



GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018



Cessnock City Council

General Purpose Financial Statements

for the year ended 30 June 2018

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Overview

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

62 - 78 Vincent Street
Cessnock NSW 2325

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

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

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

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website:

www.cessnock.nsw.gov.au.

Cessnock City Council

General Purpose Financial Statements for the year ended 30 June 2018

Understanding Council's financial statements

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 2018.

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 17/18 financial year can be found at Note 23 of the financial statements.

Cessnock City Council

General Purpose Financial Statements for the year ended 30 June 2018

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

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

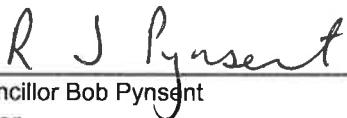
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

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

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

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

Signed in accordance with a resolution of Council made on 05 September 2018.



Councillor Bob Pynsent
Mayor
12 October 2018



Councillor Anthony Burke
Councillor
12 October 2018



Mr Stephen Glen
General Manager
12 October 2018



Mr Robert Maginnity
Responsible Accounting Officer
12 October 2018

Cessnock City Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Restated 2017
Income from continuing operations				
Revenue:				
47,114	Rates and annual charges	3a	47,217	45,979
7,247	User charges and fees	3b	13,340	11,577
849	Interest and investment revenue	3c	978	1,051
1,146	Other revenues	3d	1,775	1,749
11,029	Grants and contributions provided for operating purposes	3e,f	13,339	15,728
2,984	Grants and contributions provided for capital purposes	3e,f	44,737	18,718
70,369	Total income from continuing operations		121,386	94,802
Expenses from continuing operations				
30,467	Employee benefits and on-costs	4a	31,586	30,065
486	Borrowing costs	4b	453	475
13,322	Materials and contracts	4c	23,157	20,541
9,985	Depreciation and amortisation	4d	10,357	9,637
11,597	Other expenses	4e	13,504	12,270
2,500	Net losses from the disposal of assets	5	2,558	2,953
–	Revaluation decrement / impairment of IPP&E	4d	408	57
68,357	Total expenses from continuing operations		82,023	75,998
2,012	Operating result from continuing operations		39,363	18,804
2,012	Net operating result for the year		39,363	18,804
2,012	Net operating result attributable to Council		39,363	18,804
(972)	Net operating result for the year before grants and contributions provided for capital purposes		(5,374)	86

Cessnock City Council

Statement of Comprehensive Income
for the year ended 30 June 2018

\$ '000	Notes	2018	Restated 2017
Net operating result for the year (as per Income Statement)		39,363	18,804
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	(7,367)	–
Total items which will not be reclassified subsequently to the operating result		(7,367)	–
Amounts that will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		(7,367)	–
Total comprehensive income for the year		31,996	18,804
Total comprehensive income attributable to Council		31,996	18,804

Cessnock City Council

Statement of Financial Position

as at 30 June 2018

\$ '000	Notes	2018	Restated 2017	Restated 1 July 2016
ASSETS				
Current assets				
Cash and cash equivalents	6a	4,360	7,039	8,610
Investments	6b	33,000	28,500	28,100
Receivables	7	5,280	5,941	3,110
Inventories	8	339	376	323
Other	8	168	197	206
Total current assets		43,147	42,053	40,349
Non-current assets				
Investments	6b	1,800	1,000	1,300
Inventories	8	1,270	1,270	1,270
Infrastructure, property, plant and equipment	9	770,449	737,631	719,633
Total non-current assets		773,519	739,901	722,203
TOTAL ASSETS		816,666	781,954	762,552
LIABILITIES				
Current liabilities				
Payables	10	7,163	7,976	6,756
Borrowings	10	1,392	1,179	1,152
Provisions	11	9,146	8,959	8,661
Total current liabilities		17,701	18,114	16,569
Non-current liabilities				
Payables	10	3,608	1,915	1,629
Income received in advance	10	768	773	815
Borrowings	10	6,860	5,419	6,598
Provisions	11	11,386	11,386	11,398
Total non-current liabilities		22,622	19,493	20,440
TOTAL LIABILITIES		40,323	37,607	37,009
Net assets		776,343	744,347	725,543
EQUITY				
Accumulated surplus	12	469,863	430,500	411,696
Revaluation reserves	12	306,480	313,847	313,847
Council equity interest		776,343	744,347	725,543
Total equity		776,343	744,347	725,543

Cessnock City Council

Statement of Changes in Equity

for the year ended 30 June 2018

\$ '000	Notes	2018	IPP&E	Total equity	2017	IPP&E	Restated Total equity
		Accumulated surplus	revaluation reserve		Accumulated surplus	revaluation reserve	
Opening balance		430,500	313,847	744,347	413,377	318,298	731,675
Correction of prior period errors	12 (b)	–	–	–	(1,681)	(4,451)	(6,132)
Restated opening balance		430,500	313,847	744,347	411,696	313,847	725,543
Net operating result for the year prior to changes in accounting policies		39,363	–	39,363	19,236	–	19,236
Correction of prior period errors	12 (b)	–	–	–	(432)	–	(432)
Restated net operating result for the year		39,363	–	39,363	18,804	–	18,804
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9	–	(7,367)	(7,367)	–	–	–
Other comprehensive income		–	(7,367)	(7,367)	–	–	–
Total comprehensive income (c&d)		39,363	(7,367)	31,996	18,804	–	18,804
Equity – balance at end of the reporting period		469,863	306,480	776,343	430,500	313,847	744,347

Cessnock City Council

Statement of Cash Flows

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Restated 2017
Cash flows from operating activities				
Receipts:				
46,900	Rates and annual charges		47,352	46,225
9,800	User charges and fees		13,335	11,976
1,100	Investment and interest revenue received		1,026	1,033
17,500	Grants and contributions		19,095	27,811
2,800	Bonds, deposits and retention amounts received		1,685	249
3,500	Other		2,383	2,746
Payments:				
(29,000)	Employee benefits and on-costs		(31,847)	(29,580)
(17,600)	Materials and contracts		(23,348)	(21,794)
(485)	Borrowing costs		(453)	(475)
(13,200)	Other		(13,604)	(14,615)
21,315	Net cash provided (or used in) operating activities	13b	15,624	23,576
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		11,700	10,200
1,100	Sale of infrastructure, property, plant and equipment		1,498	1,122
Payments:				
–	Purchase of investment securities		(17,000)	(10,284)
(26,000)	Purchase of infrastructure, property, plant and equipment		(16,155)	(25,033)
(24,900)	Net cash provided (or used in) investing activities		(19,957)	(23,995)
Cash flows from financing activities				
Receipts:				
1,853	Proceeds from borrowings and advances		2,960	–
Payments:				
(1,326)	Repayment of borrowings and advances		(1,306)	(1,152)
527	Net cash flow provided (used in) financing activities		1,654	(1,152)
(3,058)	Net increase/(decrease) in cash and cash equivalents		(2,679)	(1,571)
7,039	Plus: cash and cash equivalents – beginning of year	13a	7,039	8,610
3,981	Cash and cash equivalents – end of the year	13a	4,360	7,039
Additional Information:				
plus:	Investments on hand – end of year	6b	34,800	29,500
	Total cash, cash equivalents and investments		39,160	36,539

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 05/09/2018.

Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

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

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

Full dollars have been used in Note 20 Related party disclosures in relation to the disclosure of specific related party transactions.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 18 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

There have been no new (or amended) accounting standards adopted by Council in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

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

Significant judgements in applying the Council's accounting policies

- (iv) Impairment of receivables

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

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General purpose operations
- Section 355 Committees

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and other assets 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 other assets subject to Council's control have been included in these reports.

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

Goods and Services Tax (GST)

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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

Effective for annual reporting periods beginning on or after 1 July 2018

- *AASB 9 Financial Instruments*

This replaces AASB 139 Financial Instruments: Recognition and Measurement, and addresses the classification, measurement and disclosure of financial assets and liabilities.

The standard introduces a new impairment model that requires impairment provisions to be based on expected credit losses, rather than incurred credit losses.

Based on assessments to date, Council expects a small increase to impairment losses however the standard is not expected to have a material impact overall.

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

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

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions.

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

Council will review the way that income is measured and recognised to identify whether there will be any material impact arising from these standards, these standards may affect the timing of the recognition of some grants and donations.

- *AASB 16 Leases*

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

It is likely that some of these leases will need to be included in the Statement of Financial Position when this standard comes into effect.

A lease liability will initially be measured at the present value of the lease payments to be made over the lease term.

A corresponding right-of-use asset will also be recognised over the lease term.

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Governance	–	–	1,088	1,477	(1,088)	(1,477)	–	–	54	54
Administration	1,860	1,873	14,390	14,584	(12,530)	(12,711)	–	–	87,599	86,256
Public order and safety	755	525	2,344	2,716	(1,589)	(2,191)	–	–	4,824	6,232
Health	1,228	1,202	951	982	277	220	–	–	303	282
Environment	26,196	17,239	21,004	16,294	5,192	945	1,047	1,008	76,031	71,040
Community services and education	71	129	489	475	(418)	(346)	51	84	6,873	4,286
Housing and community amenities	1,842	1,520	6,029	5,595	(4,187)	(4,075)	106	115	1,306	1,366
Recreation and culture	3,502	2,658	10,826	10,305	(7,324)	(7,647)	818	540	71,056	76,301
Mining, manufacturing and construction	1,018	940	1,362	1,219	(344)	(279)	–	–	175	189
Transport and communication	41,379	23,254	22,098	20,966	19,281	2,288	3,693	9,139	565,937	534,319
Economic affairs	681	473	1,442	1,385	(761)	(912)	–	–	2,508	1,629
General Purpose Income	42,854	44,989	–	–	42,854	44,989	7,632	10,666	–	–
Total functions and activities	121,386	94,802	82,023	75,998	39,363	18,804	13,347	21,552	816,666	781,954

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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 2018

