



**KEMPSEY**  
Shire Council



# **Annual Report** **2018–2019**

**Part C: Audited Financials**

# Kempsey Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2019

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## General Purpose Financial Statements

for the year ended 30 June 2019

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### Overview

Kempsey Shire Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

22 Tozer Street  
WEST KEMPSEY NSW 2440

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: [www.kempsey.nsw.gov.au](http://www.kempsey.nsw.gov.au).

# Kempsey Shire Council

## General Purpose Financial Statements

for the year ended 30 June 2019

### Understanding Council's Financial Statements

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#### Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their council and community.

#### What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

#### About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

#### About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

##### 1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

##### 2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

##### 3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

##### 4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

##### 5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

#### About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

#### About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

#### Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

## General Purpose Financial Statements

for the year ended 30 June 2019

### Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993* (NSW) (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

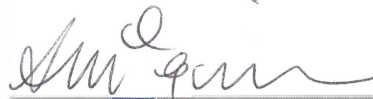
- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 17 September 2019.



Elizabeth Campbell  
Mayor  
19 November 2019



Sue McGinn  
Councillor  
19 November 2019



Craig Milburn  
General Manager  
19 November 2019



Wayne Douglass  
Responsible Accounting Officer  
19 November 2019

## Income Statement

for the year ended 30 June 2019

<i>Original unaudited budget 2019</i>	<i>\$ '000</i>	Notes	<i>Actual 2019</i>	<i>Restated Actual 2018</i> <sup>2, 1</sup>
<b>Income from continuing operations</b>				
<b>Revenue:</b>				
39,761	Rates and annual charges	3a	40,219	38,152
15,878	User charges and fees	3b	16,783	15,398
921	Interest and investment revenue	3c	1,576	1,237
411	Other revenues	3d	500	321
8,574	Grants and contributions provided for operating purposes	3e,3f	11,146	17,863
9,347	Grants and contributions provided for capital purposes	3e,3f	9,950	72,557
<b>74,892</b>	<b>Total income from continuing operations</b>		<b>80,174</b>	<b>145,528</b>
<b>Expenses from continuing operations</b>				
21,294	Employee benefits and on-costs	4a	22,934	20,642
2,758	Borrowing costs	4b	2,524	2,487
20,132	Materials and contracts	4c	19,315	18,924
23,668	Depreciation and amortisation	4d	26,406	24,885
3,541	Other expenses	4e	3,462	3,802
–	Net losses from the disposal of assets	5	7,815	5,087
<b>71,393</b>	<b>Total expenses from continuing operations</b>		<b>82,456</b>	<b>75,827</b>
<b>3,499</b>	<b>Operating result from continuing operations</b>		<b>(2,282)</b>	<b>69,701</b>
<b>3,499</b>	<b>Net operating result for the year</b>		<b>(2,282)</b>	<b>69,701</b>
3,499	Net operating result attributable to council		(2,282)	69,701
<b>(5,848)</b>	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		<b>(12,232)</b>	<b>(2,856)</b>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

(2) See Note 12(b) for details regarding restatement as a result of prior period error.

The above Income Statement should be read in conjunction with the accompanying notes.

## Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	<i>Restated</i> 2018 <sup>1,2</sup>
<b>Net operating result for the year (as per Income Statement)</b>		<b>(2,282)</b>	<b>69,701</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	4,746	6,467
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>4,746</b>	<b>6,467</b>
<b>Total other comprehensive income for the year</b>		<b>4,746</b>	<b>6,467</b>
<b>Total comprehensive income for the year</b>		<b>2,464</b>	<b>76,168</b>
Total comprehensive income attributable to Council		2,464	76,168

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

(2) See Note 12(b) for details regarding restatement as a result of prior period error.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

## Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	Restated 2018 <sup>1,2</sup>	Restated 1 July 2017 <sup>2</sup>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalent assets	6(a)	10,272	18,647	41,931
Investments	6(b)	42,987	31,500	–
Receivables	7	8,926	8,083	7,605
Inventories	8a	484	525	318
Other	8b	56	101	136
<b>Total current assets</b>		<u>62,725</u>	<u>58,856</u>	<u>49,990</u>
<b>Non-current assets</b>				
Receivables	7	369	379	469
Infrastructure, property, plant and equipment	9	1,083,411	1,088,512	1,020,319
<b>Total non-current assets</b>		<u>1,083,780</u>	<u>1,088,891</u>	<u>1,020,788</u>
<b>TOTAL ASSETS</b>		<u>1,146,505</u>	<u>1,147,747</u>	<u>1,070,778</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	10	4,979	5,863	4,453
Borrowings	10	3,994	4,106	4,320
Provisions	11	6,681	6,801	7,719
<b>Total current liabilities</b>		<u>15,654</u>	<u>16,770</u>	<u>16,492</u>
<b>Non-current liabilities</b>				
Payables	10	676	670	567
Borrowings	10	37,901	42,010	41,615
Provisions	11	1,829	316	291
<b>Total non-current liabilities</b>		<u>40,406</u>	<u>42,996</u>	<u>42,473</u>
<b>TOTAL LIABILITIES</b>		<u>56,060</u>	<u>59,766</u>	<u>58,965</u>
<b>Net assets</b>		<u>1,090,445</u>	<u>1,087,981</u>	<u>1,011,813</u>
<b>EQUITY</b>				
Accumulated surplus	12a	447,517	449,799	380,098
Revaluation reserves	12a	642,928	638,182	631,715
<b>Council equity interest</b>		<u>1,090,445</u>	<u>1,087,981</u>	<u>1,011,813</u>
<b>Total equity</b>		<u>1,090,445</u>	<u>1,087,981</u>	<u>1,011,813</u>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

(2) See Note 12(b) for details regarding restatement as a result of prior period error.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.



## Statement of Changes in Equity

for the year ended 30 June 2019

	Notes	2019 <sup>2</sup>			2018 <sup>1, 2</sup>		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
\$ '000					Restated	Restated	Restated
Opening balance		439,005	635,953	1,074,958	376,468	629,486	1,005,954
Correction of prior period errors	12b	10,794	2,229	13,023	3,630	2,229	5,859
<b>Restated opening balance</b>		<b>449,799</b>	<b>638,182</b>	<b>1,087,981</b>	<b>380,098</b>	<b>631,715</b>	<b>1,011,813</b>
Net operating result for the year		(2,282)	–	(2,282)	62,537	–	62,537
Correction of prior period errors	12b	–	–	–	7,164	–	7,164
<b>Restated net operating result for the period</b>		<b>(2,282)</b>	<b>–</b>	<b>(2,282)</b>	<b>69,701</b>	<b>–</b>	<b>69,701</b>
<b>Other comprehensive income</b>							
– Gain (loss) on revaluation of IPP&E	9	–	4,746	4,746	–	6,467	6,467
<b>Other comprehensive income</b>		<b>–</b>	<b>4,746</b>	<b>4,746</b>	<b>–</b>	<b>6,467</b>	<b>6,467</b>
<b>Total comprehensive income</b>		<b>(2,282)</b>	<b>4,746</b>	<b>2,464</b>	<b>69,701</b>	<b>6,467</b>	<b>76,168</b>
<b>Equity – balance at end of the reporting period</b>		<b>447,517</b>	<b>642,928</b>	<b>1,090,445</b>	<b>449,799</b>	<b>638,182</b>	<b>1,087,981</b>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 Financial Instruments: Recognition and Measurement

(2) See Note 12(b) for details regarding restatement as a result of prior period error.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## Statement of Cash Flows

for the year ended 30 June 2019

<i>Original unaudited budget 2019</i>	<i>\$ '000</i>	Notes	<i>Actual 2019</i>	<i>Actual 2018</i>
<b>Cash flows from operating activities</b>				
<u>Receipts</u>				
39,633	Rates and annual charges		40,109	37,470
15,098	User charges and fees		16,405	16,118
935	Investment and interest revenue received		1,493	1,203
18,629	Grants and contributions		16,793	25,075
1,274	Other		4,011	3,353
<u>Payments</u>				
(21,294)	Employee benefits and on-costs		(22,759)	(21,608)
(18,977)	Materials and contracts		(22,918)	(21,945)
(2,624)	Borrowing costs		(2,457)	(2,517)
(5,714)	Other		(2,926)	(4,147)
<b>26,960</b>	<b>Net cash provided (or used in) operating activities</b>	13b	<b>27,751</b>	<b>33,002</b>
<b>Cash flows from investing activities</b>				
<u>Receipts</u>				
410	Sale of infrastructure, property, plant and equipment		1,214	1,598
–	Deferred debtors receipts		–	1
<u>Payments</u>				
–	Purchase of investment securities		(11,487)	(31,500)
(48,810)	Purchase of infrastructure, property, plant and equipment		(21,540)	(26,566)
–	Deferred debtors and advances made		(92)	–
<b>(48,400)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(31,905)</b>	<b>(56,467)</b>
<b>Cash flows from financing activities</b>				
<u>Receipts</u>				
15,756	Proceeds from borrowings and advances		–	4,500
<u>Payments</u>				
(4,380)	Repayment of borrowings and advances		(4,221)	(4,319)
<b>11,376</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(4,221)</b>	<b>181</b>
<b>(10,064)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(8,375)</b>	<b>(23,284)</b>
10,313	Plus: cash and cash equivalents – beginning of year	13a	18,647	41,931
<b>249</b>	<b>Cash and cash equivalents – end of the year</b>	13a	<b>10,272</b>	<b>18,647</b>
Additional Information:				
31,500	plus: Investments on hand – end of year	6(b)	42,987	31,500
<b>31,749</b>	<b>Total cash, cash equivalents and investments</b>		<b>53,259</b>	<b>50,147</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Notes to the Financial Statements

for the year ended 30 June 2019

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## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation

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These financial statements were authorised for issue by Council on 19 November 2019. Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting.

Council is a not for-profit entity.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 17 – Material budget variations

and are clearly marked.

#### **(a) New and amended standards adopted by Council**

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 12.

#### **(b) Historical cost convention**

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

#### **(c) Significant accounting estimates and judgements**

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

#### **Critical accounting estimates and assumptions**

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (ii) estimated asset remediation provisions – refer Note 11
- (iii) employee benefit provisions – refer Note 11

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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#### Significant judgements in applying the council's accounting policies

##### (i) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables – refer Note 7.

#### Monies and other assets received by Council

##### (a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- Water service
- Sewerage service

##### (b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies. Trust monies and property subject to Council's control have been included in these reports.

A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge.

#### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

#### New accounting standards and interpretations issued not yet effective

##### New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and/or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

##### Effective for annual reporting periods beginning on or after 1 July 2019

- AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15 and AASB 1058 will replace AASB 1004 Contributions. These standards may affect the timing of the recognition of some grants and donations.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

Based on Council's analysis, the impact on Council's revenue, net operating result and financial position would be considered immaterial if Council was to adopt the new revenue standards for the year ended 30 June 2019.

Council is unable to reliably estimate the impact on the financial statements for the year ended 30 June 2020 as the main impact could be on the treatment of certain capital and operational grant revenues. Council is unsure what potential new grants impacted by the new standards it may obtain in the 2019/2020 financial year and also whether certain grants would remain materially incomplete as at 30 June 2020.

- AASB 16 Leases

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

Based upon Council's investigation and analysis, Council identified leases which require adjustment to their current accounting treatment under AASB 16. Council does not consider the impact of adopting AASB 16 to be material on the financial statements for the 2019/20 financial year due to the leases identified being immaterial or Council is able to apply the short-term and low-value asset exemptions.

Council has not elected to apply any pronouncements before their operative date in these financial statements.

Notes to the Financial Statements  
for the year ended 30 June 2019

Note 2(a). Council functions/activities – financial information <sup>1</sup>

*Income, expenses and assets have been directly attributed to the following functions or activities.  
Details of those functions or activities are provided in Note 2(b).*

\$ '000	<i>Income from continuing operations</i>		<i>Expenses from continuing operations</i>		<i>Operating result from continuing operations</i>		<i>Grants included in income from continuing operations</i>		<i>Total assets held (current and non-current)</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>Restated</i>		<i>Restated</i>		<i>Restated</i>		<i>Restated</i>		<i>Restated</i>	
<b>Functions or activities</b>										
Governance	27,861	31,315	7,274	11,485	20,587	19,830	6,059	5,486	13,784	12,088
Healthy	37,935	34,255	41,838	37,897	(3,903)	(3,642)	1,839	1,631	426,434	429,281
Wealthy	12,632	77,919	27,012	19,829	(14,380)	58,090	1,580	4,855	615,265	614,090
Safe	1,285	1,411	2,518	2,633	(1,233)	(1,222)	1,231	1,347	27,648	27,984
Connected	461	628	3,814	3,983	(3,353)	(3,355)	402	570	63,374	64,304
<b>Total functions and activities</b>	<b>80,174</b>	<b>145,528</b>	<b>82,456</b>	<b>75,827</b>	<b>(2,282)</b>	<b>69,701</b>	<b>11,111</b>	<b>13,889</b>	<b>1,146,505</b>	<b>1,147,747</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 2(b). Council functions/activities - component descriptions

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Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

#### **Governance**

Costs relating to the Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of council and policy making committees, area representation and public disclosure and compliance, as well as financial and administrative services, human resources, public relations and information technology.

#### **Healthy**

Water, sewerage, strategic planning, development control, environmental control and projects, domestic waste management and rubbish tips, noxious weeds, ranger services, community services and lifestyle management, homes for aged, public cemeteries, sporting fields and pools, animal control, drainage and building control.

#### **Wealthy**

Roads, bridges, footpaths and cycleways, kerb and guttering, road and traffic signs, traffic facilities, bus shelters, quarries, caravan parks, saleyards, airport, library, tourism and economic development.

#### **Safe**

Bushfire and emergency services, community safety and crime prevention, flood plain mitigation and management, beach patrols and street lighting.

#### **Connected**

Cultural, aboriginal and youth services, art galleries, civic maintenance, community centres and community buildings, car parking, parks and reserves, boat ramps, wharves and jetties and public privies.



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations

\$ '000	2019	2018
<b>(a) Rates and annual charges</b>		
<b>Ordinary rates</b>		
Residential	14,611	14,194
Farmland	3,039	3,067
Business	2,128	1,976
Less: pensioner rebates (mandatory)	(696)	(689)
<b>Rates levied to ratepayers</b>	<b>19,082</b>	<b>18,548</b>
Pensioner rate subsidies received	390	382
<b>Total ordinary rates</b>	<b>19,472</b>	<b>18,930</b>
<b>Annual charges</b>		
<small>(pursuant to s.496, s.496A, s.496B, s.501 &amp; s.611)</small>		
Domestic waste management services	4,687	4,691
Stormwater management services	201	201
Water supply services	4,472	4,067
Sewerage services	10,877	9,853
Waste management services (non-domestic)	430	344
Less: pensioner rebates (mandatory)	(690)	(686)
On-site sewerage management charge	383	372
<b>Annual charges levied</b>	<b>20,360</b>	<b>18,842</b>
Pensioner subsidies received:		
– Water	150	147
– Sewerage	118	114
– Domestic waste management	119	119
<b>Total annual charges</b>	<b>20,747</b>	<b>19,222</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>	<b>40,219</b>	<b>38,152</b>

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

**Accounting policy for rates and charges**

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government council area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

\$ '000	2019	2018
<b>(b) User charges and fees</b>		
<b>Specific user charges</b>		
<small>(per s.502 - specific 'actual use' charges)</small>		
Water supply services	7,206	7,003
Sewerage services	1,180	1,096
Waste management services (non-domestic)	1,896	1,512

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
<b>Total specific user charges</b>	10,282	9,611
<b>Other user charges and fees</b>		
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>		
Private works – section 67	258	92
Regulatory/ statutory fees	561	485
Section 10.7 certificates (EP&A Act)	98	124
Section 603 certificates	57	70
Discretionary fees	1,115	882
<b>Total fees and charges – statutory/regulatory</b>	2,089	1,653
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>		
Aerodrome	10	61
Cemeteries	306	321
Saleyards	294	266
Aged housing rental	–	44
Caravan parks and camping grounds	3,491	3,234
Sewerage services	167	103
Water supply	144	103
Other	–	2
<b>Total fees and charges – other</b>	4,412	4,134
<b>TOTAL USER CHARGES AND FEES</b>	<b>16,783</b>	<b>15,398</b>

**Accounting policy for user charges and fees**

User charges and fees are recognised as revenue when the service has been provided.

## (c) Interest and investment revenue (including losses)

<b>Interest on financial assets measured at amortised cost</b>		
– Overdue rates and annual charges (incl. special purpose rates)	277	212
– Cash and investments	1,299	1,025
<b>TOTAL INTEREST AND INVESTMENT REVENUE</b>	<b>1,576</b>	<b>1,237</b>

**Interest revenue is attributable to:****Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	215	212
General Council cash and investments	1,160	796

**Restricted investments/funds – external:**

Development contributions		
– Section 7.11	42	37
– Section 64	86	78
Water fund operations	62	100
Sewerage fund operations	11	14
<b>Total interest and investment revenue</b>	<b>1,576</b>	<b>1,237</b>

**Accounting policy for interest and investment revenue**

Interest income is recognised using the effective interest rate at the date that interest is earned.

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
<b>(d) Other revenues</b>		
Rental income – other council properties	192	168
Fines	–	30
Fines – parking	11	–
Fines – other	3	–
Insurance claims recoveries	17	5
Long service leave contributions	167	24
OH&S incentive rebate	76	94
Other	34	–
<b>TOTAL OTHER REVENUE</b>	<b>500</b>	<b>321</b>

**Accounting policy for other revenue**

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Rental income is accounted for on a straight-line basis over the lease term.

