been drawn up in accordance with the Local Government Code of Accounting Practice and Financial Reporting and relevant Australian Accounting Standards. For further guidance, refer to the general purpose finance statements commentary.

Councils shall ensure that the following are included in their special purpose financial statements:

- a council statement
- b auditor's report
- c special purpose financial statements and notes.

The form and content of the special purpose financial statements represent minimum disclosure requirements.

The special purpose financial statements shall be presented in the following order:

- a Statement by Councillors and Management
- b Income Statement of water supply business activity
- c Income Statement of sewerage business activity
- d Income Statement of other business activities
- e Statement of Financial Position of water supply business activity
- f Statement of Financial Position of sewerage business activity
- g Statement of Financial Position of other business activities
- h Notes to the special purpose financial statements.

A council's special purpose financial statements for a year must be prepared and audited within the period of four months after the end of that financial year.

As soon as practicable after receiving the auditor's report on the special purpose financial statements, the council must send a copy of the auditor's report on the council's special purpose financial statements, together with a copy of the council's audited special purpose financial report, to the Deputy Secretary, Local Government, Department of Planning, Housing and Infrastructure.

The special purpose financial statements must be included as part of the financial information in council's annual report.

The income statements of business activities shall disclose all income and expenses for the financial period and shall be presented, together with relevant amounts (real and notional), as shown.

Amounts shown in the Income Statement shall include internal transactions. Accordingly, there should be no 'netting off' of amounts for internal charges.

Refer to the commentary – Income Statements and Statements of Comprehensive Income in the general purpose financial statements – section 1 of the Code for guidance, e.g. materiality, classification of other expenses. The Income Statement shall disclose the level of subsidy, if any, afforded to each business activity (includes Category 1 and 2 businesses).

Taxation Equivalent Regime (TER payments) as outlined in Chapter 5 of the *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, applies to all Category 1 businesses and to Category 2 business activities if practicable.

TER payments must include land tax and stamp duty if applicable.

The corporate taxation equivalent must be applied to the 'Surplus (deficit) from continuing activities before capital items' line item as shown. The relevant rate is to be applied.

All Category 1 business activities are expected to generate a return on capital invested. In monopoly businesses, such as water and sewer services, the rate of return should be sufficient to cover costs and replace assets needed to maintain service standards. In a competitive market, the return on invested capital should be equal to, or better than, a return on a Commonwealth 10-year bond. The rate of return for each Category 1 business must be disclosed in the Income Statement of business activities.

The calculation of the return on capital is as follows:

Surplus (deficit) from continuing operations before capital amounts + interest expense

Written-down value of infrastructure, property, plant and equipment at 30 June

The Statement of Financial Position of business activities shall be presented, together with relevant amounts, as shown.

Material accounting policy information shall be disclosed and as a minimum, include Note as shown. (Refer to the commentary – basis of preparation in section 1 - general purpose financial statements for guidance on accounting policies).

# NSW Council Special purpose financial statements for the year ended 30 June 2025

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# NSW Council Special purpose financial statements for the year ended 30 June 2025

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## Statement by Councillors and Management

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### 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:

- NSW Government Policy Statement, *Application of National Competition Policy to Local Government*
- Division of Local Government Guidelines, *Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality*
- The Local Government Code of Accounting Practice and Financial Reporting
- Sections 3 and 4 of the NSW Department of Climate Change, Energy, the Environment and Water's (DCCEEW) *Regulatory and assurance framework for local water utilities, July 2022*

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,
- accord with Council's accounting and other records; and
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

We are not aware of any matter that would render this report false or misleading in any way.

Signed in accordance with a resolution of Council made on .....

Councillor's name

**Mayor**

\_\_\_\_ / \_\_\_\_ / \_\_\_\_

Councillor's name

**Councillor**

\_\_\_\_ / \_\_\_\_ / \_\_\_\_

General Manager's name

**General Manager**

\_\_\_\_ / \_\_\_\_ / \_\_\_\_

Responsible Accounting Officer's name

**Responsible Accounting Officer**

\_\_\_\_ / \_\_\_\_ / \_\_\_\_

# NSW Council

## Income Statement of water supply business activity

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for the year ended 30 June 2025

