

# General Purpose Financial Statements

For the Year Ended  
30 June 2020



## General Purpose Financial Statements

for the year ended 30 June 2020

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### Overview

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

62 - 78 Vincent Street  
Cessnock NSW 2325

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.cessnock.nsw.gov.au](http://www.cessnock.nsw.gov.au).

## General Purpose Financial Statements

for the year ended 30 June 2020

### 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 2020.

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.

## Cessnock City Council

## General Purpose Financial Statements

for the year ended 30 June 2020

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:**

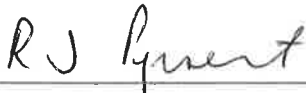
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

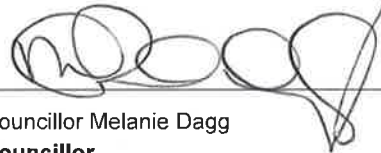
- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

**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 16 September 2020.**



Councillor Bob Pynsent  
**Mayor**  
03 November 2020



Councillor Melanie Dagg  
**Councillor**  
03 November 2020



Ms Lotta Jackson  
**General Manager**  
03 November 2020



Mr Robert Maginnity  
**Responsible Accounting Officer**  
03 November 2020

## Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
<b>Income from continuing operations</b>				
52,121	Rates and annual charges	3a	53,355	50,122
8,426	User charges and fees	3b	7,973	10,493
1,951	Other revenues	3c	2,268	1,805
11,645	Grants and contributions provided for operating purposes	3d,3e	13,074	11,688
15,995	Grants and contributions provided for capital purposes	3d,3e	23,597	18,067
836	Interest and investment income	4	836	1,165
–	Rental income	13e	615	–
90,974	<b>Total income from continuing operations</b>		101,718	93,340
<b>Expenses from continuing operations</b>				
33,356	Employee benefits and on-costs	5a	35,330	33,931
381	Borrowing costs	5b	318	402
15,167	Materials and contracts	5c	17,426	19,489
12,177	Depreciation and amortisation	5d	12,855	11,061
12,506	Other expenses	5e	10,293	10,980
700	Net losses from the disposal of assets	6	2,102	1,744
–	Revaluation decrement / impairment of IPP&E	5d	–	713
74,287	<b>Total expenses from continuing operations</b>		78,324	78,320
16,687	<b>Operating result from continuing operations</b>		23,394	15,020
16,687	<b>Net operating result for the year</b>		23,394	15,020
–	Net operating result attributable to council		23,394	15,020
–	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		(203)	(3,047)

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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



## Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
<b>Net operating result for the year (as per Income Statement)</b>		<b>23,394</b>	<b>15,020</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	11	82,591	67,871
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>82,591</b>	<b>67,871</b>
<b>Total other comprehensive income for the year</b>		<b>82,591</b>	<b>67,871</b>
<b>Total comprehensive income for the year</b>		<b>105,985</b>	<b>82,891</b>
Total comprehensive income attributable to Council		105,985	82,891

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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

## Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7(a)	4,907	5,421
Investments	7(b)	42,600	34,100
Receivables	8	6,427	4,338
Inventories	9a	1,634	2,029
Other	9b	323	78
Current assets classified as 'held for sale'	10	206	–
<b>Total current assets</b>		<u>56,097</u>	<u>45,966</u>
<b>Non-current assets</b>			
Investments	7(b)	–	800
Infrastructure, property, plant and equipment	11	955,756	852,855
Right of use assets	13a	85	–
<b>Total non-current assets</b>		<u>955,841</u>	<u>853,655</u>
<b>Total assets</b>		<u>1,011,938</u>	<u>899,621</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	14	7,124	7,746
Income received in advance	14	–	68
Contract liabilities	12	4,235	–
Lease liabilities	13b	60	–
Borrowings	14	1,469	1,511
Provisions	15	9,982	9,471
<b>Total current liabilities</b>		<u>22,870</u>	<u>18,796</u>
<b>Non-current liabilities</b>			
Payables	14	5,491	3,982
Income received in advance	14	–	813
Lease liabilities	13b	23	–
Borrowings	14	3,880	5,349
Provisions	15	15,282	11,447
<b>Total non-current liabilities</b>		<u>24,676</u>	<u>21,591</u>
<b>Total liabilities</b>		<u>47,546</u>	<u>40,387</u>
<b>Net assets</b>		<u>964,392</u>	<u>859,234</u>
<b>EQUITY</b>			
Accumulated surplus	16	507,450	484,883
Revaluation reserves	16	456,942	374,351
<b>Council equity interest</b>		<u>964,392</u>	<u>859,234</u>
<b>Total equity</b>		<u>964,392</u>	<u>859,234</u>

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

\$ '000	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		484,883	374,351	859,234	469,863	306,480	776,343
Changes due to AASB 1058 and AASB 15 adoption	16	(827)	–	(827)	–	–	–
Changes due to AASB 16 adoption	16	–	–	–	–	–	–
<b>Opening balance</b>		<b>484,056</b>	<b>374,351</b>	<b>858,407</b>	<b>469,863</b>	<b>306,480</b>	<b>776,343</b>
Net operating result for the year		23,394	–	23,394	15,020	–	15,020
<b>Net operating result for the period</b>		<b>23,394</b>	<b>–</b>	<b>23,394</b>	<b>15,020</b>	<b>–</b>	<b>15,020</b>
<b>Other comprehensive income</b>							
– Gain (loss) on revaluation of IPP&E	11	–	82,591	82,591	–	67,871	67,871
<b>Other comprehensive income</b>		<b>–</b>	<b>82,591</b>	<b>82,591</b>	<b>–</b>	<b>67,871</b>	<b>67,871</b>
<b>Total comprehensive income</b>		<b>23,394</b>	<b>82,591</b>	<b>105,985</b>	<b>15,020</b>	<b>67,871</b>	<b>82,891</b>
<b>Equity – balance at end of the reporting period</b>		<b>507,450</b>	<b>456,942</b>	<b>964,392</b>	<b>484,883</b>	<b>374,351</b>	<b>859,234</b>

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
51,200	Rates and annual charges		53,162	49,949
8,400	User charges and fees		7,541	10,603
840	Investment and interest revenue received		942	1,091
27,600	Grants and contributions		27,808	17,206
550	Bonds, deposits and retention amounts received		1,295	465
1,950	Other		1,505	4,488
<b>Payments:</b>				
(33,400)	Employee benefits and on-costs		(34,776)	(33,528)
(21,500)	Materials and contracts		(18,199)	(20,568)
(380)	Borrowing costs		(318)	(402)
(12,500)	Other		(6,582)	(10,884)
<b>22,760</b>	<b>Net cash provided (or used in) operating activities</b>	17b	<b>32,378</b>	<b>18,420</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
22,000	Sale of investment securities		21,600	20,800
–	Sale of real estate assets		396	–
650	Sale of infrastructure, property, plant and equipment		916	1,034
<b>Payments:</b>				
(25,000)	Purchase of investment securities		(29,300)	(20,900)
(20,500)	Purchase of infrastructure, property, plant and equipment		(24,935)	(16,901)
<b>(22,850)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(31,323)</b>	<b>(15,967)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
2,950	Proceeds from borrowings and advances		–	–
<b>Payments:</b>				
(2,030)	Repayment of borrowings and advances		(1,511)	(1,392)
–	Lease liabilities (principal repayments)		(58)	–
<b>920</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(1,569)</b>	<b>(1,392)</b>
<b>830</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(514)</b>	<b>1,061</b>
5,421	Plus: cash and cash equivalents – beginning of year	17a	5,421	4,360
<b>6,251</b>	<b>Cash and cash equivalents – end of the year</b>	17a	<b>4,907</b>	<b>5,421</b>
35,500	plus: Investments on hand – end of year	7(b)	42,600	34,900
<b>41,751</b>	<b>Total cash, cash equivalents and investments</b>		<b>47,507</b>	<b>40,321</b>

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

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## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 1. Basis of preparation

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These financial statements were authorised for issue by Council on 16 September 2020.

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.

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.

#### (a) 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.

#### (b) 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 11
- (ii) estimated tip remediation provisions – refer Note 15
- (iii) employee benefit provisions – refer Note 15.

#### 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 in Note 8.

#### 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
- Section 355 Committees

##### (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

## Notes to the Financial Statements

for the year ended 30 June 2020

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

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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.

#### Volunteer services

Volunteer services are used throughout a variety of Council functions. These include Section 355 Committees for community halls and tidy towns projects, library services and performing arts centre services. The value to Council of these services has not been recognised in the income statement as they cannot be readily measured.

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

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2020 reporting period.

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

As at the date of authorisation of these financial statements Council does not consider that any of these new (and still to be applied) standards and interpretations are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

#### AASB 1059 Service Concession Arrangements: Grantors

##### AASB 2018-5 Amendments to Australian Accounting Standards - Deferral of AASB 1059

##### AASB 2019-2 Amendments to Australian Accounting Standards – Implementation of AASB 1059

This standard provides guidance for public sector entities (grantors) who have entered into service concession arrangements with private sector operators.

AASB 1059 requires grantors to recognise a service concession asset and, in most cases, a corresponding liability on the balance sheet.

A control approach is used to assess the service concession arrangements in place.

On initial recognition the asset is measured at current replacement cost based on AASB 13 Fair Value Measurement and existing assets of the grantors are reclassified at the date of transition.

After initial recognition, the grantor accounts for the assets under either AASB 116 Property, Plant and Equipment or AASB 138 Intangible Assets.

The nature of the consideration given to the operator will affect whether the grantor applies either the 'financial liability' or the 'grant of right' model for the recognition of the liability.

AASB 2019-2 makes amendments to the recognition and measurement of the asset and liability where the modified retrospective approach to transition is being used and provides a practical expedient due to the different effective dates of AASB 16 and AASB 1059.

**Council does not expect any material impact to future financial statements as we do not generally enter into service concession arrangements.**

## Notes to the Financial Statements

for the year ended 30 June 2020

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

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This standard has an effective date for the 30 June 2021 reporting period.

#### **New accounting standards adopted during the year**

During the year Council adopted the following accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from 1 July 2019:

- AASB 16 Leases
- AASB 15 Revenue from contracts with customers and associated amending standards.
- AASB 1058 Income of Not-for-profit entities

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 18.



## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 2(a). Council functions/activities – financial information

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	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>Functions or activities</b>										
Governance	–	–	1,145	1,090	(1,145)	(1,090)	–	–	50	57
Administration	1,668	1,400	14,905	13,215	(13,237)	(11,815)	–	–	97,996	89,648
Public order and safety	2,478	514	2,542	2,310	(64)	(1,796)	1,528	–	4,793	4,745
Health	653	1,151	818	888	(165)	263	–	–	272	297
Environment	22,322	18,412	16,928	17,507	5,394	905	416	513	95,708	85,910
Community services and education	82	73	892	527	(810)	(454)	77	63	6,756	6,841
Housing and community amenities	1,468	2,343	6,585	6,337	(5,117)	(3,994)	111	109	1,331	1,390
Recreation and culture	5,860	3,567	12,508	11,862	(6,648)	(8,295)	4,404	1,666	75,120	72,940
Mining, manufacturing and construction	887	1,313	1,424	1,338	(537)	(25)	–	–	185	210
Transport and communication	17,215	18,173	19,112	21,722	(1,897)	(3,549)	4,828	2,833	726,574	634,867
Economic affairs	1,404	1,264	1,465	1,524	(61)	(260)	271	–	3,153	2,716
General Purpose Income	47,681	45,130	–	–	47,681	45,130	7,515	7,239	–	–
<b>Total functions and activities</b>	<b>101,718</b>	<b>93,340</b>	<b>78,324</b>	<b>78,320</b>	<b>23,394</b>	<b>15,020</b>	<b>19,150</b>	<b>12,423</b>	<b>1,011,938</b>	<b>899,621</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

### 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**

Includes costs relating to 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, public disclosure (e.g. GIPA), and legislative compliance.

#### **ADMINISTRATION**

Includes corporate support and other support services, engineering works, and any Council policy compliance.

#### **PUBLIC ORDER AND SAFETY**

Includes Council's fire protection, emergency services, enforcement of regulations and animal control.

#### **HEALTH**

Includes immunisation, food control, health centres etc.

#### **ENVIRONMENT**

Includes noxious plants and insect/vermin control, other environmental protection, solid waste management, including domestic waste, other waste management, other sanitation, and garbage, street cleaning, drainage and stormwater management.

#### **COMMUNITY SERVICES AND EDUCATION**

Includes administration and education, social protection (welfare), Aboriginal and other community services and administration, youth services, aged and disabled persons services, and other family and children services.

#### **HOUSING AND COMMUNITY AMENITIES**

Includes public cemeteries, public conveniences, street lighting, town planning, other community amenities.

#### **RECREATION AND CULTURE**

Includes public libraries, museums, art galleries, community centres and halls, including public halls and performing arts venues, sporting grounds and venues, swimming pools, parks, gardens, and other sporting, recreational and cultural services.

#### **MINING, MANUFACTURING AND CONSTRUCTION**

Includes building control, quarries.

#### **TRANSPORT AND COMMUNICATION**

Urban local, urban regional, includes sealed and unsealed roads, bridges, footpaths, parking areas, and aerodromes.

#### **ECONOMIC AFFAIRS**

Includes tourism and area promotion, industrial development promotion, real estate development, and other business undertakings

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 3. Revenue from continuing operations

\$ '000	2020	2019
<b>(a) Rates and annual charges</b>		
<b>Ordinary rates</b>		
Residential	30,061	28,487
Farmland	2,720	2,660
Mining	1,256	1,032
Business	5,021	4,841
Less: pensioner rebates (mandatory)	(794)	(800)
Less: pensioner rebates (Council policy)	(91)	(88)
<b>Rates levied to ratepayers</b>	<b>38,173</b>	<b>36,132</b>
Pensioner rate subsidies received	435	428
<b>Total ordinary rates</b>	<b>38,608</b>	<b>36,560</b>
<b>Annual charges</b>		
<small>(pursuant to s.496, s.496A, s.496B, s.501 &amp; s.611)</small>		
Domestic waste management services	13,520	12,360
Stormwater management services	524	518
Waste management services (non-domestic)	899	866
Section 611 charges	29	28
Less: pensioner rebates (mandatory)	(385)	(373)
Less: pensioner rebates (Council policy)	(43)	(40)
<b>Annual charges levied</b>	<b>14,544</b>	<b>13,359</b>
Pensioner subsidies received:		
– Domestic waste management	203	203
<b>Total annual charges</b>	<b>14,747</b>	<b>13,562</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>	<b>53,355</b>	<b>50,122</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 which is the beginning of the rating period to which they relate.

Prepaid rates are recognised as a financial liability until the beginning of the rating period.

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 and are in substance a rates payment.

**2019 accounting policy**

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.

## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020	2019
<b>(b) User charges and fees</b>		
<b>Other user charges and fees</b>		
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>		
Inspection services	240	341
Private works – section 67	7	16
Regulatory/ statutory fees	166	99
Section 10.7 certificates (EP&A Act)	210	204
Section 603 certificates	142	127
Town planning	1,187	1,904
Building permits and fees	609	887
<b>Total fees and charges – statutory/regulatory</b>	<b>2,561</b>	<b>3,578</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>		
Aerodrome	251	254
Cemeteries	188	283
RMS charges (state roads not controlled by Council)	2,638	3,828
Waste disposal tipping fees	1,326	1,369
Cessnock performing arts centre	188	333
Onsite sewerage management fees	469	478
Swimming pool fees	180	209
Other	172	161
<b>Total fees and charges – other</b>	<b>5,412</b>	<b>6,915</b>
<b>TOTAL USER CHARGES AND FEES</b>	<b>7,973</b>	<b>10,493</b>

**Accounting policy for user charges and fees**

Revenue arising from town planning user charges and fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment for town planning fees are required to be paid on application.

Licences granted by Council are all either short-term or low value and all revenue from licences is recognised at the time that the licence is granted rather than the term of the licence.

**2019 accounting policy**

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

## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020	2019
<b>(c) Other revenues</b>		
Rental income – other council properties (2019 only)	–	277
Fines	492	381
Legal fees recovery – rates and charges (extra charges)	355	457
Legal fees recovery – other	4	4
Commissions and agency fees	33	32
Diesel rebate	36	40
Insurance claims recoveries	317	78
Sales – general	215	279
General administrative services	–	5
Section 355 committees	118	203
Investment recovery claim	630	–
Other	68	49
<b><u>TOTAL OTHER REVENUE</u></b>	<b><u>2,268</u></b>	<b><u>1,805</u></b>

**Accounting policy for other revenue**

Where the revenue relates to a contract with customer, the revenue is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

Where the revenue relates to a contract which is not enforceable or does not contain sufficiently specific performance obligations then revenue is recognised when an unconditional right to a receivable arises or the cash is received, which is earlier.

**2019 accounting policy:**

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.

Parking fees and fines are recognised as revenue when the service has been provided, or when the penalty has been applied, whichever occurs first.

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.

