



Special Purpose Financial Statements

for the year ended 30 June 2023



**CITY OF
PARRAMATTA**

City of Parramatta Council

Special Purpose Financial Statements

for the year ended 30 June 2023

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Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

City of Parramatta 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,

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.

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

Signed in accordance with a resolution of Council made on 23 October 2023.

Pierre Esber
Lord Mayor
23 October 2023

Dr Patricia Prociv
Deputy Lord Mayor
23 October 2023

Gail Connolly
Chief Executive Officer
23 October 2023

John Angilley
Responsible Accounting Officer
23 October 2023

City of Parramatta Council

Income Statement of Car park operations

for the year ended 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
Income from continuing operations		
User charges	7,879	5,210
Total income from continuing operations	7,879	5,210
Expenses from continuing operations		
Employee benefits and on-costs	403	437
Materials and services	1,927	1,127
Depreciation, amortisation and impairment	651	587
Calculated taxation equivalents	1,441	1,417
Other expenses	1,220	1,173
Total expenses from continuing operations	5,642	4,741
Surplus (deficit) from continuing operations before capital amounts	2,237	469
Less: corporate taxation equivalent (25%) [based on result before capital]	(559)	(117)
Surplus (deficit) after tax	1,678	352
Plus accumulated surplus	151,127	149,241
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	1,441	1,417
– Corporate taxation equivalent	559	117
Closing accumulated surplus	154,805	151,127
Return on capital %	1.9%	0.4%
Subsidy from Council	2,569	3,714

City of Parramatta Council

Income Statement of Leasing of Council property

for the year ended 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
Income from continuing operations		
Rental revenue	5,743	3,870
Total income from continuing operations	5,743	3,870
Expenses from continuing operations		
Employee benefits and on-costs	403	464
Materials and services	586	231
Depreciation, amortisation and impairment	1,126	836
Calculated taxation equivalents	590	326
Other expenses	325	725
Total expenses from continuing operations	3,030	2,582
Surplus (deficit) from continuing operations before capital amounts	2,713	1,288
Less: corporate taxation equivalent (25%) [based on result before capital]	(678)	(322)
Surplus (deficit) after tax	2,035	966
Plus accumulated surplus	6,905	5,291
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	590	326
– Corporate taxation equivalent	678	322
Closing accumulated surplus	10,208	6,905
Return on capital %	3.6%	1.7%
Subsidy from Council	301	1,435

City of Parramatta Council

Statement of Financial Position of Car park operations

as at 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
ASSETS		
Non-current assets		
Receivables - Due from General Fund	111	831
Infrastructure, property, plant and equipment	119,846	114,304
Total non-current assets	119,957	115,135
Total assets	119,957	115,135
LIABILITIES		
Current liabilities		
Employee benefit provisions	25	70
Total current liabilities	25	70
Non-current liabilities		
Employee benefit provisions	69	-
Total non-current liabilities	69	-
Total liabilities	94	70
Net assets	119,863	115,065
EQUITY		
Accumulated surplus	96,300	94,622
Distribution to Council (equity)	(5,247)	(5,500)
Revaluation reserve	28,810	25,943
Total equity	119,863	115,065

City of Parramatta Council

Statement of Financial Position of Leasing of Council property

as at 30 June 2023

\$ '000	2023 Category 1	2022 Category 1
ASSETS		
Non-current assets		
Receivables	92	27
Receivables – due from general fund	6,326	2,175
Infrastructure, property, plant and equipment	75,162	74,377
Total non-current assets	81,580	76,579
Total assets	81,580	76,579
LIABILITIES		
Current liabilities		
Employee benefit provisions	69	49
Total current liabilities	69	49
Non-current liabilities		
Employee benefit provisions	59	30
Total non-current liabilities	59	30
Total liabilities	128	79
Net assets	81,452	76,500
EQUITY		
Accumulated surplus	5,344	3,309
Distribution to Council (equity)	68,730	67,894
Revaluation reserves	7,378	5,297
Total equity	81,452	76,500

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* (NSW), the *Local Government (General) Regulation 2021*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1 - Business activities with gross operating turnover is over \$2 million

Car Park Operations

To generate income for the Council through operations of car parking facilities.

Leasing Operations

To generate income for the Council through the leasing of Council-owned shops, buildings etc.

Category 2 - Business activities with gross operating turnover is less than \$2 million

Council did not have any declared business activities with a gross operating turnover less than \$2 million.

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.

Note – Significant Accounting Policies (continued)

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%

Land tax – the first \$969,000 of combined land values attracts 0%. For the combined land values in excess of \$969,001 up to \$5,925,000 the rate is 1.6% + \$100. 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

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 corporate income tax rate, currently 25%.

Income tax is only applied where a gain / (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 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.

(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".

Such funds are subsequently available for meeting commitments or financing future investment strategies.

Note – Significant Accounting Policies (continued)

The actual rate of return achieved by each business activity is disclosed for each of Council's business activities on the Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of IPPE as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 4.01% at 30 June 2023.

(iii) Dividends

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

City of Parramatta Council

Special Purpose Financial Statements

for the year ended 30 June 2023

Please upift Council's Audit Report PDF (opinion) for inclusion in the SPFS report (via the Home screen).