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

Long Service Leave contributions relate to transfer of leave entitlements for new employees who transfer from another local government body.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018 <sup>1</sup> Restated
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**(e) Grants****General purpose (untied)****Current year allocation**

Financial assistance	3,034	2,891	–	–
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**Payment in advance - future year allocation**

Financial assistance	3,146	2,971	–	–
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**Total general purpose**

	<b>6,180</b>	<b>5,862</b>	<b>–</b>	<b>–</b>
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**Specific purpose**

Water supplies	–	85	7	–
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Sewerage services	–	20	180	81
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Bushfire and emergency services	286	264	368	191
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Economic development	744	–	–	–
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Environmental programs	55	31	–	–
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Library	28	55	–	49
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Library – per capita	55	–	–	–
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LIRS subsidy	109	22	–	–
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Noxious weeds	390	421	–	–
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Public halls	–	–	14	–
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Recreation and culture	72	–	1,195	621
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Street lighting	81	83	–	–
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## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018 <sup>1</sup> Restated
Transport (roads to recovery)	–	2,446	–	–
Transport (other roads and bridges funding)	–	–	568	2,203
Aerodrome	–	–	–	108
Community services	274	989	289	–
Emergency services	–	–	–	42
Flood mitigation	132	167	–	31
Waste levy	71	103	–	–
Other	13	15	–	–
<b>Total specific purpose</b>	<b>2,310</b>	<b>4,701</b>	<b>2,621</b>	<b>3,326</b>
<b>Total grants</b>	<b>8,490</b>	<b>10,563</b>	<b>2,621</b>	<b>3,326</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	6,180	8,307	804	–
– State funding	2,310	2,256	1,817	3,326
	<b>8,490</b>	<b>10,563</b>	<b>2,621</b>	<b>3,326</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018 <sup>1</sup> Restated
<b>(f) Contributions</b>					
<b>Developer contributions:</b>					
<b>(s7.4 &amp; s7.11 - EP&amp;A Act, s64 of the LGA):</b>					
<b>Cash contributions</b>					
S 7.11 – contributions towards amenities/services		–	–	689	530
S 64 – water supply contributions		–	–	783	332
S 64 – sewerage service contributions		–	–	293	186
<b>Total developer contributions – cash</b>		<b>–</b>	<b>–</b>	<b>1,765</b>	<b>1,048</b>
<b>Total developer contributions</b>	20	<b>–</b>	<b>–</b>	<b>1,765</b>	<b>1,048</b>
<b>Other contributions:</b>					
<b>Cash contributions</b>					
Community services		–	15	19	–
Kerb and gutter		–	–	–	8
Recreation and culture		–	–	236	58
Roads and bridges		11	–	–	132
RMS contributions (regional roads, block grant)		2,422	6,905	1,259	566
Water supplies (excl. section 64 contributions)		204	202	–	300
Other		19	169	2	39
Tourist parks		–	–	–	350
Community halls and facilities		–	9	–	–
<b>Total other contributions – cash</b>		<b>2,656</b>	<b>7,300</b>	<b>1,516</b>	<b>1,453</b>
<b>Non-cash contributions</b>					
Community Land		–	–	–	138
Drainage		–	–	660	656

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018 <sup>1</sup> <i>Restated</i>
Kerb and gutter		–	–	104	234
Roads and bridges		–	–	2,525	64,925
Sewerage (excl. section 64 contributions)		–	–	167	282
Water supplies (excl. section 64 contributions)		–	–	575	296
Footpath		–	–	–	199
Land Improvements		–	–	17	–
<b>Total other contributions – non-cash</b>		<u>–</u>	<u>–</u>	<u>4,048</u>	<u>66,730</u>
<b>Total other contributions</b>		<u>2,656</u>	<u>7,300</u>	<u>5,564</u>	<u>68,183</u>
<b>Total contributions</b>		<u>2,656</u>	<u>7,300</u>	<u>7,329</u>	<u>69,231</u>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>		<u>11,146</u>	<u>17,863</u>	<u>9,950</u>	<u>72,557</u>

**Accounting policy for grants and contributions**

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed below.

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979*.

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

\$ '000	2019	2018
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**(g) Unspent grants and contributions****Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:****Operating grants**

Unexpended at the close of the previous reporting period	906	1,292
<b>Add:</b> operating grants recognised in the current period but not yet spent	540	321
<b>Add:</b> operating grants received for the provision of goods and services in a future period	265	–
<b>Less:</b> operating grants recognised in a previous reporting period now spent	(131)	(707)
<b>Unexpended and held as restricted assets (operating grants)</b>	<u>1,580</u>	<u>906</u>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
<b>Capital grants</b>		
Unexpended at the close of the previous reporting period	1,146	714
<b>Add:</b> capital grants recognised in the current period but not yet spent	870	358
<b>Add:</b> capital grants received for the provision of goods and services in a future period	–	564
<b>Less:</b> capital grants recognised in a previous reporting period now spent	(475)	(490)
<b>Unexpended and held as restricted assets (capital grants)</b>	<u>1,541</u>	<u>1,146</u>
<b>Contributions</b>		
Unexpended at the close of the previous reporting period	7,944	7,704
<b>Add:</b> contributions recognised in the current period but not yet spent	1,893	1,162
<b>Add:</b> contributions received for the provision of goods and services in a future period	–	–
<b>Add:</b> contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate	–	–
<b>Less:</b> contributions recognised in a previous reporting period now spent	(118)	(922)
<b>Unexpended and held as restricted assets (contributions)</b>	<u>9,719</u>	<u>7,944</u>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations

\$ '000	2019	2018
<b>(a) Employee benefits and on-costs</b>		
Salaries and wages	18,151	15,591
Travel expenses	18	487
Employee leave entitlements (ELE)	4,351	4,678
Superannuation	2,485	2,124
Workers' compensation insurance	979	733
Fringe benefit tax (FBT)	35	22
Payroll tax	256	257
Training costs (other than salaries and wages)	279	184
Protective clothing	82	–
Other	6	–
<b>Total employee costs</b>	<b>26,642</b>	<b>24,076</b>
Less: capitalised costs	(3,708)	(3,434)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>	<b>22,934</b>	<b>20,642</b>

**Accounting policy for employee benefits and on-costs**

Employee benefit expenses are recorded when the service has been provided by the employee.

*Retirement benefit obligations*

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

*Superannuation plans*

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 15 for more information.

**(b) Borrowing costs****(i) Interest bearing liability costs**

Interest on loans	2,433	2,485
Interest on advances	–	2
<b>Total interest bearing liability costs expensed</b>	<b>2,433</b>	<b>2,487</b>

**(ii) Other borrowing costs**

Fair value adjustments on recognition of advances and deferred debtors

– Interest free (or favourable) loans and advances made by Council	91	–
<b>Total other borrowing costs</b>	<b>91</b>	<b>–</b>

**TOTAL BORROWING COSTS EXPENSED**

<b>2,524</b>	<b>2,487</b>
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**Accounting policy for borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
<b>(c) Materials and contracts</b>		
Raw materials and consumables	18,986	18,554
Auditors remuneration <sup>1</sup>	99	72
<b>Legal expenses:</b>		
– Legal expenses: planning and development	80	51
– Legal expenses: debt recovery	82	–
– Legal expenses: other	67	247
Other	1	–
<b>Total materials and contracts</b>	<u>19,315</u>	<u>18,924</u>
<b>TOTAL MATERIALS AND CONTRACTS</b>	<u>19,315</u>	<u>18,924</u>

**Accounting policy for operating leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**1. Auditor remuneration**

During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms

**Auditors of the Council - NSW Auditor-General:****(i) Audit and other assurance services**

Audit and review of financial statements	99	72
<b>Remuneration for audit and other assurance services</b>	<u>99</u>	<u>72</u>
<b>Total Auditor-General remuneration</b>	<u>99</u>	<u>72</u>



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018 <sup>1</sup> <i>Restated</i>
<b>(d) Depreciation, amortisation and impairment of intangible assets and IPP&amp;E</b>		
<b>Depreciation and amortisation</b>		
Plant and equipment	1,514	1,524
Office equipment	245	177
Furniture and fittings	21	43
Land improvements (depreciable)	557	537
<b>Infrastructure:</b>		
– Buildings – non-specialised	1,150	887
– Buildings – specialised	845	350
– Roads	9,454	9,363
– Bridges	659	639
– Footpaths	546	490
– Stormwater drainage	1,233	948
– Water supply network	5,374	5,173
– Sewerage network	4,228	4,207
– Swimming pools	70	101
– Other open space/recreational assets	463	402
<b>Other assets:</b>		
– Other	47	44
<b>Total gross depreciation and amortisation costs</b>	<u>26,406</u>	<u>24,885</u>
Total depreciation and amortisation costs	<u>26,406</u>	<u>24,885</u>
<b><u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&amp;E</u></b>	<u>26,406</u>	<u>24,885</u>

**Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPP&E****Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

**Impairment of non-financial assets**

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are no longer required to be tested for impairment under AASB 136. This is because these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

(1) See Note 12(b) for details regarding restatement as a result of prior period error

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
<b>(e) Other expenses</b>		
Contributions/levies to other levels of government		
Councillor expenses – mayoral fee	43	42
Councillor expenses – councillors' fees	178	177
Councillors' expenses (incl. mayor) – other (excluding fees above)	23	52
Donations, contributions and assistance to other organisations (Section 356)	123	84
Electricity and heating	1,243	1,549
Insurance	824	817
Street lighting	676	655
Telephone and communications	352	426
<b>Total other expenses</b>	<b>3,462</b>	<b>3,802</b>
<b>TOTAL OTHER EXPENSES</b>	<b>3,462</b>	<b>3,802</b>

**Accounting policy for other expenses**

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

## Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
<b>Property (excl. investment property)</b>			
Proceeds from disposal – property		736	–
Less: carrying amount of property assets sold/written off		(510)	–
<b>Net gain/(loss) on disposal</b>		<b>226</b>	<b>–</b>
<b>Plant and equipment</b>			
	9		
Proceeds from disposal – plant and equipment		478	593
Less: carrying amount of plant and equipment assets sold/written off		(618)	(732)
<b>Net gain/(loss) on disposal</b>		<b>(140)</b>	<b>(139)</b>
<b>Infrastructure</b>			
	9		
Proceeds from disposal – infrastructure		–	1,005
Less: carrying amount of infrastructure assets sold/written off		(7,901)	(5,953)
<b>Net gain/(loss) on disposal</b>		<b>(7,901)</b>	<b>(4,948)</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(7,815)</b>	<b>(5,087)</b>

**Accounting policy for disposal of assets**

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
<b>Cash and cash equivalents</b>		
Cash on hand and at bank	7,177	4,511
Cash-equivalent assets		
– Deposits at call	3,095	14,136
<b>Total cash and cash equivalents</b>	<u>10,272</u>	<u>18,647</u>

**Accounting policy for cash and cash equivalents**

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

## Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Investments</b>				
'Financial assets at amortised cost' / 'held to maturity' (2018)	41,939	–	31,500	–
'Financial assets at fair value through Profit & Loss	1,048	–	–	–
<b>Total Investments</b>	<u>42,987</u>	<u>–</u>	<u>31,500</u>	<u>–</u>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>	<u>53,259</u>	<u>–</u>	<u>50,147</u>	<u>–</u>
<b>Financial assets at fair value through the profit and loss</b>				
Managed funds	1,048	–	–	–
<b>Total</b>	<u>1,048</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Financial assets at amortised cost / held to maturity (2018)</b>				
Long term deposits	41,939	–	31,500	–
<b>Total</b>	<u>41,939</u>	<u>–</u>	<u>31,500</u>	<u>–</u>

**Accounting policy for investments****Accounting policy under AASB 9 – applicable from 1 July 2018**

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

**Financial assets**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

**Classification**

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 6(b). Investments (continued)

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Financial assets are not reclassified subsequent to their initial recognition.

#### **Amortised cost**

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise term deposits, trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

#### **Fair value through other comprehensive income – equity instruments**

Council has a number of strategic investments in entities over which they do not have significant influence nor control. Council has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to accumulated surplus and is not reclassified to profit or loss.

Other net gains and losses excluding dividends are recognised in Other Comprehensive Income Statement.

#### **Financial assets through profit or loss**

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Council's financial assets measured at fair value through profit or loss comprise investments in managed funds, FRNs and NCDs in the Statement of Financial Position.

### **Accounting policy under AASB 139 – applicable for 2018 comparatives only**

#### **Classification**

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

#### **(b) Held to maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

#### **Recognition and de-recognition**

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 6(b). Investments (continued)

flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

**Impairment of financial assets**

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**Impairment of available for sale investments**

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

## Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2019		2018	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	53,259	–	50,147	–
<b>attributable to:</b>				
External restrictions	37,434	–	32,789	–
Internal restrictions	15,284	–	13,792	–
Unrestricted	541	–	3,566	–
	53,259	–	50,147	–

\$ '000	2019	2018
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## Details of restrictions

**External restrictions – included in liabilities**

Specific purpose unexpended loans – water	–	707
Specific purpose unexpended loans – sewer	716	1,912
RMS advances	192	383
<b>External restrictions – included in liabilities</b>	<b>908</b>	<b>3,002</b>

**External restrictions – other**

Developer contributions – general	3,126	2,402
Developer contributions – water fund	4,298	1,523
Developer contributions – sewer fund	2,297	2,070
Specific purpose unexpended grants	3,095	2,044
Specific purpose unexpended grants-sewer fund	26	8
Water augmentation reserve	3,000	4,412
Water fleet reserve	1,946	1,946
Water tariff equalisation reserve	602	602
Water uncompleted works reserve	112	310
Sewerage augmentation reserve	7,223	5,100
Sewerage uncompleted works reserve	271	100
Domestic waste management	2,410	2,468

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

\$ '000	2019	2018
Contributions – ancillary works	37	37
On-site sewerage management reserve	315	224
SWR reserve	–	1,079
4 shore caravan parks reserve	–	3,647
Holiday Parks Reserve	5,452	–
Environmental Levy	2,316	1,815
<b>External restrictions – other</b>	<b>36,526</b>	<b>29,787</b>
<b>Total external restrictions</b>	<b>37,434</b>	<b>32,789</b>
<b>Internal restrictions</b>		
Employees leave entitlement	1,500	651
Cemetery headstone restoration reserve	101	88
Cinema	1,348	1,931
Community projects reserve	657	1,062
Computer	96	241
Co-operative library computer	89	84
Corporate	3,145	3,181
General fleet	2,055	1,187
General fund uncompleted works reserve	3,732	2,683
General fund unexpended loans	–	487
Building Infrastructure	61	77
Insurance	89	397
Organisational development	–	18
Property sales	552	–
Quarry restoration	–	252
Road infrastructure	1,676	1,295
Joint Organisation Funds	25	–
Natural Resources Reserve	158	158
<b>Total internal restrictions</b>	<b>15,284</b>	<b>13,792</b>
<b>TOTAL RESTRICTIONS</b>	<b>52,718</b>	<b>46,581</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Purpose</b>				
Rates and annual charges	2,556	–	2,446	–
User charges and fees	3,628	–	2,671	–
Accrued revenues				
– Interest on investments	184	–	101	–
Deferred debtors	–	197	69	127
Government grants and subsidies	1,561	172	973	252
Net GST receivable	400	–	459	–
Private works (miscellaneous debtors)	644	–	967	–
Pwd subsidised scheme debtors	99	–	99	–
RTA debtors	112	–	307	–
<b>Total</b>	<b>9,184</b>	<b>369</b>	<b>8,092</b>	<b>379</b>
<b>Less: provision for impairment</b>				
Other debtors	(258)	–	(9)	–
<b>Total provision for impairment – receivables</b>	<b>(258)</b>	<b>–</b>	<b>(9)</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>	<b>8,926</b>	<b>369</b>	<b>8,083</b>	<b>379</b>

#### Externally restricted receivables

##### Water supply

– Rates and availability charges	513	–	435	–
– Other	1,808	–	2,010	–

##### Sewerage services

– Rates and availability charges	844	–	666	–
– Other	426	–	377	–

<b>Domestic waste management</b>	<b>383</b>	<b>–</b>	<b>377</b>	<b>–</b>
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<b>Total external restrictions</b>	<b>3,974</b>	<b>–</b>	<b>3,865</b>	<b>–</b>
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<b>Unrestricted receivables</b>	<b>4,952</b>	<b>369</b>	<b>4,218</b>	<b>379</b>
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<b>TOTAL NET RECEIVABLES</b>	<b>8,926</b>	<b>369</b>	<b>8,083</b>	<b>379</b>
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\$ '000	2019	2018
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#### Movement in provision for impairment of receivables

Balance at the beginning of the year (calculated in accordance with AASB 139)	9	9
+ new provisions recognised during the year	249	–
<b>Balance at the end of the period</b>	<b>258</b>	<b>9</b>

#### Accounting policy for receivables

##### Recognition and measurement

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 7. Receivables (continued)

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Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

#### Impairment

##### Accounting policy under AASB 9 applicable from 1 July 2018

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are no longer deemed collectable, whichever occurs first.

None of the receivables that have been written off are subject to enforcement activity.

Where the Council renegotiates the terms of receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

##### Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Rates and annual charges outstanding are secured against the property.



## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>(a) Inventories</b>				
<b>(i) Inventories at cost</b>				
Stores and materials	484	–	525	–
<b>Total inventories at cost</b>	<b>484</b>	<b>–</b>	<b>525</b>	<b>–</b>
<b><u>TOTAL INVENTORIES</u></b>	<b><u>484</u></b>	<b><u>–</u></b>	<b><u>525</u></b>	<b><u>–</u></b>
<b>(b) Other assets</b>				
Prepayments	56	–	101	–
<b><u>TOTAL OTHER ASSETS</u></b>	<b><u>56</u></b>	<b><u>–</u></b>	<b><u>101</u></b>	<b><u>–</u></b>

#### Accounting policy for inventories and other assets

##### Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

##### Inventory held for distribution

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

##### Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

## Notes to the Financial Statements for the year ended 30 June 2019

### Note 9. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018 <sup>2</sup>			Asset movements during the reporting period							as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	13,579	–	13,579	5,442	2,117	–	–	(13,298)	–	–	7,840	–	7,840
Plant and equipment	19,847	(9,883)	9,964	1,665	–	(620)	(1,514)	–	–	–	16,499	(7,004)	9,495
Office equipment	2,976	(2,092)	884	147	–	–	(245)	–	–	–	3,022	(2,236)	786
Furniture and fittings	282	(165)	117	–	–	–	(21)	–	–	–	282	(186)	96
<b>Land:</b>													
– Crown land	27,026	–	27,026	–	33	–	–	–	–	–	27,059	–	27,059
– Operational land	21,675	–	21,675	–	–	(450)	–	10	343	–	21,578	–	21,578
– Community land	8,678	–	8,678	–	–	–	–	–	(376)	–	8,302	–	8,302
Land improvements – non-depreciable	20,650	–	20,650	–	–	–	–	–	–	–	20,650	–	20,650
Land improvements – depreciable	17,948	(5,607)	12,341	38	439	(46)	(557)	104	–	–	18,474	(6,155)	12,319
<b>Infrastructure:</b>													
– Buildings – non-specialised	42,207	(25,394)	16,813	20	80	(2)	(1,150)	–	(2,308)	–	37,498	(24,045)	13,453
– Buildings – specialised	20,151	(11,583)	8,568	–	7	(12)	(845)	25	2,294	–	24,917	(14,880)	10,037
– Roads	409,082	(139,668)	269,414	4,502	4,603	(6,779)	(9,454)	6,891	–	–	416,097	(146,920)	269,177
– Bridges	64,124	(26,161)	37,963	367	57	(70)	(659)	31	–	–	64,256	(26,567)	37,689
– Footpaths	24,384	(13,468)	10,916	158	171	(133)	(546)	1,848	–	–	26,291	(13,877)	12,414
– Bulk earthworks (non-depreciable)	237,789	–	237,789	–	1,230	–	–	117	–	–	239,136	–	239,136
– Stormwater drainage	122,748	(46,033)	76,715	70	674	(36)	(1,233)	349	–	–	123,781	(47,242)	76,539
– Water supply network	278,579	(85,280)	193,299	2,983	575	(326)	(5,374)	794	–	3,014	286,257	(91,292)	194,965
– Sewerage network	220,354	(105,628)	114,726	1,426	166	(537)	(4,228)	(59)	–	1,732	223,631	(110,405)	113,226
– Swimming pools	3,383	(2,134)	1,249	–	–	–	(70)	7	15	–	3,439	(2,238)	1,201
– Other open space/recreational assets	12,001	(6,447)	5,554	59	29	(18)	(463)	665	–	–	12,679	(6,853)	5,826
<b>Other assets:</b>													
– Other	1,304	(712)	592	–	–	–	(47)	–	(1)	–	1,302	(758)	544
<b>Reinstatement, rehabilitation and restoration assets (refer Note 14):</b>													
– Tip assets	–	–	–	–	801	–	–	–	–	–	801	–	801
– Quarry assets	–	–	–	–	278	–	–	–	–	–	278	–	278
<b>Total Infrastructure, property, plant and equipment</b>	<b>1,568,767</b>	<b>(480,255)</b>	<b>1,088,512</b>	<b>16,877</b>	<b>11,260</b>	<b>(9,029)</b>	<b>(26,406)</b>	<b>(2,516)</b>	<b>(33)</b>	<b>4,746</b>	<b>1,584,069</b>	<b>(500,658)</b>	<b>1,083,411</b>

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

(2) See Note 12(b) for details regarding restatement as a result of prior period error.

## Notes to the Financial Statements for the year ended 30 June 2019

### Note 9. Infrastructure, property, plant and equipment (continued)

	as at 30/6/2017 <sup>2</sup>			Asset movements during the reporting period							as at 30/6/2018 <sup>2</sup>		
	Gross carrying amount Restated	Accumulated depreciation Restated	Net carrying amount Restated	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000													
Capital work in progress	16,161	–	16,161	1,217	8,279	–	–	(12,078)	–	–	13,579	–	13,579
Plant and equipment	19,610	(9,218)	10,392	1,129	412	(451)	(1,524)	6	–	–	19,847	(9,883)	9,964
Office equipment	2,798	(1,916)	882	169	10	–	(177)	–	–	–	2,976	(2,092)	884
Furniture and fittings	1,152	(920)	232	19	2	(93)	(43)	–	–	–	282	(165)	117
<b>Land:</b>													
– Operational land	24,071	–	24,071	32	–	(161)	–	–	(2,267)	–	21,675	–	21,675
– Community land	8,540	–	8,540	–	138	–	–	–	–	–	8,678	–	8,678
– Crown land	27,026	–	27,026	–	–	–	–	–	–	–	27,026	–	27,026
Land improvements – non-depreciable	20,650	–	20,650	–	–	–	–	–	–	–	20,650	–	20,650
Land improvements – depreciable	14,543	(4,973)	9,570	916	277	(4)	(537)	1,870	–	249	17,948	(5,607)	12,341
<b>Infrastructure:</b>													
– Buildings – non-specialised	41,361	(24,108)	17,253	249	–	(503)	(887)	899	(198)	–	42,207	(25,394)	16,813
– Buildings – specialised	13,972	(7,470)	6,502	427	8	(31)	(350)	284	–	1,728	20,151	(11,583)	8,568
– Roads	353,907	(128,883)	225,024	6,967	47,306	(3,054)	(9,363)	2,534	–	–	409,082	(139,668)	269,414
– Bridges	60,174	(25,152)	35,022	1,614	1,826	(275)	(639)	415	–	–	64,124	(26,161)	37,963
– Footpaths	23,244	(13,240)	10,004	247	199	(291)	(490)	1,247	–	–	24,384	(13,468)	10,916
– Bulk earthworks (non-depreciable)	221,882	–	221,882	–	15,907	–	–	–	–	–	237,789	–	237,789
– Stormwater drainage	121,408	(45,135)	76,273	33	701	(45)	(948)	701	–	–	122,748	(46,033)	76,715
– Water supply network	270,054	(79,131)	190,923	1,913	748	(823)	(5,173)	1,182	–	4,529	278,579	(85,280)	193,299
– Sewerage network	212,359	(99,624)	112,735	1,219	599	(909)	(4,207)	2,940	–	2,349	220,354	(105,628)	114,726
– Swimming pools	4,066	(2,793)	1,273	–	–	–	(101)	–	–	77	3,383	(2,134)	1,249
– Other open space/recreational assets	11,526	(6,146)	5,380	621	–	(45)	(402)	–	–	–	12,001	(6,447)	5,554
<b>Other assets:</b>													
– Other	1,191	(667)	524	112	–	–	(44)	–	–	–	1,304	(712)	592
<b>Total Infrastructure, property, plant and equipment</b>	<b>1,469,695</b>	<b>(449,376)</b>	<b>1,020,319</b>	<b>16,884</b>	<b>76,412</b>	<b>(6,685)</b>	<b>(24,885)</b>	<b>–</b>	<b>(2,465)</b>	<b>8,932</b>	<b>1,568,767</b>	<b>(480,255)</b>	<b>1,088,512</b>

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

(2) See Note 12(b) for details regarding restatement of a result of prior period error.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 9. Infrastructure, property, plant and equipment (continued)

**Accounting policy for infrastructure, property, plant and equipment**

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (DoI) – Water.

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

<b>Plant and equipment</b>	Years	<b>Buildings</b>	Years
Office equipment	5 to 10	Buildings	5 to 10
Office furniture	4 to 10		
Computer equipment	3 to 10		
Vehicles	5 to 13		
Heavy plant/road making equipment	5 to 13		
Other plant and equipment	3 to 10		
<b>Water and sewer assets</b>		<b>Stormwater assets</b>	
Dams and reservoirs	80 to 100	Drains	80 to 100
Water mains	40 to 70	Flood mitigation systems	10 to 80
Sewer mains	40 to 70		
Treatment works	15 to 100		
Pumps and telemetry	10 to 20		
<b>Transportation assets</b>		<b>Other infrastructure assets</b>	
Sealed roads: surface	15 to 25	Bulk earthworks	Infinite
Sealed roads: structure	30 to 80	Swimming pools	30 to 50
Unsealed roads	7 to 10	Land improvements	10 to 100
Bridge	50 to 100	Other open space/recreational assets	25 to 100
Footpaths	25 to 50		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**Land under roads**

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 9. Infrastructure, property, plant and equipment (continued)

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#### **Crown reserves**

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

#### **Rural Fire Service assets**

Under Section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed".

Only land and building Rural Fire Service assets are recognised as assets of the Council in these financial statements.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 10. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Payables</b>				
Goods and services – operating expenditure	4,582	676	5,252	670
Accrued expenses:				
– Borrowings	204	–	228	–
Advances	193	–	383	–
<b>Total payables</b>	<b>4,979</b>	<b>676</b>	<b>5,863</b>	<b>670</b>
<b>Borrowings</b>				
Loans – secured <sup>1</sup>	3,968	37,901	4,080	41,984
Government advances	26	–	26	26
<b>Total borrowings</b>	<b>3,994</b>	<b>37,901</b>	<b>4,106</b>	<b>42,010</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>8,973</u></b>	<b><u>38,577</u></b>	<b><u>9,969</u></b>	<b><u>42,680</u></b>

(1) Loans are secured over the general rating income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 16.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>(a) Payables and borrowings relating to restricted assets</b>				
<b>Externally restricted assets</b>				
Water	1,739	17,993	1,669	19,709
Sewer	1,286	16,290	1,196	17,527
Other	192	–	383	–
Tourist parks	26	–	2	–
Payables and borrowings relating to externally restricted assets	3,243	34,283	3,250	37,236
<b>Total payables and borrowings relating to restricted assets</b>	<b>3,243</b>	<b>34,283</b>	<b>3,250</b>	<b>37,236</b>
<b>Total payables and borrowings relating to unrestricted assets</b>	<b>5,730</b>	<b>4,294</b>	<b>6,719</b>	<b>5,444</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>8,973</u></b>	<b><u>38,577</u></b>	<b><u>9,969</u></b>	<b><u>42,680</u></b>

### (b) Current payables and borrowings not anticipated to be settled within the next twelve months

The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

<b>Total payables and borrowings</b>	–	–
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### (c) Changes in liabilities arising from financing activities

as at  
30/6/2018

as at  
30/6/2019

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 10. Payables and borrowings (continued)

\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	46,064	(4,195)	–	–	–	41,869
Government advances	52	(26)	–	–	–	26
<b>TOTAL</b>	<b>46,116</b>	<b>(4,221)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>41,895</b>

\$ '000	as at 30/6/2017		Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	as at 30/6/2018	
	Opening Balance	Cash flows				Closing balance	
Loans – secured	45,839	225	–	–	–	46,064	
Government advances	96	(44)	–	–	–	52	
<b>TOTAL</b>	<b>45,935</b>	<b>181</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>46,116</b>	

\$ '000	2019	2018
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**(d) Financing arrangements****(i) Unrestricted access was available at balance date to the following lines of credit:**

Credit cards/purchase cards	130	130
<b>Total financing arrangements</b>	<b>130</b>	<b>130</b>

**Undrawn facilities as at balance date:**

– Credit cards/purchase cards	91	130
<b>Total undrawn financing arrangements</b>	<b>91</b>	<b>130</b>

**Additional financing arrangements information****Breaches and defaults**

During the current and prior year, there were no defaults or breaches on any of the loans.

**Accounting policy for payables and borrowings**

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Council comprise trade payables, bank and other loans and finance lease liabilities.

**Payables**

These amounts represent liabilities for goods and services provided to the council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 10. Payables and borrowings (continued)

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Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 11. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
<b>Provisions</b>				
<b>Employee benefits</b>				
Annual leave	1,924	–	1,730	–
Sick leave	1,011	–	1,233	–
Long service leave	3,746	750	3,838	316
<b>Sub-total – aggregate employee benefits</b>	<b>6,681</b>	<b>750</b>	<b>6,801</b>	<b>316</b>
<b>Asset remediation/restoration:</b>				
Asset remediation/restoration (future works)	–	1,079	–	–
<b>Sub-total – asset remediation/restoration</b>	<b>–</b>	<b>1,079</b>	<b>–</b>	<b>–</b>
<b>TOTAL PROVISIONS</b>	<b>6,681</b>	<b>1,829</b>	<b>6,801</b>	<b>316</b>

**(a) Provisions relating to restricted assets**

<b>Total provisions relating to restricted assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total provisions relating to unrestricted assets</b>	<b>6,681</b>	<b>1,829</b>	<b>6,801</b>	<b>316</b>
<b>TOTAL PROVISIONS</b>	<b>6,681</b>	<b>1,829</b>	<b>6,801</b>	<b>316</b>

\$ '000	2019	2018
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**(b) Current provisions not anticipated to be settled within the next twelve months**

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

Provisions – employees benefits	4,254	4,660
	<b>4,254</b>	<b>4,660</b>

**Nature and purpose of non-employee benefit provisions****Asset remediation**

The Asset Remediation Provision represents the present value estimate of future costs Council will incur to restore, rehabilitate and reinstate the council tip and quarry as a result of past operations.

**Accounting policy for provisions**

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 11. Provisions (continued)

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#### Employee benefits

##### Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

##### Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### On-costs

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

#### Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries

##### Restoration

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

##### Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 11. Provisions (continued)

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or production rates. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Other movements in the provisions for close-down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations, and revisions to discount rates, are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close-down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

### (a) Nature and purpose of reserves

#### Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

### (b) Correction of errors relating to a previous reporting period

#### Nature of prior-period error

##### Crown land

1. A review of Council's Crown land found a number of reserves with incorrect land values as the land parcels within the reserves had either not been updated with current valuations or did not have a valuation attached at all. These have been updated with the correct Valuer General (VG) values. Furthermore, previously classified Crown land valued at \$172,000 was found to be operational land and has been reclassified as such. These changes, including the reclassification, had an overall impact of increasing the value of Crown Land and the revaluation reserve by \$2,229,000 as at 1 July 2017.
2. There were some Crown lands that Council had not previously recognised at all; the inclusion of these has increased the value of Crown lands by a further \$3,630,000 and increased the Accumulated Surplus for the same amount as at 1 July 2017.

The total increase in Infrastructure, property plant and equipment was \$5,859,000 with an equal increase in Total equity as at 1 July 2017.

##### Road assets

1. Council had previously omitted the value of contributed assets related to newly created roundabouts as part of the old pacific highway dedication from the RMS in the 17/18 year. These roundabouts have now been recognised and have an impact of increasing the value of Roads by \$6,682,000 and Bulk Earthworks by \$482,000 as at 30 June 2018. As these were contributed assets they were recognised as income of \$7,231,000 less depreciation of \$67,000 in the Income Statement for the year ended 30 June 2018, with the net amount of \$7,164,000 increasing Accumulated Surplus as at 30 June 2018.

The total increase in Infrastructure, property plant and equipment related to roads and earthworks was \$7,164,000 combined with the Crown and operational lands of \$5,859,000 totalled \$13,023,000 with an equal increase in total equity as at 30 June 2018.

Comparatives have been changed to reflect the correction of errors. The impact on each item is shown in the tables below.