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

## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Operating 2020	Operating 2019	Capital 2020	Capital 2019
<b>(d) Grants</b>				
<b>General purpose (untied)</b>				
<b>Current year allocation</b>				
Financial assistance – general component	2,772	2,703	–	–
Financial assistance – local roads component	877	851	–	–
<b>Payment in advance - future year allocation</b>				
Financial assistance – general component	2,938	2,802	–	–
Financial assistance – local roads component	928	883	–	–
<b>Total general purpose</b>	<b>7,515</b>	<b>7,239</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Bushfire and emergency services	1,524	–	–	–
Community centres	–	–	535	228
Economic development	256	–	–	–
Environmental programs	96	184	–	–
Heritage and cultural	–	–	52	17
Library – per capita	145	106	–	–
Library – special projects	10	32	354	37
LIRS subsidy	32	37	–	–
Noxious weeds	104	104	–	–
Recreation and culture	75	35	3,233	1,211
Street lighting	111	109	–	–
Transport (roads to recovery)	533	1,062	–	–
Transport (flood works, other roads and bridges funding)	–	137	5	15
Drainage	122	49	–	–
Transport (resources for regions)	–	–	4,116	1,426
Transport (road safety)	61	69	–	–
Waste levy programs	93	157	11	19
Welfare services	63	63	–	–
Other	34	72	70	15
<b>Total specific purpose</b>	<b>3,259</b>	<b>2,216</b>	<b>8,376</b>	<b>2,968</b>
<b>Total grants</b>	<b>10,774</b>	<b>9,455</b>	<b>8,376</b>	<b>2,968</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	8,075	8,337	2,749	1,542
– State funding	2,699	1,118	5,627	1,426
	<b>10,774</b>	<b>9,455</b>	<b>8,376</b>	<b>2,968</b>



## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Notes	Operating 2020	Operating 2019	Capital 2020	Capital 2019
<b>(e) Contributions</b>					
<b>Developer contributions: (s7.4 &amp; s7.11 - EP&amp;A Act, s64 of the LGA):</b>					
<b>Cash contributions</b>					
S 7.4 – contributions using planning agreements		–	–	589	549
S 7.11 – contributions towards amenities/services		–	–	2,667	1,360
S 7.12 – fixed development consent levies		–	–	156	235
<b>Total developer contributions – cash</b>		<b>–</b>	<b>–</b>	<b>3,412</b>	<b>2,144</b>
<b>Total developer contributions</b>	25	<b>–</b>	<b>–</b>	<b>3,412</b>	<b>2,144</b>
<b>Other contributions:</b>					
<b>Cash contributions</b>					
Bushfire services		–	–	120	–
Kerb and gutter		–	–	–	19
RMS contributions (regional roads, block grant)		1,418	1,273	250	338
Tourism		253	175	–	–
Other		61	94	41	16
Bushfire protection		137	–	–	–
General admin services		313	242	–	–
Motor vehicle leaseback		–	289	–	–
Road reinstatements		116	154	–	–
Transport		2	6	–	–
<b>Total other contributions – cash</b>		<b>2,300</b>	<b>2,233</b>	<b>411</b>	<b>373</b>
<b>Non-cash contributions</b>					
Dedications		–	–	–	41
Dedications – subdivisions (other than by s7.11)		–	–	11,398	12,541
<b>Total other contributions – non-cash</b>		<b>–</b>	<b>–</b>	<b>11,398</b>	<b>12,582</b>
<b>Total other contributions</b>		<b>2,300</b>	<b>2,233</b>	<b>11,809</b>	<b>12,955</b>
<b>Total contributions</b>		<b>2,300</b>	<b>2,233</b>	<b>15,221</b>	<b>15,099</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>		<b>13,074</b>	<b>11,688</b>	<b>23,597</b>	<b>18,067</b>

**Accounting policy for grants and contributions****Accounting policy from 1 July 2019****Grant income under AASB 15**

Where grant income arises from an agreement which is enforceable and contains sufficiently specific performance obligations then the revenue are recognised when control of each performance obligations is satisfied.

The performance obligations are varied based on the agreement but include [provide details of performance obligations within AASB 15 grants e.g. events, vaccinations]. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Each performance obligation is considered to ensure that the revenue recognition reflects the transfer of control and within grant agreements there may be some performance obligations where control transfers at a point in time and others which have continuous transfer of control over the life of the contract.

## Notes to the Financial Statements

for the year ended 30 June 2020

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

Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

**Grant income**

Assets arising from grants in the scope of AASB 1058 is recognised at the assets fair value when the asset is received. Councils considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

Once the assets and liabilities have been recognised then income is recognised for any remaining asset value at the time that the asset is received

**Capital grants**

Capital grants received to enable Council to acquire or construct an item of infrastructure, property, plant and equipment to identified specifications which will be under Council's control and which is enforceable are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin.

For acquisitions of assets, the revenue is recognised when the asset is acquired and controlled by the Council.

**Contributions**

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

**Accounting policy prior to 1 July 2019**

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and revenue is recognised at this time 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.

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.

\$ '000	2020	2019
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**(f) Unspent grants and contributions – external restrictions**

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.

**Operating grants**

Unexpended at the close of the previous reporting period	452	1,222
<b>Add:</b> operating grants recognised as income in the current period but not yet spent (2019 only)	–	41
	1,764	308

## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020	2019
<b>Add:</b> operating grants received for the provision of goods and services in a future period	1,764	308
<b>Less:</b> operating grants recognised in a previous reporting period now spent (2019 only)	–	(1,119)
<b>Less:</b> operating grants received in a previous reporting period now spent and recognised as income	(258)	–
<b>Unexpended and held as externally restricted assets (operating grants)</b>	<b>1,958</b>	<b>452</b>
Nature of unspent operating grants	2020	
	(\$'000)	
Community services and education	1,135	
Environment	316	
Housing and community amenities	16	
Recreation and culture	10	
Tourism	154	
Transport and communication	327	
Total	1,958	
<b>Capital grants</b>		
Unexpended at the close of the previous reporting period	834	1,059
<b>Add:</b> capital grants recognised as income in the current period but not yet spent (2019 only)	–	44
<b>Add:</b> capital grants received for the provision of goods and services in a future period	597	314
<b>Less:</b> capital grants recognised in a previous reporting period now spent (2019 only)	–	(583)
<b>Less:</b> capital grants received in a previous reporting period now spent and recognised as income	(671)	–
<b>Unexpended and held as externally restricted assets (capital grants)</b>	<b>760</b>	<b>834</b>
Nature of unspent capital grants	2020	
	(\$'000)	
Community services and education	323	
Environment	15	
Recreation and culture	418	
Transport and communication	4	
Total	760	
<b>Contributions</b>		
Unexpended at the close of the previous reporting period	14,463	12,903
<b>Add:</b> contributions recognised as income in the current period but not yet spent	–	–
<b>Add:</b> contributions received for the provision of goods and services in a future period	3,504	2,313
<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 (2019 only)	–	–
<b>Less:</b> contributions recognised in a previous reporting period now spent	(442)	(753)
<b>Unexpended and held as externally restricted assets (contributions)</b>	<b>17,525</b>	<b>14,463</b>
Nature of unspent contributions	2020	
	(\$'000)	
Developers contributions	15,435	
RMS contributions	2,090	
Total	17,525	

## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	AASB 15 2020	AASB 1058 2020
<b>(g) Disaggregation of material revenue streams</b>		
The following shows the revenue recognition pattern for the material revenue streams of Council.		
<b>Revenue recognition at a point in time</b>		
Rates and annual charges	–	53,355
User charges and fees	5,335	–
Investment recovery claim	–	630
Fines	–	492
Legal fees recovery – rates and charges	–	355
Insurance claims recoveries	–	317
Sale of goods	215	–
Other revenue	259	–
Financial assistance grants	–	7,515
Bushfire and emergency services	–	1,524
Specific purposes operating grants	–	1,735
Developer contributions	–	3,412
Non developers operating cash contributions	–	2,300
Non developers capital cash contributions	–	411
Dedications	–	11,398
	<u>5,809</u>	<u>83,444</u>
<b>Revenue recognised over time</b>		
Grant revenue	–	–
Grants to acquire or construct Council controlled assets	–	8,376
User charges and fees - RMS	2,638	–
Other	–	–
	<u>2,638</u>	<u>8,376</u>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 4. Interest and investment income

\$ '000	2020	2019
<b>Interest on financial assets measured at amortised cost</b>		
– Overdue rates and annual charges (incl. special purpose rates)	160	161
– Cash and investments	676	1,004
<b>Total Interest and investment income</b>	<b>836</b>	<b>1,165</b>
<b>Interest revenue is attributable to:</b>		
<b>Unrestricted investments/financial assets:</b>		
Overdue rates and annual charges (general fund)	160	161
General Council cash and investments	135	267
<b>Restricted investments/funds – external:</b>		
Development contributions		
– Section 7.11	92	169
Domestic waste management operations	7	11
Other externally restricted assets	70	114
<b>Restricted investments/funds – internal:</b>		
Internally restricted assets	372	443
<b>Total interest and investment revenue</b>	<b>836</b>	<b>1,165</b>

**Accounting policy for interest and investment revenue**

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

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 5. Expenses from continuing operations

\$ '000	2020	2019
<b>(a) Employee benefits and on-costs</b>		
Salaries and wages	26,590	24,646
Employee termination costs	–	219
Travel expenses	488	490
Employee leave entitlements (ELE)	5,783	5,619
Superannuation	3,596	3,376
Workers' compensation insurance	784	555
Fringe benefit tax (FBT)	261	237
Training costs (other than salaries and wages)	298	350
Other	47	41
<b>Total employee costs</b>	<b>37,847</b>	<b>35,533</b>
Less: capitalised costs	(2,517)	(1,602)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>	<b>35,330</b>	<b>33,931</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 16 for more information.

\$ '000	2020	2019
<b>(b) Borrowing costs</b>		
<b>(i) Interest bearing liability costs</b>		
Interest on leases	3	–
Interest on loans	315	402
<b>Total interest bearing liability costs</b>	<b>318</b>	<b>402</b>
<b>Total interest bearing liability costs expensed</b>	<b>318</b>	<b>402</b>
<b>TOTAL BORROWING COSTS EXPENSED</b>	<b>318</b>	<b>402</b>

**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 as incurred.



## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
<b>(c) Materials and contracts</b>		
Raw materials and consumables	11,358	12,993
Contractor and consultancy costs	4,958	5,466
Auditors remuneration <sup>2</sup>	56	48
Infringement notice contract costs (SEINS)	51	27
Expenses from leases of low value assets (2020 only)	112	–
<b>Legal expenses:</b>		
– Legal expenses: planning and development	263	264
– Legal expenses: debt recovery	357	457
– Legal expenses: other	271	65
<b>Operating leases expense (2019 only):</b>		
– Operating lease rentals: minimum lease payments <sup>1</sup>	–	169
<b>Total materials and contracts</b>	<u>17,426</u>	<u>19,489</u>
<b>TOTAL MATERIALS AND CONTRACTS</b>	<u>17,426</u>	<u>19,489</u>

**Accounting policy for materials and contracts**

Expenses are recorded on an accruals basis as the council receives the goods or services.

**Operating leases (2019 only)**

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. Operating lease payments are attributable to:**

Computers	–	146
Other	–	23
	<u>–</u>	<u>169</u>

**2. 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	56	48
<b>Remuneration for audit and other assurance services</b>	<u>56</u>	<u>48</u>
<b>Total Auditor-General remuneration</b>	<u>56</u>	<u>48</u>
<b>Total Auditor remuneration</b>	<u>56</u>	<u>48</u>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
<b>(d) Depreciation, amortisation and impairment of non-financial assets</b>			
<b>Depreciation and amortisation</b>			
Plant and equipment		2,489	1,640
Office equipment		205	232
Furniture and fittings		18	19
Library books		221	225
<b>Infrastructure:</b>	11		
– Buildings		2,034	2,055
– Roads		5,577	4,919
– Bridges		431	381
– Footpaths		252	220
– Stormwater drainage		853	740
– Swimming pools		54	50
– Other open space/recreational assets		639	556
– Other infrastructure		26	24
<b>Right of use assets</b>	13	56	–
<b>Total gross depreciation and amortisation costs</b>		<b>12,855</b>	<b>11,061</b>
<b>Total depreciation and amortisation costs</b>		<b>12,855</b>	<b>11,061</b>
<b>Impairment / revaluation decrement of IPP&amp;E</b>			
Plant and equipment		–	232
<b>Infrastructure:</b>	11		
– Buildings		–	481
<b>Total gross IPP&amp;E impairment / revaluation decrement costs / (reversals)</b>		<b>–</b>	<b>713</b>
<b>Total IPP&amp;E impairment / revaluation decrement costs / (reversals) charged to Income Statement</b>		<b>–</b>	<b>713</b>
<b><u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS</u></b>		<b>12,855</b>	<b>11,774</b>

**Accounting policy for depreciation, amortisation and impairment expenses of non-financial assets****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 11 for IPPE assets and Note 13 for right of use 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.

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 5. Expenses from continuing operations (continued)

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.

\$ '000	2020	2019
<b>(e) Other expenses</b>		
Advertising	146	158
Bad and doubtful debts	56	61
Bank charges	70	59
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	89	77
– NSW fire brigade levy	359	327
– NSW rural fire service levy	592	477
– Waste levy	4,589	5,539
Councillor expenses – mayoral fee	44	43
Councillor expenses – councillors' fees	264	257
Councillors' expenses (incl. mayor) – other (excluding fees above)	53	60
Donations, contributions and assistance to other organisations (Section 356)	83	87
Electricity and heating	473	536
Insurance	1,176	1,119
Rate collection agency expenses	92	75
RSPCA contribution	297	297
Section 355 committees	135	201
Street lighting	1,096	1,018
Subsidies	43	40
Telephone and communications	306	268
Valuation fees	215	165
Other	115	116
<b>Total other expenses</b>	<b>10,293</b>	<b>10,980</b>
<b>TOTAL OTHER EXPENSES</b>	<b>10,293</b>	<b>10,980</b>

**Accounting policy for other expenses**

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

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
<b>Property (excl. investment property)</b>			
Proceeds from disposal – property		457	219
Less: carrying amount of property assets sold/written off		(498)	(124)
<b>Net gain/(loss) on disposal</b>		<b>(41)</b>	<b>95</b>
<b>Plant and equipment</b>			
	11		
Proceeds from disposal – plant and equipment		459	815
Less: carrying amount of plant and equipment assets sold/written off		(502)	(1,059)
<b>Net gain/(loss) on disposal</b>		<b>(43)</b>	<b>(244)</b>
<b>Infrastructure</b>			
	11		
Proceeds from disposal – infrastructure		–	–
Less: carrying amount of infrastructure assets sold/written off		(2,018)	(1,595)
<b>Net gain/(loss) on disposal</b>		<b>(2,018)</b>	<b>(1,595)</b>
<b>Investments</b>			
	7(b)		
Proceeds from disposal/redemptions/maturities – investments		21,600	20,800
Less: carrying amount of investments sold/redeemed/matured		(21,600)	(20,800)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(2,102)</b>	<b>(1,744)</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 2020

## Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
<b>Cash and cash equivalents</b>		
Cash on hand and at bank	4,366	4,880
Cash-equivalent assets		
– Deposits at call	541	541
<b>Total cash and cash equivalents</b>	<u>4,907</u>	<u>5,421</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 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Investments</b>				
Financial assets at amortised cost	42,600	–	34,100	800
<b>Total Investments</b>	<u>42,600</u>	<u>–</u>	<u>34,100</u>	<u>800</u>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>	<u>47,507</u>	<u>–</u>	<u>39,521</u>	<u>800</u>
<b>Financial assets at amortised cost</b>				
Term deposits	41,800	–	33,600	–
NCD's, FRN's (with maturities > 3 months)	800	–	500	800
<b>Total</b>	<u>42,600</u>	<u>–</u>	<u>34,100</u>	<u>800</u>

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 7(b). Investments (continued)

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#### Accounting policy for investments

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)

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 trade and other receivables, term deposits 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.

#### 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 FRNs and NCDs in the Statement of Financial Position.



## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 7(c). Restricted cash, cash equivalents and investments

\$ '000	2020		2019	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	47,507	–	39,521	800
<b>attributable to:</b>				
External restrictions	21,528	–	15,606	800
Internal restrictions	25,365	–	23,205	–
Unrestricted	614	–	710	–
	47,507	–	39,521	800

\$ '000	2020	2019
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## Details of restrictions

**External restrictions – included in liabilities**

Specific purpose unexpended grants – general fund (2020 only)	2,718	–
<b>External restrictions – included in liabilities</b>	<b>2,718</b>	<b>–</b>

**External restrictions – other**

Developer contributions – general	15,435	12,361
RMS contributions	2,090	2,102
Specific purpose unexpended grants (recognised as revenue) – general fund	–	1,286
Stormwater management	855	227
Other	60	60
Domestic waste management	370	370
<b>External restrictions – other</b>	<b>18,810</b>	<b>16,406</b>

**Total external restrictions**

	<b>21,528</b>	<b>16,406</b>
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**Internal restrictions**

Plant and vehicle replacement	1,680	1,579
Employees leave entitlement	2,891	2,621
Carry over works	1,714	1,695
Bridge replacement	1,067	1,103
Lawn cemeteries	–	69
Computer services	268	368
Energy efficiency	91	38
Financial assistance grant in advance	3,866	3,685
Insurance provisions	1,303	1,308
Miscellaneous and property	2,444	1,914
Operations and programs	429	412
Property investment fund	628	781
Rezoning fees	85	85
Civil Works	1,828	1,212
Waste depot and rehabilitation	5,218	3,998
Unexpended Loan Funds	140	537
Committed Projects (SRV)	1,713	1,800
<b>Total internal restrictions</b>	<b>25,365</b>	<b>23,205</b>

**TOTAL RESTRICTIONS**

	<b>46,893</b>	<b>39,611</b>
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## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Purpose</b>				
Rates and annual charges	2,892	–	2,497	–
Interest and extra charges	342	–	381	–
User charges and fees	15	–	13	–
Accrued revenues				
– Interest on investments	154	–	221	–
Competitive building fees	13	–	69	–
Community facilities	266	–	69	–
Garbage tipping fees	28	–	66	–
Government grants and subsidies	605	–	183	–
Kerb and gutter	11	–	24	–
Net GST receivable	532	–	284	–
Premises inspections	55	–	51	–
Rental charges	36	–	54	–
Restoration charges	8	–	13	–
RMS debtors – state roads	1,616	–	287	–
Roadworks	56	–	183	–
Other debtors	218	–	304	–
<b>Total</b>	<b>6,847</b>	<b>–</b>	<b>4,699</b>	<b>–</b>
<b>Less: provision of impairment</b>				
Rates and annual charges	(328)	–	(326)	–
Other debtors	(92)	–	(35)	–
<b>Total provision for impairment – receivables</b>	<b>(420)</b>	<b>–</b>	<b>(361)</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>	<b>6,427</b>	<b>–</b>	<b>4,338</b>	<b>–</b>
<b>Externally restricted receivables</b>				
<b>Domestic waste management</b>	<b>606</b>	<b>–</b>	<b>555</b>	<b>–</b>
<b>Stormwater management</b>	<b>23</b>	<b>–</b>	<b>21</b>	<b>–</b>
<b>Other</b>				
Other restricted receivables	580	–	157	–
<b>Total external restrictions</b>	<b>1,209</b>	<b>–</b>	<b>733</b>	<b>–</b>
<b>Unrestricted receivables</b>	<b>5,218</b>	<b>–</b>	<b>3,605</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>	<b>6,427</b>	<b>–</b>	<b>4,338</b>	<b>–</b>
<b>Movement in provision for impairment of receivables</b>				
Balance at the beginning of the year (calculated in accordance with AASB 139)			361	408
+ new provisions recognised during the year			59	60
– amounts already provided for and written off this year			–	(107)
<b>Balance at the end of the year</b>			<b>420</b>	<b>361</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 8. Receivables (continued)

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#### 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.