	2025 \$'000	2024 \$'000
<b>Income from continuing operations</b>		
Access charges		
User charges		
Fees		
Grants and contributions provided for operating purposes		
Interest and investment income		
Other income		
Net gain from the disposal of assets		
<b>Total income from continuing operations</b>		
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs		
Materials and services		
Borrowing costs		
Depreciation, amortisation and impairment		
Water purchase charges		
Calculated taxation equivalents		
Debt guarantee fee (if applicable)		
Other expenses		
Net loss from the disposal of assets		
<b>Total expenses from continuing operations</b>		
Surplus (deficit) from continuing operations before capital amounts		
Grants and contributions provided for capital purposes		
Surplus (deficit) from continuing operations after capital amounts		
Surplus (deficit) from discontinued operations		
Surplus (deficit) from all operations before tax		
Less corporate taxation equivalent (XX%) (based on result before capital)		
Surplus (deficit) after tax		
Opening accumulated surplus		
Adjustments for amounts unpaid		
Taxation equivalent payments		
Debt guarantee fees		
Corporate taxation equivalent		
Less:		
– TER dividend paid		
– Surplus dividend paid		
<b>Closing accumulated surplus</b>		
Return on capital %		
Subsidy from Council		
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax		
Less: capital grants and contributions (excluding developer contributions)		
Surplus for dividend calculation purposes		
Dividend calculated from surplus		

# NSW Council

## Income Statement of sewerage business activity

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for the year ended 30 June 2025

	2025 \$'000	2024 \$'000
<b>Income from continuing operations</b>		
Access charges		
User charges		
Liquid trade-waste charges		
Fees		
Grants and contributions provided for operating purposes		
Interest and investment income		
Other income		
Net gain from the disposal of assets		
<b>Total income from continuing operations</b>		
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs		
Materials and services		
Borrowing costs		
Depreciation, amortisation and impairment		
Calculated taxation equivalents		
Debt guarantee fee (if applicable)		
Other expenses		
Net loss from the disposal of assets		
<b>Total expenses from continuing operations</b>		
Surplus (deficit) from continuing operations before capital amounts		
Grants and contributions provided for capital purposes		
Surplus (deficit) from continuing operations after capital amounts		
Surplus (deficit) from discontinued operations		
Surplus (deficit) from all operations before tax		
Less corporate taxation equivalent (XX%) (based on result before capital)		
Surplus (deficit) after tax		
Opening accumulated surplus		
Adjustments for amounts unpaid		
Taxation equivalent payments		
Debt guarantee fees		
Corporate taxation equivalent		
Less:		
– TER dividend paid		
– Surplus dividend paid		
<b>Closing accumulated surplus</b>		
Return on capital %		
Subsidy from Council		
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax		
Less: capital grants and contributions (excluding developer contributions)		
Surplus for dividend calculation purposes		
Dividend calculated from surplus		

# NSW Council

## Income Statement of other business activity

for the year ended 30 June 2025

Notes	2025 Business A (Cat) \$'000	2025 Business B (Cat) \$'000	2024 Business A (Cat) \$'000	2024 Business B (Cat) \$'000
<b>Income from continuing operations</b>				
Annual charges				
User charges and fees				
Grants and contributions provided for operating purposes				
Interest and investment income				
Other income				
Net gain from the disposal of assets				
<b>Total income from continuing operations</b>				
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs				
Materials and services				
Borrowing costs				
Depreciation, amortisation and impairment				
Calculated taxation equivalents				
Debt guarantee fee (if applicable)				
Other expenses				
Net loss from the disposal of assets				
<b>Total expenses from continuing operations</b>				
Surplus (deficit) from continuing operations before capital amounts				
Grants and contributions provided for capital purposes				
Surplus (deficit) from continuing operations after capital amounts				
Surplus (deficit) from discontinued operations				
Surplus (deficit) from all operations before tax				
Less corporate taxation equivalent (XX%) (based on result before capital)				
Surplus (deficit) after tax				
Opening accumulated surplus				
Adjustments for amounts unpaid				
Taxation equivalent payments				
Debt guarantee fees				
Corporate taxation equivalent				
Less:				
– TER dividend paid				
– Surplus dividend paid				
<b>Closing accumulated surplus</b>				
Return on capital %				
Subsidy from Council				
<b>Calculation of dividend payable:</b>				
Surplus (deficit) after tax				
Less: capital grants and contributions (excl. developer contributions)				
Surplus for dividend calculation purposes				
Dividend calculated from surplus				

