

Upper Hunter Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

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

135 Liverpool Street
SCONE NSW 2337

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.upperhunter.nsw.gov.au.

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 28 October 2019.



Wayne Bedgood
Mayor
28 October 2019



Kiwa Fisher
Councillor
28 October 2019



Stephen McDonald
General Manager
28 October 2019



Kristian Enevoldson
Responsible Accounting Officer
28 October 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
16,131	Rates and annual charges	3a	17,732	17,211
12,285	User charges and fees	3b	12,603	12,410
927	Interest and investment revenue	3c	713	902
2,411	Other revenues	3d	1,854	7,829
5,775	Grants and contributions provided for operating purposes	3e,3f	9,444	9,750
28,368	Grants and contributions provided for capital purposes	3e,3f	10,861	7,328
<u>Other income:</u>				
—	Net share of interests in joint ventures and associates using the equity method	15	—	198
65,897	Total income from continuing operations		53,207	55,628
Expenses from continuing operations				
15,928	Employee benefits and on-costs	4a	16,396	15,555
882	Borrowing costs	4b	811	869
8,809	Materials and contracts	4c	10,413	9,426
8,290	Depreciation and amortisation	4d	10,181	7,904
4,659	Other expenses	4e	6,257	6,313
—	Net losses from the disposal of assets	5	1,044	1,216
—	Net share of interests in joint ventures and associates using the equity method	15	30	—
38,568	Total expenses from continuing operations		45,132	41,283
27,329	Operating result from continuing operations		8,075	14,345
27,329	Net operating result for the year		8,075	14,345
27,329	Net operating result attributable to council		8,075	14,345
(1,039)	Net operating result for the year before grants and contributions provided for capital purposes		(2,786)	7,017

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

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

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		8,075	14,345
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9(a)	1,395	2,393
Total items which will not be reclassified subsequently to the operating result		1,395	2,393
Total other comprehensive income for the year		1,395	2,393
Total comprehensive income for the year		9,470	16,738
Total comprehensive income attributable to Council		9,470	16,738

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

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

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	2,573	2,018
Investments	6(b)	19,000	25,500
Receivables	7	6,873	5,872
Inventories	8a	2,990	3,010
Other	8b	381	326
Total current assets		31,817	36,726
Non-current assets			
Infrastructure, property, plant and equipment	9(a)	702,308	685,479
Intangible assets	10	234	234
Investments accounted for using the equity method	15	334	364
Other	8b	97	97
Total non-current assets		702,973	686,174
TOTAL ASSETS		734,790	722,900
LIABILITIES			
Current liabilities			
Payables	11	6,016	3,803
Income received in advance	11	529	405
Borrowings	11	1,190	1,154
Provisions	12	5,708	5,302
Total current liabilities		13,443	10,664
Non-current liabilities			
Borrowings	11	10,741	11,838
Provisions	12	8,050	7,312
Total non-current liabilities		18,791	19,150
TOTAL LIABILITIES		32,234	29,814
Net assets		702,556	693,086
EQUITY			
Accumulated surplus	13a	421,861	413,786
Revaluation reserves	13a	280,695	279,300
Council equity interest		702,556	693,086
Total equity		702,556	693,086

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

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

Statement of Changes in Equity

for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		413,786	279,300	693,086	399,441	276,907	676,348
Restated opening balance		413,786	279,300	693,086	399,441	276,907	676,348
Net operating result for the year		8,075	–	8,075	14,345	–	14,345
Restated net operating result for the period		8,075	–	8,075	14,345	–	14,345
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9(a)	–	1,395	1,395	–	2,393	2,393
Other comprehensive income		–	1,395	1,395	–	2,393	2,393
Total comprehensive income		8,075	1,395	9,470	14,345	2,393	16,738
Equity – balance at end of the reporting period		421,861	280,695	702,556	413,786	279,300	693,086

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

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

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
<u>Receipts</u>				
17,046	Rates and annual charges		17,504	17,225
12,285	User charges and fees		13,360	12,227
927	Investment and interest revenue received		734	800
34,143	Grants and contributions		18,159	14,171
–	Bonds, deposits and retention amounts received		254	41
1,851	Other		5,283	10,924
<u>Payments</u>				
(16,458)	Employee benefits and on-costs		(15,926)	(15,172)
(7,964)	Materials and contracts		(13,596)	(9,335)
(882)	Borrowing costs		(812)	(870)
(5,573)	Other		(6,046)	(5,574)
35,375	Net cash provided (or used in) operating activities	14b	18,914	24,437
Cash flows from investing activities				
<u>Receipts</u>				
–	Sale of investment securities		6,500	1,000
140	Sale of real estate assets		91	107
677	Sale of infrastructure, property, plant and equipment		96	1,095
<u>Payments</u>				
(51,852)	Purchase of infrastructure, property, plant and equipment		(23,986)	(25,341)
–	Purchase of real estate assets		1	(1)
–	Contributions paid to joint ventures and associates		–	(1)
(51,035)	Net cash provided (or used in) investing activities		(17,298)	(23,141)
Cash flows from financing activities				
<u>Receipts</u>				
10,978	Proceeds from borrowings and advances		–	–
<u>Payments</u>				
(1,118)	Repayment of borrowings and advances		(1,037)	(938)
–	Repayment of finance lease liabilities		(24)	(52)
9,860	Net cash flow provided (used in) financing activities		(1,061)	(990)
(5,800)	Net increase/(decrease) in cash and cash equivalents		555	306
2,018	Plus: cash and cash equivalents – beginning of year	14a	2,018	1,712
(3,782)	Cash and cash equivalents – end of the year	14a	2,573	2,018
Additional Information:				
25,500	plus: Investments on hand – end of year	6(b)	19,000	25,500
21,718	Total cash, cash equivalents and investments		21,573	27,518

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

Notes to the Financial Statements

for the year ended 30 June 2019

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 26 August 2019. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not for-profit entity.

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

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

- Income statement
- Statement of cash flows
- Note 19 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

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

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 13.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (ii) estimated tip remediation provisions – refer Note 12
- (iii) employee benefit provisions – refer Note 12.

Significant judgements in applying the council's accounting policies

- (iv) Impairment of receivables

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

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

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General purpose operations
- Water service
- Sewerage service
- Gummun Place Hostel

(b) The Trust Fund

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

Trust monies and property subject to Council's control have been included in these reports.

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

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

Council's assessment of these new standards and interpretations (where they have been deemed as having a material impact on Council's future financial performance, financial position and cash flows) are set out below:

AASB 15 Revenue from Contracts with Customers and associated amending standards.

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

Councils should assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.

The impact of AASB15 is expected to be immaterial on its financial position and results.

AASB 1058 Income of NFP Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives.

Upon initial recognition of the asset, this standard requires council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument, or
- (e) a provision.

If the transaction is a transfer of a financial asset to enable council to acquire or construct a recognisable non-financial asset to be controlled by council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable council to acquire or construct a recognisable non-financial asset to be controlled by council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

The specific impacts of AASB1058 for Council are expected to be immaterial on its financial position and results.

AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities

This Standard provides a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below market terms and conditions, principally to enable the entity to further its objectives (for example, concessionary or peppercorn leases).

The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases

As per a NSW Office of Local Government recommendation, Council has elected to measure right-of-use assets (under a concessionary or peppercorn lease) at cost. The standard requires additional disclosures be provided in relation to below market-value leases measured at cost.

The specific impacts of AASB2018-8 for Council are expected to be immaterial on its financial position and results.

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Governance	–	–	661	627	(661)	(627)	–	–	–	–
Administration	986	1,411	1,976	900	(990)	511	143	37	33,398	40,927
Public order and safety	414	365	1,166	1,261	(752)	(896)	25	25	3,252	3,178
Health	185	186	254	264	(69)	(78)	–	–	–	–
Environment	4,317	3,936	7,142	5,154	(2,825)	(1,218)	98	70	5,646	6,946
Community services and education	3,838	3,734	4,410	4,137	(572)	(403)	1,288	1,165	7,198	7,291
Housing and community amenities	537	724	1,266	1,244	(729)	(520)	83	114	25,648	25,620
Water Supplies	6,381	6,382	4,982	4,351	1,399	2,031	622	279	64,651	62,171
Sewerage Services	3,562	3,158	2,841	2,843	721	315	61	8	48,184	47,033
Recreation and culture	2,575	6,737	4,250	3,978	(1,675)	2,759	2,343	1,550	44,879	42,147
Mining, manufacturing and construction	109	185	441	261	(332)	(76)	–	–	457	475
Transport and communication	12,073	10,965	12,732	13,829	(659)	(2,864)	6,628	6,327	479,047	471,929
Economic affairs	2,668	2,098	2,981	2,434	(313)	(336)	1,419	267	22,430	15,183
Share of gains(losses) in joint ventures	–	198	30	–	(30)	198	–	–	–	–
General purpose revenue	15,562	15,549	–	–	15,562	15,549	5,139	4,808	–	–
Total functions and activities	53,207	55,628	45,132	41,283	8,075	14,345	17,849	14,650	734,790	722,900

Notes to the Financial Statements

for the year ended 30 June 2019

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 and emergency services levy, fire protection, emergency services, beach control, 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); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's services, including family day care; child care; and other family and children services.

Housing and community amenities

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons.

Water Supplies

Provision of Water Supply services to the Shires residents.

Sewerage Services

Provision of Sewerage services to the Shire residents.

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; lakes; and other sporting, recreational and cultural services.

Mining, manufacturing and construction

Includes building control, quarries and pits and mineral resources.

Transport and communication

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

Economic affairs

Notes to the Financial Statements

for the year ended 30 June 2019

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

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; sale yards and markets; real estate development; commercial nurseries; and other business undertakings.

Share of gains(losses) in joint ventures

Share in Strategic Service Australia Pty Ltd under the Hunter Council's Joint Organisation.

General purpose revenue

Includes General rating, financial assistance grant funding and interest revenues.

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	4,272	4,157
Farmland	5,683	5,563
Mining	92	90
Business	597	587
Less: pensioner rebates (mandatory)	(174)	(178)
Rates levied to ratepayers	10,470	10,219
Pensioner rate subsidies received	93	97
Total ordinary rates	10,563	10,316
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	2,390	2,207
Stormwater management services	97	97
Water supply services	1,260	1,250
Sewerage services	2,691	2,631
Waste management services (non-domestic)	153	158
Environmental	106	106
Waste levy	434	406
Other	139	138
Less: pensioner rebates (mandatory)	(217)	(218)
Annual charges levied	7,053	6,775
Pensioner subsidies received:		
– Water	38	40
– Sewerage	36	37
– Domestic waste management	42	43
Total annual charges	7,169	6,895
TOTAL RATES AND ANNUAL CHARGES	17,732	17,211

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

Accounting policy for rates and charges

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

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

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Water supply services	3,630	4,283
Sewerage services	309	333
Total specific user charges	3,939	4,616
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building regulation	96	172
Inspection services	26	24
Private works – section 67	185	187
Regulatory/ statutory fees	42	62
Registration fees	16	17
Section 10.7 certificates (EP&A Act)	79	78
Section 603 certificates	31	36
Town planning	137	210
Total fees and charges – statutory/regulatory	612	786
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	105	101
Aged care	384	368
Caravan park	35	32
Cemeteries	138	111
Child care	2,059	1,866
Fire and emergency services levy (FESL) implementation	–	(28)
Lease rentals	48	29
Library and art gallery	9	9
Park rents	12	10
Refuse and effluent disposal	3	3
RMS (formerly RTA) charges (state roads not controlled by Council)	3,303	2,200
Saleyards	536	869
Sundry sales	64	67
Waste disposal tipping fees	798	882
Water connection fees	185	123
CCS fees	11	14
NSW rural fire services reimbursements	233	271
Public halls	12	11
Sport facilities	117	70
Total fees and charges – other	8,052	7,008
TOTAL USER CHARGES AND FEES	12,603	12,410

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

Accounting policy for user charges and fees

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

(c) Interest and investment revenue (including losses)**Interest on financial assets measured at amortised cost**

– Overdue rates and annual charges (incl. special purpose rates)	111	109
– Cash and investments	599	781
– Other	3	12
TOTAL INTEREST AND INVESTMENT REVENUE	713	902

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

Overdue rates and annual charges (general fund)	111	109
General Council cash and investments	110	55

Restricted investments/funds – external:

Development contributions		
– Section 7.11	8	5
– Section 64	70	85
Water fund operations	206	207
Sewerage fund operations	192	144
Other externally restricted assets	16	36

Restricted investments/funds – internal:

Internally restricted assets	–	261
Total interest and investment revenue	713	902

Accounting policy for interest and investment revenue

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

(d) Other revenues

Rental income – other council properties	301	376
Fines	11	11
Legal fees recovery – rates and charges (extra charges)	43	49
Legal fees recovery – other	2	1
Commissions and agency fees	109	151
Insurance claims recoveries	64	259
Sales – general	1	4
Diesel and other vehicle rebates	133	119
Insurance rebates and incentives	49	43
Sales – scrap metal	77	38
Sales – tourism	19	128
Other – sundry	67	116
Other (RMS Bypass Settlement)	–	4,701
Other (Land and Building assets found and/or corrected)	343	970
Other (Road assets found and/or corrected)	509	863
Other (Water assets found and/or corrected)	126	–
TOTAL OTHER REVENUE	1,854	7,829

Accounting policy for other revenue

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

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

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

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	1,550	1,422	–	–
Financial assistance – local roads component	973	950	–	–
Payment in advance - future year allocation				
Financial assistance – general component	1,607	1,459	–	–
Financial assistance – local roads component	1,009	977	–	–
Total general purpose	5,139	4,808	–	–
Specific purpose				
Water supplies	84	–	537	279
Sewerage services	–	–	61	8
Aged care	748	744	–	–
Bushfire and emergency services	–	80	25	–
Child care	346	331	1	–
Community services	167	149	–	–
Drought communities program	302	–	530	–
Economic development	54	107	1,238	160
Employment and training programs	35	30	–	–
Environmental programs	90	70	8	–
Heritage and cultural	28	62	–	–
Library – per capita	57	62	–	–
Library – special projects	13	19	–	–
LIRS subsidy	95	115	–	–
Recreation and culture	4	–	1,695	1,468
Street lighting	55	54	–	–
Transport (roads to recovery)	752	1,680	–	–
Transport (other roads and bridges funding)	71	–	5,714	4,399
Other (SES sheds)	–	–	–	25
Total specific purpose	2,901	3,503	9,809	6,339
Total grants	8,040	8,311	9,809	6,339
Grant revenue is attributable to:				
– Commonwealth funding	7,289	7,780	3,326	2,882
– State funding	751	531	6,483	3,457
	8,040	8,311	9,809	6,339