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

##### Impairment

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.

Council may write 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 over 120 days past due, 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.

Rates and annual charges outstanding are secured against the property.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>(a) Inventories</b>				
<b>(i) Inventories at cost</b>				
Real estate for resale	1,270	–	1,666	–
Stores and materials	364	–	363	–
<b>Total inventories at cost</b>	<b>1,634</b>	<b>–</b>	<b>2,029</b>	<b>–</b>
<b><u>TOTAL INVENTORIES</u></b>	<b><u>1,634</u></b>	<b><u>–</u></b>	<b><u>2,029</u></b>	<b><u>–</u></b>
<b>(b) Other assets</b>				
Prepayments	323	–	78	–
<b><u>TOTAL OTHER ASSETS</u></b>	<b><u>323</u></b>	<b><u>–</u></b>	<b><u>78</u></b>	<b><u>–</u></b>
\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Total externally restricted assets</b>	–	–	–	–
<b>Total internally restricted assets</b>	1,270	–	1,666	–
<b>Total unrestricted assets</b>	687	–	441	–
<b><u>TOTAL INVENTORIES AND OTHER ASSETS</u></b>	<b><u>1,957</u></b>	<b><u>–</u></b>	<b><u>2,107</u></b>	<b><u>–</u></b>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 9. Inventories and other assets (continued)

## (i) Other disclosures

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>(a) Details for real estate development</b>				
Residential	1,270	–	1,666	–
<b>Total real estate for resale</b>	<b>1,270</b>	<b>–</b>	<b>1,666</b>	<b>–</b>
(Valued at the lower of cost and net realisable value)				
<b>Represented by:</b>				
Development costs	1,270	–	1,666	–
<b>Total costs</b>	<b>1,270</b>	<b>–</b>	<b>1,666</b>	<b>–</b>
<b>Total real estate for resale</b>	<b>1,270</b>	<b>–</b>	<b>1,666</b>	<b>–</b>
<b>Movements:</b>				
Real estate assets at beginning of the year	1,666	–	–	1,270
– Purchases and other costs	–	–	396	–
– Transfer between current/non-current	–	–	1,270	(1,270)
– Other ( Sales )	(396)	–	–	–
<b>Total real estate for resale</b>	<b>1,270</b>	<b>–</b>	<b>1,666</b>	<b>–</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 9. Inventories and other assets (continued)

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#### 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.

##### **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 2020

## Note 10. Non-current assets classified as held for sale

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Land and Buildings	206	–	–	–
<b>Total non-current assets 'held for sale'</b>	<b>206</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b><u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u></b>	<b><u>206</u></b>	<b><u>–</u></b>	<b><u>–</u></b>	<b><u>–</u></b>

**Accounting policy for non-current assets classified as held for sale**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as assets arising from employee benefits; financial assets; and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

## Notes to the Financial Statements for the year ended 30 June 2020

### Note 11. Infrastructure, property, plant and equipment

\$ '000	as at 30/06/19			Asset movements during the reporting period							as at 30/06/20		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Tfrs from/(to) 'held for sale' category	Revaluation increments/ (decrements)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	10,056	–	10,056	6,519	7,118	(548)	–	(6,343)	–	–	16,802	–	16,802
Plant and equipment	23,306	(13,924)	9,382	–	2,284	(497)	(2,489)	138	–	–	24,946	(16,128)	8,818
Office equipment	3,976	(3,587)	389	–	384	(5)	(205)	11	–	–	4,342	(3,768)	574
Furniture and fittings	1,423	(1,315)	108	–	43	–	(18)	–	–	–	1,466	(1,333)	133
Plant and equipment (under finance lease)	281	(281)	–	–	–	–	–	–	–	–	281	(281)	–
<b>Land:</b>													
– Operational land	33,223	–	33,223	–	330	–	–	–	–	–	33,553	–	33,553
– Community land	24,169	–	24,169	–	–	–	–	–	(274)	–	23,895	–	23,895
– Land under roads (post 30/6/08)	626	–	626	–	58	–	–	–	–	–	684	–	684
<b>Infrastructure:</b>													
– Buildings	125,387	(65,600)	59,787	281	141	(349)	(2,034)	542	(34)	1,490	128,424	(68,600)	59,824
– Roads	685,730	(122,199)	563,531	1,404	7,089	(927)	(5,577)	1,884	–	68,369	770,758	(134,985)	635,773
– Bridges	47,010	(13,169)	33,841	1,284	–	(475)	(431)	374	–	4,814	50,497	(11,090)	39,407
– Footpaths	20,483	(4,549)	15,934	6	1,014	(25)	(252)	636	–	(1,676)	19,629	(3,992)	15,637
– Stormwater drainage	101,000	(21,042)	79,958	–	3,624	–	(853)	663	–	8,951	114,144	(21,801)	92,343
– Swimming pools	4,864	(2,013)	2,851	–	–	–	(54)	–	–	90	5,019	(2,132)	2,887
– Other open space/recreational assets	21,301	(8,579)	12,722	339	618	(243)	(639)	2,095	–	389	24,391	(9,110)	15,281
– Other infrastructure	6,028	(866)	5,162	–	–	–	(26)	–	–	164	6,221	(921)	5,300
<b>Other assets:</b>													
– Library books	6,023	(4,907)	1,116	–	142	–	(221)	–	–	–	6,165	(5,128)	1,037
<b>Reinstatement, rehabilitation and restoration assets (refer Note 11):</b>													
– Tip assets	8,400	(8,400)	–	–	3,808	–	–	–	–	–	12,208	(8,400)	3,808
<b>Total Infrastructure, property, plant and equipment</b>	<b>1,123,286</b>	<b>(270,431)</b>	<b>852,855</b>	<b>9,833</b>	<b>26,653</b>	<b>(3,069)</b>	<b>(12,799)</b>	<b>–</b>	<b>(308)</b>	<b>82,591</b>	<b>1,243,425</b>	<b>(287,669)</b>	<b>955,756</b>

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



## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 11. Infrastructure, property, plant and equipment (continued)

	as at 30/06/18			Asset movements during the reporting period								as at 30/06/19		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
<b>\$ '000</b>														
Capital work in progress	6,401	–	6,401	3,397	5,297	(497)	–	–	(4,542)	–	–	10,056	–	10,056
Plant and equipment	22,679	(13,096)	9,583	–	2,729	(1,062)	(1,640)	(232)	–	4	–	23,306	(13,924)	9,382
Office equipment	3,877	(3,355)	522	–	102	–	(232)	–	–	(3)	–	3,976	(3,587)	389
Furniture and fittings	1,422	(1,296)	126	–	2	–	(19)	–	–	(1)	–	1,423	(1,315)	108
Plant and equipment (under finance lease)	281	(281)	–	–	–	–	–	–	–	–	–	281	(281)	–
<b>Land:</b>														
– Operational land	33,743	–	33,743	–	–	(124)	–	–	–	(396)	–	33,223	–	33,223
– Community land	24,169	–	24,169	–	–	–	–	–	–	–	–	24,169	–	24,169
– Land under roads (post 30/6/08)	395	–	395	–	82	–	–	–	–	–	149	626	–	626
<b>Infrastructure:</b>														
– Buildings	122,800	(62,096)	60,704	391	15	(185)	(2,055)	(481)	270	–	1,128	125,387	(65,600)	59,787
– Roads	606,435	(105,416)	501,019	2,009	9,303	(693)	(4,919)	–	2,603	–	54,209	685,730	(122,199)	563,531
– Bridges	41,561	(11,973)	29,588	1,454	495	(644)	(381)	–	434	–	2,895	47,010	(13,169)	33,841
– Footpaths	17,751	(3,855)	13,896	17	843	(2)	(220)	–	141	–	1,259	20,483	(4,549)	15,934
– Stormwater drainage	88,588	(18,112)	70,476	107	3,080	–	(740)	–	159	–	6,876	101,000	(21,042)	79,958
– Swimming pools	4,561	(1,844)	2,717	–	–	–	(50)	–	–	–	184	4,864	(2,013)	2,851
– Other open space/recreational assets	18,665	(7,481)	11,184	258	193	(71)	(556)	–	935	–	779	21,301	(8,579)	12,722
– Other infrastructure	5,571	(777)	4,794	–	–	–	(24)	–	–	–	392	6,028	(866)	5,162
<b>Other assets:</b>														
– Library books	5,814	(4,682)	1,132	–	209	–	(225)	–	–	–	–	6,023	(4,907)	1,116
<b>Reinstatement, rehabilitation and restoration assets (refer Note 11):</b>														
– Tip assets	8,400	(8,400)	–	–	–	–	–	–	–	–	–	8,400	(8,400)	–
<b>Total Infrastructure, property, plant and equipment</b>	<b>1,013,113</b>	<b>(242,664)</b>	<b>770,449</b>	<b>7,633</b>	<b>22,350</b>	<b>(3,278)</b>	<b>(11,061)</b>	<b>(713)</b>	<b>–</b>	<b>(396)</b>	<b>67,871</b>	<b>1,123,286</b>	<b>(270,431)</b>	<b>852,855</b>

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

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 11. 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 valuations are performed at least every five years, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value.

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.

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>Other equipment</b>	Years
Office equipment	4 to 10	Playground equipment	23
Office furniture	4 to 10	Benches, seats etc.	10 to 20
Computer equipment	4 to 5		
Vehicles	4 to 8	<b>Buildings</b>	
Heavy plant/road making equipment	4 to 8	Sub-structure	30 to 110
Other plant and equipment	4 to 15	Superstructure	35 to 110
		Roof Frame	150
<b>Stormwater Drainage assets</b>		Roof	20 to 110
Culverts	120	Electrical	45
Stormwater Pipes	120	Hydraulic	20 to 40
Stormwater Pits	120	Mechanical	22
		Fit-Out Fittings	35
<b>Transportation assets</b>		Fit-outs Floor Coverings	25
Sealed roads: surface	24 to 34		
Sealed roads: structure	80 to 1000	<b>Other infrastructure assets</b>	
Unsealed roads: surface and base	25 to 80	Swimming pools	91
Bridge: concrete: structure	120	Other open space/recreational assets	11 to 120
Bridge: concrete: other	50 to 60	Playgrounds	23
Bridge: timber - structure	120	Runways and Taxiways: surface	20
Bridge: timber - other	50 to 60	Runways and Taxiways: structure	80 to 1000
Kerb, gutter and footpaths	120		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

**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.

**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.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 11. Infrastructure, property, plant and equipment (continued)

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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**

Based on a review of relevant accounting standards, legislation, service agreements, current finance management agreements and the manner the RFS plant and equipment is purchased, managed and utilised, Council does not have control over RFS plant and equipment and consequently does not recognise these assets as Council assets.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 12. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
<b>Contract liabilities</b>			
<b>Grants and contributions received in advance:</b>			
Unexpended capital grants (to construct Council controlled assets)	(i)	3,352	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	49	–
Unexpended capital contributions (to construct Council controlled assets)	(i)	383	–
Unexpended operating contributions (received prior to performance obligation being satisfied)	(ii)	–	–
<b>Total grants received in advance</b>		<b>3,784</b>	<b>–</b>
<b>User fees and charges received in advance:</b>			
Development Application fees	(iii)	451	–
<b>Total user fees and charges received in advance</b>		<b>451</b>	<b>–</b>
<b>Total contract liabilities</b>		<b>4,235</b>	<b>–</b>

**Notes**

(i) Council has received funding to construct assets including sporting facilities, bridges, library and other infrastructure. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

(ii) The contract liability relates to grants received prior to the revenue recognition criteria in AASB 15 being satisfied since the performance obligations are ongoing.

(iii) Development application fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided. The undetermined DA fees do not meet the definition of a performance obligation and therefore the funds received are recorded as a contract liability at end of the year.

\$ '000	2020 Current	2020 Non-current
<b>(i) Contract liabilities relating to restricted assets</b>		
<b>Externally restricted assets</b>		
Unspent grants held as contract liabilities (excl. Water & Sewer)	2,718	–
<b>Contract liabilities relating to externally restricted assets</b>	<b>2,718</b>	<b>–</b>
<b>Total contract liabilities relating to restricted assets</b>	<b>2,718</b>	<b>–</b>
<b>Total contract liabilities relating to unrestricted assets</b>	<b>1,517</b>	<b>–</b>
<b>Total contract liabilities</b>	<b>4,235</b>	<b>–</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 12. Contract assets and liabilities (continued)

\$ '000	2020
<b>(ii) Revenue recognised (during the financial year) from opening contract liability balances</b>	
<b>Grants and contributions received in advance:</b>	
Capital grants (to construct Council controlled assets)	652
<b>Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period</b>	<b>652</b>

**Significant changes in contract assets and liabilities**

The contract liabilities have arisen on adoption of AASB 15 and AASB 1058. Previously income received in advance was recognised for reciprocal contracts. The increase in a contract liability is primarily due to grants in the scope of AASB 15 and capital grants received by Council to acquire or construct assets which will be under Council's control. Previously, revenue was recognised on receipt of the funds.

**Accounting policy for contract assets and liabilities**

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer.

When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or before the payment is due, Council presents the work in progress as a contract asset, unless the rights to that amount of consideration are unconditional, in which case Council recognises a receivable.

When an amount of consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 13. Leases

The Council has applied AASB 16 using the modified retrospective (cumulative catch-up) method and therefore the comparative information has not been restated and continues to be reported under AASB 117 and related Interpretations.

## (i) Council as a lessee

Council has leases over a range of assets including Gym and IT equipment. Information relating to the leases in place and associated balances and transactions is provided below.

## Terms and conditions of leases

## Buildings

Nil

## Vehicles

Nil

## Office, Gym and IT equipment

Leases for Office, Gym and IT equipment are generally for low value assets.

## Extension options

Nil

\$ '000	Plant & Equipment	Ready to use	Total
<b>(a) Right of use assets</b>			
Opening balance at 30 June 2019	-	-	-
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	141	-	141
Depreciation charge	(56)	-	(56)
<b><u>RIGHT OF USE ASSETS</u></b>	<b><u>85</u></b>	<b><u>-</u></b>	<b><u>85</u></b>

\$ '000	2020 Current	2020 Non-current
<b>(b) Lease liabilities</b>		
Lease liabilities	60	23
<b><u>TOTAL LEASE LIABILITIES</u></b>	<b><u>60</u></b>	<b><u>23</u></b>

## (i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	61	23	-	84	83

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 13. Leases (continued)

\$ '000	2020 Current	2020 Non-current
<b>(ii) Lease liabilities relating to restricted assets</b>		
Total lease liabilities relating to unrestricted assets	60	23
<u>Total lease liabilities</u>	<u>60</u>	<u>23</u>

\$ '000	2020
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**(c) Income Statement**

The amounts recognised in the Income Statement relating to leases where Council is a lessee are shown below:

Interest on lease liabilities	3
Depreciation of right of use assets	56
	<u>59</u>

**(d) Statement of Cash Flows**

Total cash outflow for leases	61
	<u>61</u>

**Accounting policy****Accounting policies under AASB 16 – applicable from 1 July 2019**

At inception of a contract, Council assesses whether a lease exists – i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration?

Council has elected not to separate non-lease components from lease components for any class of asset and has accounted for payments as a single component.

At the lease commencement, Council recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where Council believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Council's incremental borrowing rate for a similar term with similar security is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured when there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

**Exceptions to lease accounting**

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 13. Leases (continued)

Council has applied the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. Council recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

**Leases at significantly below market value / concessionary leases**

Council has elected to measure the right of use asset arising from the concessionary leases at cost which is based on the associated lease liability at initial recognition.

**Accounting policy under AASB 117 and associated Accounting Interpretations (2019 only)**

Refer to Note 5c and Note 16.

## (ii) Council as a lessor

## (e) Operating leases

The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below:

\$ '000	2020
<b>(i) Operating lease income</b>	
<b>Other lease income</b>	
Room/Facility Hire	252
Leaseback fees - council vehicles	300
Other	63
<b>Total income relating to operating leases</b>	<b>615</b>

**Accounting policy**

When Council is a lessor, the lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When Council has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*.

The lease income is recognised on a straight-line basis over the lease term.



## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 14. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Payables</b>				
Goods and services – operating expenditure	3,556	–	4,328	–
Accrued expenses:				
Prepaid rates	1,724	–	1,524	–
– Salaries and wages	423	–	407	–
– Other expenditure accruals	739	–	590	–
Security bonds, deposits and retentions	544	5,491	758	3,982
Trust fund	138	–	139	–
<b>Total payables</b>	<b>7,124</b>	<b>5,491</b>	<b>7,746</b>	<b>3,982</b>
<b>Income received in advance (2019 only)</b>				
Payments received in advance	–	–	68	813
<b>Total income received in advance</b>	<b>–</b>	<b>–</b>	<b>68</b>	<b>813</b>
<b>Borrowings</b>				
Loans – secured <sup>1</sup>	1,469	3,880	1,511	5,349
<b>Total borrowings</b>	<b>1,469</b>	<b>3,880</b>	<b>1,511</b>	<b>5,349</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>8,593</u></b>	<b><u>9,371</u></b>	<b><u>9,325</u></b>	<b><u>10,144</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 17.

