

Upper Hunter Shire Council

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2022

Upper Hunter Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2022

Upper Hunter Shire Council

General Purpose Financial Statements

for the year ended 30 June 2022

Contents	Page
Understanding Council's Financial Statements	3
Statement by Councillors and Management	4
Primary Financial Statements:	
Income Statement	5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	91
On the Financial Statements (Sect 417 [3])	92

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 B1-2.

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.

Upper Hunter Shire Council

General Purpose Financial Statements

for the year ended 30 June 2022

Understanding Council's Financial Statements

Introduction

Each year NSW local governments are required to present 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 2022.

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.

Upper Hunter Shire Council

General Purpose Financial Statements

for the year ended 30 June 2022

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

The attached general purpose financial statements have been prepared in accordance with:

- the *Local Government Act 1993* 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 26 September 2022.



Maurice Collison
Mayor
28 October 2022



James Burns
Councillor
28 October 2022



Greg McDonald
General Manager
28 October 2022



Kristian Enevoldson
Responsible Accounting Officer
28 October 2022

Upper Hunter Shire Council

Statement of Comprehensive Income

for the year ended 30 June 2022

\$ '000	Notes	2022	2021
Net operating result for the year – from Income Statement		3,788	12,431
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-6	<u>112,642</u>	<u>2,787</u>
Total items which will not be reclassified subsequently to the operating result		112,642	2,787
Total other comprehensive income for the year		112,642	2,787
Total comprehensive income for the year attributable to Council		116,430	15,218

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

Upper Hunter Shire Council

Statement of Financial Position

as at 30 June 2022

\$ '000	Notes	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	3,121	1,547
Investments	C1-2	33,529	32,500
Receivables	C1-4	15,722	17,551
Inventories	C1-5	1,643	1,761
Other	C1-11	1,389	289
Total current assets		55,404	53,648
Non-current assets			
Infrastructure, property, plant and equipment (IPPE)	C1-6	1,130,768	999,330
Intangible assets	C1-7	234	234
Right of use assets	C2-1	371	324
Investments accounted for using the equity method	D2-1,D2-3	-	245
Total non-current assets		1,131,373	1,000,133
Total assets		1,186,777	1,053,781
LIABILITIES			
Current liabilities			
Payables	C3-1	9,525	8,171
Contract liabilities	C3-2	14,028	7,310
Borrowings	C3-3	2,570	2,572
Employee benefit provisions	C3-4	5,202	5,878
Total current liabilities		31,325	23,931
Non-current liabilities			
Borrowings	C3-3	31,757	34,145
Employee benefit provisions	C3-4	262	386
Provisions	C3-5	19,966	8,282
Total non-current liabilities		51,985	42,813
Total liabilities		83,310	66,744
Net assets		1,103,467	987,037
EQUITY			
Accumulated surplus	C4-1	448,168	444,380
IPPE revaluation reserve	C4-1	655,299	542,657
Council equity interest		1,103,467	987,037
Total equity		1,103,467	987,037

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

Upper Hunter Shire Council

Statement of Changes in Equity

for the year ended 30 June 2022

\$ '000	Notes	2022			2021		
		Accumulated surplus	IPPE revaluation reserve	Total equity	Accumulated surplus	IPPE revaluation reserve	Total equity
Opening balance at 1 July		444,380	542,657	987,037	431,949	539,870	971,819
Restated opening balance		444,380	542,657	987,037	431,949	539,870	971,819
Net operating result for the year		3,788	–	3,788	12,431	–	12,431
Restated net operating result for the period		3,788	–	3,788	12,431	–	12,431
Other comprehensive income							
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-6	–	112,642	112,642	–	2,787	2,787
Other comprehensive income		–	112,642	112,642	–	2,787	2,787
Total comprehensive income		3,788	112,642	116,430	12,431	2,787	15,218
Closing balance at 30 June		448,168	655,299	1,103,467	444,380	542,657	987,037

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

Upper Hunter Shire Council

Statement of Cash Flows

for the year ended 30 June 2022

Original unaudited budget 2022	\$ '000	Notes	Actual 2022	Actual 2021
Cash flows from operating activities				
<i>Receipts:</i>				
19,616	Rates and annual charges		19,873	18,736
12,339	User charges and fees		11,822	12,658
459	Interest received		259	516
44,190	Grants and contributions		37,995	25,311
–	Bonds, deposits and retentions received		267	140
1,947	Other		5,613	4,312
<i>Payments:</i>				
(17,882)	Payments to employees		(17,671)	(16,871)
(10,988)	Payments for materials and services		(21,019)	(17,722)
(1,254)	Borrowing costs		(1,249)	(1,187)
(8,022)	Other		(2,575)	(3,113)
40,405	Net cash flows from operating activities	G1-1	33,315	22,780
Cash flows from investing activities				
<i>Receipts:</i>				
750	Sale of real estate assets		163	820
1,907	Proceeds from sale of IPPE		485	333
<i>Payments:</i>				
–	Acquisition of term deposits		(1,029)	(9,000)
(54,700)	Payments for IPPE		(28,806)	(29,612)
(52,043)	Net cash flows from investing activities		(29,187)	(37,459)
Cash flows from financing activities				
<i>Receipts:</i>				
8,870	Proceeds from borrowings		–	4,796
<i>Payments:</i>				
(2,440)	Repayment of borrowings		(2,438)	(2,133)
–	Principal component of lease payments		(116)	(127)
6,430	Net cash flows from financing activities		(2,554)	2,536
(5,208)	Net change in cash and cash equivalents		1,574	(12,143)
–	Cash and cash equivalents at beginning of year		1,547	13,690
(5,208)	Cash and cash equivalents at end of year	C1-1	3,121	1,547
–	plus: Investments on hand at end of year	C1-2	33,529	32,500
(5,208)	Total cash, cash equivalents and investments		36,650	34,047

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

Upper Hunter Shire Council

Contents for the notes to the Financial Statements for the year ended 30 June 2022

A About Council and these financial statements	13
A1-1 Basis of preparation	13
B Financial Performance	16
B1 Functions or activities	16
B1-1 Functions or activities – income, expenses and assets	16
B1-2 Components of functions or activities	17
B2 Sources of income	19
B2-1 Rates and annual charges	19
B2-2 User charges and fees	20
B2-3 Other revenues	21
B2-4 Grants and contributions	22
B2-5 Interest and investment income	26
B2-6 Other income	26
B3 Costs of providing services	27
B3-1 Employee benefits and on-costs	27
B3-2 Materials and services	28
B3-3 Borrowing costs	28
B3-4 Depreciation, amortisation and impairment of non-financial assets	30
B3-5 Other expenses	31
B4 Gains or losses	32
B4-1 Gain or loss from the disposal, replacement and de-recognition of assets	32
B5 Performance against budget	33
B5-1 Material budget variations	33

Upper Hunter Shire Council

Contents for the notes to the Financial Statements for the year ended 30 June 2022

C Financial position	35
C1 Assets we manage	35
C1-1 Cash and cash equivalents	35
C1-2 Financial investments	36
C1-3 Restricted and allocated cash, cash equivalents and investments	37
C1-4 Receivables	39
C1-5 Inventories	41
C1-6 Infrastructure, property, plant and equipment	42
C1-7 Intangible assets	45
C2 Leasing activities	46
C2-1 Council as a lessee	46
C2-2 Council as a lessor	47
C3 Liabilities of Council	49
C3-1 Payables	49
C3-2 Contract Liabilities	50
C3-3 Borrowings	52
C3-4 Employee benefit provisions	54
C3-5 Provisions	56
C4 Reserves	58
C4-1 Nature and purpose of reserves	58
D Council structure	59
D1 Results by fund	59
D1-1 Income Statement by fund	59
D1-2 Statement of Financial Position by fund	59
D2 Interests in other entities	61
D2-1 Interests in joint arrangements	61
D2-2 Unconsolidated structured entities	62
E Risks and accounting uncertainties	64
E1-1 Risks relating to financial instruments held	64
E2-1 Fair value measurement	67
E3-1 Contingencies	74
F People and relationships	77
F1 Related party disclosures	77
F1-1 Key management personnel (KMP)	77
F1-2 Councillor and Mayoral fees and associated expenses	79
F2 Other relationships	80
F2-1 Audit fees	80
G Other matters	81
G1-1 Statement of Cash Flows information	81
G2-1 Commitments	82
G3-1 Events occurring after the reporting date	83

