



Queensland

# Local Government (Community Government Areas) Finance Standard 2004

## Subordinate Legislation 2004 No. 323

made under the

*Community Services (Aborigines) Act 1984*

*Local Government Act 1993*

*Local Government (Community Government Areas) Act 2004*

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## **Part 1 Preliminary**

### **1 Short title**

This standard may be cited as the *Local Government (Community Government Areas) Finance Standard 2004*.

### **2 Commencement**

This standard commences on 1 January 2005.

### **3 Dictionary**

The dictionary in the schedule defines particular words used in this standard.

### **4 Reference to provision of Local Government Act 1993 etc.**

- (1) A reference in this standard to a provision of the *Local Government Act 1993* is a reference to the provision as applied to a community government area and the community government for the area by section 11 of the Act.
- (2) A reference in this standard to the *Local Government Act 1993* is a reference to that Act as applied to a community government area and the community government for the area by section 11 of the Act.

## **Part 2 Financial management**

### **Division 1 Policies for financial management**

#### **5 Policies to be developed by each community government**

A community government must develop the following financial management policies—

- (a) a policy about contracts for the acquisition of goods and services for less than \$10 000;
- (b) a policy about internal audit;
- (c) a policy about an audit committee;
- (d) a policy about borrowings;
- (e) revenue policy;
- (f) a policy about the carrying out of the principles governing the making of contracts mentioned in the *Local Government Act 1993*, section 481;
- (g) a policy about lending an amount to an adult resident of its community government area.

## **6 Policy about contracts for the acquisition of goods and services for less than \$10 000**

A community government's policy about contracts for the acquisition of goods and services for less than \$10 000 must include details of the process and procedures to be used in entering into the contracts.

## **7 Policy about internal audit**

- (1) A community government's policy about internal audit must provide for whether the community government must appoint an internal auditor.
- (2) If the internal audit policy provides that an internal auditor must be appointed, the internal auditor must perform the following duties—
  - (a) identify and assess the risks to which the community government's operations are exposed;
  - (b) prepare audit plans to lessen the identified risks;
  - (c) develop a work program for all internal audit activities of the community government;
  - (d) supply a summary of each internal audit report to the mayor, chief executive officer and, if an audit committee has been appointed, the committee;



- (e) at least twice each financial year—supply a summary of audit findings, action taken and action outstanding to the mayor, chief executive officer and, if an audit committee has been appointed, the committee.
- (3) An internal auditor may advise the auditor-general about an audit finding.
- (4) If a community government's policy about internal audit does not provide for the appointment of an internal auditor, it must provide for a review of the policy about appointing an internal auditor at least every 3 years.

## **8 Policy about an audit committee**

- (1) A community government's policy about an audit committee must provide for whether the community government must establish an audit committee.
- (2) If the audit committee policy provides that an audit committee must be established, the audit committee must—
  - (a) meet at least twice each financial year; and
  - (b) review internal audit reports and findings; and
  - (c) review audit risk assessments and projects; and
  - (d) review letters and reports provided by an external auditor.
- (3) If a community government's audit committee policy does not provide for the establishment of an audit committee, it must provide for a review of the policy about establishing an audit committee at least every 3 years.

## **9 Policy about borrowings**

A community government's policy about borrowings must include—

- (a) new borrowings planned for the current financial year and the next 2 financial years; and
- (b) the purpose of the new borrowings; and

- (c) the time over which it is planned to repay existing and proposed borrowings.

## **10 Revenue policy**

A community government's revenue policy for a financial year must include details of the principles applied by it for the financial year for the following—

- (a) making and levying rates and charges;
- (b) exercising its powers to grant rebates and concessions;
- (c) recovery of unpaid amounts of rates and charges;
- (d) exemptions from the payment of rates and charges.

## **11 Policy about lending to adult resident of community government area**

A policy adopted by a community government, under section 38 of the Act, for the lending of an amount to an adult resident of its community government area must state the following—

- (a) the maximum amount that may be borrowed by the resident;
- (b) how the loan must be recorded in the community government's information system;
- (c) that a loan agreement for the loan must be entered into by the community government and resident;
- (d) the terms to be incorporated in the loan agreement, including, for example, the interest rate for the loan;
- (e) the maximum repayment period for the loan;
- (f) the source of funding for the loan;
- (g) the procedures to be followed by the community government if there is a default by the borrower under the loan agreement.

## **Division 2                      Principles of financial management**

### **12            Principles to be complied with in financial management**

The principles to be complied with by a community government in financial management are as follows—

- (a) the need to consider suitable operation of internal control;
- (b) the need to consider equity between people presently living in its community government area and between different generations;
- (c) the need to consider the interests of all people living in its community government area;
- (d) the need to consider the efficient, effective and proper management of the community government;
- (e) the need to consider planning for the future.

## **Division 3                      Accounting manual**

### **13            Community government to keep accounting manual**

- (1) A community government must keep an accounting manual.
- (2) The manual must contain—
  - (a) all of the community government's policies about financial management; and
  - (b) the procedures and internal controls associated with the accounting systems; and
  - (c) the duties of staff operating the accounting systems.

## **Division 4**

## **Contracts and tendering**

### **14 Exemptions to requirement to seek tenders or quotations—Local Government Act 1993, s 486(1)(e)**

A contract is made under an exemption to open competition if the contract is entered into—

- (a) under a standing offer or a preferred supplier arrangement; or
- (b) with a supplier from a register of pre-qualified suppliers; or
- (c) under an LGA arrangement.

### **15 Preconditions for establishing a standing offer or preferred supplier arrangement**

A community government may establish a standing offer or preferred supplier arrangement only if—

- (a) the supply of goods or services is needed in large volumes or frequently; and
- (b) the community government is able to obtain better value for money by aggregating demand for the goods or services needed; and
- (c) the goods or services needed can be stated in terms that would be well understood in the industry concerned.

### **16 Preconditions for establishing a register of pre-qualified suppliers**

A community government may establish a register of pre-qualified suppliers only if—

- (a) the preparation and evaluation of invitations each time the goods or services are needed would be costly; or
- (b) the capability or financial capacity of the supplier is critical; or
- (c) the goods or services supplied involve significant security considerations; or

- (d) a precondition of an offer to contract is compliance with defined standards; or
- (e) the ability of local business to supply the goods or services needed by the community government needs to be ascertained or encouraged.