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>(a) Payables and borrowings relating to restricted assets</b>				
<b>Externally restricted assets</b>				
Domestic waste management	75	–	54	–
Payables and borrowings relating to externally restricted assets	75	–	54	–
<b>Total payables and borrowings relating to restricted assets</b>	<b>75</b>	<b>–</b>	<b>54</b>	<b>–</b>
<b>Total payables and borrowings relating to unrestricted assets</b>	<b>8,518</b>	<b>9,371</b>	<b>9,271</b>	<b>10,144</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>8,593</u></b>	<b><u>9,371</u></b>	<b><u>9,325</u></b>	<b><u>10,144</u></b>

\$ '000	2020	2019
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### (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.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 14. Payables and borrowings (continued)

\$ '000	2020	2019
Payables – security bonds, deposits and retentions	544	1,132
Other Liabilities: Trust Fund Deposits	48	48
<b>Total payables and borrowings</b>	<b>592</b>	<b>1,180</b>

## (c) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	6,860	(1,511)	–	–	–	–	5,349
Lease liabilities	–	83	–	–	–	–	83
<b>TOTAL</b>	<b>6,860</b>	<b>(1,428)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,432</b>

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	8,252	(1,392)	–	–	–	6,860
<b>TOTAL</b>	<b>8,252</b>	<b>(1,392)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,860</b>

\$ '000	2020	2019
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## (d) Financing arrangements

## (i) Unrestricted access was available at balance date to the following lines of credit:

Bank overdraft facilities <sup>1</sup>	1,000	1,000
Credit cards/purchase cards	230	230
<b>Total financing arrangements</b>	<b>1,230</b>	<b>1,230</b>

## Undrawn facilities as at balance date:

– Bank overdraft facilities	1,000	1,000
– Credit cards/purchase cards	230	230
<b>Total undrawn financing arrangements</b>	<b>1,230</b>	<b>1,230</b>

(1) The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

## 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

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 14. Payables and borrowings (continued)

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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.

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.

#### **Finance leases (2019 only)**

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 15. Provisions

\$ '000	2020		2019	
	Current	Non-current	Current	Non-current
<b>Provisions</b>				
<b>Employee benefits</b>				
Annual leave	3,241	–	2,880	–
Sick leave	473	–	443	–
Long service leave	6,268	233	6,148	206
<b>Sub-total – aggregate employee benefits</b>	<b>9,982</b>	<b>233</b>	<b>9,471</b>	<b>206</b>
<b>Asset remediation/restoration:</b>				
Asset remediation/restoration (future works)	–	15,049	–	11,241
<b>Sub-total – asset remediation/restoration</b>	<b>–</b>	<b>15,049</b>	<b>–</b>	<b>11,241</b>
<b>TOTAL PROVISIONS</b>	<b>9,982</b>	<b>15,282</b>	<b>9,471</b>	<b>11,447</b>

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

##### Externally restricted assets

Domestic waste management	615	–	574	–
Provisions relating to externally restricted assets	615	–	574	–
<b>Total provisions relating to restricted assets</b>	<b>615</b>	<b>–</b>	<b>574</b>	<b>–</b>
<b>Total provisions relating to unrestricted assets</b>	<b>9,367</b>	<b>15,282</b>	<b>8,897</b>	<b>11,447</b>
<b>TOTAL PROVISIONS</b>	<b>9,982</b>	<b>15,282</b>	<b>9,471</b>	<b>11,447</b>

\$ '000	2020	2019
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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	6,178	6,250
	<b>6,178</b>	<b>6,250</b>

#### (c) Description of and movements in provisions

\$ '000	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
<b>2020</b>				
At beginning of year	2,880	443	6,354	9,677
Additional provisions	2,221	1,415	1,110	4,746
Amounts used (payments)	(1,860)	(1,385)	(963)	(4,208)
<b>Total ELE provisions at end of year</b>	<b>3,241</b>	<b>473</b>	<b>6,501</b>	<b>10,215</b>
<b>2019</b>				
At beginning of year	2,797	512	5,982	9,291
Additional provisions	2,142	1,159	1,288	4,589

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 15. Provisions (continued)

\$ '000	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
Amounts used (payments)	(2,059)	(1,228)	(916)	(4,203)
Total ELE provisions at end of year	2,880	443	6,354	9,677

\$ '000	Other provisions	
	Asset remediation	Total
<b>2020</b>		
At beginning of year	11,241	11,241
Additional provisions	3,808	3,808
Total other provisions at end of year	15,049	15,049
<b>2019</b>		
At beginning of year	11,241	11,241
Total other provisions at end of year	11,241	11,241

**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.

**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.

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**

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 15. Provisions (continued)

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Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarries. 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 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 2020

### Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

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#### (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**

Council did not identify any prior-period errors.

#### (c) Changes in accounting policies due to adoption of new accounting standards

During the year ended 30 June 2020, the Council has adopted AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-profit Entities* and AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method and therefore the comparative information for the year ended 30 June 2019 has not been restated and continues to comply with AASB 111 *Construction Contracts*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 1004 *Contributions* and associated Accounting Interpretations.

All adjustments on adoption of AASB 15 and AASB 1058 have been taken to retained earnings at 1 July 2019.

The impacts of adopting these standards and associated transition disclosures are provided below:

##### **(ii) AASB 15 and AASB 1058**

The following approach has been applied on transition to AASB 15 and AASB 1058:

- Council has not adopted the completed contract expedient and therefore has not excluded revenue which was fully recognised in previous years in accordance with the former accounting standards and pronouncements.
- Council has retrospectively restated contracts for modifications that occurred before 1 July 2019 unless such contract modification were minor.

##### **Costs incurred in fulfilling customer contracts**

Prior to adopting AASB 15 Council would recognise direct costs associated with fulfilling customer contracts as expenses when incurred, as they did not qualify for recognition as assets under any other accounting standards. Under AASB 15, as these costs relate directly to the contracts, generate resources used in satisfying the contracts, and are expected to be recovered, they are capitalised as 'costs to fulfil a contract' assets and released through profit and loss on the same basis as the revenue is recognised.

##### **Revenue recognition from contract modifications**

In relation to contract modifications, AASB 15 requires customer approval, which is a more prudent criteria than the probability requirement in the previous standards and has resulted in deferral of revenue where unapproved works have been performed.

##### **Transfer of control to a customer – over time or at a point in time**

AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. Council has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

##### **Principal v agent**

Prior to adoption of AASB 15, the Council had assessed that they were a principal in transactions where another party was involved in providing the goods or services including pass-through grants.

Under AASB 15, the indicators of a principal have changed and there are now a number of performance obligations within grant agreements where the Council is acting as an agent since the only obligation is to transfer the funds to a third party.

## Notes to the Financial Statements

for the year ended 30 June 2020

**Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**

The result is that Council can only recognise the “commission” to which they are entitled rather than the gross revenue and expenses. There is no change to reported profit.

**Licences**

Council has reviewed the licences it grants and considers that all licences are either short-term or low value and elects to recognise all revenue from licences up-front rather than spreading them over the life of the licence.

**Prepaid rates**

Under AASB 1004, rates were recorded as revenue at the earliest of receipt of the funds from the ratepayer and the beginning of the rating period. Under AASB 1058, prepaid rates are recognised as a financial liability until the beginning of the rating period.

**Grants – operating**

Under AASB 1004, most grant income was recognised as revenue on receipt. Under AASB 15, where an agreement is enforceable and contains sufficiently specific performance obligations, the revenue is either recognised over time as the work is performed, or recognised at the point in time that the control of the services passes to the customer.

**Grants – capital**

Under AASB 1004, most grant monies were recorded as revenue on receipt. Under AASB 1058, where Council has received assets (including cash) to acquire or construct a non-financial asset, the asset is to be controlled by Council and the contract is enforceable, then the asset is recognised as a contract liability on receipt and recorded as revenue as the performance obligation to acquire or construct the asset is completed.

**Changes in presentation**

In addition to the above changes in accounting policies, the Council has also amended the presentation of certain items to align them with the requirements of AASB 15 and AASB 1058:

These include:

- Movement of balances between receivables and contract assets.
- Additional line items of contract assets, contract cost assets and contract liabilities have been created.

\$ '000	Balance at 1 July 2019
<b>Opening contract balances at 1 July 2019</b>	
<b>Contract assets</b>	
– Under AASB 15	–
– Under AASB 1058	–
<b>Total Contract assets</b>	<b>–</b>
<b>Contract liabilities</b>	
– Under AASB 15	–
– Under AASB 1058	827
<b>Total Contract liabilities</b>	<b>827</b>

**Comparison of financial statement line items under AASB 15 compared to previous standards for the current year**

The following tables show the impact of adopting AASB 15 and AASB 1058 on the Council’s financial statements for the year ended 30 June 2020.

**Statement of Financial Position**



## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards	Notes
<b>Current assets</b>					
Cash and cash equivalents	4,907	–	–	4,907	
Investments	42,600	–	–	42,600	
Receivables	6,427	(1,724)	–	4,703	
Inventories	1,634	–	–	1,634	
Other	323	–	–	323	
Current assets classified as 'held for sale'	206	–	–	206	
<b>Total current assets</b>	<b>56,097</b>	<b>(1,724)</b>	<b>–</b>	<b>54,373</b>	
<b>Current liabilities</b>					
Payables	7,124	(1,724)	–	5,400	
Contract liabilities	4,235	–	(4,235)	–	
Lease liabilities	60	–	–	60	
Borrowings	1,469	–	–	1,469	
Provisions	9,982	–	–	9,982	
<b>Total current liabilities</b>	<b>22,870</b>	<b>(1,724)</b>	<b>(4,235)</b>	<b>16,911</b>	
<b>Non-current assets</b>					
Infrastructure, property, plant and equipment	955,756	–	–	955,756	
Right of use assets	85	–	–	85	
<b>Total non-current assets</b>	<b>955,841</b>	<b>–</b>	<b>–</b>	<b>955,841</b>	
<b>Non-current liabilities</b>					
Payables	5,491	–	–	5,491	
Lease liabilities	23	–	–	23	
Borrowings	3,880	–	–	3,880	
Provisions	15,282	–	–	15,282	
<b>Total Non-current liabilities</b>	<b>24,676</b>	<b>–</b>	<b>–</b>	<b>24,676</b>	
<b>Net assets</b>	<b>964,392</b>	<b>–</b>	<b>4,235</b>	<b>968,627</b>	
<b>Equity</b>					
Accumulated surplus	507,450	–	4,235	511,685	
Revaluation reserves	456,942	–	–	456,942	
<b>Council equity interest</b>	<b>964,392</b>	<b>–</b>	<b>4,235</b>	<b>968,627</b>	
<b>Total equity</b>	<b>964,392</b>	<b>–</b>	<b>4,235</b>	<b>968,627</b>	

The above table shows the reversal of the impacts of new accounting standards recognised to give a restated Statement of Financial Position before the reclassifications.

## Income Statement

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Income Statement and comprehen- sive income under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Income Statement and comprehen- sive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	53,355	–	–	53,355	
User charges and fees	7,973	–	451	8,424	
Other revenues	2,268	–	–	2,268	
Grants and contributions provided for operating purposes	13,074	–	49	13,123	
Grants and contributions provided for capital purposes	23,597	–	3,735	27,332	
Interest and investment income	836	–	–	836	
Rental income	615	–	–	615	
<b>Total Income from continuing operations</b>	<b>101,718</b>	<b>–</b>	<b>4,235</b>	<b>105,953</b>	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	35,330	–	–	35,330	
Borrowing costs	318	–	–	318	
Materials and contracts	17,426	–	–	17,426	
Depreciation and amortisation	12,855	–	–	12,855	
Other expenses	10,293	–	–	10,293	
Net losses from the disposal of assets	2,102	–	–	2,102	
<b>Total Expenses from continuing operations</b>	<b>78,324</b>	<b>–</b>	<b>–</b>	<b>78,324</b>	
<b>Total Operating result from continuing operations</b>	<b>23,394</b>	<b>–</b>	<b>4,235</b>	<b>27,629</b>	
Net operating result for the year	23,394	–	4,235	27,629	
<b>Total comprehensive income</b>	<b>105,985</b>	<b>–</b>	<b>4,235</b>	<b>110,220</b>	

The above table shows the reversal of the impacts of new accounting standards recognised to give a restated Income Statement before the reclassifications.

## Adjustments to the current year figures for the year ended 30 June 2020

## Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract assets	–	–	–
<b>Total assets</b>	<b>–</b>	<b>–</b>	<b>–</b>
Contract liabilities	–	827	827
<b>Total liabilities</b>	<b>–</b>	<b>827</b>	<b>827</b>
Accumulated surplus	–	(827)	(827)

## Notes to the Financial Statements

for the year ended 30 June 2020

**Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
<b>Total equity</b>	–	(827)	(827)

**(iii) AASB 16 Leases****Council as a lessee**

Under AASB 117, Council assessed whether leases were operating or finance leases, based on its assessment of whether the significant risks and rewards of ownership had been transferred to Council or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low-value assets).

Council has used the exception to lease accounting for short-term leases and leases of low-value assets, and the lease expense relating to these leases is recognised in the Income Statement on a straight-line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition. Council has used the following expedients:

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.
- Lease liabilities have been discounted using the Council's incremental borrowing rate at 1 July 2019.
- Right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjustment by the any prepaid or accrued lease payments.
- A single discount rate was applied to all leases with similar characteristics.
- The right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset.
- Excluded leases with an expiry date prior to 30 June 2020 from the Statement of Financial Position, and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

**Financial statement impact of adoption of AASB 16**

Council has recognised right-of-use assets and lease liabilities of \$141,000 at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

\$ '000	Balance at 1 July 2019
<b>Operating lease commitments at 30 June 2019 per Council financial statements</b>	141

**Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases**

<b>Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019</b>	141
<b>Lease liabilities recognised at 1 July 2019</b>	141

**Council as a lessor**

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16 except for sub-leases, which have now been classified in relation to the right-of-use asset under the head lease rather than the underlying asset.

**Adjustments to the current year figures for the year ended 30 June 2020**

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

## Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Rights-of-use assets	–	141	141
<b>Total assets</b>	<b>898,097</b>	<b>141</b>	<b>898,238</b>
Lease Liabilities	–	141	141
<b>Total liabilities</b>	<b>38,863</b>	<b>141</b>	<b>39,004</b>
<b>Total equity</b>	<b>859,234</b>	<b>–</b>	<b>859,234</b>

## (d) Voluntary changes in accounting policies

Council made no voluntary changes in any accounting policies during the year.

## (e) Changes in accounting estimates

Council made no changes in accounting estimates during the year.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 17. Statement of cash flow information

\$ '000	Notes	2020	2019
<b>(a) Reconciliation of cash and cash equivalents</b>			
Total cash and cash equivalents per Statement of Financial Position	7(a)	4,907	5,421
<b>Balance as per the Statement of Cash Flows</b>		<b>4,907</b>	<b>5,421</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		23,394	15,020
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		12,855	11,061
Net losses/(gains) on disposal of assets		2,102	1,744
Non-cash capital grants and contributions		(11,398)	(12,582)
Adoption of AASB 15/1058		(827)	–
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Revaluation decrements / impairments of IPP&E direct to P&L		–	713
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		(2,148)	2,513
Increase/(decrease) in provision for impairment of receivables		59	(47)
Decrease/(increase) in inventories		(1)	(24)
Decrease/(increase) in other current assets		(245)	90
Increase/(decrease) in payables		(772)	(1,055)
Increase/(decrease) in other accrued expenses payable		165	7
Increase/(decrease) in other liabilities		613	594
Increase/(decrease) in contract liabilities		4,235	–
Increase/(decrease) in provision for employee benefits		538	386
Increase/(decrease) in other provisions		3,808	–
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>32,378</b>	<b>18,420</b>
<b>(c) Non-cash investing and financing activities</b>			
Other dedications		11,398	12,582
<b>Total non-cash investing and financing activities</b>		<b>11,398</b>	<b>12,582</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 18. Interests in other entities

## Joint arrangements

## Joint operations

\$ '000	Principal activity	Place of business	Interest in ownership		Interest in voting	
			2020	2019	2020	2019
<b>(a) Council is involved in the following joint operations (JO's)</b>						
<b>Name of joint operation:</b>						
Strategic Services Australia Ltd	Local Government Services	Thornton	10%	10%	8%	8%

Council has an interest in Strategic Services Australia Ltd, along with other member Councils of Strategic Services Australia Ltd. The activities of this organisation are not controlled by any one Council. Strategic Services Australia Ltd has been established to improve the quality and efficiency of local government service throughout the Hunter Region.

**(b) Council assets employed in the joint operations**

\$ '000	2020	2019
<b>Council's share of assets jointly owned with other partners</b>		
Current assets	675	712
Current liabilities	(232)	(230)
Property, plant and equipment	32	35
Non-current liabilities	(2)	(3)
<b>Total net assets employed – Council and jointly owned</b>	<b>473</b>	<b>514</b>

**Accounting policy for joint arrangements**

The council has determined that it has joint operations only.

**Joint operations:**

In relation to its joint operations, where the venturer has the rights to the individual assets and obligations arising from the arrangement, the Council has recognised:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

These figures are incorporated into the relevant line item in the primary statements.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 19. Commitments

\$ '000	2020	2019
<b>(a) Capital commitments (exclusive of GST)</b>		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
<b>Property, plant and equipment</b>		
Gingers Lane design	–	49
Fosters bridge	–	1,264
Cooper and Charlton Streets Cessnock CBD upgrade	–	908
Paynes Crossing Bridge	1,844	–
Anvil Creek Bridge	1,265	–
Cessnock Library Lift	114	–
Vincent Street Laneways	68	–
Bluey Frame Playground	41	–
Branxton Pool Renewal Program	42	–
Cessnock Pool Splash Pad	55	–
Bridges Hill Toilet Block	32	–
<b>Total commitments</b>	<b>3,461</b>	<b>2,221</b>
<b>These expenditures are payable as follows:</b>		
Within the next year	3,461	2,221
<b>Total payable</b>	<b>3,461</b>	<b>2,221</b>
<b>Sources for funding of capital commitments:</b>		
Unrestricted general funds	132	–
Future grants and contributions	2,473	957
Section 7.11 and 64 funds/reserves	574	–
Internally restricted reserves	254	–
New loans (to be raised)	28	1,264
<b>Total sources of funding</b>	<b>3,461</b>	<b>2,221</b>
<b>Details of capital commitments</b>		
The council has committed to:		
<ul style="list-style-type: none"> <li>• design and construction of Paynes Crossing bridge</li> <li>• design and construction of Anvil Creek bridge</li> <li>• completion of Cessnock Library lift</li> <li>• construction of laneways in Vincent Street Cessnock</li> <li>• replacement of Bluey Frame playground</li> <li>• completion of Branxton Pool renewal program</li> <li>• design of Cessnock Pool splash pad</li> <li>• completion of Bridges Hill Park toilet block</li> </ul>		

\$ '000	2020	2019
<b>(b) Non-cancellable operating lease commitments (2019 only)</b>		
<b>a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:</b>		
Within the next year	–	164
Later than one year and not later than 5 years	–	154
<b>Total non-cancellable operating lease commitments</b>	<b>–</b>	<b>318</b>
<b>b. Non-cancellable operating leases include the following assets:</b>		

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 19. Commitments (continued)

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Refer to Note 15 for information relating to leases for 2020.