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		–	–	83	54
S 7.12 – fixed development consent levies		–	–	174	201
S 64 – water supply contributions		–	–	11	35
S 64 – sewerage service contributions		–	–	13	8
Total developer contributions – cash		–	–	281	298
Total developer contributions	23	–	–	281	298
Other contributions:					
Cash contributions					
Business development		–	6	–	–
Community services		8	17	–	–
Drainage		–	–	117	–
Hostel		–	3	–	–
Kerb and gutter		–	–	–	4
Paving		–	–	14	4
Recreation and culture		43	52	12	–
Roads and bridges		51	18	–	–
RMS contributions (regional roads, block grant)		1,289	1,263	250	200
Sewerage (excl. section 64 contributions)		–	8	141	–
Sustainability		10	–	–	–
Tourism		–	72	–	–
Voluntary Planning Agreement		3	–	–	–
Total other contributions – cash		1,404	1,439	534	208
Non-cash contributions					
Water supply assets – Gifted (excl. sec 64 cont)		–	–	135	250
Building assets - Gifted		–	–	102	–
Land assets – Gifted		–	–	–	233
Total other contributions – non-cash		–	–	237	483
Total other contributions		1,404	1,439	771	691
Total contributions		1,404	1,439	1,052	989
TOTAL GRANTS AND CONTRIBUTIONS		9,444	9,750	10,861	7,328

Accounting policy for grants and contributions

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

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

\$ '000	2019	2018
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(g) Unspent grants and contributions

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

Operating grants

Unexpended at the close of the previous reporting period	83	104
Add: operating grants recognised in the current period but not yet spent	188	57
Add: operating grants received for the provision of goods and services in a future period	–	–
Less: operating grants recognised in a previous reporting period now spent	(75)	(78)
Unexpended and held as restricted assets (operating grants)	196	83

Capital grants

Unexpended at the close of the previous reporting period	381	1,895
Add: capital grants recognised in the current period but not yet spent	1,116	206
Add: capital grants received for the provision of goods and services in a future period	–	–
Less: capital grants recognised in a previous reporting period now spent	(103)	(1,720)
Unexpended and held as restricted assets (capital grants)	1,394	381

Contributions

Unexpended at the close of the previous reporting period	3,733	3,536
Add: contributions recognised in the current period but not yet spent	358	220
Add: contributions received for the provision of goods and services in a future period	–	–
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate	–	–
Less: contributions recognised in a previous reporting period now spent	(100)	(23)
Unexpended and held as restricted assets (contributions)	3,991	3,733

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	14,304	13,222
Travel expenses	40	18
Employee leave entitlements (ELE)	2,221	2,127
Superannuation	1,550	1,528
Workers' compensation insurance	362	627
Fringe benefit tax (FBT)	53	42
Training costs (other than salaries and wages)	330	372
Protective clothing	50	47
Other	82	73
Total employee costs	18,992	18,056
Less: capitalised costs	(2,596)	(2,501)
TOTAL EMPLOYEE COSTS EXPENSED	16,396	15,555
Number of 'full-time equivalent' employees (FTE) at year end	212	203
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)	218	218

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 17 for more information.

\$ '000	Notes	2019	2018
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		798	845
Charges relating to finance leases		–	20
Total interest bearing liability costs expensed		798	865
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Remediation liabilities	12	3	(1)
Change in present value of tips and quarries		10	5
Total other borrowing costs		13	4
TOTAL BORROWING COSTS EXPENSED		811	869

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

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.

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	8,802	8,813
Contractor and consultancy costs	21,722	17,420
– Waste services	1,772	1,401
Auditors remuneration ²	79	77
Legal expenses:		
– Legal expenses: planning and development	19	35
– Legal expenses: debt recovery	85	81
– Legal expenses: other	72	29
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	43	25
Total materials and contracts	32,594	27,881
Less: capitalised costs	(22,181)	(18,455)
TOTAL MATERIALS AND CONTRACTS	10,413	9,426

Accounting policy for operating leases

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

1. Operating lease payments are attributable to:

Buildings	30	17
Computers and communication equipment	13	8
	43	25

2. Auditor remuneration

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

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

Audit and review of financial statements	65	66
Remuneration for audit and other assurance services	65	66
Total Auditor-General remuneration	65	66

Non NSW Auditor-General audit firms**(i) Audit and other assurance services**

Audit and review of financial statements: Council's Auditor	9	7
Other services	1	1
Other audit and assurance services (ARIC)	4	3
Remuneration for audit and other assurance services	14	11
Total remuneration of non NSW Auditor-General audit firms	14	11

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
Total Auditor remuneration	79	77

\$ '000	Notes	2019	2018
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(d) Depreciation, amortisation and impairment of intangible assets and IPP&E

Depreciation and amortisation

Plant and equipment	1,742	1,797
Office equipment	90	92
Furniture and fittings	77	69

Infrastructure:

– Buildings – non-specialised	16	17
– Buildings – specialised	1,082	783
– Other structures	38	37
– Roads	2,207	2,203
– Bridges	168	169
– Footpaths	33	33
– Stormwater drainage	112	112
– Water supply network	1,062	1,006
– Sewerage network	950	974
– Swimming pools	152	150
– Other open space/recreational assets	257	297
– Ancillary infrastructure	373	365

Other assets:

– Other	14	11
– Right to use asset	117	101

Reinstatement, rehabilitation and restoration assets:

– Waste disposal assets	9(a), 12	2,035	–
– Quarry assets	9(a), 12	15	20

Total gross depreciation and amortisation costs

	10,540	8,236
Less: capitalised costs	(359)	(332)
Total depreciation and amortisation costs	10,181	7,904

TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E

	10,181	7,904
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Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPP&E**Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets and Note 10 for intangible assets.

Depreciation is capitalised where in-house assets have contributed to new assets.

Impairment of non-financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

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

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

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

\$ '000	2019	2018
(e) Other expenses		
Advertising	163	144
Bad and doubtful debts	95	26
Bank charges	67	71
Child carer – carers payments	646	526
Cleaning	20	17
Computer software charges	451	378
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	20	54
– NSW fire brigade levy	68	69
– NSW rural fire service levy	433	446
– Roads and maritime services	131	139
– State water	77	59
– Upper Hunter Weeds Authority	178	175
– Waste levy	857	1,365
– Other contributions/levies	39	41
Councillor expenses – mayoral fee	38	37
Councillor expenses – councillors' fees	95	92
Councillors' expenses (incl. mayor) – other (excluding fees above)	39	34
Donations, contributions and assistance to other organisations (Section 356)	166	196
– Donations and contributions to regional library	107	76
Electricity and heating	916	786
Insurance	709	665
Office expenses (including computer expenses)	73	81
Postage	75	54
Printing and stationery	84	85
Street lighting	304	277
Subscriptions and publications	115	131
Telephone and communications	256	227
Tourism expenses (excluding employee costs)	–	2
Valuation fees	81	67
Total other expenses	6,303	6,320
Less: capitalised costs	(46)	(7)
TOTAL OTHER EXPENSES	6,257	6,313

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Proceeds from disposal – property		–	503
Less: carrying amount of property assets sold/written off		–	(252)
Net gain/(loss) on disposal		–	251
Plant and equipment			
	9(a)		
Proceeds from disposal – plant and equipment		96	592
Less: carrying amount of plant and equipment assets sold/written off		(107)	(589)
Net gain/(loss) on disposal		(11)	3
Infrastructure			
	9(a)		
Less: carrying amount of infrastructure assets sold/written off		(1,110)	(1,552)
Net gain/(loss) on disposal		(1,110)	(1,552)
Real estate assets held for sale			
	8		
Proceeds from disposal – real estate assets		91	107
Less: carrying amount of real estate assets sold/written off		(14)	(25)
Net gain/(loss) on disposal		77	82
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,044)	(1,216)

Accounting policy for disposal of assets

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

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

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	2,573	2,018
Total cash and cash equivalents	2,573	2,018

Accounting policy for cash and cash equivalents

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	19,000	–	25,500	–
Total Investments	19,000	–	25,500	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	21,573	–	27,518	–
Financial assets at amortised cost / held to maturity (2018)				
Interest bearing deposits	19,000	–	25,500	–
Total	19,000	–	25,500	–

Accounting policy for investments

Accounting policy under AASB 9 – applicable from 1 July 2018

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Classification

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

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

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

(b) Held to maturity investments

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

(c) 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.

(d) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

Recognition and de-recognition

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

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

Impairment of financial assets

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

Impairment of available for sale investments

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

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	21,573	–	27,518	–
attributable to:				
External restrictions	21,573	–	18,102	–
Internal restrictions	–	–	9,383	–
Unrestricted	–	–	33	–

continued on next page ...

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Notes to the Financial Statements

for the year ended 30 June 2019

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

	21,573	–	27,518	–
\$ '000		2019		2018
Details of restrictions				
External restrictions – included in liabilities				
Hostel		488		190
External restrictions – included in liabilities		488		190
External restrictions – other				
Developer contributions – general		393		228
Developer contributions – water fund		1,415		1,377
Developer contributions – sewer fund		2,183		2,128
Specific purpose unexpended grants		1,590		464
Water supplies		8,048		7,282
Sewerage services		7,414		6,338
Domestic waste management		–		51
Other contributions		6		6
Other		36		38
External restrictions – other		21,085		17,912
Total external restrictions		21,573		18,102
Internal restrictions				
Plant and vehicle replacement		–		903
Infrastructure replacement		–		272
Employees leave entitlement		–		1,820
Carry over works		–		83
Deposits, retentions and bonds		–		17
Aerodrome refurbishment		–		40
Aged care – Liverpool Lodge		–		118
Aged hostel		–		302
Aged care – ILU's Merriwa		–		48
Childrens sports promotions		–		21
Community services		–		281
Computer replacement		–		192
Council buildings		–		445
Council depots		–		144
Council elections		–		55
Cultural		–		10
Economic promotion		–		4
Financial and asset management		–		19
Financial assistance grants in advance		–		2,436
Medical centres		–		97
Office equipment		–		9
Other waste		–		123
Parks and sports facilities		–		762
Quarries		–		307
Roadworks and bridges		–		286
Street lighting		–		46
Town planning		–		107
Tourism projects		–		15

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Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019	2018
Town revitalisation	–	421
Total internal restrictions	–	9,383
TOTAL RESTRICTIONS	21,573	27,485

Upper Hunter Shire Council has notified the former Office of Local Government / Minister of inadvertently using externally restricted funds to the value of \$380,000. The funds were utilised without requesting Ministerial approval.

The funds were used to assist with major capital infrastructure works undertaken during the year and extending post 30 June 2019. Council had anticipated the receipt of loan facilities before 30 June 2019, however, the loan proceeds were not received until 2nd August 2019.

Upon the receipt of the loan, Council reinstated the external restrictions to their required value.

Please refer to Note 22 - Events occurring after reporting date for details surrounding the nil values held in Internal Restricted Assets.

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	1,364	–	1,119	–
Interest and extra charges	216	–	180	–
User charges and fees	1,834	–	1,788	–
Private works	31	–	81	–
Contributions to works	34	–	24	–
Accrued revenues				
– Interest on investments	341	–	398	–
Government grants and subsidies	2,724	–	1,685	–
Insurance claim settlement proceeds	30	–	339	–
Net GST receivable	494	–	309	–
Wages advance	32	–	35	–
Other debtors	19	–	64	–
Total	7,119	–	6,022	–
Less: provision of impairment				
Rates and annual charges	(20)	–	(20)	–
User charges and fees	(103)	–	(40)	–
Other debtors	(123)	–	(90)	–
Total provision for impairment – receivables	(246)	–	(150)	–
TOTAL NET RECEIVABLES	6,873	–	5,872	–

Externally restricted receivables

Water supply

– Specific purpose grants	76	–	43	–
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
– Rates and availability charges	112	–	85	–
– Other	743	–	766	–
Sewerage services				
– Specific purpose grants	14	–	8	–
– Rates and availability charges	231	–	184	–
– Other	37	–	66	–
Other				
– Hostel	26	–	29	–
Total external restrictions	1,239	–	1,181	–
Unrestricted receivables	5,634	–	4,691	–
TOTAL NET RECEIVABLES	6,873	–	5,872	–

\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	150	161
+ new provisions recognised during the year	96	25
– amounts already provided for and written off this year	–	(36)
Balance at the end of the period	246	150

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 5 years past due, whichever occurs first.

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

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

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

Rates and annual charges outstanding are secured against the property.

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	2,174	–	2,189	–
Stores and materials	805	–	795	–
Other	11	–	26	–
Total inventories at cost	2,990	–	3,010	–
TOTAL INVENTORIES	2,990	–	3,010	–
(b) Other assets				
Prepayments	287	–	220	–
Other (Right to use leased assets)	94	97	106	97
TOTAL OTHER ASSETS	381	97	326	97

Externally restricted assets

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Water				
Stores and materials	614	–	335	–
Prepayments	18	–	236	–
Total water	632	–	571	–
Sewerage				
Stores and materials	120	–	75	–
Total sewerage	120	–	75	–
Other				
Prepayments	6	–	3	–
Total other	6	–	3	–

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total externally restricted assets	758	–	649	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	2,613	97	2,687	97
TOTAL INVENTORIES AND OTHER ASSETS	3,371	97	3,336	97

(i) Other disclosures

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Details for real estate development					
Residential		1,655	–	1,670	–
Industrial/commercial		519	–	519	–
Total real estate for resale		2,174	–	2,189	–
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		660	–	663	–
Development costs		1,514	–	1,526	–
Total costs		2,174	–	2,189	–
Total real estate for resale		2,174	–	2,189	–
Movements:					
Real estate assets at beginning of the year		2,189	–	2,213	–
– Purchases and other costs		(1)	–	–	–
– WDV of sales (expense)	5	(14)	–	(25)	–
– Other		–	–	1	–
Total real estate for resale		2,174	–	2,189	–

(b) Current assets not anticipated to be settled within the next 12 months

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

The following inventories and other assets, even though classified as current are not expected to be recovered in the next 12 months;

\$ '000	2019	2018
Real estate for resale	1,800	1,500
	<u>1,800</u>	<u>1,500</u>

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

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

Land held for resale/capitalisation of borrowing costs

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	as at 30/6/2018			Asset movements during the reporting period								as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)		Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	11,470	—	11,470	3,432	11,085	—	—	(10,561)	—	—		15,426	—	15,426
Plant and equipment	18,752	(8,897)	9,855	—	1,867	(106)	(1,742)	—	—	—		20,437	(10,563)	9,874
Office equipment	1,051	(843)	208	—	19	—	(90)	—	—	—		1,070	(933)	137
Furniture and fittings	1,027	(420)	607	—	111	—	(77)	75	—	—		1,213	(497)	716
Land:														
– Operational land	10,185	—	10,185	—	—	—	—	—	—	—		10,185	—	10,185
– Community land	5,244	—	5,244	—	—	—	—	—	—	—		5,244	—	5,244
– Crown Land	3,990	—	3,990	—	—	—	—	—	343	—		4,333	—	4,333
– Land under roads (post 30/6/08)	85	—	85	—	—	—	—	—	—	—		85	—	85
Infrastructure:														
– Buildings – non-specialised	793	(17)	776	—	—	—	(16)	—	—	—		793	(33)	760
– Buildings – specialised	54,200	(15,798)	38,402	514	149	—	(1,082)	370	—	—		55,233	(16,880)	38,353
– Other structures	1,786	(225)	1,561	20	108	—	(38)	42	—	—		1,957	(264)	1,693
– Roads	247,992	(29,118)	218,874	3,317	242	(914)	(2,207)	4,302	423	—		254,809	(30,772)	224,037
– Bridges	61,031	(2,302)	58,729	94	—	—	(168)	—	—	—		61,125	(2,470)	58,655
– Footpaths	6,984	(310)	6,674	—	105	—	(33)	—	—	—		7,090	(344)	6,746
– Bulk earthworks (non-depreciable)	175,009	—	175,009	170	343	—	—	1,030	86	—		176,638	—	176,638
– Stormwater drainage	25,144	(2,573)	22,571	37	—	—	(112)	—	—	—		25,182	(2,686)	22,496
– Water supply network	89,138	(39,114)	50,024	517	276	(186)	(1,062)	48	126	800		91,011	(40,468)	50,543
– Sewerage network	70,445	(33,289)	37,156	33	—	—	(950)	—	—	595		71,605	(34,771)	36,834
– Swimming pools	8,860	(4,540)	4,320	46	—	—	(152)	—	—	—		8,907	(4,693)	4,214
– Other open space/recreational assets	13,400	(3,305)	10,095	930	1,779	(10)	(257)	4,694	—	—		20,716	(3,485)	17,231
– Ancillary infrastructure	17,465	(3,313)	14,152	84	119	—	(373)	—	—	—		17,667	(3,686)	13,981
Other assets:														
– Library books	829	(829)	—	—	—	—	—	—	—	—		829	(829)	—
– Other	267	(200)	67	—	20	—	(14)	—	—	—		286	(213)	73
Reinstatement, rehabilitation and restoration assets (refer Note 14):														
– Tip assets	6,513	(1,154)	5,359	—	—	—	(2,035)	—	682	—		7,195	(3,189)	4,006
– Quarry assets	582	(516)	66	—	—	—	(15)	—	(3)	—		592	(544)	48
Total Infrastructure, property, plant and equipment	832,242	(146,763)	685,479	9,194	16,223	(1,216)	(10,423)	—	1,657	1,395		859,628	(157,320)	702,308

