



# GENERAL PURPOSE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 30 JUNE 2017



# Cessnock City Council

## General Purpose Financial Statements

for the year ended 30 June 2017

Contents	Page
<b>1. Understanding Council's Financial Statements</b>	2
<b>2. Statement by Councillors and Management</b>	3
<b>3. Primary Financial Statements:</b>	
– Income Statement	4
– Statement of Comprehensive Income	5
– Statement of Financial Position	6
– Statement of Changes in Equity	7
– Statement of Cash Flows	8
<b>4. Notes to the Financial Statements</b>	9
<b>5. Independent Auditor's Reports:</b>	
– On the Financial Statements (Sect 417 [2])	75
– On the Conduct of the Audit (Sect 417 [3])	78

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### Overview

- (i) These financial statements are General Purpose Financial Statements and cover the operations for Cessnock City Council.
- (ii) Cessnock City Council is a body politic of NSW, Australia – being constituted as a local government area by proclamation and is duly empowered by the *Local Government Act 1993* (LGA).

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).

- (iii) All figures presented in these financial statements are presented in Australian currency.
- (iv) These financial statements were authorised for issue by the Council on 11 October 2017. Council has the power to amend and reissue these financial statements.

## Cessnock City Council

### General Purpose Financial Statements for the year ended 30 June 2017

#### Understanding Council's financial statements

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##### Introduction

Each year, individual local governments across New South Wales 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 2017.

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 annual 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.

##### More information

A review of Council's financial performance and position for the 2016/17 financial year can be found at Note 29 of the financial statements.

# Cessnock City Council

## General Purpose Financial Statements

for the year ended 30 June 2017

### 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 professional pronouncements, and
- the Local Government Code of Accounting Practice and Financial Reporting.

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

- present fairly the Council's operating result and financial position 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 06 September 2017.**



Councillor Bob Pynsent  
**Mayor**



Councillor Allan Stapleford  
**Councillor**



Mr Stephen Glen  
**General Manager**



Mr Robert Maginnity  
**Responsible Accounting Officer**

## Cessnock City Council

## Income Statement

for the year ended 30 June 2017

Budget <sup>1</sup>				Actual	Actual
2017	\$ '000		Notes	2017	2016
<b>Income from continuing operations</b>					
<b>Revenue:</b>					
45,833	Rates and annual charges		3a	45,979	44,020
7,189	User charges and fees		3b	11,577	8,057
865	Interest and investment revenue		3c	1,051	1,515
1,078	Other revenues		3d	1,749	1,830
13,462	Grants and contributions provided for operating purposes		3e,f	15,728	14,000
7,007	Grants and contributions provided for capital purposes		3e,f	19,150	16,895
<b>75,434</b>	<b>Total income from continuing operations</b>			<b>95,234</b>	<b>86,317</b>
<b>Expenses from continuing operations</b>					
31,025	Employee benefits and on-costs		4a	30,065	29,186
542	Borrowing costs		4b	475	552
12,217	Materials and contracts		4c	20,541	19,841
10,115	Depreciation and amortisation		4d	9,637	9,608
–	Impairment		4d	57	361
13,210	Other expenses		4e	12,270	11,606
3,500	Net losses from the disposal of assets		5	2,953	3,536
<b>70,609</b>	<b>Total expenses from continuing operations</b>			<b>75,998</b>	<b>74,690</b>
<b>4,825</b>	<b>Operating result from continuing operations</b>			<b>19,236</b>	<b>11,627</b>
<b>Discontinued operations</b>					
–	Net profit/(loss) from discontinued operations		24	–	–
<b>4,825</b>	<b>Net operating result for the year</b>			<b>19,236</b>	<b>11,627</b>
4,825	Net operating result attributable to Council			19,236	11,627
–	Net operating result attributable to non-controlling interests			–	–
<b>(2,182)</b>	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>			<b>86</b>	<b>(5,268)</b>

<sup>1</sup> Original budget as approved by Council – refer Note 16

## Cessnock City Council

Statement of Comprehensive Income  
for the year ended 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
<b>Net operating result for the year</b> (as per Income Statement)		<b>19,236</b>	<b>11,627</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of I,PP&E	20b (ii)	–	5,927
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>–</b>	<b>5,927</b>
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
<b>Total other comprehensive income for the year</b>		<b>–</b>	<b>5,927</b>
<b>Total comprehensive income for the year</b>		<b>19,236</b>	<b>17,554</b>
<b>Total comprehensive income attributable to Council</b>		<b>19,236</b>	<b>17,554</b>
<b>Total comprehensive income attributable to non-controlling interests</b>		<b>–</b>	<b>–</b>

## Cessnock City Council

## Statement of Financial Position

as at 30 June 2017

\$ '000	Notes	Actual 2017	Actual 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6a	7,039	8,610
Investments	6b	28,500	28,100
Receivables	7	5,941	3,110
Inventories	8	376	323
Other	8	197	206
Non-current assets classified as 'held for sale'	22	–	–
<b>Total current assets</b>		<b>42,053</b>	<b>40,349</b>
<b>Non-current assets</b>			
Investments	6b	1,000	1,300
Inventories	8	1,270	1,270
Infrastructure, property, plant and equipment	9	744,195	725,765
Investments accounted for using the equity method	19	–	–
Investment property	14	–	–
Intangible assets	25	–	–
<b>Total non-current assets</b>		<b>746,465</b>	<b>728,335</b>
<b>TOTAL ASSETS</b>		<b>788,518</b>	<b>768,684</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	10	7,976	6,756
Income received in advance	10	–	–
Borrowings	10	1,179	1,152
Provisions	10	8,959	8,661
<b>Total current liabilities</b>		<b>18,114</b>	<b>16,569</b>
<b>Non-current liabilities</b>			
Payables	10	1,915	1,629
Income received in advance	10	773	815
Borrowings	10	5,419	6,598
Provisions	10	11,386	11,398
<b>Total non-current liabilities</b>		<b>19,493</b>	<b>20,440</b>
<b>TOTAL LIABILITIES</b>		<b>37,607</b>	<b>37,009</b>
<b>Net assets</b>		<b>750,911</b>	<b>731,675</b>
<b>EQUITY</b>			
Retained earnings	20	432,613	413,377
Revaluation reserves	20	318,298	318,298
Other reserves	20	–	–
<b>Council equity interest</b>		<b>750,911</b>	<b>731,675</b>
<b>Non-controlling equity interests</b>		<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>750,911</b>	<b>731,675</b>

This statement should be read in conjunction with the accompanying notes.

page 6

## Cessnock City Council

Statement of Changes in Equity  
for the year ended 30 June 2017

\$ '000	Notes	2017					2016						
		Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity	Retained earnings	Asset revaluation reserve (Refer 20b)	Other reserves (Refer 20b)	Council interest	Non-controlling interest	Total equity
<b>Opening balance</b> (as per last year's audited accounts)		413,377	318,298	–	<b>731,675</b>	–	<b>731,675</b>	401,750	312,371	–	<b>714,121</b>	–	<b>714,121</b>
a. Correction of prior period errors	20 (c)	–	–	–	–	–	–	–	–	–	–	–	–
b. Changes in accounting policies (prior year effects)	20 (d)	–	–	–	–	–	–	–	–	–	–	–	–
<b>Revised opening balance</b>		<b>413,377</b>	<b>318,298</b>	<b>–</b>	<b>731,675</b>	<b>–</b>	<b>731,675</b>	<b>401,750</b>	<b>312,371</b>	<b>–</b>	<b>714,121</b>	<b>–</b>	<b>714,121</b>
<b>c. Net operating result for the year</b>		<b>19,236</b>	<b>–</b>	<b>–</b>	<b>19,236</b>	<b>–</b>	<b>19,236</b>	11,627	–	–	<b>11,627</b>	–	<b>11,627</b>
d. Other comprehensive income													
– Revaluations: IPP&E asset revaluation rsve	20b (ii)	–	–	–	–	–	–	–	5,927	–	<b>5,927</b>	–	<b>5,927</b>
– Revaluations: other reserves	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
– Transfers to Income Statement	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
– Impairment (loss) reversal relating to I,PP&E	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
– Joint ventures and associates	19b	–	–	–	–	–	–	–	–	–	–	–	–
– Other reserves movements	20b (ii)	–	–	–	–	–	–	–	–	–	–	–	–
<b>Other comprehensive income</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,927</b>	<b>–</b>	<b>5,927</b>	<b>–</b>	<b>5,927</b>
<b>Total comprehensive income (c&amp;d)</b>		<b>19,236</b>	<b>–</b>	<b>–</b>	<b>19,236</b>	<b>–</b>	<b>19,236</b>	<b>11,627</b>	<b>5,927</b>	<b>–</b>	<b>17,554</b>	<b>–</b>	<b>17,554</b>
e. Distributions to/(contributions from) non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–
f. Transfers between equity		–	–	–	–	–	–	–	–	–	–	–	–
<b>Equity – balance at end of the reporting period</b>		<b>432,613</b>	<b>318,298</b>	<b>–</b>	<b>750,911</b>	<b>–</b>	<b>750,911</b>	<b>413,377</b>	<b>318,298</b>	<b>–</b>	<b>731,675</b>	<b>–</b>	<b>731,675</b>



## Cessnock City Council

## Statement of Cash Flows

for the year ended 30 June 2017

Budget 2017	\$ '000	Notes	Actual 2017	Actual 2016
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
42,900	Rates and annual charges		46,225	44,186
8,400	User charges and fees		11,976	8,585
1,000	Investment and interest revenue received		1,033	1,143
25,700	Grants and contributions		27,811	21,820
–	Bonds, deposits and retention amounts received		249	311
4,100	Other		2,746	5,109
<b>Payments:</b>				
(27,700)	Employee benefits and on-costs		(29,580)	(28,577)
(16,800)	Materials and contracts		(21,794)	(22,653)
(400)	Borrowing costs		(475)	(552)
–	Bonds, deposits and retention amounts refunded		–	(323)
(14,100)	Other		(14,615)	(13,583)
<b>23,100</b>	<b>Net cash provided (or used in) operating activities</b>	11b	<b>23,576</b>	<b>15,466</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
–	Sale of investment securities		10,200	9,100
800	Sale of infrastructure, property, plant and equipment		1,122	1,259
<b>Payments:</b>				
–	Purchase of investment securities		(10,284)	(11,799)
(25,506)	Purchase of infrastructure, property, plant and equipment		(25,033)	(15,526)
<b>(24,706)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(23,995)</b>	<b>(16,966)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
Nil				
<b>Payments:</b>				
(1,143)	Repayment of borrowings and advances		(1,152)	(1,143)
<b>(1,143)</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>(1,152)</b>	<b>(1,143)</b>
<b>(2,749)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,571)</b>	<b>(2,643)</b>
8,610	Plus: cash and cash equivalents – beginning of year	11a	8,610	11,253
<b>5,861</b>	<b>Cash and cash equivalents – end of the year</b>	11a	<b>7,039</b>	<b>8,610</b>
Additional Information:				
	plus: Investments on hand – end of year	6b	29,500	29,400
<b>Total cash, cash equivalents and investments</b>			<b>36,539</b>	<b>38,010</b>

**Please refer to Note 11 for information on the following:**

- Non-cash financing and investing activities
- Financing arrangements
- Net cash flow disclosures relating to any discontinued operations

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

### Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	10
2(a)	Council functions/activities – financial information	22
2(b)	Council functions/activities – component descriptions	23
3	Income from continuing operations	24
4	Expenses from continuing operations	29
5	Gains or losses from the disposal of assets	32
6(a)	Cash and cash equivalent assets	33
6(b)	Investments	33
6(c)	Restricted cash, cash equivalents and investments – details	34
7	Receivables	36
8	Inventories and other assets	37
9(a)	Infrastructure, property, plant and equipment	38
9(b)	Externally restricted infrastructure, property, plant and equipment	39
9(c)	Infrastructure, property, plant and equipment – current year impairments	39
10(a)	Payables, borrowings and provisions	40
10(b)	Description of (and movements in) provisions	41
11	Statement of cash flows – additional information	42
12	Commitments for expenditure	44
13	Statement of performance measures:	
	13a (i) Local government industry indicators (consolidated)	45
	13a (ii) Local government industry graphs (consolidated)	46
14	Investment properties	48 n/a
15	Financial risk management	48
16	Material budget variations	52
17	Statement of developer contributions	54
18	Contingencies and other liabilities/assets not recognised	59
19	Interests in other entities	61
20	Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	63
21	Financial result and financial position by fund	63 n/a
22	'Held for sale' non-current assets and disposal groups	64 n/a
23	Events occurring after the reporting date	64 n/a
24	Discontinued operations	64 n/a
25	Intangible assets	64 n/a
26	Reinstatement, rehabilitation and restoration liabilities	65
27	Fair value measurement	66
28	Related party disclosures	72
 <b>Additional council disclosures</b>		
29	Financial review	73
30	Council information and contact details	74

n/a – not applicable

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies

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.

##### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the Local Government Act 1993 (NSW) and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

##### (i) New and amended standards adopted by Council

AASB 124 Related Party Disclosures was adopted during the year, the impact of this standard had no impact on reporting financial position or performance, however note 28 has been added.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]. This standard had no impact on reporting financial position or performance.

##### (ii) Early adoption of standards

Council has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

##### (iii) 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 property, plant and equipment and investment property.

##### (iv) 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 investment properties
- (ii) Estimated fair values of infrastructure, property, plant and equipment,
- (iii) Estimated tip remediation provisions.

##### *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 7.

##### (b) Revenue recognition

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.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

##### **(i) Rates, annual charges, grants and contributions**

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. 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.

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.

Control over granted assets/contributed assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and is valued at their fair value 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 in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

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.

##### **(ii) User charges and fees**

User charges and fees are recognised as revenue when the service has been provided. Infringement fines are recognised as revenue upon receipt.

##### **(iii) Sale of infrastructure, property, plant and equipment**

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

##### **(iv) Interest**

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

##### **(v) Rent**

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

##### **(vi) Dividend income**

Revenue is recognised when the Council's right to receive the payment is established, which is generally when shareholders approve the dividend.

##### **(vii) Other income**

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

#### **(c) Principles of consolidation**

##### **(i) 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

##### **(ii) The Trust Fund**

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

Trust monies and property held by Council but not subject to the control of Council have been excluded from these reports. A separate statement of monies

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

held in the Trust Fund is available for inspection at the Council office by any person free of charge.

#### (iii) County Councils

Council is not a member of any county councils.

#### (iv) Interests in other entities

##### Subsidiaries

Council has no interest in any subsidiaries.

##### Joint arrangements

Nil

##### Joint operations

Joint operations represent operational arrangements where the joint control parties have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

The proportionate interests of Council in the assets, liabilities, income and expenses of all Joint Operation activities have been incorporated throughout the financial statements under the appropriate notes and line items.

Detailed information relating to Council's joint operations can be found at Note 19 (c).

#### (d) Leases

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 property 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.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

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.

Lease income from operating leases where Council is a lessor is recognised as income on a straight-line basis over the lease term.

#### (e) Impairment of assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets 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.

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.

#### (f) Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

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.

#### **(g) Inventories**

##### **(i) 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.

Cost comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on 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.

##### **(ii) Inventory held for distribution**

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

##### **(iii) 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.

#### **(h) Non-current assets (or disposal groups) held for sale and discontinued operations**

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 continuing use.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets; assets arising from employee benefits; financial assets; and investment properties that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

#### **(i) Investments and other financial assets**

##### **Classification**

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

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

##### **(ii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which that are classified as non-current assets.

Loans and receivables are included in other receivables (note 8) and receivables (note 7) in the Statement of Financial Position.

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.

##### **(iii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, that are classified as current assets.

##### **(iv) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

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

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

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

##### **Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

##### **Impairment**

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

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

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

##### (i) Assets carried at amortised cost

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

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Council may measure impairment on the basis of an instrument's fair value using an observable market price.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in the income statement within other expenses. When

a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

##### Investment Policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and Clause 212 of the Local Government (General) Regulation 2005 (NSW).

Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it, or its representatives, exercise the care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order (the Order) arising from the Cole Inquiry recommendations

##### (j) Fair value estimation – financial instruments

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

flows at the current market interest rate that is available to the Council for similar financial instruments.

#### (k) Infrastructure, property, plant and equipment (IPPE)

Council's assets have been progressively revalued to fair value in accordance with a staged implementation advised by the Office of Local Government. At reporting date, the following classes of IPPE were stated at their fair value:

##### Externally valued:

- Operational land
- Community land
- Buildings – specialised/non-specialised (both externally and internally)
- Roads assets including roads, bridges and footpaths (both externally and internally)
- Bulk earthworks (both externally and internally)
- Stormwater drainage

##### Internally valued:

- Land improvements
- Buildings – specialised/non-specialised
- Roads assets including roads, bridges and footpaths
- Bulk earthworks
- Runways and Taxiways
- Swimming pools
- Other open space/recreational assets

##### As approximated by depreciated historical cost:

- Plant and equipment
- Other assets

Non-specialised assets with short useful lives are measured at depreciated historical cost as an approximation of fair value. Council has assessed that any difference between fair value and depreciated historical cost is unlikely to be material.

For all other asset classes, Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalue the asset to that

amount. Full revaluations are undertaken for all assets on a five-year cycle.

Increases in the carrying amounts arising on revaluation are credited to the asset 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.