Computer and Photocopier Leases

Contingent Rentals may be payable depending on the condition of items or usage during the lease term.

**Conditions relating to finance and operating leases:**

- All operating lease agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.



## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 20. Contingencies

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**

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits 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.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

*Description of the funding arrangements*

Pooled employers are required to pay future service employer contributions and past service employer contributions to the fund.

The future service 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 future service employer contribution rates are:

Division B	1.9 times member contributions for non-180 Point Members; Nil for 180 Point Members*
Division C	2.50% salaries
Division D	1.64 times member contributions

\*For 180 Point Members, employers are required to contribute 7% of salaries to these members' accumulation accounts, which are paid in addition to members' defined benefits.

The past service contribution for each pooled employer is a share of the total past service contributions of \$40.0 million for 1 July 2019 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

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

*Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan*

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

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 past service 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.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 20. Contingencies (continued)

The amount of employer contributions to the defined benefit section of the Scheme and recognised as an expense for the year ending 30 June 2020 was \$778,645. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA as at 30 June 2019 and covers the year ended 30 June 2019.

The amount of additional contributions included in the total employer contribution advised above is \$384,700. Council's expected contribution to the plan for the next annual reporting period is \$768,852.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2020 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,695.2	
Past Service Liabilities	1,773.2	95.6%
Vested Benefits	1,757.5	96.5%

\* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$389,600 as at 30 June 2020.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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

\* Plus promotional increases

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.

**(ii) Statewide Mutual Limited**

Council is a member of Statewide Mutual Limited, Australia's largest member owned Local Government self-insurance pool, working with Councils to reduce their exposure to risk.

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 June 2020 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 Mutual Limited**

Council is a member of the StateCover Mutual Limited which provides workplace compensation insurance.

StateCover Mutual Limited provides support and advice to Council on developing return to work programs, incident and claims management and assistance with meeting legislative compliance.

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.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 20. Contingencies (continued)

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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 at 30 June 2020 Council had the following pending legal matters:

The Council is defending a demand for a compensation.

Whilst the potential cost of the claim is unlikely to be significant, it is not practical to assess the impact of the claim at the date of this report.

##### (ii) Rehabilitation Works

Council owns six properties that may be subject to rehabilitation works due to possible contamination. This may result in future liabilities, but until an investigation of these sites is completed, Council is unable to determine the value of this liability.

#### 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 June 2008.

##### (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.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 21. 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.

The fair value of Council's financial assets and financial liabilities approximates their carrying amount.

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 it's 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.
- **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>2020</b>				
Possible impact of a 10% movement in market values	4,072	4,072	(4,072)	(4,072)
Possible impact of a 1% movement in interest rates	407	407	(407)	(407)
<b>2019</b>				
Possible impact of a 10% movement in market values	3,984	3,984	(3,984)	(3,984)
Possible impact of a 1% movement in interest rates	398	398	(398)	(398)

## (b) Credit risk

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

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 21. Financial risk management (continued)

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery policies. Council also encourages ratepayers to pay 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 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.

A profile of Council's receivables credit risk at balance date follows:

## 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
<b>2020</b>						
Gross carrying amount	–	2,892	–	–	–	2,892
<b>2019</b>						
Gross carrying amount	1,524	973	–	–	–	2,497

## 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 2020 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>2020</b>						
Gross carrying amount	759	2,868	115	14	199	3,955
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>ECL provision</b>	–	–	–	–	–	–
<b>2019</b>						
Gross carrying amount	587	1,450	33	11	121	2,202
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>ECL provision</b>	–	–	–	–	–	–

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 21. Financial risk management (continued)

## (c) Liquidity risk

Payables, lease liabilities and borrowings are 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:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
<b>2020</b>							
Trade/other payables	0.00%	6,035	5,544	–	–	11,579	10,891
Loans and advances	5.00%	–	182	2,863	2,304	5,349	5,349
<b>Total financial liabilities</b>		<b>6,035</b>	<b>5,726</b>	<b>2,863</b>	<b>2,304</b>	<b>16,928</b>	<b>16,240</b>
<b>2019</b>							
Trade/other payables	0.00%	4,740	5,464	–	–	10,204	10,204
Loans and advances	5.25%	–	70	4,218	2,572	6,860	6,860
<b>Total financial liabilities</b>		<b>4,740</b>	<b>5,534</b>	<b>4,218</b>	<b>2,572</b>	<b>17,064</b>	<b>17,064</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 22. Material budget variations

Council's original financial budget for 2019/20 was adopted by the Council on 19/06/2019 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	2020 Budget	2020 Actual	2020 ----- Variance -----		
<b>REVENUES</b>					
<b>Rates and annual charges</b>	<b>52,121</b>	<b>53,355</b>	<b>1,234</b>	<b>2%</b>	<b>F</b>
<b>User charges and fees</b>	<b>8,426</b>	<b>7,973</b>	<b>(453)</b>	<b>(5)%</b>	<b>U</b>
<b>Other revenues</b>	<b>1,951</b>	<b>2,268</b>	<b>317</b>	<b>16%</b>	<b>F</b>
S355 Committees		118K (F)			
Lease Rental reallocation		300K (U)			
Fines		34K (U)			
Insurance Claims		59K (F)			
Legal Fees Recovery (Rates & Charges)		145K (U)			
Investment Fair Value Adjustment		630L (F)			
<b>Operating grants and contributions</b>	<b>11,645</b>	<b>13,074</b>	<b>1,429</b>	<b>12%</b>	<b>F</b>
Financial Assistance Grant		172K (F)			
Bushfire Recovery Grant		1,417K (F)			
Library per Capita Grant		39K (F)			
Road to Recovery Grant		320K (U)			
Waste Levy Programs		93K (F)			
Environmental Programs Grant		96K (F)			
<b>Capital grants and contributions</b>	<b>15,995</b>	<b>23,597</b>	<b>7,602</b>	<b>48%</b>	<b>F</b>
S7.11 Contributions		413K (F)			
Dedications of new assets		11,398K (F)			
Kerb and Gutter Contributions		10K (U)			
Roads and Bridges		4,200K (U)			
Community Centres		96K (F)			
Recreation and Parks Contributions		450K (U)			
Traffic Facilities		20K (F)			
Library Special Projects		354K (F)			
Heritage Projects		52K (F)			
<b>Interest and investment revenue</b>	<b>836</b>	<b>836</b>	<b>–</b>	<b>0%</b>	<b>F</b>
<b>Rental income</b>	<b>–</b>	<b>615</b>	<b>615</b>	<b>∞</b>	<b>F</b>
Rental Income accounting standard reallocation		615K (F)			
<b>EXPENSES</b>					
<b>Employee benefits and on-costs</b>	<b>33,356</b>	<b>35,330</b>	<b>(1,974)</b>	<b>(6)%</b>	<b>U</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 22. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
<b>Borrowing costs</b>	381	318	63	17% <b>F</b>
New loan planned to be taken out in 2019/20 deferred to 2020/21 resulting in saving in loan repayments.				
<b>Materials and contracts</b>	15,167	17,426	(2,259)	(15)% <b>U</b>
Expenses exceeded the original budget primarily due to extra works not forecast being undertaken as a result of additional grant funds and reserve funds being utilised after the budget was adopted eg RMS works. Also expenditure originally budgeted as capital expenditure was reclassified and recorded as operating expenditure.				
<b>Depreciation and amortisation</b>	12,177	12,855	(678)	(6)% <b>U</b>
<b>Other expenses</b>	12,506	10,293	2,213	18% <b>F</b>
Bad and Doubtful debts	45K (U)			
Electricity	84K (F)			
Insurances	191K (U)			
Emergency Services Levy	97K (U)			
Street Lighting	86K (F)			
Street Lighting Replacement Program	862K (F)			
Telephone expenses	21K (U)			
Valuation expenses	12K (U)			
S88 EPA Waste Levy	1,611K (F)			
<b>Net losses from disposal of assets</b>	700	2,102	(1,402)	(200)% <b>U</b>
Disposals of Plant, Equipment and Property.				
<b>Revaluation decrement / impairment of IPP&amp;E</b>	-	-	-	∞ <b>F</b>
<b>STATEMENT OF CASH FLOWS</b>				
<b>Cash flows from operating activities</b>	22,760	32,378	9,618	42% <b>F</b>
Rates and annual charges	1,962K (F)			
User charges and fees	860K (U)			
Investment and interest revenue	102K (F)			
Grants and contributions	208K (F)			
Bonds and deposits	745K (F)			
Other receipts	445K (U)			
Employee benefits and on-costs	1,376K (U)			
Materials and contracts	3,300K (F)			
Borrowing costs	62K (F)			
Other payments	5,918K (F)			
<b>Cash flows from investing activities</b>	(22,850)	(31,323)	(8,473)	37% <b>U</b>
Net Purchase / Sale of investment securities	4,700K (U)			
Net Purchase / Sale of Infrastructure, property, plant and equipment	3,773K (U)			
<b>Cash flows from financing activities</b>	920	(1,569)	(2,489)	(271)% <b>U</b>
Variation is due to the 2019/20 loan borrowing of \$2,948K not taken up in 2019/20 and partially offset by savings in loan repayments.				



## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 23. Fair Value Measurement

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

– 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).

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

2020	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>Infrastructure, property, plant and equipment</b>					
Plant and Equipment	30/06/20	–	–	8,818	8,818
Office Equipment	30/06/20	–	–	574	574
Furniture and Fittings	30/06/20	–	–	133	133
Operational Land	30/06/18	–	–	33,553	33,553
Community Land	30/06/16	–	–	23,895	23,895
Land Under Roads (post 30/6/08)	30/06/19	–	–	684	684
Buildings	30/06/18	–	–	59,824	59,824
Roads	30/06/20	–	–	635,773	635,773
Bridges	30/06/20	–	–	39,407	39,407
Footpaths	30/06/20	–	–	15,637	15,637
Stormwater Drainage	30/06/20	–	–	92,343	92,343
Swimming Pools	30/06/16	–	–	2,887	2,887
Other Open Space / Recreational Assets	30/06/16	–	–	15,281	15,281
Other Infrastructure	30/06/16	–	–	5,300	5,300
Library Books	30/06/20	–	–	1,037	1,037
Tip Assets	30/06/20	–	–	3,808	3,808
<b>Total infrastructure, property, plant and equipment</b>		<b>–</b>	<b>–</b>	<b>938,954</b>	<b>938,954</b>

2019	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>Infrastructure, property, plant and equipment</b>					
Plant and Equipment	30/06/18	–	–	9,382	9,382
Office Equipment	30/06/18	–	–	389	389
Furniture and Fittings	30/06/18	–	–	108	108
Operational Land	30/06/18	–	–	33,223	33,223
Community Land	30/06/16	–	–	24,169	24,169

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## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 23. Fair Value Measurement (continued)

2019	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Land Under Roads (post 30/6/08)	30/06/14	–	–	626	626
Buildings	30/06/19	–	–	59,787	59,787
Roads	30/06/19	–	–	563,531	563,531
Bridges	30/06/15	–	–	33,841	33,841
Footpaths	30/06/19	–	–	15,934	15,934
Stormwater Drainage	30/06/19	–	–	79,958	79,958
Swimming Pools	30/06/19	–	–	2,851	2,851
Other Open Space / Recreational Assets	30/06/19	–	–	12,722	12,722
Other Infrastructure	30/06/16	–	–	5,162	5,162
Library Books	30/06/14	–	–	1,116	1,116
Tip Assets	30/06/19	–	–	–	–
<b>Total infrastructure, property, plant and equipment</b>		<b>–</b>	<b>–</b>	<b>842,799</b>	<b>842,799</b>

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

##### Infrastructure, property, plant and equipment (IPP&E)

Refer section 4c and 4d below.

#### (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	Land	Buildings
<b>2019</b>			
<b>Opening balance</b>	11,365	58,307	60,704
Purchases (GBV)	3,040	82	406
Disposals (WDV)	(1,062)	(124)	(185)
Depreciation and impairment	(2,348)	–	(2,536)
Transfer from WIP	–	–	270
Adjustments and transfers	–	(396)	–
Gains / (Losses) recognised in other comprehensive income	–	149	1,128
<b>Closing balance</b>	<b>10,995</b>	<b>58,018</b>	<b>59,787</b>
<b>2020</b>			
<b>Opening balance</b>	10,995	58,018	59,787
Purchases (GBV)	2,852	388	422
Disposals (WDV)	(502)	–	(348)
Depreciation and impairment	(2,932)	–	(2,034)
Transfer from WIP	149	–	541
Adjustments and transfers	–	(274)	(34)
Gains / (Losses) recognised in other comprehensive income	–	–	1,490
<b>Closing balance</b>	<b>10,562</b>	<b>58,132</b>	<b>59,824</b>

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## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 23. Fair Value Measurement (continued)

\$ '000	Rehabilitation		Total
	Infrastructure	assets	
<b>2019</b>			
<b>Opening balance</b>	633,672	–	<b>764,048</b>
Purchases (GBV)	17,760	–	<b>21,288</b>
Disposals (WDV)	(1,409)	–	<b>(2,780)</b>
Depreciation and impairment	(6,890)	–	<b>(11,774)</b>
Transfer from WIP	4,272	–	<b>4,542</b>
Adjustments and transfers	–	–	<b>(396)</b>
Gains / (Losses) recognised in other comprehensive income	66,594	–	<b>67,871</b>
<b>Closing balance</b>	<b>713,999</b>	<b>–</b>	<b>842,799</b>
<b>2020</b>			
<b>Opening balance</b>	713,999	–	<b>842,799</b>
Purchases (GBV)	17,458	–	<b>21,120</b>
Disposals (WDV)	(1,669)	–	<b>(2,519)</b>
Depreciation and impairment	(7,832)	–	<b>(12,798)</b>
Transfer from WIP	5,651	–	<b>6,341</b>
Adjustments and transfers	–	3,808	<b>3,500</b>
Gains / (Losses) recognised in other comprehensive income	79,021	–	<b>80,511</b>
<b>Closing balance</b>	<b>806,628</b>	<b>3,808</b>	<b>938,954</b>

**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 in to or out of the Level 3 valuation hierarchy.

**c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.**

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various level 3 asset class fair values.

	Valuation technique/s	Unobservable inputs
Plant, equipment, office equipment, furniture, fittings and library books	Depreciated historical cost	Useful life.
Operational land	Market approach with adjustment for limited use	Adjustment applied for limited use, comparison to similar recent sales, current market conditions.
Community land	Land values obtained from the NSW Valuer-General	Land value
Land under roads	Land values obtained from the NSW Valuer-General discounted 90%	Land value, discount percentage.
Buildings - non specialised	Market approach	Comparison to similar recent sales, current market conditions, useful life, condition, estimated pattern of consumption.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 23. Fair Value Measurement (continued)

	Valuation technique/s	Unobservable inputs
Buildings - specialised and Infrastructure assets	Cost approach	Design, location and specification of the asset. Condition and associated scoring methodology. Age and estimation of Useful Life and Remaining Useful Life. Componentisation / Segmentation. Replacement Cost / Unit Rates. Indicators of future obsolescence or change in use. Depreciation assumptions. Residual Value. Pattern of Consumption.

**d. The valuation process for level 3 fair value measurements****Plant, equipment, office equipment, furniture, fittings and library books**

These assets are reported at depreciated historical cost. In light of the nature and value of council plant and equipment, the Office of Local Government has stated that the fair value of these assets is unlikely to be materially different from depreciated historical cost. There has been no change to the valuation process during the reporting period.

**Operational Land**

Operational land was last valued in 2018 by independent qualified valuer Opteon Solutions. Opteon Solutions used market evidence to value operational land and applied adjustments for zoning, location, land size, comparability, utility, etc. Council reviewed the valuation report and discussed significant movements with Opteon Solutions. There has been no change to the valuation process during the reporting period.

**Community Land**

Community land was last valued in 2016. Council staff carried out the valuation. Council staff determined the average unit value of land within the Cessnock local government area using the Valuer General's valuation. Community land is subject to restrictions which the Valuer General has taken into account when applying discounts to the market price based on sales of similar assets. There has been no change to the valuation process during the reporting period.

**Land Under Roads**

Land under roads that came into Council's control post 01/07/2008 was last valued in 2019. Council staff determined the average unit value of land within the Cessnock local government area using the Valuer General's valuation at 30 June 2019. A 90% discount was applied to the average unit value to reflect restrictions placed on land under roads. There has been no change to the valuation process during the reporting period.

**Buildings - Non Specialised**

The last comprehensive valuation on Non Specialised Buildings was undertaken externally in 2018 by independent qualified valuers APV Valuers. The Market Approach has been used to value this asset class. APV Valuers have valued non-specialised buildings by obtaining market evidence through the direct comparison approach. Council reviewed the valuation report and discussed significant movements with APV Valuers. In the years when a comprehensive valuation is not due indexation has been applied per Rawlinson Construction Handbook. There has been no change to the valuation techniques during the reporting period.