Note 3. Income from continuing operations

\$ '000	2018	2017
(a) Rates and annual charges		
Ordinary rates		
Residential	26,706	25,641
Farmland	2,870	3,047
Mining	1,027	1,046
Business	4,794	4,691
Less: pensioner rebates (mandatory)	(788)	(812)
Less: pensioner rebates (Council policy)	(85)	(87)
Total ordinary rates	34,524	33,526
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	11,697	11,476
Stormwater management services	508	500
Waste management services (non-domestic)	867	868
Section 611 charges	29	28
Less: pensioner rebates (mandatory)	(369)	(380)
Less: pensioner rebates (Council policy)	(39)	(39)
Total annual charges	12,693	12,453
TOTAL RATES AND ANNUAL CHARGES	47,217	45,979

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

Accounting policy for rates and annual charges

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.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(b) User charges and fees		
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building permits and fees	719	684
Inspection services	367	413
Private works – section 67	30	67
Regulatory/ statutory fees	224	90
Section 149 certificates (EPA Act)	213	198
Section 603 certificates	158	141
Town planning	1,712	1,413
Total fees and charges – statutory/regulatory	3,423	3,006
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	182	169
Cemeteries	220	226
Cessnock performing arts centre	276	247
Fire and emergency services levy (FESL) implementation	–	137
Onsite sewerage management fees	490	450
RMS charges (state roads not controlled by Council)	6,713	4,879
Swimming pool fees	198	229
Waste disposal tipping fees	1,684	2,067
Other	154	167
Total fees and charges – other	9,917	8,571
TOTAL USER CHARGES AND FEES	13,340	11,577

Accounting policy for user charges and fees

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(c) Interest and investment revenue (including losses)		
Interest		
– Overdue rates and annual charges (incl. special purpose rates)	129	141
– Cash and investments	849	894
Fair value adjustments		
– Fair valuation movements in investments (other)	–	16
TOTAL INTEREST AND INVESTMENT REVENUE	978	1,051
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	129	141
General Council cash and investments	119	178
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	151	127
Domestic waste management operations	9	10
Other externally restricted assets	120	117
Restricted investments/funds – internal:		
Internally restricted assets	450	478
Total interest and investment revenue recognised	978	1,051

Accounting policy for interest and investment revenue

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(d) Other revenues		
Rental income – other council properties	315	314
Fines	366	348
General administrative services	12	9
Legal fees recovery – rates and charges (extra charges)	503	533
Legal fees recovery – other	7	11
Commissions and agency fees	25	29
Insurance claim recoveries	109	124
Sales – general	219	108
Section 355 committees	108	130
Other	111	143
<u>TOTAL OTHER REVENUE</u>	<u>1,775</u>	<u>1,749</u>

Accounting policy for other revenue

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

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

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	2,733	5,169	–	–
Financial assistance – local roads component	806	1,579	–	–
Payment in advance – future year allocation				
Financial assistance – general component	2,814	2,672	–	–
Financial assistance – local roads component	830	810	–	–
Other				
Pensioners' rates subsidies – general component	449	436	–	–
Total general purpose	7,632	10,666	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Domestic waste management	203	207	–	–
Community centres	–	–	19	124
Drainage	87	58	472	232
Library – per capita	105	103	–	–
Library – special projects	10	8	184	246
LIRS subsidy	43	49	–	–
Noxious weeds	77	76	–	–
Recreation and culture	2	7	498	52
Street lighting	106	104	–	–
Transport (roads to recovery)	1,519	1,504	–	–
Transport (flood works, other roads and bridges funding)	687	156	–	–
Transport (resources for regions)	–	–	1,144	7,364
Transport (road safety)	69	67	–	–
Waste levy programs	199	322	10	–
Welfare services	51	58	–	–
Other	200	149	30	–
Total specific purpose	3,358	2,868	2,357	8,018
Total grants	10,990	13,534	2,357	8,018
Grant revenue is attributable to:				
– Commonwealth funding	9,164	12,170	1,194	5,864
– State funding	1,826	1,364	1,163	2,154
	10,990	13,534	2,357	8,018

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	2017 Operating	2018 Capital	2017 Capital
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 – EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements		–	–	1,467	1,158
S 7.11 – contributions towards amenities/services		–	–	1,555	1,241
Total developer contributions – cash		–	–	3,022	2,399
Total developer contributions	21	–	–	3,022	2,399
Other contributions:					
Cash contributions					
Bushfire protection		127	66	–	–
Drainage		–	–	128	–
General admin services		265	129	–	–
Hunter water corporation contribution		–	114	–	–
Kerb and gutter		–	–	22	34
Motor vehicle leaseback		262	226	–	–
Recreation and culture		–	–	10	–
Road reinstatements		58	124	–	–
RMS contributions (regional roads, block grant)		1,244	1,202	341	1,507
Tourism		308	280	–	–
Transport		9	9	–	2
Other		76	44	6	24
Total other contributions – cash		2,349	2,194	507	1,567
Non-cash contributions					
Dedications – subdivisions (other than by s7.11)		–	–	38,851	6,734
Total other contributions		2,349	2,194	39,358	8,301
Total contributions		2,349	2,194	42,380	10,700
TOTAL GRANTS AND CONTRIBUTIONS		13,339	15,728	44,737	18,718

Accounting policy for contributions

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

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

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.

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	2017
(g) Unspent grants and contributions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:		
Operating grants		
Unexpended at the close of the previous reporting period	1,274	2,281
Add: operating grants recognised in the current period but not yet spent	40	58
Add: operating grants received for the provision of goods and services in a future period	1,062	717
Less: operating grants recognised in a previous reporting period now spent	(1,154)	(1,782)
Unexpended and held as restricted assets (operating grants)	<u><u>1,222</u></u>	<u><u>1,274</u></u>
Capital grants		
Unexpended at the close of the previous reporting period	749	588
Add: capital grants recognised in the current period but not yet spent	28	8
Add: capital grants received for the provision of goods and services in a future period	617	503
Less: capital grants recognised in a previous reporting period now spent	(335)	(350)
Unexpended and held as restricted assets (capital grants)	<u><u>1,059</u></u>	<u><u>749</u></u>
Contributions		
Unexpended at the close of the previous reporting period	11,089	10,129
Add: contributions received for the provision of goods and services in a future period	3,172	2,526
Less: contributions recognised in a previous reporting period now spent	(1,358)	(1,566)
Unexpended and held as restricted assets (contributions)	<u><u>12,903</u></u>	<u><u>11,089</u></u>

Cessnock City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	2017
(a) Employee benefits and on-costs		
Salaries and wages	22,434	21,547
Employee termination costs	175	497
Travel expenses	494	515
Employee leave entitlements (ELE)	5,135	4,562
Superannuation	3,272	3,181
Workers' compensation insurance	639	629
Fringe benefit tax (FBT)	355	345
Training costs (other than salaries and wages)	412	385
Other	22	31
Total employee costs	32,938	31,692
Less: capitalised costs	(1,352)	(1,627)
TOTAL EMPLOYEE COSTS EXPENSED	31,586	30,065
Number of 'full-time equivalent' employees (FTE) at year end	299	294

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 16 for more information.

(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on loans	453	475
Total interest bearing liability costs expensed	453	475
TOTAL BORROWING COSTS EXPENSED	453	475

Accounting policy for borrowing costs

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(c) Materials and contracts		
Raw materials and consumables	17,205	14,353
Contractor and consultancy costs	4,989	5,262
Auditors remuneration ⁽²⁾	42	44
Infringement notice contract costs (SEINS)	38	45
Legal expenses:		
– Legal expenses: planning and development	105	118
– Legal expenses: debt recovery	506	536
– Legal expenses: other	105	1
Operating leases:		
– Operating lease rentals: minimum lease payments ⁽¹⁾	167	182
<u>TOTAL MATERIALS AND CONTRACTS</u>	<u>23,157</u>	<u>20,541</u>

Operating leases

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

1. Operating lease payments are attributable to:

Computers	144	152
Other	23	30
	<u>167</u>	<u>182</u>

2. Auditor remuneration

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

Auditors of the Council – NSW Auditor-General:**Audit and other assurance services**

Audit and review of financial statements	42	44
Remuneration for audit and other assurance services	<u>42</u>	<u>44</u>
Total Auditor-General remuneration	<u>42</u>	<u>44</u>
Total Auditor remuneration	<u>42</u>	<u>44</u>

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(d) Depreciation, amortisation and impairment		
Depreciation and amortisation		
Plant and equipment	1,723	1,475
Office equipment	274	341
Furniture and fittings	20	20
Infrastructure:		
– Buildings	1,493	1,320
– Roads	4,724	4,471
– Bridges	370	356
– Footpaths	210	196
– Stormwater drainage	711	626
– Swimming pools	50	50
– Other open space/recreational assets	517	520
– Other infrastructure	37	37
Other assets:		
– Library books	228	225
Total depreciation and amortisation costs	10,357	9,637
Impairment / revaluation decrement of IPP&E		
Infrastructure:		
– Buildings	408	–
– Bridges	–	57
Total IPP&E impairment / revaluation decrement costs / (reversals)	408	57
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED	10,765	9,694

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

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

Impairment of non-financial assets

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.