#### Capitalisation thresholds

Items of infrastructure, property, plant and equipment are not capitalised unless their cost of acquisition exceeds the following;

<b>Land</b>	
- council land	100% Capitalised
- open space	100% Capitalised
- land under roads (purchases after 30/6/08)	100% Capitalised

#### Plant & Equipment

Office Furniture	> \$300
Office Equipment	> \$300
Other Plant & Equipment	> \$3,000

#### Buildings & Land Improvements

Building	
- new construction or upgrade	100% Capitalised
- renewal	Capitalised where restoration costs ≥ \$2000 or a complete component replacement

#### Stormwater Assets

Drains & Culverts	Capitalise if reconstruction is ≥ \$5,000 and / or more than 20% of asset
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## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

##### Transport Assets

Roads Capitalise if pavement renewal to same standard, resurfacing with same standard, reconstruction is  $\geq$  \$10,000 and / or more than 20% of a segment area

Bridges Capitalise if reconstruction is  $\geq$  \$10,000 and / or more than 20% of a component

Traffic facilities  $\geq$  \$3,000

##### Other Infrastructure Assets

Swimming Pools and pool plant Capitalise if complete component is replaced or  $\geq$  \$2,000

Other Open Space/Recreational Assets Capitalise if complete component is replaced or  $\geq$  \$2,000

Runways and Taxiways Capitalise if pavement renewal to same standard, resurfacing with same standard, reconstruction is  $\geq$  \$10,000 and / or more than 20% of a segment area

Items of infrastructure, property, plant and equipment are not capitalised unless their cost of acquisition has been finalised, all invoices received and a finalisation report provided to the Asset Engineering Officer prior to 1 June of the current financial year.

##### Depreciation

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:

##### Plant & Equipment

- Office Equipment	4 to 10 years
- Office furniture	4 to 10 years
- Computer Equipment	4 to 5 years
- Vehicles	4 to 8 years
- Heavy Plant/Road Making equip.	4 to 8 years
- Other plant and equipment	4 to 15 years

##### Other Assets

- Library Books	7 to 10 years
- Artworks	Indefinite

##### Buildings

- Sub-Structure	50-100yrs
- Superstructure	50-100yrs
- Roof	25-50yrs
- Electrical	25-50yrs
- Hydraulic	25-50yrs
- Mechanical	10-25yrs
- Fit-outs Fittings	10-25yrs
- Fit-outs Floor Coverings	10-25yrs

##### Drainage Assets

- Culverts	120 years
- Stormwater Pipes	120 years
- Stormwater Pits	120 years

##### Transportation Assets

- Sealed Roads Spray Seal Surface	24 years
- Sealed Roads Asphalt Surface	34 years
- Sealed Road Base	80 years
- Sealed Road Sub Base	1,000 years
- Sealed Road Formation	1,000 years
- Unsealed Roads Gravel Surface	25 years
- Unsealed Roads Gravel Base	80 years
- Unsealed Roads Gravel Formation	1,000 years
- Concrete Bridge - Sub Structure	120 years
- Concrete Bridge - Super Structure	120 years
- Concrete Bridge - Rails	50 years
- Timber Bridge - Sub Structure	120 years
- Timber Bridge - Super Structure	120 years
- Timber Bridge - Surface	60 years
- Timber Bridge - Rails	60 years
- Kerb and Gutter	120 years
- Footpaths and Cycleways	120 years

##### Other Infrastructure Assets

- Bulk earthworks	Infinite
- Swimming Pools	91 years
- Open Space/ Recreational Assets	11 -120 years
-Playgrounds	23 years
-Runways and Taxiways Surface	20 years
-Runways and Taxiways Base	80 years
-Runways and Taxiways Sub-Base	1,000 years

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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

##### (l) Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council.

Council does not have any investment properties.

##### (m) 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.

##### (n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent 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.

##### (o) 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.

##### (p) 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.

##### (q) Employee benefits

###### (i) 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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

##### (ii) 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.

##### (iii) 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.

##### Defined Benefit Plans

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the Statement of Financial Position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments that arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures,

and periods of service. However, when this information is not reliably available, 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.

##### Defined Contribution Plans

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

##### (r) Land under roads

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

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.

##### (s) Self-insurance

Council does not self-insure.

##### (t) Intangible assets

Council has not classified any assets as intangible.

##### (u) Crown reserves

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

Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

Council and revenues relating to the reserves are recognised within Council's Income Statement.

##### (v) Rural fire service assets

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

Until such time as discussions on this matter have concluded and the legislation changed, Council will not recognise rural fire service assets including land, buildings, plant and vehicles.

##### (w) 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 which that are recoverable from, or payable to the taxation authority are presented as operating cash flows.

##### (x) New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

As at the date of authorisation of the financial statements, the standards and interpretations listed below were in issue but not yet effective.

##### Effective for annual reporting periods beginning on or after 1 January 2017

AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*

AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*

AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]*

AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*

AASB 2016-7 *Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities*

##### Effective for annual reporting periods beginning on or after 13 February 2017

AASB 2017-2 *Amendments to Australian Accounting Standards - Further Annual Improvements 2014- 16 Cycle*

##### Effective for annual reporting periods beginning on or after 13 December 2017

AASB 2017-1 *Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*

##### Effective for annual reporting periods beginning on or after 1 January 2018

AASB 9 *Financial Instruments (December 2009)*

AASB 15 *Revenue from Contracts with Customers*

AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*

AASB 2014-1 *Amendments to Australian Accounting Standards (Part E)*

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 1. Summary of significant accounting policies (continued)

*AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*

and amounts may have been reclassified or individually reported for the first time within these financial statements and/or the notes.

*AASB 1057 Application of Australian Accounting Standards*

#### **(aa) Disclaimer**

Nothing contained within these statements may be taken to be an admission of any liability to any person under any circumstance.

*AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15*

*AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

*AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*

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

*AASB 16 Leases*

*AASB 16 Leases (Appendix D)*

*AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*

*AASB 1058 Income of Not-for-Profit Entities*

*AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*

The full impact of these standards has yet to be ascertained or quantified but will range from additional and/or revised disclosures to changes in how certain transactions and balances are accounted for.

#### **(y) Rounding of amounts**

Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

#### **(z) Comparative figures**

To ensure comparability with the current reporting period's figures, some comparative period line items

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).												
	Income from continuing operations			Expenses from continuing operations			Operating result from continuing operations			Grants included in income from continuing operations		Total assets held (current and non-current)	
	Original budget	Actual	Actual	Original budget	Actual	Actual	Original budget	Actual	Actual	Actual	Actual	Actual	Actual
	2017	2017	2016	2017	2017	2016	2017	2017	2016	2017	2016	2017	2016
Governance	–	–	–	935	1,477	1,021	(935)	(1,477)	(1,021)	–	–	54	41
Administration	862	1,873	1,504	14,616	14,584	12,491	(13,754)	(12,711)	(10,987)	–	–	90,707	92,219
Public order and safety	628	525	429	2,597	2,716	2,312	(1,969)	(2,191)	(1,883)	–	7	6,232	6,961
Health	1,212	1,202	1,158	965	982	964	247	220	194	–	–	282	247
Environment	14,776	17,239	16,800	14,781	16,294	13,570	(5)	945	3,230	1,008	1,281	71,040	64,497
Community services and education	50	129	56	392	475	514	(342)	(346)	(458)	84	51	4,286	4,139
Housing and community amenities	1,043	1,520	1,487	5,480	5,595	6,417	(4,437)	(4,075)	(4,930)	115	225	1,366	2,838
Recreation and culture	888	2,658	3,156	8,821	10,305	11,704	(7,933)	(7,647)	(8,548)	540	365	76,301	74,477
Mining, manufacturing and construction	872	940	897	1,214	1,219	1,235	(342)	(279)	(338)	–	–	189	198
Transport and communication	12,679	23,686	19,423	19,109	20,966	23,175	(6,430)	2,720	(3,752)	9,139	5,140	536,432	521,536
Economic affairs	778	473	329	1,699	1,385	1,287	(921)	(912)	(958)	–	–	1,629	1,531
<b>Total functions and activities</b>	<b>33,788</b>	<b>50,245</b>	<b>45,239</b>	<b>70,609</b>	<b>75,998</b>	<b>74,690</b>	<b>(36,821)</b>	<b>(25,753)</b>	<b>(29,451)</b>	<b>10,886</b>	<b>7,069</b>	<b>788,518</b>	<b>768,684</b>
Share of gains/(losses) in associates and joint ventures (using the equity method)	–	–	–	–	–	–	–	–	–	–	–	–	–
General purpose income <sup>1</sup>	41,646	44,989	41,078	–	–	–	41,646	44,989	41,078	10,666	7,342	–	–
<b>Operating result from continuing operations</b>	<b>75,434</b>	<b>95,234</b>	<b>86,317</b>	<b>70,609</b>	<b>75,998</b>	<b>74,690</b>	<b>4,825</b>	<b>19,236</b>	<b>11,627</b>	<b>21,552</b>	<b>14,411</b>	<b>788,518</b>	<b>768,684</b>

1. Includes: rates and annual charges (incl. ex-gratia), untied general purpose grants and unrestricted interest and investment income.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

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

**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.



## Cessnock City Council

### Notes to the Financial Statements for the year ended 30 June 2017

#### Note 3. Income from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Rates and annual charges</b>			
<b>Ordinary rates</b>			
Residential		24,766	23,262
Farmland		3,023	3,469
Mining		1,046	1,095
Business		4,691	4,642
<b>Total ordinary rates</b>		<b>33,526</b>	<b>32,468</b>
<b>Special rates</b>			
Nil			
<b>Annual charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services		11,057	10,207
Stormwater management services		500	493
Waste management services (non-domestic)		868	824
Section 611 charges		28	28
<b>Total annual charges</b>		<b>12,453</b>	<b>11,552</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>45,979</b>	<b>44,020</b>

Council has used 2015 year valuations provided by the NSW Valuer General in calculating its rates.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
<b>(b) User charges and fees</b>			
<b>Specific user charges</b> (per s.502 – specific 'actual use' charges)			
Nil			
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Building permits and fees		684	667
Inspection services		413	402
Private works – section 67		67	49
Regulatory/ statutory fees		90	84
Section 149 certificates (EPA Act)		198	201
Section 603 certificates		141	122
Town planning		1,413	1,073
<b>Total fees and charges – statutory/regulatory</b>		<b>3,006</b>	<b>2,598</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Aerodrome		169	163
Cemeteries		226	187
Cessnock performing arts centre		247	254
Fire and emergency services levy (FESL) implementation		137	–
Onsite sewerage management fees		450	419
RMS charges (state roads not controlled by council)		4,879	2,302
Swimming pool fees		229	204
Waste disposal tipping fees		2,067	1,813
Other		167	117
<b>Total fees and charges – other</b>		<b>8,571</b>	<b>5,459</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>11,577</b>	<b>8,057</b>

Fire and Emergency Services Levy income of \$137k was received from NSW State Government to fund Council's costs for the preparation and setup of the proposed levy which was to be effective from 1 July 2017.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
<b>(c) Interest and investment revenue (including losses)</b>			
<b>Interest</b>			
– Interest on overdue rates and annual charges (incl. special purpose rates)		141	145
– Interest earned on investments (interest and coupon payment income)		894	1,069
<b>Fair value adjustments</b>			
– Fair valuation movements in investments (other)		16	301
<b>TOTAL INTEREST AND INVESTMENT REVENUE</b>		<u>1,051</u>	<u>1,515</u>
<b>Interest revenue is attributable to:</b>			
<b>Unrestricted investments/financial assets:</b>			
Overdue rates and annual charges (general fund)		141	145
General Council cash and investments		178	625
<b>Restricted investments/funds – external:</b>			
Development contributions			
– Section 94		127	114
Domestic waste management operations		10	15
Other externally restricted assets		117	118
<b>Restricted investments/funds – internal:</b>			
Internally restricted assets		478	498
<b>Total interest and investment revenue recognised</b>		<u>1,051</u>	<u>1,515</u>
<b>(d) Other revenues</b>			
Rental income – other council properties		314	292
Fines		348	287
General administrative services		9	9
Legal fees recovery – rates and charges (extra charges)		533	417
Legal fees recovery – other		11	219
Commissions and agency fees		29	32
Insurance claim recoveries		124	200
Sales – general		108	35
Section 355 committees		130	176
Other		143	163
<b>TOTAL OTHER REVENUE</b>		<u>1,749</u>	<u>1,830</u>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
Financial assistance – general component	5,169	5,300	–	–
Advance of 2017/18 general component	2,672	–	–	–
Financial assistance – local roads component	1,579	1,594	–	–
Advance of 2017/18 local roads component	810	–	–	–
Pensioners' rates subsidies – general component	436	448	–	–
<b>Total general purpose</b>	<b>10,666</b>	<b>7,342</b>	<b>–</b>	<b>–</b>
Financial assistance – general and local roads components have been received in advance and is approximately 50% of the 2017/18 allocation being \$3.482M.				
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Domestic waste management	207	205	–	–
Community centres	–	–	124	10
Drainage	58	64	232	326
Library – per capita	103	102	–	–
Library – special projects	8	5	246	45
LIRS subsidy	49	53	–	–
Noxious weeds	76	76	–	–
Recreation and culture	7	15	52	185
Street lighting	104	102	–	–
Transport (roads to recovery)	1,504	2,170	–	–
Transport (road safety)	67	67	–	–
Transport (flood works, other roads and bridges funding)	156	1,259	–	–
Transport (resources for regions)	–	–	7,364	1,591
Waste levy programs	322	337	–	190
Welfare services	58	50	–	–
Other	149	217	–	–
<b>Total specific purpose</b>	<b>2,868</b>	<b>4,722</b>	<b>8,018</b>	<b>2,347</b>
<b>Total grants</b>	<b>13,534</b>	<b>12,064</b>	<b>8,018</b>	<b>2,347</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	12,170	9,063	5,864	1,591
– State funding	1,364	3,001	2,154	756
	<b>13,534</b>	<b>12,064</b>	<b>8,018</b>	<b>2,347</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	2017 Operating	2016 Operating	2017 Capital	2016 Capital
<b>(f) Contributions</b>				
<b>Developer contributions:</b>				
<b>(s93 &amp; s94 – EP&amp;A Act, s64 of the LGA):</b>				
S 93F – contributions using planning agreements	–	–	1,158	1,668
S 94 – contributions towards amenities/services	–	–	1,241	762
<b>Total developer contributions</b>	<b>–</b>	<b>–</b>	<b>2,399</b>	<b>2,430</b>
<b>Other contributions:</b>				
Bushfire protection	66	16	–	–
Dedications (other than by S94)	–	–	7,166	9,419
General admin services	129	105	–	–
Kerb and gutter	–	–	34	51
Motor vehicle leaseback	226	242	–	–
Recreation and culture	–	–	–	54
Road reinstatements	124	92	–	–
RMS contributions (regional roads, block grant)	1,202	1,195	1,507	2,549
Tourism	280	228	–	–
Transport	9	4	2	2
Hunter water corporation contribution	114	–	–	–
Other	44	54	24	43
<b>Total other contributions</b>	<b>2,194</b>	<b>1,936</b>	<b>8,733</b>	<b>12,118</b>
<b>Total contributions</b>	<b>2,194</b>	<b>1,936</b>	<b>11,132</b>	<b>14,548</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>	<b>15,728</b>	<b>14,000</b>	<b>19,150</b>	<b>16,895</b>

\$ '000	Actual 2017	Actual 2016
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## (g) Unspent grants and contributions

**Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:**

Unexpended at the close of the previous reporting period	12,998	10,624
<b>Add:</b> grants and contributions recognised in the current period but not yet spent:	3,812	3,788
<b>Less:</b> grants and contributions recognised in a previous reporting period now spent:	(3,698)	(1,414)
<b>Net increase (decrease) in restricted assets during the period</b>	<b>114</b>	<b>2,374</b>
<b>Unexpended and held as restricted assets</b>	<b>13,112</b>	<b>12,998</b>
<b>Comprising:</b>		
– Specific purpose unexpended grants	2,023	2,869
– Developer contributions	8,380	6,854
– Other contributions	2,709	3,275
	<b>13,112</b>	<b>12,998</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 4. Expenses from continuing operations