**Buildings - Specialised**

The last comprehensive valuation on Specialised Buildings was undertaken in 2018 by Council's asset management staff. Under the Cost Approach, current replacement cost was calculated using Rawlinsons Construction Handbook to determine current unit rates applicable to the various components of each asset. Unit rates were tested against recently completed projects to ensure accuracy. Council's asset management staff reviewed and adjusted condition, useful life and the valuation matrix where appropriate. In the years when a comprehensive valuation is not due indexation has been applied per Rawlinson Construction Handbook. There has been no change to the valuation techniques during the reporting period.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 23. Fair Value Measurement (continued)

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#### Infrastructure Assets

Roads, Bridges, Footpaths and Stormwater Drainage were comprehensively valued in 2020. Swimming Pools, Other Open Space/Recreational Assets and Other Infrastructure (being the airport runway and taxiways) was last comprehensively valued in 2016. Fair value has been determined by calculating the current replacement cost under the Cost Approach and the net carrying amount based on the unobservable inputs noted in section 4c above.

The 2020 condition assessments were undertaken by independent experts. Pavement Management Services (PMS) undertook the condition assessment of roads, footpaths, kerb and gutter and street furniture and Total Drainage Cleaning (TDC) undertook the condition assessment of Council's stormwater assets. Covid-19 did result in some impact on this process which resulted in a change of vendor and some delays. The condition data however enables Council to evaluate the condition of all asset classes within the scope of the 2020 revaluation. The entire network of Sealed and Unsealed Roads (constituting the largest component by value) was evaluated utilising both technology (laser with software evaluation) and video with expert evaluation. This data was utilised to provide condition assessment for both the road surface and pavement base. Kerb & Gutter, Footpaths and Street Furniture were both evaluated utilising video capture and expert assessment. The evaluation covered all assets within Council's asset register. The condition assessment of these assets however has not been linked to Council's specific assets and therefore the condition assessment has been assessed for the overall population of assets within each of these asset classes. Council's Stormwater Assets were evaluated based on a statistically significant sample of assets. The sample was selected as representative with a higher weighting provided for current assets that had poorer condition ratings. Bridges (due to the importance of ensuring structural soundness) have been evaluated on a rolling three year program by Council.

The condition assessments undertaken indicate that the condition of Council's assets are reasonably equivalent to the condition assessment undertaken in 2015 for these assets. There are some changes in condition of individual assets however in aggregate has not been a significant change in condition. As a consequence the condition data on which Council's financials are based is representative of the condition of Council's infrastructure assets and in Council's position reflects a true and fair view. Additional evaluation was undertaken of Kerb and Gutter, Footpaths and Street Furniture (which has not been applied to specific assets) and stormwater asset data (covering a statistically significant sample) has confirmed overall asset condition by asset class are comparable across 2015 and 2020.

The 2020 comprehensive valuation was undertaken by an external, independent, qualified valuer G7 Asset Management.

G7 Asset Management worked with Council on the review and update of Council's methodologies and their application in determining appropriate unit rates, the useful lives (and remaining useful lives) of Council assets and the impact this has on Council asset values and depreciation. Unit rates have primarily been calculated on a first principles basis using Rawlinsons Construction Handbook Sydney Index at 30/06/20. A provision for preliminaries of 8% and the Singleton regional index of 8% has been applied. Council's asset management and finance staff have tested the unit rates against recently completed projects to ensure completeness, reliability and accuracy. Asset condition assessments and their application in determining fair value are consistent with the recommended approach in the Integrated Planning and Reporting Manual.

Council's Asset Management and Finance staff have comprehensively reviewed and discussed both condition and valuation results arising from the 2020 revaluation with the independent experts noted above. This has been to recognise that Council is ultimately responsible for the outcome of the revaluation process. This review has been undertaken to ensure the completeness, reliability and accuracy of the data. Council staff have also undertaken their own independent analysis to assess outcomes and conclusions reached.

The 2016 comprehensive valuation was undertaken internally by experienced asset management staff using the method described above.

In the years when a comprehensive valuation is not due indexation has been applied per Rawlinson Construction Handbook.

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

#### (5) Highest and best use

All assets valued at fair value in this note are being used for their highest and best use.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 24. Related party disclosures

#### (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	2020	2019
<b>Compensation:</b>		
Short-term benefits	1,532	1,251
Post-employment benefits	89	112
<b>Total</b>	<b>1,621</b>	<b>1,363</b>

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

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

Nature of the transaction	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000					
<b>2020</b>					
Payments for recycling bin services <sup>1</sup>	1,408	131	14 day terms on invoices	–	–
Payments received for other services provided <sup>2</sup>	24	–	Nil	–	–
Payments made for services received <sup>3</sup>	150	–	14 day terms on invoices	–	–
<b>2019</b>					
Payments for recycling bin services <sup>1</sup>	1,750	148	14 day terms on invoices	–	–
Payments received for other services provided <sup>2</sup>	22	–	Nil	–	–
Payments made for services received <sup>3</sup>	166	–	14 day terms on invoices	–	–

(1) Relates to payments to Hunter Resources Recovery, a company in which Council has an interest, to provide recycling services. The contract was awarded through a competitive tender process based on market rates for these services. Amounts are payable on a monthly basis for the term of the contract. Hunter Resource Recovery details have not been consolidated into Council's financial statements as the amounts are not material to Council operations.

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 24. Related party disclosures (continued)

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- (2) Council receives a rebate from Strategic Services Australian Limited, a company in which Council has an ownership interest, for its share of Local Government Procurement Contracts and or various services provided.
- (3) Council uses Strategic Services Australia Limited, a company in which Council has an ownership interest, for a variety of services, including legal services, training and Environment Management. Further details of Council's interest in Strategic Services Australia Limited are outlined in Note 18.

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 25. 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 30/06/19			Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance	Contributions received during the year					Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	193	48	–	1	–	–	242	–
Roads	2,238	343	–	16	–	–	2,597	–
Parking	309	–	–	2	(60)	–	251	–
Open space	576	785	–	6	(30)	–	1,337	–
Community facilities	1,551	619	–	12	–	–	2,182	–
Other	705	108	–	5	(230)	–	588	–
Tourist facilities	602	135	–	5	(6)	–	736	–
Transport	371	629	–	4	–	–	1,004	–
<b>S7.11 contributions – under a plan</b>	<b>6,545</b>	<b>2,667</b>	<b>–</b>	<b>51</b>	<b>(326)</b>	<b>–</b>	<b>8,937</b>	<b>–</b>
<b>S7.12 levies – under a plan</b>	<b>238</b>	<b>156</b>	<b>–</b>	<b>2</b>	<b>(50)</b>	<b>–</b>	<b>346</b>	<b>–</b>
<b>Total S7.11 and S7.12 revenue under plans</b>	<b>6,783</b>	<b>2,823</b>	<b>–</b>	<b>53</b>	<b>(376)</b>	<b>–</b>	<b>9,283</b>	<b>–</b>
S7.4 planning agreements	5,578	589	–	39	(54)	–	6,152	–
<b>Total contributions</b>	<b>12,361</b>	<b>3,412</b>	<b>–</b>	<b>92</b>	<b>(430)</b>	<b>–</b>	<b>15,435</b>	<b>–</b>

## S7.11 CONTRIBUTIONS - UNDER A PLAN

## CONTRIBUTION PLAN NUMBER 2 - TOURIST DEVELOPMENT

Tourist facilities	186	–	–	1	–	–	187	–
<b>Total</b>	<b>186</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>187</b>	<b>–</b>



## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 25. Statement of developer contributions (continued)

\$ '000	as at 30/06/19						as at 30/06/20	
	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					
<b>CONTRIBUTION PLAN NUMBER 4 - NULKABA FLOOD MITIGATION</b>								
Drainage	41	–	–	–	–	–	41	–
<b>Total</b>	<b>41</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>41</b>	<b>–</b>
<b>CONTRIBUTION PLAN NUMBER 5 - CARPARKING CESSNOCK CBD</b>								
Parking	309	–	–	2	(60)	–	251	–
<b>Total</b>	<b>309</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>(60)</b>	<b>–</b>	<b>251</b>	<b>–</b>
<b>CONTRIBUTION PLAN NUMBER 6 - RESIDENTIAL CONTRIBUTIONS PLAN</b>								
Drainage	152	48	–	1	–	–	201	–
Roads	1,344	183	–	10	–	–	1,537	–
Open space	444	225	–	4	(30)	–	643	–
Community facilities	1,351	185	–	10	–	–	1,546	–
Other	421	61	–	3	(113)	–	372	–
<b>Total</b>	<b>3,712</b>	<b>702</b>	<b>–</b>	<b>28</b>	<b>(143)</b>	<b>–</b>	<b>4,299</b>	<b>–</b>
<b>CONTRIBUTION PLAN NUMBER 7 - TOURISM CONTRIBUTIONS PLAN</b>								
Roads	587	123	–	4	–	–	714	–
Tourist facilities	416	135	–	4	(6)	–	549	–
Other	132	18	–	1	(30)	–	121	–
<b>Total</b>	<b>1,135</b>	<b>276</b>	<b>–</b>	<b>9</b>	<b>(36)</b>	<b>–</b>	<b>1,384</b>	<b>–</b>
<b>CONTRIBUTION PLAN NUMBER 8 - BLACKHILL QUARRY CONTRIBUTION PLAN</b>								
Roads	307	37	–	2	–	–	346	–
<b>Total</b>	<b>307</b>	<b>37</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>346</b>	<b>–</b>
<b>SITE SPECIFIC CONTRIBUTIONS PLAN- BELLBIRD NORTH</b>								
Open space	85	278	–	1	–	–	364	–
Community facilities	147	236	–	2	–	–	385	–
Transport	252	197	–	2	–	–	451	–
Other	154	19	–	1	(84)	–	90	–
<b>Total</b>	<b>638</b>	<b>730</b>	<b>–</b>	<b>6</b>	<b>(84)</b>	<b>–</b>	<b>1,290</b>	<b>–</b>

## Site Specific Contributions Plan - Nulkaba

continued on next page ...

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 25. Statement of developer contributions (continued)

\$ '000	as at 30/06/19						as at 30/06/20		
	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						
Open space	35	4	–	–	–	–	39	–	
Community facilities	44	5	–	–	–	–	49	–	
Other	1	–	–	–	–	–	1	–	
Transport	101	7	–	1	–	–	109	–	
<b>Total</b>	<b>181</b>	<b>16</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>198</b>	<b>–</b>	
<b>Site Specific Contributions Plan - Mount View Road Millfield</b>									
Open space	2	–	–	–	–	–	2	–	
Community facilities	2	–	–	–	–	–	2	–	
Transport	2	–	–	–	–	–	2	–	
<b>Total</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6</b>	<b>–</b>	
<b>Site Specific Contributions Plan - Averys Village Heddon Greta</b>									
Open space	10	278	–	1	–	–	289	–	
Community facilities	7	193	–	–	–	–	200	–	
Other	(3)	10	–	–	(3)	–	4	–	
Transport	16	425	–	1	–	–	442	–	
<b>Total</b>	<b>30</b>	<b>906</b>	<b>–</b>	<b>2</b>	<b>(3)</b>	<b>–</b>	<b>935</b>	<b>–</b>	

## S7.12 Levies – under a plan

## Section 7.12 Contributions

Commercial Precincts	238	156	–	2	(50)	–	346	–
<b>Total</b>	<b>238</b>	<b>156</b>	<b>–</b>	<b>2</b>	<b>(50)</b>	<b>–</b>	<b>346</b>	<b>–</b>

## S7.4 planning agreements

## S7.4 planning agreements

Drainage	3	–	–	–	–	–	3	–
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## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 25. Statement of developer contributions (continued)

	as at 30/06/19			as at 30/06/20				
	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)
\$ '000		Cash	Non-cash					
Roads	636	–	–	2	(6)	–	632	–
Open space	76	–	–	1	–	–	77	–
Community facilities	4,236	589	–	32	(48)	–	4,809	–
Other	630	–	–	–	–	–	630	–
<b>Total</b>	<b>5,581</b>	<b>589</b>	<b>–</b>	<b>35</b>	<b>(54)</b>	<b>–</b>	<b>6,151</b>	<b>–</b>

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 26(a). Statement of performance measures – consolidated results

\$ '000	Amounts	Indicator	Prior periods		Benchmark
	2020	2020	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>1,899</b>	<b>2.43%</b>	(0.78)%	(3.14)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	<b>78,121</b>				
<b>2. Own source operating revenue ratio</b>					
Total continuing operating revenue excluding all grants and contributions <sup>1</sup>	<b>65,047</b>	<b>63.95%</b>	68.12%	52.16%	>60.00%
Total continuing operating revenue <sup>1</sup>	<b>101,718</b>				
<b>3. Unrestricted current ratio</b>					
Current assets less all external restrictions	<b>33,360</b>	<b>2.63x</b>	2.76x	2.66x	>1.50x
Current liabilities less specific purpose liabilities	<b>12,692</b>				
<b>4. Debt service cover ratio</b>					
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>15,072</b>	<b>7.99x</b>	6.06x	4.78x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<b>1,887</b>				
<b>5. Rates, annual charges, interest and extra charges outstanding percentage <sup>3</sup></b>					
Rates, annual and extra charges outstanding	<b>2,906</b>	<b>5.15%</b>	4.95%	1.69%	<10.00%
Rates, annual and extra charges collectible	<b>56,422</b>				
<b>6. Cash expense cover ratio</b>					
Current year's cash and cash equivalents plus all term deposits	<b>46,707</b>	<b>9.12</b>	7.01	6.35	>3.00
Monthly payments from cash flow of operating and financing activities	<b>5,120</b>	<b>mths</b>	mths	mths	mths

(1) Excludes fair value increments on investment properties, reversal of revaluation decrements, reversal of impairment losses on receivables, net gain on sale of assets and net share of interests in joint ventures and associates using the equity method and includes pensioner rate subsidies

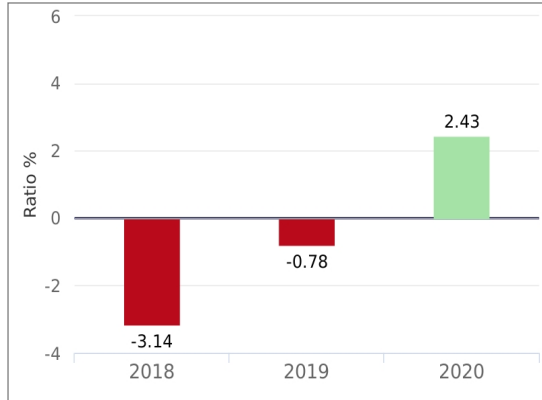
(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements on investment properties, net loss on disposal of assets and net loss on share of interests in joint ventures and associates using the equity method

(3) This ratio has increased due to a reclassification of rates paid in advance to a liability account. If this reclassification did not occur, the ratio would be at 2.15%. For further information see Commentary in Note 26(b).

Notes to the Financial Statements  
for the year ended 30 June 2020

Note 26(b). 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 2019/20 result**

2019/20 ratio	2.43%
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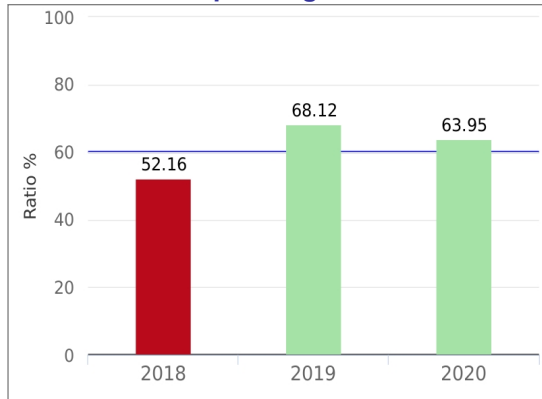
This ratio has improved from the previous year as a result of lower Materials and Contracts but partially offset by higher Employee Benefits and on-costs.

Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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 2019/20 result**

2019/20 ratio	63.95%
---------------	--------

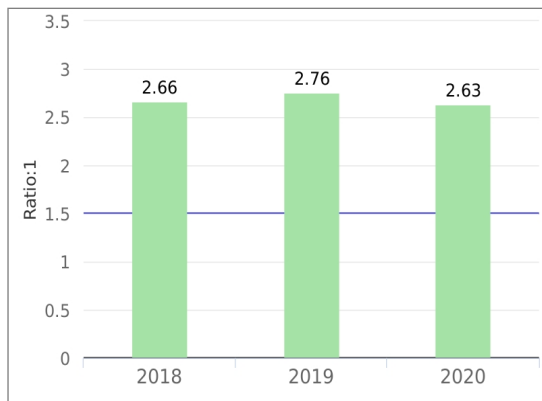
Council's dependence on rates, annual charges, user charges and fees compared to other sources of income is relatively high, and within the benchmark level.

Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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 2019/20 result**

2019/20 ratio	2.63x
---------------	-------

This ratio has decreased slightly from that in 2018/19. This ratio represents a satisfactory level of working capital.

Benchmark: — > 1.50x

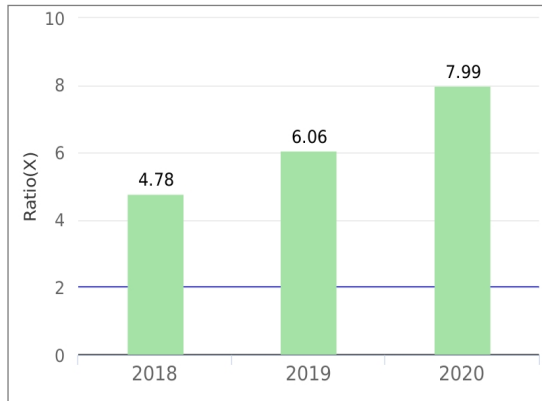
Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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

Notes to the Financial Statements  
for the year ended 30 June 2020

Note 26(b). 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 2019/20 result

2019/20 ratio 7.99x

This ratio highlights a relatively low level of demand on discretionary revenue for loan repayments. This ratio is considered to be a good result.