### Changes to the opening Statement of Financial Position at 1 July 2017

#### Statement of Financial Position

<i>\$ '000</i>	<i>Original Balance 1 July, 2017</i>	<i>Impact Increase/ (decrease)</i>	<i>Restated Balance 1 July, 2017</i>
Crown Land	21,339	5,687	27,026
Operational Land	23,899	172	24,071
<b>Infrastructure, property, plant and equipment</b>	<b>1,014,460</b>	<b>5,859</b>	<b>1,020,319</b>
<b>Total assets</b>	<b>1,064,919</b>	<b>5,859</b>	<b>1,070,778</b>
<b>Total liabilities</b>	<b>58,965</b>	<b>–</b>	<b>58,965</b>
Accumulated Surplus	376,468	3,630	380,098
Revaluation Reserve	629,486	2,229	631,715
<b>Total equity</b>	<b>1,005,954</b>	<b>5,859</b>	<b>1,011,813</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

## Adjustments to the comparative figures for the year ended 30 June 2018

## Statement of Financial Position

<i>\$ '000</i>	<i>Original Balance 30 June, 2018</i>	<i>Impact Increase/ (decrease)</i>	<i>Restated Balance 30 June, 2018</i>
Crown land	21,339	5,687	27,026
Operational Land	21,503	172	21,675
Roads	262,732	6,682	269,414
Bulk Earthworks	237,307	482	237,789
<b>Infrastructure, property, plant and equipment</b>	<b>1,075,489</b>	<b>13,023</b>	<b>1,088,512</b>
<b>Total assets</b>	<b>1,134,724</b>	<b>13,023</b>	<b>1,147,747</b>
<b>Total liabilities</b>	<b>59,766</b>	<b>–</b>	<b>59,766</b>
Accumulated Surplus	439,005	10,794	449,799
Revaluation Reserve	635,953	2,229	638,182
<b>Total equity</b>	<b>1,074,958</b>	<b>13,023</b>	<b>1,087,981</b>

## Income Statement

<i>\$ '000</i>	<i>Original Balance 30 June, 2018</i>	<i>Impact Increase/ (decrease)</i>	<i>Restated Balance 30 June, 2018</i>
Grants and contributions provided for Capital purposes	65,326	7,231	72,557
<b>Total income from continuing operations</b>	<b>138,297</b>	<b>7,231</b>	<b>145,528</b>
Depreciation and amortisation	24,818	67	24,885
<b>Total expenses from continuing operations</b>	<b>75,760</b>	<b>67</b>	<b>75,827</b>
<b>Net operating result for the year</b>	<b>62,537</b>	<b>7,164</b>	<b>69,701</b>
<b>Net operating result for the year before grants and contributions provided for capital purposes</b>	<b>(2,789)</b>	<b>(67)</b>	<b>(2,856)</b>

## Statement of Comprehensive Income

<i>\$ '000</i>	<i>Original Balance 30 June, 2018</i>	<i>Impact Increase/ (decrease)</i>	<i>Restated Balance 30 June, 2018</i>
<b>Net operating result for the year</b>	<b>62,537</b>	<b>7,164</b>	<b>69,701</b>
Other comprehensive income	6,467	–	6,467
<b>Total comprehensive income for the year</b>	<b>69,004</b>	<b>7,164</b>	<b>76,168</b>

(c) Changes in accounting policies due to adoption of new accounting standards (not-retrospective)

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

During the year, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

The Council has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2017. As part of the adoption of AASB 9, the Council adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.
- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

The key changes to Council's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except Council has not restated any amounts relating to classification and measurement requirements, including impairment, which have been applied from 1 July 2018.

#### **Classification of financial assets**

The financial assets of Council have been reclassified into one of the following categories on adoption of AASB 9, based primarily on the business model in which a financial asset is managed and its contractual cash flow characteristics are:

- measured at amortised cost
- fair value through profit or loss
- fair value through other comprehensive income – equity instruments

#### **Measurement of equity instruments**

All equity instruments of the Council are measured at fair value under AASB 9 whereas there was a cost exception under AASB 139 that allowed certain unlisted investments to be carried at amortised cost in the absence of a reliable measurement of fair value. Any difference in the previous carrying amount and the fair value is recognised in the opening retained earnings (or other component of equity, as appropriate) at 1 July 2018.

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments, classified as fair value through other comprehensive income, are taken to the relevant reserve.

#### **Impairment of financial assets**

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost. This has resulted in the earlier recognition of credit loss (bad debt provisions).

The introduction of AASB9 has not had a material impact on Council's financial report.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 13. Statement of cash flows - additional information

\$ '000	Notes	2019	2018 <sup>1</sup> <i>Restated</i>
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6(a)	10,272	18,647
<b>Balance as per the Statement of Cash Flows</b>		<b>10,272</b>	<b>18,647</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities <sup>1</sup></b>			
<b>Net operating result from Income Statement</b>		(2,282)	69,701
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		26,406	24,885
Net losses/(gains) on disposal of assets		7,815	5,087
Non-cash capital grants and contributions		(4,048)	(66,730)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Interest-free advances made by Council (deferred debtors)		91	–
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		(1,081)	(389)
Increase/(decrease) in provision for impairment of receivables		249	–
Decrease/(increase) in inventories		41	(207)
Decrease/(increase) in other current assets		45	35
Increase/(decrease) in payables		(664)	1,659
Increase/(decrease) in accrued interest payable		(24)	(30)
Increase/(decrease) in other liabilities		(190)	(116)
Increase/(decrease) in provision for employee benefits		314	(893)
Increase/(decrease) in other provisions		1,079	–
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>27,751</b>	<b>33,002</b>
<b>(c) Non-cash investing and financing activities</b>			
RMS dedications		–	66,014
Developer dedicated assets		4,048	578
Community Land		–	138
<b>Total non-cash investing and financing activities</b>		<b>4,048</b>	<b>66,730</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 14. Commitments

\$ '000	2019	2018
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## Capital commitments (exclusive of GST)

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

**Property, plant and equipment**

Office Equipment	374	–
Land Improvements	1,137	23
Building - Non-Specialised	564	–
Building - Specialised	676	–
Bridges	2,961	34
Roads	–	18
<b>Total commitments</b>	<b>5,712</b>	<b>75</b>

**Details of capital commitments**

Capital expenditure commitments relate to Turners Flat Bridge, sportsfield lighting at Verge/Eden Street, Jim Stirling and SWR ovals, amenities at Crescent Head and Gladstone, Civic Centre and various other projects.



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 15. Contingencies and other assets/liabilities not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

**LIABILITIES NOT RECOGNISED****1. Guarantees****(i) Defined benefit superannuation contribution plans**

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

Council participates in a defined benefits superannuation scheme called the the Local Government Superannuation Scheme – Pool B (Scheme). Pooled Employers from a sub-group of the Scheme with over 170 employers supporting over 8,700 employees and ex-employees.

The Scheme is considered to be a defined benefit multi-employer plan for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
- The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times member contributions for non-180 Point Members; Nil for 180 Point Members
Division C	2.5 salaries
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2018.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

There is no provision for allocation of any surplus which may be present at the date of withdrawal on an employer.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

<b>Employer reserves only *</b>	<b>\$millions</b>	<b>Asset Coverage</b>
Assets	1,798.7	
Past Service Liabilities	1,784.2	100.8%
Vested Benefits	1,792.0	100.4%

## Notes to the Financial Statements

for the year ended 30 June 2019

**Note 15. Contingencies and other assets/liabilities not recognised (continued)**

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.75% per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group. Please note that the estimated employer reserves financial position above is a preliminary calculation and once all the relevant information has been received by the Funds Actuary, the final end of year review will be completed around November/December 2019.

The implications are that additional contributions are estimated to remain in place until 30 June 2021.

It is estimated that there are \$437,000 additional contributions still remaining.

It is estimated that Council's level of participation in the Scheme compared with other participating Pooled Employers is approximately 0.55%.

**(ii) Statewide Limited**

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

**(iii) StateCover Limited**

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

**(iv) Other guarantees**

Council has provided no other guarantees other than those listed above.

**2. Other liabilities****(i) Third party claims**

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 15. Contingencies and other assets/liabilities not recognised (continued)

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#### **(ii) Potential land acquisitions due to planning restrictions imposed by Council**

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

#### **ASSETS NOT RECOGNISED**

##### **(i) Land under roads**

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

##### **(ii) Infringement notices/fines**

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

##### **(iii) Mid North Coast Co-Op Library**

Council together with other local government authorities have entered into an agreement to operate a regional library known as the Mid North Coast Co-Op Library. Annually, the Council contributes to the library to fund its activities based upon a prescribed formula. In the event that Council wishes to withdraw from the agreement, the assets and liabilities of the Regional Library attributable to Council will be determined by the Library Board of New South Wales.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Financial risk management

## Risk management

Council's activities expose it to a variety of financial risks including (1) price risk, (2) credit risk, (3) liquidity risk and (4) interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

\$ '000	<i>Carrying value 2019</i>	<i>Carrying value 2018</i>	<i>Fair value 2019</i>	<i>Fair value 2018</i>
<b>Financial assets</b>				
<b>Measured at amortised cost</b>				
Cash and cash equivalents	10,272	18,647	10,272	18,647
Receivables	9,295	8,462	9,295	8,462
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	41,939	31,500	41,939	31,500
- 'Financial assets at fair value through Profit & Loss	1,048	–	1,048	–
<b>Total financial assets</b>	<b>62,554</b>	<b>58,609</b>	<b>62,554</b>	<b>58,609</b>
<b>Financial liabilities</b>				
Payables	5,655	6,533	5,655	6,533
Loans/advances	41,895	46,116	52,723	53,767
<b>Total financial liabilities</b>	<b>47,550</b>	<b>52,649</b>	<b>58,378</b>	<b>60,300</b>

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) **'at fair value through profit and loss'** or (ii) **'available-for-sale'** – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Financial risk management (continued)

- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
  - **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.
- Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

## (a) Market risk – price risk and interest rate risk

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
<b>2019</b>				
Possible impact of a 1% movement in interest rates	533	533	(533)	(533)
<b>2018</b>				
Possible impact of a 1% movement in interest rates	501	501	(501)	(501)

## (b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

There are no significant concentrations of credit risk other than Council has significant credit risk exposures in its local area given the nature of the business.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

## Credit risk profile

## Receivables – rates and annual charges

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
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## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Financial risk management (continued)

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
<b>2019</b>						
Gross carrying amount	–	2,556	–	–	–	2,556
<b>2018</b>						
Gross carrying amount	–	2,446	–	–	–	2,446

**Receivables - non-rates and annual charges**

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
<b>2019</b>						
Gross carrying amount	4,589	411	1,117	74	806	6,997
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>ECL provision</b>	–	–	–	–	–	–
<b>2018</b>						
Gross carrying amount	4,647	–	408	181	789	6,025
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>ECL provision</b>	–	–	–	–	–	–

**(c) Liquidity risk**

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total contractual cash outflows	Actual carrying values
<b>2019</b>							
Trade/other payables	0.00%	–	4,979	676	–	5,655	5,655
Loans and advances	5.51%	–	6,225	20,475	30,440	57,140	41,895

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 16. Financial risk management (continued)

\$ '000	<i>Weighted average interest rate</i>	<i>Subject to no maturity</i>	<i>payable in:</i>			<i>Total contractu al cash outflows</i>	<i>Actual carrying values</i>
			<i>≤ 1 Year</i>	<i>1 - 5 Years</i>	<i>&gt; 5 Years</i>		
<b>Total financial liabilities</b>		–	11,204	21,151	30,440	62,795	47,550
<b>2018</b>							
Trade/other payables	0.00%	–	5,863	670	–	6,533	6,533
Loans and advances	5.50%	–	6,676	21,808	35,332	63,816	46,116
<b>Total financial liabilities</b>		–	12,539	22,478	35,332	70,349	52,649

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 17. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 26/06/2018 and is unaudited.

While the Income Statement included in this General Purpose Financial Statements must disclose the original budget adopted by Council, the Local Government Act 1993 requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

**Variation Key:** **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2019 <i>Budget</i>	2019 <i>Actual</i>	2019 ----- <i>Variance</i> -----	
<b>REVENUES</b>				
Rates and annual charges	39,761	40,219	458	1% <b>F</b>
User charges and fees	15,878	16,783	905	6% <b>F</b>
Interest and investment revenue	921	1,576	655	71% <b>F</b>
The Interest revenue budget was calculated on estimated levels of cash holdings throughout the year. This assumed a large capital works program which would lower cash reserves. The actual interest revenue is higher than budget mainly due to much lower capital expenditure than was originally budgeted.				
Other revenues	411	500	89	22% <b>F</b>
Largely relates to long service leave contributions received where new employees have transferred from another local government council. Increased level received in 18-19 due to recruitment to fill vacant positions in new organisation structure.				
Operating grants and contributions	8,574	11,146	2,572	30% <b>F</b>
The variance relates to \$2.3M grant funds omitted in the original budget for Block Grant and Blackspot funding.				
Capital grants and contributions	9,347	9,950	603	6% <b>F</b>
<b>EXPENSES</b>				
Employee benefits and on-costs	21,294	22,934	(1,640)	(8)% <b>U</b>
Borrowing costs	2,758	2,524	234	8% <b>F</b>
Materials and contracts	20,132	19,315	817	4% <b>F</b>
Depreciation and amortisation	23,668	26,406	(2,738)	(12)% <b>U</b>
Increased depreciation largely due to handover of Macleay Valley Way road assets from RMS which were not budgeted for in 18-19.				
Other expenses	3,541	3,462	79	2% <b>F</b>
Net losses from disposal of assets	–	7,815	(7,815)	∞ <b>U</b>
Principally relating to the write off of Infrastructure as a result of asset renewal works for road network assets \$6,942,000, water assets \$327,000, and sewer assets \$543,000.				
<b>STATEMENT OF CASH FLOWS</b>				
Net cash provided from (used in) operating activities	26,960	27,751	791	3% <b>F</b>



## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 17. Material budget variations (continued)

<b>\$ '000</b>	<b>2019 Budget</b>	<b>2019 Actual</b>	<b>2019 ----- Variance -----</b>	
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<b>Net cash provided from (used in) investing activities</b>	<b>(48,400)</b>	<b>(31,905)</b>	<b>16,495</b>	<b>(34)%</b>	<b>F</b>
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Council used less cash in the purchase of infrastructure, property, plant and equipment than budgeted due to the budget including full construction budgets for some multi-year projects.

<b>Net cash provided from (used in) financing activities</b>	<b>11,376</b>	<b>(4,221)</b>	<b>(15,597)</b>	<b>(137)%</b>	<b>U</b>
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Although this appears as an unfavourable variance, the lower levels of capital spend compared to budget in the current year meant Council did not have to take out the additional loans budgeted to do these works.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 18. Fair Value Measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Financial assets
- Infrastructure, property, plant and equipment

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

**Level 2:** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below shows the assigned level for each asset and liability held at fair value by Council.

## (1) Assets and liabilities that have been measured and recognised at fair values

2019	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements</b>						
<b>Financial assets</b>						
Investments	6(b)					
– 'Held for trading'		30/06/19	–	1,048	–	1,048
<b>Total financial assets</b>			–	<b>1,048</b>	–	<b>1,048</b>
<b>Infrastructure, property, plant and equipment</b>						
	9					
Plant and equipment		30/06/19	–	–	9,495	9,495
Office equipment		30/06/19	–	–	786	786
Furniture and fittings		30/06/19	–	–	96	96
Operational land <sup>1</sup>		30/06/18	–	–	21,578	21,578
Community land		30/06/16	–	–	8,302	8,302
Land Improvements – non depreciable		30/06/16	–	–	20,650	20,650
Land Improvements – depreciable		30/06/16	–	–	12,319	12,319
Buildings – non specialised		30/06/18	–	–	13,453	13,453
Buildings – specialised		30/06/18	–	–	10,037	10,037
Roads, bridges, footpaths, bulk earthwork <sup>1</sup>		30/06/15	–	–	558,416	558,416
Stormwater drainage		30/06/15	–	–	76,539	76,539
Water supply network		01/07/16	–	–	194,965	194,965
Crown Land <sup>1</sup>		30/06/16	–	–	27,059	27,059
Sewerage network		01/07/16	–	–	113,226	113,226
Swimming pools		30/06/18	–	–	1,201	1,201
Other open space/recreational assets		30/06/16	–	–	5,826	5,826
Other		30/06/18	–	–	544	544
Tip Assets		30/06/19	–	–	801	801
Quarry assets		30/06/19	–	–	278	278
<b>Total infrastructure, property, plant and equipment</b>			–	–	<b>1,075,571</b>	<b>1,075,571</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 18. Fair Value Measurement (continued)

2018	Notes	Fair value measurement hierarchy			Total <sup>1</sup> Restated
		Date of latest valuation	Level 1 Quoted prices in active mkt	Level 2 Significant observable inputs	
<b>Recurring fair value measurements</b>					
<b>Infrastructure, property, plant and equipment</b>					
	9				
Plant and equipment		30/06/18	–	–	9,964
Office equipment		30/06/18	–	–	884
Furniture and fittings		30/06/18	–	–	117
Operational land <sup>1</sup>		30/06/18	–	–	21,675
Community land		30/06/16	–	–	8,678
Land Improvements – non depreciable		30/06/16	–	–	20,650
Land Improvements – depreciable		30/06/16	–	–	12,341
Buildings – non specialised		30/06/18	–	–	16,813
Buildings – specialised		30/06/18	–	–	8,568
Roads, bridges, footpaths, bulk earthwork <sup>1</sup>		30/06/15	–	–	556,082
Stormwater drainage		30/06/15	–	–	76,715
Water supply network		01/07/16	–	–	193,299
Crown Land <sup>1</sup>		30/06/16	–	–	27,026
Sewerage network		01/07/16	–	–	114,726
Swimming pools		30/06/18	–	–	1,249
Other open space/recreational assets		30/06/16	–	–	5,554
Other		30/06/16	–	–	592
Tip Assets			–	–	–
Quarry assets			–	–	–
<b>Total infrastructure, property, plant and equipment</b>			<b>–</b>	<b>–</b>	<b>1,074,933</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

Note that capital WIP is not included above since it is carried at cost.

#### (2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

#### (3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

#### (4) Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Operational land <sup>1</sup> Restated	Community Land
<b>2018</b>					
<b>Opening balance</b>	10,393	882	232	23,899	8,540
Transfers from/(to) another asset class	–	–	–	172	–
Purchases (GBV)	1,546	179	21	33	138

continued on next page ...