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Employee benefits and on-costs</b>			
Salaries and wages		21,547	20,937
Employee termination costs		497	–
Travel expenses		515	567
Employee leave entitlements (ELE)		4,562	4,722
Superannuation		3,181	3,159
Workers' compensation insurance		629	546
Fringe benefit tax (FBT)		345	375
Training costs (other than salaries and wages)		385	429
Other		31	33
<b>Total employee costs</b>		<b>31,692</b>	<b>30,768</b>
Less: capitalised costs		(1,627)	(1,582)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>30,065</b>	<b>29,186</b>
Number of 'full-time equivalent' employees (FTE) at year end		294	291
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on loans		475	552
<b>Total interest bearing liability costs expensed</b>		<b>475</b>	<b>552</b>
<b>(ii) Other borrowing costs</b>			
Nil			
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>475</b>	<b>552</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
<b>(c) Materials and contracts</b>			
Raw materials and consumables		14,353	13,462
Contractor and consultancy costs		5,262	4,949
Auditors remuneration <sup>(1)</sup>		44	48
Infringement notice contract costs (SEINS)		45	29
Legal expenses:			
– Legal expenses: planning and development		118	700
– Legal expenses: debt recovery		536	420
– Legal expenses: other		1	66
Operating leases:			
– Operating lease rentals: minimum lease payments <sup>(2)</sup>		182	167
<b><u>TOTAL MATERIALS AND CONTRACTS</u></b>		<b><u>20,541</u></b>	<b><u>19,841</u></b>
<b>1. Auditor remuneration</b>			
a. During the year, the following fees were incurred for services provided by the Auditor-General:			
<b>(i) Audit and other assurance services</b>			
– Audit and review of financial statements: Auditor-General		5	–
<b>Remuneration for audit and other assurance services</b>		<b>5</b>	<b>–</b>
<b>Total Auditor-General remuneration</b>		<b>5</b>	<b>–</b>
b. During the year, the following fees were incurred for services provided by the other Council's Auditors:			
<b>(i) Audit and other assurance services</b>			
– Audit and review of financial statements: Council's Auditor		39	48
<b>Remuneration for audit and other assurance services</b>		<b>39</b>	<b>48</b>
<b>Total remuneration of other Council's Auditors</b>		<b>39</b>	<b>48</b>
<b>Total Auditor remuneration</b>		<b>44</b>	<b>48</b>
<b>2. Operating lease payments are attributable to:</b>			
Computers		152	132
Other		30	35
		<b>182</b>	<b>167</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
<b>(d) Depreciation, amortisation and impairment</b>			
Plant and equipment		1,475	1,471
Office equipment		341	315
Furniture and fittings		20	24
Infrastructure:			
– Buildings – non-specialised		155	153
– Buildings – specialised		1,165	1,323
– Roads		4,471	4,290
– Bridges		356	354
– Footpaths		196	177
– Stormwater drainage		626	588
– Swimming pools		50	2
– Other open space/recreational assets		520	637
– Other infrastructure		37	52
Other assets			
– Library books		225	222
<b>Total depreciation and amortisation costs</b>		<b>9,637</b>	<b>9,608</b>
<b>Impairment</b>			
Infrastructure:			
– Bridges		57	357
– Other open space/recreational assets		–	4
<b>Total impairment costs</b>		<b>57</b>	<b>361</b>
<b><u>TOTAL DEPRECIATION AND IMPAIRMENT COSTS EXPENSED</u></b>		<b><u>9,694</u></b>	<b><u>9,969</u></b>



## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	Notes	Actual 2017	Actual 2016
<b>(e) Other expenses</b>			
Advertising		114	147
Bad and doubtful debts		8	41
Bank charges		46	37
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		97	89
– NSW fire brigade levy		318	311
– NSW rural fire service levy		457	410
– Waste levy		6,899	6,534
Councillor expenses – mayoral fee		41	40
Councillor expenses – councillors' fees		231	220
Councillors' expenses (incl. mayor) – other (excluding fees above)		51	47
Donations, contributions and assistance to other organisations (Section 356)		75	80
Election expenses		300	–
Electricity and heating		484	453
Fire and emergency services levy (FESL) implementation costs		14	–
Insurance		1,129	1,132
Rate collection agency expenses		76	77
RSPCA contribution		297	294
Section 355 committees		151	183
Street lighting		862	896
Subsidies		31	28
Telephone and communications		368	358
Valuation fees		153	151
Other		68	78
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>12,270</u></b>	<b><u>11,606</u></b>

## Note 5. Gains or losses from the disposal of assets

<b>Property</b> (excl. investment property)			
Proceeds from disposal – property		–	70
Less: carrying amount of property assets sold/written off		–	(9)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>61</b>
<b>Plant and equipment</b>			
Proceeds from disposal – plant and equipment		1,122	1,189
Less: carrying amount of plant and equipment assets sold/written off		(1,091)	(788)
<b>Net gain/(loss) on disposal</b>		<b>31</b>	<b>401</b>
<b>Infrastructure</b>			
Less: carrying amount of infrastructure assets sold/written off		(2,984)	(3,998)
<b>Net gain/(loss) on disposal</b>		<b>(2,984)</b>	<b>(3,998)</b>
<b>Financial assets</b>			
Proceeds from disposal/redemptions/maturities – financial assets		10,200	9,100
Less: carrying amount of financial assets sold/redeemed/matured		(10,200)	(9,100)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b><u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u></b>		<b><u>(2,953)</u></b>	<b><u>(3,536)</u></b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 6a. – Cash assets and Note 6b. – investments

\$ '000	Notes	2017	2017	2016	2016
		Actual Current	Actual Non-current	Actual Current	Actual Non-current
<b>Cash and cash equivalents (Note 6a)</b>					
Cash on hand and at bank		6,498	–	7,419	–
Cash-equivalent assets <sup>1</sup>					
– Deposits at call		541	–	1,191	–
<b>Total cash and cash equivalents</b>		<b>7,039</b>	<b>–</b>	<b>8,610</b>	<b>–</b>
<b>Investments (Note 6b)</b>					
– Long term deposits		28,500	–	27,600	800
– NCD's, FRN's (with maturities > 3 months)		–	1,000	500	500
<b>Total investments</b>		<b>28,500</b>	<b>1,000</b>	<b>28,100</b>	<b>1,300</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>		<b>35,539</b>	<b>1,000</b>	<b>36,710</b>	<b>1,300</b>

<sup>1</sup> Those investments where time to maturity (from date of purchase) is < 3 mths.

**Cash, cash equivalents and investments were classified at year end in accordance with AASB 139 as follows:**

**Cash and cash equivalents**

**a. 'At fair value through the profit and loss'**

	<b>7,039</b>	<b>–</b>	<b>8,610</b>	<b>–</b>
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**Investments**

**b. 'Held to maturity'**

**Investments**

	28,500	1,000	28,100	1,300
	<b>28,500</b>	<b>1,000</b>	<b>28,100</b>	<b>1,300</b>

Refer to Note 27. Fair value measurement for information regarding the fair value of investments held.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

\$ '000	2017	2017	2016	2016
	Actual Current	Actual Non-current	Actual Current	Actual Non-current
Total cash, cash equivalents and investments	35,539	1,000	36,710	1,300
<b>attributable to:</b>				
External restrictions (refer below)	12,606	1,000	12,192	1,300
Internal restrictions (refer below)	22,775	–	24,485	–
Unrestricted	158	–	33	–
	<b>35,539</b>	<b>1,000</b>	<b>36,710</b>	<b>1,300</b>

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
-----------------	--------------------	------------------------------	--------------------------------	--------------------

## Details of restrictions

## External restrictions – included in liabilities

Nil

## External restrictions – other

Developer contributions – general	(A)	6,854	2,526	(1,000)	8,380
RMS contributions	(B)	3,275	–	(566)	2,709
Specific purpose unexpended grants	(C)	2,869	–	(846)	2,023
Domestic waste management	(D)	432	–	–	432
Other		62	–	–	62
<b>External restrictions – other</b>		<b>13,492</b>	<b>2,526</b>	<b>(2,412)</b>	<b>13,606</b>
<b>Total external restrictions</b>		<b>13,492</b>	<b>2,526</b>	<b>(2,412)</b>	<b>13,606</b>

- A** Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- B** RMS contributions which are not yet expended for the provision of services and amenities in accordance with those contributions.
- C** Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1 (b))
- D** Domestic Waste Management (DWM) is an externally restricted asset and must be applied for the purposes for which it was raised.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

2017 \$ '000	Opening balance	Transfers to restrictions	Transfers from restrictions	Closing balance
<b>Internal restrictions</b>				
Plant and vehicle replacement	2,918	882	(1,252)	2,548
Employees leave entitlement	2,004	709	(611)	2,102
Carry over works	1,346	310	(1,346)	310
Bridge replacement	306	269	(14)	561
Cemetery	5	–	–	5
Computer services	333	210	(266)	277
Insurance provisions	302	324	(66)	560
Miscellaneous and property	2,210	1,065	(1,573)	1,702
Financial Assistance Grant in Advance	–	3,482	–	3,482
Operations and programs	688	185	(630)	243
Property investment fund	646	127	(41)	732
Rezoning fees	85	–	–	85
Sanitary operations	21	–	(21)	–
Single invitation contracts	669	177	–	846
Waste depot and rehabilitation	12,752	14,399	(18,004)	9,147
Energy efficiency reserve	200	1	(26)	175
<b>Total internal restrictions</b>	<b>24,485</b>	<b>22,140</b>	<b>(23,850)</b>	<b>22,775</b>
<b>TOTAL RESTRICTIONS</b>	<b>37,977</b>	<b>24,666</b>	<b>(26,262)</b>	<b>36,381</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 7. Receivables

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
<b>Purpose</b>					
Rates and annual charges		719	–	875	–
Interest and extra charges		364	–	358	–
User charges and fees		10	–	12	–
Accrued revenues					
– Interest on investments		212	–	216	–
Community facilities		103	–	30	–
Garbage tipping fees		22	–	36	–
Government grants and subsidies		86	–	86	–
Insurance claim – recreation facilities		–	–	106	–
Kerb and gutter		47	–	35	–
Net GST receivable		617	–	491	–
Planning proposals		3	–	200	–
Premises inspections		92	–	71	–
Rental charges		82	–	46	–
Restoration charges		23	–	32	–
RMS debtors – state roads		2,470	–	114	–
Roadworks		898	–	304	–
Other debtors		359	–	256	–
<b>Total</b>		<b>6,107</b>	<b>–</b>	<b>3,268</b>	<b>–</b>
<b>Less: provision for impairment</b>					
Rates and annual charges		(110)	–	(106)	–
Other debtors		(56)	–	(52)	–
<b>Total provision for impairment – receivables</b>		<b>(166)</b>	<b>–</b>	<b>(158)</b>	<b>–</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>5,941</u></b>	<b><u>–</u></b>	<b><u>3,110</u></b>	<b><u>–</u></b>
<b>Externally restricted receivables</b>					
Domestic waste management		451	–	457	–
Stormwater management		18	–	19	–
Other restricted receivables		22	–	36	–
<b>Total external restrictions</b>		<b>491</b>	<b>–</b>	<b>512</b>	<b>–</b>
<b>Internally restricted receivables</b>					
Nil					
<b>Unrestricted receivables</b>		<b>5,450</b>	<b>–</b>	<b>2,598</b>	<b>–</b>
<b>TOTAL NET RECEIVABLES</b>		<b>5,941</b>	<b>–</b>	<b>3,110</b>	<b>–</b>

**Notes on debtors above:**

- (i) Rates and annual charges outstanding are secured against the property.
- (ii) Doubtful rates debtors are provided for where the value of the property is less than the debt outstanding.  
An allowance for other doubtful debts is made when there is objective evidence that a receivable is impaired.
- (iii) Interest was charged on overdue rates and charges at 8.00% (2016 8.50%).  
Generally all other receivables are non-interest bearing.
- (iv) Please refer to Note 15 for issues concerning credit risk and fair value disclosures.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 8. Inventories and other assets

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
<b>(a) Inventories</b>					
<b>(i) Inventories at cost</b>					
Real estate for resale (refer below)		–	1,270	–	1,270
Stores and materials		376	–	323	–
<b>Total inventories at cost</b>		<b>376</b>	<b>1,270</b>	<b>323</b>	<b>1,270</b>
<b>(ii) Inventories at net realisable value (NRV)</b>					
Nil					
<b>TOTAL INVENTORIES</b>		<b>376</b>	<b>1,270</b>	<b>323</b>	<b>1,270</b>
<b>(b) Other assets</b>					
Prepayments		197	–	206	–
<b>TOTAL OTHER ASSETS</b>		<b>197</b>	<b>–</b>	<b>206</b>	<b>–</b>
<b>Externally restricted assets</b>					
There are no restrictions applicable to the above assets.					
<b>(i) Other disclosures</b>					
<b>(a) Details for real estate development</b>					
Residential		–	1,270	–	1,270
<b>Total real estate for resale</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>
(Valued at the lower of cost and net realisable value)					
<b>Represented by:</b>					
Development costs		–	1,270	–	1,270
<b>Total costs</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>
<b>Total real estate for resale</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>
<b>Movements:</b>					
Real estate assets at beginning of the year		–	1,270	–	1,270
<b>Total real estate for resale</b>		<b>–</b>	<b>1,270</b>	<b>–</b>	<b>1,270</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

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

Asset class \$ '000	as at 30/6/2016			Asset movements during the reporting period							as at 30/6/2017			
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss (recognised in P/L)	WIP transfers	Adjustments and transfers	Gross carrying amount	Accumulated depreciation	Accumulated impairment	Net carrying amount
Capital work in progress	6,205	–	6,205	–	10,629	–	–	–	(4,766)	–	12,068	–	–	12,068
Plant and equipment	19,862	12,965	6,897	2,992	–	(1,089)	(1,475)	–	34	–	20,199	12,840	–	7,359
Office equipment	3,408	2,762	646	118	241	–	(341)	–	39	–	3,783	3,080	–	703
Furniture and fittings	1,393	1,256	137	–	12	–	(20)	–	13	–	1,418	1,276	–	142
Plant and equipment (under finance lease)	281	281	–	–	–	–	–	–	–	–	281	281	–	–
<b>Land:</b>														
– Operational land	41,092	–	41,092	–	41	–	–	–	–	107	41,240	–	–	41,240
– Community land	24,295	–	24,295	–	–	–	–	–	–	(107)	24,188	–	–	24,188
– Land under roads (post 30/6/08)	1,868	–	1,868	–	480	–	–	–	–	–	2,348	–	–	2,348
<b>Infrastructure:</b>														
– Buildings – non-specialised	14,998	1,708	13,290	–	278	–	(155)	–	–	–	15,276	1,863	–	13,413
– Buildings – specialised	69,876	16,588	53,288	144	1,125	(899)	(1,165)	–	170	–	70,022	17,359	–	52,663
– Other structures	5,571	702	4,869	–	–	–	–	–	–	(4,869)	–	–	–	–
– Roads	563,684	99,356	464,328	5,975	4,729	(1,444)	(4,471)	–	3,281	–	574,349	101,894	57	472,398
– Bridges	38,300	12,240	26,060	1,348	–	(559)	(356)	(57)	1,109	–	39,270	11,725	–	27,545
– Footpaths	14,224	3,474	10,750	5	963	(19)	(196)	–	12	–	15,166	3,651	–	11,515
– Stormwater drainage	73,827	16,370	57,457	–	2,513	(1)	(626)	–	67	–	76,404	16,994	–	59,410
– Swimming pools	4,561	1,751	2,810	–	–	–	(50)	–	–	–	4,561	1,801	–	2,760
– Other open space/recreational assets	17,278	6,689	10,589	218	153	(61)	(520)	–	41	–	17,529	7,109	–	10,420
– Other infrastructure	–	–	–	–	–	–	(37)	–	–	4,869	5,572	740	–	4,832
<b>Other assets:</b>														
– Library books	5,410	4,229	1,181	–	235	–	(225)	–	–	–	5,645	4,454	–	1,191
– Other	3	–	3	–	–	(3)	–	–	–	–	–	–	–	–
<b>Reinstatement, rehabilitation and restoration assets (refer Note 26):</b>														
– Tip assets	8,400	8,400	–	–	–	–	–	–	–	–	8,400	8,400	–	–
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.</b>	<b>914,536</b>	<b>188,771</b>	<b>725,765</b>	<b>10,800</b>	<b>21,399</b>	<b>(4,075)</b>	<b>(9,637)</b>	<b>(57)</b>	<b>–</b>	<b>–</b>	<b>937,719</b>	<b>193,467</b>	<b>57</b>	<b>744,195</b>

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

The transfer of \$4.869m from Other Structures to Other Infrastructure was to reclassify the Airport runway to the correct asset class.