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

\$ '000	as at 30/6/2017			Asset movements during the reporting period										as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Present Value Restatement	Tfrs from/to asset categories	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	3,842	—	3,842	4,945	5,012	—	—	(2,329)	—	—	—	—	—	11,470	—	11,470

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Notes to the Financial Statements

for the year ended 30 June 2019

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

	as at 30/6/2017			Asset movements during the reporting period										as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Present Value Restatement	Tfrs from/to asset categories	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000																
Plant and equipment	17,694	(7,804)	9,890	–	2,351	(589)	(1,797)	–	–	–	–	–	–	18,752	(8,897)	9,855
Office equipment	1,001	(751)	250	–	33	–	(92)	17	–	–	–	–	–	1,051	(843)	208
Furniture and fittings	949	(351)	598	–	78	–	(69)	–	–	–	–	–	–	1,027	(420)	607
Land:																
– Operational land	12,114	–	12,114	–	240	(107)	–	–	850	–	(1,314)	(1,598)	–	10,185	–	10,185
– Community land	8,013	–	8,013	–	–	(93)	–	–	–	–	(2,676)	–	–	5,244	–	5,244
– Land under roads (post 30/6/08)	85	–	85	–	–	–	–	–	–	–	–	–	–	85	–	85
– Crown Land	–	–	–	–	–	–	–	–	–	–	3,990	–	–	3,990	–	3,990
Infrastructure:																
– Buildings – non-specialised	773	(61)	712	–	–	–	(17)	–	–	–	191	–	81	793	(17)	776
– Buildings – specialised	47,678	(8,827)	38,851	403	105	(52)	(783)	77	120	–	(197)	(510)	–	54,200	(15,798)	38,402
– Other structures	1,983	(188)	1,795	–	–	–	(37)	–	–	–	–	–	–	1,786	(225)	1,561
– Roads	244,036	(27,452)	216,584	2,604	–	(1,198)	(2,203)	1,651	1,436	–	–	–	–	247,992	(29,118)	218,874
– Bridges	60,267	(2,224)	58,043	1,051	–	(260)	(169)	64	–	–	–	–	–	61,031	(2,302)	58,729
– Footpaths	6,898	(286)	6,612	118	–	(23)	(33)	–	–	–	–	–	–	6,984	(310)	6,674
– Bulk earthworks (non-depreciable)	173,373	–	173,373	2,209	–	–	–	–	(573)	–	–	–	–	175,009	–	175,009
– Stormwater drainage	24,732	(2,515)	22,217	206	–	(38)	(112)	127	–	–	–	–	171	25,144	(2,573)	22,571
– Water supply network	82,401	(37,114)	45,287	1,015	624	(27)	(1,006)	177	–	–	–	–	3,954	89,138	(39,114)	50,024
– Sewerage network	68,771	(31,430)	37,341	481	–	–	(974)	13	–	–	–	–	295	70,445	(33,289)	37,156
– Swimming pools	8,794	(4,390)	4,404	66	–	–	(150)	–	–	–	–	–	–	8,860	(4,540)	4,320
– Other open space/recreational assets	13,281	(3,040)	10,241	5	–	(6)	(297)	152	–	–	–	–	–	13,400	(3,305)	10,095
– Ancillary infrastructure	17,366	(2,948)	14,418	62	31	–	(365)	–	–	–	6	–	–	17,465	(3,313)	14,152
Other assets:																
– Library books	829	(829)	–	–	–	–	–	–	–	–	–	–	–	829	(829)	–
– Other	225	(189)	36	–	42	–	(11)	–	–	–	–	–	–	267	(200)	67
Reinstatement, rehabilitation and restoration assets (refer Note 14):																
– Tip assets	1,386	(1,154)	232	–	–	–	–	–	–	5,127	–	–	–	6,513	(1,154)	5,359
– Quarry assets	583	(492)	91	–	–	–	(20)	–	–	(5)	–	–	–	582	(516)	66
Total Infrastructure, property, plant and equipment	797,074	(132,045)	665,029	13,165	8,516	(2,393)	(8,135)	(51)	1,833	5,122	–	(2,108)	4,501	832,242	(146,763)	685,479

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

Land is not depreciated. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Council will obtain ownership at the end of the lease term. 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	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk Earthworks	Infinite
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Unsealed roads	20
Bridge: concrete	100	Other open space/recreational assets	20
Bridge: other	50	Other infrastructure	20
Road pavements	60		
Kerb, gutter and footpaths	40		

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

Land under roads

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

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

Currently Council Recognises the Rural Fire Service land and buildings, however until such time as discussions on this matter have concluded and the legislation changed, Council will not recognise the rural fire services other assets which included its equipment, plant and vehicles as it considers that it does not have effective control of these assets.

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

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	1,674	–	1,674	915	–	915
Land						
– Operational land	1,111	–	1,111	1,111	–	1,111
Infrastructure	91,011	40,469	50,542	89,139	39,116	50,023
Total water supply	93,796	40,469	53,327	91,165	39,116	52,049
Sewerage services						
WIP	464	–	464	144	–	144
Land						
– Operational land	947	–	947	946	–	946
Infrastructure	71,606	34,771	36,835	70,445	33,289	37,156
Total sewerage services	73,017	34,771	38,246	71,535	33,289	38,246
Other restricted assets						
Furniture and fittings	235	121	114	222	101	121
– Operational land	85	–	85	85	–	85
Buildings	2,233	652	1,581	2,234	612	1,622
Other structures	28	3	25	28	2	26
Total other restrictions	2,581	776	1,805	2,569	715	1,854
TOTAL RESTRICTED I,PP&E	169,394	76,016	93,378	165,269	73,120	92,149

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Intangible assets

\$ '000	2019	2018
Intangible assets are as follows:		
Opening values at 1 July		
Gross book value	234	234
Net book value – opening balance	<u>234</u>	<u>234</u>
Movements for the year		
Closing values at 30 June		
Gross book value	234	234
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u>	<u>234</u>	<u>234</u>
The net book value of intangible assets represents:		
– Water entitlements	234	234
	<u>234</u>	<u>234</u>

Note 11. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	1,674	–	1,350	–
Goods and services – capital expenditure	1,997	–	1,218	–
Accrued expenses:				
– Borrowings	11	–	12	–
– Salaries and wages	441	–	393	–
– Other expenditure accruals	1,332	–	501	–
Advances	–	–	21	–
Security bonds, deposits and retentions	56	–	87	–
Retirement home contributions	488	–	190	–
Other	17	–	31	–
Total payables	<u>6,016</u>	<u>–</u>	<u>3,803</u>	<u>–</u>
Income received in advance				
Payments received in advance	529	–	405	–
Total income received in advance	<u>529</u>	<u>–</u>	<u>405</u>	<u>–</u>
Borrowings				
Loans – secured ¹	1,095	10,644	1,035	11,741
Lease liabilities	95	97	119	97
Total borrowings	<u>1,190</u>	<u>10,741</u>	<u>1,154</u>	<u>11,838</u>
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>7,735</u>	<u>10,741</u>	<u>5,362</u>	<u>11,838</u>

(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 20.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	715	3,256	501	3,430
Sewer	118	—	181	—
Aged hostel	487	—	190	—
Payables and borrowings relating to externally restricted assets	1,320	3,256	872	3,430
Internally restricted assets				
Aged hostel	235	1	191	10
Payables and borrowings relating to internally restricted assets	235	1	191	10
Total payables and borrowings relating to restricted assets	1,555	3,257	1,063	3,440
Total payables and borrowings relating to unrestricted assets	6,180	7,484	4,299	8,398
<u>TOTAL PAYABLES AND BORROWINGS</u>	7,735	10,741	5,362	11,838

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

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

Payables – security bonds, deposits and retentions	13	13
Other liabilities: (funds held, rate payments in adv. > 1)	30	40
Total payables and borrowings	43	53

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/6/2018			Non-cash fair value changes	Other non-cash movements	as at 30/6/2019	
	Opening Balance	Cash flows	Non-cash acquisitions			Closing balance	
Loans – secured	12,776	(1,037)	—	—	—	11,739	
Finance lease liabilities	216	(24)	—	—	—	192	
TOTAL	12,992	(1,061)	—	—	—	11,931	

\$ '000	as at 30/6/2017			Non-cash fair value changes	Other non-cash movements	as at 30/6/2018	
	Opening Balance	Cash flows	Non-cash acquisitions			Closing balance	

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings (continued)

\$ '000	as at 30/6/2017		Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	as at 30/6/2018	
	Opening Balance	Cash flows				Closing balance	
Loans – secured	13,714	(938)	–	–	–	12,776	
Finance lease liabilities	66	(52)	–	–	202	216	
TOTAL	13,780	(990)	–	–	202	12,992	

\$ '000	2019	2018
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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	600	600
Credit cards/purchase cards	20	20
Master lease facilities	94	14
Total financing arrangements	714	634

Drawn facilities as at balance date:

– Lease facilities	94	14
Total drawn financing arrangements	94	14

Undrawn facilities as at balance date:

– Bank overdraft facilities	600	600
– Credit cards/purchase cards	20	20
Total undrawn financing arrangements	620	620

Additional financing arrangements information

Breaches and defaults

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

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings (continued)

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

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

Finance leases

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

Note 12. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	1,663	–	1,534	–
Sick leave	48	–	43	–
Long service leave	3,420	242	3,071	195
Accrued time	49	–	50	–
ELE on-costs	528	22	604	22
Sub-total – aggregate employee benefits	5,708	264	5,302	217
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	7,786	–	7,095
Sub-total – asset remediation/restoration	–	7,786	–	7,095
<u>TOTAL PROVISIONS</u>	<u>5,708</u>	<u>8,050</u>	<u>5,302</u>	<u>7,312</u>

(a) Provisions relating to restricted assets

Externally restricted assets

Water	299	5	271	2
Sewer	299	5	271	2
Provisions relating to externally restricted assets	598	10	542	4

Internally restricted assets

Other (Aged Hostel)	143	15	134	10
Provisions relating to internally restricted assets	143	15	134	10

Total provisions relating to restricted assets

	741	25	676	14
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Total provisions relating to unrestricted assets

	4,967	8,025	4,626	7,298
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TOTAL PROVISIONS

	<u>5,708</u>	<u>8,050</u>	<u>5,302</u>	<u>7,312</u>
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions (continued)

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

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

Provisions – employees benefits	3,995	3,513
	3,995	3,513

(c) Description of and movements in provisions

\$ '000	ELE provisions					Total
	Annual leave	Sick leave	Long service leave	ELE on-costs	Other employee benefits	
2019						
At beginning of year	1,534	43	3,266	626	50	5,519
Additional provisions	1,091	1	449	–	13	1,554
Amounts used (payments)	(1,008)	–	(324)	(76)	(15)	(1,423)
Remeasurement effects	46	4	271	–	1	322
Total ELE provisions at end of period	1,663	48	3,662	550	49	5,972
2018						
At beginning of year	1,520	42	3,062	491	43	5,158
Additional provisions	1,007	–	443	135	13	1,598
Amounts used (payments)	(1,028)	–	(296)	–	(7)	(1,331)
Remeasurement effects	35	1	57	–	1	94
Total ELE provisions at end of period	1,534	43	3,266	626	50	5,519

\$ '000	Other provisions	
	Asset remediation	Total
2019		
At beginning of year	7,095	7,095
Other	691	691
Total other provisions at end of period	7,786	7,786
2018		
At beginning of year	1,969	1,969
– Revised costs	5,127	5,127
Unwinding of discount	(1)	(1)
Total other provisions at end of period	7,095	7,095

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. 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.

On-costs

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

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

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

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

Restoration

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

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

Rehabilitation

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions (continued)

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

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

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

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

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

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

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

Fair value through other comprehensive income reserve (FVOCI)

Changes in the fair value of financial assets are taken through the fair value through other comprehensive income revaluation reserve. The accumulated changes in fair value are transferred to profit or loss when the financial asset is derecognised or impaired.

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

Nature of prior-period error

There were no corrections to accumulated surpluses or reserves during the year.

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

– AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.

– AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

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

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

Classification of financial assets

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

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

Measurement of equity instruments

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

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

Impairment of financial assets

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

Transition adjustments

The impacts to reserves and retained earnings on adoption of AASB 9 at 1 July 2018 are not material.

	Available for sale invest- ment revaluation reserve	FVOCI reserve	Retained earnings	Non- controlling interests	Total
\$ '000					

Transition adjustments

The table below illustrates the classification and measurement of financial assets and liabilities under AASB 9 and AASB 139 at 1 July 2018.

	Classific- ation under AASB 139	Classific- ation under AASB 9	Carrying amount under AASB 139	Reclassi- fication	Remeasu- rements	Carrying amount under AASB 9
\$ '000						
Financial assets						
Trade and Other Receivables	Loans and receivables	Amortised Cost	6,873	–	–	6,873
Cash and cash equivalents	Loans and receivables	Amortised Cost	2,573	–	–	2,573

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Classific- ation under AASB 139	Classific- ation under AASB 9	Carrying amount under AASB 139	Reclassi- fication	Remeasu- rements	Carrying amount under AASB 9
Term Deposits	Held to maturity	Amortised Cost	19,000	–	–	19,000
Total financial assets under AASB 9 at 1 July 2018			28,446	–	–	28,446
Financial liabilities						
Secured bank loans	Other financial liabilities	Other financial liabilities	11,739	–	–	11,739
Finance Lease Liabilities	Other financial liabilities	Other financial liabilities	192	–	–	192
Trade Payables	Other financial liabilities	Other financial liabilities	6,016	–	–	6,016
Other Payables	Other financial liabilities	Other financial liabilities	529	–	–	529
Total financial liabilities under AASB 9 at 1 July 2018			18,476	–	–	18,476

Notes to the table above

Reclassification from 'held to maturity' to 'amortised cost'

Term deposits that would previously have been classified as 'held to maturity' are now classified at 'amortised cost'. Council intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of these assets.