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 18. Fair Value Measurement (continued)

<b>\$ '000</b>	<i>Plant and equipment</i>	<i>Office equipment</i>	<i>Furniture and fittings</i>	<i>Operational land <sup>1</sup> Restated</i>	<i>Community Land</i>
Disposals (WDV)	(451)	–	(93)	(162)	–
Depreciation and impairment	(1,524)	(177)	(43)	–	–
FV gains – other comprehensive income	–	–	–	(2,267)	–
<b>Closing balance</b>	<b>9,964</b>	<b>884</b>	<b>117</b>	<b>21,675</b>	<b>8,678</b>
<b>2019</b>					
<b>Opening balance</b>	9,964	884	117	21,675	8,678
Transfers from/(to) another asset class	–	–	–	343	(376)
Purchases (GBV)	1,665	147	–	10	–
Disposals (WDV)	(620)	–	–	(450)	–
Depreciation and impairment	(1,514)	(245)	(21)	–	–
<b>Closing balance</b>	<b>9,495</b>	<b>786</b>	<b>96</b>	<b>21,578</b>	<b>8,302</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

<b>\$ '000</b>	<i>Land improvement non-depr</i>	<i>Land improvement depr</i>	<i>Buildings non specialised</i>	<i>Building specialised</i>	<i>Roads bridges footpaths earthworks <sup>1</sup> Restated</i>
<b>2018</b>					
<b>Opening balance</b>	20,650	9,570	17,253	6,502	491,932
Purchases (GBV)	–	3,063	1,148	719	78,262
Disposals (WDV)	–	(4)	(503)	(31)	(3,620)
Depreciation and impairment	–	(537)	(887)	(350)	(10,492)
FV gains – other comprehensive income	–	249	(198)	1,728	–
<b>Closing balance</b>	<b>20,650</b>	<b>12,341</b>	<b>16,813</b>	<b>8,568</b>	<b>556,082</b>
<b>2019</b>					
<b>Opening balance</b>	20,650	12,341	16,813	8,568	556,082
Transfers from/(to) another asset class	–	–	(2,308)	2,294	–
Purchases (GBV)	–	581	100	32	19,975
Disposals (WDV)	–	(46)	(2)	(12)	(6,982)
Depreciation and impairment	–	(557)	(1,150)	(845)	(10,659)
<b>Closing balance</b>	<b>20,650</b>	<b>12,319</b>	<b>13,453</b>	<b>10,037</b>	<b>558,416</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 18. Fair Value Measurement (continued)

\$ '000	<i>Stormwater drainage</i>	<i>Water supply network</i>	<i>Sewerage network</i>	<i>Other</i>	<i>Swimming pools</i>
<b>2018</b>					
<b>Opening balance</b>	76,273	190,923	112,735	521	1,273
Purchases (GBV)	1,435	3,843	4,758	115	–
Disposals (WDV)	(45)	(823)	(909)	–	–
Depreciation and impairment	(948)	(5,173)	(4,207)	(44)	(101)
FV gains – other comprehensive income	–	4,529	2,349	–	77
<b>Closing balance</b>	<b>76,715</b>	<b>193,299</b>	<b>114,726</b>	<b>592</b>	<b>1,249</b>
<b>2019</b>					
<b>Opening balance</b>	76,715	193,299	114,726	592	1,249
Transfers from/(to) another asset class	–	–	–	(1)	15
Purchases (GBV)	1,093	4,352	1,533	–	7
Disposals (WDV)	(36)	(326)	(537)	–	–
Depreciation and impairment	(1,233)	(5,374)	(4,228)	(47)	(70)
FV gains – other comprehensive income	–	3,014	1,732	–	–
<b>Closing balance</b>	<b>76,539</b>	<b>194,965</b>	<b>113,226</b>	<b>544</b>	<b>1,201</b>

\$ '000	<i>Open space/recreati onal</i>	<i>Crown Land <sup>1</sup> Restated</i>	<i>Tip assets</i>	<i>Quarry Assets</i>	<i>Total</i>
<b>2018</b>					
<b>Opening balance</b>	5,380	27,026	–	–	<b>1,003,984</b>
Transfers from/(to) another asset class	–	–	–	–	<b>172</b>
Purchases (GBV)	621	–	–	–	<b>95,881</b>
Disposals (WDV)	(45)	–	–	–	<b>(6,686)</b>
Depreciation and impairment	(402)	–	–	–	<b>(24,885)</b>
FV gains – other comprehensive income	–	–	–	–	<b>6,467</b>
<b>Closing balance</b>	<b>5,554</b>	<b>27,026</b>	<b>–</b>	<b>–</b>	<b>1,074,933</b>
<b>2019</b>					
<b>Opening balance</b>	5,554	27,026	–	–	<b>1,074,933</b>
Transfers from/(to) another asset class	–	–	–	–	<b>(33)</b>
Purchases (GBV)	753	33	801	278	<b>31,360</b>
Disposals (WDV)	(18)	–	–	–	<b>(9,029)</b>
Depreciation and impairment	(463)	–	–	–	<b>(26,406)</b>
FV gains – other comprehensive income	–	–	–	–	<b>4,746</b>
<b>Closing balance</b>	<b>5,826</b>	<b>27,059</b>	<b>801</b>	<b>278</b>	<b>1,075,571</b>

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

**b. Information relating to the transfers into and out of the level 3 fair valuation hierarchy (as disclosed in the table above) includes:**

There were no transfers into and out of the level 3 fair valuation hierarchy.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 18. Fair Value Measurement (continued)

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#### c. The valuation process for level 3 fair value measurements

##### Property, plant and equipment, furniture and fittings incorporates:

Major plant  
Fleet vehicles  
Minor plant  
Furniture and fittings  
Office equipment

All are disclosed at fair value in the notes. Council assumes that the carrying amount reflects the fair value of the asset due to the nature of the items as shown above.

The unobservable Level 3 inputs include:

- Pattern of consumption
- Useful life
- Asset Condition
- Residual Value

There has been no change to the valuation process during the reporting period.

#### Operational land

Council's 'Operational' Land by definition has no special restriction other than those that may apply to any piece of land.

Operational Land was revalued by an external valuer at 30 June 2018 using Level 3 inputs.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer.

This is not necessarily the market selling price of the asset rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account the current market price in an active and liquid market of the same or similar asset.

The unobservable Level 3 inputs used include:

- Rate per square Metre

The 'Market Approach' is used to value Operational Land. There has been no change to the valuation process during the reporting period.

#### Community land

Council's 'Community' land (including owned by Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under Section 7.11 of the Environmental Planning and Assessment Act 1979). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land. Community land has, for the first time, been split into Community Land owned by Council and Crown Land that is managed by Council. This has been reflected from 30/06/2017.

Community Land:

- Cannot be sold
- Cannot be leased, licensed, or any other estate granted over the land for more than 21 years and
- Must have a plan of management for it.

In relation to Community Land the Office of Local Government has reviewed its positions on the use of the Valuer General's Valuations of community land and in association with the Local government Accounting Advisory Group, the Division has determined that community land may be valued as follows:

The NSW Valuer General's valuations may be used under the revaluation model to represent fair value for the revaluation of community land under clause 31 of AASB 116.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 18. Fair Value Measurement (continued)

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Council fair values community land using unobservable Level 3 inputs based on inputs on either the UCV (Unimproved Capital Value) provided by the Valuer General or an average unit rate based on the UCV and allocated by Council against those properties where the Valuer General did not provide a UCV.

The 'Market Approach' is used to value Community Land. There has been no change to the valuation process during the reporting period.

#### **Land improvements – non depreciable and depreciable**

Council's Land Improvements incorporates fencing, landscaping, earthworks and playgrounds.

Council carries fair values of land serves using the following unobservable Level 3 inputs:

- Gross replacement cost
- Asset condition
- Non Depreciable
- Remaining useful life

Land improvements were valued at Fair value. There has been no change to the valuation process during the reporting period.

#### **Buildings – non-specialised and specialised**

Council Buildings include libraries, public amenities, sporting club houses, depot buildings, workshops, community centres, rural fire service buildings and tourist caravan parks.

Valuations are carried out by an external valuer using the cost approach. This approach estimates the replacement cost for each building by componentising the building (for complex structures) into significant parts with different useful life and taking into account a range of factors. Buildings are physically inspected and values are provided based on extensive professional judgement, condition and consumption rates.

As such these assets are classified as having being valued using the following unobservable Level 3 inputs:

- Consumption rate
- Future Economic Benefits
- Condition
- Useful life of an asset

Council's buildings were revalued by an external valuer on 30 June 2018.

#### **Roads, water and sewer networks.**

This asset class comprises the Roads, Bridges, Car Parks, Kerb & Guttering, Footpaths, Cycleways together with Water and Sewerage Networks.

The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. Valuations for the road, comprising surface, pavement, and formation were based on calculations carried out in 2015 utilising an internal engineering expertise utilising asset data sourced from pavement management survey and staff assessments. Water and Sewerage infrastructure was revalued at 1 July 2016 utilising a mix of internal engineering expertise and the use of external specialist valuers.

Council fair values road infrastructure using unobservable Level 3 inputs at a component level. Council fair values kerb and guttering and footpaths using unobservable Level 3 inputs at a non-componentised level.

The 'Cost Approach' is used to value these assets by componentising the assets into significant parts and then rolling up these component values to provide an overall valuation for each significant assets (e.g. road, water treatment facility, dam, pump station, sewer treatment plant) within Council's Asset System. Kerb and guttering, footpaths, water mains and sewers are also valued using the "Cost Approach" however this is done on a non componentised basis.

The level of componentisation adopted by Council is in accordance with AASB 116 and OLG Circular 09-09.

The unobservable Level 3 inputs used include:

- Pattern of Consumption
- Residual Value

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 18. Fair Value Measurement (continued)

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- Asset condition
- Remaining useful life
- Current replacement cost

#### **Stormwater Drainage**

Council's Drainage Assets comprises pits, pipes, culverts, open channels, headwalls and flood mitigation levees, drains and gate structures.

Council carries fair values drainage assets using unobservable Level 3 inputs which include:

- Pattern of Consumption
- Asset condition
- Residual value
- Current replacement cost

The 'Cost Approach' is used to value drainage assets. There has been no change to the valuation during the reporting period.

#### **Other assets, swimming pools and other open space/recreational assets**

Council's Other Assets includes powerheads, waste systems, water tanks, landfill lids and recycling facilities.

Council carries fair values of Other Assets using Level 3 inputs. The unobservable Level 3 inputs include:

- Pattern of Consumption
- Asset condition
- Residual value
- Current replacement cost

The 'Cost Approach' is used to value other assets. There has been no change to the valuation process during the reporting period.

### (5) Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.



## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 19. Related Party Transactions

#### (a) Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

\$ '000	2019	2018
<b>Compensation:</b>		
Short-term benefits	979	890
Post-employment benefits	64	90
Other long-term benefits	20	26
<b>Total</b>	<b>1,063</b>	<b>1,006</b>

#### (b) Other transactions with KMP and their related parties

Transactions of a minor/immaterial nature were made to companies associated with Council's KMP. The transactions related to:

- Maintenance work at Civic Centre
- IT Equipment
- Award recognition

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 20. Statement of developer contributions

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

#### Summary of contributions and levies

\$ '000	as at 30/6/2018						as at 30/6/2019	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	29	–	–	1	–	–	30	–
Roads	923	395	–	17	–	–	1,335	–
Parking	37	–	–	–	–	–	37	–
Community facilities	244	36	–	4	–	–	284	–
SWR plan	1,027	191	–	18	–	–	1,236	–
Public domain	83	43	–	1	–	–	127	–
Administration	59	24	–	1	(8)	–	76	–
<b>S7.11 contributions – under a plan</b>	<b>2,402</b>	<b>689</b>	<b>–</b>	<b>42</b>	<b>(8)</b>	<b>–</b>	<b>3,125</b>	<b>–</b>
<b>Total S7.11 and S7.12 revenue under plans</b>	<b>2,402</b>	<b>689</b>	<b>–</b>	<b>42</b>	<b>(8)</b>	<b>–</b>	<b>3,125</b>	<b>–</b>
S64 contributions	5,543	1,076	–	87	(110)	–	6,596	–
<b>Total contributions</b>	<b>7,945</b>	<b>1,765</b>	<b>–</b>	<b>129</b>	<b>(118)</b>	<b>–</b>	<b>9,721</b>	<b>–</b>

#### S7.11 Contributions – under a plan

##### CONTRIBUTION PLAN NUMBER 1

Drainage	29	–	–	1	–	–	30	–
Roads	923	395	–	17	–	–	1,335	–
Parking	37	–	–	–	–	–	37	–
Community facilities	244	36	–	4	–	–	284	–

Notes to the Financial Statements  
for the year ended 30 June 2019

Note 20. Statement of developer contributions (continued)

\$ '000	<i>as at 30/6/2018</i>			<i>as at 30/6/2019</i>				
	<i>Opening Balance</i>	<i>Contributions received during the year</i>		<i>Interest earned in year</i>	<i>Expenditure during year</i>	<i>Internal borrowing (to)/from</i>	<i>Held as restricted asset</i>	<i>Cumulative internal borrowings due/(payable)</i>
		<i>Cash</i>	<i>Non-cash</i>					
SWR plan	1,027	191	–	18	–	–	1,236	–
Public domain	83	43	–	1	–	–	127	–
Administration	59	24	–	1	(8)	–	76	–
<b>Total</b>	<b>2,402</b>	<b>689</b>	<b>–</b>	<b>42</b>	<b>(8)</b>	<b>–</b>	<b>3,125</b>	<b>–</b>

S64 contributions

**S64 contributions**

Water	3,474	783	–	56	(14)	–	4,299	–
Sewerage	2,069	293	–	31	(96)	–	2,297	–
<b>Total</b>	<b>5,543</b>	<b>1,076</b>	<b>–</b>	<b>87</b>	<b>(110)</b>	<b>–</b>	<b>6,596</b>	<b>–</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 21. Financial result and financial position by fund

\$ '000	General <sup>1</sup> 2019	Water 2019	Sewer 2019
<b>Income Statement by fund</b>			
<b>Income from continuing operations</b>			
Rates and annual charges	25,681	4,384	10,815
User charges and fees	8,166	7,801	1,300
Interest and investment revenue	1,417	118	41
Other revenues	481	1	18
Grants and contributions provided for operating purposes	10,675	353	118
Grants and contributions provided for capital purposes	7,945	1,365	640
<b>Total income from continuing operations</b>	<b>54,365</b>	<b>14,022</b>	<b>12,932</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	18,870	1,969	2,095
Borrowing costs	349	1,168	1,007
Materials and contracts	13,615	2,939	2,828
Depreciation and amortisation	16,645	5,467	4,294
Other expenses	65	2,307	2,168
Net losses from the disposal of assets	6,944	328	543
Calculated Taxation Equivalents	–	–	–
<b>Total expenses from continuing operations</b>	<b>56,488</b>	<b>14,178</b>	<b>12,935</b>
<b>Operating result from continuing operations</b>	<b>(2,123)</b>	<b>(156)</b>	<b>(3)</b>
<b>Net operating result for the year</b>	<b>(2,123)</b>	<b>(156)</b>	<b>(3)</b>
<b>Net operating result attributable to each council fund</b>	<b>(2,123)</b>	<b>(156)</b>	<b>(3)</b>
<b>Net operating result for the year before grants and contributions provided for capital purposes</b>	<b>(10,068)</b>	<b>(1,521)</b>	<b>(643)</b>
NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.			
(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.			
<b>Statement of Financial Position by fund</b>			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9,778	262	232
Investments	22,991	9,696	10,300
Receivables	5,335	2,321	1,270
Inventories	484	–	–
Other	56	–	–
<b>Total current assets</b>	<b>38,644</b>	<b>12,279</b>	<b>11,802</b>
<b>Non-current assets</b>			
Receivables	369	–	–
Infrastructure, property, plant and equipment	766,173	198,941	118,297
<b>Total non-current assets</b>	<b>766,542</b>	<b>198,941</b>	<b>118,297</b>
<b>TOTAL ASSETS</b>	<b>805,186</b>	<b>211,220</b>	<b>130,099</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 21. Financial result and financial position by fund (continued)

\$ '000	<i>General</i> <sup>1</sup> 2019	<i>Water</i> 2019	<i>Sewer</i> 2019
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	4,791	107	81
Borrowings	1,157	1,632	1,205
Provisions	6,681	–	–
<b>Total current liabilities</b>	<b>12,629</b>	<b>1,739</b>	<b>1,286</b>
<b>Non-current liabilities</b>			
Payables	676	–	–
Borrowings	3,618	17,993	16,290
Provisions	1,829	–	–
<b>Total non-current liabilities</b>	<b>6,123</b>	<b>17,993</b>	<b>16,290</b>
<b>TOTAL LIABILITIES</b>	<b>18,752</b>	<b>19,732</b>	<b>17,576</b>
<b>Net assets</b>	<b>786,434</b>	<b>191,488</b>	<b>112,523</b>
<b>EQUITY</b>			
Accumulated surplus	342,117	58,146	47,254
Revaluation reserves	444,317	133,342	65,269
<b>Council equity interest</b>	<b>786,434</b>	<b>191,488</b>	<b>112,523</b>
<b>Total equity</b>	<b>786,434</b>	<b>191,488</b>	<b>112,523</b>

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

### Note 22(a). Statement of performance measures – consolidated results

\$ '000	<i>Amounts</i> 2019	<i>Indicator</i> 2019	<i>Prior periods</i> 2018 <sup>3</sup> 2017 <i>Restated</i>	<i>Benchmark</i>	
<b>1. Operating performance ratio</b>					
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	<b>(4,417)</b>	<b>(6.29)%</b>	3.06%	1.93%	>0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	<b>70,224</b>				
<b>2. Own source operating revenue ratio</b>					
Total continuing operating revenue excluding all grants and contributions <sup>1</sup>	<b>58,301</b>	<b>72.72%</b>	37.34%	72.59%	>60.00%
Total continuing operating revenue <sup>1</sup>	<b>80,174</b>				
<b>3. Unrestricted current ratio</b>					
Current assets less all external restrictions	<b>21,317</b>	<b>2.61x</b>	2.51x	2.44x	>1.50x
Current liabilities less specific purpose liabilities	<b>8,157</b>				
<b>4. Debt service cover ratio</b>					
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>24,513</b>	<b>3.63x</b>	4.35x	3.81x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<b>6,745</b>				

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 22(a). Statement of performance measures – consolidated results (continued)

	<i>Amounts</i>	<i>Indicator</i>	<i>Prior periods</i>		<i>Benchmark</i>
	<i>2019</i>	<i>2019</i>	<i>2018</i> <sup>3</sup>	<i>2017</i>	
<b>\$ '000</b>			<i>Restated</i>		
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>					
Rates, annual and extra charges outstanding	<b>2,556</b>	<b>6.06%</b>	6.10%	6.66%	<10.00%
Rates, annual and extra charges collectible	<b>42,165</b>				
<b>6. Cash expense cover ratio</b>					
Current year's cash and cash equivalents plus all term deposits	<b>52,211</b>	<b>11.33 mths</b>	11.03 mths	9.30 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	<b>4,607</b>				

(1) Excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets, and net loss of interests in joint ventures and associates.