A1-1 Basis of preparation (continued)

G4 Statement of developer contributions as at 30 June 2022	84
G4-1 Summary of developer contributions	84
G4-2 Developer contributions by plan	84
G5 Statement of performance measures	86
G5-1 Statement of performance measures – consolidated results	86
G5-2 Statement of performance measures by fund	87
H Additional Council disclosures (unaudited)	89
H1-1 Statement of performance measures – consolidated results (graphs)	89

A About Council and these financial statements

A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 26 September 2022. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the 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 (Act)* and *Local Government (General) Regulation 2005 (Regulation)*, 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.

Certain items within expenses in the Income Statement have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2020/21. There is no overall impact on the total expenses from continuing operations.

Historical cost convention

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

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 C1-6
- (ii) estimated tip remediation provisions – refer Note C3-5
- (iii) employee benefit provisions – refer Note C3-4

Significant judgements in applying the Council's accounting policies

- (iv) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables – refer Note C1-4

Monies and other assets received by Council

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

A1-1 Basis of preparation (continued)

- Sewerage service
- Gummun Place Hostel

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.

Volunteer services

Income relating to volunteer services should be recognised where the amount of these services are material as Council would have normally incurred the cost of these services had not donated. Accordingly these amounts of the volunteer services are also required to be measured reliably.

Council does enlist the services of volunteers however these amounts are not considered material to the financial statements and therefore are not recognised as income.

New accounting standards and interpretations issued but not yet effective

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2021 reporting period.

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

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 1059 Service Concession Arrangements: Grantors

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

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

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

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

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

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

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

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

A1-1 Basis of preparation (continued)

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

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

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

AASB2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
AASB2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128
AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

The standard amendments address an acknowledged inconsistency between the requirements in AASB10 and those in AASB128 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

These amendments will only impact Council where there has been a sale or contribution of assets between Council and any Joint Venture or Associate.

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

New accounting standards adopted during the year

During the year Council adopted all accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from the first time at 30 June 2021.

Those newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures are further discussed in Note G4-1.

B Financial Performance

B1 Functions or activities

B1-1 Functions or activities – income, expenses and assets

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note B1-2.

\$ '000	Income		Expenses		Operating result		Grants and contributions		Carrying amount of assets	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Functions or activities										
Governance	–	–	697	657	(697)	(657)	–	–	–	–
Administration	1,720	563	1,622	1,092	98	(529)	76	171	78,512	52,128
Public order and safety	538	527	1,238	1,449	(700)	(922)	311	296	3,659	3,141
Health	204	183	291	258	(87)	(75)	–	–	–	–
Environment	5,361	5,451	11,659	7,330	(6,298)	(1,879)	322	149	10,165	4,285
Community services and education	3,665	4,141	4,569	4,913	(904)	(772)	1,443	1,543	8,298	7,231
Housing and community amenities	757	789	1,339	1,378	(582)	(589)	339	372	31,891	27,949
Water Supplies	4,750	6,031	5,665	5,088	(915)	943	359	1,699	83,813	81,372
Sewerage Services	3,980	3,680	3,056	3,003	924	677	480	246	45,628	50,724
Recreation and culture	1,286	4,011	4,959	4,967	(3,673)	(956)	1,138	3,689	56,045	51,567
Mining, manufacturing and construction	191	157	418	459	(227)	(302)	–	–	511	430
Transport and communication	14,148	9,893	17,199	14,904	(3,051)	(5,011)	14,374	7,679	839,835	748,747
Economic affairs	8,391	9,975	6,725	3,700	1,666	6,275	6,695	8,959	28,420	26,207
Share of gains(losses) in joint ventures	–	–	247	61	(247)	(61)	–	–	–	–
General purpose revenue	18,481	16,289	–	–	18,481	16,289	4,443	5,245	–	–
Total functions and activities	63,472	61,690	59,684	49,259	3,788	12,431	29,980	30,048	1,186,777	1,053,781

B1-2 Components of functions or activities

Details relating to the Council's functions or activities as reported in B1-1 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

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.

B1-2 Components of functions or activities (continued)

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.

B2 Sources of income

B2-1 Rates and annual charges

\$ '000	2022	2021
Ordinary rates		
Residential	4,687	4,550
Farmland	6,054	5,939
Mining	130	127
Business	637	648
Less: pensioner rebates	(153)	(147)
Rates levied to ratepayers	11,355	11,117
Pensioner rate subsidies received	87	79
Total ordinary rates	11,442	11,196
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	3,305	3,229
Stormwater management services	97	97
Water supply services	1,345	1,301
Sewerage services	3,058	2,992
Waste management services (non-domestic)	243	236
Environmental	129	127
Other	143	143
Less: pensioner rebates	(267)	(253)
Annual charges levied	8,053	7,872
Pensioner subsidies received:		
– Water	44	40
– Sewerage	41	37
– Domestic waste management	66	60
Total annual charges	8,204	8,009
Total rates and annual charges	19,646	19,205

Council has used 2019 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy

Rates and annual charges are recognised as revenue at the beginning of the rating period to which they relate. Prepaid rates are recognised as a financial liability until the beginning of the rating period.

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

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates and are recognised within the underlying revenue item based on their substance.

B2-2 User charges and fees

\$ '000	Timing	2022	2021
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Water supply services	2	2,792	2,758
Sewerage services	2	236	232
Total specific user charges		3,028	2,990
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Building regulation	2	167	131
Inspection services		41	42
Private works – section 67	2	166	130
Regulatory/ statutory fees		64	45
Registration fees		19	15
Section 10.7 certificates (EP&A Act)	2	101	110
Section 603 certificates		51	52
Town planning	2	215	176
Total fees and charges – statutory/regulatory		824	701
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome	2	84	98
Aged care	2	402	396
Caravan park	2	38	47
CCS fees		5	5
Cemeteries	2	124	112
Child care	2	1,509	1,970
Lease rentals	2	26	37
Library and art gallery		6	4
NSW rural fire services reimbursements	2	178	178
Park rents		10	19
Public halls		10	9
Refuse and effluent disposal		10	10
Transport for NSW works (state roads not controlled by Council)	2	2,542	2,225
Roads		–	–
Saleyards	2	628	591
Sport facilities	2	295	305
Sundry sales		40	18
Tourism	2	384	–
Waste disposal tipping fees	2	908	1,186
Water connection fees	2	19	17
Total fees and charges – other		7,218	7,227
Total other user charges and fees		8,042	7,928
Total user charges and fees		11,070	10,918
Timing of revenue recognition for user charges and fees			
User charges and fees recognised over time (1)		–	–
User charges and fees recognised at a point in time (2)		11,070	10,918
Total user charges and fees		11,070	10,918

Accounting policy

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

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service or in some cases such as caravan parks, the customer is required to pay on arrival or a deposit in advance. There is no material obligation for Council in relation to refunds or returns.

B2-2 User charges and fees (continued)

Where an upfront fee is charged such as joining fees for the leisure centre the fee is recognised on a straight-line basis over the expected life of the membership.