## **17 Procedure for establishing purchasing arrangements**

- (1) If a community government proposes to establish a purchasing arrangement, it must invite persons to tender.
- (2) The invitation must—
  - (a) be in the way provided for inviting tenders in the *Local Government Act 1993*, section 484;<sup>1</sup> and
  - (b) state the purchasing arrangement for which the person is tendering.
- (3) The community government must select persons to enter a purchasing arrangement on the basis of the principles mentioned in the *Local Government Act 1993*, section 481.<sup>2</sup>
- (4) The community government must ensure there is provision for the evaluation of a purchasing arrangement including, for example, removal of a person from an arrangement because of the person's poor performance of a contract entered into under the arrangement.
- (5) A community government may enter a purchasing arrangement for longer than 2 years only if it is satisfied that better value will be achieved by entering into a longer arrangement.

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<sup>1</sup> *Local Government Act 1993*, section 484 (When tenders are required)

<sup>2</sup> *Local Government Act 1993*, section 481 (Principles governing the making of contracts)

## **Division 5                      Notional GST**

### **18              Certificate about payment of notional GST**

A community government must, no later than 15 September following a financial year, give the Minister a certificate by the chief executive officer and the mayor of the community government stating that the community government has paid notional GST for the financial year.

## **Part 3                              Corporate and operational plans**

### **Division 1                      Corporate plans**

#### **19              Requirements of corporate plan—Local Government Act 1993, s 507**

- (1) The purpose of a community government preparing and adopting a corporate plan is to provide an effective way to decide, achieve and review its objectives in the short, medium and long term, through an integrated response to the present and future needs of its community.
- (2) Without limiting subsection (1), the corporate plan must include—
  - (a) an assessment of local and regional issues, and external and internal factors, affecting its community government area and its responses to the issues; and
  - (b) a statement of its strategic direction; and
  - (c) a statement of objectives about the issues affecting its community government area; and
  - (d) strategies for achieving the objectives.

## **20 Assessment of local and regional issues**

- (1) An assessment of local and regional issues, and the community government's response to the issues, must include information about its role in—
  - (a) arts and cultural development; and
  - (b) community development and human services; and
  - (c) disaster mitigation; and
  - (d) economic development; and
  - (e) environmental management; and
  - (f) housing policy; and
  - (g) infrastructure development, maintenance and replacement; and
  - (h) population change and development.
- (2) The assessment must also include consideration of the scope for regional cooperation between local governments to respond to the local and regional issues.
- (3) The assessment must not be limited to the time to which the corporate plan relates but must take into account foreseeable future issues relevant to the community government area of the community government.

## **21 Consultation process used in preparation of plan**

A corporate plan must state the consultation process used in its preparation.

*Example—*

Note to corporate plan

The consultation process for the corporate plan included—

- (a) notice of a proposal to prepare a draft corporate plan, inviting submissions regarding the preparation of the plan; and
- (b) consideration of submissions received about the proposal; and
- (c) preparation of the plan; and
- (d) notice that the draft plan was available for inspection, inviting submissions regarding the draft plan; and

- (e) consideration of submissions received about the draft plan; and
- (f) preparation of the final plan.

## **Division 2                      Operational plans**

### **22            Requirements of operational plans—Local Government Act 1993, s 510**

A community government's operational plan must—

- (a) address the methods by which the objectives of its corporate plan are to be achieved; and
- (b) specify the outcomes it wants to achieve and the internal processes needed to produce the outcomes; and
- (c) contain performance measures about the outcomes.

## **Part 4                              Funds and accounting procedures**

### **Division 1                      Operating fund**

#### **23            Operating fund**

A community government's operating fund consists of all of its assets and liabilities other than trust fund items.

#### **24            Separate bank accounts within operating fund**

Separate bank accounts may be kept within the operating fund.

#### **25            Reserves—Local Government Act 1993, s 515**

- (1) Reserves may be created by inclusion in a community government's adopted budget.



- (2) The resolution adopting a budget creating a reserve must state the reason for the reserve.
- (3) The resolution, or a policy of the community government, must state whether—
  - (a) cash representing a reserve is to be transferred to a separately identified bank account or other investment; or
  - (b) the assets concerned are to be kept within the community government's general pool of assets.
- (4) If a reserve is created, a transfer from the reserve may only be made by resolution of the community government or the inclusion of the transfer in an adopted budget.
- (5) A resolution authorising a transfer from a reserve for a purpose other than the purpose of the reserve must state the reason for the transfer.

## **Division 2                      Trust fund**

### **26            Trust fund**

- (1) A community government must keep amounts credited to its trust fund in a separate bank account or separately identified investments.
- (2) The bank account for the trust fund must not be overdrawn.

### **27            Funds that should not be part of trust fund**

An amount in a community government's bank account for its trust fund that is not required to be in the account must be transferred to the operating fund as soon as practicable.

### **28            Funds incorrectly paid into operating fund**

If an amount that should be paid into a community government's bank account for its trust fund is paid into its bank account for its operating fund, the amount must be transferred to the bank account for the trust fund as soon as

practicable and, in any case, within 5 working days after it is identified.

## **29 Reconciliation of trust fund**

The assets of the trust fund must be reconciled with the liabilities of the trust fund at least monthly.

# **Part 5 Revenue statement and budget**

## **30 Requirements for revenue statement**

A community government's revenue statement for a financial year must include the following information for the financial year—

- (a) an outline and explanation of the revenue raising measures adopted, including, for example, an outline and explanation of—
  - (i) the rates and charges to be made and levied in the financial year; and
  - (ii) the rebates and concessions to be granted in the financial year;
- (b) whether the community government has made a resolution limiting the increases in rates and charges;
- (c) the extent to which physical and social infrastructure costs for new development are to be funded by charges for the development;
- (d) whether the operating capability of the community government is to be maintained, increased or decreased and, if it is to be increased or decreased, the extent to which it is to be increased or decreased.