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

(3) See Note 12(b) for details regarding restatement as a result of prior period error.

## Notes to the Financial Statements

for the year ended 30 June 2019

## Note 22(b). Statement of performance measures – by fund

\$ '000	General Indicators <sup>3</sup>		Water Indicators		Sewer Indicators		Benchmark
	2019	2018 Restated	2019	2018	2019	2018	
<b>1. Operating performance ratio</b>							
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	<b>(6.86)%</b>	5.79%	<b>(9.13)%</b>	(2.58)%	<b>(0.63)%</b>	(4.25)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>							
<b>2. Own source operating revenue ratio</b>							
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	<b>64.81%</b>	27.72%	<b>86.68%</b>	91.69%	<b>93.23%</b>	94.23%	>60.00%
Total continuing operating revenue <sup>1</sup>							
<b>3. Unrestricted current ratio</b>							
Current assets less all external restrictions	<b>2.61x</b>	2.51x	<b>4.59x</b>	4.65x	<b>6.83x</b>	5.22x	>1.50x
Current liabilities less specific purpose liabilities							
<b>4. Debt service cover ratio</b>							
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>7.74x</b>	8.66x	<b>1.94x</b>	2.46x	<b>2.42x</b>	2.32x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>							
Rates, annual and extra charges outstanding	<b>4.60%</b>	5.39%	<b>10.84%</b>	9.21%	<b>7.43%</b>	6.37%	<10.00%
Rates, annual and extra charges collectible							
<b>6. Cash expense cover ratio</b>							
Current year's cash and cash equivalents plus all term deposits	<b>10.88</b>	10.07	<b>12.05</b>	13.45	<b>13.68</b>	12.88	>3.00
Payments from cash flow of operating and financing activities	<b>mths</b>	mths	<b>mths</b>	mths	<b>mths</b>	mths	mths

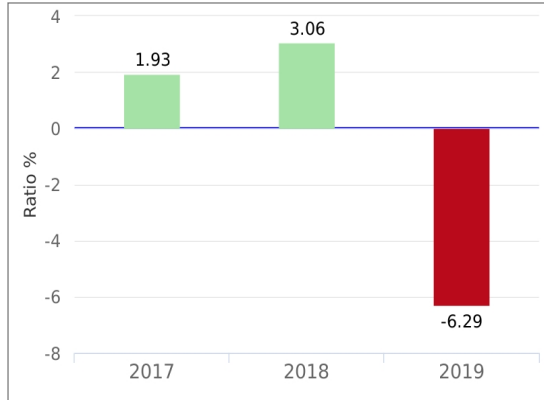
(1) - (2) Refer to Notes at Note 22a above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements  
for the year ended 30 June 2019

Note 22(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



**Purpose of operating performance ratio**

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

**Commentary on 2018/19 result**

2018/19 ratio (6.29)%

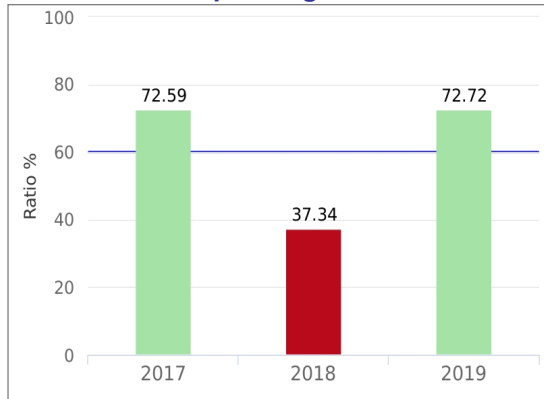
This ratio measures how well Council contained operating expenditure within operating revenue. Council's consolidate ratio is below the benchmark. Respective fund ratios are General Fund -6.86%, Water Fund -9.13% and Sewer Fund -0.63%.

Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark (Green bar)  
Ratio is outside benchmark (Red bar)

2. Own source operating revenue ratio



**Purpose of own source operating revenue ratio**

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

**Commentary on 2018/19 result**

2018/19 ratio 72.72%

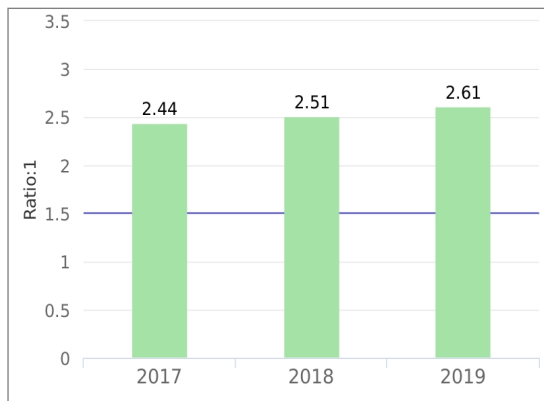
Council's ratio is above the benchmark. Fluctuations in the ratio from year to year are reflective of the variation in the value of grants and contributions received by Council.

Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark (Green bar)  
Ratio is outside benchmark (Red bar)

3. Unrestricted current ratio



**Purpose of unrestricted current ratio**

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

**Commentary on 2018/19 result**

2018/19 ratio 2.61x

The ratio of 2.61 means that Council has \$2.61 in liquidity for every \$1.00 in current liabilities. The ratio reflects Council's strong short term position.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

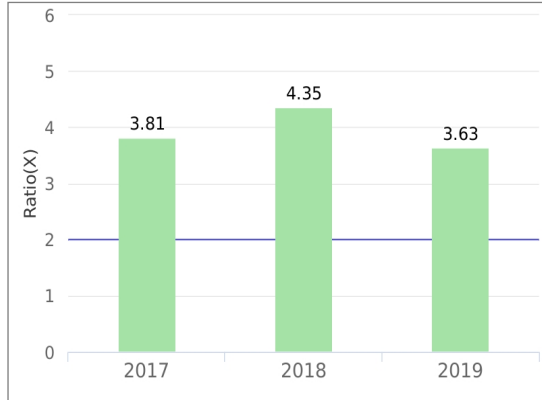
Ratio achieves benchmark (Green bar)  
Ratio is outside benchmark (Red bar)



Notes to the Financial Statements  
for the year ended 30 June 2019

Note 22(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2018/19 result

2018/19 ratio 3.63x

An above benchmark result for 18/19 indicates less reliance on borrowings to fund infrastructure renewal programs.

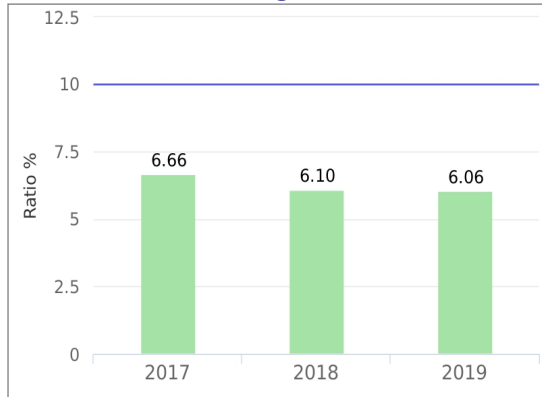
Benchmark: — > 2.00x

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2018/19 result

2018/19 ratio 6.06%

Council remains well under the 10% benchmark for revenue collections still outstanding.

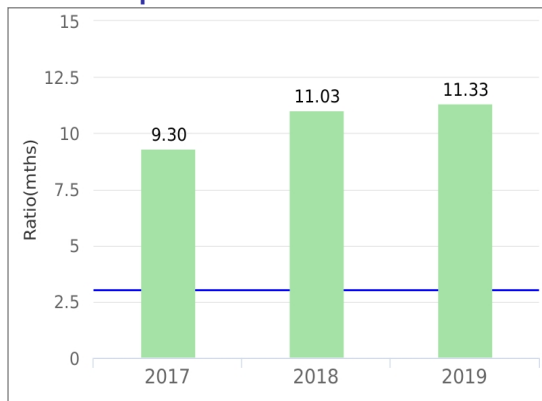
Benchmark: — < 10.00%

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2018/19 result

2018/19 ratio 11.33 mths

Council's ratio is above benchmark and is indicative of the strong short term financial position of Council.

Benchmark: — > 3.00mths

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 23. Council information and contact details

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**Principal place of business:**

22 Tozer Street  
WEST KEMPSEY NSW 2440

**Contact details**

**Mailing Address:**

P O Box 3078  
WEST KEMPSEY NSW 2440

**Opening hours:**

8:30am - 4:30pm  
Monday to Friday

**Telephone:** 02 6566 3200

**Facsimile:** 02 6566 3205

**Internet:** [www.kempsey.nsw.gov.au](http://www.kempsey.nsw.gov.au)

**Email:** [ksc@council.nsw.gov.au](mailto:ksc@council.nsw.gov.au)

**Officers**

**General Manager**

Craig Milburn

**Elected members**

**Mayor**

Elizabeth Campbell

**Responsible Accounting Officer**

Wayne Douglass

**Other information**

ABN: 70 705 618 663



## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### Kempsey Shire Council

To the Councillors of the Kempsey Shire Council

### Opinion

I have audited the accompanying financial statements of Kempsey Shire Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been presented, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule - Permissible income for general rates.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Local Government Act 1993, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

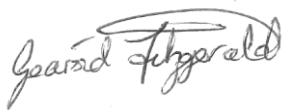
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 17 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Gearoid Fitzgerald

Delegate of the Auditor-General for New South Wales

21 November 2019  
SYDNEY



Cr Liz Campbell  
 Mayor  
 Kempsey Shire Council  
 PO Box 78  
 WEST KEMPSEY NSW 2440

Contact: Gearoid Fitzgerald  
 Phone no: 02 9275 7392  
 Our ref: D1927853/1746

21 November 2019

Dear Mayor

**Report on the Conduct of the Audit  
 for the year ended 30 June 2019  
 Kempsey Shire Council**

I have audited the general purpose financial statements (GPFS) of the Kempsey Shire Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

**INCOME STATEMENT**

**Operating result**

	<b>2019</b>	<b>2018</b>	<b>Variance</b>
	<b>\$m</b>	<b>\$m</b>	<b>%</b>
Rates and annual charges revenue	40.2	38.2	↑ 5.2
Grants and contributions revenue	21.1	90.4	↓ 76.7
Operating result for the year	(2.3)	69.7	↓ 103.3
Net operating result before capital grants and contributions	(12.2)	(2.9)	↓ 320.7

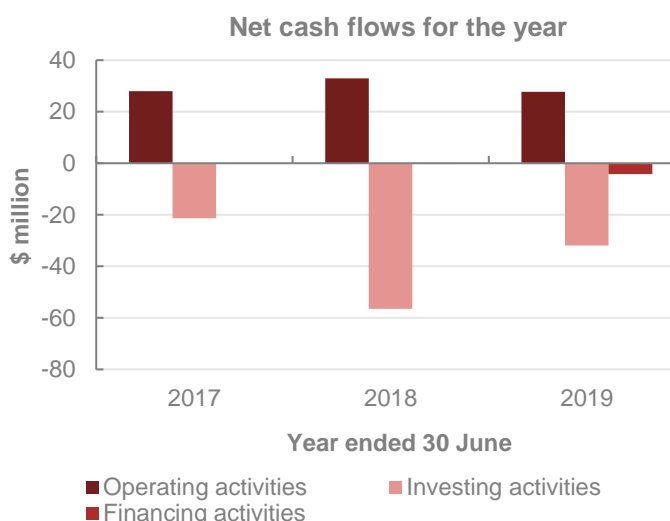
Council's operating result (\$2.3 million deficit including the effect of depreciation and amortisation expense of \$26.4 million) was \$72 million lower than the 2017–18 result.

This decrease is largely attributable to the following:

- rates and annual charges revenue increased by \$2.1 million. Council had an approved special general rate increase of 6.5 per cent for the 2018–19 year
- grants and contributions provided for operating purposes decreased by \$6.7 million. This was predominantly due to one-off RMS contributions of \$4.6 million received in 2017–18 for ongoing maintenance of sections of the old Pacific Highway (Macleay Valley Way – Frederickton to Eungai). There was also a \$2.4 million reduction in roads to recovery funding
- grants and contributions provided for capital purposes decreased by \$62.6 million. In 2017–18 Council received one-off non-cash dedications from the RMS of various assets associated with the old Pacific Highway (Macleay Valley Way – Frederickton to Eungai) totalling \$66.0 million
- employee benefits and on-costs increased by \$2.3 million due to additional employees and award increases
- net losses from the disposal of assets increased of \$2.7 million.

## STATEMENT OF CASH FLOWS

- Net cash provided by operating activities decreased by \$5.3 million. This was predominantly due to a decrease in grants and contributions received of \$8.2m. As noted above there were reductions in both RMS contributions and roads to recovery funding in 2018–19.
- Net cash used in investing activities decreased by \$24.6 million. Capital expenditure reduced by \$5 million along with a reduction of \$20 million in investments placed in 2018–19.
- Net cash used in financing activities increased by \$4.4m. There were no new loans drawn in 2018–19.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	37.4	32.8	• The increase in externally restricted cash and investments of \$4.6 million is predominantly due to an increase of \$3.7 million in developer contributions held.
Internal restrictions	15.3	13.8	
Unrestricted	0.5	3.5	
<b>Cash and investments</b>	<b>53.2</b>	<b>50.1</b>	<ul style="list-style-type: none"> <li>• Internally restricted cash and investments has increased by \$1.5 million.</li> <li>• Unrestricted balances provide liquidity for day-to-day operations.</li> </ul>

## PERFORMANCE

### Operating performance ratio

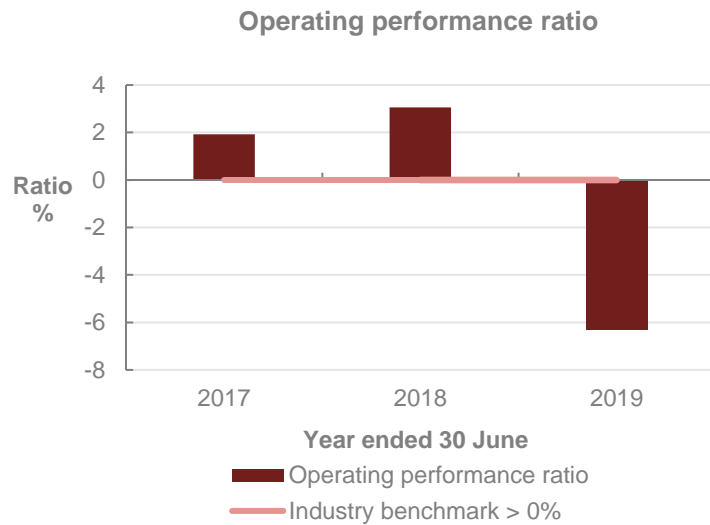
Council's operating performance ratio of (6.29) per cent did not meet the industry benchmark in 2018–19.

The deterioration is reflective of a reduction in Council's operating result before capital items for 2018–19.

Significant movements include:

- grants and contributions provided for operating purposes decreased by \$6.7 million
- employee benefits and on-costs increased by \$2.3 million
- depreciation and amortisation increased by \$1.5 million.

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.

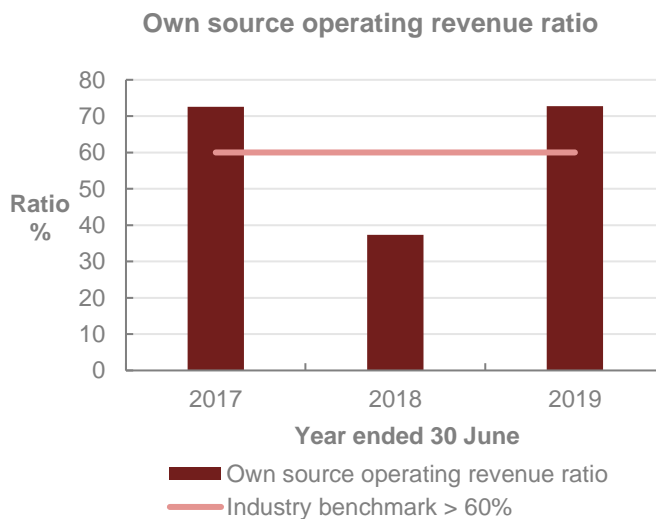


### Own source operating revenue ratio

Council's own source operating revenue ratio of 72.72 per cent has exceeded the industry benchmark, which illustrates that revenue streams such as fees and charges, reduce Council's reliance on government funding.