Refer to Note 27. Fair value measurement for information regarding the fair value of other infrastructure, property, plant and equipment.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 9b. Externally restricted infrastructure, property, plant and equipment

\$ '000	Actual 2017			Actual 2016		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
<b>Class of asset</b>						
<b>Domestic waste management</b>						
Plant and equipment	2,187	939	<b>1,248</b>	2,236	861	<b>1,375</b>
Land						
– Operational land	1,586	–	<b>1,586</b>	1,586	–	<b>1,586</b>
Buildings	323	132	<b>191</b>	339	133	<b>206</b>
<b>Total DWM</b>	<b>4,096</b>	<b>1,071</b>	<b>3,025</b>	<b>4,161</b>	<b>994</b>	<b>3,167</b>
<b>TOTAL RESTRICTED I,PP&amp;E</b>	<b>4,096</b>	<b>1,071</b>	<b>3,025</b>	<b>4,161</b>	<b>994</b>	<b>3,167</b>

## Note 9c. Infrastructure, property, plant and equipment – current year impairments

\$ '000	Notes	Actual 2017	Actual 2016
<b>Impairment losses recognised in the Income Statement:</b>			
– Frame Drive Bridge damaged in extreme weather event		–	(152)
– Cunneens Bridge – structurally unsound		–	(205)
– Kitchener Poppethead Park Jetty – structurally unsound		–	(4)
– Abbotsford Bridge Bellbird – structurally unsound		(57)	–
<b>Total impairment losses</b>		<b>(57)</b>	<b>(361)</b>
<b>IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L</b>	4(d)	<b>(57)</b>	<b>(361)</b>



## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 10a. Payables, borrowings and provisions

\$ '000	Notes	2017		2016	
		Current	Non-current	Current	Non-current
<b>Payables</b>					
Goods and services – operating expenditure		5,611	–	4,760	–
Accrued expenses:					
– Salaries and wages		838	–	419	–
– Other expenditure accruals		686	–	714	–
Security bonds, deposits and retentions		675	1,915	712	1,629
Trust fund		166	–	138	–
Other		–	–	13	–
<b>Total payables</b>		<b>7,976</b>	<b>1,915</b>	<b>6,756</b>	<b>1,629</b>
<b>Income received in advance</b>					
Payments received in advance		–	773	–	815
<b>Total income received in advance</b>		<b>–</b>	<b>773</b>	<b>–</b>	<b>815</b>
<b>Borrowings</b>					
Loans – secured <sup>1</sup>		1,179	5,419	1,152	6,598
<b>Total borrowings</b>		<b>1,179</b>	<b>5,419</b>	<b>1,152</b>	<b>6,598</b>
<b>Provisions</b>					
<b>Employee benefits:</b>					
Annual leave		2,707	–	2,580	–
Sick leave		521	–	527	–
Long service leave		5,731	145	5,554	157
Sub-total – aggregate employee benefits		<b>8,959</b>	<b>145</b>	<b>8,661</b>	<b>157</b>
Asset remediation/restoration (future works)	26	–	11,241	–	11,241
<b>Total provisions</b>		<b>8,959</b>	<b>11,386</b>	<b>8,661</b>	<b>11,398</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>18,114</b>	<b>19,493</b>	<b>16,569</b>	<b>20,440</b>
<b>(i) Liabilities relating to restricted assets</b>					
		2017		2016	
		Current	Non-current	Current	Non-current
<b>Externally restricted assets</b>					
Domestic waste management		78	–	85	–
Liabilities relating to externally restricted assets		<b>78</b>	<b>–</b>	<b>85</b>	<b>–</b>
<b>Internally restricted assets</b>					
Nil		–	–	–	–
<b>Total liabilities relating to restricted assets</b>		<b>78</b>	<b>–</b>	<b>85</b>	<b>–</b>
<b>Total liabilities relating to unrestricted assets</b>		<b>18,036</b>	<b>19,493</b>	<b>16,484</b>	<b>20,440</b>
<b>TOTAL PAYABLES, BORROWINGS AND PROVISIONS</b>		<b>18,114</b>	<b>19,493</b>	<b>16,569</b>	<b>20,440</b>

<sup>1</sup> 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 15.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 10a. Payables, borrowings and provisions (continued)

\$ '000	Actual 2017	Actual 2016
<b>(ii) Current liabilities not anticipated to be settled within the next twelve months</b>		
The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	5,498	5,380
Payables – security bonds, deposits and retentions	665	2,333
Other Liabilities: Trust Fund Deposits	48	48
	<b>6,211</b>	<b>7,761</b>

#### Note 10b. Description of and movements in provisions

Class of provision	2016		2017			
	Opening balance as at 1/7/16	Additional provisions	Decrease due to payments	Remeasurement effects due to discounting	Unused amounts reversed	Closing balance as at 30/6/17
Annual leave	2,580	1,829	(1,702)	–	–	2,707
Sick leave	527	1,032	(1,038)	–	–	521
Long service leave	5,711	754	(589)	–	–	5,876
Asset remediation	11,241	–	–	–	–	11,241
<b>TOTAL</b>	<b>20,059</b>	<b>3,615</b>	<b>(3,329)</b>	<b>–</b>	<b>–</b>	<b>20,345</b>

- a. Employees leave entitlements and on-costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- b. Asset remediation, reinstatement and restoration provisions represent the present value estimate of future costs Council will incur in order to remove, restore and remediate assets and/or activities as a result of past operations.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 11. Statement of cash flows – additional information

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6a	7,039	8,610
Less bank overdraft	10	–	–
<b>Balance as per the Statement of Cash Flows</b>		<b>7,039</b>	<b>8,610</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		<b>19,236</b>	<b>11,627</b>
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		9,637	9,608
Net losses/(gains) on disposal of assets		2,953	3,536
Non-cash capital grants and contributions		(7,166)	(9,419)
Impairment losses recognition – I,PP&E		57	361
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(16)	(301)
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		(2,839)	648
Increase/(decrease) in provision for doubtful debts		8	(196)
Decrease/(increase) in inventories		(53)	20
Decrease/(increase) in other assets		9	(152)
Increase/(decrease) in payables		851	(848)
Increase/(decrease) in other accrued expenses payable		391	(245)
Increase/(decrease) in other liabilities		222	153
Increase/(decrease) in employee leave entitlements		286	674
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>23,576</b>	<b>15,466</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 11. Statement of cash flows – additional information (continued)

\$ '000	Notes	Actual 2017	Actual 2016
<b>(c) Non-cash investing and financing activities</b>			
Other dedications		7,166	9,419
<b>Total non-cash investing and financing activities</b>		<b>7,166</b>	<b>9,419</b>
<b>(d) Financing arrangements</b>			
<b>(i) Unrestricted access was available at balance date to the following lines of credit:</b>			
Bank overdraft facilities <sup>(1)</sup>		1,000	1,000
Credit cards/purchase cards		100	100
<b>Total financing arrangements</b>		<b>1,100</b>	<b>1,100</b>

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

Interest rates on overdrafts are interest rates on loans and other payables are disclosed in Note 15.

**(ii) Secured loan liabilities**

Loans are secured by a mortgage over future years rate revenue only.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 12. Commitments for expenditure

\$ '000	Notes	Actual 2017	Actual 2016
<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>			
Williams bridge		–	67
Lomas Lane bridge		–	318
Frame Drive bridge		–	809
Deasys Road Rehabilitation		–	432
Birralee Seniors Amenities Building		–	793
Whitburn Estate Drainage		119	–
<b>Total commitments</b>		<b>119</b>	<b>2,419</b>
<b>These expenditures are payable as follows:</b>			
Within the next year		119	2,419
<b>Total payable</b>		<b>119</b>	<b>2,419</b>
<b>Sources for funding of capital commitments:</b>			
Unrestricted general funds		–	432
Future grants and contributions		119	404
Sect 64 and 94 funds/reserves		–	600
Unexpended grants		–	512
Internally restricted reserves		–	66
New loans (to be raised)		–	405
<b>Total sources of funding</b>		<b>119</b>	<b>2,419</b>

**(b) Finance lease commitments**

Nil

**(c) Operating lease commitments (non-cancellable)****a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:**

Within the next year	157	18
Later than one year and not later than 5 years	444	–
Later than 5 years	–	–
<b>Total non-cancellable operating lease commitments</b>	<b>601</b>	<b>18</b>

**b. Non-cancellable operating leases include the following assets:**

Computer and Photocopier Leases

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

**Conditions relating to 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.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 13a(i). Statement of performance measurement – indicators (consolidated)

\$ '000	Amounts 2017	Indicator 2017	Prior periods		Benchmark
			2016	2015	
<b>Local government industry indicators – consolidated</b>					
<b>1. Operating performance ratio</b>					
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions less operating expenses	<u>3,023</u>	<b>3.97%</b>	-2.94%	0.55%	>0.00%
Total continuing operating revenue <sup>(1)</sup> excluding capital grants and contributions	<u>76,068</u>				
<b>2. Own source operating revenue ratio</b>					
Total continuing operating revenue <sup>(1)</sup> excluding all grants and contributions	<u>60,340</u>	<b>63.37%</b>	64.08%	65.85%	>60.00%
Total continuing operating revenue <sup>(1)</sup>	<u>95,218</u>				
<b>3. Unrestricted current ratio</b>					
Current assets less all external restrictions <sup>(2)</sup>	<u>28,956</u>	<b>2.45x</b>	3.17x	2.94x	>1.5x
Current liabilities less specific purpose liabilities <sup>(3, 4)</sup>	<u>11,825</u>				
<b>4. Debt service cover ratio</b>					
Operating result <sup>(1)</sup> before capital excluding interest and depreciation/impairment/amortisation	<u>13,192</u>	<b>8.11x</b>	5.01x	7.92x	>2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>1,627</u>				
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>					
Rates, annual and extra charges outstanding	<u>973</u>	<b>2.04%</b>	2.46%	2.71%	< 5% Metro
Rates, annual and extra charges collectible	<u>47,780</u>				
<b>6. Cash expense cover ratio</b>					
Current year's cash and cash equivalents plus all term deposits	<u>35,539</u>	<b>6.31 mths</b>	6.6 mths	7.5 mths	> 3 mths
Payments from cash flow of operating and financing activities	<u>5,635</u>				

## Notes

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

(2) Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

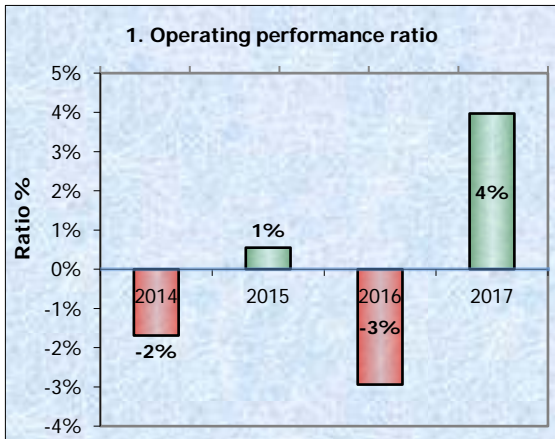
(3) Refer to Note 10(a).

(4) Refer to Note 10(a)(ii) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

# Cessnock City Council

## Notes to the Financial Statements for the year ended 30 June 2017

### Note 13a(ii). Local government industry indicators – graphs (consolidated)



**Purpose of operating performance ratio**

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

**Commentary on 2016/17 result**

**2016/17 ratio 3.97%**

Advance payment of 2017/18 Financial Assistance Grant received in June 2017 has greatly improved this ratio. If the advanced payment was not received, this ratio would be -0.60%.

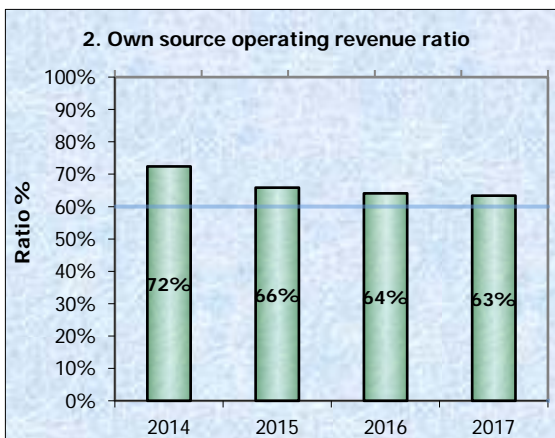
Benchmark: — Minimum  $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25



Ratio achieves benchmark

Ratio is outside benchmark



**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 2016/17 result**

**2016/17 ratio 63.37%**

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.

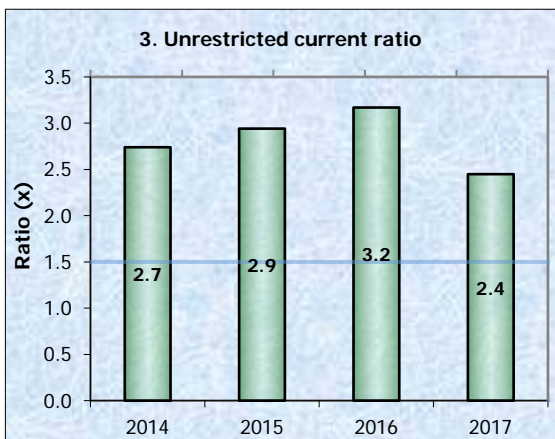
Benchmark: — Minimum  $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25



Ratio achieves benchmark

Ratio is outside benchmark



**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 2016/17 result**

**2016/17 ratio 2.45x**

This ratio has decreased slightly from that in 2015/16. This ratio represents a satisfactory level of working capital.

Benchmark: — Minimum  $\geq 1.50$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25



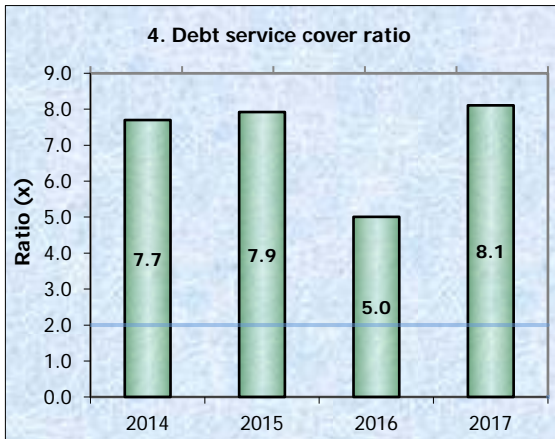
Ratio achieves benchmark

Ratio is outside benchmark

# Cessnock City Council

## Notes to the Financial Statements for the year ended 30 June 2017

### Note 13a(ii). Local government industry indicators – graphs (consolidated)



**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 2016/17 result**

**2016/17 ratio 8.11x**

This ratio highlights a relatively low level of demand on discretionary revenue for loan repayments. This ratio is considered to be a good result. If the advanced Financial Assistance Grant payment was not received, this ratio would be 5.97x.

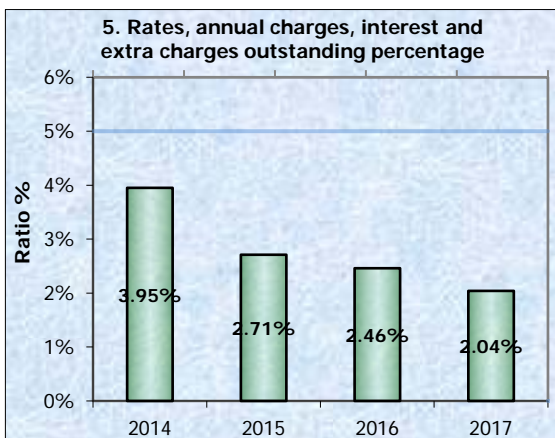
Benchmark: ——— Minimum  $\geq 2.00$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25



Ratio achieves benchmark

Ratio is outside benchmark



**Purpose of rates and annual charges outstanding ratio**

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

**Commentary on 2016/17 result**

**2016/17 ratio 2.04%**

A decrease in this ratio in 2016/17 is the result of continued effort in the collection of outstanding monies. This ratio is considered to be a good result.

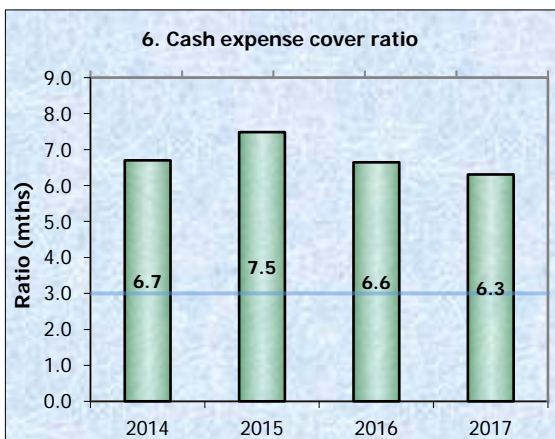
Benchmark: ——— Maximum  $< 5.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #25



Ratio is within Benchmark

Ratio is outside Benchmark



**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 2016/17 result**

**2016/17 ratio 6.31 mths**

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

Benchmark: ——— Minimum  $\geq 3.00$

Source for benchmark: Code of Accounting Practice and Financial Reporting #25



Ratio achieves benchmark

Ratio is outside benchmark



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 14. Investment properties

\$ '000

Council has not classified any land or buildings as 'investment properties'.

#### Note 15. Financial risk management

##### Risk management

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

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

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

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

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

	Carrying value		Fair value	
	2017	2016	2017	2016
<b>Financial assets</b>				
Cash and cash equivalents	7,039	8,610	7,039	8,610
Investments				
– 'Held to maturity'	29,500	29,400	29,500	29,400
Receivables	5,941	3,110	5,941	3,110
<b>Total financial assets</b>	<b>42,480</b>	<b>41,120</b>	<b>42,480</b>	<b>41,120</b>
<b>Financial liabilities</b>				
Payables	9,891	8,385	9,891	8,385
Loans/advances	6,598	7,750	6,598	7,750
<b>Total financial liabilities</b>	<b>16,489</b>	<b>16,135</b>	<b>16,489</b>	<b>16,135</b>

Fair value is determined as follows:

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

Refer to Note 27. Fair value measurement for information regarding the fair value of financial assets and liabilities.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 15. Financial risk management (continued)

\$ '000

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. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there 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.
- **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 following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
<b>2017</b>				
Possible impact of a 1% movement in interest rates	360	360	(360)	(360)
<b>2016</b>				
Possible impact of a 1% movement in interest rates	387	387	(387)	(387)

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 15. Financial risk management (continued)

\$ '000

##### (b) Credit risk

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

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures.

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.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

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:

	2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
<b>(i) Ageing of receivables – %</b>				
Current (not yet overdue)	0%	8%	0%	20%
Overdue	100%	92%	100%	80%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

		2017 Rates and annual charges	2017 Other receivables	2016 Rates and annual charges	2016 Other receivables
<b>(ii) Ageing of receivables – value</b>					
<b>Rates and annual charges</b>	<b>Other receivables</b>				
Current	Current	–	453	–	366
< 1 year overdue	0 – 30 days overdue	719	4,838	875	1,799
1 – 2 years overdue	31 – 60 days overdue	–	8	–	20
2 – 5 years overdue	61 – 90 days overdue	–	–	–	124
> 5 years overdue	> 91 days overdue	–	89	–	84
		<b>719</b>	<b>5,388</b>	<b>875</b>	<b>2,393</b>

	2017	2016
<b>(iii) Movement in provision for impairment of receivables</b>		
Balance at the beginning of the year	158	354
+ new provisions recognised during the year	8	43
– amounts already provided for and written off this year	–	(239)
<b>Balance at the end of the year</b>	<b>166</b>	<b>158</b>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 15. Financial risk management (continued)

\$ '000

##### (c) Liquidity risk

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

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

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

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Subject to no maturity	payable in:						Total cash outflows	Actual carrying values
		≤ 1 Year	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
<b>2017</b>									
Trade/other payables	2,590	7,301	–	–	–	–	–	9,891	<b>9,891</b>
Loans and advances	–	71	108	193	695	1,025	4,506	6,598	<b>6,598</b>
<b>Total financial liabilities</b>	<b>2,590</b>	<b>7,372</b>	<b>108</b>	<b>193</b>	<b>695</b>	<b>1,025</b>	<b>4,506</b>	<b>16,489</b>	<b>16,489</b>
<b>2016</b>									
Trade/other payables	2,341	6,044	–	–	–	–	–	8,385	<b>8,385</b>
Loans and advances	–	51	136	163	248	841	6,311	7,750	<b>7,750</b>
<b>Total financial liabilities</b>	<b>2,341</b>	<b>6,095</b>	<b>136</b>	<b>163</b>	<b>248</b>	<b>841</b>	<b>6,311</b>	<b>16,135</b>	<b>16,135</b>

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 the diversification of borrowing types, maturities and interest rate structures.