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	2017
(e) Other expenses		
Advertising	187	114
Bad and doubtful debts	243	8
Bank charges	51	46
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	87	97
– NSW fire brigade levy	330	318
– NSW rural fire service levy	469	457
– Waste levy	7,984	6,899
Councillor expenses – mayoral fee	42	41
Councillor expenses – councillors' fees	251	231
Councillors' expenses (incl. mayor) – other (excluding fees above)	91	51
Donations, contributions and assistance to other organisations (Section 356)	88	75
Election expenses	–	300
Electricity and heating	544	484
Fire and emergency services levy (FESL) implementation costs	–	14
Insurance	1,075	1,129
Rate collection agency expenses	90	76
RSPCA contribution	301	297
Section 355 committees	81	151
Street lighting	1,014	862
Subsidies	34	31
Telephone and communications	284	368
Valuation fees	171	153
Other	87	68
<u>TOTAL OTHER EXPENSES</u>	<u>13,504</u>	<u>12,270</u>

Accounting policy for other expenses

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	2017
Property (excl. investment property)	9		
Proceeds from disposal – property		196	–
Less: carrying amount of property assets sold/written off		(485)	–
Net gain/(loss) on disposal		(289)	–
Plant and equipment	9		
Proceeds from disposal – plant and equipment		1,302	1,122
Less: carrying amount of plant and equipment assets sold/written off		(1,145)	(1,091)
Net gain/(loss) on disposal		157	31
Infrastructure	9		
Less: carrying amount of infrastructure assets sold/written off		(2,426)	(2,984)
Net gain/(loss) on disposal		(2,426)	(2,984)
Financial assets	6		
Proceeds from disposal/redemptions/maturities – financial assets		11,700	10,200
Less: carrying amount of financial assets sold/redeemed/matured		(11,700)	(10,200)
Net gain/(loss) on disposal		–	–
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(2,558)</u>	<u>(2,953)</u>

Accounting policy for disposal of assets

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

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	3,819	6,498
Cash-equivalent assets		
– Deposits at call	541	541
Total cash and cash equivalents	4,360	7,039

Accounting policy for 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 maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Note 6(b). Investments

\$ '000	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
'Held to maturity'	33,000	1,800	28,500	1,000
Total investments	33,000	1,800	28,500	1,000
<u>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</u>	<u>37,360</u>	<u>1,800</u>	<u>35,539</u>	<u>1,000</u>
Held to maturity investments				
Term deposits	33,000	–	28,500	–
NCD's, FRN's (with maturities > 3 months)	–	1,800	–	1,000
Total	33,000	1,800	28,500	1,000

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(b). Investments (continued)

Accounting policy for investments

Classification

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

(a) Held to maturity investments

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

(b) 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 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.

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.

Investments 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.

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

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

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	37,360	1,800	35,539	1,000
attributable to:				
External restrictions (refer below)	13,814	1,800	12,606	1,000
Internal restrictions (refer below)	22,095	–	22,775	–
Unrestricted	1,451	–	158	–
	37,360	1,800	35,539	1,000

\$ '000	2018	2017
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Details of restrictions

External restrictions – other

Developer contributions – general	10,600	8,380
RMS contributions	2,303	2,709
Specific purpose unexpended grants	2,281	2,023
Domestic waste management	370	432
Other	60	62
External restrictions – other	15,614	13,606
Total external restrictions	15,614	13,606

Internal restrictions

Plant and vehicle replacement	1,471	2,548
Employees leave entitlement	2,264	2,102
Carry over works	2,056	310
Bridge replacement	721	561
Cemetery	22	5
Computer services	316	277
Energy efficiency reserve	113	175
Financial assistance grant in advance	3,644	3,482
Insurance provisions	933	560
Miscellaneous and property	1,223	1,702
Operations and programs	346	243
Property investment fund	872	732
Rezoning fees	85	85
Single invitation contracts	1,764	846
Waste depot and rehabilitation	5,588	9,147
Unexpended Loan Funds	677	–
Total internal restrictions	22,095	22,775

TOTAL RESTRICTIONS

37,709	36,381
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Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	772	–	719	–
Interest and extra charges	351	–	364	–
User charges and fees	10	–	10	–
Accrued revenues				
– Interest on investments	177	–	212	–
Community facilities	443	–	103	–
Garbage tipping fees	69	–	22	–
Government grants and subsidies	216	–	86	–
Kerb and gutter	30	–	47	–
Net GST receivable	274	–	617	–
Planning proposals	44	–	3	–
Premises inspections	74	–	92	–
Rental charges	30	–	82	–
Restoration charges	6	–	23	–
RMS debtors – state roads	2,233	–	2,470	–
Roadworks	709	–	898	–
Other debtors	250	–	359	–
Total	5,688	–	6,107	–
Less: provision for impairment				
Rates and annual charges	(298)	–	(110)	–
Other debtors	(110)	–	(56)	–
Total provision for impairment – receivables	(408)	–	(166)	–
TOTAL NET RECEIVABLES	5,280	–	5,941	–
Externally restricted receivables				
Domestic waste management	411	–	451	–
Stormwater management	12	–	18	–
Other				
Other restricted receivables	19	–	22	–
Total external restrictions	442	–	491	–
Unrestricted receivables	4,838	–	5,450	–
TOTAL NET RECEIVABLES	5,280	–	5,941	–
Movement in provision for impairment of receivables			2018	2017
Balance at the beginning of the year			166	158
+ new provisions recognised during the year			242	8
Balance at the end of the year			408	166

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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 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.

Impairment

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

Collectability of receivables is reviewed on an on-going 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. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income statement.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale (refer below)	–	1,270	–	1,270
Stores and materials	339	–	376	–
Total inventories at cost	339	1,270	376	1,270
TOTAL INVENTORIES	339	1,270	376	1,270
(b) Other assets				
Prepayments	168	–	197	–
TOTAL OTHER ASSETS	168	–	197	–
Externally restricted assets				
There are no restrictions applicable to the above assets.				
Other disclosures				
(a) Details for real estate development				
Residential	–	1,270	–	1,270
Total real estate for resale	–	1,270	–	1,270
(Valued at the lower of cost and net realisable value)				
Represented by:				
Development costs	–	1,270	–	1,270
Total costs	–	1,270	–	1,270
Total real estate for resale	–	1,270	–	1,270
Movements:				
Real estate assets at beginning of the year	–	1,270	–	1,270
Total real estate for resale	–	1,270	–	1,270

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

Accounting policy

Raw materials and stores, work in progress and finished goods

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

Inventory held for distribution

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

Land held for resale/capitalisation of borrowing costs

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

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

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 9. Infrastructure, property, plant and equipment

Asset class	as at 30/6/2017			Asset movements during the reporting period									as at 30/6/2018			
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	
\$ '000																
Capital work in progress	12,068	–	12,068	3,085	2,737	–	–	–	(11,489)	–	–	–	6,401	–	6,401	
Plant and equipment	20,199	12,840	7,359	–	4,775	(1,145)	(1,723)	–	317	–	–	–	22,679	13,096	9,583	
Office equipment	3,783	3,080	703	19	59	–	(274)	–	15	–	–	–	3,877	3,355	522	
Furniture and fittings	1,418	1,276	142	–	4	–	(20)	–	–	–	–	–	1,422	1,296	126	
Plant and equipment (under finance lease)	281	281	–	–	–	–	–	–	–	–	–	–	281	281	–	
Land:																
– Operational land	36,789	–	36,789	–	–	(107)	–	–	–	(359)	(2,580)	–	33,743	–	33,743	
– Community land	24,188	–	24,188	–	–	(378)	–	–	–	359	–	–	24,169	–	24,169	
– Land under roads (post 30/6/08)	235	–	235	–	160	–	–	–	–	–	–	–	395	–	395	
Infrastructure:																
– Buildings	85,298	19,222	66,076	92	2,285	(368)	(1,493)	(408)	105	–	(5,585)	–	122,800	62,096	60,704	
– Roads	574,349	101,951	472,398	2,465	27,536	(1,443)	(4,724)	–	4,468	–	–	319	606,435	105,416	501,019	
– Bridges	39,270	11,725	27,545	147	1,921	(262)	(370)	–	607	–	–	–	41,561	11,973	29,588	
– Footpaths	15,166	3,651	11,515	30	2,513	(11)	(210)	–	59	–	–	–	17,751	3,855	13,896	
– Stormwater drainage	76,404	16,994	59,410	201	6,249	(74)	(711)	–	4,922	–	–	479	88,588	18,112	70,476	
– Swimming pools	4,561	1,801	2,760	13	–	(6)	(50)	–	–	–	–	–	4,561	1,844	2,717	
– Other open space/recreational assets	17,529	7,109	10,420	73	1,283	(262)	(517)	–	187	–	–	–	18,665	7,481	11,184	
– Other infrastructure	5,572	740	4,832	–	–	–	(37)	–	–	(1)	–	–	5,571	777	4,794	
Other assets:																
– Library books	5,645	4,454	1,191	169	–	–	(228)	–	–	–	–	–	5,814	4,682	1,132	
Reinstatement, rehabilitation and restoration assets (refer Note 11):																
– Tip assets	8,400	8,400	–	–	–	–	–	–	–	–	–	–	8,400	8,400	–	
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	931,155	193,524	737,631	6,294	49,522	(4,056)	(10,357)	(408)	(809)	(1)	(8,165)	798	1,013,113	242,664	770,449	

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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 and equipment	Years	Other equipment	Years
Office equipment	4 to 10	Playground equipment	23
Office furniture	4 to 10	Benches, seats etc.	10 to 20
Computer equipment	4 to 5		
Vehicles	4 to 8	Buildings	
Heavy plant/road making equipment	4 to 8	Sub-Structure	30 to 110
Other plant and equipment	4 to 15	Superstructure	35 to 110
		Roof Frame	150
Stormwater Drainage assets		Roof	20 to 110
Culverts	120	Electrical	45
Stormwater Pipes	120	Hydraulic	20 to 40
Stormwater Pits	120	Mechanical	22
		Fit-outs Fittings	35
		Fit-outs Floor Coverings	25
Transportation assets	Years	Other infrastructure assets	Years
Sealed roads: surface	24 to 34	Bulk earthworks	Infinite
Sealed roads: structure	80 to 1000	Swimming pools	91
Unsealed roads - surface and base	25 to 80	Other open space/recreational assets	11 to 120
Bridge: concrete - structure	120	Playgrounds	23
Bridge: concrete - other	50 to 60	Runways and Taxiways surface	20
Bridge: timber - structure	120	Runways and Taxiways base	80
Bridge: timber - other	50 to 60	Runways and Taxiways sub-base	1,000
Kerb, gutter and footpaths	120		

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment (continued)

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

Land under roads

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

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

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

Crown reserves

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated. Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

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

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 10. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services – operating expenditure	5,383	–	5,611	–
Accrued expenses:				
– Salaries and wages	390	–	838	–
– Other expenditure accruals	600	–	686	–
Security bonds, deposits and retentions	667	3,608	675	1,915
Trust fund	123	–	166	–
Total payables	7,163	3,608	7,976	1,915
Income received in advance				
Payments received in advance	–	768	–	773
Total income received in advance	–	768	–	773
Borrowings				
Loans – secured ¹	1,392	6,860	1,179	5,419
Total borrowings	1,392	6,860	1,179	5,419
TOTAL PAYABLES AND BORROWINGS	8,555	11,236	9,155	8,107