In 2017–18 the ratio was negatively impacted by the level of one-off non-cash dedications from the RMS totalling \$66.0 million. The ratio would have been consistent with 2018–19 without these dedications.

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.



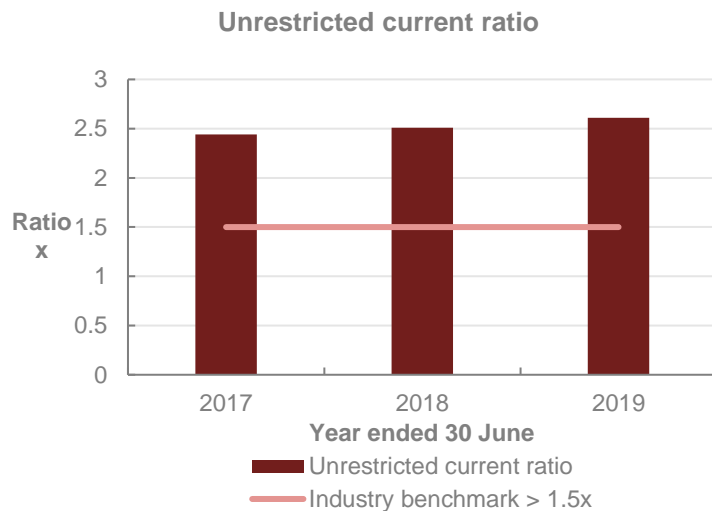


## Unrestricted current ratio

Council continues to exceed the industry benchmark and maintained a steady ratio over the past three years.

Council has \$2.61 in liquid current assets for every \$1 of current liabilities.

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.



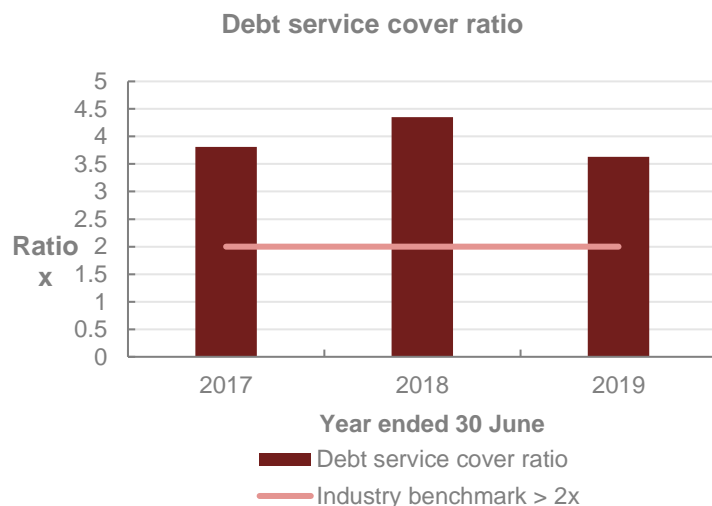
## Debt service cover ratio

Council's debt service cover ratio of 3.63x continues to exceed the industry benchmark.

The decrease from 2017–18 is due to a reduction in Council's operating result before capital items for 2018–19.

The water fund achieved a ratio of 1.94, being a decrease of 0.52 from 2017–18. Council should continue to monitor the water fund position to ensure cash flow over the short to medium term is sufficient to service debt repayment obligations.

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.

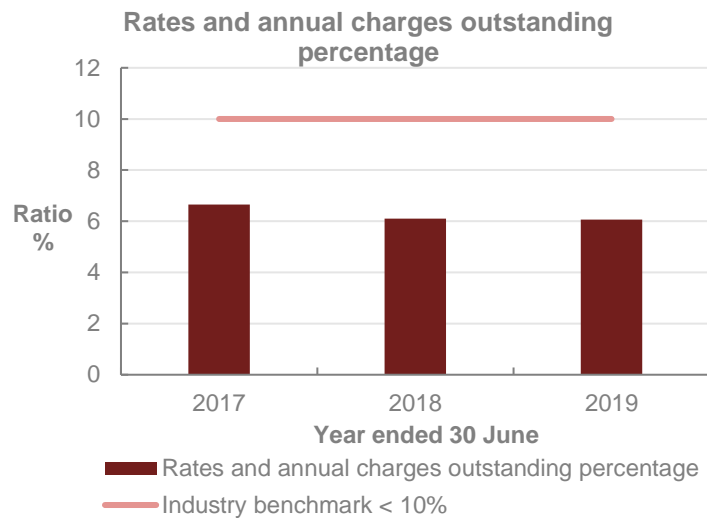


## Rates and annual charges outstanding percentage

Council's rates and annual charges outstanding percentage of 6.06 per cent continues to meet the industry benchmark.

Council has maintained a declining ratio over the last three years as it continues to improve debt collection outcomes.

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for regional and rural councils.

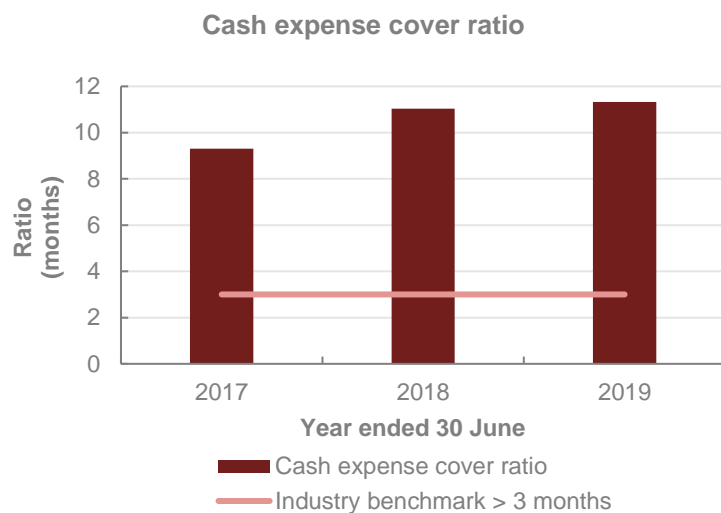


## Cash expense cover ratio

Council's cash expenses cover ratio of 11.33 months continues to exceed the industry benchmark with improvements in the ratio over the last three years.

Council has been able to increase its cash reserves and maintain its expenditure levels.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.



## Infrastructure renewals

Council's total asset renewals in the 2018–19 year was \$16.9 million, with the same amount in 2017–18. The Council's assets renewals are less than the depreciation expense recorded during the 2018–19 year by \$9.5 million. Asset renewals continue to be below the rate at which these assets are depreciating.

## OTHER MATTERS

### New accounting standards implemented

Application period	Overview
<b>AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'</b>	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"><li>• a simplified model for classifying and measuring financial assets</li><li>• a new method for calculating impairment</li><li>• a new type of hedge accounting that more closely aligns with risk management.</li></ul> <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 12(c).</p>

### Prior period errors

#### Crown Land Assets

Council conducted a review of its Crown land assets during 2018–19 and identified:

- a number of Crown reserves had not previously been recorded by Council
- Council had recorded incorrect values for some Crown reserves.

#### Road and Bulk Earthworks Assets

During 2018–19 Council identified four roundabout assets, which formed part of the old Pacific Highway dedication from the NSW Roads & Maritime Services in 2017–18, had not been recognised. Further Council identified that two roundabouts had been correctly recognised in 2017–18, but were undervalued.

Council's disclosure of the impact of correcting these prior period errors is disclosed in Note 12(b).

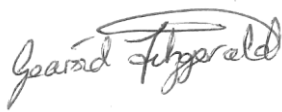
## Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.



Gearoid Fitzgerald  
Delegate of the Auditor-General for New South Wales

cc: Craig Milburn, General Manager  
Stephen Coates, Chair of Audit and Risk Committee  
Jim Betts, Secretary of the Department of Planning, Industry and Environment

# Kempsey Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2019

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## Special Purpose Financial Statements

for the year ended 30 June 2019

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<b>Auditor's Report on Special Purpose Financial Statements</b>	<b>11</b>

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

(1) See Note 12(b) for details regarding restatement as a result of prior period error.

(3) See Note 12(b) for details regarding restatement as a result of prior period error.

## Background

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

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

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

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

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

Special Purpose Financial Statements

for the year ended 30 June 2019

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

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

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

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

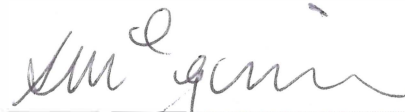
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

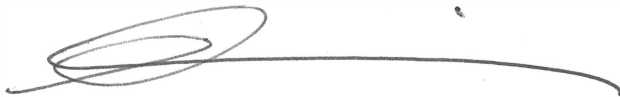
Signed in accordance with a resolution of Council made on 17 September 2019.



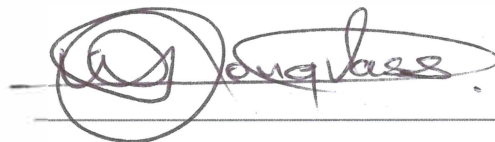
Elizabeth Campbell  
Mayor  
19 November 2019



Sue McGinn  
Councillor  
19 November 2019



Craig Milburn  
General Manager  
19 November 2019



Wayne Douglass  
Responsible Accounting Officer  
19 November 2019

## Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
<b>Income from continuing operations</b>		
Access charges	4,384	4,148
User charges	7,657	7,166
Fees	144	103
Interest	118	149
Grants and contributions provided for non-capital purposes	353	435
Other income	1	–
<b>Total income from continuing operations</b>	<b>12,657</b>	<b>12,001</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	1,969	1,681
Borrowing costs	1,168	1,158
Materials and contracts	2,900	2,149
Depreciation, amortisation and impairment	5,467	5,596
Loss on sale of assets	328	843
Calculated taxation equivalents	39	37
Debt guarantee fee (if applicable)	98	91
Other expenses	2,307	1,997
<b>Total expenses from continuing operations</b>	<b>14,276</b>	<b>13,552</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(1,619)</b>	<b>(1,551)</b>
Grants and contributions provided for capital purposes	1,365	928
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(254)</b>	<b>(623)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(254)</b>	<b>(623)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(254)</b>	<b>(623)</b>
<b>Plus accumulated surplus</b>	<b>58,302</b>	<b>58,834</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	39	37
– Debt guarantee fees	98	91
<b>Less:</b>		
– Tax equivalent dividend paid	(39)	(37)
<b>Closing accumulated surplus</b>	<b>58,146</b>	<b>58,302</b>
<b>Return on capital %</b>	<b>(0.2)%</b>	<b>(0.2)%</b>
<b>Subsidy from Council</b>	<b>–</b>	<b>–</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	(254)	(623)
Less: capital grants and contributions (excluding developer contributions)	(7)	(300)
<b>Surplus for dividend calculation purposes</b>	<b>–</b>	<b>–</b>
<b>Potential dividend calculated from surplus</b>	<b>–</b>	<b>–</b>



## Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
<b>Income from continuing operations</b>		
Access charges	10,815	9,838
User charges	947	926
Liquid trade waste charges	267	263
Fees	86	103
Interest	41	43
Grants and contributions provided for non-capital purposes	118	134
Other income	18	–
<b>Total income from continuing operations</b>	<b>12,292</b>	<b>11,307</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	2,095	1,938
Borrowing costs	1,007	1,031
Materials and contracts	2,799	2,763
Depreciation, amortisation and impairment	4,294	4,265
Loss on sale of assets	543	921
Calculated taxation equivalents	29	28
Debt guarantee fee (if applicable)	87	88
Other expenses	2,168	1,762
<b>Total expenses from continuing operations</b>	<b>13,022</b>	<b>12,796</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(730)</b>	<b>(1,489)</b>
Grants and contributions provided for capital purposes	640	550
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(90)</b>	<b>(939)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(90)</b>	<b>(939)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(90)</b>	<b>(939)</b>
<b>Plus accumulated surplus</b>	<b>47,257</b>	<b>48,108</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	29	28
– Debt guarantee fees	87	88
<b>Less:</b>		
– Tax equivalent dividend paid	(29)	(28)
<b>Closing accumulated surplus</b>	<b>47,254</b>	<b>47,257</b>
<b>Return on capital %</b>	<b>0.2%</b>	<b>(0.4)%</b>
<b>Subsidy from Council</b>	<b>–</b>	<b>–</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	(90)	(939)
Less: capital grants and contributions (excluding developer contributions)	(181)	(81)
<b>Surplus for dividend calculation purposes</b>	<b>–</b>	<b>–</b>
<b>Potential dividend calculated from surplus</b>	<b>–</b>	<b>–</b>

## Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	262	1,001
Investments	9,696	8,500
Receivables	2,321	2,445
<b>Total current assets</b>	<b>12,279</b>	<b>11,946</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	198,941	198,062
<b>Total non-current assets</b>	<b>198,941</b>	<b>198,062</b>
<b>TOTAL ASSETS</b>	<b>211,220</b>	<b>210,008</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	107	116
Borrowings	1,632	1,553
<b>Total current liabilities</b>	<b>1,739</b>	<b>1,669</b>
<b>Non-current liabilities</b>		
Borrowings	17,993	19,709
<b>Total non-current liabilities</b>	<b>17,993</b>	<b>19,709</b>
<b>TOTAL LIABILITIES</b>	<b>19,732</b>	<b>21,378</b>
<b>NET ASSETS</b>	<b>191,488</b>	<b>188,630</b>
<b>EQUITY</b>		
Accumulated surplus	58,146	58,302
Revaluation reserves	133,342	130,328
<b>TOTAL EQUITY</b>	<b>191,488</b>	<b>188,630</b>

## Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	232	1,190
Investments	10,300	8,000
Receivables	1,270	1,043
<b>Total current assets</b>	<b>11,802</b>	<b>10,233</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	118,297	119,284
<b>Total non-current assets</b>	<b>118,297</b>	<b>119,284</b>
<b>TOTAL ASSETS</b>	<b>130,099</b>	<b>129,517</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	81	88
Borrowings	1,205	1,108
<b>Total current liabilities</b>	<b>1,286</b>	<b>1,196</b>
<b>Non-current liabilities</b>		
Borrowings	16,290	17,527
<b>Total non-current liabilities</b>	<b>16,290</b>	<b>17,527</b>
<b>TOTAL LIABILITIES</b>	<b>17,576</b>	<b>18,723</b>
<b>NET ASSETS</b>	<b>112,523</b>	<b>110,794</b>
<b>EQUITY</b>		
Accumulated surplus	47,254	47,257
Revaluation reserves	65,269	63,537
<b>TOTAL EQUITY</b>	<b>112,523</b>	<b>110,794</b>

## Kempsey Shire Council

### Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

#### Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

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

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

#### National Competition Policy

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

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

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

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

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

#### Declared business activities

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

##### Category 1

(where gross operating turnover is over \$2 million)

##### a. Water Supply

Water supply services within the Kempsey Shire Council Area

##### b. Sewerage Service

Sewerage services within the Kempsey Shire Council area

#### Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand 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 just like all other costs.

## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

### Note 1. Significant Accounting Policies (continued)

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However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

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 – 27.5%

Land tax – the first \$692,000 of combined land values attracts 0%. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the DoI – Water guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the DoI – Water guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

#### Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

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

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

The rate applied of 27.5% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

#### Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

#### Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

## Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

### Note 1. Significant Accounting Policies (continued)

#### (ii) Subsidies

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

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

#### (iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

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

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

The rate of return is calculated as follows:

**Operating result before capital income + interest expense**

**Written down value of I,PP&E as at 30 June**

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

#### (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.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines 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 Industry – Water.



**INDEPENDENT AUDITOR'S REPORT**  
**Report on the special purpose financial statements**  
**Kempsey Shire Council**

To the Councillors of the Kempsey Shire Council

### **Opinion**

I have audited the accompanying special purpose financial statements (the financial statements) of Kempsey Shire Council's (the Council) declared business activities, which comprise the Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019, Note 1 Significant accounting policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- water supply
- sewerage.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code).

My opinion should be read in conjunction with the rest of this report.

### **Basis for Opinion**

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

## **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 'Permissible income for general rates'.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). The description forms part of my auditor's report.



My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in cursive script that reads "Gearoid Fitzgerald". The signature is written in dark ink and is positioned above the printed name.