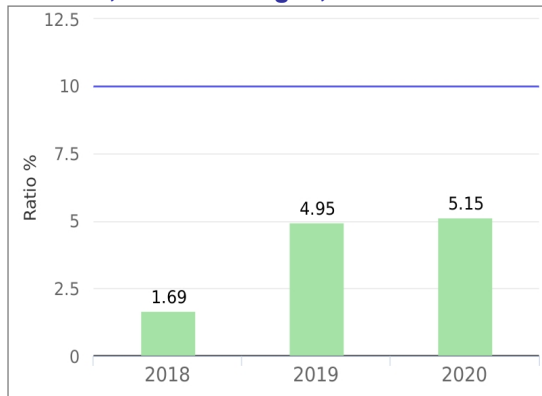
Benchmark: — > 2.00x

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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 2019/20 result

2019/20 ratio 5.15%

This ratio has increased slightly from last year. A reclassification of rates paid in advance from outstanding rates balance to a liability account in current (and last year comparatives), resulted in increase in ratio. This ratio is still considered to be a good result and is reflective of the current economic environment.

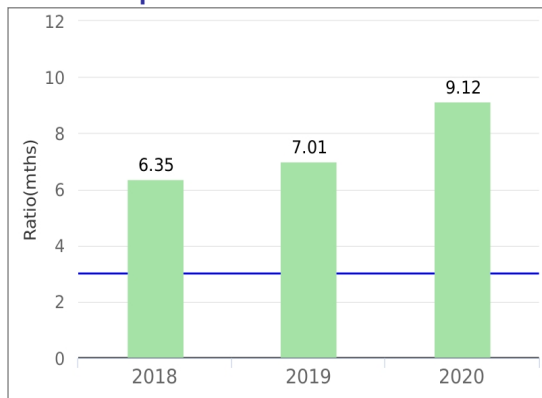
Benchmark: — < 10.00%

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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 2019/20 result

2019/20 ratio 9.12 mths

This ratio is considered to be a good result as expenses can be paid without a demand on additional cash flows.

Benchmark: — > 3.00mths

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

## Notes to the Financial Statements

for the year ended 30 June 2020

## Note 27. Financial review

\$ '000	2020	2019	2018	2017	2016
<b>Key financial figures of Council over the past 5 years</b>					
<b>Inflows:</b>					
Rates and annual charges revenue	53,355	50,122	47,869	44,020	44,020
User charges revenue	7,973	10,493	13,340	8,057	8,057
Interest and investment revenue (losses)	836	1,165	978	1,515	1,515
Grants income – operating and capital	19,150	12,423	12,695	14,411	14,411
Total income from continuing operations	101,718	93,340	121,386	86,317	86,317
Sale proceeds from I,PP&E	1,312	1,034	1,498	1,259	1,259
New loan borrowings and advances	–	–	2,960	–	–
<b>Outflows:</b>					
Employee benefits and on-cost expenses	35,330	33,931	31,586	29,186	29,186
Borrowing costs	318	402	453	552	552
Materials and contracts expenses	17,426	19,489	23,157	19,841	19,841
Total expenses from continuing operations	78,324	78,320	82,023	74,690	74,690
Total cash purchases of I,PP&E	24,935	16,901	16,155	15,526	15,526
Total loan repayments (incl. finance leases)	1,565	1,392	1,306	1,143	1,143
Operating surplus/(deficit) (excl. capital income)	(203)	(3,047)	(5,374)	(5,268)	(5,268)
<b>Financial position figures</b>					
Current assets	56,182	45,966	43,147	40,349	40,349
Current liabilities	22,870	18,796	17,701	16,569	16,569
Net current assets	33,312	27,170	25,446	23,780	23,780
Available working capital (Unrestricted net current assets)	(1,203)	(2,430)	222	(3,511)	(3,511)
Cash and investments – unrestricted	614	710	1,451	33	33
Cash and investments – internal restrictions	25,365	23,205	22,095	24,485	24,485
Cash and investments – total	47,507	40,321	39,160	38,010	38,010
Total borrowings outstanding (Loans, advances and finance leases)	5,349	6,860	8,252	7,750	7,750
Total value of I,PP&E (excl. land and earthworks)	1,185,293	1,065,268	954,806	847,281	847,281
Total accumulated depreciation	287,669	270,431	242,664	188,771	188,771
Indicative remaining useful life (as a % of GBV)	76%	75%	75%	78%	78%

**Source:** published audited financial statements of Council (current year and prior years)

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 28. Council information and contact details

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**Principal place of business:**

62 - 78 Vincent Street  
Cessnock NSW 2325

**Contact details**

**Mailing Address:**

PO Box 152  
Cessnock NSW 2325

**Opening hours:**

9:00am - 5:00pm  
Monday to Friday

**Telephone:** 02 49934100

**Facsimile:** 02 49932500

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

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

**Officers**

**GENERAL MANAGER**

Mr Stephen Glen (retired 31/7/2019)  
Mr Robert Maginnity (interim General Manager)  
Ms Lotta Jackson  
(commenced as General Manager on 30 September 2019)

**RESPONSIBLE ACCOUNTING OFFICER**

Mr Robert Maginnity

**PUBLIC OFFICER**

Mr Robert Maginnity

**AUDITORS**

Audit Office of New South Wales  
Level 15, 1 Margaret Street  
Sydney NSW 2000

GPO Box 12 Sydney NSW 2001

**Elected members**

**MAYOR**

Councillor Bob Pynsent

**COUNCILLORS**

Councillor Anthony Burke  
Councillor Melanie Dagg  
Councillor Rodney Doherty  
Councillor Paul Dunn  
Councillor John Fagg  
Councillor Dianne Fitzgibbon  
Councillor Darrin Gray  
Councillor Mark Lyons  
Councillor Ian Olsen  
Councillor Anne Sander  
Councillor Allan Stapleford  
Councillor Jay Suvaal

**Other information**

**ABN:** 60 919 148 928





**INDEPENDENT AUDITOR'S REPORT**  
**Report on the general purpose financial statements**  
**Cessnock City Council**

To the Councillors of Cessnock City Council

## Opinion

I have audited the accompanying financial statements of Cessnock City Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

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 prepared, 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 2020, 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 (including Independence Standards)' (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 2020 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.

### **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.

The scope of my audit does not include, nor 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 22 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.



Furqan Yousuf  
Delegate of the Auditor-General for New South Wales

6 November 2020  
SYDNEY



Cr Bob Pynsent  
Mayor  
Cessnock City Council  
PO Box 152  
CESSNOCK NSW 2325

Contact: Furqan Yousuf  
Phone no: 02 9275 7470  
Our ref: D2024701/1712

6 November 2020

Dear Cr Pynsent

**Report on the Conduct of the Audit  
for the year ended 30 June 2020  
Cessnock City Council**

I have audited the general purpose financial statements (GPFS) of Cessnock City Council (the Council) for the year ended 30 June 2020 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 2020 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

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	53.4	50.1	6.6
Grants and contributions revenue	36.7	29.8	23.2
Operating result from continuing operations	23.4	15.0	56.0
Net operating result before capital grants and contributions	(0.2)	(3.0)	93.3

Rates and annual charges revenue increased by \$3.3 million (6.6 per cent) to \$53.4 million in 2019–20. The movement is consistent with the increase in ordinary rates in line with the 2.7 per cent rate peg and the rise in the total number of rateable properties.

Grants and contributions revenue increased by \$6.9 million (23.2 per cent) to \$36.7 million in 2019–20. This movement was mainly attributable to the:

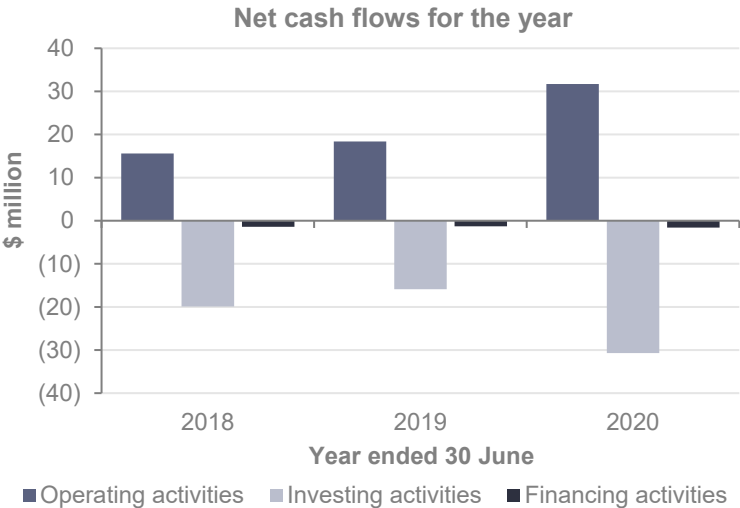
- increase of \$2.1 million in recreation and culture grant funding
- increase of \$2.7 million in resources for regions grant funding
- bushfire grant funding of \$1.5 million received during 2019-20 (2018-19: Nil).

Council’s operating result for the year was a surplus of \$23.4 million, which was \$8.4 million higher than 2018-19 operating result. The improvement in operating result was due to the increase in rates and annual charges revenue and grants and contributions revenue, as explained above.

Council’s net operating result before capital grants and contributions was a deficit of \$0.2 million, which was an improvement of \$2.8 million over the 2018–19 net operating result before capital grants and contributions. This movement is mainly attributable due to the increase in total operating revenue by \$2.9 million for 2019-20. The total expenses for the year remained consistent with the prior year.

### STATEMENT OF CASH FLOWS

- The Council’s cash and cash equivalents was \$4.9 million at 30 June 2020 (\$5.4 million for the year ended 30 June 2019). There was a net decrease in cash and cash equivalents of \$0.5 million at 30 June 2020.
- Net cash inflows from operating activities increased by \$13.3 million compared to prior year, mainly due to increase in grants and contributions received during the year.
- Net cash outflows from investing activities increased by \$14.7 million compared to prior year, mainly due to increased purchases of infrastructure, property, plant and equipment.
- Net cash outflows from financing activities represent the repayment of borrowings and advances of \$1.5 million.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	21.5	16.4	<ul style="list-style-type: none"><li>Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$5.1 million primarily due to increase in cash available from specific purpose unexpended grants of \$2.7 million and developer contributions of \$3.1 million.</li><li>Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The increase in the internal restrictions of \$2.2 million is due to:<ul style="list-style-type: none"><li>increase of \$0.5 million in miscellaneous and property reserve</li><li>increase of \$0.6 million in civil works reserve</li><li>increase of \$1.2 million in waste depot and rehabilitation reserve</li></ul></li><li>The Councils unrestricted cash balances of \$0.6 million at 30 June 2020 is available to provide liquidity for day-to-day operations of the Council.</li></ul>
Internal restrictions	25.4	23.2	
Unrestricted	0.6	0.7	
<b>Cash and investments</b>	<b>47.5</b>	<b>40.3</b>	

### Debt

The Council has \$5.3 million of borrowings at 30 June 2020 (2019: \$6.9 million).

The Council has an accumulated drawdown facility limit of \$1.2 million as at 30 June 2020 (2019: \$1.2 million) which remained unutilised at year-end.

# PERFORMANCE

## Performance measures

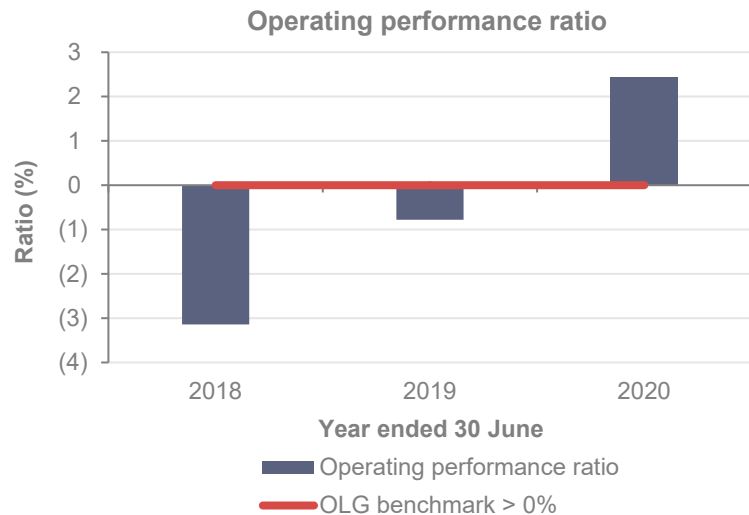
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

### Operating performance ratio

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 OLG is greater than zero per cent.

Council's operating performance ratio of 2.43 per cent is above the industry benchmark of zero per cent.

The 2019-20 ratio has improved compared to prior year due to an increase in the Council's operating revenue.



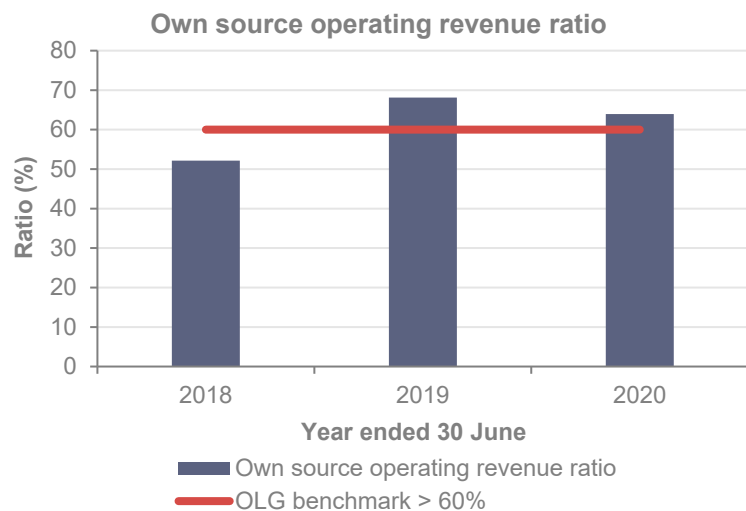
### Own source operating revenue ratio

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 OLG is greater than 60 per cent.

Council's own source operating revenue ratio of 63.95 per cent is above the industry benchmark of 60 per cent. This indicates that the Council has a diversified source of income and does not have an overly strong reliance on operating grants and contributions.

The 2019-20 ratio deteriorated from prior year due to an increase in grants and contributions revenue as a percentage of total operating revenue.

The 2018-19 ratio was restated from 67.45 per cent to 68.12 per cent due to revenue reclassification adjustments.

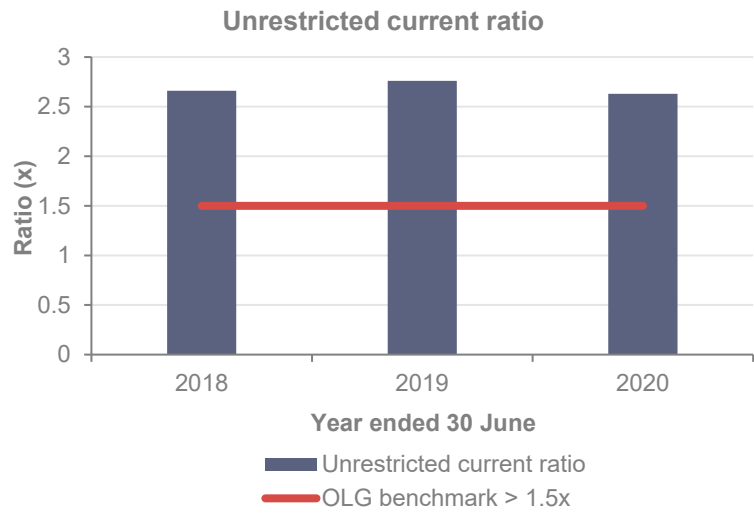


### Unrestricted current ratio

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 OLG is greater than 1.5 times.

Council's liquidity ratio of 2.63 is above the industry benchmark minimum of greater than 1.5 times. This indicates that the Council has sufficient liquidity to meet its current liabilities as they fall due.

Council's unrestricted current ratio has decreased from prior year mainly due to an increase in externally restricted cash.

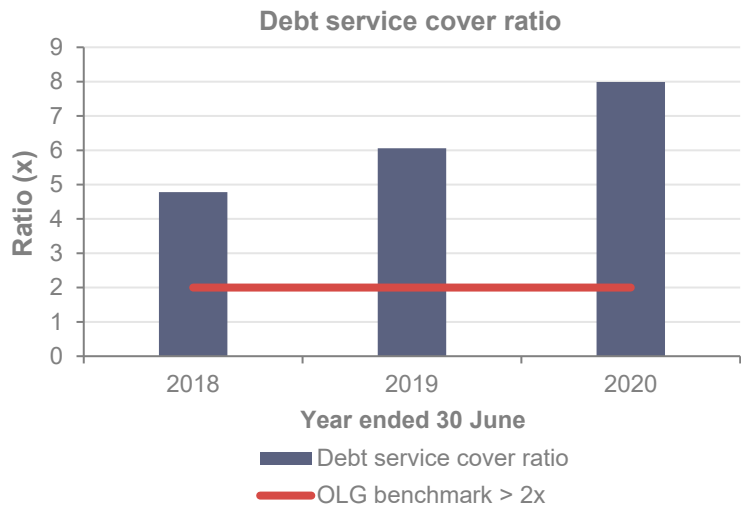


### Debt service cover ratio

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

Council's debt service cover ratio of 7.99 times is above the industry benchmark of greater than 2 times.

Councils debt service cover ratio has increased from prior year due to the improved net operating result before capital grants and contributions.





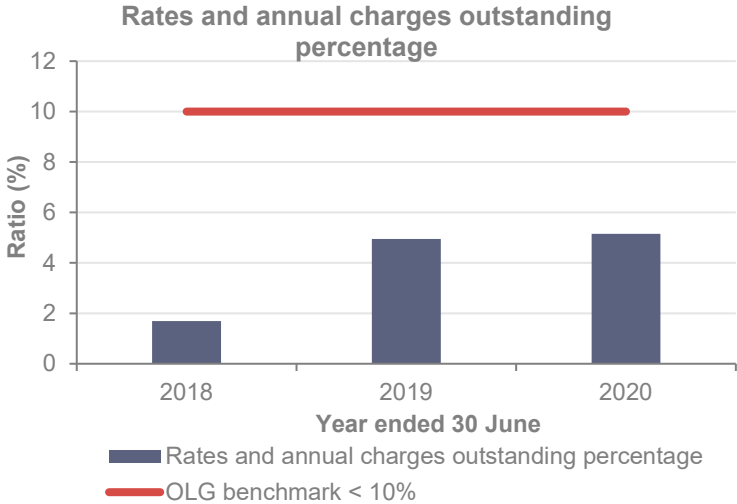
**Rates and annual charges outstanding percentage**

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 OLG is less than 10 per cent for regional and rural councils.