Note 14. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	2,573	2,018
Balance as per the Statement of Cash Flows		2,573	2,018

(b) Reconciliation of net operating result to cash provided from operating activities

Net operating result from Income Statement	8,075	14,345
Adjust for non-cash items:		
Depreciation and amortisation	10,181	7,904
Net losses/(gains) on disposal of assets	1,044	1,216
Non-cash capital grants and contributions	(1,213)	(2,316)
Unwinding of discount rates on reinstatement provisions	–	(1)
Share of net (profits)/losses of associates/joint ventures using the equity method	30	(198)
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	(1,097)	(537)

continued on next page ...

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Statement of cash flows - additional information (continued)

\$ '000	2019	2018
Increase/(decrease) in provision for impairment of receivables	96	(11)
Decrease/(increase) in inventories	5	(9)
Decrease/(increase) in other current assets	(55)	(252)
Increase/(decrease) in payables	324	100
Increase/(decrease) in accrued interest payable	(1)	—
Increase/(decrease) in other accrued expenses payable	25	(353)
Increase/(decrease) in other liabilities	356	(939)
Increase/(decrease) in provision for employee benefits	453	361
Increase/(decrease) in other provisions	691	5,127
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	18,914	24,437

(c) Non-cash investing and financing activities

Assets found and/or corrected	977	1,833
Assets contributed 'in kind'	236	483
Total non-cash investing and financing activities	1,213	2,316

Note 15. Interests in other entities

\$ '000	Council's share of net income		Council's share of net assets	
	2019	2018	2019	2018
Joint ventures	(30)	198	334	364
Total	(30)	198	334	364

(a) Joint arrangements

(i) Joint ventures

The following information is provided for joint ventures that are individually material to the Council. Included are the total amounts as per the joint venture financial statements, adjusted for fair-value adjustments at acquisition date and differences in accounting policies, rather than the Council's share.

(a) Net carrying amounts – Council's share

\$ '000	Nature of relationship	Measurement method	2019	2018
Strategic Services Australia Limited	Joint venture	Equity	334	364
Total carrying amounts – material joint ventures			334	364

(b) Details

Principal activity		Place of business
Strategic Services Australia Limited	Joint records storage facility	Newcastle

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Interests in other entities (continued)

(c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2019	2018	2019	2018	2019	2018
Strategic Services Australia Limited	6.7%	6.7%	6.7%	6.7%	6.7%	6.7%

(d) Summarised financial information for joint ventures

\$ '000	Strategic Services Australia Limited	
	2019	2018
Statement of financial position		
Current assets		
Cash and cash equivalents	5,311	5,050
Other current assets	1,606	1,738
Non-current assets	327	472
Current liabilities		
Other current liabilities	2,261	1,791
Net assets	4,983	5,469
Reconciliation of the carrying amount		
Opening net assets (1 July)	5,469	2,468
Profit/(loss) for the period	(485,620)	3,001
Closing net assets	(480,151)	5,469
Council's share of net assets (%)	6.7%	6.7%
Council's share of net assets (\$)	334	364
Statement of comprehensive income		
Income	5,661	7,453
Depreciation and amortisation	(111)	(177)
Interest expense	(5)	(128)
Other expenses	(6,031)	(6,622)
Profit/(loss) from continuing operations	(486)	526
Profit/(loss) from discontinued operations	–	2,475
Profit/(loss) for the period	(486)	3,001
Total comprehensive income	(486)	3,001
Share of income – Council (%)	6.7%	6.7%
Profit/(loss) – Council (\$)	(30)	200
Total comprehensive income – Council (\$)	(30)	200

(b) Unconsolidated structured entities

Council did not consolidate the following structured entities:

\$ '000	2019	2018
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Interests in other entities (continued)

\$ '000	2019	2018
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The Upper Hunter Weeds Authority (UHWA) is a gazetted Council, operating under the Local Government Act. UHWA is funded by contributions from its three constituent Councils (Upper Hunter Shire, Muswellbrook Shire and Singleton Shire), grants and private works. Each Constituent Council has delegated its Noxious weeds control function to (UHWA) and contributes in accordance with the UHWA's proclamation. UHWA's governing body consists of seven Councillors elected by each of the Constituent Councils. Upper Hunter Shire Council elects 3 councillors to the County Council, whilst both Muswellbrook Shire Council and Singleton Shire Council each elect 2 councillors.

Nature of risks relating to the Unconsolidated Structured Entity

UHWA is a separately constituted and proclaimed County Council. The proclamation determined each participating Council's contribution. These contributions are the total financial support required of each constituent Council.

Upper Hunter Shire Council has no obligation should UHWA become insolvent. As a proclaimed entity of the State of NSW any obligation will remain with the State.

Losses (or expenses) incurred by Council relating to the Structured Entity	178	175
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Non-contractual financial support provided

Upper Hunter Shire Council did not provide any non contractual support to the Upper Hunter Weeds Authority.

Current intention to provide financial support

Upper Hunter Shire Council will continue to provide a contribution to Upper Hunter Weeds Authority in accordance with Upper Hunter Weeds Authority's proclamation.

Note 16. Commitments

\$ '000	2019	2018
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(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

Plant and equipment	729	150
Buildings	–	317
Sporting Grounds & Venues	100	702
Ancillary Infrastructure	2,327	–
Total commitments	3,156	1,169

These expenditures are payable as follows:

Within the next year	3,156	1,169
Total payable	3,156	1,169

Sources for funding of capital commitments:

Unrestricted general funds	643	317
Internally restricted reserves	2,513	852
Total sources of funding	3,156	1,169

Details of capital commitments

2019 Year

Plant & Equipment: Purchase of Caterpillar 432F Backhoe Loader delivered in Late July 2019

Sporting Grounds & Ventures: Completion of the Scone Golf Course Reconstruction

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Commitments (continued)

Ancillary Infrastructure: Scone Regional Saleyards redevelopment

(b) Finance lease commitments

(i) Commitments
under finance leases
at the reporting date
are payable as
follows:

\$ '000	2019	2018
Within the next year	100	128
Later than one year and not later than 5 years	100	101
Total minimum lease payments	200	229
Less: future finance charges	(8)	(13)
Amount recognised as a liability	192	216

(ii) Finance lease liability recognised represent:

\$ '000	2019	2018
Current liabilities	95	119
Non-current liabilities	97	97
Total finance lease liabilities disclosed	192	216

(iii) General details

Council leases the following property, plant and equipment under finance leases:

	Term (years) 2019	Option to purchase 2019	Contingent rent clauses 2019	2019	2018
Computers – carrying value	–	YES	NO	97	14
Other equipment/assets	–	NO	NO	95	202
Total carrying value at period end				192	216

Additional details

Photocopier & Printers (2x Rental Agreement for 60 month period ending April 2020 and March 2021)

Computer Equipment Upgrade (Rental Agreement for 48 months ending December 2020)

Rental of building premises (spanning more than 12 months ending August 2020)

MacQuarie Bank Computer Upgrade (2x Rental Agreement for 48 months ending November 2022)

Note 17. Contingencies and other assets/liabilities not recognised

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

Description of the funding arrangements.

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

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

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

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

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 for 3 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2019.

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$190,419.94. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

The amount of additional contributions included in the total employer contribution advised above is \$123,999.96. Council's expected contribution to the plan for the next annual reporting period is \$232,907.64.

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

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

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$304,200 as at 30 June 2019.

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

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

Investment return	5.75% per annum
Salary inflation *	3.50% per annum
Increase in CPI	2.50% per annum

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

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

(iv) Murruvale Retirement Home

Council has provided a Bank Guarantee to the upper limit of \$500,000 as a security against a bank loan as per a Council resolution dated 28 July 2008

2. Other liabilities

(i) Third party claims

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

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

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

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

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

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

ASSETS NOT RECOGNISED

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

Note 18. 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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

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.

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	2,573	2,018	–	2,018
Receivables	6,873	5,872	–	5,872
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	19,000	25,500	–	25,500
Total financial assets	28,446	33,390	–	33,390
Financial liabilities				
Payables	6,016	3,803	–	3,803
Loans/advances	11,739	12,776	–	12,776
Lease liabilities	192	216	–	216
Total financial liabilities	17,947	16,795	–	16,795

Fair value is determined as follows:

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

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

Council's finance area manages the cash and Investments portfolio with the assistance of independent advisors.

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

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	216	216	(216)	(216)
2018				
Possible impact of a 1% movement in interest rates	275	275	(275)	(275)

(b) Credit risk

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

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

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

There are no significant concentrations of credit risk, 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.

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	–	1,258	55	51	–	1,364
2018						
Gross carrying amount	–	888	128	83	20	1,119

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	4,603	303	404	134	311	5,755
Expected loss rate (%)	0.00%	0.00%	5.00%	10.00%	50.00%	3.29%
ECL provision	—	—	20	13	156	189
2018						
Gross carrying amount	3,535	689	249	44	386	4,903
Expected loss rate (%)	0.00%	0.00%	5.00%	10.00%	50.00%	4.28%
ECL provision	—	—	12	4	193	209

(c) Liquidity risk

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

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

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

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

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	56	5,960	—	—	6,016	6,016
Loans and advances	6.20%	—	1,826	6,578	7,978	16,382	11,739
Lease liabilities	3.84%	—	100	100	—	200	192
Total financial liabilities		56	7,886	6,678	7,978	22,598	17,947
2018							
Trade/other payables	0.00%	87	3,716	—	—	3,803	3,803
Loans and advances	6.20%	—	1,826	7,167	9,214	18,207	12,776
Lease liabilities	5.10%	—	126	101	—	227	216
Total financial liabilities		87	5,668	7,268	9,214	22,237	16,795

continued on next page ...

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

Loan agreement breaches

Detail here any breaches to loan agreements which have occurred during the reporting year.

Note 19. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 24/06/2019 and is unaudited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	16,131	17,732	1,601	10% F
Review of budget figure indicates that consolidation of all annual rates and charges plus user fees removed from rating and annual charges revenue.				
User charges and fees	12,285	12,603	318	3% F
Increase in revenue from State Road works along the Golden Highway with major project secured during 2019 year.				
Interest and investment revenue	927	713	(214)	(23)% U
Reduction in investment funds held during the year with major capital works program at the Scone Regional Saleyards. In addition to this return on investment interest rates have reduced significantly over the last 12 months.				
Other revenues	2,411	1,854	(557)	(23)% U
Budget included revenue streams from Council's quarries which were consolidated off operating cost of the quarry in the actual results.				
Operating grants and contributions	5,775	9,444	3,669	64% F
Allowed for reduction in Financial Assistance Grants with prepayment of 50% funding for 2019 year in June 2018. The government prepaid the assistance funding again in 2019 for 2020 resulting in status quo for funding streams.				
Capital grants and contributions	28,368	10,861	(17,507)	(62)% U
Major capital works grant funding revenue streams included 2019 budget for projects such as the Airport Development, Bridge replacements, Scone to Murrurundi pipe, etc. These projects have only just received funding approval or commenced the construction phase due to delays with investigation studies.				
Joint ventures and associates – net profits	–	–	–	∞ F

EXPENSES

Employee benefits and on-costs	15,928	16,396	(468)	(3)% U
Increase in capitalisation of staff employee costs to capital projects undertaken.				

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
Borrowing costs	882	811	71	8% F
Loan funding was projected to be drawdown during the 2019 financial year for the Scone Regional Saleyards, Cassilis Sewer system and Scone to Murrurundi Pipeline. These drawdowns did not occur before year end.				
Materials and contracts	8,809	10,413	(1,604)	(18)% U
Increase in materials for additional works on major contract works along the Golden Highway. Also, increased maintenance requirements for heavy patching works on the sealed network before reseal program commenced.				
Depreciation and amortisation	8,290	10,181	(1,891)	(23)% U
Other expenses	4,659	6,257	(1,598)	(34)% U
Review of budget allocation indicated that some costs such as child care payments were included in contractors instead of other expenditure where the actual costs are recorded.				
Net losses from disposal of assets	–	1,044	(1,044)	∞ U
Loss on redundant seal costs following reseal program. This redundant loss is not budgeted for.				
Joint ventures and associates – net losses	–	30	(30)	∞ U
Loss from joint venture Streategic Services Australia.				

STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	35,375	18,914	(16,461)	(47)% U
Budget included major capital works grant funding which was not approved or projects not fully commenced into construction phase before year end.				
Net cash provided from (used in) investing activities	(51,035)	(17,298)	33,737	(66)% F
It was anticipated that Council would deliver multiple capital works projects during the 2019 year which was funded approved grant funding. Approval for some of this funding occurred late in the financial year which has not allowed commencement of the projects before year end, these included the Scone Regional Airport and multiple bridge replacements. Also, delays were experienced for the Scone to Murrurundi Pipeline due to additional investigation studies being required.				
Net cash provided from (used in) financing activities	9,860	(1,061)	(10,921)	(111)% U
Budget included loan funding proceeds that were expected to be drawdown during the 2019 year. These loans were not settled until August 2019.				

Note 20. Fair Value Measurement

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

– Infrastructure, property, plant and equipment

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

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

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

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

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

		Fair value measurement hierarchy			
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs
2019	Notes				Total
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
	9(a)				
Plant and equipment			—	—	9,873
Office furniture and equipment			—	—	853
Land		30/06/18	—	—	19,847
Buildings		30/06/18	—	—	39,113
Other structures		30/06/16	—	—	1,692
Roads (incl bulk earthworks)		30/06/15	—	—	400,675
Bridges		30/06/15	—	—	58,655
Footpaths		30/06/15	—	—	6,746
Drainage		30/06/15	—	—	22,498
Ancillary infrastructure		30/06/16	—	—	13,981
Water supply network		30/06/17	—	—	50,542
Sewer network		30/06/17	—	—	36,834
Swimming pools		30/06/16	—	—	4,213
Open spaces		30/06/16	—	—	17,232
Other assets			—	—	73
Waste disposal sites and quarries			—	—	4,054
Total infrastructure, property, plant and equipment			—	—	686,881

		Fair value measurement hierarchy			
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs
2018	Notes				Total
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
	9(a)				
Plant and equipment			—	—	9,855
Office furniture and equipment			—	—	815
Land		30/06/18	—	10,371	9,133
Buildings		30/06/18	—	978	38,200
Other structures		30/06/16	—	—	1,561
Roads (incl bulk earthworks)		30/06/15	—	—	393,883
Bridges		30/06/15	—	—	58,729
Footpaths		30/06/15	—	—	6,674
Drainage		30/06/15	—	—	22,571
Ancillary infrastructure		30/06/16	—	—	14,152
Water supply network		30/06/17	—	—	50,024

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

2018	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Sewer network		30/06/17	—	—	37,156	37,156
Swimming pools		30/06/16	—	—	4,320	4,320
Open spaces		30/06/16	—	—	10,095	10,095
Other assets			—	—	67	67
Waste disposal sites and quarries			—	—	5,425	5,425
Total infrastructure, property, plant and equipment			—	11,349	662,660	674,009

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

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

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

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Infrastructure, property, plant and equipment (IPP&E)**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 value of these assets are assumed to approximate fair value due to the nature of the items.

Examples of assets within these classes are as follows:

- Plant and Equipment: Trucks, tractors, mowers, street sweepers, earthmoving Equipment and vehicles.
- Office Equipment: Computer equipment, projectors, printers, general electronic office equipment.
- Furniture & Fittings: Chairs, desks, blinds, shelving, benches.