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

B2-3 Other revenues

\$ '000	Timing	2022	2021
Fines		3	12
Legal fees recovery – other		64	1
Commissions and agency fees	2	132	104
Insurance claims recoveries		266	187
Sales – general		9	1
Diesel and other vehicle rebates	2	117	131
Insurance rebates and incentives	2	58	55
Sales – scrap metal	2	320	148
Sales – tourism		4	12
Sustainability Rebates	2	100	–
Other – sundry		32	13
Other (Road assets found and/or corrected)		–	11
Other (Sewer assets found and/or corrected)		–	–
Other (RFS Red Fleet Recognition)		900	–
Total other revenue		2,005	675
Timing of revenue recognition for other revenue			
Other revenue recognised over time (1)		–	–
Other revenue recognised at a point in time (2)		2,005	675
Total other revenue		2,005	675

Accounting policy for other revenue

Where the revenue is earned for the provision of specified goods / services under an enforceable contract, revenue is recognised when or as the obligations are satisfied.

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

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

B2-4 Grants and contributions

\$ '000	Timing	Operating 2022	Operating 2021	Capital 2022	Capital 2021
General purpose grants and non-developer contributions (untied)					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	2	1,751	1,555	–	–
Financial assistance – local roads component	2	1,099	978	–	–
Payment in advance - future year allocation					
Financial assistance – general component	2	2,693	1,666	–	–
Financial assistance – local roads component	2	1,691	1,046	–	–
Amount recognised as income during current year		7,234	5,245	–	–
Special purpose grants and non-developer contributions (tied)					
Cash contributions					
Previously specific grants:					
Pensioners' rates subsidies:					
Water supplies	2	10	–	103	1,595
Sewerage services	2	–	–	95	55
Aged care	2	968	1,065	–	–
Child care	2	287	312	–	–
Community services	2	195	179	–	–
Drought communities program	2	–	289	84	618
Economic development	2	68	143	144	345
Employment and training programs		75	52	–	–
Environmental programs		287	158	41	27
Heritage and cultural		18	17	–	–
Library – per capita	2	82	89	–	–
LIRS subsidy	2	33	55	–	–
NSW rural fire services and NSW state emergency services	2	–	–	68	30
NSW rural fire services (emergency services levy)	2	243	265	–	–
NSW state emergency service (emergency services levy)	2	–	6	–	–
Public halls		–	–	6	121
Recreation and culture	2	22	1	913	2,298
Street lighting	2	56	56	–	–
Transport (roads to recovery)	2	1,226	1,812	–	–
Transport (other roads and bridges funding)	2	1,001	75	12,845	12,096
Transport ancillaries	2	–	–	856	551
Other (regulatory)		17	33	–	–
Previously contributions:					
Business development		5	1	–	–
Community services		13	2	30	–
Drainage	2	–	–	–	19
Recreation and culture	2	22	–	–	290
Transport for NSW contributions (regional roads, block grant)	2	1,315	1,315	376	154
Sewerage (excl. section 64 contributions)		–	–	8	141
Paving		–	–	81	9
Public Halls & Centres		–	–	–	15
Transport Other	2	175	–	70	44
Water supplies (excl. section 64 contributions)		27	–	–	66
Sustainability		–	–	–	–
Total special purpose grants and non-developer contributions – cash		6,145	5,925	15,720	18,474

B2-4 Grants and contributions (continued)

\$ '000	Timing	Operating 2022	Operating 2021	Capital 2022	Capital 2021
Non-cash contributions					
Roads and bridges		-	-	-	107
Sewerage (excl. section 64 contributions)	2	-	-	69	22
Transport Ancilliaries	2	-	-	-	-
Total other contributions – non-cash		-	-	69	129
Total special purpose grants and non-developer contributions (tied)		6,145	5,925	15,789	18,603
Total grants and non-developer contributions		13,379	11,170	15,789	18,603
Comprising:					
– Commonwealth funding		9,936	8,963	2,470	906
– State funding		3,251	2,207	13,050	17,697
– Other funding		192	-	269	-
		13,379	11,170	15,789	18,603

Developer contributions

\$ '000	Notes	Timing	Operating 2022	Operating 2021	Capital 2022	Capital 2021
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.11 – contributions towards amenities/services		2	-	4	89	54
S 7.12 – fixed development consent levies		2	-	-	195	150
S 64 – water supply contributions		2	-	-	220	38
S 64 – sewerage service contributions		2	-	-	308	29
Total developer contributions – cash			-	4	812	271
Total developer contributions			-	4	812	271
Total contributions			-	4	812	271
Total grants and contributions			13,379	11,174	16,601	18,874
Timing of revenue recognition for grants and contributions						
Grants and contributions recognised over time (1)			-	-	-	-
Grants and contributions recognised at a point in time (2)			13,379	11,174	16,601	18,874
Total grants and contributions			13,379	11,174	16,601	18,874

Unspent grants and contributions

Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner or in a future period but which are not yet spent in accordance with those conditions are as follows:

\$ '000	Operating 2022	Operating 2021	Capital 2022	Capital 2021

B2-4 Grants and contributions (continued)

\$ '000	Operating 2022	Operating 2021	Capital 2022	Capital 2021
Unspent grants and contributions				
Unspent funds at 1 July	126	275	6,916	3,675
Add: Funds recognised as revenue in the reporting year but not yet spent in accordance with the conditions	-	-	-	-
Add: Funds received and not recognised as revenue in the current year	320	99	8,408	5,213
Less: Funds recognised as revenue in previous years that have been spent during the reporting year	-	-	-	-
Less: Funds received in prior year but revenue recognised and funds spent in current year	(197)	(248)	(1,836)	(1,972)
Unspent funds at 30 June	249	126	13,488	6,916
Contributions				
Unspent funds at 1 July	-	-	4,641	4,478
Add: contributions recognised as revenue in the reporting year but not yet spent in accordance with the conditions	-	-	846	394
Add: contributions received and not recognised as revenue in the current year	-	-	-	-
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 as revenue in previous years that have been spent during the reporting year	-	-	(169)	(231)
Unspent contributions at 30 June	-	-	5,318	4,641

Accounting policy**Grants and contributions – enforceable agreement with sufficiently specific performance obligations**

Grant and contribution revenue from an agreement which is enforceable and contains sufficiently specific performance obligations is recognised as or when control of each performance obligations is transferred.

The performance obligations vary according to the agreement but include delivery of services or events for which the grant is provided for such as provision for youth and community services or economic/tourism events. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Performance obligations may be satisfied either at a point in time or over time and this is reflected in the revenue recognition pattern. Point in time recognition occurs when the beneficiary obtains control of the goods / services at a single time (e.g. completion of the project when a report / outcome is provided), whereas over time recognition is where the control of the services is ongoing throughout the project (e.g. provision of community health services through the year).

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

Capital grants

Capital grants received by Council under an enforceable contract for the acquisition or construction of infrastructure, property, plant and equipment to identified specifications which will be under Council's control on completion are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project.

B2-4 Grants and contributions (continued)

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

Developer contributions

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

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 Council may apply contributions according to the priorities established in work schedules for the contribution plan.