# NSW Council

## Statement of Financial Position of water supply business activity

as at 30 June 2025

	2025 \$'000	2024 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents		
Investments		
Receivables		
Inventories		
Contract assets and contract cost assets		
Other		
Non-current assets classified as held for sale		
<b>Total current assets</b>		
<b>Non-current assets</b>		
Investments		
Receivables		
Inventories		
Contract assets and contract cost assets		
Infrastructure, property, plant and equipment		
Investment property		
Intangible assets		
Right of use assets		
Investments accounted for using equity method		
<b>Total non-current assets</b>		
<b>Total assets</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables		
Contract liabilities		
Lease liabilities		
Borrowings		
Employee benefit provisions		
Provisions		
<b>Total current liabilities</b>		
<b>Non-current liabilities</b>		
Payables		
Contract liabilities		
Lease liabilities		
Borrowings		
Employee benefit provisions		
Provisions		
<b>Total non-current liabilities</b>		
<b>Total liabilities</b>		
<b>Net assets</b>		
<b>EQUITY</b>		
Accumulated surplus		
IPPE revaluation surplus		
Other reserves (specify)		
<b>Total equity</b>		



# NSW Council

## Statement of Financial Position of sewerage business activity

as at 30 June 2025

	2025 \$'000	2024 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents		
Investments		
Receivables		
Inventories		
Contract assets and contract cost assets		
Other		
Non-current assets classified as held for sale		
<b>Total current assets</b>		
<b>Non-current assets</b>		
Investments		
Receivables		
Inventories		
Contract assets and contract cost assets		
Infrastructure, property, plant and equipment		
Investment property		
Intangible assets		
Right of use assets		
Investments accounted for using equity method		
<b>Total non-current assets</b>		
<b>Total assets</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables		
Contract liabilities		
Lease liabilities		
Borrowings		
Employee benefit provisions		
Provisions		
<b>Total current liabilities</b>		
<b>Non-current liabilities</b>		
Payables		
Contract liabilities		
Lease liabilities		
Borrowings		
Employee benefit provisions		
Provisions		
<b>Total non-current liabilities</b>		
<b>Total liabilities</b>		
<b>Net assets</b>		
<b>EQUITY</b>		
Accumulated surplus		
IPPE revaluation surplus		
Other reserves (specify)		
<b>Total equity</b>		

# NSW Council

## Statement of Financial Position of other business activities

as at 30 June 2025

	Notes	2025 Business A (Cat) \$'000	2025 Business B (Cat) \$'000	2024 Business A (Cat) \$'000	2024 Business B (Cat) \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents					
Investments					
Receivables					
Inventories					
Contract assets and contract cost assets					
Other					
Non-current assets classified as held for sale					
<b>Total current assets</b>					
<b>Non-current assets</b>					
Investments					
Receivables					
Inventories					
Contract assets and contract cost assets					
Infrastructure, property, plant and equipment					
Investment property					
Intangible assets					
Right of use assets					
Investments accounted for using the equity method					
<b>Total non-current assets</b>					
<b>Total assets</b>					
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables					
Contract liabilities					
Lease liabilities					
Borrowings					
Employee benefit provisions					
Provisions					
<b>Total current liabilities</b>					
<b>Non-current liabilities</b>					
Payables					
Contract liabilities					
Lease liabilities					
Borrowings					
Employee benefit provisions					
Provisions					
<b>Total non-current liabilities</b>					
<b>Total liabilities</b>					
<b>Net assets</b>					
<b>EQUITY</b>					
Accumulated surplus					
IPPE revaluation surplus					
Other reserves (specify)					
<b>Total equity</b>					

## **Note – Material accounting policy information**

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.

Councils are to provide details of any changes in accounting policies, errors or changes in accounting estimates during the year – the disclosures in G4 of Section 1 of the Code or the relevant disclosures from AASB 1060 (paragraphs 106-108 for changes in accounting policy, paragraph 109 for changes in accounting estimates or paragraph 110 for errors), can be used by the council where these changes have occurred.

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 accrual 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 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 & 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 & Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

#### **Category 1 - Business activities with gross operating revenue more than \$2 million**

<b>Name</b>	<b>Brief description of activity</b>

#### **Category 2 - Business activities with gross operating revenue less than \$2 million**

Name	Brief description of activity

### 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 the 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 tax rate	
Land tax	
Stamp duty	
Payroll tax (where not paid)	
Other taxes or charges	

In accordance with DCCEEW'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 tax equivalents', may be applied for any purpose allowed under the Act. Achievement of substantial compliance to DCCEEW'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. 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/(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.

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 \_\_\_% [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 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 Statement of business activities.

**(ii) Return on investments (rate of return)**

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'. Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Income Statement.

**(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 DCCEEW'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 2025 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with DCCEEW'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 DCCEEW.