The key unobservable inputs to the valuation are the remaining useful life and residual value of these classes of assets. Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking into account 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.

Operational Land

Generally, fair value is the most advantageous value reasonably obtainable by the seller and the most advantageous value reasonably obtainable by the purchaser. This is not necessarily the market selling price of the asset, but rather the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset and cashflows from the future use and disposal. There has been no change to the valuation process during the reporting period.

Community Land

Valuations of all Council's Community Land and Council managed land were based on either the Unimproved Capital Value (UCV) provided by the Valuer-General or an average unit rate based on the UCV for similar properties where the Valuer-General did not provide a UCV having regard to the highest and best use for this land. As these rates were not considered to be observable market evidence they have been classified as Level 3. There has been no change to the valuation process 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 metres rates applicable for nearby or adjacent Community Land having regard to the

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

unimproved capital value. As these rates were not considered to be observable market evidence they have been classified as Level 3. There has been no change to the valuation process during the reporting period.

Buildings - Non specialised and Specialised

Buildings were valued by APV Valuers and Asset Management during the 2018 year using the cost approach. The approach estimated the replacement cost for each building by componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While all buildings were physically inspected and the unit rates based on square metres could be supported from market evidence, which included a comparison of sale prices of comparable properties after adjusting for differences in key attributes such as property size (Level 2) other inputs (such as estimates of residual value, asset condition and pattern of consumption) required extensive professional judgement and impacted significantly on the final determination of fair value. It should be noted that Council does not believe it has any material buildings that could be held at market value rather than replacement cost as the nature of the buildings are specific to council needs. As such these assets were classified as having been valued using Level 3 valuation inputs.

Other Structures

This asset class comprises Cemeteries, Tourism fixtures and Communication towers.

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

Roads and Bulk Earthworks

This asset class comprises both sealed and unsealed roads for regional, rural and urban vacinities including kerb & guttering and bulk earthworks. The road carriageway is defined as the trafficable portion of a road, between but not including the kerb and gutter. 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 and formation were based on Council, contractor and industry averages for construction. The Road network is mapped and condition assessed using a combination of photography condition assessment and physical inspection. Condition information is updated as changes in the network are observed through regular inspections. A residual base has also been calculated into the value of the asset class when assessing condition basis assessments.

The cost approach was utilised and while the unit rates based on square metres, linear metres or similar could be supported from market evidence (Level 2) other inputs (such as estimates pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally there has been some limitations in data collection including historical data pertaining to the construction specifications, dimensions and rehabilitation cost aspects of the road network which are affected in part by heavy vehicle traffic usage and soil compound under the road construction. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Bridges

Bridges were valued in-house by experienced engineering & asset management staff. The approach in estimating the replacement cost for each bridge was based on square metre of construction calculated using Council, contractor and industry averages for both timber and concrete structures. Bridges are condition assessed using a combination of photography condition assessment and physical inspection. Condition information is updated as changes in the network are observed through regular inspections. It should be noted that these values were not derived from componatising the asset itself but valued as a whole asset unit.

While all bridges were physically inspected and the unit rates based on square metres could be supported from market evidence (Level 2) other inputs (such as estimates of residual value, asset condition and pattern of consumption) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally there has been some limitations in data collection including historical data pertaining to build date, construction specifications, dimensions and rehabilitation cost aspects of the concrete and timber bridges which are affected in part by heavy vehicle traffic usage. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

Footpaths

Footpaths were valued in-house by experienced engineering & asset management staff. Footpaths were segmented to match the adjacent road segment and no further componentisation was undertaken. Footpaths were originally mapped and condition assessed using a combination of photography condition assessment and physical inspection. Condition information is updated as changes in the network are observed through regular inspections.

While all footpaths were physically inspected and the unit rates based on square metres could be supported from market evidence (Level 2) other inputs (such as estimates of residual value, asset condition and pattern of consumption) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Drainage

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices. The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. The Level of componentisation adopted by Council is in accordance with OLG Circular 09- 09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM).

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, residual value, 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 uncertainty regarding the actual design, specifications and dimensions of some assets. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Ancillary Infrastructure

Assets within this class comprise Aerodrome, Depots, Saleyards and Transport ancillaries. Ancillary infrastructure assets 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, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Water Supply Network

This asset class comprises the Bores, Wells, Dams, Reservoirs, Treatment plants, Meters, Pipes, Pump Stations, Augmentations and other related infrastructure. As at 30 June 2012 the Water systems were revalued in accordance with DLG Fair Valuation - Infrastructure, Property, Plant and Equipment Circular(s) by in-house experienced engineering & asset management staff. Dams, Pump stations, Reservoirs, Treatment works had their 2007 valuation as prepared by the NSW Department of Commerce indexed as per the updated 2012 NSW Reference Rates Manual 2011 figure by 18%. For the period post the valuation an incremental adjustment based on the NSW Reference Rates Manual NSW Water & Sewerage Construction Costs Indices.

The cost approach was utilised and while the unit rates based on square metres, linear metres or similar could be supported from market evidence (Level 2) other inputs (such as estimated pattern of consumption, residual value, condition based asset assessment and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. A major factor involved in this process has been the condition based assessment of the network which has been arrived at using data pertaining to historical breakage maintenance, pipe digups and pipe material type. Additionally there has been some limitations in the data collection which included obtaining historical data of installation date, construction specifications (dimensions, depth of pipe, pipe type, ect.) and rehabilitation cost of the water network. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Sewer Network

This asset class comprises the Pump stations, Treatment plants, Pipes and other related infrastructure. As at 30 June 2012 the Sewer systems were revalued in accordance with OLG Fair Valuation - Infrastructure, Property, Plant and Equipment

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

Circular(s) by in-house experienced engineering & asset management staff. Pump stations and Treatment works had their 2007 valuation as prepared by the NSW Department of Commerce indexed as per the updated 2012 NSW Reference Rates Manual 2011 figure by 18%. For the period post the valuation an incremental adjustment based on the NSW Reference Rates Manual NSW Water & Sewerage Construction Costs Indices.

The cost approach was utilised and while the unit rates based on square metres, linear metres or similar could be supported from market evidence (Level 2) other inputs (such as estimated pattern of consumption, residual value, condition based asset assessment and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. A major factor involved in this process has been the condition based assessment of the network which has been arrived at using data pertaining to CCTV footage, historical breakage maintenance and pipe material type. Additionally there has been some limitations in the data collection which included obtaining historical data of installation date, construction specifications (dimensions, depth of pipe, pipe type, ect.) and rehabilitation cost of the water network. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Swimming Pools

Assets within this class comprise Council's swimming pools at three separate locations. The pools were valued in-house using the cost approach by experienced Council engineers and asset management staff. The approach estimated the replacement cost for each pool by componentising its significant parts.

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, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Open Spaces

Assets within this class comprise Parks & Gardens, Camping Grounds and Sporting grounds. Open space assets 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, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were all classified as having been valued using Level 3 valuation inputs. here has been no change to the valuation process during the reporting period.

Library Books & Other Assets

Library Books and Other Assets 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 both these classes of 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. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

Waste Disposal Landfills & Quarries

The Council maintains four (4) tip sites and thirty eight (38) quarry sites within the Shire.

The tips encompasses a landfilling operation as well as a wide range of waste disposal services, resource recovery services, recycled and reclaimed products, and waste management educational activities while the quarry pits encompasses a gravel extraction operations. It has been recognised that there will be significant costs associated with the closure and post closure management of both the landfill and quarry sites.

Closure of the landfill will involve a wide range of activities including preparation of a Landfill Closure and Management Plan, final capping of the landfill waste and site re-vegetation, installation of a final landfill gas management system, revision of the surface water management system and leachate management infrastructure to suit post-closure operation, decommissioning and removing infrastructure and equipment that will not be required post-closure, and fencing sensitive infrastructure. While closure of the quarry pits will involve a wide range of activities including preparation of a Closure and Management Plan, site re-vegetation, decommissioning and removing infrastructure and equipment that will not be required post-closure.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

The key unobservable inputs are the discount rate, cost escalation rate, actual timing of costs and future environmental management requirements. As such these assets were all classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation process during the reporting period.

If there are changes in valuation techniques from prior years, these and the reasons for change also need to be listed.

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

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

\$ '000	Plant and equipment	Office furniture and equipment	Land	Buildings	Other structures
2018					
Opening balance	9,890	848	20,212	39,563	1,795
Adoption of AASB 13	—	—	(1,598)	(429)	—
Transfers from/(to) another asset class	—	17	—	268	(197)
Purchases (GBV)	2,351	111	240	508	—
Disposals (WDV)	(589)	—	(200)	(52)	—
Depreciation and impairment	(1,797)	(161)	—	(800)	(37)
Other movement (Assets Located or Corrected)	—	—	850	120	—
Closing balance	9,855	815	19,504	39,178	1,561
2019					
Opening balance	9,855	815	19,504	39,178	1,561
Purchases (GBV)	1,867	205	—	1,032	170
Disposals (WDV)	(107)	—	—	—	—
Depreciation and impairment	(1,742)	(167)	—	(1,097)	(38)
Other movement (Assets Located or Corrected)	—	—	343	—	—
Closing balance	9,873	853	19,847	39,113	1,693

\$ '000	Roads (including bulk earthworks)	Bridges	Footpaths	Drainage	Ancillary structures
2018					
Opening balance	389,957	58,043	6,612	22,217	14,418
Adoption of AASB 13	—	—	—	171	—
Transfers from/(to) another asset class	1,651	64	—	127	6
Purchases (GBV)	4,813	1,051	118	206	93
Disposals (WDV)	(1,198)	(260)	(23)	(38)	—
Depreciation and impairment	(2,203)	(169)	(33)	(112)	(365)
Other movement (Assets Located or Corrected)	863	—	—	—	—
Closing balance	393,883	58,729	6,674	22,571	14,152
2019					
Opening balance	393,883	58,729	6,674	22,571	14,152
Purchases (GBV)	9,405	94	105	37	202
Disposals (WDV)	(914)	—	—	—	—

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Roads (including bulk earthworks)	Bridges	Footpaths	Drainage	Ancillary structures
Depreciation and impairment	(2,207)	(168)	(33)	(111)	(373)
Other movement (Assets Located or Corrected)	508	—	—	—	—
Closing balance	400,675	58,655	6,746	22,497	13,981

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

\$ '000	Water supply network	Sewerage network	Swimming pools	Open space	Other assets
2018					
Opening balance	45,287	37,341	4,404	10,241	36
Adoption of AASB 13	3,954	295	–	–	–
Transfers from/(to) another asset class	177	13	–	152	–
Purchases (GBV)	1,639	481	66	5	42
Disposals (WDV)	(27)	–	–	(6)	–
Depreciation and impairment	(1,006)	(974)	(150)	(297)	(11)
Closing balance	50,024	37,156	4,320	10,095	67
2019					
Opening balance	50,024	37,156	4,320	10,095	67
Adoption of AASB 13	800	595	–	–	–
Purchases (GBV)	841	33	45	7,403	20
Disposals (WDV)	(186)	–	–	(9)	–
Depreciation and impairment	(1,062)	(950)	(152)	(257)	(14)
Other movement (Assets Located or Corrected)	126	–	–	–	–
Closing balance	50,543	36,834	4,213	17,232	73

\$ '000	Tips and quarries	Total
2018		
Opening balance	323	661,187
Adoption of AASB 13	–	2,393
Change in useful life and PV cost estimate	5,122	5,122
Transfers from/(to) another asset class	–	2,278
Purchases (GBV)	–	11,724
Disposals (WDV)	–	(2,393)
Depreciation and impairment	(20)	(8,135)
Other movement (Assets Located or Corrected)	–	1,833
Closing balance	5,425	674,009
2019		
Opening balance	5,425	674,009
Adoption of AASB 13	–	1,395
Change in useful life and PV cost estimate	679	679
Purchases (GBV)	–	21,459
Disposals (WDV)	–	(1,216)
Depreciation and impairment	(2,050)	(10,421)
Other movement (Assets Located or Corrected)	–	977
Closing balance	4,054	686,882

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Related Party Transactions

(a) Key management personnel

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

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

\$ '000	2019	2018
Compensation:		
Short-term benefits	936	734
Post-employment benefits	63	60
Total	999	794

(b) Other transactions with KMP and their related parties

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

Nature of the transaction	Ref	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000						
2019						
Supply of catering services	2	3	—		—	—
Employee expenses relating to close family member of KMP	3	187	—		—	—
2018						
Supply of fabrication services	1	3	—		—	—
Supply of catering services	2	1	—		—	—
Employee expenses relating to close family member of KMP	3	47	—		—	—

¹ Council acquired fabrication services during the 2018 year from Sycolah, a business which is owned by the direct family members of a member of the KMP of the Council. These amounts were invoiced on an arms length basis and were payable under normal payment terms following the Council's procurement processes.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Related Party Transactions (continued)

-
- | | |
|---|--|
| 2 | Council acquired the catering services during the 2018 and 2019 year from The Hunted Gourmet, a business which is owned by the direct family members of a member of the KMP of the Council. These amounts were invoiced on an arms length basis and were payable under normal payment terms following the Council's procurement processes. |
| 3 | Two (2) close family members of two (2) members of Council's KMP were employed by Council during 2019 year under the relevant employee award on an arm's length basis. A close family member of a member of Council's KMP was employed during the 2018 year under the relevant employee award on an arm's length basis. |

Note 22. Events occurring after the reporting date

Council is aware of the following 'non-adjusting events' that merit disclosure:

– Council secured loan funding in August 2019 for two facilities:

1. Scone Regional Saleyards for \$8,420,000 over a term of 20 years at a fixed rate of 2.47%
2. White Park Event Centre for \$1,000,000 over a term of 10 years at a fixed rate of 1.95%

Due to a delay in completion of certain loan funding with respect to Scone Regional Saleyards and White Park Event Centre projects Council utilised its internally restricted assets to fund the respective projects pending receipt of the loan funds. Accordingly at 30 June 2019 Council's internal restrictions were nil. Following receipt of the loan funding in August 2019 all of the internally restricted asset balances utilised were reinstated. The value of the internal restrictions if the funds had been received prior to 30 June 2019 would have been \$9.7 million.