Other grants and contributions

Assets, including cash, received from other grants and contributions are recognised at fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

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

B2-5 Interest and investment income

\$ '000		2022	2021
Interest on financial assets measured at amortised cost			
– Overdue rates and annual charges (incl. special purpose rates)		120	73
– Cash and investments		201	323
Finance income on the net investment in the lease	C2-2b	–	–
Total interest and investment income (losses)		321	396
Interest and investment income is attributable to:			
Unrestricted investments/financial assets:			
Overdue rates and annual charges (general fund)		99	73
General Council cash and investments		54	119
Restricted investments/funds – external:			
Development contributions			
– Section 7.11		6	7
– Section 64		26	30
Water fund operations		76	87
Sewerage fund operations		55	77
Other externally restricted assets		5	3
Total interest and investment income		321	396

Accounting policy

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

B2-6 Other income

\$ '000	Notes	2022	2021
Rental income			
Other lease income			
Rental leases & hall hire		450	448
Total other lease income		450	448
Total rental income	C2-2	450	448
Total other income		450	448

B3 Costs of providing services

B3-1 Employee benefits and on-costs

\$ '000	2022	2021
Salaries and wages	15,258	15,276
Employee leave entitlements (ELE)	1,686	2,117
Superannuation	1,747	1,745
Workers' compensation insurance	433	353
Fringe benefit tax (FBT)	49	44
Protective clothing	39	22
Other	108	77
Total employee costs	19,320	19,634
Less: capitalised costs	(2,312)	(2,768)
Total employee costs expensed	17,008	16,866
Number of 'full-time equivalent' employees (FTE) at year end	256	252
Number of 'full-time equivalent' employees (FTE) at year end (incl. vacancies)	270	265

Accounting policy

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 C3-4 for more information.

B3-2 Materials and services *

\$ '000	Notes	2022	2021
Raw materials and consumables		7,649	7,106
Contractor and consultancy costs		29,082	30,263
– Waste services		1,862	1,790
Audit Fees	F2-1	106	111
Previously other expenses:			
Councillor and Mayoral fees and associated expenses	F1-2	131	130
Advertising		179	147
Bank charges		88	84
Child carer – carers payments		471	524
Cleaning		42	55
Computer software charges		605	726
Election expenses		125	–
Electricity and heating		686	719
Insurance		970	784
Office expenses (including computer expenses)		52	56
Postage		63	62
Printing and stationery		82	80
Street lighting		208	232
Subscriptions and publications		109	106
Telephone and communications		273	270
Travel expenses		36	49
Training costs (other than salaries and wages)		149	171
Valuation fees		62	66
Legal expenses:			
– Legal expenses: planning and development		20	45
– Legal expenses: other		99	80
Variable lease expense relating to usage		80	132
Total materials and services		43,229	43,788
Less: capitalised costs		(25,713)	(29,310)
Total materials and services		17,516	14,478

Accounting policy

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

(*) Items have been reclassified in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2020/21.
Refer Note A1-1

B3-3 Borrowing costs

\$ '000	Notes	2022	2021
(i) Interest bearing liability costs			
Interest on leases		10	8
Interest on loans		1,232	1,236
Total interest bearing liability costs		1,242	1,244
Total interest bearing liability costs expensed		1,242	1,244
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Remediation liabilities	C3-5	–	48
Change in present value of tips and quarries		–	(41)
Total other borrowing costs		–	7
Total borrowing costs expensed		1,242	1,251

B3-3 Borrowing costs (continued)

Accounting policy

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

B3-4 Depreciation, amortisation and impairment of non-financial assets

\$ '000	Notes	2022	2021
Depreciation and amortisation			
Plant and equipment		1,580	1,661
Office equipment		35	33
Furniture and fittings		100	97
Infrastructure:	C1-6		
– Buildings – non-specialised		7	7
– Buildings – specialised		1,152	1,163
– Other structures		48	44
– Roads		4,656	4,664
– Bridges		413	401
– Footpaths		28	28
– Stormwater drainage		126	126
– Water supply network		1,888	1,265
– Sewerage network		1,083	890
– Swimming pools		176	168
– Other open space/recreational assets		591	500
– Ancillary infrastructure		493	629
Right of use assets	C2-1	117	126
Other assets:			
– Other		13	17
Reinstatement, rehabilitation and restoration assets:			
– Waste disposal assets	C3-5,C1-6	6,166	976
– Quarry assets	C3-5,C1-6	6	7
Total gross depreciation and amortisation costs		18,678	12,802
Less: capitalised costs		(261)	(351)
Total depreciation and amortisation costs		18,417	12,451
Total depreciation, amortisation and impairment for non-financial assets		18,417	12,451

Accounting policy

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 C1-6 for IPPE assets and Note C1-7 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 not tested for impairment since these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Intangible assets 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 non-financial 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).

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.

B3-5 Other expenses

\$ '000	Notes	2022	2021
Net share of interests in joint ventures and associates using the equity method			
Joint ventures		245	63
Total net share of interests in joint ventures and associates using the equity method	D2-1,D2-3	245	63
Other			
Contributions/levies to other levels of government			
– Emergency services levy (includes FRNSW, SES, and RFS levies)		21	27
– NSW fire brigade levy		78	84
– NSW rural fire service levy		568	778
– Roads and maritime services		160	154
– State water		101	86
– Upper Hunter Weeds Authority		189	186
– Waste levy		697	1,228
– Other contributions/levies		46	39
Donations, contributions and assistance to other organisations (Section 356)		187	158
– Donations and contributions to regional library		–	(27)
Provision for Doubtful Debts		114	–
Total other		2,161	2,713
Total other expenses		2,406	2,776

Accounting policy

Other expenses are recorded on an accruals basis when Council has an obligation for the expenses.

Impairment expenses are recognised when identified.

B4 Gains or losses

B4-1 Gain or loss from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2022	2021
Gain (or loss) on disposal of property (excl. investment property)			
Proceeds from disposal – property		73	–
Less: carrying amount of property assets sold/written off		(114)	–
Gain (or loss) on disposal		(41)	–
Gain (or loss) on disposal of plant and equipment			
	C1-6		
Proceeds from disposal – plant and equipment		412	333
Less: carrying amount of plant and equipment assets sold/written off		(109)	(251)
Gain (or loss) on disposal		303	82
Gain (or loss) on disposal of furniture and fittings			
Less: carrying amount of furniture and fitting assets sold/written off		(22)	–
Gain (or loss) on disposal		(22)	–
Gain (or loss) on disposal of infrastructure			
	C1-6		
Less: carrying amount of infrastructure assets sold/written off		(3,301)	(1,247)
Gain (or loss) on disposal		(3,301)	(1,247)
Gain (or loss) on disposal of real estate assets held for sale			
	C1-5		
Proceeds from disposal – real estate assets		163	820
Less: carrying amount of real estate assets sold/written off		(197)	(1,092)
Gain (or loss) on disposal		(34)	(272)
Net gain (or loss) from disposal of assets		(3,095)	(1,437)

Accounting policy

Gains and losses on disposals are determined by comparing proceeds with carrying amount. 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.

B5 Performance against budget

B5-1 Material budget variations

Council's original budget was adopted by the Council on 27/06/2022 and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions, including new grant programs, changing economic activity, environmental factors, and by decisions made by Council.

While these General Purpose Financial Statements include the original budget adopted by Council, the Act requires Council to review its financial budget on a quarterly basis, so it is able to manage the variation between actuals and budget that invariably occur during the year.

Material variations of more than 10% between original budget and actual results or where the variance is considered material by nature are explained below.

