

Parkes Shire Council

SPECIAL PURPOSE FINANCIAL REPORT
for the year ended 30 June 2007

*"Progress, opportunities and a quality
lifestyle for our residents"*



Special Purpose Financial Reports for the financial year ended 30 June 2007

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Background

(i) These Special Purpose Financial Reports have been prepared for the use by both Council and the Department 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 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 & 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 over \$2Million that Council has formally declared as a Business Activity (defined as Category 1 activities).

(iv) In preparing these financial reports for Councils 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, debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).

Special Purpose Financial Reports
for the financial year ended 30 June 2007

Statement by Councillors and Management
made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Reports have been prepared in accordance with:


- The NSW Government Policy Statement "Application of National Competition Policy to Local Government"
- The Department of Local Government Guidelines "Pricing & Costing for Council Businesses - A Guide to Competitive Neutrality"
- The Local Government Code of Accounting Practice and Financial Reporting.
- The Department of Water and Energy Best Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these Reports:

- 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 reports false or misleading in any way.

Signed in accordance with a resolution of Council made on 21st August 2007.


Robert I Wilson
MAYOR


Kenneth J Keith
COUNCILLOR


Alan McCormack
GENERAL MANAGER


Peter McFarlane
RESPONSIBLE ACCOUNTING OFFICER

Income Statement of Councils Water Supply Business Activity

for the financial year ended 30 June 2007

\$ '000	Actual 2007	Actual 2006	Actual 2005
Income from continuing operations			
Access charges	1,788	1,760	1,811
User charges	3,778	3,426	2,835
Fees	-	-	1
Interest	1,330	1,046	953
Grants and contributions provided for non capital purposes	58	156	194
Other income	47	22	12
Total income from continuing operations	7,001	6,410	5,806
Expenses from continuing operations			
Employee benefits and on-costs	1,044	1,019	1,351
Materials and contracts	2,500	1,997	1,497
Depreciation and impairment	1,137	1,106	1,092
Water purchase charges	129	161	151
Loss on sale of assets	6	7	13
Calculated taxation equivalents	43	51	15
Other expenses	28	27	43
Total expenses from continuing operations	4,887	4,368	4,162
Surplus (deficit) from Continuing Operations before capital amounts	2,114	2,042	1,644
Grants and contributions provided for capital purposes	123	320	210
Surplus (deficit) from Continuing Operations after capital amounts	2,237	2,362	1,854
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(634)	(613)	(493)
SURPLUS (DEFICIT) AFTER TAX	1,603	1,749	1,361
plus Opening Retained Profits	61,264	58,171	56,317
plus Adjustment to prior years earnings	-	731	-
plus Adjustments for amounts unpaid:			
- Taxation equivalent payments	43	51	15
- Debt guarantee fees	-	-	-
- Corporate taxation equivalent	634	613	493
less:			
- Tax Equivalent Dividend paid		(51)	(15)
- Surplus dividend paid			
Closing Retained Profits	63,544	61,264	58,171
Return on Capital %	3.2%	4.8%	4.0%
Subsidy from Council	-	-	-
Calculation of dividend payable:			
Surplus (deficit) after tax	1,603	1,749	1,361
less: Capital grants and contributions (excluding developer contributions)	(11)	(144)	(200)
Surplus for dividend calculation purposes	1,592	1,605	1,161
Potential Dividend calculated from surplus	796	803	580

Income Statement of Councils Sewerage Business Activity

for the financial year ended 30 June 2007

\$ '000	Actual 2007	Actual 2006	Actual 2005
Income from continuing operations			
Access charges	1,218	1,103	1,119
User charges	230	114	38
Liquid Trade Waste Charges	54	12	-
Interest	447	336	292
Grants and contributions provided for non capital purposes	51	111	67
Other income	5	11	-
Total income from continuing operations	2,005	1,687	1,516
Expenses from continuing operations			
Employee benefits and on-costs	373	294	374
Materials and contracts	718	489	360
Depreciation and impairment	278	322	321
Loss on sale of assets	5	-	15
Calculated taxation equivalents	7	13	4
Other expenses	45	45	29
Total expenses from continuing operations	1,426	1,163	1,103
Surplus (deficit) from Continuing Operations before capital amounts	579	524	413
Grants and contributions provided for capital purposes	75	215	67
Surplus (deficit) from Continuing Operations after capital amounts	654	739	480
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(174)	(157)	(124)
SURPLUS (DEFICIT) AFTER TAX	480	582	356
plus Opening Retained Profits	16,740	13,407	12,923
plus Adjustment to prior years earnings	-	2,581	-
adjustments for amounts unpaid:			
- Taxation equivalent payments	7	13	4
- Corporate taxation equivalent	174	157	124
less:			
- Tax Equivalent Dividend paid	-	-	-
- Surplus dividend paid	-	-	-
Closing Retained Profits	17,401	16,740	13,407
Return on Capital %	2.2%	6.4%	4.9%
Subsidy from Council	78	-	-
Calculation of dividend payable:			
Surplus (deficit) after tax	480	582	356
less: Capital grants and contributions (excluding developer contributions)	(67)	(55)	(53)
Surplus for dividend calculation purposes	413	527	303
Potential Dividend calculated from surplus	207	263	152