Note 23. Statement of developer contributions

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

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

Summary of contributions and levies

as at 30/6/2018

as at 30/6/2019

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

	as at 30/6/2018			as at 30/6/2019				
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
	Opening Balance	Cash	Non-cash	Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
Roads	25	173	—	4	(21)	—	181	—
Parking	4	—	—	—	—	—	4	—
Open space	18	5	—	—	(3)	—	20	—
Cycleways	43	—	—	1	—	—	44	—
Bushfire	—	—	—	—	—	—	—	—
Waste	—	—	—	—	—	—	—	—
S7.11 contributions – under a plan	90	178	—	5	(24)	—	249	—
S7.12 levies – under a plan	139	78	—	3	(76)	—	144	—
Total S7.11 and S7.12 revenue under plans	229	256	—	8	(100)	—	393	—
S64 contributions	3,504	24	—	70	—	—	3,598	—
Total contributions	3,733	280	—	78	(100)	—	3,991	—

S7.11 Contributions – under a plan

CONTRIBUTION PLAN – SCONE/ABERDEEN

Roads	19	173	—	4	(21)	—	175	—
Parking	4	—	—	—	—	—	4	—
Open space	11	4	—	—	(3)	—	12	—
Cycleways	43	—	—	1	—	—	44	—
Total	77	177	—	5	(24)	—	235	—

CONTRIBUTION PLAN – MERRIWA

Open space	7	—	—	—	—	—	7	—
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

	as at 30/6/2018						as at 30/6/2019	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
Total	7	—	—	—	—	—	7	—
CONTRIBUTION PLAN – MURRURUNDI								
Roads	6	—	—	—	—	—	6	—
Open space	—	1	—	—	—	—	1	—
Total	6	1	—	—	—	—	7	—

S7.12 Levies – under a plan

CONTRIBUTION PLAN – SHIRE WIDE

Other	139	78	—	3	(76)	—	144	—
Total	139	78	—	3	(76)	—	144	—

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	13,669	1,324	2,739
User charges and fees	8,110	4,181	312
Interest and investment revenue	203	274	236
Other revenues	1,668	163	23
Grants and contributions provided for operating purposes	9,285	123	36
Grants and contributions provided for capital purposes	9,963	683	215
Total income from continuing operations	42,898	6,748	3,561
Expenses from continuing operations			
Employee benefits and on-costs	12,698	2,339	1,359
Borrowing costs	592	219	–
Materials and contracts	9,174	775	464
Depreciation and amortisation	8,169	1,062	950
Other expenses	5,484	561	212
Net losses from the disposal of assets	858	186	–
Share of interests in joint ventures and associates using the equity method	30	–	–
Total expenses from continuing operations	37,005	5,142	2,985
Operating result from continuing operations	5,893	1,606	576
Net operating result for the year	5,893	1,606	576
Net operating result attributable to each council fund	5,893	1,606	576
Net operating result for the year before grants and contributions provided for capital purposes	(4,070)	923	361

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

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

Statement of Financial Position by fund

ASSETS**Current assets**

Cash and cash equivalents	1,133	843	597
Investments	1,000	9,000	9,000
Receivables	5,660	931	282
Inventories	2,623	307	60
Other	372	9	–
Total current assets	10,788	11,090	9,939

Non-current assets

Infrastructure, property, plant and equipment	610,736	53,327	38,245
Investments accounted for using the equity method	334	–	–
Intangible assets	–	234	–
Other	97	–	–
Total non-current assets	611,167	53,561	38,245

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
TOTAL ASSETS	621,955	64,651	48,184
LIABILITIES			
Current liabilities			
Payables	5,359	539	118
Income received in advance	529	—	—
Borrowings	1,014	176	—
Provisions	5,110	299	299
Total current liabilities	12,012	1,014	417
Non-current liabilities			
Borrowings	7,485	3,256	—
Provisions	8,040	5	5
Total non-current liabilities	15,525	3,261	5
TOTAL LIABILITIES	27,537	4,275	422
Net assets	594,418	60,376	47,762
EQUITY			
Accumulated surplus	349,804	50,988	21,069
Revaluation reserves	244,614	9,388	26,693
Council equity interest	594,418	60,376	47,762
Total equity	594,418	60,376	47,762

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

Details of individual internal loans for the year ended 30 June 2019

(in accordance with s410(3) of the *Local Government Act 1993*)

Note 25(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018 2017		Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(1,712)	(4.04)%	13.40%	9.86%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	42,346				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	32,693	61.44%	65.49%	66.61%	>60.00%
Total continuing operating revenue ¹	53,207				
3. Unrestricted current ratio					
Current assets less all external restrictions	6,447	0.86x	2.69x	2.98x	>1.50x
Current liabilities less specific purpose liabilities	7,487				
4. Debt service cover ratio					

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25(a). Statement of performance measures – consolidated results (continued)

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018 2017		Benchmark
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	9,280	5.02x	8.06x	7.17x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	1,848				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,560	8.23%	6.85%	8.49%	<10.00%
Rates, annual and extra charges collectible	18,956				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	21,573	6.92 mths	10.34 mths	10.10 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	3,118				

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	(9.10)%	11.47%	15.22%	27.88%	10.79%	6.51%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	54.64%	59.09%	88.06%	91.38%	92.95%	98.15%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	0.89x	2.78x	10.94x	11.03x	23.83x	14.76x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	3.62x	7.38x	9.63x	7.68x	∞	∞	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	10.47%	6.89%	0.00%	6.34%	0.00%	6.87%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	6.46	10.31	∞	8.47	∞	14.11	>3.00
Payments from cash flow of operating and financing activities	mths	mths		mths		mths	mths

(1) - (2) Refer to Notes at Note 28a above.

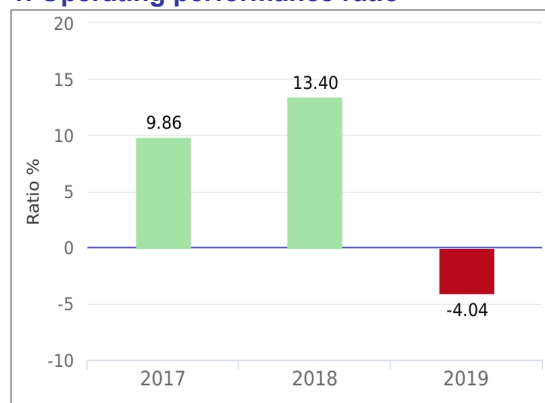
(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2018/19 result

2018/19 ratio (4.04)%

Council sustained a negative operating performance ratio which was as a result of increased in write-down of its waste management facilities plus additional costs towards maintenance programs across the shire and reduction in water usage consumption revenues and decline other revenues such as the Council's saleyards with reduced cattle numbers due to the drought conditions and Waste Management Facilities with reduced commercial waste disposal.

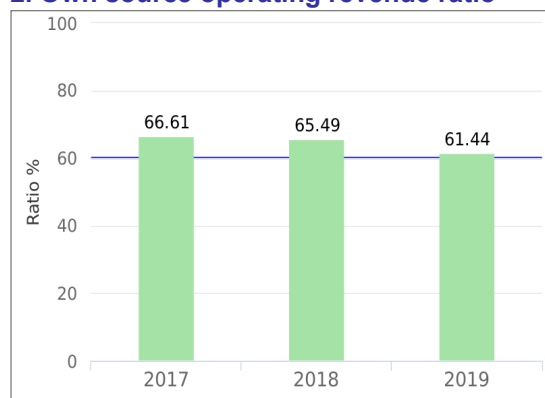
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2018/19 result

2018/19 ratio 61.44%

Council continues to meet the benchmark for its own source income.

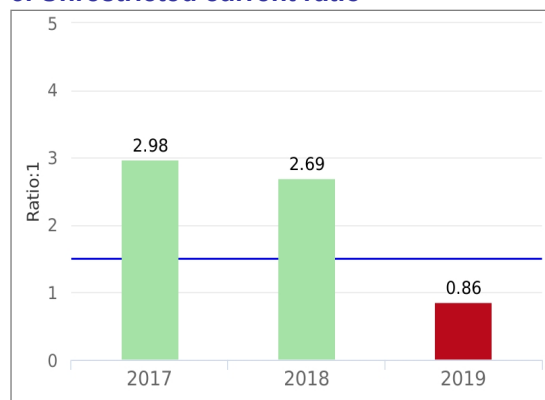
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2018/19 result

2018/19 ratio 0.86x

Council's unrestricted assets ratio has declined below the benchmark for the 2019 year. The main reason for this was due to the delay in securing loan funding for major capital works for the Scone Regional Saleyards and White Park Equine Under Cover Arena which effectively reduced Council's the level of cash reserve funds available. These loans were drawn down in August 2019.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

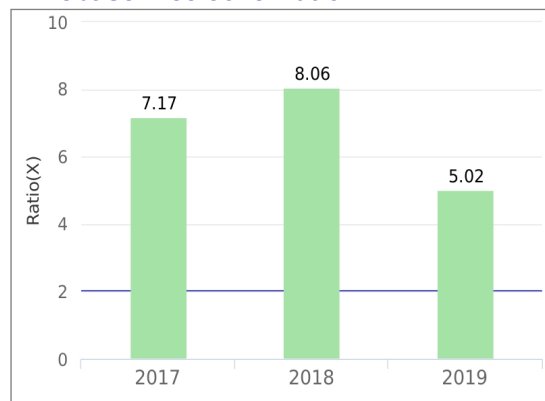
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 5.02x

Reduction in the debt service cover ratio was due to the operating result sustained by Council for 2019. The ratio remains above the benchmark.

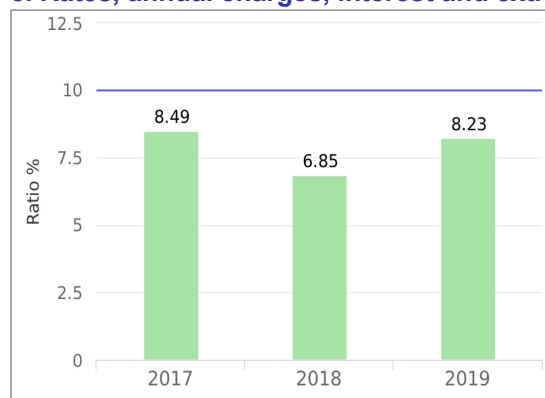
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2018/19 result

2018/19 ratio 8.23%

Increase in outstanding rating debts has occurred during the 2019 year with drought conditions for rural property owners becoming extreme. Council has been proactive in assistance with these rural property owners offering arrangements and interest relief when applications are received for hardship. Council will continue to monitor this ratio during the 2020 year to ensure that it remains below the benchmark.

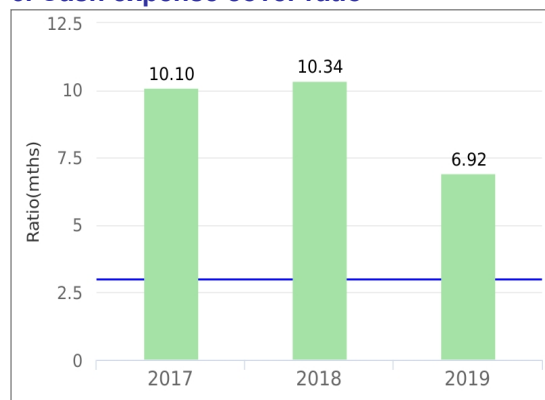
Benchmark: — < 10.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 6.92 mths

Reduction on cash expense cover ratio due to the reduced level of cash reserves held by Council following delay in loan funding proceeds for major capital works. These cash reserves were replenished in August 2019 following draw down of loan proceeds.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Upper Hunter Shire Council

To the Councillors of the Upper Hunter Shire Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. 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 19 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Furqan Yousuf

Delegate of the Auditor-General for New South Wales

31 October 2019
SYDNEY



Cr Wayne Bedggood
Mayor
Upper Hunter Shire Council
PO Box 208
SCONE NSW 2337

Contact: Furqan Yousuf
Phone no: 02 9275 7470
Our ref: D1925542/1796

31 October 2019

Dear Mayor

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

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

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

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

INCOME STATEMENT

Operating result

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	17.7	17.2	↑ 2.9
Grants and contributions revenue	20.3	17.1	↑ 18.7
Operating result for the year	8.1	14.3	↓ 43.4
Net operating result before capital grants and contributions	(2.8)	7.0	↓ 140

The Council's net operating result before capital grants and contributions was a deficit of \$2.8 million, which was \$9.8 million lower than the 2017–18 net operating result. The Council's net operating result for the year was a surplus of \$8.1 million, which was \$6.2 million lower than the 2017–18 operating result. The key reasons for the movements are outlined below.

Other revenue decreased by \$6.0 million or 76.3 per cent in 2018–19, mainly due to the one-off receipt of RMS Bypass Settlement of \$4.7 million in 2017–18.

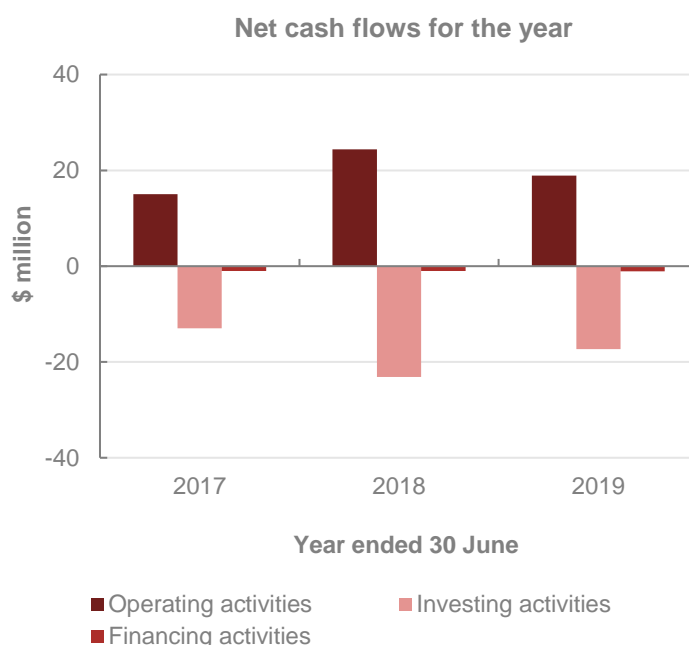
Depreciation and amortisation expense increased by \$2.3 million or 28.8 per cent in 2018–19, mainly due to the increased Tip and Quarry amortisation expense by \$2.0 million.

Materials and contracts expenses increased by \$1.0 million or 10.5 per cent in 2018–19, mainly attributable to increased spending on contractor and consultancy costs during the year.

Offsetting the above movements, the grants and contributions revenue increased by \$3.2 million or 18.7 per cent in 2018–19, mainly due to the receipt of additional specific purpose capital grants of \$3.5 million.

STATEMENT OF CASH FLOWS

- The Council's cash and cash equivalents was \$2.6 million (\$2.0 million for the year ended 30 June 2018). There was net increase in cash and cash equivalents of \$0.6 million at 30 June 2019.
- The Council has reported net cash inflows from its operating activities over the past three years. The decrease in operating cash inflows in 2018–19 is mainly due to an increase in operating expenditure.
- Net cash outflows from investing activities decreased by \$5.8 million compared to prior year, mainly due to matured investment securities.
- Net cash outflows from financing activities represent the repayment of borrowings and advances of \$1.1m.



FINANCIAL POSITION

Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	21.6	18.1	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$3.2 million primarily due to an increase in available cash balance relating to water and sewer services as well as specific purpose unexpended grants. Internally restricted cash and investments are restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. At 30 June 2019 Council had nil internal restrictions.
Internal restrictions	0.0	9.4	
Unrestricted	0.0	0.0	
Cash and investments	21.6	27.5	

Debt

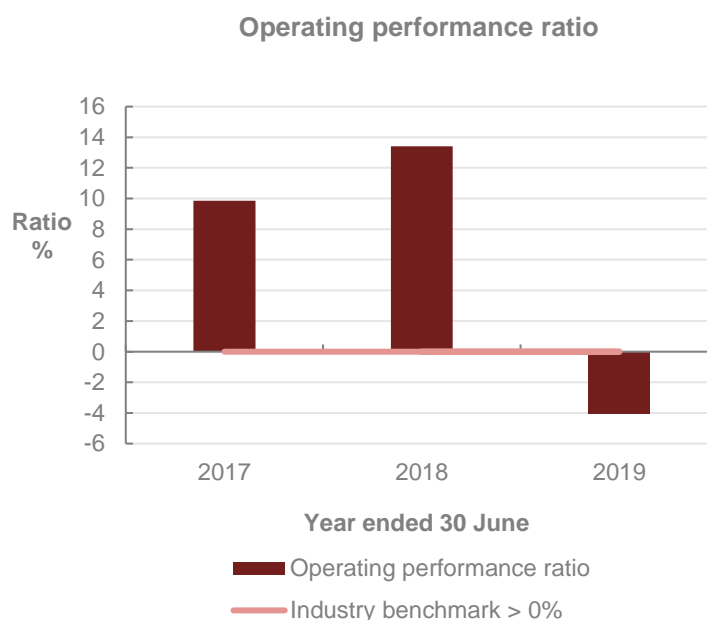
The Council has \$11.9 million of borrowings as at 30 June 2019 (2018: \$13.0 million)

The Council has an accumulated drawdown facility limit of \$0.7 million as at 30 June 2019 (2018: \$0.6 million) of which \$0.6 million remained unutilised at the year-end (2018: \$0.6 million).