Council's rates and annual charges outstanding percentage of 5.15 per cent is within the benchmark of less than 10 per cent for regional councils. This indicates that the collection procedures of the Council operated effectively to collect more than 90 per cent of the rates and annual charges revenue within the receivable due dates.

The 2019-20 ratio deteriorated from prior year due to increase in rates and annual charges receivable.

The 2018-19 ratio was restated from 2.02 per cent to 4.95 per cent as Council previously reported the rates and annual charges receivables, net off the rates paid in advance.

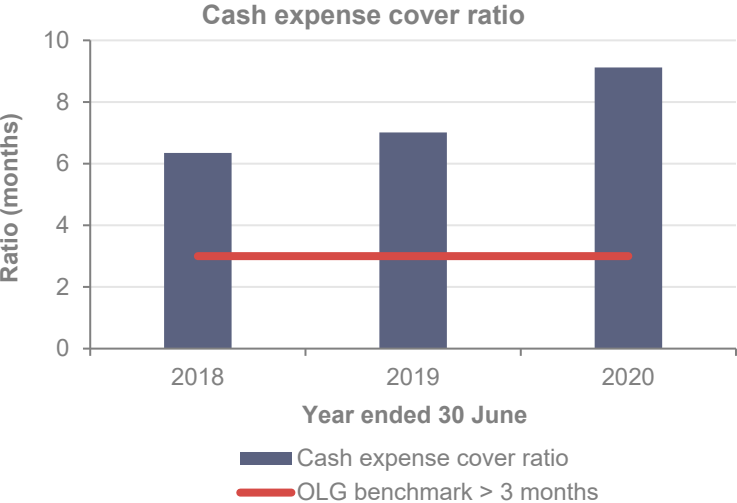


**Cash expense cover ratio**

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 OLG is greater than three months.

The Council's cash expense cover ratio was 9.12 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 9.12 months of operating cash expenditure without additional cash inflows at 30 June 2020.

The 2019-20 ratio increased compared with the prior year due to increased cash and investment balance at 30 June 2020.



**Infrastructure, property, plant and equipment renewals**

The Council has renewed \$3.3 million of assets in 2019-20 financial year, compared to \$4.2 million of assets in the prior year.

## OTHER MATTERS

### Impact of new accounting standards

#### **AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income for Not-for-Profit Entities'**

The Council adopted the new accounting standards AASB 15 'Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' (collectively referred to as the Revenue Standards) for the first time in their 2019–20 financial statements.

AASB 15 introduces a new approach to recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 impacts the timing and amount of revenue recorded in a councils' financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

AASB 1058 prescribes how not-for-profit entities account for transactions conducted on non-commercial terms and the receipt of volunteer services. AASB 1058 significantly impacts the timing and amount of income recorded in a councils' financial statements, particularly for grant income and rates which are paid before the commencement of the rating period.

The Council recognised a \$0.8 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 16.

#### **AASB 16 'Leases'**

The Council adopted the new accounting standard AASB 16 'Leases' for the first time in their 2019–20 financial statements.

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right-of-use asset, with a corresponding lease liability.

AASB 16 results in lessees recording more assets and liabilities in the Statement of Financial Position and changes the timing and pattern of expenses recorded in the Income Statement.

The Council recognised right-of-use assets of \$0.1 million and lease liabilities of \$0.1 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 16.

## 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.



Furqan Yousuf  
Delegate of the Auditor-General for New South Wales

cc: Ms Lotta Jackson, General Manager  
Ms Jennifer Hayes, Chair of Audit and Risk Committee  
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment



# Special Purpose Financial Statements

For the Year Ended  
30 June 2020

## Special Purpose Financial Statements

for the year ended 30 June 2020

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**Background**

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

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

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

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

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



## Cessnock City Council

### Special Purpose Financial Statements

for the year ended 30 June 2020

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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:**

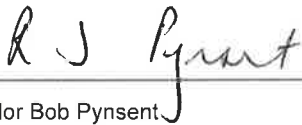
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,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

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

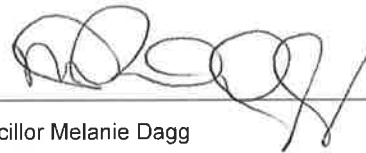
**Signed in accordance with a resolution of Council made on 16 September 2020.**



Councillor Bob Pynsent

**Mayor**

03 November 2020



Councillor Melanie Dagg

**Councillor**

03 November 2020



Ms Lotta Jackson

**General Manager**

03 November 2020



Mr Robert Maginnity

**Responsible Accounting Officer**

03 November 2020

## Income Statement – Strategic Services Australia Limited

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
<b>Income from continuing operations</b>		
User charges	575	488
Grants and contributions provided for non-capital purposes	–	83
Other income	9	14
<b>Total income from continuing operations</b>	<b>584</b>	<b>585</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	368	371
Borrowing costs	1	1
Materials and contracts	156	124
Depreciation, amortisation and impairment	12	11
Other expenses	88	129
<b>Total expenses from continuing operations</b>	<b>625</b>	<b>636</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(41)</b>	<b>(51)</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(41)</b>	<b>(51)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>(41)</b>	<b>(51)</b>
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(41)</b>	<b>(51)</b>
<b>Plus accumulated surplus</b>	<b>514</b>	<b>415</b>
<b>Revaluation reserve transferred</b>	<b>–</b>	<b>150</b>
<b>Plus adjustments for amounts unpaid:</b>		
<b>Closing accumulated surplus</b>	<b>473</b>	<b>514</b>
<b>Return on capital %</b>	<b>(125.0)%</b>	<b>(142.9)%</b>
<b>Subsidy from Council</b>	<b>41</b>	<b>51</b>

## Statement of Financial Position – Strategic Services Australia Limited

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	527	549
Receivables	57	70
Other	1	93
Financial Assets at Amortised Cost	90	–
<b>Total current assets</b>	<b>675</b>	<b>712</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	32	35
<b>Total non-current assets</b>	<b>32</b>	<b>35</b>
<b>TOTAL ASSETS</b>	<b>707</b>	<b>747</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Other Current Liabilities	93	87
Payables	59	66
Borrowings	–	15
Provisions	80	62
<b>Total current liabilities</b>	<b>232</b>	<b>230</b>
<b>Non-current liabilities</b>		
Provisions	2	3
<b>Total non-current liabilities</b>	<b>2</b>	<b>3</b>
<b>TOTAL LIABILITIES</b>	<b>234</b>	<b>233</b>
<b>NET ASSETS</b>	<b>473</b>	<b>514</b>
<b>EQUITY</b>		
Accumulated surplus	473	514
<b><u>TOTAL EQUITY</u></b>	<b><u>473</u></b>	<b><u>514</u></b>



## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

### Note 1. Significant Accounting Policies

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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 2093 (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)

Nil

##### Category 2

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

##### a. Strategic Services Australia Ltd

Activities include Environment Division, Screen Hunter, Regional Procurement, Local Government Training Institute, Administration Services and Hunter Councils Legal Services.

#### Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

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

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#### (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.

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 \$734,000 of combined land values attracts 0%. For the combined land values in excess of \$734,001 up to \$4,488,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,488,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$900,000.

#### 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 2020

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

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#### (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**

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**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 0.88% at 30/6/20.

#### (iv) Dividends

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



**INDEPENDENT AUDITOR'S REPORT**  
**Report on the special purpose financial statements**  
**Cessnock City Council**

To the Councillors of Cessnock City Council

## **Opinion**

I have audited the accompanying special purpose financial statements (the financial statements) of Cessnock City Council's (the Council) Declared Business Activity, Strategic Services Australia Limited, which comprise the Statement by Councillors and Management, the Income Statement of the Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of the Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activity declared by Council.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activity as at 30 June 2020, 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 28 (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 (including Independence Standards)' (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 2020 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.

## **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.

The scope of my audit does not include, nor 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.



Furqan Yousuf  
Delegate of the Auditor-General for New South Wales

6 November 2020  
SYDNEY

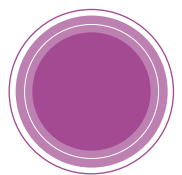




# Special Schedules

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For the Year Ended  
30 June 2020



**Special Schedules**

for the year ended 30 June 2020

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## Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
<b>Notional general income calculation <sup>1</sup></b>			
Last year notional general income yield	a	39,242	37,579
Plus or minus adjustments <sup>2</sup>	b	829	713
<b>Notional general income</b>	c = a + b	<b>40,071</b>	<b>38,292</b>
<b>Permissible income calculation</b>			
Or rate peg percentage	e	2.60%	2.70%
Or plus rate peg amount	i = e x (c + g)	1,042	1,034
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>41,113</b>	<b>39,326</b>
Plus (or minus) last year's carry forward total	l	55	(29)
<b>Sub-total</b>	n = (l + m)	<b>55</b>	<b>(29)</b>
<b>Total permissible income</b>	o = k + n	<b>41,168</b>	<b>39,297</b>
Less notional general income yield	p	41,197	39,242
<b>Catch-up or (excess) result</b>	q = o - p	<b>(29)</b>	<b>55</b>
<b>Carry forward to next year <sup>3</sup></b>	t = q + r + s	<b>(29)</b>	<b>55</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) 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**  
**Cessnock City Council**

To the Councillors of Cessnock City Council

### **Opinion**

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Cessnock City Council (the Council) for the year ending 30 June 2021.

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 28 (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 (including Independence Standards)' (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 2020 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 2020.

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.

## 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.

The scope of my audit does not include, nor 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.



Furqan Yousuf  
Delegate of the Auditor-General for New South Wales

6 November 2020  
SYDNEY

## Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost		2019/20 Required maintenance <sup>a</sup>	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost					
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5	
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000						
<b>(a) Report on Infrastructure Assets - Values</b>													
<b>Buildings</b>	Buildings	13,702	50,526	2,124	2,152	59,824	128,424	7.5%	17.1%	39.4%	25.8%	10.2%	
	<b>Sub-total</b>	<b>13,702</b>	<b>50,526</b>	<b>2,124</b>	<b>2,152</b>	<b>59,824</b>	<b>128,424</b>	<b>7.5%</b>	<b>17.1%</b>	<b>39.4%</b>	<b>25.8%</b>	<b>10.2%</b>	
<b>Roads</b>	Sealed roads	12,621	65,810	2,426	2,459	479,796	581,318	71.1%	10.2%	14.4%	2.4%	1.9%	
	Unsealed roads	1,694	4,819	2,433	2,466	91,973	106,317	80.1%	4.2%	13.8%	0.7%	1.2%	
	Bridges	305	1,219	327	331	39,407	50,497	44.3%	37.1%	16.2%	2.4%	0.0%	
	Footpaths	53	227	144	146	15,637	19,629	43.8%	43.0%	12.1%	0.1%	1.0%	
	Other road assets	924	3,033	513	520	64,003	83,122	26.0%	43.6%	11.9%	17.7%	0.7%	
	<b>Sub-total</b>	<b>15,597</b>	<b>75,108</b>	<b>5,843</b>	<b>5,922</b>	<b>690,817</b>	<b>840,883</b>	<b>65.5%</b>	<b>15.1%</b>	<b>14.1%</b>	<b>3.7%</b>	<b>1.6%</b>	
<b>Stormwater drainage</b>	Stormwater drainage	200	687	512	519	92,343	114,144	44.3%	44.8%	10.2%	0.5%	0.1%	
	<b>Sub-total</b>	<b>200</b>	<b>687</b>	<b>512</b>	<b>519</b>	<b>92,343</b>	<b>114,144</b>	<b>44.3%</b>	<b>44.8%</b>	<b>10.2%</b>	<b>0.5%</b>	<b>0.1%</b>	
<b>Open space / recreational assets</b>	Swimming pools	108	1,202	–	–	2,887	5,019	0.0%	48.1%	51.9%	0.0%	0.0%	
	Open Space	1,364	2,475	3,488	3,534	15,281	24,391	29.7%	35.1%	26.5%	4.9%	3.8%	
	<b>Sub-total</b>	<b>1,472</b>	<b>3,677</b>	<b>3,488</b>	<b>3,534</b>	<b>18,168</b>	<b>29,410</b>	<b>24.6%</b>	<b>37.3%</b>	<b>30.8%</b>	<b>4.1%</b>	<b>3.1%</b>	
<b>Other infrastructure assets</b>	Other	143	287	–	–	5,300	6,221	68.4%	24.5%	2.5%	4.6%	0.0%	
	<b>Sub-total</b>	<b>143</b>	<b>287</b>	<b>–</b>	<b>–</b>	<b>5,300</b>	<b>6,221</b>	<b>68.4%</b>	<b>24.5%</b>	<b>2.5%</b>	<b>4.6%</b>	<b>0.0%</b>	
<b>TOTAL - ALL ASSETS</b>		<b>31,114</b>	<b>130,285</b>	<b>11,967</b>	<b>12,127</b>	<b>866,452</b>	<b>1,119,082</b>	<b>55.7%</b>	<b>19.0%</b>	<b>17.0%</b>	<b>5.9%</b>	<b>2.5%</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 2020

\$ '000	Amounts	Indicator	Prior periods		Benchmark
	2020	2020	2019	2018	
<b>Infrastructure asset performance indicators (consolidated) *</b>					
<b>Buildings and infrastructure renewals ratio <sup>1</sup></b>					
Asset renewals <sup>2</sup>	<b>6,368</b>	<b>64.54%</b>	69.50%	88.19%	>=100.00%
Depreciation, amortisation and impairment	<b>9,866</b>				
<b>Infrastructure backlog ratio <sup>1</sup></b>					
Estimated cost to bring assets to a satisfactory standard	<b>31,114</b>	<b>3.59%</b>	4.62%	4.26%	<2.00%
Net carrying amount of infrastructure assets	<b>866,452</b>				
<b>Asset maintenance ratio</b>					
Actual asset maintenance	<b>12,127</b>	<b>101.34%</b>	108.85%	107.89%	>100.00%
Required asset maintenance	<b>11,967</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>130,285</b>	<b>11.64%</b>	11.60%	12.85%	
Gross replacement cost	<b>1,119,082</b>				

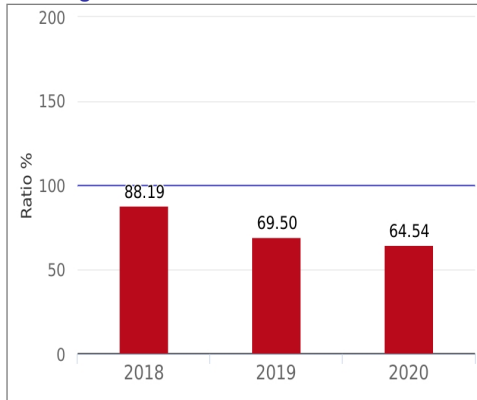
(\*) All asset performance indicators are calculated using classes identified in the previous table.

(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.

Report on Infrastructure Assets (continued)  
as at 30 June 2020

**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**

19/20 ratio 64.54%

Prior to 2018 FY, WIP was included in Renewals amount which incorrectly overstated this ratio. Depreciation has increased and renewals has decreased resulting in a negative impact on this ratio compared to last year.

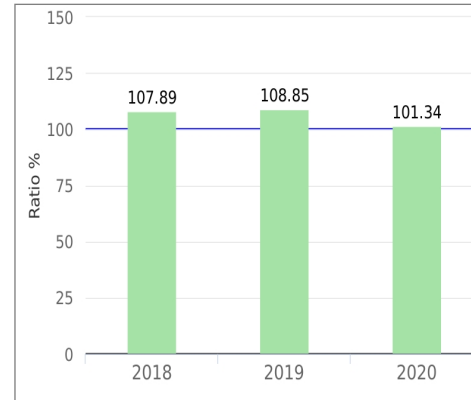
Benchmark: —  $\geq 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

**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**

19/20 ratio 101.34%

Council has carried out sufficient maintenance on assets as identified in the Asset Management Plans.

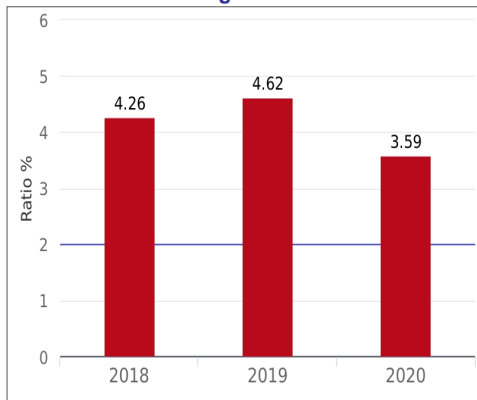
Benchmark: —  $> 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

**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**

19/20 ratio 3.59%

Cost to bring assets to a satisfactory standard (condition 3) has decreased in relation to the net carrying amount of these assets.

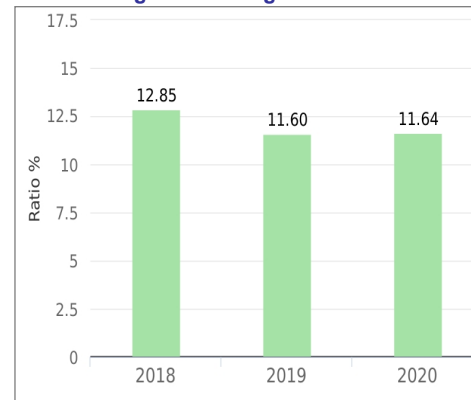
Benchmark: —  $< 2.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio is outside benchmark

**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**

19/20 ratio 11.64%

Cost to fully replace assets worse than a condition 3 (being the agreed level of service) has increased in relation to the gross carrying amount of these assets.