Balance Sheet of Councils Water Supply Business Activity

as at 30 June 2007

\$ '000	Actual 2007	Actual 2006
ASSETS		
Current Assets		
Cash and cash equivalents	7,545	10,720
Investments	-	-
Receivables	1,000	1,222
Inventories	71	64
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	8,616	12,006
Non-Current Assets		
Investments	11,407	7,693
Receivables	-	-
Inventories	-	-
Infrastructure, property, plant and equipment	65,657	43,332
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
Total non-Current Assets	77,064	51,025
TOTAL ASSETS	85,680	63,031
LIABILITIES		
Current Liabilities		
Payables	80	1,529
Interest bearing liabilities	-	-
Provisions	275	238
Total Current Liabilities	355	1,767
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	-	-
Total Non-Current Liabilities	-	-
TOTAL LIABILITIES	355	1,767
NET ASSETS	85,325	61,264
EQUITY		
Retained earnings	63,544	61,264
Revaluation reserves	21,781	-
Council equity interest	85,325	61,264
Minority equity interest	-	-
TOTAL EQUITY	85,325	61,264

Balance Sheet of Councils Sewerage Business Activity

as at 30 June 2007

\$ '000	Actual 2007	Actual 2006
ASSETS		
Current Assets		
Cash and cash equivalents	3,488	3,332
Investments	-	-
Receivables	248	225
Inventories	16	16
Other	-	-
Non-current assets classified as held for sale	-	-
Total Current Assets	3,752	3,573
Non-Current Assets		
Investments	2,882	2,728
Receivables	132	99
Inventories	-	-
Infrastructure, property, plant and equipment	26,287	10,972
Investments accounted for using equity method	-	-
Investment property	-	-
Other	-	-
Total non-Current Assets	29,301	13,799
TOTAL ASSETS	33,053	17,372
LIABILITIES		
Current Liabilities		
Payables	-	444
Interest bearing liabilities	-	-
Provisions	85	122
Total Current Liabilities	85	566
Non-Current Liabilities		
Payables	-	-
Interest bearing liabilities	-	-
Provisions	100	66
Total Non-Current Liabilities	100	66
TOTAL LIABILITIES	185	632
NET ASSETS	32,868	16,740
EQUITY		
Retained earnings	17,401	16,740
Revaluation reserves	15,467	-
Council equity interest	32,868	16,740
Minority equity interest	-	-
TOTAL EQUITY	32,868	16,740

Special Purpose Financial Reports

for the financial year ended 30 June 2007

Contents of the Notes accompanying the Financial Statements

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Parkes Shire Council

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2007

Note 1. Significant Accounting Policies

These financial statements are Special Purpose Financial Reports (SPFR's) prepared for use by the Council, the Department of Local Government and the Department of Water & Energy.

For the purposes of these statements, the council's activities (listed herein) are based upon them not being reporting entities.

This special purpose financial report, unless otherwise stated, has been prepared in accordance with applicable Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, the Local Government Act and Regulations, the Local Government Code of Accounting Practice and Financial Reporting and the Local Government Asset Accounting Manual.

The statements are also prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets.

Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' 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 on the "*Application of National Competition Policy to Local Government*". The "*Pricing & Costing for Council Businesses A Guide to Competitive Neutrality*" issued by the Department of Local Government in July 1997 has also been adopted.

The pricing & costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of 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 & 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)

- **Parkes Shire Combined Water Supplies**

Comprising the whole of the Water Supply System operations and net assets servicing the towns of Parkes, Peak Hill, Trundle, Tullamore, Alectown & Bogan Gate.

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

- **Parkes Shire Sewerage Service**

Comprising the whole of the Sewerage Reticulation and Treatment operations and net assets servicing the towns of Parkes and Peak Hill.

Parkes Shire Council

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2007

Note 1. Significant Accounting Policies (continued)

Monetary Amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest one thousand dollars, with the exception of Note 2 (Water Supply Best Practice Management Disclosures - A513) and Note 3 (Sewerage Best Practice Management Disclosures – A514).

As required by the Department of Water & Energy, the amounts shown in Notes 2 and Note 3 are shown in whole dollars.

(i) Taxation Equivalent Charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (General Purpose Financial Report) 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 SPFR.