**31 Amendment of budget**

- (1) A community government's budget must be amended if it intends to make material changes to the expenses or revenue for a significant function or activity.
- (2) If a community government's budget is amended after a disbursement is made under section 32, the amendment must take the disbursement into account.

**32 Disbursement because of genuine emergency or hardship—Local Government Act 1993, s 519(4)**

- (1) A resolution must be made about a disbursement for a purpose of a genuine emergency or hardship before the disbursement is made or as soon as practicable after it is made.
- (2) The resolution must state how the disbursement is to be funded.

**33 Financial information to be presented to budget meeting—Local Government Act 1993, s 521**

A document presented to a budget meeting under the *Local Government Act 1993*, section 521 must include the following—

- (a) the original budget estimates;
- (b) if an amended budget has been adopted—the amended budget estimates;
- (c) actual or estimated expenses and revenue;
- (d) explanations of significant differences from the original budget (whether an actual or anticipated difference);
- (e) an explanation of the impact of the budget and actual performance on future budgets.

## **Part 6                      Accounts**

### **Division 1                Accounting records**

#### **34        Systems to support account keeping**

- (1) All revenue, expenses, assets, liabilities and equity of a community government must be identified, recorded and controlled in its accounting records.
- (2) Without limiting subsection (1), the community government must have systems in place to ensure—
  - (a) all revenue is promptly assessed and collected; and
  - (b) expenses and liabilities are not incurred without appropriate authority; and
  - (c) assets are protected from loss.

### **Division 2                Non-current assets**

#### **35        Register of non-current assets**

- (1) A community government must keep a register of non-current assets.
- (2) The register of non-current assets must include all of its non-current assets, other than a non-current asset it is treating as an expense.
- (3) The community government must, by resolution, set an amount (the *set amount*) below which the value of a non-current asset must be treated as an expense.
- (4) The set amount must not be more than \$1 000.
- (5) The set amount may be a different amount for different assets.
- (6) The set amount must be recorded in the community government's accounting manual and disclosed by way of note in its annual financial statements.

- (7) The community government must keep documents and records supporting the register of non-current assets.

### **36 Revaluation of non-current physical assets**

- (1) The following non-current physical assets of a community government must be revalued by a registered valuer at least once every 5 years—
- (a) buildings;
  - (b) freehold land.
- (2) The revaluation of an asset, under this section, must at least establish—
- (a) the asset's fair value; and
  - (b) the asset's estimated residual value; and
  - (c) the asset's insurable value.
- (3) In this section—

*fair value*, of an asset, means the amount that may reasonably be expected to be exchanged for the asset between knowledgeable and willing parties in an arm's-length transaction.

*registered valuer* means a valuer registered under the *Valuers Registration Act 1992*.

## **Part 7 Annual report**

### **37 Annual report content**

- (1) A community government's annual report must include—
- (a) a summary of its policy about borrowings; and
  - (b) a community financial report.
- (2) The community financial report must be—

- (a) consistent with, but not part of, the community government's financial statements; and
  - (b) in a form that is readily understood by the community.
- (3) In this section—

***community financial report*** means a report containing a summary and analysis of the community government's financial performance and position for the financial year.

### **38 Note about reserves and roads controlled by community governments**

- (1) A community government's annual report must include a note about—
  - (a) land that is a reserve under the *Land Act 1994* and is controlled by the community government; and
  - (b) roads controlled by the community government (other than roads owned by it).
- (2) A note about a reserve must state the area of the reserve controlled by the community government, including land that has been leased by it to someone else.
- (3) A note about roads must state the total length of roads controlled by the community government.

*Example of a note—*

The community government of the Shire of the Tropical State has control of—

- (a) 100 ha of parks (including 10 ha leased to sporting clubs) on land that is a reserve under the *Land Act 1994*; and
- (b) 700 km of roads.

This land does not have a value for its financial statements.

## **Part 8                      Financial statements**

### **39            Period to which financial statements relate**

- (1) Financial statements of a community government prepared up to a day within 2 weeks before 30 June of a financial year are taken to be prepared for the whole of the financial year.
- (2) The financial statements must show—
  - (a) the date to which the statements are prepared; and
  - (b) in the title of the statements—the period for which the statements are prepared.

### **40            Signing of financial statements**

- (1) The proposed financial statements must be given to the auditor-general as soon as practicable after the close of each financial year but, in any case, no later than 15 September.
- (2) The Minister may extend the time for complying with subsection (1) by notice given to the community government.
- (3) As soon as practicable after the proposed financial statements are given to the auditor-general, the proposed financial statements must be presented to a meeting of the community government.

### **41            Certificate for proposed financial statements**

The proposed financial statements must include a certificate by the chief executive officer and mayor of the community government stating whether in their opinion—

- (a) the requirements under the Act and the *Local Government Act 1993* for the keeping of accounts have been complied with in all material respects; and
- (b) the statements for the financial year, and supporting notes, present the community government's operating results, cash flows and financial position as required by the Act and the *Local Government Act 1993*.

## **42 Certificate for final financial statements**

Final financial statements, given to the auditor-general for certification, must include a fresh certificate by the chief executive officer and mayor of the community government stating whether in their opinion—

- (a) the requirements under the Act and the *Local Government Act 1993* for the keeping of accounts have been complied with in all material respects; and
- (b) the statements for the financial year, and supporting notes, present the community government's operating results, cash flows and financial position as required by the Act and the *Local Government Act 1993*.

## **43 Differences between proposed and final financial statements**

If the final financial statements are different from the proposed financial statements, they must be presented to the community government with a statement of any significant differences.

## **44 Unaudited financial statements**

- (1) If the financial statements have not been certified by the auditor-general, a copy that is given to the community government or anyone else must be clearly marked 'UNAUDITED' on every page.
- (2) Subsection (1) does not apply to a copy of the financial statements given to the auditor-general.



## **Part 9                      Full cost pricing**

### **Division 1                Preliminary**

#### **45        Object of pt 9**

The object of this part is to state requirements for full cost pricing for the *Local Government Act 1993*, chapter 8, part 5.