(a) Payables and borrowings relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Domestic waste management	85	–	78	–
Payables and borrowings relating to externally restricted assets	85	–	78	–
Total payables and borrowings relating to restricted assets	85	–	78	–
Total payables and borrowings relating to unrestricted assets	8,470	11,236	9,077	8,107
TOTAL PAYABLES AND BORROWINGS	8,555	11,236	9,155	8,107

¹ Loans are secured over the general rating income of Council

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 17.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Payables and borrowings (continued)

\$ '000	2018	2017
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(b) Current payables and borrowings not anticipated to be settled within the next twelve months

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

Payables – security bonds, deposits and retentions	666	665
Other Liabilities: Trust Fund Deposits	48	48
	714	713

(c) Changes in liabilities arising from financing activities

Class of borrowings	2017		Non-cash changes			2018
	Opening balance as at 1/7/17	Cash flows	Acquisition	Fair value changes	Other non-cash movements	Closing balance as at 30/6/18
Loans – secured	6,598	1,654	–	–	–	8,252
TOTAL	6,598	1,654	–	–	–	8,252

\$ '000	2018	2017
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(d) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

Bank overdraft facilities ⁽¹⁾	1,000	1,000
Credit cards/purchase cards	100	100
Total financing arrangements	1,100	1,100

Undrawn facilities as at balance date:

– Bank overdraft facilities	1,000	1,000
– Credit cards/purchase cards	100	100
Total undrawn financing arrangements	1,100	1,100

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Payables

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

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the 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.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	2,797	–	2,707	–
Sick leave	512	–	521	–
Long service leave	5,837	145	5,731	145
Sub-total – aggregate employee benefits	9,146	145	8,959	145
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	11,241	–	11,241
Sub-total – asset remediation/restoration	–	11,241	–	11,241
<u>TOTAL PROVISIONS</u>	<u>9,146</u>	<u>11,386</u>	<u>8,959</u>	<u>11,386</u>

(a) Provisions relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Domestic waste management	504	–	–	–
Provisions relating to externally restricted assets	504	–	–	–
Total provisions relating to restricted assets	504	–	–	–
Total provisions relating to unrestricted assets	8,642	11,386	8,959	11,386
<u>TOTAL PROVISIONS</u>	<u>9,146</u>	<u>11,386</u>	<u>8,959</u>	<u>11,386</u>

\$ '000	2018	2017
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(b) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	5,536	5,498
	<u>5,536</u>	<u>5,498</u>

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 11. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

2018	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
At beginning of year	2,707	521	5,876	9,104
Additional provisions	1,984	1,149	1,066	4,199
Amounts used (payments)	(1,894)	(1,158)	(960)	(4,012)
Total ELE provisions at end of year	2,797	512	5,982	9,291

2017	ELE provisions			Total
	Annual leave	Sick leave	Long service leave	
At beginning of year	2,580	527	5,711	8,818
Additional provisions	1,829	1,032	754	3,615
Amounts used (payments)	(1,702)	(1,038)	(589)	(3,329)
Total ELE provisions at end of year	2,707	521	5,876	9,104

2018	Other provisions	
	Asset remediation	Total
At beginning of year	11,241	11,241
Total other provisions at end of year	11,241	11,241

2017	Other provisions	
	Asset remediation	Total
At beginning of year	11,241	11,241
Total other provisions at end of year	11,241	11,241

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Provisions (continued)

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Provisions (continued)

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

Restoration

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

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

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

Rehabilitation

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

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean up provisions are presented as an operating cost.

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

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

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

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

Note 12. Revaluation reserves, changes in accounting policies and changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Revaluation reserves, changes in accounting policies and changes in accounting estimates and errors (continued)

\$ '000

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

Nature of prior-period error

Land Under Roads (LUR)

Council has corrected the fair value of LUR as reported in Note 9 - Infrastructure, Property Plant & Equipment.

The value was decreased to reflect the restrictions on use of LUR. Council previously valued LUR using the municipal average site value with no discount to reflect the restricted use.

Australian Accounting Standard AASB 13 requires the fair value measurement to reflect restrictions on the asset. This change was applied retrospectively from 1 July 2016. See table below.

The errors identified above have been applied by restating the balances at the beginning of the earliest period presented (1 July 2016) and taking the adjustment through to accumulated surplus at that date.

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

Operational Land

Council has corrected the fair value of operational land as reported in Note 9 - Infrastructure, Property Plant & Equipment. When carrying out the valuation of operational land in 2018 it was found that the 2013 valuation of operational land was inconsistent in assessing values of drainage reserves and public recreation land and that land values had been applied without allowance for the zoning, physical attributes of the land or planning constraints.

Australian Accounting Standards AASB 13 require that fair values be determined based on the highest and best use taking into account the physical attributes and any planning or feasibility constraints.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2016) and taking the adjustment through to revaluation reserve at that date.

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Revaluation reserves, changes in accounting policies and changes in accounting estimates and errors (continued)

\$ '000

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

Changes to the opening Statement of Financial Position at 1 July 2016

Statement of Financial Position	Original Balance 1 July, 2016	Impact Increase/ (decrease)	Restated Balance 1 July, 2016
Infrastructure, property, plant and equipment	725,765	(6,132)	719,633
Total Assets	768,684	(6,132)	762,552
Total Liabilities	37,009	–	37,009
Accumulated Surplus (Land under roads recognised prior to 1 July 2016)	413,377	(1,681)	411,696
Revaluation Reserves (Operational land recognised prior 1 July 2016)	318,298	(4,451)	313,847
Total equity	731,675	(6,132)	725,543

Adjustments to the comparative figures for the year ended 30 June 2017

Statement of Financial Position	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Infrastructure, property, plant and equipment	744,195	(6,564)	737,631
Total assets	782,386	(6,564)	775,822
Total liabilities	37,607	–	37,607
Accumulated Surplus (Land under roads recognised prior to 1 July 2017)	432,613	(2,113)	430,500
Revaluation Reserve	318,298	(4,451)	313,847
Total equity	744,779	(6,564)	738,215

Cessnock City Council

Notes to the Financial Statements
for the year ended 30 June 2018Note 12. Revaluation reserves, changes in accounting policies and changes
in accounting estimates and errors (continued)

\$ '000

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

	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Income Statement			
Grants and Contributions provided for capital purposes	19,150	(432)	18,718
Total income from continuing operations	95,234	(432)	94,802
Total expenses from continuing operations	75,998	–	75,998
Net operating result for the year	19,236	(432)	18,804
	Original Balance 30 June, 2017	Impact Increase/ (decrease)	Restated Balance 30 June, 2017
Statement of Comprehensive Income			
Net operating result for the year	19,236	(432)	18,804
Total comprehensive income for the year	19,236	(432)	18,804

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	4,360	7,039
Less bank overdraft	10	–	–
Balance as per the Statement of Cash Flows		4,360	7,039
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		39,363	18,804
Adjust for non-cash items:			
Depreciation and amortisation		10,357	9,637
Net losses/(gains) on disposal of assets		2,558	2,953
Non-cash capital grants and contributions		(38,851)	(6,734)
Impairment losses recognition – investments		–	57
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		–	(16)
– Revaluation decrements / impairments of IPP&E direct to P&L		408	–
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		419	(2,839)
Increase/(decrease) in provision for doubtful debts		242	8
Decrease/(increase) in inventories		37	(53)
Decrease/(increase) in other assets		29	9
Increase/(decrease) in payables		(228)	851
Increase/(decrease) in other accrued expenses payable		(534)	391
Increase/(decrease) in other liabilities		1,637	222
Increase/(decrease) in employee leave entitlements		187	286
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		15,624	23,576
(c) Non-cash investing and financing activities			
Other dedications		38,851	6,734
Total non-cash investing and financing activities		38,851	6,734

Cessnock City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 14. Interests in other entities

\$ '000

Joint arrangements

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	
			2018	2017	2018	2017
Strategic Services Australia Ltd	Local Government Services	Thornton	10%	10%	8%	8%

Council has an interest in Strategic Services Australia Ltd, along with other member Councils of Strategic Services Australia Ltd.

The activities of this organisation are not controlled by any one Council.

Strategic Services Australia Ltd has been established to improve the quality and efficiency of local government service throughout the Hunter Region.

(b) Council assets employed in the joint operations

	2018	2017
Council's share of assets jointly owned with other partners		
Current assets	702	166
Current liabilities	(182)	(315)
Property, plant and equipment	48	423
Non-current liabilities	(3)	(22)
Total net assets employed – Council and jointly owned	565	252

Accounting policy for joint arrangements

The Council has determined that it has joint operations only.

Joint operations

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Commitments for expenditure

\$ '000	2018	2017
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Wine Country Precinct Signage	49	–
Wilderness Bridge Rothbury	88	–
Whitburn Estate Drainage	–	119
Total commitments	137	119
These expenditures are payable as follows:		
Within the next year	137	119
Total payable	137	119
Sources for funding of capital commitments:		
Future grants and contributions	88	119
Developer Contributions	49	–
Total sources of funding	137	119
(b) 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	157
Later than one year and not later than 5 years	287	444
Total non-cancellable operating lease commitments	444	601
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 2018

Note 16. Contingencies and other liabilities/assets not recognised

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

Each member employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

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

As the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member employers, the surplus has not been recognised in the Council's financial statements.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 12 December 2017.

The share of the Scheme surplus at 30 June 2018 that can broadly attributed to Council is 1.00%.

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

Investment Return 6.0% per annum

Salary inflation* 3.5% per annum

Increase in CPI 2.5% per annum

*plus promotional increases

Pooled employers are required to pay standard employer contributions which are determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated.

Pooled employers are also required to pay additional lump sum contributions to the Scheme. Council's additional lump sum contributions included in Council's total employer contribution for the year ended 30 June 2018 is \$453,000.