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 – **1.7% + \$100** on combined land values above \$352,000

Payroll Tax – **6%** on Salaries and Wages in excess of \$600,000

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, 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 Guides 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 guidelines for Best Practice Management of Water Supply and Sewerage 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. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level (gain/(loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income Tax is only applied where a positive gain/(loss) 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 GPFR.

Parkes Shire Council

Notes to the Special Purpose Financial Reports for the financial year ended 30 June 2007

Note 1. Significant Accounting Policies (continued)

The rate applied of 30% 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 & Charges

A calculation of the equivalent rates and charges for all Category 1 businesses have been applied to all assets owned or exclusively used by the business activity.

Loan & 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 the council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers and the funding of those subsidies must be explicitly disclosed.

Subsidies occur 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.

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 the council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of Business Activities.

(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 is disclosed for each of Councils business activities on the 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 Guidelines, must not exceed 50% of this surplus in any one year, or the number of water supply or sewerage assessments at 30 June 2007 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the guidelines for Best Practice Management of Water Supply and Sewerage, a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Water & Energy prior to making the dividend and only after the Department has approved its payment.

Notes to the Special Purpose Financial Reports for the financial year ended 30 June 2007

Note 2. Water Supply Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	43,000
(ii)	No of assessments multiplied by \$3/assessment	18,654
(iii)	Amounts payable for tax-equivalents [lesser of (i) and (ii)]	18,654
(iv)	Amounts paid for Tax Equivalents	-

Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	795,900												
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	167,886												
(iii)	Cumulative surplus before Dividends for the 3 years to 30 June 2007, less the cumulative dividends paid for the 2 years to 30 June 2006	4,358,000												
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">2007 Surplus</td> <td style="width: 15%; text-align: center;">1,591,800</td> <td style="width: 25%;">2006 Surplus</td> <td style="width: 15%; text-align: center;">1,605,400</td> <td style="width: 20%;">2005 Surplus</td> <td style="width: 20%; text-align: center;">1,160,800</td> </tr> <tr> <td></td> <td></td> <td>2006 Dividend</td> <td style="text-align: center;">-</td> <td>2005 Dividend</td> <td style="text-align: center;">-</td> </tr> </table>			2007 Surplus	1,591,800	2006 Surplus	1,605,400	2005 Surplus	1,160,800			2006 Dividend	-	2005 Dividend	-
2007 Surplus	1,591,800	2006 Surplus	1,605,400	2005 Surplus	1,160,800									
		2006 Dividend	-	2005 Dividend	-									
(iv)	Maximum Dividend from Surplus [least of (i), (ii) and (iii) above]	167,886												
(v)	Dividend paid from Surplus [refer below for required pre-dividend payment Criteria]	-												

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]	
(iii)	Sound Water Conservation and Demand Management implemented	YES
(iv)	Sound Drought Management implemented	YES
(v)	Complete Performance Reporting Form (by 31 October each year)	YES
(vi)	Integrated Water Cycle Management Evaluation (by June 2007)	YES

Notes to the Special Purpose Financial Reports
for the financial year ended 30 June 2007

Note 2. Water Supply Business
Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

National Water Initiative (NWI) Financial Performance Indicators

NWI F4	Calculated Tax Equivalents Revenue from Residential Usage Charges (w6b) x 100 divided by the sum of [Residential Usage Charges (w6a) + Residential Access Charges (w6b) + Environmental Levies for Water Supply]	%	53.18%
NWI F1	Total Revenue (Water) Total Revenue (w13) + Gains/Loss on Disposal of Assets (w14) - Grants for the Acquisition of Assets (w11a) - Interest Income (w9)	\$'000	5,790
NWI F20	Capital Works Grants (Water) Grants for the Acquisition of Assets (w11a)	\$'000	11
NWI F13	Economic Real Rate of Return (Water) [Total Revenue (w13) - Interest Income (w9) - Grants for Assets (w11a) - Total Cost (NWI F9)] x 100 divided by Written Down Replacement Cost of Operational Assets (w47)	%	1.94%
NWI F6	Operating Cost (OMA) (Water) Management Expenses (w1) + Operational & Maintenance Expenses (w2)	\$'000	3,384
NWI F9	Total Cost (Water) Operating Cost (NWI F6) + Current Cost Depreciation (w3a + w3b)	\$'000	4,520

Note: The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2007

Note 3. Sewerage Business

Best Practice Management disclosure requirements

Dollars Amounts shown below are in **WHOLE DOLLARS** (unless otherwise indicated)

Calculation and Payment of Tax-Equivalents

[All Local Government Local Water Utilities must pay this dividend for tax-equivalents]

(i)	Calculated Tax Equivalents	7,000
(ii)	No of assessments multiplied by \$3/assessment	15,204
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	7,000
(iv)	Amounts paid for Tax Equivalents	-