#### **46        Application of pt 9**

This part applies to a community government's implementation of full cost pricing for its significant business activities under the *Local Government Act 1993*, chapter 8, part 5.

### **Division 2                Full cost pricing**

#### **Subdivision 1        Matters affecting full cost pricing**

##### **47        Matters affecting full cost pricing**

The matters affecting full cost pricing are—

- (a) full cost pricing; and
- (b) treatment of community service obligations; and
- (c) elimination, or taking account, of advantages and disadvantages of public ownership; and
- (d) financial reporting.

## **Subdivision 2      Full cost pricing**

### **48      Application of full cost pricing**

In deciding charges to clients for goods and services provided in carrying on an activity, a community government must ensure the projected total revenue from carrying on the activity is enough to cover the projected total costs of carrying on the activity for the community government's financial year.

### **49      Different charges for commercial reasons**

- (1) A charge may be decided for the provision of specific goods or services in carrying on an activity that is, for commercial reasons, an appropriate charge for the goods or services provided.
- (2) For subsection (1), a charge is, for commercial reasons, an appropriate charge if it is a charge that could reasonably be charged if the goods or services had been provided by an entity carrying on the activity with the primary object of making a profit from carrying on the activity.

### **50      Total costs of carrying on activity**

- (1) For this subdivision, the total costs of carrying on an activity include the following—
  - (a) operational costs incurred in carrying on the activity;
  - (b) administrative and overhead costs;
  - (c) cost of resources used in carrying on the activity;
  - (d) depreciation;
  - (e) equivalents for Commonwealth or State taxes the community government is not liable to pay because it is a community government;
  - (f) equivalents for the cost of funds advantage the community government obtains over commercial rates

of interest because of State guarantees on borrowings;<sup>3</sup>

(g) return on capital.

- (2) The total costs must be adjusted for other advantages and disadvantages of public ownership that are not eliminated.<sup>4</sup>

## **51 Administrative and overhead costs**

The community government must make a reasonable allocation of its administrative and overhead costs to each activity to which full cost pricing is applied.

## **52 Cost of resources used in carrying on activity**

- (1) If resources are provided by or to a community government for carrying on an activity, the cost of resources used in carrying on the activity includes an equivalent cost.
- (2) If the resources have an identifiable cost, the cost of the resources may be taken to be the equivalent cost.
- (3) If subsection (2) does not apply and the resources are readily available on the open market, the price at which they can be obtained in the market may be taken to be the equivalent cost.
- (4) If subsection (3) is applied, the community government must ensure the terms on which the cost is based are similar to the terms on which they are made available in carrying on the activity.

## **53 Depreciation**

- (1) Depreciation of an asset used in carrying on an activity must be determined under the accounting standards.
- (2) However, a community government may—
  - (a) decide not to determine the depreciation of an asset under the accounting standards; and

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<sup>3</sup> See the *Local Government Act 1993*, section 569 (Guarantees by State).

<sup>4</sup> See the *Local Government Act 1993*, section 568(2) (Meaning of *full cost pricing*).

- (b) adopt, as the depreciation of the asset, an amount decided by the community government to be appropriate in the circumstances.

#### **54      Equivalents for taxes not otherwise liable to be paid**

- (1) If, for an activity, the community government would be liable for a Commonwealth or State tax if it were not carried on by a community government, the amount equivalent to the tax must be included in the total costs of the activity.
- (2) In working out the equivalent amounts, the community government must, if appropriate, apply the general principles of the tax equivalents manual issued under the *Local Government Act 1993*, section 582<sup>5</sup> that apply to activities carried on by commercial business units.
- (3) Subsection (2) does not, of itself, require compliance with any processes or other requirements under the manual but the community government must keep details of calculations done in working out the equivalent amounts for 7 years.
- (4) For a tax not dealt with in the manual, estimates of amounts that a private sector entity carrying on the business would calculate to be its liability to the tax must be included.

#### **55      Return on capital**

- (1) The amount for the return on the capital used in carrying on an activity must be decided using the rate at which, in the opinion of the community government, a comparable private sector entity carrying on the activity would be able to obtain the capital in the market, having regard to the split the community government considers appropriate, for the type of business, between equity and loan capital and the return appropriate to each.
- (2) Despite subsection (1), the amount for the return on the capital used in carrying on an activity for the first year in which full cost pricing applies to the activity may be the amount the community government decides.

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5      *Local Government Act 1993*, section 582 (Commonwealth and State tax equivalents)

(3) In this section—

*capital used in carrying on an activity* means the total value (using an accepted accountancy method) of the assets used for the activity less the liabilities attributable to the activity.

### **Subdivision 3      Treatment of community service obligations**

#### **56      Extra cost for community service obligations to be treated as revenue**

If community service obligations are carried out as part of an activity, for deciding charges for goods and services provided through the activity, there must be treated as revenue for the activity an amount equivalent to—

- (a) the cost of carrying out the obligations; less
- (b) any revenue arising from carrying out the obligations.

## **Part 10              Commercialisation**

### **Division 1          Preliminary**

#### **57      Object of pt 10**

The object of this part is to state requirements for commercialisation for the *Local Government Act 1993*, chapter 8, part 6.

#### **58      Application of pt 10**

This part applies to a community government's implementation of commercialisation for its significant business activities under the *Local Government Act 1993*, chapter 8, part 6.

## **Division 2                      Commercialisation**

### **Subdivision 1              Matters affecting commercialisation**

#### **59              Matters affecting commercialisation**

The matters affecting commercialisation are—

- (a) full cost pricing; and
- (b) treatment of community service obligations; and
- (c) elimination, or taking account, of advantages and disadvantages of public ownership; and
- (d) matters mentioned in the community government's annual performance plan.

### **Subdivision 2              Full cost pricing**

#### **60              Application of full cost pricing**

In deciding charges to clients for goods and services provided in carrying on an activity, a community government must ensure the projected total revenue from carrying on the activity is enough to cover the projected total costs of carrying on the activity for the community government's financial year.

#### **61              Different charges for commercial reasons**

- (1) A charge may be decided for the provision of specific goods or services in carrying on an activity that is, for commercial reasons, an appropriate charge for the goods or services provided.
- (2) For subsection (1), a charge is, for commercial reasons, an appropriate charge if it is a charge that could reasonably be charged if the goods or services had been provided by an entity carrying on the activity with the primary object of making a profit from carrying on the activity.