The following interest rates were applicable to Council's borrowings at balance date:

	2017		2016	
	Carrying value	Average interest rate	Carrying value	Average interest rate
Trade/other payables	9,891	0.00%	8,385	0.00%
Loans and advances – fixed interest rate	6,598	6.58%	7,750	6.60%
	<u>16,489</u>		<u>16,135</u>	

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 16. Material budget variations

\$ '000

Council's original financial budget for 2016/17 was adopted by the Council on 15 June 2016.

While the Income Statement included in this General Purpose Financial Report 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.

**Note that for variations\* of budget to actual :**

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

**F** = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2017 Budget	2017 Actual	2017 Variance*	-----
<b>REVENUES</b>				
<b>Rates and annual charges</b>	<b>45,833</b>	<b>45,979</b>	<b>146</b>	<b>0%</b> <b>F</b>
<b>User charges and fees</b>	<b>7,189</b>	<b>11,577</b>	<b>4,388</b>	<b>61%</b> <b>F</b>
RMS Charges	2,799K (F)	FESL Implementation	137K (F)	
Garbage Tipping Fees	846K (F)	Aerodrome Fees & Charges	36K (U)	
Building Permits & Fees	44K (F)	Private Works	46K (F)	
Swimming Pool Fees	39K (F)	Town Planning Fees	336K (F)	
<b>Interest and investment revenue</b>	<b>865</b>	<b>1,051</b>	<b>186</b>	<b>22%</b> <b>F</b>
Interest on Investments	69K (F)			
Investment Fair Value Adjustment	16K (F)			
<b>Other revenues</b>	<b>1,078</b>	<b>1,749</b>	<b>671</b>	<b>62%</b> <b>F</b>
Insurance Claims	54K (F)	Section 355 Committees	130K (F)	
Lease / Rentals	91K (F)	Other	172K (F)	
Legal fees Recovery Rates & Charges	194K (F)	Fines	24K (F)	
<b>Operating grants and contributions</b>	<b>13,462</b>	<b>15,728</b>	<b>2,266</b>	<b>17%</b> <b>F</b>
Road to Recovery Grant	1,002K (U)	Transport	37K (F)	
Financial Assistance Grant	3,351K (F)	Tourism	500K (U)	
RFS Reimbursement	129K (U)	Waste Levy Programs	322K (F)	
Hunter Water Contribution	114K (F)	Drainage	175K (U)	
<b>Capital grants and contributions</b>	<b>7,007</b>	<b>19,150</b>	<b>12,143</b>	<b>173%</b> <b>F</b>
Voluntary Planning Agreements	1,158K (F)	Kerb & Gitter Contributions	34K (F)	
Section 94 Contributions	1,251K (F)	Resources for Regions	2,158K (F)	
RMS Contributions	504K (F)	Recreation & Culture Grants	52K (F)	
Drainage Works Grant	24K (U)	Library Special Projects Grant	246K (F)	
Dedications	7,166K (F)	Community Centres	26K (U)	

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 16. Material budget variations (continued)

\$ '000	2017 Budget	2017 Actual	2017 ----- Variance* -----		
<b>EXPENSES</b>					
<b>Employee benefits and on-costs</b>	<b>31,025</b>	<b>30,065</b>	<b>960</b>	3%	<b>F</b>
<b>Borrowing costs</b>	<b>542</b>	<b>475</b>	<b>67</b>	12%	<b>F</b>
New loan planned to be taken out in 2016/17 deferred to 2017/18 resulting in saving in loan repayments.					
<b>Materials and contracts</b>	<b>12,217</b>	<b>20,541</b>	<b>(8,324)</b>	(68%)	<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>	<b>10,115</b>	<b>9,637</b>	<b>478</b>	5%	<b>F</b>
<b>Other expenses</b>	<b>13,210</b>	<b>12,270</b>	<b>940</b>	7%	<b>F</b>
<b>Net losses from disposal of assets</b>	<b>3,500</b>	<b>2,953</b>	<b>547</b>	16%	<b>F</b>
Original budget based on historical data. Actual loss is less than budget.					

## Budget variations relating to Council's Cash Flow Statement include:

<b>Cash flows from operating activities</b>	<b>23,100</b>	<b>23,576</b>	<b>476</b>	2.1%	<b>F</b>
Rates and annual charges	3,325 (F)	Employee benefits and on-costs	1,880 (U)		
User charges and fees	3,576 (F)	Materials and contracts	4,995 (U)		
Grants and contributions	9,276 (F)	Other payments	515 (U)		
Other receipts	1,354 (U)	Bonds and deposits	249 (F)		
<b>Cash flows from investing activities</b>	<b>(24,706)</b>	<b>(23,995)</b>	<b>711</b>	(2.9%)	<b>F</b>
Net Purchase / sale of infrastructure, property, plant and equipment			6,370 (U)		
Net Purchase / sale of investment securities			84 (U)		
<b>Cash flows from financing activities</b>	<b>(1,143)</b>	<b>(1,152)</b>	<b>(9)</b>	0.8%	<b>U</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions

\$ '000

Council recovers contributions, raises levies and enters into planning agreements on development works that are subject to a development consent issued by Council. All contributions must be spent/utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

The following tables detail the receipt, interest and use of the above contributions and levies and the value of all remaining funds which are 'restricted' in their future use.

## SUMMARY OF CONTRIBUTIONS AND LEVIES

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	183	–	–	3	–	–	186	–
Roads	1,046	258	–	18	–	–	1,322	–
Traffic facilities	23	–	–	–	(23)	–	–	–
Parking	347	12	–	6	(65)	–	300	–
Open space	597	305	–	12	(600)	–	314	–
Community facilities	861	256	–	16	(107)	–	1,026	–
Tourist facilities	754	127	–	12	(8)	–	885	–
Transport	37	201	–	2	–	–	240	–
Other	445	82	–	8	(197)	–	338	–
<b>S94 contributions – under a plan</b>	<b>4,293</b>	<b>1,241</b>	<b>–</b>	<b>77</b>	<b>(1,000)</b>	<b>–</b>	<b>4,611</b>	<b>–</b>
<b>Total S94 revenue under plans</b>	<b>4,293</b>	<b>1,241</b>	<b>–</b>	<b>77</b>	<b>(1,000)</b>	<b>–</b>	<b>4,611</b>	<b>–</b>
S93F planning agreements	2,561	1,158	–	50	–	–	3,769	–
<b>Total contributions</b>	<b>6,854</b>	<b>2,399</b>	<b>–</b>	<b>127</b>	<b>(1,000)</b>	<b>–</b>	<b>8,380</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions (continued)

\$ '000

**S94 CONTRIBUTIONS – UNDER A PLAN**

## CONTRIBUTION PLAN NUMBER 1 - RESIDENTIAL DEVELOPMENT

PURPOSE	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					
Other	25	-	-	-	(25)	-	-	-
<b>Total</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## CONTRIBUTION PLAN NUMBER 2 - TOURIST DEVELOPMENT

PURPOSE	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					
Tourist facilities	178	-	-	2	-	-	180	-
<b>Total</b>	<b>178</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>180</b>	<b>-</b>

## CONTRIBUTION PLAN NUMBER 3 - COMMERCIAL, RETAIL &amp; INDUSTRIAL DEVELOPMENT

PURPOSE	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					
Traffic facilities	23	-	-	-	(23)	-	-	-
<b>Total</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## CONTRIBUTION PLAN NUMBER 4 - NULKABA FLOOD MITIGATION

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	38	-	-	1	-	-	39	-
<b>Total</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>39</b>	<b>-</b>



## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions (continued)

\$ '000

**S94 CONTRIBUTIONS – UNDER A PLAN**

## CONTRIBUTION PLAN NUMBER 5 - CARPARKING CESSNOCK CBD

PURPOSE	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					
Parking	347	12	–	6	(65)	–	300	–
Other	15	–	–	–	(15)	–	–	–
<b>Total</b>	<b>362</b>	<b>12</b>	<b>–</b>	<b>6</b>	<b>(80)</b>	<b>–</b>	<b>300</b>	<b>–</b>

## CONTRIBUTION PLAN NUMBER 6 - RESIDENTIAL CONTRIBUTIONS PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	145	–	–	2	–	–	147	–
Roads	749	174	–	13	–	–	936	–
Open space	590	224	–	12	(600)	–	226	–
Community facilities	852	184	–	15	(107)	–	944	–
Other	331	62	–	6	(103)	–	296	–
<b>Total</b>	<b>2,667</b>	<b>644</b>	<b>–</b>	<b>48</b>	<b>(810)</b>	<b>–</b>	<b>2,549</b>	<b>–</b>

## CONTRIBUTION PLAN NUMBER 7 - TOURISM CONTRIBUTIONS PLAN

PURPOSE	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					
Roads	94	84	–	2	–	–	180	–
Tourist facilities	576	127	–	10	(8)	–	705	–
Other	73	14	–	2	(53)	–	36	–
<b>Total</b>	<b>743</b>	<b>225</b>	<b>–</b>	<b>14</b>	<b>(61)</b>	<b>–</b>	<b>921</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions (continued)

\$ '000

## S94 CONTRIBUTIONS – UNDER A PLAN

## CONTRIBUTION PLAN NUMBER 8 - BLACKHILL QUARRY CONTRIBUTION PLAN

PURPOSE	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					
Roads	203	–	–	3	–	–	206	–
<b>Total</b>	<b>203</b>	<b>–</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>206</b>	<b>–</b>

## Site Specific Contributions Plan - Bellbird North

PURPOSE	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	–	76	–	–	–	–	76	–
Community facilities	–	65	–	1	–	–	66	–
Transport	–	172	–	1	–	–	173	–
Other	–	6	–	–	–	–	6	–
<b>Total</b>	<b>–</b>	<b>319</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>321</b>	<b>–</b>

## Site Specific Contributions Plan - Nulkaba

PURPOSE	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	7	5	–	–	–	–	12	–
Community facilities	9	7	–	–	–	–	16	–
Transport	37	29	–	1	–	–	67	–
Other	1	–	–	–	(1)	–	–	–
<b>Total</b>	<b>54</b>	<b>41</b>	<b>–</b>	<b>1</b>	<b>(1)</b>	<b>–</b>	<b>95</b>	<b>–</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 17. Statement of developer contributions (continued)

\$ '000

## S93F planning agreements

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	1	-	-	-	-	-	1	-
Roads	172	-	-	5	-	-	177	-
Open space	25	-	-	-	-	-	25	-
Community facilities	2,334	886	-	44	-	-	3,264	-
Other	29	272	-	1	-	-	302	-
<b>Total</b>	<b>2,561</b>	<b>1,158</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>3,769</b>	<b>-</b>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 18. Contingencies and other assets/liabilities not recognised

\$ '000

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 participates in an employer-sponsored defined benefit superannuation scheme, and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

The Local Government Superannuation Scheme - Pool B (the Fund) is a defined benefit plan that has been deemed to be a "multi-employer fund" for purposes of AASB119. Sufficient information under AASB119 is not available to account for the Fund as a defined benefit plan, because the assets to the Fund are pooled together for all employers.

The amount of employer contributions to the defined benefit section of the Fund and recognised as an expense for the year ending 30 June 2017 was \$1,001,625. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on the 2nd December 2016, relating to the period ending 30 June 2016. However the position is monitored annually and the Actuary has estimated that as at 30 June 2017 a deficit still exists, with member Councils required to maintain additional contributions to 30 June 2020.

The share of this deficit that can be broadly attributed to this organisation was estimated to be in the order of 0.99% as at 30 June 2017.

###### (ii) Statewide Limited

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

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

The future realisation and finalisation of claims incurred but not reported to 30 June 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) Other guarantees

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

##### 2. Other liabilities

###### (i) Third party claims

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

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

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 18. Contingencies and other assets/liabilities not recognised (continued)

\$ '000

##### LIABILITIES NOT RECOGNISED (continued):

##### 2. Other liabilities

##### (ii) Section 94 plans

Council levies section 94/94A contributions upon various development across the Council area through the required contributions plans.

As part of these plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

As well, these plans indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or where a shortfall exists by the use of Council's general funds.

These future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intention to spend funds in the manner and timing set out in those plans.

##### (iii) Rehabilitation Works

Council owns two 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 carried out, 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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 19. Interests in other entities

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\$ '000

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Council's objectives can and in some cases are best met through the use of separate entities and operations.

These operations and entities range from 100% ownership and control through to lower levels of ownership and control via co-operative arrangements with other councils, bodies and other outside organisations.

The accounting and reporting for these various entities, operations and arrangements varies in accordance with accounting standards, depending on the level of council's (i) interest and (ii) control and the type (form) of entity/operation, as follows;

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#### **Controlled entities (subsidiaries)**

**Note 19(a)**

Operational arrangements where Council's control (but not necessarily interest) exceeds 50%.

#### **Joint ventures and associates**

**Note 19(b)**

Joint ventures are operational arrangements where the parties that have joint control have rights to the net assets of the arrangement.

Associates are separate entities where Council has significant influence over the operations (but neither controls nor jointly controls them).

#### **Joint operations**

**Note 19(c)**

Operational arrangements where the parties that have joint control have rights to specific assets and obligations for specific liabilities relating to the arrangement rather than a right to the net assets of the arrangement.

#### **Unconsolidated structured entities**

**Note 19(d)**

Unconsolidated structured entities represent "special vehicles" that Council has an interest in but which are not controlled by Council and therefore not consolidated as a subsidiary, joint arrangement or associate. Attributes of structured entities include restricted activities, a narrow and well-defined objective and insufficient equity to finance its activities without financial support.

#### **Subsidiaries, joint arrangements and associates not recognised**

**Note 19(e)**

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#### **Accounting recognition:**

**(i) Subsidiaries disclosed under Note 19(a) and joint operations disclosed at Note 19(c) are accounted for on a 'line by line' consolidation basis within the Income Statement and Statement of Financial Position.**

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## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 19. Interests in other entities (continued)

\$ '000

##### (a) Controlled entities (subsidiaries) – being entities and operations controlled by Council

Council has no interest in any controlled entities (subsidiaries).

##### (b) Joint ventures and associates

Council has no interest in any joint ventures or associates.

##### (c) Joint operations

###### (a) Council is involved in the following joint operations (JO's)

Name of joint operation	Principal activity	Place of business	Interest in ownership		Interest in voting	
			2017	2016	2017	2016
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 Ltd has been established to improve the quality and efficiency of local government service throughout the Hunter Region. One such service is the establishment and provision of a Record Repository Centre for the use of the Member Councils and to outsource this service to other organisations.

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

	2017	2016
<b>Council's share of assets jointly owned with other partners</b>		
Current assets	166	131
Current liabilities	(315)	(372)
Property, plant and equipment	423	495
Non-current liabilities	(22)	(36)
<b>Total net assets employed – Council and jointly owned</b>	<b>252</b>	<b>218</b>

##### (d) Unconsolidated structured entities

Council has no unconsolidated structured entities

##### (e) Subsidiaries, joint arrangements and associates not recognised

None.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 20. Retained earnings, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

\$ '000	Notes	Actual 2017	Actual 2016
<b>(a) Retained earnings</b>			
<b>Movements in retained earnings were as follows:</b>			
Balance at beginning of year (from previous years audited accounts)		413,377	401,750
a. Net operating result for the year		19,236	11,627
<b>Balance at end of the reporting period</b>		<b>432,613</b>	<b>413,377</b>
<b>(b) Revaluation reserves</b>			
<b>(i) Reserves are represented by:</b>			
– Infrastructure, property, plant and equipment revaluation reserve		318,298	318,298
<b>Total</b>		<b>318,298</b>	<b>318,298</b>
<b>(ii) Reconciliation of movements in reserves:</b>			
<b>Infrastructure, property, plant and equipment revaluation reserve</b>			
– Opening balance		318,298	312,371
– Revaluations for the year	9(a)	–	5,927
– <b>Balance at end of year</b>		<b>318,298</b>	<b>318,298</b>
<b>TOTAL VALUE OF RESERVES</b>		<b>318,298</b>	<b>318,298</b>

#### **(iii) 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.

#### **(c) Correction of error/s relating to a previous reporting period**

Council made no correction of errors during the current reporting period.

#### **(d) Voluntary changes in accounting policies**

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

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

Council utilises only a general fund for its operations.



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 22. 'Held for sale' non-current assets and disposal groups

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\$ '000

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Council did not classify any non-current assets or disposal groups as 'held for sale'.