Council's additional contributions of \$453,000 per annum represents approximately 1.14% of the total additional lump sum contributions for all pooled employers of \$40 million, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018.

The amount of Council's employer contributions to the Scheme accounted for as an expense for the year ended 30 June 2018 was \$931,763. Council's expected standard and additional contributions to the plan for the next annual reporting period is \$849,840.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Contingencies and other liabilities/assets not recognised (continued)

(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) StateCover Limited

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

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

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

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

(iv) Other guarantees

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

2. Other liabilities

(i) Third party claims

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

Council believes that it is appropriately covered for all claims through its insurance coverage and at 30 June 2018 Council had the following pending legal matters:

The Council is defending a property damage claim and a demand for a compensation.

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

(ii) 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.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Contingencies and other liabilities/assets not recognised (continued)

ASSETS NOT RECOGNISED: (continued)

(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.

Note 17. Financial risk management

Risk management

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

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

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

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

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. 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 Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

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 these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **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
2018				
Possible impact of a 10% movement in market values	3,628	3,628	(3,628)	(3,628)
Possible impact of a 1% movement in interest rates	363	363	(363)	(363)
2017				
Possible impact of a 10% movement in market values	3,600	3,600	(3,600)	(3,600)
Possible impact of a 1% movement in interest rates	360	360	(360)	(360)

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. 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. It also encourages ratepayers to pay their rates by the due date through incentives.

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.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

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:

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	0%	10%	0%	8%
Overdue	100%	90%	100%	92%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(ii) Ageing of receivables – value

Rates and annual charges

< 1 year overdue

	2018	2017
	772	719
	<u>772</u>	<u>719</u>

Other receivables

Current

0 – 30 days overdue

31 – 60 days overdue

61 – 90 days overdue

> 91 days overdue

	485	453
	4,270	4,838
	22	8
	22	–
	117	89
	<u>4,916</u>	<u>5,388</u>

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. 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.

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 by borrowing long term and fixing the interest rate on a 4-year renewal basis. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 – 5 Years	> 5 Years		
2018							
Trade/other payables		4,275	6,488	–	–	10,763	10,771
Loans and advances	5.37%	–	50	4,052	4,150	8,252	8,252
Total financial liabilities		4,275	6,538	4,052	4,150	19,015	19,023
2017							
Trade/other payables		2,590	7,301	–	–	9,891	9,891
Loans and advances	6.58%	–	71	2,021	4,506	6,598	6,598
Total financial liabilities		2,590	7,372	2,021	4,506	16,489	16,489

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Material budget variations

\$ '000

Council's original financial budget for 2017/18 was adopted by the Council on 21 June 2017 and is not required to be audited.

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	2018 Budget	2018 Actual	2018 ----- Variance* -----	
REVENUES				
Rates and annual charges	47,114	47,217	103	0% F
User charges and fees	7,247	13,340	6,093	84% F
Regulatory / Statutory Fees	133K (F)	Garbage Tipping Fees	394K (F)	
RMS Charges	4,933K (F)	Building Permits	73K (F)	
Town Planning Fees	423K (F)	Certificates	71K (F)	
Interest and investment revenue	849	978	129	15% F
Interest on Investments	139K (F)			
Interest on Overdue Rates & Charges	10K (U)			
Other revenues	1,146	1,775	629	55% F
Fines	33K (F)	Legal Fees Recovery - Rates & Charges	160K (F)	
Insurance Claims	39K (F)	Other	58K (F)	
Lease / Rental	39K (F)	Sales - Waste Transfer Facility	145K (F)	
Section 355 Committees	108K (F)			
Operating grants and contributions	11,029	13,339	2,310	21% F
RMS Contributions	49K (F)	Financial Assistance Grant	555K (F)	
Road Reinstatements	64K (U)	Environmental Grants	121K (F)	
General Admin Services	177K (F)	Transport	792K (F)	
Bushfire Protection	47K (F)	Road to Recovery Grant	343K (F)	
Waste Levy Programs	199K (F)	Drainage	87K (F)	
Capital grants and contributions	2,984	44,737	41,753	1399% F
Community Centres	156K (U)	Waste Levy Programs	10K (F)	
Traffic Facilities	30K (F)	Section 94 Contributions	3,022K (F)	
Drainage	472K (F)	Dedications	40,295K (F)	
Library Special Projects	184K (F)	Transport	127K (F)	
Recreation & Cultural Grants	458K (F)	Kerb & Gutter Contributions	22K (F)	
Resources for Regions	1,412K (U)	RMS Contributions	141K (F)	

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 ----- Variance* -----	
EXPENSES				
Employee benefits and on-costs	30,467	31,586	(1,119)	(4%) U
Borrowing costs	486	453	33	7% F
Materials and contracts	13,322	23,157	(9,835)	(74%) U
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.				
Depreciation and amortisation	9,985	10,357	(372)	(4%) U
Other expenses	11,597	13,504	(1,907)	(16%) U
Advertising	59K (U)	Telephone Expenses	29K (U)	
Bad & Doubtful Debts	232K (U)	S88 EPA Waste Levy	1,404K (U)	
Insurances	93K (F)	Street Lighting Charges	112K (U)	
Net losses from disposal of assets	2,500	2,558	(58)	(2%) U

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

Cash flows from operating activities	21,315	15,624	(5,691)	(26.7%) U
Rates and annual charges	452K (F)	Other receipts	1,117K (U)	
User charges and fees	3,535K (F)	Employee benefits and on-costs	2,847K (U)	
Grants and contributions	1,595K (F)	Materials and contracts	5,748K (U)	
Bonds and deposits	1,115K (U)	Other payments	404K (U)	
Cash flows from investing activities	(24,900)	(19,957)	4,943	(19.9%) F
Net Purchase / sale of infrastructure, property, plant and equipment			10,243K (F)	
Net Purchase / sale of investment securities			5,300K (U)	
Cash flows from financing activities	527	1,654	1,127	213.9% F
Variation is due to the 2016/17 loan borrowing of \$1,106K not taken up in 2016/17. Total loan borrowings in 2017/18 included the 2016/17 loan \$1,106K and the 2017/18 loan \$1,853K, whereas the original budget amount is for the 2017/18 loan component only.				

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. 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:

2018	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	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Plant and Equipment	30/06/18	–	–	9,583	9,583
Office Equipment	30/06/18	–	–	522	522
Furniture and Fittings	30/06/18	–	–	126	126
Operational Land	30/06/18	–	–	33,743	33,743
Community Land	30/06/16	–	–	24,169	24,169
Land Under Roads (post 30/6/08)	30/06/14	–	–	395	395
Buildings	30/06/18	–	–	60,704	60,704
Roads	30/06/15	–	–	501,019	501,019
Bridges	30/06/15	–	–	29,588	29,588
Footpaths	30/06/15	–	–	13,896	13,896
Stormwater Drainage	30/06/15	–	–	70,476	70,476
Swimming Pools	30/06/16	–	–	2,717	2,717
Other Open Space / Recreational Assets	30/06/16	–	–	11,184	11,184
Library Books	30/06/14	–	–	1,132	1,132
Other Infrastructure	30/06/16	–	–	4,794	4,794
Total infrastructure, property, plant and equipment		–	–	764,048	764,048

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

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

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	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
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	—	—	36,789	36,789
Community Land	30/06/16	—	—	24,188	24,188
Land Under Roads (post 30/6/08)	30/06/14	—	—	235	235
Buildings	30/06/13	—	—	66,076	66,076
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
Total infrastructure, property, plant and equipment		—	—	725,563	725,563

(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 2018

Note 19. Fair value measurement (continued)

(3) Valuation techniques used to derive level 3 fair values

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

The last valuation was undertaken externally at 30.06.18 by Opeton Solutions. The Market Approach has been used to value Council's operational land. Opteon Solutions used market evidence with adjustment (discount factor) for zoning, location, land size, comparability, utility, etc to value operational land. Although market evidence is an observable input, these adjustment factors are unobservable inputs which have resulted in a significant difference in fair value measurement hence this asset class has been assigned to Level 3 of the fair value hierarchy as per AASB 13 paragraph 75. 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.

Buildings - Non Specialised

The last valuation was undertaken externally at 30 June 2018 by APV Valuers. The Market Approach has been used to value this asset class. APV Valuers have valued non-specialised buildings by obtaining market evidence through the direct comparison approach. Although this is an observable input, unobservable inputs such as asset condition, useful life and estimated pattern of consumption significantly impact on the net carrying value of this asset class in the financial statements. Hence, this asset class has been assigned to Level 3 of the fair value hierarchy. There has been no change to the valuation techniques during the reporting period.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

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

Buildings - Specialised

The last valuation was undertaken internally at 30 June 2018 by Council's asset management staff. The Cost Approach has been used to value specialised buildings. Current replacement cost has been calculated to determine fair value. Key unobservable inputs include current replacement cost of modern equivalent asset, asset condition, useful life and estimated pattern of consumption. This asset class has been assigned to Level 3 of the fair value hierarchy. There has been no change to the valuation techniques 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 Council's schedule of rates tender. 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. 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.

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.

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

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

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.

Other Infrastructure

Assets within this class comprise Council's airport runway.

The 'Cost Approach' using Level 3 inputs was used to value the airport runway. Valuations for the 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 2018

Note 19. Fair value measurement (continued)

\$ '000

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

The following tables present the changes in level 2 & 3 fair value asset classes.