## **62 Total costs of carrying on activity**

For this subdivision, the total costs of carrying on an activity include the following—

- (a) operational costs incurred in carrying on the activity;
- (b) administrative and overhead costs;
- (c) cost of resources used in carrying on the activity;
- (d) depreciation;
- (e) equivalents for Commonwealth or State taxes the community government is not liable to pay because it is a community government;<sup>6</sup>
- (f) equivalents for the cost of funds advantage the community government obtains over commercial rates of interest because of State guarantees on borrowings;<sup>7</sup>
- (g) return on capital.

## **63 Administrative and overhead costs**

The community government must make a reasonable allocation of its administrative and overhead costs to each activity to which commercialisation is applied.

## **64 Cost of resources used in carrying on activity**

- (1) If resources are provided by or to a community government for carrying on an activity, the cost of resources used in carrying on the activity includes an equivalent cost.
- (2) If the resources have an identifiable cost, the cost of the resources may be taken to be the equivalent cost.
- (3) If subsection (2) does not apply and the resources are readily available on the open market, the price at which they can be obtained in the market may be taken to be the equivalent cost.

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<sup>6</sup> See the *Local Government Act 1993*, section 582 (Commonwealth and State tax equivalents).

<sup>7</sup> See the *Local Government Act 1993*, section 583 (Guarantees by State).

- (4) If subsection (3) is applied, the community government must ensure the terms on which the cost is based are similar to the terms on which they are made available in carrying on the activity.

## **65 Depreciation**

- (1) Depreciation of an asset used in carrying on an activity must be determined under the accounting standards.
- (2) However, a community government may—
- (a) decide not to determine the depreciation of an asset under the accounting standards; and
  - (b) adopt, as the depreciation of the asset, an amount decided by the community government to be appropriate in the circumstances.

## **66 Return on capital**

- (1) The amount for the return on the capital used in carrying on an activity must be decided using the rate at which, in the opinion of the community government, a comparable private sector entity carrying on the activity would be able to obtain the capital in the market, having regard to the split the community government considers appropriate, for the type of business, between equity and loan capital and the return appropriate to each.
- (2) Despite subsection (1), the amount for the return on the capital used in carrying on an activity for the first year in which commercialisation applies to the activity may be the amount the community government decides.
- (3) In this section—
- capital used in carrying on an activity* means the total value (using an accepted accountancy method) of the assets used for the activity less the liabilities attributable to the activity.



### **Subdivision 3      Treatment of community service obligations**

#### **67      Extra cost for community service obligations to be treated as revenue**

If community service obligations are carried out as part of an activity, for deciding charges for goods and services provided through the activity, there must be treated as revenue for the activity an amount equivalent to—

- (a) the cost of carrying out the obligations; less
- (b) any revenue arising from carrying out the obligations.

### **Subdivision 4      Annual performance plan**

#### **68      Annual performance plan for each commercial business unit**

- (1) The annual performance plan for a commercial business unit (a **CBU**) must include the following matters—
  - (a) the CBU's financial and non-financial performance targets for its activities;
  - (b) the nature and extent of the CBU's community service obligations;
  - (c) the costings of, and funding for, the CBU's community service obligations.
- (2) A CBU's annual performance plan must also include the following matters—
  - (a) the CBU's objectives and functions;
  - (b) the nature and scope of the CBU's main activities and undertakings;
  - (c) the CBU's notional capital structure and treatment of surpluses;
  - (d) the CBU's proposed major investments;
  - (e) the CBU's outstanding and proposed borrowings;

- (f) the CBU's policy on the level and quality of service consumers can expect from the CBU;
  - (g) the delegations necessary to allow the CBU to exercise management autonomy and authority in its commercial activities;
  - (h) the type of information to be given in reports.
- (3) However, a CBU is not required to include in its annual performance plan a matter, or an aspect of a matter, mentioned in subsection (2) if the CBU's community government is satisfied that the matter or aspect is not materially relevant to the CBU or its activities.
- (4) Subsections (1) and (2) do not limit the matters that may be included in an annual performance plan.
- (5) A matter in the annual performance plan of a CBU may be omitted from the copies of the plan to be made public if—
- (a) the matter is of a commercially sensitive nature to the CBU; and
  - (b) a full statement of the matter is given to each councillor of the community government.

## **Part 11                      Code of competitive conduct**

### **Division 1                      Preliminary**

#### **69              Object of pt 11**

The object of this part is to prescribe the code of competitive conduct for the *Local Government Act 1993*, chapter 9.

#### **70              Application of code**

This code applies to an activity of a community government—

- (a) if it is a roads business activity—from when it is to apply under the *Local Government Act 1993*, section 763;<sup>8</sup> or
- (b) if it is a business activity to which the community government has resolved to apply the code—while the resolution is effective under the *Local Government Act 1993*, section 766;<sup>9</sup> or
- (c) if it is another activity to which the community government applies the code—in accordance with the community government’s decision to apply the code.

## **Division 2            The code**

### **Subdivision 1        Elements of the code**

#### **71        Elements of the code**

The elements of the code are—

- (a) full cost pricing; and
- (b) treatment of community service obligations; and
- (c) elimination, or taking account, of advantages and disadvantages of public ownership; and
- (d) financial reporting.

### **Subdivision 2        Full cost pricing**

#### **72        Application of full cost pricing**

In deciding charges to clients for goods and services provided in carrying on an activity, a community government must

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<sup>8</sup> *Local Government Act 1993*, section 763 (Code must be applied to roads business activities)

<sup>9</sup> *Local Government Act 1993*, section 766 (Local government to resolve whether to apply code of competitive conduct to business activities)

ensure the projected total revenue from carrying on the activity is enough to cover the projected total costs of carrying on the activity for the community government's financial year or a longer period (not more than 5 years) decided by the community government.