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

\$ '000	2022 Budget	2022 Actual	2022 ----- Variance -----	
Revenues				
Rates and annual charges	18,397	19,646	1,249	7% F
User charges and fees	11,834	11,070	(764)	(6)% U
Other revenues	2,259	2,005	(254)	(11)% U
Included in the other revenue original budget were the expected surpluses from fleet and land held for resale disposals. These transactions have been recognised as Net disposal of assets within the financial statements.				
Operating grants and contributions	13,106	13,379	273	2% F
Capital grants and contributions	32,558	16,601	(15,957)	(49)% U
Council included in its original budget a number of significant grant funded projects that were expected to be completed by the end of June 2022. However, due to the delay in progression of these projects or unsuccessful grant applications the completion of the projects were deferred to the 2022/2023 year if funding was approved or removed pending future grant funding opportunities.				
Interest and investment revenue	459	321	(138)	(30)% U
Continuation and worsening of the soft investment market during early and mid part of the 2021/2022 year resulted in the actual rate of returns on investment being lower than anticipated in the budget. Improvement in the market at the end of the 2021/2022 year is expected to improve returns for the 2022/2023 year.				
Other income	532	450	(82)	(15)% U
Rental market was effected by the increased restrictions and/or lock-downs in the early part of the 2022/2023 year for businesses that held rental agreements with Council. Council provided relief as and when required by legislation which effected the return on rental income. In addition, there were some vacancies noted during the early to mid 2021/2022 for Campbells Corners which filled towards the end of the financial year which also effected the rental return for the year.				
Expenses				
Employee benefits and on-costs	17,539	17,008	531	3% F
Materials and services	10,040	17,516	(7,476)	(74)% U
Increase in actual material and services costs to budget was due primarily to three factors: 1. Change in the reporting format of the financial statements that includes other expenses as materials and services compared to Council's original budget; 2. Emergency flood damage costs incurred from the November and February severe weather events; and 3. Costs incurred that were regarded as non-capital in nature from the aerodrome upgrade identified on capitalisation.				
1.				
2. 2				
Borrowing costs	1,248	1,242	6	0% F
Depreciation, amortisation and impairment of non-financial assets	12,422	18,417	(5,995)	(48)% U

B5-1 Material budget variations (continued)

\$ '000	2022 Budget	2022 Actual	2022 ----- Variance -----	
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Following the recognition of Councils revaluation of landfill rehabilitation and assessment of useful life an increase in the writedown of these revalued landfills resulted in an increase of \$5 million in depreciation write-down of these class of assets. Also, increase in depreciation was noted in water and sewer network infrastructure following revaluation of this class of asset during the 2021/2022 year.

Other expenses	6,550	2,406	4,144	63%	F
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Included in the original budget were a number of costs that have been reallocated as materials and services due to change in reporting framework of the financial statements. This reduction of actual other expenses to budget is reflected, in part, with the increase in materials and services expenditure to original budget.

Net losses from disposal of assets	–	3,095	(3,095)	∞	U
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Council incurred losses on disposal of a number of redundant infrastructure assets that were replaced and/or renewed during the year. Increase in this loss on disposal of assets from prior years was due to the inclusion of the Aerodrome airside infrastructure that was renewed during the 2021/2022 year. The losses for redundant infrastructure were not budgeted for due to the uncertainty of the infrastructure assets to be disposed of.

Statement of cash flows

Cash flows from operating activities	40,405	33,315	(7,090)	(18)%	U
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The original budget included significant grant funding for infrastructure projects that were delayed and ultimately deferred or removed due to the progression of the approved grant funded infrastructure projects or unsuccessful applications for potential infrastructure projects.

Cash flows from investing activities	(52,043)	(29,187)	22,856	(44)%	F
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It was anticipated in the original budget that Council would deliver a significant capital works program for the 2021/2022 year, for which a substantial portion has received approval for funding. However, due to the delay in the progression of a number of these projects Council did not meet the anticipated delivery program.

Cash flows from financing activities	6,430	(2,554)	(8,984)	(140)%	U
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Included in the original budget were anticipated loan funds to be drawn down and coupled with approved grant funding to deliver the significant capital infrastructure program. Due to delays in the progression of the anticipated loan funded projects requirement for the funds did not eventuate during the 2021/2022 year. Based on the original budget Council anticipated to borrow \$8.87m of which no borrowing were entered into.

C Financial position

C1 Assets we manage

C1-1 Cash and cash equivalents

\$ '000	2022	2021
Cash assets		
Cash on hand and at bank	3,121	1,547
Total cash and cash equivalents	3,121	1,547

Reconciliation of cash and cash equivalents

Total cash and cash equivalents per Statement of Financial Position	3,121	1,547
Balance as per the Statement of Cash Flows	3,121	1,547

Accounting policy

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.

C1-2 Financial investments

\$ '000	2022	2022	2021	2021
	Current	Non-current	Current	Non-current
Debt securities at amortised cost				
Interest bearing deposits	33,529	–	32,500	–
Total	33,529	–	32,500	–
Total financial investments	33,529	–	32,500	–
Total cash assets, cash equivalents and investments	36,650	–	34,047	–

Accounting policy

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

Council's financial assets measured at amortised cost comprise trade and other receivables, term deposits and cash and cash equivalents in the Statement of Financial Position. Term deposits with an initial term of more than 3 months are classified as investments rather than cash and cash equivalents.

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.

C1-3 Restricted and allocated cash, cash equivalents and investments

\$ '000	2022	2021
(a) Externally restricted cash, cash equivalents and investments		
Total cash, cash equivalents and investments	36,650	34,047
Less: Externally restricted cash, cash equivalents and investments	<u>(36,332)</u>	<u>(29,534)</u>
Cash, cash equivalents and investments not subject to external restrictions	318	4,513
External restrictions		
External restrictions – included in liabilities		
External restrictions included in cash, cash equivalents and investments above comprise:		
Specific purpose unexpended grants – general fund	13,737	7,042
Hostel	<u>913</u>	<u>818</u>
External restrictions – included in liabilities	14,650	7,860
External restrictions – other		
External restrictions included in cash, cash equivalents and investments above comprise:		
Developer contributions – general	962	839
Developer contributions – water fund	1,751	1,520
Developer contributions – sewer fund	2,607	2,284
Water fund	7,909	8,813
Sewer fund	8,364	8,106
Other contributions	21	23
Other	<u>68</u>	<u>89</u>
External restrictions – other	21,682	21,674
Total external restrictions	36,332	29,534

Cash, cash equivalents and investments subject to external restrictions are those which are only available for specific use by Council due to a restriction placed by legislation or third-party contractual agreement.

\$ '000	2022	2021
(b) Internal allocations		
Cash, cash equivalents and investments not subject to external restrictions	318	4,513
Less: Internally restricted cash, cash equivalents and investments	<u>–</u>	<u>(4,366)</u>
Unrestricted and unallocated cash, cash equivalents and investments	318	147
Internal allocations		
At 30 June, Council has internally allocated funds to the following:		
Plant and vehicle replacement	–	125
Employees leave entitlement	–	1,970
Aged care – Independent Living Units (ILU)	–	103
Childrens sports promotions	–	2
Community & childcare services	–	119
Computer replacement	–	33
Council buildings	–	135
Council elections	–	104
Cultural	–	22
Financial assistance grants in advance	–	1,213
Medical centres	–	12
Office equipment	–	9
Parks and sports facilities	–	70

continued on next page ...

C1-3 Restricted and allocated cash, cash equivalents and investments (continued)

\$ '000	2022	2021
Quarries	-	14
Roadworks and bridges	-	26
Street lighting	-	6
Town planning	-	4
Tourism projects	-	38
Town revitalisation	-	86
Other	-	275
Total internal allocations	-	4,366

Internal allocations

Council's cash, cash equivalents and investments were significantly reduced by considerable outstanding government grant receivables which has resulted in the disclosure of no internal restrictions as at 30 June 2022. These receivables related to major infrastructure projects completed or nearing completion towards the later part of the 2022 financial year in which physical cash on capital expenditure had been paid without subsequent recovery. The most significant infrastructure receivable outstanding at 30 June 2022 was for the Aerodrome redevelopment totaling \$4.5 million.