#### Note 23. Events occurring after the reporting date

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Events that occur between the end of the reporting period (30 June 2017) and the date when the financial statements are 'authorised for issue' have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the applicable 'authorised for issue' date relating to these General Purpose Financial Statements.

Accordingly, the 'authorised for issue' date is 11/10/17.

Events that occur after the reporting period represent one of two types:

##### **(i) Events that provide evidence of conditions that existed at the reporting period**

These financial statements (and the figures therein) incorporate all 'adjusting events' that provided evidence of conditions that existed at 30 June 2017.

##### **(ii) Events that provide evidence of conditions that arose after the reporting period**

These financial statements (and figures therein) do not incorporate any 'non-adjusting events' that have occurred after 30 June 2017 and which are only indicative of conditions that arose after 30 June 2017.

**Council is unaware of any material or significant 'non-adjusting events' that should be disclosed.**

#### Note 24. Discontinued operations

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Council has not classified any of its operations as 'discontinued'.

#### Note 25. Intangible assets

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Intangible assets represent identifiable non-monetary assets without physical substance.

Council is unaware of any control over intangible assets that warrant recognition in the financial statements, including either internally generated and developed assets or purchased assets.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 26. Reinstatement, rehabilitation and restoration liabilities

\$ '000

Council has legal/public obligations to make restore, rehabilitate and reinstate the following assets/operations:

Asset/operation	Estimated year of restoration	NPV of provision	
		2017	2016
Tip site - Cessnock	2018	11,241	11,241
<b>Balance at end of the reporting period</b>		<b>11,241</b>	<b>11,241</b>

10(a)

Under AASB 116 – Property, Plant and Equipment, where the use of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset.

An equivalent liability must be recognised under AASB 137 – Provisions, Contingent Liabilities and Contingent Assets.

The provision has been calculated by determining the present value of the future expenditures expected to be incurred. The discount rate used is the risk free borrowing rate applicable to Council.

Council is required by law to restore the present tip site at Cessnock at the end of its useful life.

Specific uncertainties relating to the final costs and the assumptions made in determining the amounts of provisions include:

- the projected cost of restoration is based on feasibility and engineering studies and has been discounted to its present value at 6% per annum being the risk-free cost of borrowing to Council.

#### Reconciliation of movement in provision for year:

Balance at beginning of year	11,241	11,241
<b>Total – reinstatement, rehabilitation and restoration provision</b>	<b>11,241</b>	<b>11,241</b>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 27. Fair value measurement

\$ '000

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) The following table presents all assets and liabilities that have been measured and recognised at fair values:

2017	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	30/06/14	–	–	7,359	7,359
Office Equipment	30/06/14	–	–	703	703
Furniture and Fittings	30/06/14	–	–	142	142
Operational Land	30/06/13	–	–	41,240	41,240
Community Land	30/06/16	–	–	24,188	24,188
Land Under Roads (post 30/6/08)	30/06/14	–	–	2,348	2,348
Buildings – Non-Specialised	30/06/13	–	–	13,413	13,413
Buildings – Specialised	30/06/13	–	–	52,663	52,663
Other Structures		–	–	–	–
Roads	30/06/15	–	–	472,398	472,398
Bridges	30/06/15	–	–	27,545	27,545
Footpaths	30/06/15	–	–	11,515	11,515
Stormwater Drainage	30/06/15	–	–	59,410	59,410
Swimming Pools	30/06/16	–	–	2,760	2,760
Other Open Space / Recreational Assets	30/06/16	–	–	10,420	10,420
Library Books	30/06/14	–	–	1,191	1,191
Other Infrastructure	30/06/16	–	–	4,832	4,832
<b>Total infrastructure, property, plant and equipment</b>		<b>–</b>	<b>–</b>	<b>732,127</b>	<b>732,127</b>

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 27. Fair value measurement (continued)

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values (continued):

2016	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	30/06/14	—	—	6,897	6,897
Office Equipment	30/06/14	—	—	646	646
Furniture and Fittings	30/06/14	—	—	137	137
Operational Land	30/06/13	—	—	41,092	41,092
Community Land	30/06/16	—	—	24,295	24,295
Land Under Roads (post 30/6/08)	30/06/14	—	—	1,868	1,868
Buildings – Non-Specialised	30/06/13	—	—	13,290	13,290
Buildings – Specialised	30/06/13	—	—	53,288	53,288
Other Structures	30/06/16	—	—	4,869	4,869
Roads	30/06/15	—	—	464,328	464,328
Bridges	30/06/15	—	—	26,060	26,060
Footpaths	30/06/15	—	—	10,750	10,750
Stormwater Drainage	30/06/15	—	—	57,457	57,457
Swimming Pools	30/06/16	—	—	2,810	2,810
Other Open Space / Recreational Assets	30/06/16	—	—	10,589	10,589
Library Books	30/06/14	—	—	1,181	1,181
Other Assets	30/06/16	—	—	3	3
<b>Total infrastructure, property, plant and equipment</b>		<b>—</b>	<b>—</b>	<b>719,560</b>	<b>719,560</b>

## (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.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 27. Fair value measurement (continued)

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\$ '000

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

###### Infrastructure, property, plant and equipment

###### Plant & Equipment, Office Equipment and Furniture & Fittings

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items i.e. generally having shorter useful lives and a more frequent turnover. The key unobservable inputs to the valuations are useful lives and residual values. There have been no changes in the valuation technique during the reporting period.

###### Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The last valuation was undertaken at 30 June 2013 by APV Valuers and Asset Management.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset and cash flows from the future use and disposal. The key unobservable input to the valuations is the price per square metre. There have been no changes in the valuation technique during the reporting period.

###### Community Land

The last valuation of community land was performed as at 30 June 2016. The valuations were based on either the land values provided by the Valuer General or, where these values were not available, an average unit rate based on the land values for similar assets taking into account the highest and best use of the assets. There have been no changes in the valuation technique during the reporting period.

###### Land Under Roads

Council has elected to recognise Land Under Roads where the road was acquired on or after 1 July 2008. Land Under Roads have been valued using the square metre rates applicable to the Local Government area having regard to the highest and best use for this land. There has been no change to the valuation process during the reporting period.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 27. Fair value measurement (continued)

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\$ '000

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

###### **Buildings - Non Specialised and Specialised**

Council's buildings were valued utilising the cost approach by APV Valuers and experienced engineering and asset management staff in June 2013.

For non-specialised buildings a market value has been provided by an external agency through level 2 inputs.

For specialised buildings the replacement cost of each building / building component with different useful lives has been established.

The unit rates are supported by market evidence, and professional judgement of inputs including;

estimated pattern of consumption, useful lives and asset condition, which impact significantly on the final determination of fair value.

As such, these assets have been valued using Level 3 inputs. There has been no change to the valuation techniques during the reporting period.

###### **Other Structures**

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

###### **Roads, Carparks, Bridges, Kerb and Gutter and Footpaths**

The roads asset class includes roads, defined as the trafficable portion of a road. It also includes "other roads" assets including Carparks, Bridges and Major Culverts, Kerb and Gutter, Traffic facilities and Footpaths.

The 'Cost Approach' using Level 3 inputs was used to value the road carriageway and other road infrastructure. Valuations for the road carriageway, comprising surface, pavement base, subbase, and formation were based primarily on unit rates derived from the Councils schedule of rates tender. Other inputs (such as estimates pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is some uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 27. Fair value measurement (continued)

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\$ '000

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

###### **Stormwater Drainage**

Assets within this class comprise pits, pipes, minor culverts, and various types of water quality devices.

While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

Therefore the 'Cost Approach' using Level 3 inputs is used to value stormwater assets, estimating the replacement cost for each asset by componentising it into significant parts with different useful lives and taking into account a range of factors.

Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

###### **Swimming Pools**

Assets within this class comprise Council's pool shells at their aquatic centre and outdoor swimming centres.

All assets in this class were valued in-house by experienced engineering & asset management staff.

While some elements of gross replacement values could be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

Therefore, the 'Cost Approach' using Level 3 inputs is used to value swimming pools.

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

###### **Other Open Space / Recreational Assets**

Assets within this class include, but are not limited to; runways and taxiways, tennis courts/basketball courts, cricket wickets, BBQs, picnic shelters/settings, seats, benches, fencing, retaining walls, memorials and playgrounds.

All assets in this class were valued in-house by experienced engineering management staff.

While some elements of gross replacement values could be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Therefore, the 'Cost Approach' using Level 3 inputs is used to value open space assets.

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

###### **Library Books**

Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value. There has been no change to the valuation process during the reporting period.

## Cessnock City Council

## Notes to the Financial Statements

for the year ended 30 June 2017

## Note 27. Fair value measurement (continued)

\$ '000

**(4). Fair value measurements using significant unobservable inputs (level 3)****a. The following tables present the changes in level 3 fair value asset classes.**

	Plant and other equipment	Land	Buildings and other structures	Infra- strucutre	Other assets	Total
<b>Opening balance – 1/7/15</b>	6,874	72,360	68,552	551,789	1,160	700,735
Purchases (GBV)	3,320	482	487	8,858	246	13,393
Disposals (WDV)	(788)	(9)	(198)	(3,800)	–	(4,795)
Depreciation and impairment	(1,810)	–	(1,528)	(6,409)	(222)	(9,969)
Transfers from WIP	84	–	2	7,350	–	7,436
Revaluation increments	–	(5,578)	3,396	13,454	–	11,272
Adjustments	–	–	(941)	752	–	(189)
<b>Closing balance – 30/6/16</b>	<b>7,680</b>	<b>67,255</b>	<b>69,770</b>	<b>571,994</b>	<b>1,184</b>	<b>717,883</b>
Transfers from/(to) another asset class	–	–	(4,869)	4,869	–	–
Purchases (GBV)	3,363	521	1,547	15,904	235	21,570
Disposals (WDV)	(1,089)	–	(899)	(2,084)	(3)	(4,075)
Depreciation and impairment	(1,836)	–	(1,320)	(6,313)	(225)	(9,694)
Transfers from WIP	86	–	170	4,510	–	4,766
Adjustments	–	–	1,677	–	–	1,677
<b>Closing balance – 30/6/17</b>	<b>8,204</b>	<b>67,776</b>	<b>66,076</b>	<b>588,880</b>	<b>1,191</b>	<b>732,127</b>

**b. The valuation process for level 3 fair value measurements**

The financial valuations for Cessnock City Council's infrastructure assets for 2017 have been carried out internally by experienced engineering and asset management staff. This process and outcomes has been tested by various Council staff members to assess the integrity of the valuations that were developed.

**(5). Highest and best use**

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



## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 28. Related party disclosures

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\$ '000

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##### 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:

	Actual 2017
<b>Compensation:</b>	
Short-term benefits	1,144,663
Post-employment benefits	102,570
<b>Total</b>	<u><b>1,247,233</b></u>

## Cessnock City Council

### Notes to the Financial Statements

for the year ended 30 June 2017

#### Note 29. Financial review

\$ '000

#### Key financial figures of Council over the past 5 years

<b>Financial performance figures</b>	<b>2017</b>	<b>2016</b>	2015	2014	2013
<b>Inflows:</b>					
Rates and annual charges revenue	<b>45,979</b>	44,020	42,162	41,263	40,078
User charges revenue	<b>11,577</b>	8,057	7,510	8,767	10,335
Interest and investment revenue (losses)	<b>1,051</b>	1,515	1,098	1,359	1,805
Grants income – operating and capital	<b>21,552</b>	14,411	10,610	9,759	9,187
Total income from continuing operations	<b>95,234</b>	86,317	79,466	73,172	69,712
Sale proceeds from I,PP&E	<b>1,122</b>	1,259	692	807	898
New loan borrowings and advances	<b>–</b>	–	–	2,000	–
<b>Outflows:</b>					
Employee benefits and on-cost expenses	<b>30,065</b>	29,186	27,084	25,078	23,451
Borrowing costs	<b>475</b>	552	627	607	671
Materials and contracts expenses	<b>20,541</b>	19,841	15,734	16,120	14,723
Total expenses from continuing operations	<b>75,998</b>	74,690	72,004	69,339	66,335
Total cash purchases of I,PP&E	<b>25,033</b>	15,526	19,321	15,371	17,894
Total loan repayments (incl. finance leases)	<b>1,152</b>	1,143	1,133	999	938
Operating surplus/(deficit) (excl. capital income)	<b>86</b>	(5,268)	(3,468)	(4,503)	(49)

(The operating surplus for 2017 included the advance payment of the Financial Assistance Grant)

<b>Financial position figures</b>	<b>2017</b>	<b>2016</b>	2015	2014	2013
Current assets	<b>42,053</b>	40,349	39,212	33,418	28,289
Current liabilities	<b>18,114</b>	16,569	17,184	15,473	16,363
Net current assets	<b>23,939</b>	23,780	22,028	17,945	11,926
Available working capital (Unrestricted net current assets)	<b>(1,717)</b>	(3,511)	(3,277)	(2,775)	(2,913)
Cash and investments – unrestricted	<b>158</b>	33	1,276	1,333	645
Cash and investments – internal restrictions	<b>22,775</b>	24,485	24,909	23,889	16,506
Cash and investments – total	<b>36,539</b>	38,010	37,653	30,823	22,716
Total borrowings outstanding (Loans, advances and finance leases)	<b>6,598</b>	7,750	8,893	10,026	9,025
Total value of I,PP&E (excl. land and earthworks)	<b>869,943</b>	847,281	816,789	774,268	765,415
Total accumulated depreciation	<b>193,524</b>	188,771	179,492	133,492	195,560
Indicative remaining useful life (as a % of GBV)	78%	78%	78%	83%	74%

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

## Cessnock City Council

### Notes to the Financial Statements for the year ended 30 June 2017

#### Note 30. 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 4993 4100

**Facsimile:** 02 4993 2500

**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

**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

**Other information**

**ABN:** 60 919 148 928

**Elected members**

**MAYOR**

Councillor Bob Pynsent

**COUNCILLORS (elected in September 2016)**

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

**COUNCILLORS (retired in September 2016)**

Councillor Morgan Campbell  
Councillor Bryce Gibson  
Councillor James Hawkins  
Councillor Catherine Parsons  
Councillor James Ryan  
Councillor Graham Smith  
Councillor Cordelia Troy



## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### Cessnock City Council

To the Councillors of the Cessnock City Council

### Opinion

I have audited the accompanying financial statements of Cessnock City Council (the Council), which comprise the statement of financial position as at 30 June 2017, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been presented, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

### Basis for Opinion

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

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

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

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

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

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

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

### **Other Matter**

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 26 October 2016.

### **The Councillors' Responsibility 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 must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

### **Auditor's Responsibility 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/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, Note 2(a) and Note 16 budget variation explanations
- on the attached Special Schedules
- 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.



Lawrissa Chan  
Director, Financial Audit Services

11 October 2017  
SYDNEY

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

Contact: Lawrissa Chan  
Phone no: (02) 9275 7255  
Our ref: D1724683/1712

11 October 2017

Dear Mr Pynsent

**Report on the Conduct of the Audit  
for the year ended 30 June 2017  
Cessnock City Council**

I have audited the general purpose financial statements of the Cessnock City Council (the Council) for the year ended 30 June 2017 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

## INCOME STATEMENT

### Operating result

	2017 \$m	2016 \$m	Variance %
<b>Rates and annual charges revenue</b>	46.0	44.0	4.5 ↑
<b>Grants and contributions revenue</b>	34.9	30.9	12.9 ↑
<b>Operating result for the year</b>	19.2	11.6	65.5 ↑
<b>Net operating result before capital amounts</b>	0.1	(5.3)	98.1 ↑

Rates and annual charges revenue remained steady with a 4.5 per cent increase from the previous year. The increase is attributable to an increase in rateable properties and the approved rate pegging increase of 1.8 per cent.

Grants and contributions revenue increased by \$4.0 million or 12.9 per cent from the previous year. This was mainly attributed to the receipt of 2017-18 financial assistance grants in 2016-17.

The operating result for the year increased by \$7.6 million or 65.5 per cent from the previous year. The above increases in rates, annual charges, grants and contributions revenue largely caused this change.

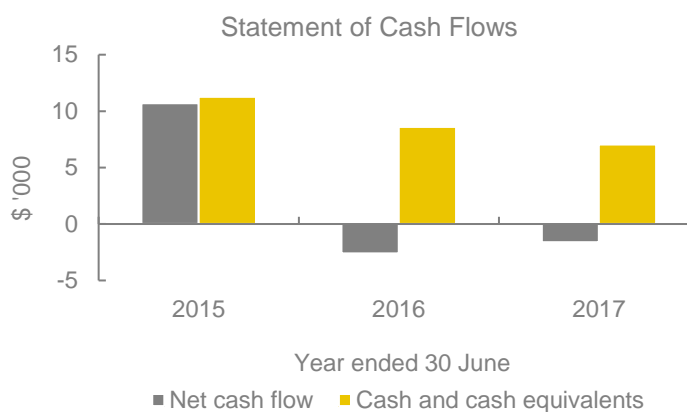
The net operating result before capital amounts increased by \$5.4 million or 98.1 per cent from the prior year. The difference between the operating result of \$19.2 million and net operating result before capital amounts of \$0.1 million are predominantly due to:

- \$7.4 million in capital grants received under Resources for Regions program
- \$7.1 million in capital contributions (dedicated assets) received for assets associated with subdivisions handed over to the Council.

## STATEMENT OF CASH FLOWS

Council's cash and cash equivalent's balance remained consistent over the last three years with the cash balance of \$7.0 million as at 30 June 2017.