### **73 Different charges for commercial reasons**

- (1) A charge may be decided for the provision of specific goods or services in carrying on an activity that is, for commercial reasons, an appropriate charge for the goods or services provided.
- (2) For subsection (1), a charge is, for commercial reasons, an appropriate charge if it is a charge that could reasonably be charged if the goods or services had been provided by an entity carrying on the activity with the primary object of making a profit from carrying on the activity.

### **74 Total costs of carrying on activity**

- (1) For this subdivision, the total costs of carrying on an activity include the following—
  - (a) operational costs incurred in carrying on the activity;
  - (b) administrative and overhead costs;
  - (c) cost of resources used in carrying on the activity;
  - (d) depreciation;
  - (e) equivalents for Commonwealth or State taxes the community government is not liable to pay because it is a community government;
  - (f) equivalents for the cost of funds advantage the community government obtains over commercial rates of interest because of State guarantees on borrowings;
  - (g) return on capital.
- (2) The total costs must be adjusted for other advantages and disadvantages of public ownership that are not eliminated.

## **75 Administrative and overhead costs**

The community government must make a reasonable allocation of its administrative and overhead costs to each activity to which the code applies.

## **76 Cost of resources used in carrying on activity**

- (1) If resources are provided by or to a community government for carrying on an activity, the cost of resources used in carrying on the activity includes an equivalent cost.
- (2) If the resources have an identifiable cost, the cost of the resources may be taken to be the equivalent cost.
- (3) If subsection (2) does not apply and the resources are readily available on the open market, the price at which they can be obtained in the market may be taken to be the equivalent cost.
- (4) If subsection (3) is applied, the community government must ensure the terms on which the cost is based are similar to the terms on which they are made available in carrying on the activity.

## **77 Depreciation**

- (1) Depreciation of an asset used in carrying on an activity must be determined under the accounting standards.
- (2) However, a community government may—
  - (a) decide not to determine the depreciation of an asset under the accounting standards; and
  - (b) adopt, as the depreciation of the asset, an amount decided by the community government to be appropriate in the circumstances.

## **78 Equivalents for taxes not otherwise liable to be paid**

- (1) If, for an activity, the community government would be liable for a Commonwealth or State tax if it were not carried on by a community government, the amount equivalent to the tax must be included in the total costs of the activity.

- (2) In working out the equivalent amounts, the community government must, if appropriate, apply the general principles of the tax equivalents manual issued under the *Local Government Act 1993*, section 582<sup>10</sup> that apply to activities carried on by commercial business units.
- (3) Subsection (2) does not, of itself, require compliance with any processes or other requirements under the manual but the community government must keep details of calculations done in working out the equivalent amounts for 7 years.
- (4) For a tax not dealt with in the manual, estimates of amounts that a private sector entity carrying on the business would calculate to be its liability to the tax must be included.

## **79      Equivalents for State guarantees on borrowings**

If the State guarantees repayment of a debt of a community government attributed to an activity, the community government must in carrying on the activity take account of amounts equivalent to the cost of funds advantage the community government obtains over commercial rates of interest because of the guarantee.

## **80      Return on capital**

- (1) The amount for the return on the capital used in carrying on an activity must be decided using the rate at which, in the opinion of the community government, a comparable private sector entity carrying on the activity would be able to obtain the capital in the market, having regard to the split the community government considers appropriate, for the type of business, between equity and loan capital and the return appropriate to each.
- (2) Despite subsection (1), the amount for the return on the capital used in carrying on an activity for the first year in which the code applies to the activity may be the amount the community government decides.

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10 *Local Government Act 1993*, section 582 (Commonwealth and State tax equivalents)

(3) In this section—

*capital used in carrying on an activity* means the total value (using an accepted accounting method) of the assets used for the activity less the liabilities attributable to the activity.

### **Subdivision 3      Treatment of community service obligations**

#### **81      Extra cost for community service obligations to be treated as revenue**

If community service obligations are carried out as part of an activity, for deciding charges for goods and services provided through the activity, there must be treated as revenue for the activity an amount equivalent to—

- (a) the cost of carrying out the obligations; less
- (b) any revenue arising from carrying out the obligations.

#### **82      Community service obligations not to be part of roads business activities**

Community service obligations must not be included in offers or competitive tenders submitted for roads business activities carrying out work on State-controlled roads.

### **Subdivision 4      Elimination of, or taking into account, advantages and disadvantages of public ownership**

#### **83      Effect of advantages or disadvantages of public ownership**

The community government must ensure—

- (a) if possible and appropriate, any advantages or disadvantages arising because an activity is publicly owned are eliminated; and

- (b) if the advantages or disadvantages are not eliminated—they are taken into account in deciding full cost pricing for the activity.

## **Subdivision 5      Financial reporting**

### **84      Statement in budget**

- (1) Each budget of a community government must include a statement about its activities to which the code applies.
- (2) The statement must—
  - (a) show the estimated revenues for each activity; and
  - (b) show the estimated expenses for each activity including any items required to be taken into account for full cost pricing other than return on capital; and
  - (c) include the estimated surplus or deficit for the period; and
  - (d) include a description of the nature of community service obligations to be provided under the activity.
- (3) The statement must disclose, as estimated revenues, the following items separately—
  - (a) estimated revenue for services to be provided by the activity to clients other than the community government;
  - (b) estimated revenue for services to be provided by the activity to the community government;
  - (c) the estimated cost of, less any estimated revenue arising from, carrying out community service obligations provided under the activity.
- (4) A separate statement under this section is not required if—
  - (a) the activity, or the total for all activities, is a significant activity for accounting purposes; and
  - (b) all the required information is shown in the budget.



## **85 Omission of certain matters from statement in budget**

A statement in a budget of a community government under section 84 may include a summary of a matter required to be included in the budget, rather than a full statement of the matter, if—

- (a) the summary indicates—
  - (i) it is a summary only; and
  - (ii) a full statement of the matter is open to inspection; and
- (b) a full statement of the matter is open to inspection.