PERFORMANCE

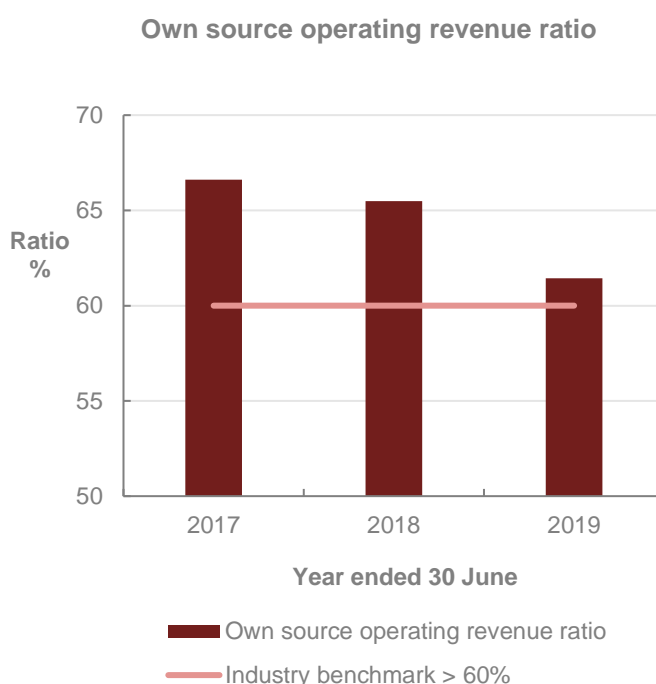
Operating performance ratio

- 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 former Office of Local Government (OLG) is greater than zero per cent.
- The Council did not achieve the OLG benchmark for operating performance ratio in 2018–19.
- The decrease in the ratio compared to the prior is mainly due to the decrease in Councils operating revenue and increase in operating expenses.



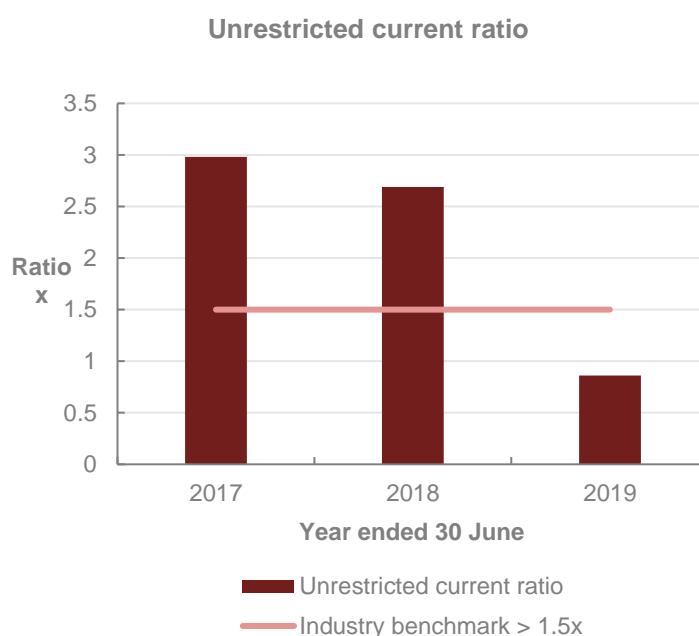
Own source operating revenue ratio

- The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.
- The Council's own source operating revenue ratio of 61.4% is above the industry benchmark of 60%. This indicates that the Council has a diversified source of income and does not have an overly strong reliance on operating grants and contributions.
- The decrease in own source revenue ratio was mainly due to the receipt of one-off revenue from the RMS Bypass Settlement of \$4.7 million in 2017–18.



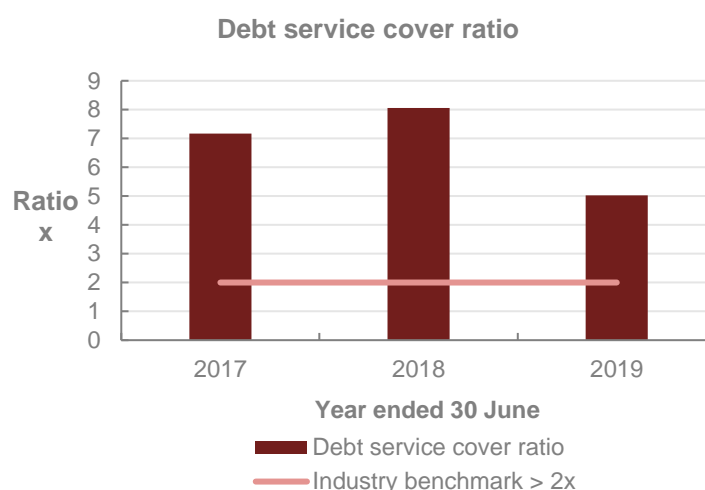
Unrestricted current ratio

- The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.
- The Council's liquidity ratio of 0.86 is below the industry benchmark minimum of greater than 1.5 times. This indicates that the Council may not have appropriate liquidity to meet its current liabilities as and when they fall due.
- The Council's unrestricted current ratio decreased as a result of utilising internally restricted funds to support the ongoing capital works program at 30 June 2019.



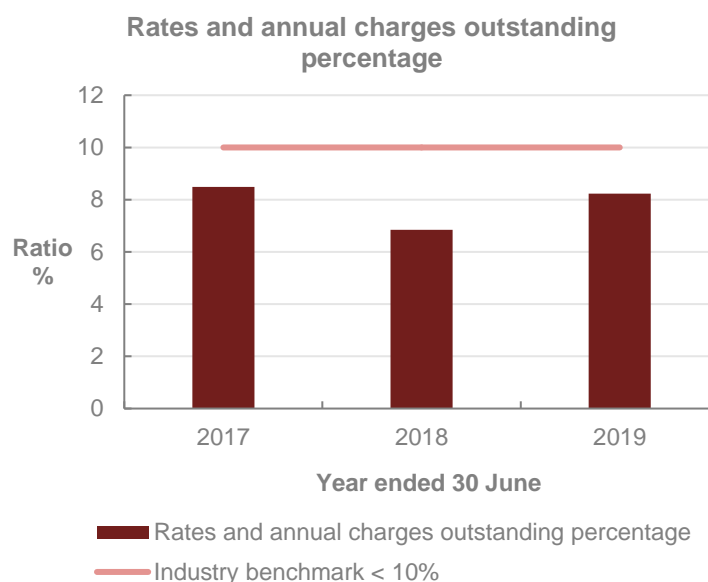
Debt service cover ratio

- The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.
- The Council's debt service cover ratio of 5.0 times is above the industry benchmark of greater than 2 times.
- The reduction in the ratio in the current year is mainly due to the decrease in net operating result before capital grants and contributions.



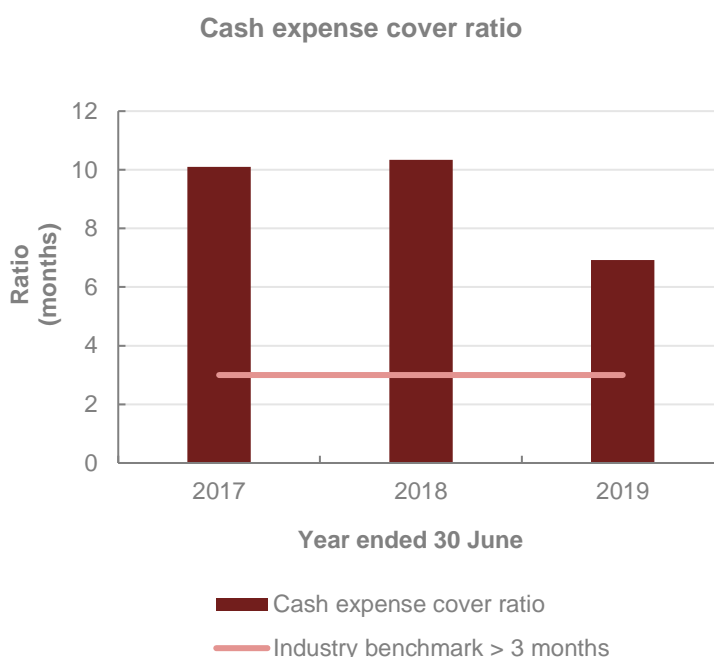
Rates and annual charges outstanding percentage

- The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for rural councils.
- The Council's rates and annual charges outstanding percentage of 8.2% is within the benchmark of less than 10% for rural councils.
- Over the past three years, the Council's collections procedures have operating effectively to collect more than 90 per cent of the rates and annual charges revenue with the receivable due dates.



Cash expense cover ratio

- This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.
- The Council's cash expense cover ratio was 6.9 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 6.9 months of operating cash expenditure without additional cash inflows at 30 June 2019.
- The cash expense cover ratio decreased compared with prior year due to reduced cash inflows from operating activities as well as utilisation of internally restricted funds for ongoing capital works.



Infrastructure, property, plant and equipment renewals

The Council has renewed (excluding capital works in progress) \$5.8 million of assets in 2018–19 financial year, compared to \$8.2 million of assets in the prior year.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"> • a simplified model for classifying and measuring financial assets • a new method for calculating impairment • a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 13.</p>

Legislative compliance

My audit procedures identified the following instance of non-compliance with legislative requirements that will be reported to the Minister:

- Council did not comply with section 409(3) of the *Local Government Act 1993* whereby restricted funds were used for a purpose different to what they were collected for. Council has notified the Minister for Local Government and have disclosed this matter in its GPFS.



Furqan Yousuf

Delegate of the Auditor-General for New South Wales

cc: Mr Steve McDonald, General Manager
Mr Paul Heaton, Chair of the Audit, Risk and Improvement Committee
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment

Upper Hunter Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019

Special Purpose Financial Statements

for the year ended 30 June 2019

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Background

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

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

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

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

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

Special Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 28 October 2019.


Wayne Beaggood
Mayor
28 October 2019
Kiwa Fisher
Councillor
28 October 2019
Stephen McDonald
General Manager
28 October 2019
Kristian Enevoldson
Responsible Accounting Officer
28 October 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	1,324	1,291
User charges	4,181	4,849
Interest	274	240
Grants and contributions provided for non-capital purposes	123	40
Other income	163	21
Total income from continuing operations	6,065	6,441
Expenses from continuing operations		
Employee benefits and on-costs	2,339	2,342
Borrowing costs	219	226
Materials and contracts	775	641
Depreciation, amortisation and impairment	1,062	1,006
Loss on sale of assets	186	27
Calculated taxation equivalents	95	95
Other expenses	561	403
Total expenses from continuing operations	5,237	4,740
Surplus (deficit) from continuing operations before capital amounts	828	1,701
Grants and contributions provided for capital purposes	683	564
Surplus (deficit) from continuing operations after capital amounts	1,511	2,265
Surplus (deficit) from all operations before tax	1,511	2,265
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(228)	(468)
SURPLUS (DEFICIT) AFTER TAX	1,283	1,797
Plus accumulated surplus	49,382	47,037
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	95	95
– Corporate taxation equivalent	228	468
Less:		
– Surplus dividend paid	–	(15)
Closing accumulated surplus	50,988	49,382
Return on capital %	2.0%	3.7%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	1,283	1,797
Less: capital grants and contributions (excluding developer contributions)	(672)	(529)
Surplus for dividend calculation purposes	611	1,268
Potential dividend calculated from surplus	306	634

Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	2,739	2,679
User charges	309	333
Liquid trade waste charges	3	3
Interest	236	196
Grants and contributions provided for non-capital purposes	36	37
Other income	23	25
Total income from continuing operations	3,346	3,273
Expenses from continuing operations		
Employee benefits and on-costs	1,359	1,375
Materials and contracts	464	509
Depreciation, amortisation and impairment	950	974
Loss on sale of assets	–	27
Calculated taxation equivalents	38	39
Other expenses	212	175
Total expenses from continuing operations	3,023	3,099
Surplus (deficit) from continuing operations before capital amounts	323	174
Grants and contributions provided for capital purposes	215	24
Surplus (deficit) from continuing operations after capital amounts	538	198
Surplus (deficit) from all operations before tax	538	198
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(89)	(48)
SURPLUS (DEFICIT) AFTER TAX	449	150
Plus accumulated surplus	20,493	20,269
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	38	39
– Corporate taxation equivalent	89	48
Less:		
– Surplus dividend paid	–	(13)
Closing accumulated surplus	21,069	20,493
Return on capital %	0.8%	0.5%
Subsidy from Council	182	893
Calculation of dividend payable:		
Surplus (deficit) after tax	449	150
Less: capital grants and contributions (excluding developer contributions)	(202)	(16)
Surplus for dividend calculation purposes	247	134
Potential dividend calculated from surplus	124	67

Income Statement – Strategic Services Australia Ltd

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
User charges	289	306
Grants and contributions provided for non-capital purposes	79	104
Profit from the sale of assets	–	73
Other income	11	14
Total income from continuing operations	379	497
Expenses from continuing operations		
Employee benefits and on-costs	240	260
Borrowing costs	–	9
Materials and contracts	114	118
Depreciation, amortisation and impairment	7	12
Other expenses	48	68
Total expenses from continuing operations	409	467
Surplus (deficit) from continuing operations before capital amounts	(30)	30
Surplus (deficit) from continuing operations after capital amounts	(30)	30
Surplus (deficit) from discontinued operations	–	165
Surplus (deficit) from all operations before tax	(30)	195
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(8)
SURPLUS (DEFICIT) AFTER TAX	(30)	187
Plus accumulated surplus	364	70
Plus/less: other adjustments (Variation to PY Information)	–	99
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	8
Add:		
Less:		
Closing accumulated surplus	334	364
Return on capital %	(130.4)%	125.8%
Subsidy from Council	30	–

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
Current assets		
Cash and cash equivalents	843	659
Investments	9,000	8,000
Receivables	931	894
Inventories	307	335
Other	9	2
Total current assets	11,090	9,890
Non-current assets		
Infrastructure, property, plant and equipment	53,327	52,049
Intangible assets	234	234
Total non-current assets	53,561	52,283
TOTAL ASSETS	64,651	62,173
LIABILITIES		
Current liabilities		
Payables	539	334
Borrowings	176	167
Provisions	299	271
Total current liabilities	1,014	772
Non-current liabilities		
Borrowings	3,256	3,430
Provisions	5	2
Total non-current liabilities	3,261	3,432
TOTAL LIABILITIES	4,275	4,204
NET ASSETS	60,376	57,969
EQUITY		
Accumulated surplus	50,988	49,382
Revaluation reserves	9,388	8,587
<u>TOTAL EQUITY</u>	<u>60,376</u>	<u>57,969</u>