	Plant and other equipment	Land	Buildings	Infra- strucutre	Other Assets	Total
Opening balance – 1/7/16	7,680	61,123	69,770	571,994	1,184	711,751
Transfers from/(to) another asset class	–	–	(4,869)	4,869	–	–
Purchases (GBV)	3,363	89	1,547	15,904	235	21,138
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
Closing balance – 30/6/17	8,204	61,212	66,076	588,880	1,191	725,563
Purchases (GBV)	4,858	160	2,377	42,429	170	49,994
Disposals (WDV)	(1,144)	(485)	(368)	(2,059)	–	(4,056)
Depreciation and impairment	(2,018)	–	(1,901)	(6,619)	(228)	(10,766)
Transfers from WIP	332	–	105	10,243	–	10,680
Revaluation	–	(2,580)	(5,585)	798	–	(7,367)
Closing balance – 30/6/18	10,232	58,307	60,704	633,672	1,133	764,048

(5). Highest and best use

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

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Related party transactions

\$ '000

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:

Compensation:	2018	2017
Short-term benefits	1,192	1,145
Post-employment benefits	107	102
Total	1,299	1,247

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Statement of developer contributions

\$ '000

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

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

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	186	–	–	3	–	–	189	–
Roads	1,322	562	–	25	–	–	1,909	–
Parking	300	–	–	5	–	–	305	–
Open space	314	318	–	7	(99)	–	540	–
Community facilities	1,026	262	–	17	–	–	1,305	–
Tourist facilities	885	275	–	17	(646)	–	531	–
Transport	240	3	–	4	–	–	247	–
Commercial Precincts	–	2	–	–	–	–	2	–
Other	338	133	–	6	(15)	–	462	–
S7.11 contributions – under a plan	4,611	1,555	–	84	(760)	–	5,490	–
Total S7.11 and S7.12 revenue under plans	4,611	1,555	–	84	(760)	–	5,490	–
S7.4 planning agreements	3,769	1,467	–	67	(193)	–	5,110	–
Total contributions	8,380	3,022	–	151	(953)	–	10,600	–

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

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	180	–	–	3	–	–	183	–
Total	180	–	–	3	–	–	183	–

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	39	–	–	1	–	–	40	–
Total	39	–	–	1	–	–	40	–

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	300	–	–	5	–	–	305	–
Total	300	–	–	5	–	–	305	–

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

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	147	–	–	2	–	–	149	–
Roads	936	248	–	16	–	–	1,200	–
Open space	226	315	–	6	(99)	–	448	–
Community facilities	944	259	–	16	–	–	1,219	–
Other	296	87	–	5	(5)	–	383	–
Total	2,549	909	–	45	(104)	–	3,399	–

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	180	300	–	6	–	–	486	–
Tourist facilities	705	275	–	14	(646)	–	348	–
Other	36	46	–	1	(10)	–	73	–
Total	921	621	–	21	(656)	–	907	–

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	206	14	–	3	–	–	223	–
Total	206	14	–	3	–	–	223	–

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

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	–	–	1	–	–	77	–
Community facilities	66	–	–	1	–	–	67	–
Transport	173	–	–	3	–	–	176	–
Other	6	–	–	–	–	–	6	–
Total	321	–	–	5	–	–	326	–

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	12	2	–	–	–	–	14	–
Community facilities	16	2	–	–	–	–	18	–
Transport	67	2	–	1	–	–	70	–
Total	95	6	–	1	–	–	102	–

Site Specific Contributions Plan - Mount View Road Millfield

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	–	1	–	–	–	–	1	–
Community facilities	–	1	–	–	–	–	1	–
Transport	–	1	–	–	–	–	1	–
Total	–	3	–	–	–	–	3	–

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

Section 94A Contributions

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					
Commercial Precincts	–	2	–	–	–	–	2	–
Total	–	2	–	–	–	–	2	–

S7.4 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	2	–	–	–	–	3	–
Roads	177	603	–	7	–	–	787	–
Open space	25	48	–	1	–	–	74	–
Community facilities	3,264	410	–	50	(51)	–	3,673	–
Other	302	404	–	9	(142)	–	573	–
Total	3,769	1,467	–	67	(193)	–	5,110	–

Cessnock City Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000	Amounts 2018	Indicator 2018	Prior periods		Benchmark
			2017	2016	
Local government industry indicators – consolidated					
1. Operating performance ratio					
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>(2,408)</u>	-3.14%	3.97%	-2.94%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	<u>76,649</u>				
2. Own source operating revenue ratio					
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>63,310</u>	52.16%	63.66%	64.08%	> 60.00%
Total continuing operating revenue ⁽¹⁾	<u>121,386</u>				
3. Unrestricted current ratio					
Current assets less all external restrictions ⁽²⁾	<u>28,891</u>	2.66x	2.45x	3.17x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	<u>10,862</u>				
4. Debt service cover ratio					
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>8,402</u>	4.78x	8.11x	5.01x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>1,759</u>				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>825</u>	1.69%	2.04%	2.46%	< 5% metro
Rates, annual and extra charges collectible	<u>48,822</u>				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>37,360</u>	6.35 mths	6.3 mths	6.6 mths	> 3 mths
Payments from cash flow of operating and financing activities /12	<u>5,880</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.

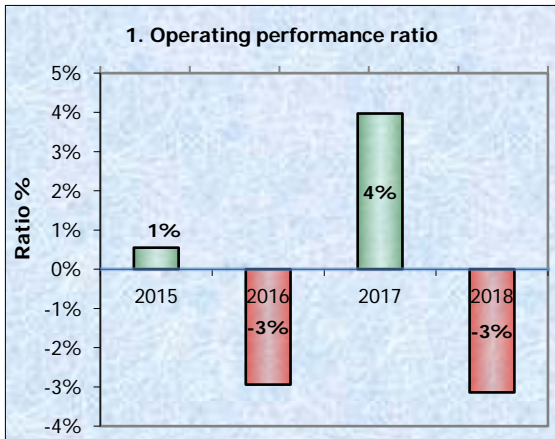
⁽³⁾ Refer to Notes 10 and 11.

⁽⁴⁾ Refer to Note 10(b) and 11(b) – 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 2018

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



Purpose of operating performance ratio

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

Commentary on 2017/18 result

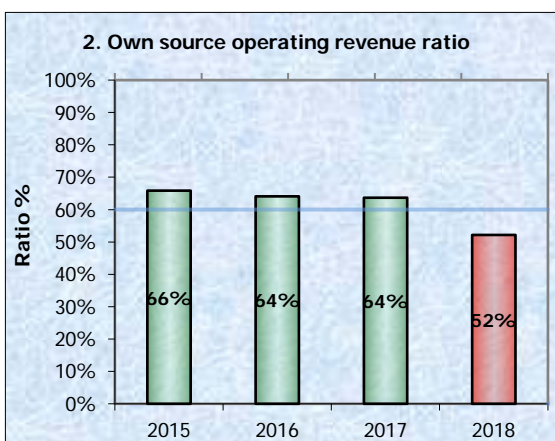
2017/18 ratio -3.14%

This is primarily the result of higher Materials and Contracts expense primarily due to the need to expense capital works expenditure for two assets which are not owned by Council (\$1.34m Whitburn Estate). Higher depreciation is also a contributor due to impairment charge against the Kurri Kurri Ambulance Hall.

Benchmark: — Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

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 2017/18 result

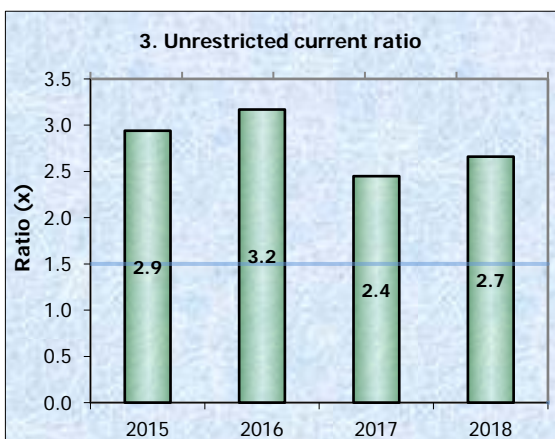
2017/18 ratio 52.16%

Council's dependence on rates, annual charges, user charges and fees compared to other sources of income is relatively high, but this ratio has decreased below the benchmark level due to dedications received from subdivisions.

Benchmark: — Minimum $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

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 2017/18 result

2017/18 ratio 2.66x

This ratio has increased slightly from that in 2016/17. This ratio represents a satisfactory level of working capital.

Benchmark: — Minimum ≥ 1.50

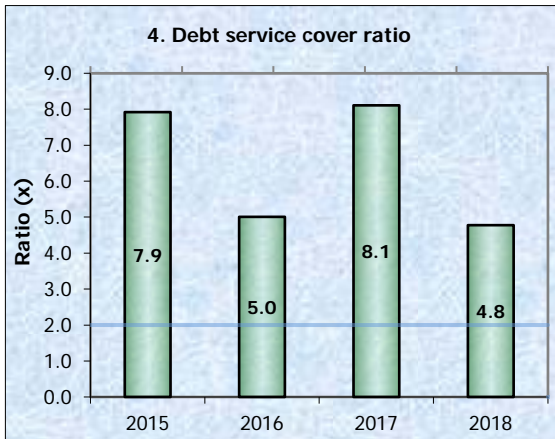
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark

Cessnock City Council

Notes to the Financial Statements for the year ended 30 June 2018

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



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 2017/18 result

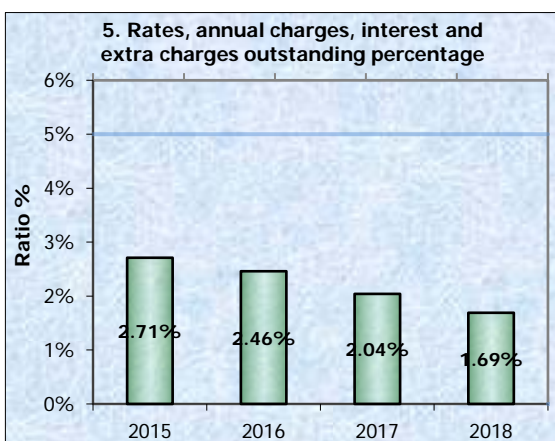
2017/18 ratio 4.78x

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

Benchmark: Minimum >=2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

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 2017/18 result

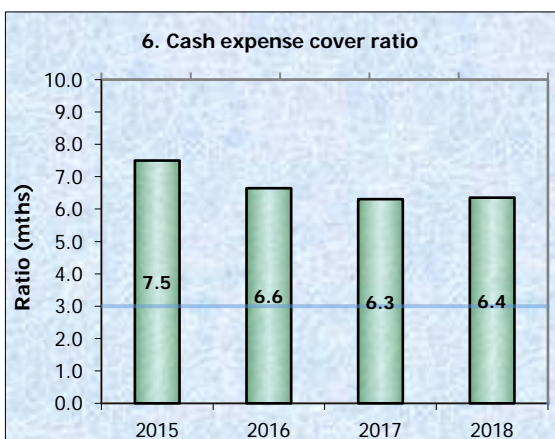
2017/18 ratio 1.69%

A decrease in this ratio in 2017/18 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 #26