## **86 Statement in annual report**

- (1) A community government must include in the financial statements in its annual report a statement for each of its activities to which the code applies.
- (2) The statement must—
  - (a) show the revenues for the activity; and
  - (b) show the expenses for the activity including any items required to be taken into account for full cost pricing other than return on capital; and
  - (c) include a description of the nature of community service obligations provided under the activity.
- (3) The statement must disclose, as revenues, the following items separately—
  - (a) revenue for goods and services provided to clients other than the community government in carrying on the activity;
  - (b) revenue for goods and services provided to the community government in carrying on the activity;
  - (c) the cost of, less any revenue arising from, carrying out community service obligations provided under the activity.
- (4) Subsection (1) does not apply to a community government's significant business activities.

**87 Omission of certain matters from statement in annual report**

A statement in an annual report of a community government under section 86 may include a summary of a matter required to be included in the annual report, rather than a full statement of the matter, if—

- (a) the summary indicates—
  - (i) it is a summary only; and
  - (ii) a full statement of the matter is open to inspection; and
- (b) a full statement of the matter is open to inspection.

**Part 12 Reform of certain water and sewerage services**

**Division 1 Preliminary**

**88 Object of pt 12**

The object of this part is to state the requirements for the reform of certain water and sewerage services under the *Local Government Act 1993*, chapter 10 for relevant business activities of community governments and their corporatised corporations.

## **Division 2                      Matters to be complied with**

### **Subdivision 1              Matters to be complied with for relevant business activities**

#### **89              Matters to be complied with for relevant business activities**

In complying with the *Local Government Act 1993*, section 783<sup>11</sup> in relation to its relevant business activities, a community government or corporatised corporation (the *entity*) must comply with the following matters in this division—

- (a) if the community government has resolved that a two-part tariff is to be applied for an activity—a two-part tariff;
- (b) consumption as the basis for utility charges for water services;
- (c) full cost recovery for water and sewerage services;
- (d) identification and disclosure of cross-subsidies between classes of consumers;
- (e) identification and disclosure of community service obligations;
- (f) disclosure of the classes of consumers provided with water and sewerage services at an amount below full cost and the amount.

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<sup>11</sup> *Local Government Act 1993*, section 783 (Local governments to implement charging and operational arrangements for relevant business activities)

## **Subdivision 2      Two-part tariffs**

### **90      Utility charges if two-part tariffs applied**

If a community government decides under the *Local Government Act 1993*, chapter 10, part 4 to apply a two-part tariff for a relevant business activity that provides water services, the utility charges for water services must be based on an amount or amounts for units or part of a unit of the quantity of water supplied, but may include an access amount.

## **Subdivision 3      Consumption as the basis for utility charges for water services**

### **91      Application of sdiv 3**

This subdivision applies to the extent that an entity's relevant business activity provides water services.

### **92      Consumption as the basis for utility charges**

In deciding the utility charges to be made for the supply of water services provided by a relevant business activity, an entity must ensure the charges are based on the quantity of water supplied.

### **93      When charges are based on quantity of water supplied**

- (1) A utility charge for water services is based on the quantity of water supplied by the entity if it is worked out on a basis stated in subsection (2), (3) or (4).
- (2) If utility charges are worked out based on meter readings of water consumed, the utility charges for consumers or groups of consumers must be based on either—
  - (a) a fixed amount and a further amount or further amounts for each unit or part of a unit of the quantity of water supplied greater than a stated unit or units; or

- (b) an amount or amounts for units or part of a unit of the quantity of water supplied.
- (3) The utility charge for consumers in a group must be based on the estimated average consumption by all consumers in the group if—
  - (a) utility charges are not based on a meter reading of water consumed; and
  - (b) the consumers are divided by the entity into groups based on the estimated average quantity of water expected to be supplied to customers in each group.

*Example for subsection (3)—*

A community government could, by sampling or other ways, work out the average usage of domestic consumers was 300 kl per year and the average of commercial consumers was 2 000 kl per year. The utility charge could then be based on a notional access charge of say, for domestic consumers—\$100 and, for commercial consumers—\$600 and a notional usage charge of \$1 a kl. The charges would be \$400 for domestic consumers and \$2 600 for commercial consumers. Given the considerable variability of consumption across commercial consumers, it would be preferable to further divide them by type and carry out separate assessments for each. Some of the commercial users may be metered and charged on the basis of actual consumption in which case subsection (3) would not apply to them.

- (4) If a utility charge for water services is not made under subsection (2) or (3), the charge must be worked out on a basis the entity considers appropriate to determine the reasonably likely consumption by the consumer.
- (5) Subsections (2) to (4) do not prevent a utility charge for supply of water services including an access amount.

## **Subdivision 4      Full cost recovery**

### **94      Application of sdiv 4**

This subdivision does not apply to an entity deciding the charges for water and sewerage services provided to clients in carrying on a relevant business activity if the entity applies full cost pricing under part 9 or 10 in deciding the charges.

**95 Application of full cost recovery**

In deciding the charges for water and sewerage services provided to clients in carrying on a relevant business activity, an entity must ensure the projected total revenue from carrying on the activity is enough to cover the projected total costs of carrying on the activity for a financial year.

**96 Total costs of carrying on relevant business activity**

For this subdivision, the total costs of carrying on a relevant business activity include the following—

- (a) operational costs incurred in carrying on the activity;
- (b) administrative and overhead costs;
- (c) cost of resources used in carrying on the activity;
- (d) depreciation;
- (e) return on capital employed.

**97 Administrative and overhead costs**

The entity must make a reasonable allocation of its administrative and overhead costs to each relevant business activity to which full cost recovery is applied.

**98 Cost of resources used in carrying on relevant business activity**

- (1) If resources are provided by or to an entity for carrying on a relevant business activity, the cost of resources used in carrying on the activity includes an equivalent cost.
- (2) If the resources have an identifiable cost, the cost of the resources may be taken to be the equivalent cost.
- (3) If subsection (2) does not apply and the resources are readily available on the open market, the price at which they can be obtained in the market may be taken to be the equivalent cost.
- (4) If subsection (3) is applied, the entity must ensure the terms on which the cost is based are similar to the terms on which they are made available in carrying on the activity.

## **99 Depreciation**

- (1) Depreciation of an asset used in carrying on an activity must be determined under the accounting standards.
- (2) However, a community government may—
  - (a) decide not to determine the depreciation of an asset under the accounting standards; and
  - (b) adopt, as the depreciation of the asset, an amount decided by the community government to be appropriate in the circumstances.