Negative net cash flows in 2016-17 was due to higher investment in infrastructure, property, plant and equipment, whilst borrowings are being repaid at a steady rate over the last three years.





## FINANCIAL POSITION

### Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	13.6	13.5	<ul style="list-style-type: none"> <li>Externally restricted cash and investments are restricted in their use by externally imposed requirements. Externally restricted balances include unexpended developer contributions, RMS contributions, domestic waste management and other specific purpose unexpended grants.</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. Internally restricted cash decreased due to a reduction of \$3.6 million in the waste depot and rehabilitation fund. This was offset by \$3.5 million financial assistance grants for 2017-18 received in 2016-17.</li> <li>Unrestricted balances provide liquidity for day-to-day operations of the Council. Unrestricted cash has remained steady.</li> </ul>
Internal restrictions	22.8	24.5	
Unrestricted	0.2	0.03	
<b>Cash and investments</b>	<b>36.6</b>	<b>38.0</b>	

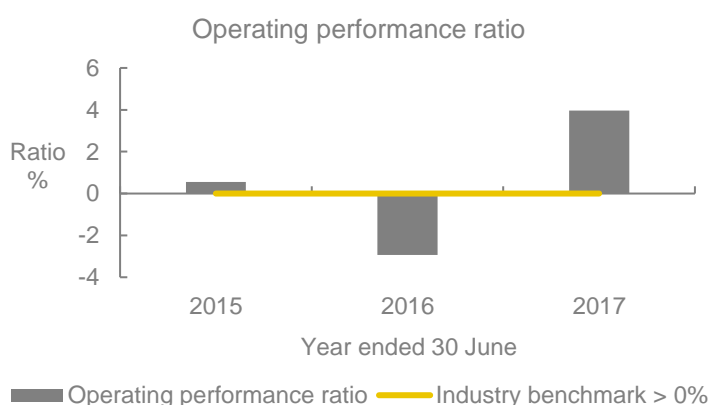
## PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7.

### Operating performance ratio

The Council's operating performance ratio has increased from - 2.94 per cent in 2015/16 to 3.97 per cent in 2016/17. This is due to Council receiving 50 per cent of its 2017/18 Financial Assistance Grants in advance. This income of \$3.482 million was received by the Council in early June 2017.

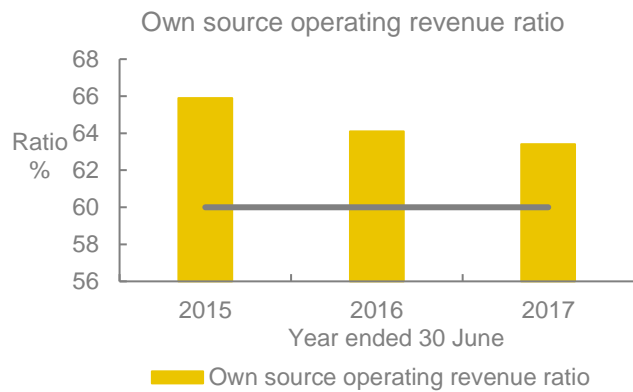
The 'operating performances ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



## Own source operating revenue ratio

Council's own source operating revenue ratio has decreased over the last three years, but remains above the industry benchmark. This is predominantly due to the receipt of \$3.482 million (50 per cent) Financial Assistance Grants for 2017-18 in advance.

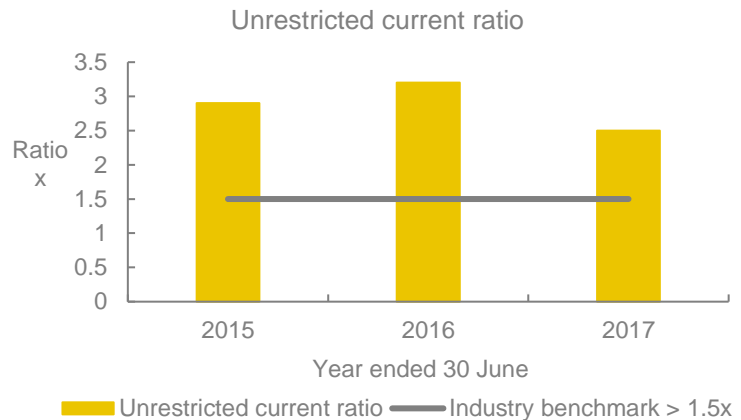
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



## Unrestricted current ratio

This ratio indicates that Council currently has \$2.50 of unrestricted assets available to service every \$1.00 of its unrestricted current liabilities, including loan repayments and payables. A ratio of 2.5x is above the industry benchmark minimum. This indicates that the Council has sufficient liquidity to meet its current liabilities when they fall due. The ratio excludes current assets and liabilities subject to internal and external restrictions.

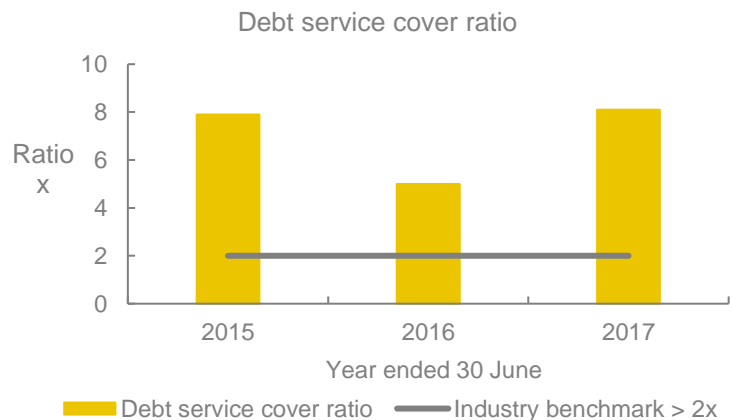
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



## Debt service cover ratio

Council's debt service cover ratio exceeded the industry benchmark of 2.0x over the past three years. In 2017, this ratio increased from 5.0x to 8.1x times due to the receipt of 2017-18 Financial Assistance Grants in advance. The ratio indicates that Council has adequate revenue to cover the principal repayments and borrowing costs.

The 'debt service cover ratio' measures the operating cash to service debt including interest,

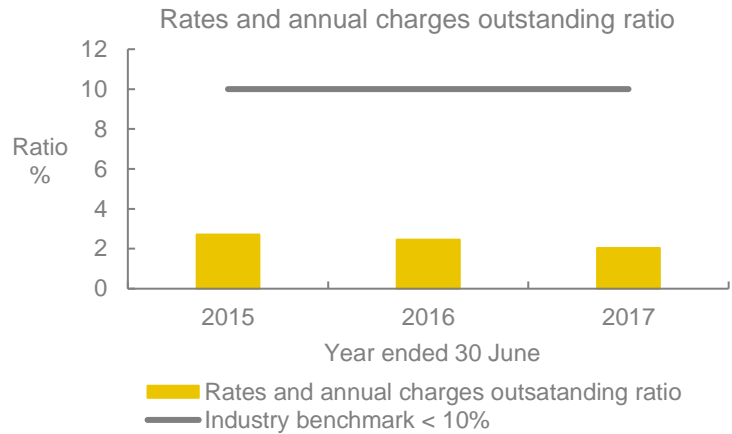


principal and lease payments. The benchmark set by OLG is greater than two times.

### Rates and annual charges outstanding ratio

The steady decline in the outstanding rates and annual charges ratio over the past three years indicates that Council's rate recovery measures are effective in collecting and reducing outstanding debts.

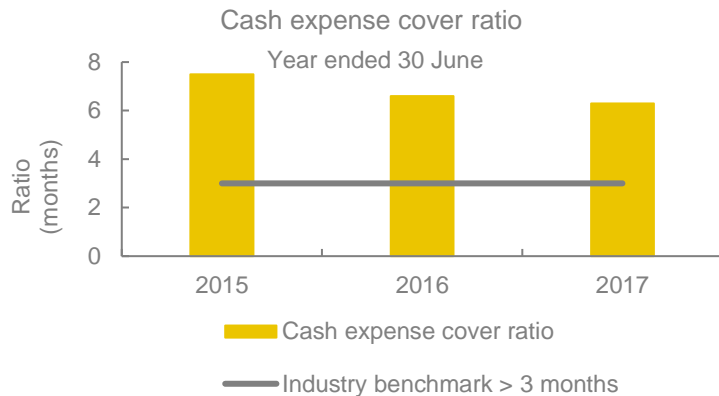
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for rural councils.



### Cash expense cover ratio

At 30 June 2017, the Council had the capacity to cover 6.3 months of cash expenditure without additional cash inflows. This is in excess of the industry benchmark minimum of 3 months.

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.

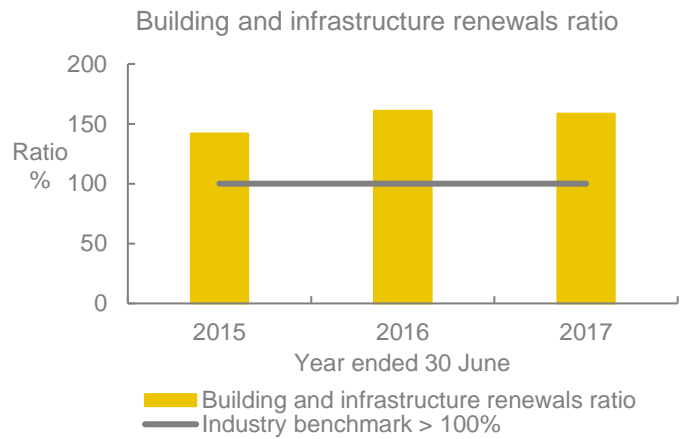


## Building and infrastructure renewals ratio

Over the past three years, the Council has consistently met the industry benchmark for the building and infrastructure renewals ratio.

The 'building and infrastructure renewals ratio assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from information contained in Special Schedule 7 which has not been audited.



## OTHER MATTERS

### New accounting standards implemented

#### AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. As a result, Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

### 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 reports. The Council's:

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



Lawrissa Chan  
Director, Financial Audit Services

11 October 2017  
SYDNEY

cc: Mr Stephen Glen, General Manager  
Ms Jennifer Hayes, Chair of the Audit, Risk and Improvement Committee  
Mr Tim Hurst, Acting Chief Executive of the Office of Local Government



# SPECIAL PURPOSE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 30 JUNE 2017

## Cessnock City Council

### Special Purpose Financial Statements

for the year ended 30 June 2017

Contents	Page
<b>1. Statement by Councillors and Management</b>	2
<b>2. Special Purpose Financial Statements:</b>	
Income Statement – Water Supply Business Activity	n/a
Income Statement – Sewerage Business Activity	n/a
Income Statement – Other Business Activities	3
Statement of Financial Position – Water Supply Business Activity	n/a
Statement of Financial Position – Sewerage Business Activity	n/a
Statement of Financial Position – Other Business Activities	4
<b>3. Notes to the Special Purpose Financial Statements</b>	5
<b>4. Auditor’s Report</b>	9

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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 2017

### 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 financial 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 06 September 2017.**



Councillor Bob Pynsent  
**Mayor**



Councillor Allan Stapleford  
**Councillor**



Mr Stephen Glen  
**General Manager**



Mr Robert Maginnity  
**Responsible Accounting Officer**



## Cessnock City Council

## Income Statement of Council's Other Business Activities

for the year ended 30 June 2017

Strategic Services  
Australia Limited

Category 2

\$ '000	Actual 2017	Actual 2016
<b>Income from continuing operations</b>		
Access charges	–	–
User charges	517	715
Fees	–	–
Interest	–	–
Grants and contributions provided for non-capital purposes	123	62
Profit from the sale of assets	–	–
Other income	–	3
<b>Total income from continuing operations</b>	<b>640</b>	<b>780</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	410	486
Borrowing costs	11	12
Materials and contracts	125	132
Depreciation, amortisation and impairment	23	38
Loss on sale of assets	–	–
Calculated taxation equivalents	–	–
Debt guarantee fee (if applicable)	3	3
Other expenses	71	65
<b>Total expenses from continuing operations</b>	<b>643</b>	<b>736</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(3)</b>	<b>44</b>
Grants and contributions provided for capital purposes	–	–
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(3)</b>	<b>44</b>
Surplus (deficit) from discontinued operations	42	–
<b>Surplus (deficit) from all operations before tax</b>	<b>39</b>	<b>44</b>
Less: corporate taxation equivalent (30%) [based on result before capital]	–	(13)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>39</b>	<b>31</b>
<b>Plus opening retained profits</b>	<b>60</b>	<b>13</b>
<b>Plus/less: prior period adjustments</b>	<b>–</b>	<b>–</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	–	–
– Debt guarantee fees	3	3
– Corporate taxation equivalent	–	13
<b>Add:</b>		
– Subsidy paid/contribution to operations	–	–
<b>Less:</b>		
– TER dividend paid	–	–
– Dividend paid	–	–
<b>Closing retained profits</b>	<b>102</b>	<b>60</b>
<b>Return on capital %</b>	<b>1.9%</b>	<b>11.3%</b>
<b>Subsidy from Council</b>	<b>2</b>	<b>–</b>

## Cessnock City Council

## Statement of Financial Position – Council's Other Business Activities

as at 30 June 2017

Strategic Services  
Australia Limited

Category 2

\$ '000	Actual 2017	Actual 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	23	22
Investments	–	–
Receivables	81	104
Inventories	1	1
Other	10	4
Non-current assets classified as held for sale	51	–
<b>Total Current Assets</b>	<b>166</b>	<b>131</b>
<b>Non-current assets</b>		
Investments	–	–
Receivables	–	–
Inventories	–	–
Infrastructure, property, plant and equipment	423	495
Investments accounted for using equity method	–	–
Investment property	–	–
<b>Total non-current assets</b>	<b>423</b>	<b>495</b>
<b>TOTAL ASSETS</b>	<b>589</b>	<b>626</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdraft	–	–
Payables	73	78
Borrowings	124	197
Provisions	69	66
Other Current Liabilities	49	31
<b>Total current liabilities</b>	<b>315</b>	<b>372</b>
<b>Non-current liabilities</b>		
Payables	–	–
Borrowings	17	25
Provisions	5	11
Other Liabilities	–	–
<b>Total non-current liabilities</b>	<b>22</b>	<b>36</b>
<b>TOTAL LIABILITIES</b>	<b>337</b>	<b>408</b>
<b>NET ASSETS</b>	<b>252</b>	<b>218</b>
<b>EQUITY</b>		
Retained earnings	102	60
Revaluation reserves	150	158
Council equity interest	252	218
Non-controlling equity interest	–	–
<b>TOTAL EQUITY</b>	<b>252</b>	<b>218</b>

## Cessnock City Council

### Special Purpose Financial Statements

for the year ended 30 June 2017

#### Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	6
2	Water Supply Business Best-Practice Management disclosure requirements	n/a
3	Sewerage Business Best-Practice Management disclosure requirements	n/a

## Cessnock City Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

#### Note 1. Significant accounting policies

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

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

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

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the Local Government (General) Regulation, 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.

#### 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, Records Repository Centre, Local Government Training Institute, Administration Services and Hunter Councils Legal Services.

#### Monetary amounts

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

#### (i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

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

## Cessnock City Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

#### Note 1. Significant accounting policies (continued)

to all Council-nominated business activities (this does not include Council's non-business activities):

#### Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$549,000 of combined land values attracts 0%. For the combined land values in excess of \$549,001 up to \$3,357,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,357,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

#### 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 30%.

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 30% 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.

#### (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.

## Cessnock City Council

### Notes to the Special Purpose Financial Statements for the year ended 30 June 2017

#### Note 1. Significant accounting policies (continued)

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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 2.41% at 30/6/17.

#### **(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 statement**  
**Cessnock City Council**

To the Councillors of the 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 of financial position as at 30 June 2017, the income statement for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information for the Declared Business Activity and the Statement by Councillors and Management.

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 2017, and their 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 (LG Code).

My opinion should be read in conjunction with the rest of this report and in particular, the Emphasis of Matter referring to the basis of accounting.

### **Basis for Opinion**

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

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

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

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

### **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 Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

### **Other Matter**

The financial statements of the Council for the year ended 30 June 2016 were audited by another auditor who expressed an unmodified opinion on that financial statement on 26 October 2016.

## **The Councillors' Responsibility 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 must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting, as it affects the Council's Declared Business Activities.

## **Auditor's Responsibility 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:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf).

The description forms part of my auditor's report.

My opinion does not provide assurance:

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



Lawrissa Chan  
Director, Financial Audit Services

11 October 2017  
SYDNEY





## SPECIAL SCHEDULES

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FOR THE YEAR ENDED 30 JUNE 2017



# Cessnock City Council

## Special Schedules

for the year ended 30 June 2017

### Contents

Page

#### Special Schedules<sup>1</sup>

<b>Special Schedule 1</b>	Net Cost of Services	2
<b>Special Schedule 2(a)</b>	Statement of Long Term Debt (all purposes)	4
<b>Special Schedule 2(b)</b>	Statement of Internal Loans (Sect. 410(3) LGA 1993)	n/a
<b>Special Schedule 3</b>	Water Supply Operations – incl. Income Statement	n/a
<b>Special Schedule 4</b>	Water Supply – Statement of Financial Position	n/a
<b>Special Schedule 5</b>	Sewerage Service Operations – incl. Income Statement	n/a
<b>Special Schedule 6</b>	Sewerage Service – Statement of Financial Position	n/a
<b>Notes to Special Schedules 3 and 5</b>		n/a
<b>Special Schedule 7</b>	Report on Infrastructure Assets	5
<b>Special Schedule 8</b>	Permissible Income Calculation	9

<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 8).