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 2017/18 result

2017/18 ratio 6.35 mths

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

Benchmark: Minimum >=3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark

Cessnock City Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 23. Financial review

\$ '000

Key financial figures of Council over the past 5 years

Financial performance figures	Actual 2018	Actual 2017	Actual 2016	Actual 2015	Actual 2014
Inflows:					
Rates and annual charges revenue	47,217	45,979	44,020	42,162	41,263
User charges revenue	13,340	11,577	8,057	7,510	8,767
Interest and investment revenue (losses)	978	1,051	1,515	1,098	1,359
Grants income – operating and capital	13,347	21,552	14,411	10,610	9,759
Total income from continuing operations	121,386	94,802	86,317	79,466	73,172
Sale proceeds from IPP&E	1,498	1,122	1,259	692	807
New loan borrowings and advances	2,960	–	–	–	2,000
Outflows:					
Employee benefits and on-cost expenses	31,586	30,065	29,186	27,084	25,078
Borrowing costs	453	475	552	627	607
Materials and contracts expenses	23,157	20,541	19,841	15,734	16,120
Total expenses from continuing operations	82,023	75,998	74,690	72,004	69,339
Total cash purchases of IPP&E	16,155	25,033	15,526	19,321	15,371
Total loan repayments (incl. finance leases)	1,306	1,152	1,143	1,133	999
Operating surplus/(deficit) (excl. capital income)	(5,374)	86	(5,268)	(3,468)	(4,503)

(The operating surplus for 2018 included the advance payment of the Financial Assistance Grant)

Financial position figures	Actual 2018	Actual 2017	Actual 2016	Actual 2015	Actual 2014
Current assets	43,147	42,053	40,349	39,212	33,418
Current liabilities	17,701	18,114	16,569	17,184	15,473
Net current assets	25,446	23,939	23,780	22,028	17,945
Available working capital (Unrestricted net current assets)	222	(1,717)	(3,511)	(3,277)	(2,775)
Cash and investments – unrestricted	1,451	158	33	1,276	1,333
Cash and investments – internal restrictions	22,095	22,775	24,485	24,909	23,889
Cash and investments – total	39,160	36,539	38,010	37,653	30,823
Total borrowings outstanding (Loans, advances and finance leases)	8,252	6,598	7,750	8,893	10,026
Total value of IPP&E (excl. land and earthwork)	954,806	869,943	847,281	816,789	774,268
Total accumulated depreciation	242,664	193,524	188,771	179,492	133,492
Indicative remaining useful life (as a % of GBV)	75%	78%	78%	78%	83%

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 2018

Note 24. Council information and contact details

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

Email: council@cessnock.nsw.gov.au

Officers

GENERAL MANAGER

Mr Stephen Glen

RESPONSIBLE ACCOUNTING OFFICER

Mr Robert Maginness

PUBLIC OFFICER

Mr Robert Maginness

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

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



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

To the Councillors of the Cessnock City Council

Opinion

I have audited the accompanying financial report of Cessnock City Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, 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 report 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 Report' section of my report.

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

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

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

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

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

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule 2 - Permissible income for general rates.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

The Councillors are responsible for the preparation and fair presentation of the financial report 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 report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 18 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive style with a large initial 'J' and a long, sweeping underline.

James Sugumar
Director

18 October 2018
SYDNEY

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

Contact: James Sugumar
Phone no: 02 9275 7288
Our ref: D1822730/1712

19 October 2018

Dear Councillor Pynsent

**Report on the Conduct of the Audit
Cessnock City Council
Audit for the year ended 30 June 2018**

I issued an unmodified audit opinion in my Independent Auditor's Report for the general purpose financial statements of Cessnock City Council (the Council) for the year ended 30 June 2018.

The audit was required by section 415 of the *Local Government Act 1993* (the Act).






This Report on the Conduct of the Audit is issued in accordance with section 417 of the Act and should be read in conjunction with my audit opinion issued under section 417(2) of the Act.

SIGNIFICANT AUDIT ISSUES AND OBSERVATIONS

I did not identify any significant audit issues or observations during my audit of the Council's general purpose financial statements.

FINANCIAL RESULTS

INCOME STATEMENT

	2018 \$m	2017 \$m	Variation \$m	Variation %
Rates and annual charges revenue	47.2	46.0	+1.2	 2.6
Grants and contributions revenue	58.1	34.4	+23.7	 68.9
Total Revenue	121.4	94.8	+26.6	 28.1
Total Expenses	82.0	76.0	+6.0	 7.9
Operating result for the year	39.4	18.8	+20.6	 109.6

Increase of \$1.2 million in rates and annual charges revenue was mainly due to 1.5 per cent rate rise.

Grants and contributions revenue increase of \$23.7 million is largely attributable to \$32.1 million increase of revenue from assets received free of charge from developers during the year partially offset by \$9.4 million decrease in financial assistance grant revenue.

Movement in Council's total expenses represents:

- increase of \$1.5 million payroll award costs
- rise of \$2.7 million in materials and contract expense due to additional contract work undertaken by the Council.
- waste levy increase of \$1.2 million

Larger increase in revenue in comparison to expense contributed to \$20.6 million growth in the operating result for the year.

BALANCE SHEET

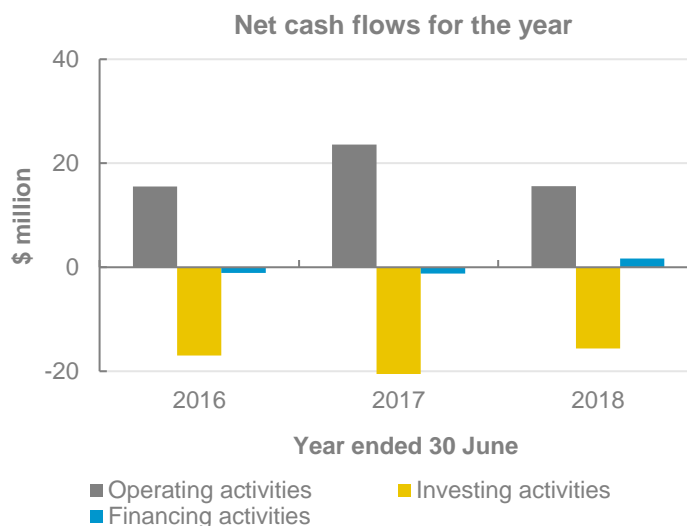
	2018 \$m	2017 \$m	Variation \$m	Variation %
Current assets	43.1	42.1	+1.0	↑ 2.4
Non-current assets	773.5	739.9	+33.6	↑ 4.5
Total Assets	816.7	781.9	+34.8	↑ 4.5
Total Liabilities	40.3	37.6	+2.7	↑ 7.2
Net Assets	776.3	744.3	+32.0	↑ 4.3

Council’s current assets increased by \$1.0 million mainly due to an increase in cash and investments from grant receipts.

Non-current assets increased by \$33.6 million mainly due to the additions of \$32.1 million assets received free of charge recognised at fair value.

CASH FLOWS

- The Council reported positive operating cash flows in the past three years.
- Investing cash outflows represents acquisition of \$16.2 million infrastructure assets and \$5.3 million investment securities for year ended 30 June 2018.
- Increased financing cash inflows represents borrowings of \$1.6 million for year ended 30 June 2018.



CASH POSITION

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	15.6	13.6	Increase in developer contributions by \$2.2 million increased the externally restricted cash at 30 June 2018.
Internal restrictions	22.1	22.8	
Unrestricted	1.5	0.2	Unrestricted cash balance increased to \$1.5 million at 30 June 2018 from positive operating result for the year.
Cash and investments	39.2	36.6	

COUNCIL'S PERFORMANCE RATIOS FOR 30 JUNE 2018

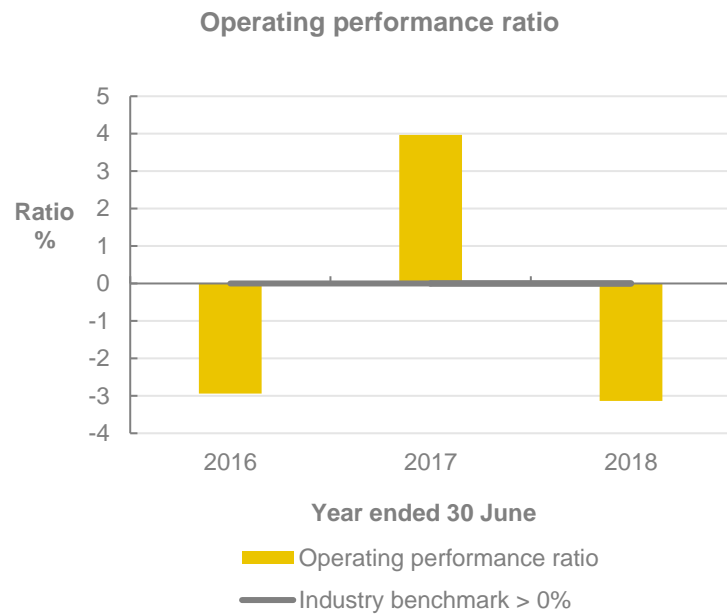
I provide a summary of outcome and an analysis of the Council's key performance ratios for the year ended 30 June 2018 as below:

Performance ratio	Outcome	Reference
Operating performance ratio	Not Achieved	<u>1</u>
Own source operating revenue ratio	Not Achieved	<u>2</u>
Unrestricted current ratio	Achieved	<u>3</u>
Debt service cover ratio	Achieved	<u>4</u>
Rates and annual charges cover ratio	Achieved	<u>5</u>
Cash expense cover ratio	Achieved	<u>6</u>
Building and infrastructure renewals ratio	Not Achieved	<u>7</u>

The ratios and the definitions (except for the 'building and infrastructure renewals ratio') are reported in Note 22 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

1. Operating performance ratio (operating margin to operating revenue)

- Council did not achieve the OLG benchmark for the year ended 30 June 2018.
- It achieved this benchmark for 2016-17 from early receipt of Financial Assistance Grants of \$3.5 million.
- Council's expenses of \$1.6 million on the installation of new drainage infrastructure on New England Highway and \$0.6 million on Kurri Kurri Ambulance Hall due to the storm event, contributed to the negative operating performance ratio.