## **100 Return on capital**

- (1) The amount for the return on the capital used in carrying on a relevant business activity must be a positive real rate decided by the entity.
- (2) In this section—

*capital used in carrying on a relevant business activity* means the total value (using an accepted accounting method) of the assets used for the activity less the liabilities attributable to the activity.

## **Subdivision 5 Treatment of community service obligations**

### **101 Extra cost for community service obligations to be treated as revenue**

If community service obligations are carried out as part of a relevant business activity, for deciding charges for goods and services provided through the activity, there must be treated as revenue for the activity an amount equivalent to—

- (a) the cost of carrying out the obligations; less
- (b) any revenue arising from carrying out the obligations.

## **Subdivision 6      Identification and disclosure of cross-subsidies between classes of consumers**

### **102      Disclosure of cross-subsidies in annual report**

In its annual report, an entity must state the amount of cross-subsidies between the following classes of consumers, for water or sewerage services provided for the financial year—

- (a) domestic consumers;
- (b) commercial consumers;
- (c) industrial consumers;
- (d) another class decided by the entity;
- (e) other consumers.

### **103      Identification and disclosure of cross-subsidies**

- (1) For deciding the amount to be stated for section 102, the entity must, to the extent it is reasonably practicable, comply with the guidelines.
- (2) In this section—

*guidelines* means the document called ‘Guidelines for Identification and Measurement of Cross-Subsidies’ issued by the Department of Natural Resources and Mines.<sup>12</sup>

## **Subdivision 7      Disclosure of community service obligations**

### **104      Disclosure of community service obligations**

An entity must state in its annual report—

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<sup>12</sup> A copy of the Guidelines for Identification and Measurement of Cross-Subsidies may be inspected at the office of the Department of Local Government, Planning, Sport and Recreation at 41 George Street, Brisbane.



- (a) community service obligations carried out during the financial year as part of a relevant business activity; and
- (b) the cost of, less any revenue arising from, carrying out the obligations.

## **Part 13                      Repeal**

### **105      Repeal of Community Services (Aboriginal Council) Accounting Standard 2002**

The Community Services (Aboriginal Council) Accounting Standard 2002 SL No. 136 is repealed.

## Schedule                      Dictionary

### section 3

***accounting standards*** means—

- (a) the accounting standards issued by the Australian Accounting Standards Board; or
- (b) the Australian Accounting Standards issued jointly by or for the National Councils of CPA Australia and the Institute of Chartered Accountants in Australia.<sup>13</sup>

***adopted budget***, of a community government, means the original budget, and any amendments to the budget, adopted by the community government.

***bank account*** means an account with a financial institution.

***commercialisation***, for part 10, see the *Local Government Act 1993*, section 575.<sup>14</sup>

***Commonwealth tax*** means tax imposed under a Commonwealth Act.

***community service obligations*** means—

- (a) for an activity carried on by a corporatised corporation under the *Local Government Act 1993*, chapter 8, part 7—see section 677<sup>15</sup> of that Act; or

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13 The accounting standards issued by the Australian Accounting Standards Board and the Australian Accounting Standards can be accessed on the internet at <[www.aasb.com.au](http://www.aasb.com.au)>.

14 *Local Government Act 1993*, section 575 (Meaning of *commercialisation*)

15 *Local Government Act 1993*, section 677 (Meaning of *community service obligations*)

### Schedule (continued)

- (b) for an activity carried on by a commercial business unit of a community government—see the *Local Government Act 1993*, section 577;<sup>16</sup> or
- (c) for another activity carried on by a community government—the obligations to do anything the community government is satisfied—
  - (i) if the activity were to be carried on by an entity with the primary object of making a profit—would not be in the entity’s commercial interests to perform; and
  - (ii) arise because of a direction by the community government.

**entity**, for part 12, see section 89.<sup>17</sup>

**full cost pricing**, for part 9, see the *Local Government Act 1993*, section 568.<sup>18</sup>

**LGA arrangement** means an arrangement—

- (a) entered into by—
  - (i) the Local Government Association; or
  - (ii) a company registered under the Corporations Act if the association is its only shareholder; and
- (b) that would be a purchasing arrangement if entered into by a community government; and
- (c) for which the procedure set out in section 17<sup>19</sup> has been followed by the association or company as if it were a community government.

**original budget**, of a community government, means the budget adopted at the community government’s budget meeting.

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16 *Local Government Act 1993*, section 577 (Definitions for pt 6)

17 Section 89 (Matters to be complied with for relevant business activities)

18 *Local Government Act 1993*, section 568 (Meaning of *full cost pricing*)

19 Section 17 (Procedure for establishing purchasing arrangements)

Schedule (continued)

***preferred supplier arrangement***, for a community government, means an arrangement by the community government with a supplier for the supply of goods or services under agreed pricing conditions for a stated period.

***pre-qualified supplier***, for a community government, means a supplier who has been assessed by the community government as having the technical, financial and managerial capability necessary to perform contracts on time and in accordance with agreed requirements.

***purchasing arrangement*** means—

- (a) a standing offer arrangement; or
- (b) a preferred supplier arrangement; or
- (c) a register of pre-qualified suppliers.

***relevant business activity***, for part 12, see the *Local Government Act 1993*, section 772.<sup>20</sup>

***roads business activity***, for part 11, see the *Local Government Act 1993*, section 761.<sup>21</sup>

***standing offer arrangement***, for a community government, means an arrangement to which the community government is a party with a supplier for the supply of goods or services at a fixed price for a stated period.

***State tax*** means tax imposed under an Act.

***tax*** includes a charge, duty, fee, levy or rate.

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20 *Local Government Act 1993*, section 772 (Definitions for ch 10)

21 *Local Government Act 1993*, section 761 (Definitions for ch 9)

#### ENDNOTES

1. Made by the Minister for Local Government, Planning and Women on 14 December 2004.
2. Notified in the gazette on 24 December 2004.
3. Laid before the Legislative Assembly on . . .
4. The administering agency is the Department of Local Government, Planning, Sport and Recreation.