\$ '000	2022	2021
(c) Unrestricted and unallocated		
Unrestricted and unallocated cash, cash equivalents and investments	318	147

C1-4 Receivables

\$ '000	2022	2022	2021	2021
	Current	Non-current	Current	Non-current
Rates and annual charges	1,855	–	2,000	–
Interest and extra charges	174	–	162	–
User charges and fees	1,807	–	1,865	–
Private works	46	–	63	–
Contributions to works	56	–	22	–
– Interest on investments	129	–	79	–
Government grants and subsidies	11,063	–	12,394	–
Net GST receivable	575	–	987	–
Other debtors	2	–	101	–
Capital debtors (being sale of assets)				
Accrued revenues				
Insurance claim settlement proceeds	464	–	217	–
Wages advance	26	–	30	–
Total	16,197	–	17,920	–
Less: provision for impairment				
Rates and annual charges	(60)	–	(40)	–
User charges and fees	(165)	–	(140)	–
Other debtors	(250)	–	(189)	–
Total provision for impairment – receivables	(475)	–	(369)	–
Total net receivables	15,722	–	17,551	–

\$ '000	2022	2021
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	475	369
Balance at the end of the year	475	369

Accounting policy

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.

Impairment

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

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

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

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

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

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

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

C1-4 Receivables (continued)

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

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 if the likelihood of recover is non-existent.

Rates and annual charges outstanding are secured against the property.

C1-5 Inventories

\$ '000	2022 Current	2022 Non-current	2021 Current	2021 Non-current
(i) Inventories at cost				
Real estate for resale	703	-	900	-
Stores and materials	940	-	861	-
Total inventories at cost	1,643	-	1,761	-
Total inventories	1,643	-	1,761	-

(i) Other disclosures

\$ '000	Notes	2022 Current	2022 Non-current	2021 Current	2021 Non-current
(a) Details for real estate development					
Residential		455	-	564	-
Industrial/commercial		248	-	336	-
Total real estate for resale		703	-	900	-
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		544	-	579	-
Development costs		159	-	321	-
Total costs		703	-	900	-
Total real estate for resale		703	-	900	-
Movements:					
Real estate assets at beginning of the year		900	-	1,992	-
- WDV of sales (expense)	B4-1	(197)	-	(1,092)	-
Total real estate for resale		703	-	900	-

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

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

\$ '000	2022	2021
Real estate for resale	703	700
	703	700

Accounting policy

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on 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

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.

C1-6 Infrastructure, property, plant and equipment

By aggregated asset class	At 1 July 2021			Asset movements during the reporting period							At 30 June 2022		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments (decrements) to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000													
Capital work in progress	27,775	–	27,775	6,282	934	–	–	(26,287)	–	–	8,704	–	8,704
Plant and equipment	20,297	(11,379)	8,918	–	835	(109)	(1,580)	–	900	–	25,088	(16,124)	8,964
Office equipment	1,135	(1,015)	120	–	53	–	(35)	–	–	–	1,188	(1,050)	138
Furniture and fittings	1,465	(689)	776	–	51	(22)	(100)	–	–	–	1,482	(777)	705
Land:													
– Operational land	10,956	–	10,956	–	–	–	–	–	–	2,541	13,497	–	13,497
– Community land	4,761	–	4,761	–	–	–	–	–	–	–	4,761	–	4,761
– Crown Land	4,548	–	4,548	–	–	–	–	–	–	–	4,548	–	4,548
– Land under roads (post 30/6/08)	85	–	85	–	–	–	–	–	–	–	85	–	85
Infrastructure:													
– Buildings – non-specialised	335	(27)	308	–	–	–	(7)	–	–	–	335	(34)	301
– Buildings – specialised	59,003	(19,209)	39,794	582	25	(114)	(1,152)	539	–	6,311	69,554	(23,569)	45,985
– Other structures	2,657	(405)	2,252	–	207	–	(48)	56	–	(67)	2,853	(453)	2,400
– Roads	375,052	(69,372)	305,680	4,909	2,562	(666)	(4,656)	3,255	–	32,464	425,140	(81,592)	343,548
– Bridges	104,043	(24,939)	79,104	–	–	(42)	(413)	1,697	–	8,501	116,079	(27,232)	88,847
– Footpaths	6,929	(1,440)	5,489	136	122	–	(28)	240	–	590	8,175	(1,626)	6,549
– Bulk earthworks (non-depreciable)	332,117	(2,312)	329,805	2,277	–	–	–	–	–	35,647	370,290	(2,561)	367,729
– Stormwater drainage	33,521	(8,969)	24,552	1,087	–	(2)	(126)	–	–	2,848	38,513	(10,154)	28,359
– Water supply network	104,962	(40,692)	64,270	118	253	(312)	(1,888)	3,012	165	14,892	134,424	(53,914)	80,510
– Sewerage network	75,118	(37,341)	37,777	712	172	–	(1,083)	310	–	5,517	81,821	(38,416)	43,405
– Ancillary infrastructure	27,727	(4,148)	23,579	1,393	4,707	(2,226)	(493)	15,170	(165)	1,305	47,011	(3,744)	43,267
– Swimming pools	9,493	(5,462)	4,031	93	–	–	(176)	–	–	349	10,446	(6,149)	4,297
– Other open space/recreational assets	27,263	(5,161)	22,102	461	382	(53)	(591)	1,977	–	1,744	32,091	(6,069)	26,022
Other assets:													
– Library books	829	(829)	–	–	–	–	–	–	–	–	829	(829)	–
– Other	325	(246)	79	–	–	–	(13)	–	–	–	325	(259)	66
Reinstatement, rehabilitation and restoration assets (refer Note 15):													
– Tip assets	7,682	(5,133)	2,549	–	–	–	(6,166)	–	11,692	–	19,374	(11,299)	8,075
– Quarry assets	599	(579)	20	–	–	–	(6)	–	(8)	–	592	(586)	6
Total infrastructure, property, plant and equipment	1,238,677	(239,347)	999,330	18,050	10,303	(3,546)	(18,561)	(31)	12,584	112,642	1,417,205	(286,437)	1,130,768

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

C1-6 Infrastructure, property, plant and equipment (continued)