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
Current assets		
Cash and cash equivalents	597	466
Investments	9,000	8,000
Receivables	282	258
Inventories	60	75
Total current assets	9,939	8,799
Non-current assets		
Infrastructure, property, plant and equipment	38,245	38,246
Total non-current assets	38,245	38,246
TOTAL ASSETS	48,184	47,045
LIABILITIES		
Current liabilities		
Payables	118	181
Provisions	299	271
Total current liabilities	417	452
Non-current liabilities		
Provisions	5	2
Total non-current liabilities	5	2
TOTAL LIABILITIES	422	454
NET ASSETS	47,762	46,591
EQUITY		
Accumulated surplus	21,069	20,493
Revaluation reserves	26,693	26,098
TOTAL EQUITY	47,762	46,591

Statement of Financial Position – Strategic Services Australia Ltd

as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Current assets		
Cash and cash equivalents	354	337
Receivables	45	112
Other	62	3
Total current assets	461	452
Non-current assets		
Infrastructure, property, plant and equipment	23	31
Total non-current assets	23	31
TOTAL ASSETS	484	483
LIABILITIES		
Current liabilities		
Payables	42	45
Provisions	40	41
Other Current Liabilities	67	30
Total current liabilities	149	116
Non-current liabilities		
Provisions	1	3
Total non-current liabilities	1	3
TOTAL LIABILITIES	150	119
NET ASSETS	334	364
EQUITY		
Accumulated surplus	334	364
TOTAL EQUITY	334	364

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

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

a. Upper Hunter Water Supplies

Comprising the operations and net assets of Council's water supply activities incorporating the following Rate Funds:

- Scone Water Supplies
- Merriwa Water Supplies
- Murrurundi Water Supplies

b. Upper Hunter Sewerage Service

Comprising the operations and net assets of Council's sewerage reticulation and treatment activities incorporating the following Rate Funds:

- Scone Sewerage Service
- Merriwa Sewerage Service
- Murrurundi Sewerage Service

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

Note 1. Significant Accounting Policies (continued)

Category 2

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

a. Strategic Services Australia Limited

Comprising the operations of an off-site records storage and management facility and the provision of services to local government throughout the Hunter Region.

Monetary amounts

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

(i) Taxation equivalent charges

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

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

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 27.5%

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

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

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

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

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

Income tax

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

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

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

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

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

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

Note 1. Significant Accounting Policies (continued)

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

Local government rates and charges

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

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

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

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

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

Note 1. Significant Accounting Policies (continued)

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Upper Hunter Shire Council

To the Councillors of the Upper Hunter Shire Council

Opinion

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

The declared business activities of the Council are:

- Water supply
- Sewerage
- Strategic Services Australia Ltd.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'Furqan Yousuf', with a stylized flourish at the end.

Furqan Yousuf

Delegate of the Auditor-General for New South Wales

31 October 2019
SYDNEY

Upper Hunter Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2019

Special Schedules

for the year ended 30 June 2019

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Permissible income for general rates

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	10,784	10,547
Plus or minus adjustments ²	b	24	(7)
Notional general income	c = a + b	10,808	10,540
Permissible income calculation			
Or rate peg percentage	e	2.70%	2.30%
Or plus rate peg amount	i = e x (c + g)	292	242
Sub-total	k = (c + g + h + i + j)	11,100	10,782
Plus (or minus) last year's carry forward total	l	(1)	1
Sub-total	n = (l + m)	(1)	1
Total permissible income	o = k + n	11,099	10,783
Less notional general income yield	p	11,098	10,784
Catch-up or (excess) result	q = o - p	1	(1)
Carry forward to next year ⁶	t = q + r + s	1	(1)

Notes

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Upper Hunter Shire Council

To the Councillors of Upper Hunter Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'Furqan Yousuf', with a stylized flourish at the end.

Furqan Yousuf

Delegate of the Auditor-General for New South Wales

31 October 2019
SYDNEY

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Buildings	Buildings	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Buildings – non-specialised	250	250	15	12	760	793	0.0%	100.0%	0.0%	0.0%	0.0%
	Buildings – specialised	50	50	296	348	24,255	34,027	60.0%	40.0%	0.0%	0.0%	0.0%
	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Administration Centres	50	50	65	64	6,051	8,203	95.0%	5.0%	0.0%	0.0%	0.0%
	Council Works Depot	50	50	37	61	1,126	1,764	0.0%	100.0%	0.0%	0.0%	0.0%
	Council Public Halls	50	50	58	67	4,765	7,094	0.0%	80.0%	20.0%	0.0%	0.0%
	Libraries	20	20	10	8	943	1,529	80.0%	20.0%	0.0%	0.0%	0.0%
	Cultural Facilities	20	20	7	7	1,213	1,823	0.0%	100.0%	0.0%	0.0%	0.0%
	Sub-total	490	490	488	567	39,113	55,233	53.3%	44.1%	2.6%	0.0%	0.0%
Other structures	Other structures	100	100	111	103	1,693	1,957	27.0%	14.0%	52.0%	7.0%	0.0%
	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	100	100	111	103	1,693	1,957	27.0%	14.0%	52.0%	7.0%	0.0%
Roads	Sealed roads	—	—	—	—	136,815	143,689	26.0%	60.0%	2.0%	1.0%	11.0%
	Sealed roads surface	750	750	1,763	1,753	40,339	50,018	33.0%	61.0%	3.0%	2.0%	1.0%
	Unsealed roads	2,000	2,000	2,355	2,258	22,498	33,293	21.0%	47.0%	26.0%	6.0%	0.0%
	Bridges	350	350	226	212	48,055	50,009	55.0%	42.0%	3.0%	0.0%	0.0%
	Footpaths	40	40	65	65	6,746	7,090	85.0%	12.0%	2.0%	1.0%	0.0%
	Other road assets	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Bulk earthworks	—	—	—	—	176,638	176,638	100.0%	0.0%	0.0%	0.0%	0.0%
	Other	—	—	—	—	1	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Culverts	—	—	—	—	10,600	11,117	84.0%	13.0%	2.0%	1.0%	0.0%
	Kerb and Gutter	150	150	—	—	24,384	27,809	30.0%	44.0%	21.0%	4.0%	1.0%
	Sub-total	3,290	3,290	4,409	4,288	466,076	499,663	57.8%	33.6%	4.1%	1.1%	3.4%
	Water supply network	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	—	—	—	—	1	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Mains / Pipes	750	750	341	356	34,513	59,152	39.0%	10.0%	32.0%	19.0%	0.0%
	Reservoirs	100	100	83	35	8,361	12,918	10.0%	54.0%	29.0%	7.0%	0.0%
	Pumping Stations	50	50	79	60	2,513	3,534	0.0%	0.0%	100.0%	0.0%	0.0%
	Treatment Plants	150	150	138	282	3,943	13,053	0.0%	0.0%	100.0%	0.0%	0.0%
	Bores/Wells	50	50	—	32	870	1,528	24.0%	0.0%	76.0%	0.0%	0.0%

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard		Estimated cost to bring to the agreed level of service set by Council	2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
									1	2	3	4	5
Water supply network	Other Infrastructure	20	20	—	—	—	342	826	0.0%	0.0%	100.0%	0.0%	0.0%
	Sub-total	1,120	1,120	641	765	50,543	91,011		27.2%	14.2%	45.3%	13.3%	0.0%
Sewerage network	Sewerage network	—	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	—	—	—	—	—	(1)	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Mains / Pipes	400	400	206	130	23,558	44,922	44,922	12.0%	16.0%	61.0%	11.0%	0.0%
	Pumping Stations	100	100	84	176	3,703	6,338	6,338	18.0%	4.0%	78.0%	0.0%	0.0%
	Treatment Plants	250	250	318	283	8,036	17,802	17,802	0.0%	0.0%	88.0%	12.0%	0.0%
	Other Infrastructure	50	50	—	—	1,538	2,544	2,544	22.0%	26.0%	8.0%	44.0%	0.0%
	Sub-total	800	800	608	589	36,834	71,606		9.9%	11.3%	67.3%	11.4%	0.1%
Stormwater drainage	Stormwater drainage	—	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	—	—	—	—	—	(1)	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Stormwater drainage pits	60	60	—	—	2,763	3,024	3,024	61.0%	28.0%	9.0%	1.0%	1.0%
	Pipes	50	50	130	100	13,758	15,343	15,343	53.0%	26.0%	20.0%	0.0%	1.0%
	Box Culverts	350	350	—	—	3,238	3,922	3,922	30.0%	33.0%	23.0%	11.0%	3.0%
	Headwalls	20	20	—	—	531	631	631	35.0%	24.0%	37.0%	2.0%	2.0%
	Open Channel	20	20	—	—	695	695	695	17.0%	71.0%	11.0%	0.0%	1.0%
	Basin	20	20	—	—	1,176	1,176	1,176	15.0%	75.0%	10.0%	0.0%	0.0%
	Causeways	—	—	—	—	67	92	92	0.0%	0.0%	100.0%	0.0%	0.0%
	Other (Dish Drain)	10	10	—	—	269	298	298	50.0%	40.0%	8.0%	0.0%	2.0%
	Sub-total	530	530	130	100	22,496	25,181		46.9%	30.9%	19.0%	1.9%	1.3%
Open space / recreational assets	Swimming pools	150	150	100	90	4,213	8,906	8,906	4.0%	8.0%	53.0%	35.0%	0.0%
	Other	—	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Parks and Gardens	400	400	538	465	3,359	4,577	4,577	47.0%	26.0%	14.0%	11.0%	2.0%
	Sportsgrounds	500	500	624	945	13,311	16,140	16,140	17.0%	47.0%	32.0%	4.0%	0.0%
	Open Space Earthworks	—	—	—	—	562	562	562	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	1,050	1,050	1,262	1,500	21,445	30,185		19.3%	31.4%	34.9%	14.1%	0.3%

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

Asset Class	Asset Category	Estimated cost to bring to the		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Other infrastructure assets	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Aerodrome	100	100	74	43	5,853	6,911	29.0%	46.0%	20.0%	4.0%	1.0%
	Saleyards	100	100	176	118	4,819	5,564	28.0%	48.0%	24.0%	0.0%	0.0%
	Depot & other	50	50	39	54	2,572	3,040	30.0%	61.0%	6.0%	3.0%	0.0%
	Transport Ancillary	75	75	83	83	737	921	23.0%	75.0%	2.0%	0.0%	0.0%
	Sub-total	325	325	372	298	13,981	16,436	28.5%	51.1%	17.8%	2.2%	0.4%
TOTAL - ALL ASSETS		7,705	7,705	8,021	8,210	652,181	791,272	47.1%	30.2%	16.5%	4.0%	2.2%

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

Infrastructure asset condition assessment 'key'

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	8,400	138.23%	176.04%	139.94%	>=100.00%
Depreciation, amortisation and impairment	6,077				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	7,705	1.21%	1.03%	0.86%	<2.00%
Net carrying amount of infrastructure assets	638,200				
Asset maintenance ratio					
Actual asset maintenance	8,210	102.36%	96.99%	97.06%	>100.00%
Required asset maintenance	8,021				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	7,705	0.97%	0.84%	0.54%	
Gross replacement cost	791,272				

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

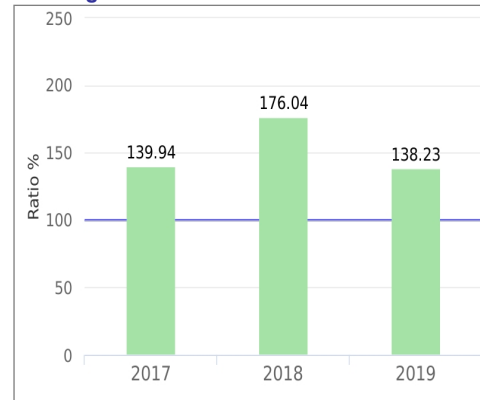
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

Buildings and infrastructure renewals ratio



Infrastructure renewals ratio

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

Commentary on result

18/19 ratio 138.23%

Council continues to have a strong focus on asset renewals. Refurbishment and renewals of roads and bridges within the Shire remains high on Council's priorities. Increase renewal activity within the Water and Sewer networks should become prominent over the 2019/20 to 2020/21 years.

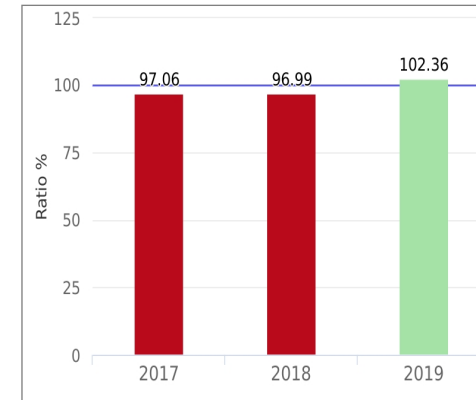
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result

18/19 ratio 102.36%

Council's main focus for several years has been on the infrastructure maintenance and renewals program. Council has maintained a constant level to benchmark standards. Continued focus on maintaining its asset base will assist in avoiding future backlog issues.

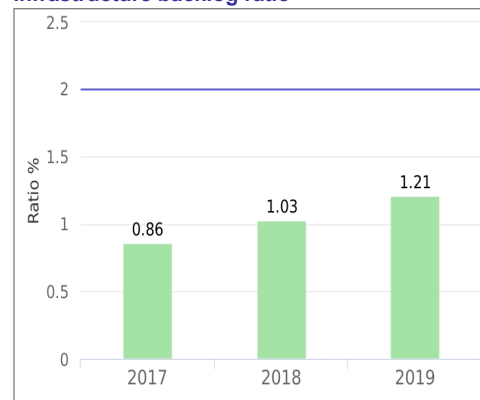
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result

18/19 ratio 1.21%

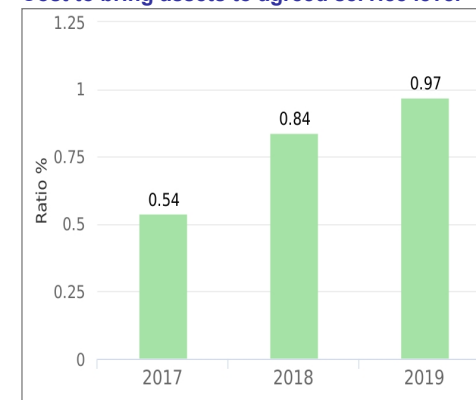
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on result

18/19 ratio 0.97%

With the rise in backlog ratio the concurrent rise in cost to bring assets back to an agreed level of service has occurred. Council will continually monitor the needs of the Community and assess the requirement to maintain an acceptable cost level to return the assets to the Communities agreed level of service.

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2019	2018	2019	2018	2019	2018	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	206.64%	228.05%	—	100.89%	—	50.72%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	1.05%	0.84%	2.22%	2.24%	2.17%	2.15%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	101.24%	100.06%	119.34%	79.13%	96.88%	96.83%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	0.92%	0.74%	1.23%	1.26%	1.12%	1.14%	

(1) Excludes Work In Progress (WIP)

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