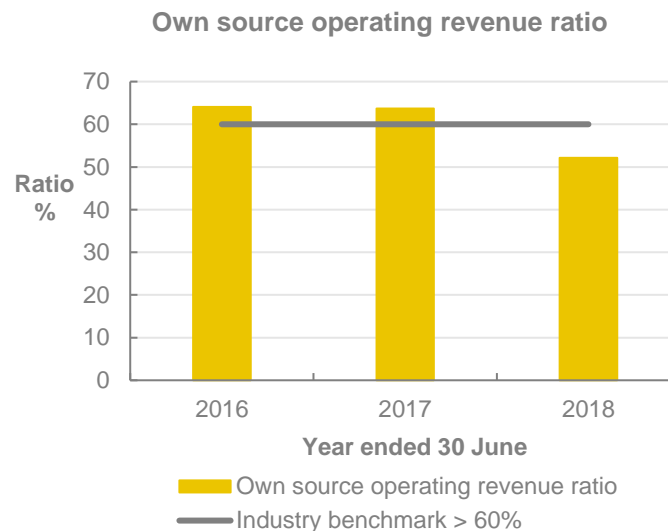


The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements).

The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

2. Own source operating revenue ratio (own funding to total funding)

- Council did not achieve the benchmark of 60 per cent for own source revenue ratio for the year ended 30 June 2018.
- The ratio decreased to below 60 per cent mainly due to non-cash revenue from assets received free of charge.
- It achieved the benchmark in the previous two years.

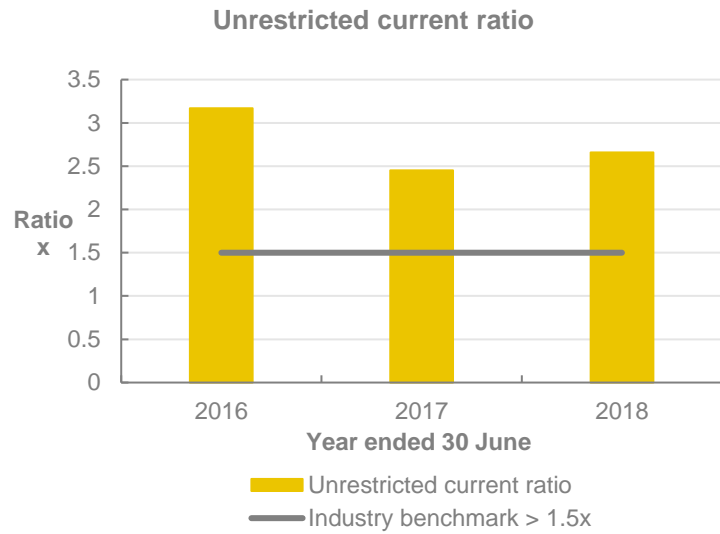


The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions.

The benchmark set by OLG is greater than 60 per cent.

3. Unrestricted current ratio (unrestricted cash to liabilities)

- Council continued to exceed the unrestricted current ratio benchmark for the past three years.
- The Council will be able to meet its short-term obligations as and when they fall due.

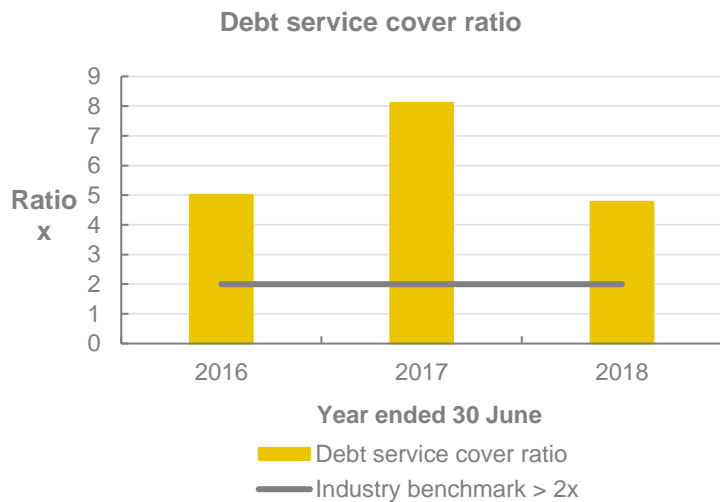


The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due.

The benchmark set by OLG is greater than 1.5 times.

4. Debt service cover ratio (operating cash to loan obligations)

- Council continued to exceed the debt service cover ratio benchmark for the past three years.
- The debt service cover ratio for 2016-17 was higher due to early receipt of Financial Assistance Grants of \$3.5 million.

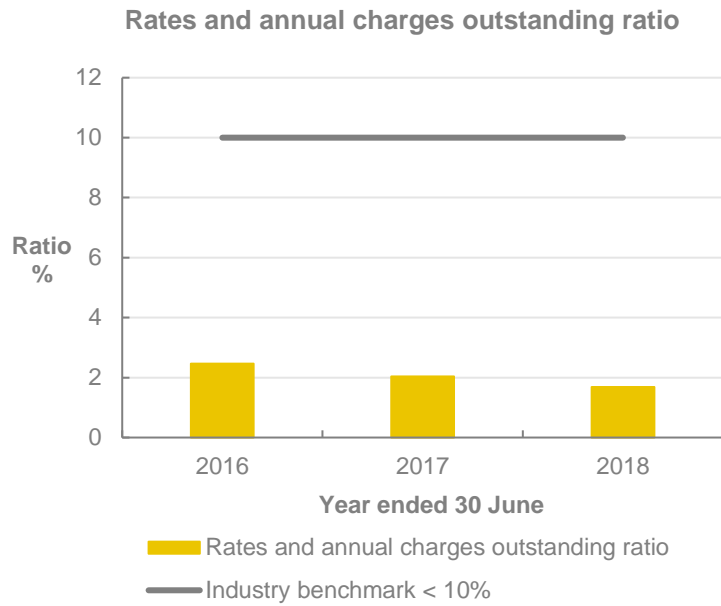


The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments.

The benchmark set by OLG is greater than two times.

5. Rates and annual charges outstanding ratio (uncollected rates to total rates)

- Council continued to achieve the rates and annual charges outstanding ratio benchmark for the past three years.
- The collection procedures of the Council operated effectively to collect more than 90 per cent of the rates and annual charges revenue within the receivable due dates.

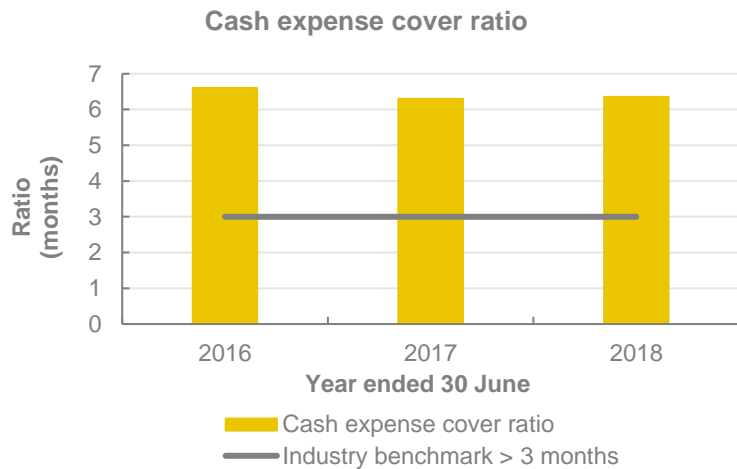


The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts.

The benchmark set by OLG is less than 10 per cent for regional and rural councils.

6. Cash expense cover ratio (cash balance to monthly outgoings)

- Council exceeded the benchmark of three months for the past three years.
- It will be able to meet its immediate expenses for more than six months without additional cash inflows.

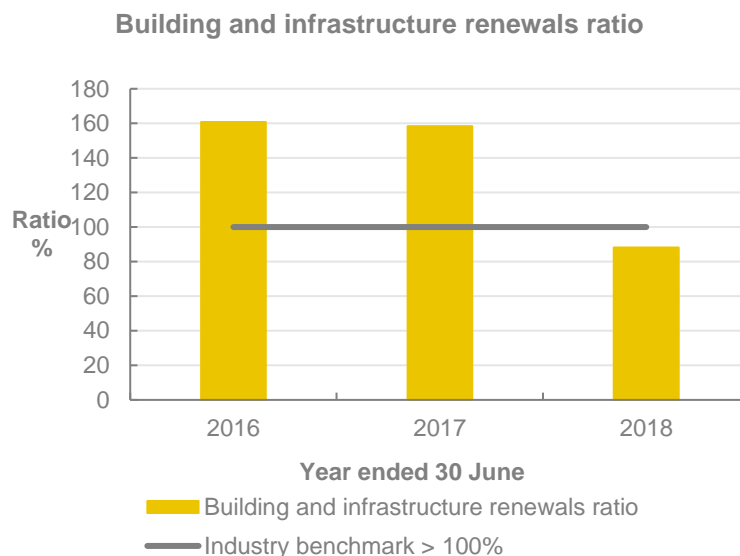


This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow.

The benchmark set by OLG is greater than three months.

7. Building and infrastructure renewals ratio (unaudited)

- Council has not achieved the benchmark for this ratio in 2017–18.
- The building and infrastructure renewals ratio decreased to 88.2 per cent in 2017-18 due to assets received free of charge.



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 council's Special Schedule 7 which has not been audited.

OTHER MATTERS

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.

James Sugumar

James Sugumar
Director, Financial Audit Services

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