By aggregated asset class	At 1 July 2020			Asset movements during the reporting period							At 30 June 2021		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments (decrements) to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
\$ '000													
Capital work in progress	6,637	–	6,637	8,777	14,771	–	–	(2,410)	–	–	27,775	–	27,775
Plant and equipment	19,854	(10,278)	9,576	–	1,254	(251)	(1,661)	–	–	–	20,297	(11,379)	8,918
Office equipment	1,079	(982)	97	–	56	–	(33)	–	–	–	1,135	(1,015)	120
Furniture and fittings	1,277	(593)	684	–	183	–	(97)	6	–	–	1,465	(689)	776
Land:													
– Operational land	10,956	–	10,956	–	–	–	–	–	–	–	10,956	–	10,956
– Community land	5,455	–	5,455	–	–	–	–	–	–	(694)	4,761	–	4,761
– Land under roads (post 30/6/08)	85	–	85	–	–	–	–	–	–	–	85	–	85
– Crown Land	4,548	–	4,548	–	–	–	–	–	–	–	4,548	–	4,548
Infrastructure:													
– Buildings – non-specialised	335	(20)	315	–	–	–	(7)	–	–	–	335	(27)	308
– Buildings – specialised	58,235	(18,157)	40,078	603	–	–	(1,163)	165	–	111	59,003	(19,209)	39,794
– Other structures	2,029	(306)	1,723	–	46	–	(44)	121	–	406	2,657	(405)	2,252
– Roads	373,687	(63,378)	310,309	1,740	129	(823)	(4,664)	843	5	(1,859)	375,052	(69,372)	305,680
– Bridges	103,174	(25,058)	78,116	1,210	145	(139)	(401)	173	–	–	104,043	(24,939)	79,104
– Footpaths	6,906	(1,412)	5,494	–	23	–	(28)	–	–	–	6,929	(1,440)	5,489
– Bulk earthworks (non-depreciable)	329,431	–	329,431	678	–	–	–	–	7	(311)	332,117	(2,312)	329,805
– Stormwater drainage	33,325	(8,902)	24,423	163	–	(53)	(126)	145	–	–	33,521	(8,969)	24,552
– Water supply network	106,134	(41,127)	65,007	25	–	(108)	(1,265)	202	–	409	104,962	(40,692)	64,270
– Sewerage network	73,676	(36,005)	37,671	254	61	–	(890)	32	–	649	75,118	(37,341)	37,777
– Swimming pools	9,037	(4,849)	4,188	111	17	–	(168)	15	–	(132)	9,493	(5,462)	4,031
– Other open space/recreational assets	20,969	(3,970)	16,999	1,227	730	(125)	(500)	605	–	3,166	27,263	(5,161)	22,102
– Ancillary infrastructure	26,298	(3,281)	23,017	111	56	–	(629)	–	–	1,042	27,727	(4,148)	23,579
Other assets:													
– Library books	829	(829)	–	–	–	–	–	–	–	–	829	(829)	–
– Other	306	(229)	77	–	19	–	(17)	–	–	–	325	(246)	79
Reinstatement, rehabilitation and restoration assets (refer Note C3-5):													
– Tip assets	7,635	(4,157)	3,478	–	–	–	(976)	–	47	–	7,682	(5,133)	2,549
– Quarry assets	599	(566)	33	–	–	–	(7)	–	(6)	–	599	(579)	20
Total infrastructure, property, plant and equipment	1,202,496	(224,099)	978,397	14,899	17,490	(1,499)	(12,676)	(103)	53	2,787	1,238,677	(239,347)	999,330

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

C1-6 Infrastructure, property, plant and equipment (continued)

Accounting policy

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. Due to the major increase in the building and construction industry post COVID Council has undertaken a desktop revaluation of its major assets classes for the 2021/2022 year.

A comprehensive revaluation of the water and sewerage networks was completed for the 2021/2022 year. For the years between the comprehensive revaluation the 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
		Stormwater assets	
Water and sewer assets		Drains	80 to 100
Dams and reservoirs	80 to 100	Culverts	50 to 80
Bores	20 to 40	Flood control structures	80 to 100
Reticulation pipes: PVC	70 to 80		
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
		Other infrastructure assets	
Transportation assets		Bulk Earthworks	Infinite
Sealed roads: surface	20	Swimming pools	50
Sealed roads: structure	50	Unsealed roads	20
Unsealed roads	20	Other open space/recreational assets	20
Bridge: concrete	100	Other infrastructure	20
Bridge: other	50		
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. Land under roads acquired after 1 July 2008 is recognised in accordance with the IPPE accounting policy.

C1-6 Infrastructure, property, plant and equipment (continued)

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".

Council previously recognised only Rural Fire Service land and buildings and did not recognise Rural Fire Service other assets which included its equipment, plant and vehicles (Red Fleet). As at 30 June 2022 Council brought to account the estimated written down value of the Rural Fire Services red fleet.

C1-7 Intangible assets

Intangible assets are as follows:

\$ '000	2022	2021
Water Licence		
Opening values at 1 July		
Gross book value	234	234
Net book value – opening balance	234	234
Closing values at 30 June		
Gross book value	234	234
Total Water Licence – net book value	234	234
Total intangible assets – net book value	234	234

Accounting policy

Council acquired an entitlement to 100ml general allocation of water under the Hunter River 1A licence. The value of this entitlement has been recorded at historical cost.

C2 Leasing activities

C2-1 Council as a lessee

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

Terms and conditions of leases

Buildings

Council leases buildings which include the Scone Library and other buildings; the leases are generally between 1 and 2 years and some of them include a renewal option to allow Council to renew for up to twice the noncancellable lease term at their discretion.

The building leases contains an annual pricing mechanism based on either fixed increases or CPI movements at each anniversary of the lease inception.

Office and IT equipment

Leases for office and IT equipment are generally for low value assets, except for significant items such as photocopiers. The leases are for between 4 and 5 years with no renewal option, the payments are fixed.

Extension options

Council includes options in the building leases to provide flexibility and certainty to Council operations and reduce costs of moving premises; and the extension options are at Council's discretion.

At commencement date and each subsequent reporting date, Council assesses where it is reasonably certain that the extension options will be exercised.

There is an immaterial amount of amounts below approx \$10,000 to \$20,000 of potential future lease payments which are not included in lease liabilities as Council has assessed that the exercise of the option is not reasonably certain.

(a) Right of use assets

\$ '000	Ready to use	Total
2022		
Opening balance at 1 July	324	324
Additions to right-of-use assets	164	164
Depreciation charge	(117)	(117)
Balance at 30 June	371	371
2021		
Opening balance at 1 July	211	211
Additions to right-of-use assets	239	239
Depreciation charge	(126)	(126)
Balance at 30 June	324	324

(b) Income Statement

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

\$ '000	2022	2021
Interest on lease liabilities	10	8
Variable lease payments based on usage not included in the measurement of lease liabilities	80	132
Depreciation of right of use assets	117	252
	207	392

C2-1 Council as a lessee (continued)

\$ '000	2022	2021
(c) Statement of Cash Flows		
Total cash outflow for leases	399	345
	399	345

(d) Leases at significantly below market value – concessionary / peppercorn leases

Council has a number of leases at significantly below market for land and buildings which are used for:

- Pre-schools
- Rural fire brigades
- SES
- community halls

The leases are generally between 5 and 20 years and either require payments of a maximum amount of up to \$5,000 per year and/or are gifted by Council due to the nature of the service provided. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

Council does not believe that any of the leases in place are individually material from a statement of financial position or performance perspective.

Accounting policy

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

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

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

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

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value / Concessionary leases

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

C2-2 Council as a lessor

Council receives rental income from residential, commercial and community hall & centres premises that they own and control. These premises are predominantly under leases with terms of less than 12 months and/or hired out on an adhoc basis. At present Council has a number of leases which have expired and are currently in the process of being renewed.

C2-2 Council as a lessor (continued)

Operating leases

Council leases out a number of commercial and residential properties; these leases have been classified as operating leases for financial reporting purposes and the assets are included in the IPP&E assets in the Statement of Financial Position.

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

\$ '000	2022	2021
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(i) Assets held as investment property

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

Operating lease expenses

Direct operating expenses that generated rental income	595	494
Total expenses relating to operating leases	595	494

(ii) Assets held as property, plant and equipment

Lease income (excluding variable lease payments not dependent on an index or rate)	450	448
Total income relating to operating leases for Council assets	450	448

Accounting policy

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

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

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

The lease income is recognised on a straight-line basis over the lease term for an operating lease and as finance income using amortised cost basis for finance leases.

C3 Liabilities of Council

C3-1 Payables

\$ '000	2022	2022	2021	2021
	Current	Non-current	Current	Non-current
Goods and services – operating expenditure	2,950	–	2,194	–
Goods and services – capital expenditure	3,603	–	2,796	–
Accrued expenses:				
– Borrowings	57	–	64	–
– Salaries and wages	537	–	473	–
– Other expenditure accruals	528	–	1,203	–
Security bonds, deposits and retentions	285	–	100	–
Prepaid rates	499	–	437	–
Retirement home contributions	913	–	818	–
Other	153	–	86	–
Total payables	9,525	–	8,171	–

Current payables not anticipated to be settled within the next twelve months

\$ '000	2022	2021
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	35	35
Retirement home contributions	685	613
Other liabilities: (funds held, rate payments in adv. > 1)	30	30
Total payables	750	678

Accounting policy

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.