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#### Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
  - the Australian Bureau of Statistics (ABS),
  - the NSW Office of Water (NOW), and
  - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
  - the incorporation of Local Government financial figures in national statistics,
  - the monitoring of loan approvals,
  - the allocation of borrowing rights, and
  - the monitoring of the financial activities of specific services.

## Cessnock City Council

Special Schedule 1 – Net Cost of Services  
for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>1,477</b>	<b>–</b>	<b>–</b>	<b>(1,477)</b>
<b>Administration</b>	<b>14,584</b>	<b>1,873</b>	<b>–</b>	<b>(12,711)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	1,131	66	10	(1,055)
Beach control	–	–	–	–
Enforcement of local government regulations	763	339	–	(424)
Animal control	822	110	–	(712)
Other	–	–	–	–
<b>Total public order and safety</b>	<b>2,716</b>	<b>515</b>	<b>10</b>	<b>(2,191)</b>
<b>Health</b>	<b>982</b>	<b>1,202</b>	<b>–</b>	<b>220</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	222	94	–	(128)
Other environmental protection	512	112	–	(400)
Solid waste management	13,333	14,709	–	1,376
Street cleaning	561	–	–	(561)
Drainage	1,666	565	1,759	658
Stormwater management	–	–	–	–
<b>Total environment</b>	<b>16,294</b>	<b>15,480</b>	<b>1,759</b>	<b>945</b>
<b>Community services and education</b>				
Administration and education	265	48	–	(217)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	7	5	–	(2)
Children's services	203	38	38	(127)
<b>Total community services and education</b>	<b>475</b>	<b>91</b>	<b>38</b>	<b>(346)</b>
<b>Housing and community amenities</b>				
Public cemeteries	279	226	–	(53)
Public conveniences	324	–	–	(324)
Street lighting	862	106	–	(756)
Town planning	4,120	1,106	82	(2,932)
Other community amenities	10	–	–	(10)
<b>Total housing and community amenities</b>	<b>5,595</b>	<b>1,438</b>	<b>82</b>	<b>(4,075)</b>
<b>Water supplies</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Sewerage services</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Cessnock City Council

Special Schedule 1 – Net Cost of Services (continued)  
for the year ended 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Recreation and culture</b>				
Public libraries	1,799	163	284	(1,352)
Museums	153	–	–	(153)
Art galleries	35	–	–	(35)
Community centres and halls	476	83	735	342
Performing arts venues	817	295	–	(522)
Other performing arts	–	–	–	–
Other cultural services	48	18	–	(30)
Sporting grounds and venues	924	56	143	(725)
Swimming pools	1,662	229	–	(1,433)
Parks and gardens (lakes)	3,490	27	625	(2,838)
Other sport and recreation	901	–	–	(901)
<b>Total recreation and culture</b>	<b>10,305</b>	<b>871</b>	<b>1,787</b>	<b>(7,647)</b>
<b>Fuel and energy</b>	–	–	–	–
<b>Agriculture</b>	–	–	–	–
<b>Mining, manufacturing and construction</b>				
Building control	1,219	940	–	(279)
Other mining, manufacturing and construction	–	–	–	–
<b>Total mining, manufacturing and const.</b>	<b>1,219</b>	<b>940</b>	<b>–</b>	<b>(279)</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	7,451	198	6,784	(469)
Urban roads – regional	358	207	–	(151)
Sealed rural roads (SRR) – local	2,840	134	6,096	3,390
Sealed rural roads (SRR) – regional	1,212	828	200	(184)
Unsealed rural roads (URR) – local	2,090	1,513	–	(577)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	762	49	1,500	787
Bridges on SRR – local	491	–	–	(491)
Bridges on URR – local	152	–	–	(152)
Bridges on regional roads	–	–	–	–
Parking areas	70	–	13	(57)
Footpaths	248	–	754	506
Aerodromes	464	297	–	(167)
Other transport and communication	4,828	5,113	–	285
<b>Total transport and communication</b>	<b>20,966</b>	<b>8,339</b>	<b>15,347</b>	<b>2,720</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	1,385	346	127	(912)
<b>Total economic affairs</b>	<b>1,385</b>	<b>346</b>	<b>127</b>	<b>(912)</b>
<b>Totals – functions</b>	<b>75,998</b>	<b>31,095</b>	<b>19,150</b>	<b>(25,753)</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>44,989</b>		<b>44,989</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	–	–	–	–
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>75,998</b>	<b>76,084</b>	<b>19,150</b>	<b>19,236</b>

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

## Cessnock City Council

## Special Schedule 2(a) – Statement of Long Term Debt (all purpose)

for the year ended 30 June 2017

\$'000

Classification of debt	Principal outstanding at beginning of the year			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
<b>Loans (by source)</b>											
Commonwealth Government	–	–	–							–	–
NSW Treasury Corporation	–	–	–							–	–
Other State Government	–	–	–							–	–
Public subscription	–	–	–							–	–
Financial institutions	1,152	6,598	<b>7,750</b>	–	1,152	–	–	475	1,179	5,419	<b>6,598</b>
Other	–	–	–							–	–
<b>Total loans</b>	<b>1,152</b>	<b>6,598</b>	<b>7,750</b>	<b>–</b>	<b>1,152</b>	<b>–</b>	<b>–</b>	<b>475</b>	<b>1,179</b>	<b>5,419</b>	<b>6,598</b>
<b>Other long term debt</b>											
Ratepayers advances	–	–	–							–	–
Government advances	–	–	–							–	–
Finance leases	–	–	–							–	–
Deferred payments	–	–	–							–	–
<b>Total long term debt</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total debt</b>	<b>1,152</b>	<b>6,598</b>	<b>7,750</b>	<b>–</b>	<b>1,152</b>	<b>–</b>	<b>–</b>	<b>475</b>	<b>1,179</b>	<b>5,419</b>	<b>6,598</b>

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

## Cessnock City Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard <sup>a</sup>	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>b</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
<b>Buildings</b>	Buildings	4,750	10,793	1,345	1,001	66,076	85,298	8%	34%	51%	6%	1%
	<b>Sub-total</b>	<b>4,750</b>	<b>10,793</b>	<b>1,345</b>	<b>1,001</b>	<b>66,076</b>	<b>85,298</b>	<b>8.0%</b>	<b>34.0%</b>	<b>51.0%</b>	<b>6.0%</b>	<b>1.0%</b>
<b>Roads</b>	Sealed roads	13,258	56,437	2,688	2,977	374,364	452,565	69%	10%	14%	5%	2%
	Unsealed roads	1,346	3,014	2,006	2,221	57,420	63,909	85%	5%	6%	3%	1%
	Bridges	545	1,703	663	411	27,545	39,270	33%	50%	12%	2%	3%
	Footpaths	89	164	253	280	11,515	15,166	32%	54%	13%	1%	0%
	Other road assets	987	2,614	1,112	1,231	40,614	57,875	17%	62%	18%	3%	0%
	<b>Sub-total</b>	<b>16,225</b>	<b>63,932</b>	<b>6,722</b>	<b>7,120</b>	<b>511,458</b>	<b>628,785</b>	<b>62.7%</b>	<b>17.8%</b>	<b>13.4%</b>	<b>4.3%</b>	<b>1.7%</b>
<b>Stormwater drainage</b>	Stormwater drainage	282	497	1,002	1,110	59,410	76,405	30%	57%	12%	1%	0%
	<b>Sub-total</b>	<b>282</b>	<b>497</b>	<b>1,002</b>	<b>1,110</b>	<b>59,410</b>	<b>76,405</b>	<b>30.0%</b>	<b>57.0%</b>	<b>12.0%</b>	<b>1.0%</b>	<b>0.0%</b>
<b>Open space/recreational assets</b>	Swimming pools	26	–	308	326	2,760	4,561	0%	47%	53%	0%	0%
	Open Space	865	2,639	1,926	1,994	10,420	17,529	7%	45%	35%	8%	5%
	<b>Sub-total</b>	<b>891</b>	<b>2,639</b>	<b>2,234</b>	<b>2,320</b>	<b>13,180</b>	<b>22,090</b>	<b>5.6%</b>	<b>45.4%</b>	<b>38.7%</b>	<b>6.3%</b>	<b>4.0%</b>
<b>Other infrastructure assets</b>	Other	116	257	–	–	4,832	5,571	68%	25%	2%	0%	5%
	<b>Sub-total</b>	<b>116</b>	<b>257</b>	<b>–</b>	<b>–</b>	<b>4,832</b>	<b>5,571</b>	<b>68.0%</b>	<b>25.0%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>5.0%</b>

## Cessnock City Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard <sup>a</sup>	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>b</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
	<b>TOTAL – ALL ASSETS</b>	<b>22,264</b>	<b>78,118</b>	<b>11,303</b>	<b>11,551</b>	<b>654,956</b>	<b>818,149</b>	<b>52.4%</b>	<b>24.0%</b>	<b>17.8%</b>	<b>4.2%</b>	<b>1.6%</b>

## Notes:

- a \$10,389,943 of renewal work is being undertaken in the 2018 financial year per Council's Delivery Program, part of which will reduce the cost to bring to satisfactory.
- b Required maintenance is the amount identified in Council's asset management plans.

## Infrastructure asset condition assessment 'key'

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

## Cessnock City Council

Special Schedule 7 – Report on Infrastructure Assets (continued)  
for the year ended 30 June 2017

\$ '000	Amounts	Indicator	Benchmark	Prior periods	
	2017	2017		2016	2015
<b>Infrastructure asset performance indicators * consolidated</b>					
<b>1. Infrastructure renewals ratio</b>					
Asset renewals <sup>(1)</sup>	<u>12,095</u>	<b>158.46%</b>	>= 100%	160.79%	141.95%
Depreciation, amortisation and impairment	<u>7,633</u>				
<b>2. Infrastructure backlog ratio</b>					
Estimated cost to bring assets to a satisfactory standard	<u>22,264</u>	<b>3.40%</b>	< 2.00%	2.00%	0.49%
Net carrying amount of infrastructure assets	<u>654,956</u>				
<b>3. Asset maintenance ratio</b>					
Actual asset maintenance	<u>11,551</u>	<b>1.02</b>	> 1.00	1.41	0.71
Required asset maintenance	<u>11,303</u>				
<b>4. Cost to bring assets to agreed service level</b>					
Estimated cost to bring assets to an agreed service level set by Council	<u>78,118</u>	<b>9.55%</b>		0.00%	0.00%
Gross replacement cost	<u>818,149</u>				

## Notes

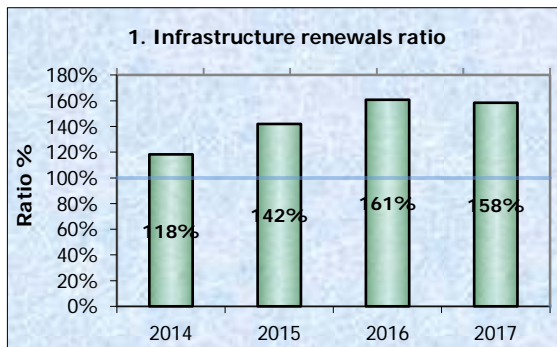
\* All asset performance indicators are calculated using the asset classes identified in the previous table.

(1) 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.



# Cessnock City Council

## Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2017



**Purpose of asset renewals ratio**

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

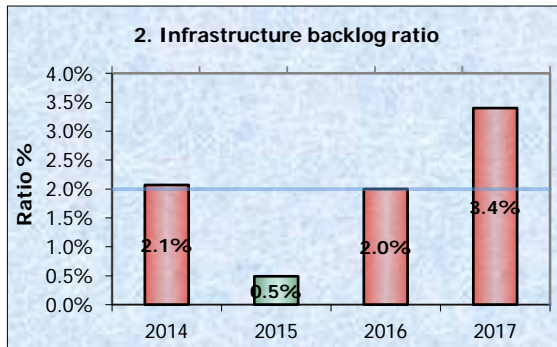
**Commentary on 2016/17 result**

**2016/17 Ratio 158.46%**

This is a positive result for Council. This shows that Council is investing in renewing the current building and infrastructure assets to ensure sustainability of the assets.

Benchmark: — Minimum  $\geq 100.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



**Purpose of infrastructure backlog ratio**

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

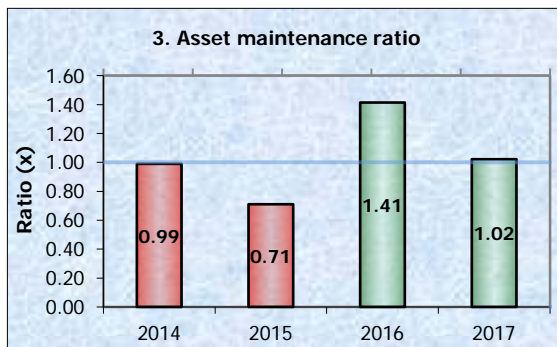
**Commentary on 2016/17 result**

**2016/17 Ratio 3.40%**

Council has reviewed the current infrastructure data to identify assets with a condition rating of less than satisfactory. This ratio represents the cost to bring those identified assets back to a satisfactory condition.

Benchmark: — Maximum  $< 2.00\%$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



**Purpose of 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.

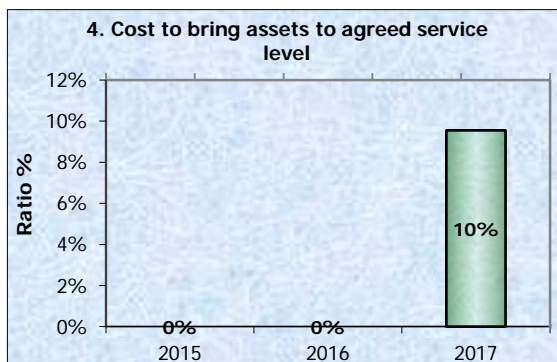
**Commentary on 2016/17 result**

**2016/17 Ratio 1.02 x**

This is a positive result for Council.

Benchmark: — Minimum  $> 1.00$   
Source for benchmark: Code of Accounting Practice and Financial Reporting #25

■ Ratio achieves benchmark  
■ Ratio is outside benchmark



**Purpose of agreed service level ratio**

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 2016/17 result**

**2016/17 Ratio 9.55%**

This ratio shows 9.55% of outstanding renewal works compared to the total value of assets.

## Cessnock City Council

## Special Schedule 8 – Permissible Income Calculation

for the year ended 30 June 2018

\$'000		Calculation 2016/17	Calculation 2017/18
<b>Notional general income calculation <sup>(1)</sup></b>			
Last year notional general income yield	a	33,841	34,920
Plus or minus adjustments <sup>(2)</sup>	b	462	499
<b>Notional general income</b>	c = (a + b)	<b>34,303</b>	<b>35,419</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%
Or rate peg percentage	e	1.80%	1.50%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%
Less expiring special variation amount	g	–	–
Plus special variation amount	h = d x (c – g)	–	–
Or plus rate peg amount	i = c x e	617	531
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>34,920</b>	<b>35,950</b>
Plus (or minus) last year's carry forward total	l	7	7
Less valuation objections claimed in the previous year	m	–	–
<b>Sub-total</b>	n = (l + m)	<b>7</b>	<b>7</b>
<b>Total permissible income</b>	o = k + n	<b>34,927</b>	<b>35,957</b>
Less notional general income yield	p	34,920	35,946
<b>Catch-up or (excess) result</b>	q = o – p	<b>7</b>	<b>11</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	–	–
Less unused catch-up <sup>(5)</sup>	s	–	(6)
<b>Carry forward to next year</b>	t = q + r – s	<b>7</b>	<b>5</b>

**Notes**

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the *NSW Government Gazette* in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.



## INDEPENDENT AUDITOR'S REPORT

### Special Schedule No. 8

### Cessnock City Council

To the Councillors of Cessnock City Council

### Opinion

I have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 8) of Cessnock City Council (the Council) for the year ending 30 June 2018.

In my opinion, Special Schedule No. 8 of Cessnock City Council for 30 June 2018 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), 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, and in particular the Emphasis of Matter paragraph, which describes the basis of accounting.

### 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 Special Schedule No.8' section of my report.

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

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

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

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

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

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

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

Without modifying my opinion, I draw attention to the notes and explanations in Special Schedule No. 8 that instruct councils in its preparation so it complies with OLG's requirements as described in the LG Code. As a result, Special Schedule No. 8 may not be suitable for another purpose.

## **Other Matter**

Special Schedule No.8 of the Council for the year ended 30 June 2016 was audited by another auditor who expressed an unmodified opinion on Special Schedule No. 8 on 26 October 2016.

## **Councillors' Responsibility for Special Schedule No. 8**

The Councillors of the Council are responsible for the preparation of Special Schedule No. 8 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 Special Schedule No. 8 that is free from material misstatement, whether due to fraud or error.

In preparing Special Schedule No.8, the Councillors must assess the Council's ability to continue as a going concern except where the Council will be dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

## **Auditor's Responsibility for the Audit of Special Schedule No. 8**

My objectives are to:

- obtain reasonable assurance whether Special Schedule No. 8 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 Special Schedule No.8.

A description of my responsibilities for the audit of Special Schedule No.8 is located at the Auditing and Assurance Standards Board website at [http://www.auasb.gov.au/auditors\\_responsibilities/ar8.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar8.pdf). The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Special Schedule No.8 on any website where they may be presented
- about any other information which may have been hyperlinked to/from Special Schedule No 8.



Lawrissa Chan  
Director, Financial Audit Services

11 October 2017  
SYDNEY