Gearoid Fitzgerald

Delegate of the Auditor-General for New South Wales

21 November 2019  
SYDNEY

# Kempsey Shire Council

SPECIAL SCHEDULES  
for the year ended 30 June 2019

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Special Schedules

for the year ended 30 June 2019

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## Permissible income for general rates

\$ '000		<b>Calculation 2019/20</b>	<b>Calculation 2018/19</b>
<b>Notional general income calculation <sup>1</sup></b>			
Last year notional general income yield	a	20,052	19,489
Plus or minus adjustments <sup>2</sup>	b	79	75
<b>Notional general income</b>	<b>c = a + b</b>	<b>20,131</b>	<b>19,564</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>3</sup>	d	0.00%	6.50%
Rate peg percentage	e	2.70%	0.00%
Less expiring special variation amount	g	–	(765)
Plus special variation amount	h = d x (c + g)	–	1,222
Or plus rate peg amount	i = e x (c + g)	544	–
<b>Sub-total</b>	<b>k = (c + g + h + i + j)</b>	<b>20,675</b>	<b>20,021</b>
Plus (or minus) last year's carry forward total	l	6	37
<b>Sub-total</b>	<b>n = (l + m)</b>	<b>6</b>	<b>37</b>
<b>Total permissible income</b>	<b>o = k + n</b>	<b>20,681</b>	<b>20,058</b>
Less notional general income yield	p	20,685	20,052
<b>Catch-up or (excess) result</b>	<b>q = o – p</b>	<b>(5)</b>	<b>6</b>
<b>Carry forward to next year <sup>6</sup></b>	<b>t = q + r – s</b>	<b>(5)</b>	<b>6</b>

**Notes**

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



**INDEPENDENT AUDITOR'S REPORT**  
**Special Schedule - Permissible income for general rates**  
**Kempsey Shire Council**

To the Councillors of Kempsey Shire Council

### Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Kempsey Shire Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report.

### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

## Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and Special Schedule 'Report on infrastructure assets as at 30 June 2019'.

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

## Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

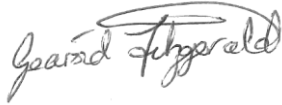
- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar8.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

A handwritten signature in cursive script that reads "Gearoid Fitzgerald". The signature is written in black ink and is positioned above the printed name and title.

Gearoid Fitzgerald  
Delegate of the Auditor-General for New South Wales

21 November 2019  
SYDNEY

## Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	<i>Estimated cost</i>		2018/19 Required maintenance <sup>a</sup>	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	<i>Assets in condition as a percentage of gross replacement cost</i>				
		<i>Estimated cost to bring assets to satisfactory standard</i>	<i>to bring to the agreed level of service set by Council</i>					1	2	3	4	5
<b>Buildings</b>	Buildings	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Buildings – non-specialised	5,570	5,570	673	340	13,453	37,498	2.6%	6.1%	51.4%	38.5%	1.3%
	Buildings – specialised	3,316	3,316	448	167	10,037	24,917	4.8%	8.8%	48.7%	37.1%	0.6%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>8,886</b>	<b>8,886</b>	<b>1,121</b>	<b>507</b>	<b>23,490</b>	<b>62,415</b>	<b>3.5%</b>	<b>7.2%</b>	<b>50.3%</b>	<b>38.0%</b>	<b>1.0%</b>
<b>Other structures</b>	Other structures	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>
<b>Roads</b>	Sealed roads	34,444	34,444	3,064	3,044	215,501	303,777	18.3%	53.0%	16.6%	4.9%	7.3%
	Unsealed roads	12,107	12,107	1,509	1,574	8,835	23,834	16.0%	4.4%	1.0%	68.3%	10.2%
	Bridges	743	743	164	189	37,688	64,255	40.7%	46.1%	9.3%	3.5%	0.3%
	Footpaths	548	548	121	109	12,416	26,292	11.3%	18.7%	50.3%	18.2%	1.5%
	Other road assets	358	358	172	168	44,840	88,485	24.3%	12.3%	53.8%	8.0%	1.6%
	Bulk earthworks	–	–	–	–	239,136	239,135	100.0%	0.0%	0.0%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>48,200</b>	<b>48,200</b>	<b>5,030</b>	<b>5,084</b>	<b>558,416</b>	<b>745,778</b>	<b>46.8%</b>	<b>27.8%</b>	<b>15.7%</b>	<b>6.1%</b>	<b>3.6%</b>
<b>Water supply network</b>	Water supply network	11,135	21,874	4,969	4,195	194,965	286,258	30.2%	27.4%	34.4%	5.8%	2.3%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>11,135</b>	<b>21,874</b>	<b>4,969</b>	<b>4,195</b>	<b>194,965</b>	<b>286,258</b>	<b>30.2%</b>	<b>27.4%</b>	<b>34.4%</b>	<b>5.8%</b>	<b>2.2%</b>
<b>Sewerage network</b>	Sewerage network	38,501	24,247	4,793	4,500	113,226	223,631	22.0%	40.0%	14.9%	19.3%	3.8%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>38,501</b>	<b>24,247</b>	<b>4,793</b>	<b>4,500</b>	<b>113,226</b>	<b>223,631</b>	<b>22.0%</b>	<b>40.0%</b>	<b>14.9%</b>	<b>19.3%</b>	<b>3.8%</b>
<b>Stormwater drainage</b>	Stormwater drainage	4,478	4,478	236	171	76,539	123,780	34.5%	38.2%	20.1%	4.2%	3.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>4,478</b>	<b>4,478</b>	<b>236</b>	<b>171</b>	<b>76,539</b>	<b>123,780</b>	<b>34.5%</b>	<b>38.2%</b>	<b>20.1%</b>	<b>4.2%</b>	<b>3.0%</b>



## Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

Asset Class	Asset Category	<i>Estimated cost to bring to the agreed level of service set by Council</i>		2018/19 Required maintenance <sup>a</sup>	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	<i>Assets in condition as a percentage of gross replacement cost</i>				
		<i>to bring assets to satisfactory standard</i>	<i>to bring assets to satisfactory standard</i>					1	2	3	4	5
Open space / recreational assets	Swimming pools	509	509	1,241	736	1,201	3,439	0.0%	0.0%	68.0%	32.0%	0.0%
	Other	562	562	3,723	2,240	5,826	12,679	29.5%	36.6%	16.5%	9.9%	7.5%
	<b>Sub-total</b>	<b>1,071</b>	<b>1,071</b>	<b>4,964</b>	<b>2,976</b>	<b>7,027</b>	<b>16,118</b>	<b>23.2%</b>	<b>28.8%</b>	<b>27.5%</b>	<b>14.6%</b>	<b>5.9%</b>
Other infrastructure assets	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>
<b>TOTAL - ALL ASSETS</b>		<b>112,271</b>	<b>108,756</b>	<b>21,113</b>	<b>17,433</b>	<b>973,663</b>	<b>1,457,980</b>	<b>36.6%</b>	<b>29.6%</b>	<b>21.2%</b>	<b>9.4%</b>	<b>3.2%</b>

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

## Infrastructure asset condition assessment 'key'

1	<b>Excellent/very good</b>	No work required (normal maintenance)
2	<b>Good</b>	Only minor maintenance work required
3	<b>Satisfactory</b>	Maintenance work required
4	<b>Poor</b>	Renewal required
5	<b>Very poor</b>	Urgent renewal/upgrading required

## Report on Infrastructure Assets (continued)

as at 30 June 2019

	<i>Amounts</i>	<i>Indicator</i>	<i>Prior periods</i>		<i>Benchmark</i>
	<i>2019</i>	<i>2019</i>	<i>2018</i> <sup>3</sup>	<i>2017</i>	
<b>\$ '000</b>			<b>Restated</b>		
<b>Infrastructure asset performance indicators (consolidated) *</b>					
<b>Buildings and infrastructure renewals ratio</b> <sup>1</sup>					
Asset renewals <sup>2</sup>	<b>14,456</b>	<b>60.18%</b>	96.10%	38.87%	>=100.00%
Depreciation, amortisation and impairment	<b>24,022</b>				
<b>Infrastructure backlog ratio</b> <sup>1</sup>					
Estimated cost to bring assets to a satisfactory standard	<b>112,271</b>	<b>11.53%</b>	6.69%	10.61%	<2.00%
Net carrying amount of infrastructure assets	<b>973,663</b>				
<b>Asset maintenance ratio</b>					
Actual asset maintenance	<b>17,433</b>	<b>82.57%</b>	86.01%	107.31%	>100.00%
Required asset maintenance	<b>21,113</b>				
<b>Cost to bring assets to agreed service level</b>					
Estimated cost to bring assets to an agreed service level set by Council	<b>108,756</b>	<b>7.46%</b>	4.22%	5.41%	
Gross replacement cost	<b>1,457,980</b>				

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

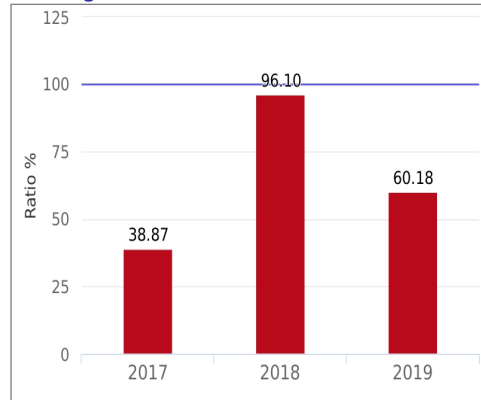
(1) Excludes Work In Progress (WIP)

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

(3) See Note 12(b) for details regarding restatement as a result of prior period error.

Report on Infrastructure Assets (continued)  
as at 30 June 2019

**Buildings and infrastructure renewals ratio**



**Buildings and infrastructure renewals ratio**

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

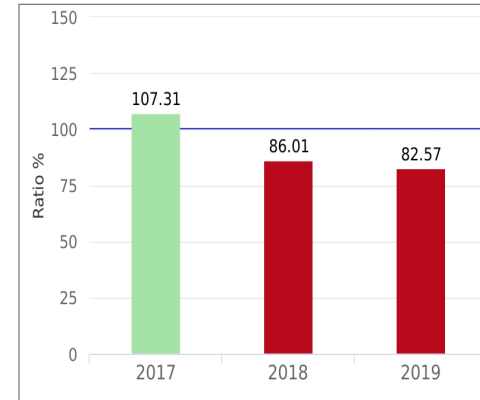
**Commentary on result**

18/19 ratio 60.18%

Capital spend was lower than depreciation and budget this year due to larger projects having longer planning phases than anticipated, meaning less actual construction was completed during the year.

Benchmark: —  $\geq 100.00\%$  ■ Ratio achieves benchmark  
■ Ratio is outside benchmark  
 Source of benchmark: Code of Accounting Practice and Financial Reporting #27

**Asset maintenance ratio**



**Asset maintenance ratio**

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

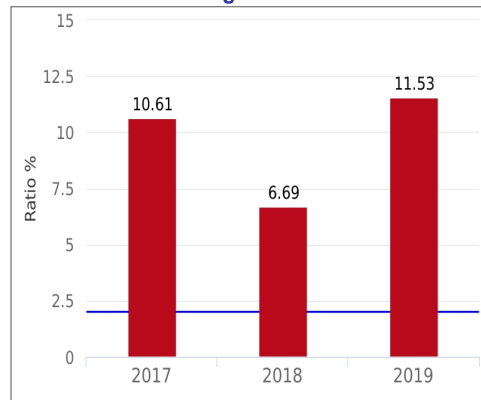
**Commentary on result**

18/19 ratio 82.57%

Asset maintenance is slightly below benchmark levels but relatively comparable with prior years.

Benchmark: —  $> 100.00\%$  ■ Ratio achieves benchmark  
■ Ratio is outside benchmark  
 Source of benchmark: Code of Accounting Practice and Financial Reporting #27

**Infrastructure backlog ratio**



**Infrastructure backlog ratio**

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

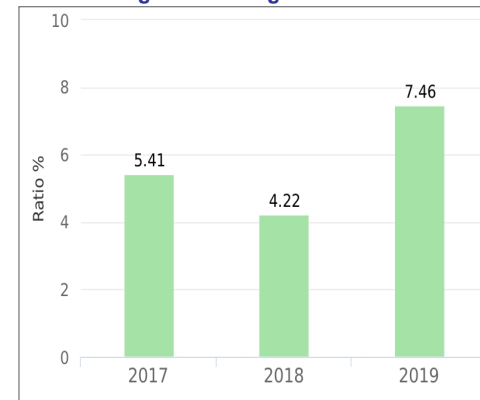
**Commentary on result**

18/19 ratio 11.53%

Infrastructure backlog is relatively consistent with prior years although well over acceptable benchmark levels. There is an Asset Management initiative underway which will provide Council with better asset information on which to make decisions in order to improve not just this, but all other infrastructure related metrics.

Benchmark: —  $< 2.00\%$  ■ Ratio achieves benchmark  
■ Ratio is outside benchmark  
 Source of benchmark: Code of Accounting Practice and Financial Reporting #27

**Cost to bring assets to agreed service level**



**Cost to bring assets to agreed service level**

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

**Commentary on result**

18/19 ratio 7.46%

More work needs to be done in order to address this metric and better understand service levels. This work will form part of the Asset Management initiative.

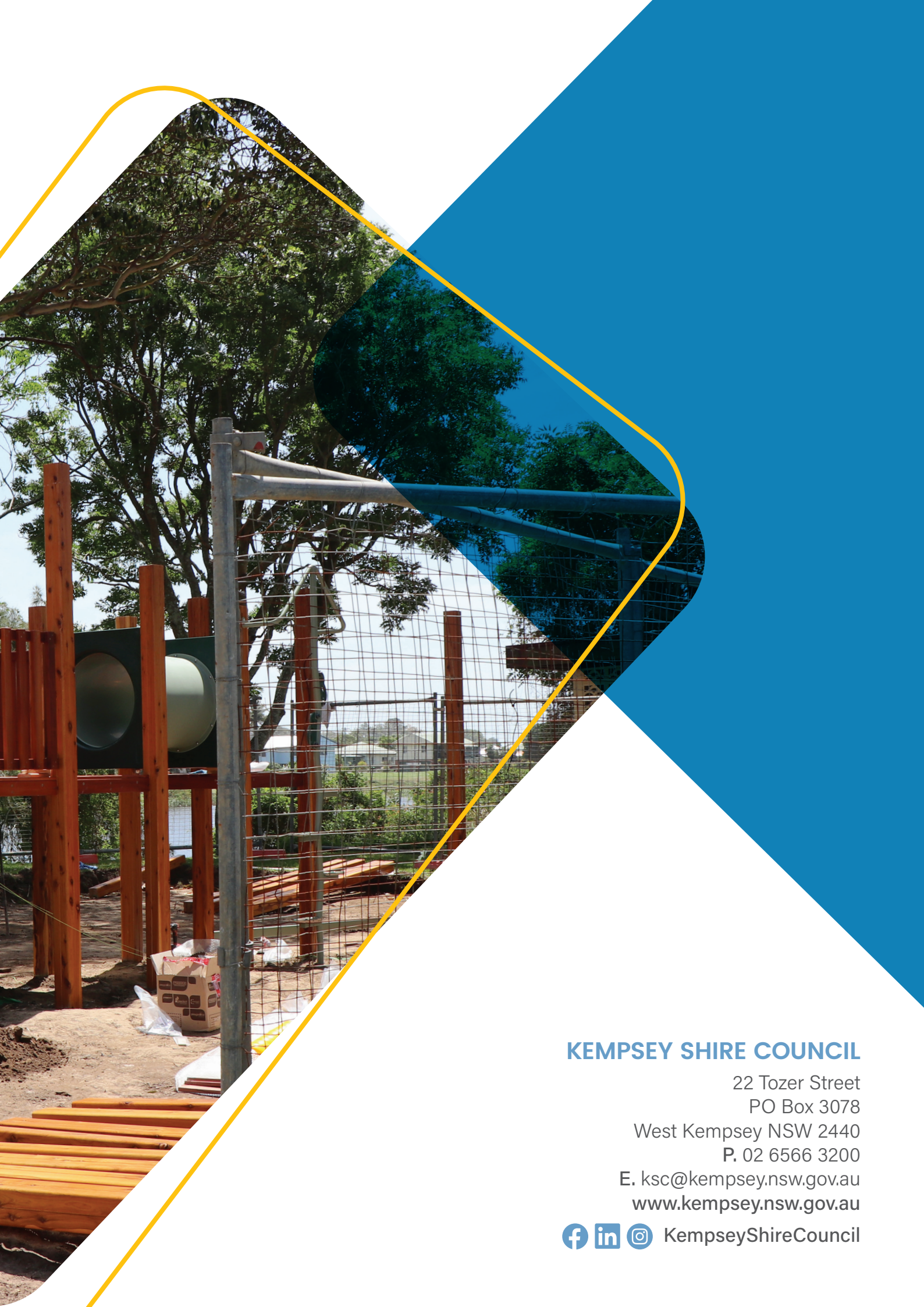
## Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	<i>General fund</i>		<i>Water fund</i>		<i>Sewer fund</i>		<i>Benchmark</i>
	2019	2018	2019	2018	2019	2018	
<b>Infrastructure asset performance indicators (by fund)</b>							
<b>Buildings and infrastructure renewals ratio <sup>1</sup></b>							
Asset renewals <sup>2</sup>							
Depreciation, amortisation and impairment	<b>69.67%</b>	117.57%	<b>55.51%</b>	52.17%	<b>33.73%</b>	82.84%	>=100.00%
<b>Infrastructure backlog ratio <sup>1</sup></b>							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	<b>9.41%</b>	2.86%	<b>5.71%</b>	6.59%	<b>34.00%</b>	29.03%	<2.00%
<b>Asset maintenance ratio</b>							
Actual asset maintenance							
Required asset maintenance	<b>76.98%</b>	75.45%	<b>84.42%</b>	82.69%	<b>93.89%</b>	104.82%	>100.00%
<b>Cost to bring assets to agreed service level</b>							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	<b>6.61%</b>	2.05%	<b>7.64%</b>	6.69%	<b>10.84%</b>	10.25%	

(1) Excludes Work In Progress (WIP)

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



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