Dividend from Surplus

(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	206,650
(ii)	No. of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	145,040
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2007, less the cumulative dividends paid for the 2 years to 30 June 2006	1,243,200

2007 Surplus	413,300	2006 Surplus	526,800	2005 Surplus	303,100
		2006 Dividend	-	2005 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	145,040
(v)	Dividend paid from surplus [refer below for required pre-dividend payment Criteria]	-

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 & Policy [Item 2(f) in Table 1]	YES
(iii)	Complete Performance Reporting Form (by 15 September each year)	YES
(iv)	Integrated Water Cycle Management Evaluation (by June 2006)	YES

Notes to the Special Purpose Financial Reports

for the financial year ended 30 June 2007

Note 3. Sewerage Business

Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)

National Water Initiative (NWI) Financial Performance Indicators

NWI F2	Total Revenue (Sewerage) Total Revenues (s14) + Gains/Losses on Disposal of Assets (s15) - Grants for Acquisition of Assets (s12a) - Interest Income (s10)	\$'000	1,577
NWI F21	Capital Works Grants (Sewerage) Grants for the Acquisition of Assets (12a)	\$'000	51
NWI F11	Capital Expenditure (Water & Sewerage) Acquisition of Fixed Assets (w16 + s17)	\$'000	1,950
NWI F14	Economic Real Rate of Return (Sewerage) [Total Revenue (s14) - Interest Income (s10) - Grants for Assets (s12a) - Total Cost (NWI F10)] x 100 divided by Written Down Replacement Cost (ie. WDRC) of Operational Assets (s48)	%	0.97%
NWI F12	Economic Real Rate of Return (Water & Sewerage) [Total Revenue (w13 + s14) - Interest Income (w9 + s10) - Grants for Assets (w11a + s12a) minus Total Cost (NWI F9 + NWI F10)] x 100 divided by WDRC of Operational Assets (w47 + s48)	%	1.67%
NWI F16	Net Debt to Equity (Water & Sewerage) Overdraft (w36 + s37) + Borrowings (w38 + s39) - Cash & Investments (w30 + s31) x 100 divided by [Total Assets (w35 + s36) - Total Liabilities (w40 + s41)]	%	N/A
NWI F17	Interest Cover (Water & Sewerage) Earnings before Interest & Tax x 100 divided by Net Interest (ie. Interest Expense - Interest Income) [Operating Result (w15a + s16a) - Interest (w9 - w4a + s10 - s4a) - Gain/Loss on Sale of Assets (w14 + s15)] x 100 divided by [Interest Expense (w4a + s4a) - Interest Income (w9 + s10)]	%	N/A
NWI F18	Net Profit After Tax (Water & Sewerage) [Surplus before Dividends less Tax Paid]. Refer Notes 2 & 3 previously.	\$'000	2,083
NWI F19	Community Service Obligations (Water & Sewerage) Grants for Pensioner Rebates (w11b + s12b)	\$'000	125
NWI F5	Revenue from Community Service Obligations (Water & Sewerage) Community Service Obligations (NWI F19) x 100 divided by Total Revenue (NWI F1 + NWI F2)	%	1.70%
NWI F7	Operating Cost (OMA) (Sewerage) Management Expenses (s1) + Operational & Maintenance Expenses (s2)	\$'000	1,049
NWI F10	Total Cost (Sewerage) Operating Cost (NWI F7) + Current Cost Depreciation (s3a + s3b)	\$'000	1,327

Note: The NWI Performance Indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators & Definitions.

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ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL REPORT OF PARKES SHIRE COUNCIL

Report on the Financial Report

We have audited the special purpose financial report of Parkes Shire Council for the year ended 30 June 2007, comprising the Statement by Council, Income Statement by Business Activities, Balance Sheet by Business Activities, and accompanying Notes to the Financial Statements. Our audit responsibility does not extend to the best practice management disclosures in Notes 2 and 3 and accordingly we express no opinion on them.

Councils' Responsibility for the Financial Report

The Council are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements which form part of the financial report are appropriate to meet the financial reporting requirements of the Council and the Department of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. The Council's responsibility also includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the Council. 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 report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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. 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 report.

The special purpose financial report has been prepared for distribution to the Council and the Department of Local Government for the purpose of fulfilling the requirements of National Competition Policy reporting. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the Council or the Department of Local Government or for any purpose other than for which the report was prepared.

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.



Chartered Accountants



Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

Audit Opinion

In our opinion, the special purpose financial report of Parkes Shire Council is presented fairly in accordance with the requirements of those applicable accounting policies detailed in Note 1, the accounting requirements of the Local Government Act 1993 and the Local Government Code of Accounting Practice and Financial Reporting.

Morse Group

MORSE GROUP

237 Lords Place
Orange
Dated: 24 October 2007

J D O'Malley
JD O'MALLEY
PARTNER