Payables

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

C3-2 Contract Liabilities

\$ '000	Notes	2022 Current	2022 Non-current	2021 Current	2021 Non-current
Grants and contributions received in advance:					
Unexpended capital grants (to construct Council controlled assets)	(i)	13,488	-	6,916	-
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	249	-	126	-
Total grants received in advance		13,737	-	7,042	-
User fees and charges received in advance:					
Radio tower lease fees	(iii)	30	-	31	-
Maintenance contributions	(iii)	32	-	31	-
Water usage charges	(iii)	187	-	163	-
Event contribution and fees (postponed event)	(iii)	42	-	43	-
Total user fees and charges received in advance		291	-	268	-
Total contract liabilities		14,028	-	7,310	-

Notes

(i) Council has received milestone funding to construct assets including Scone CBD revitalisation, roads and bridges, sporting venues and other infrastructure. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised over the completion of the respective projects in the next 12 to 24 months.

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

(iii) User fees and charges in advance represent the delivery of services or supply and do not meet the definition of a performance obligation and therefore the funds received are recorded as a contract liability on receipt and recognised as revenue over the expected usage of the services over time.

Contract liabilities relating to restricted assets

\$ '000	2022 Current	2022 Non-current	2021 Current	2021 Non-current
Externally restricted assets				
Unspent grants held as contract liabilities (excl. Water & Sewer)	13,737	-	7,042	-
Unspent contributions held as contract liabilities (excl. Water & Sewer)	-	-	-	-
Other (Postponed Events)	42	-	43	-
Contract liabilities relating to externally restricted assets	13,779	-	7,085	-
Total contract liabilities relating to restricted assets	13,779	-	7,085	-
Total contract liabilities relating to unrestricted assets	249	-	225	-
Total contract liabilities	14,028	-	7,310	-

C3-2 Contract Liabilities (continued)

Revenue recognised that was included in the contract liability balance at the beginning of the period

\$ '000	2022	2021
Grants and contributions received in advance:		
Capital grants (to construct Council controlled assets)	1,836	2,122
Operating grants (received prior to performance obligation being satisfied)	197	248
User fees and charges received in advance:		
Radio tower lease fees	31	31
Water usage charges	187	163
Total revenue recognised that was included in the contract liability balance at the beginning of the period	2,251	2,564

Significant changes in contract liabilities

During the year Council continued to successful obtaining a number of significant grant funding opportunities to delivery major infrastructure works over the next two to three years. These funding opportunities included upfront milestone payments on signing of the funding deed and milestones at the commencement of construction. Projects included:

- Fixing Local Roads Round 2 - Barrington Forest Road - Stage 1
- Fixing Country Roads Round 3 - Barrington Forest Road - Stage 2
- Fixing Country Bridges - Milestone 2 for the replacement of 14 bridges
- Public Shared Spaces - St Aubins Town Square
- NSW State Libraries - Relocation and redevelopment of the Scone Library

Accounting policy

Contract liabilities are recorded when consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

C3-3 Borrowings

\$ '000	2022	2022	2021	2021
	Current	Non-current	Current	Non-current
Loans – secured ¹	2,437	31,518	2,455	33,938
Lease liabilities	133	239	117	207
Total borrowings	2,570	31,757	2,572	34,145

(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 E1-1.

Current borrowings not anticipated to be settled within the next twelve months

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

(a) Changes in liabilities arising from financing activities

\$ '000	2021		Non-cash movements				2022
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	36,393	(2,438)	–	–	–	–	33,955
Lease liability (Note C2-1b)	324	(324)	–	–	–	–	–
Total liabilities from financing activities	36,717	(2,762)	–	–	–	–	33,955

\$ '000	2020		Non-cash movements				2021
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	33,730	2,663	–	–	–	–	36,393
Lease liability (Note C2-1b)	212	112	–	–	–	–	324
Total liabilities from financing activities	33,942	2,775	–	–	–	–	36,717

(b) Financing arrangements

\$ '000	2022	2021
Total facilities		
Bank overdraft facilities ¹	600	600
Credit cards/purchase cards	20	20
Master lease facilities	371	234
Total financing arrangements	991	854
Drawn facilities		
– Credit cards/purchase cards	3	9
– Lease facilities	371	234
Total drawn financing arrangements	374	243
Undrawn facilities		
– Bank overdraft facilities	600	600
– Credit cards/purchase cards	17	11
Total undrawn financing arrangements	617	611

Additional financing arrangements information

C3-3 Borrowings (continued)

Breaches and defaults

No breaches noted during the year.

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

Accounting policy

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.

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.

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 borrowing costs.

C3-4 Employee benefit provisions

\$ '000	2022	2022	2021	2021
	Current	Non-current	Current	Non-current
Annual leave	1,675	–	1,790	–
Long service leave	2,999	242	3,523	358
Accrued time	46	–	47	–
ELE on-costs	482	20	518	28
Total employee benefit provisions	5,202	262	5,878	386

Current employee benefit provisions not anticipated to be settled within the next twelve months

\$ '000	2022	2021
The following provisions, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	3,263	3,716
	3,263	3,716

Description of and movements in provisions

\$ '000	ELE provisions				Total
	Annual leave	Long service leave	ELE on-costs	Other employee benefits	
2022					
At beginning of year	1,790	3,881	546	47	6,264
Additional provisions	1,100	264	–	24	1,388
Amounts used (payments)	(1,239)	(693)	–	(25)	(1,957)
Remeasurement effects	24	(211)	(44)	–	(231)
Total ELE provisions at end of year	1,675	3,241	502	46	5,464
2021					
At beginning of year	1,808	3,798	529	49	6,184
Additional provisions	1,071	251	17	46	1,385
Amounts used (payments)	(1,134)	(366)	–	(49)	(1,549)
Remeasurement effects	45	198	–	1	244
Total ELE provisions at end of year	1,790	3,881	546	47	6,264

Accounting policy

Employee benefit provisions are presented as current liabilities in the Statement of Financial Position if 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 and therefore all annual leave and vested long service leave (or that which vests within 12 months) is presented as current.

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.

C3-4 Employee benefit provisions (continued)

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.

C3-5 Provisions

\$ '000	2022 Current	2022 Non-Current	2021 Current	2021 Non-Current
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	19,966	–	8,282
Sub-total – asset remediation/restoration	–	19,966	–	8,282
Total provisions	–	19,966	–	8,282
Provisions relating to restricted assets				
Total provisions relating to restricted assets	–	–	–	–
Total provisions relating to unrestricted assets	–	19,966	–	8,282
Total provisions	–	19,966	–	8,282

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.

Description of and movements in provisions

\$ '000	Other provisions	
	Asset remediation	Total
2022		
At beginning of year	8,282	8,282
Other	11,684	11,684
Total other provisions at end of year	19,966	19,966
2021		
At beginning of year	8,234	8,234
Other	48	48
Total other provisions at end of year	8,282	8,282

Nature and purpose of provisions

Asset remediation

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

The asset remediation provision represents the present value estimate of future costs Council will incur to restore, rehabilitate and reinstate the tip and quarry as a result of past operations.

During the 2022 financial year Council received revised closure and remediation costs for three (3) of its facilities, Scone, Merriwa and Murrurundi from specialised consultants. Council estimated based on the remediation costs associated with the

Accounting policy

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

C3-5 Provisions (continued)

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 a borrowing cost.

Asset remediation – tips and quarries

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs. Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The 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.

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 infrastructure, property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

C4 Reserves

C4-1 Nature and purpose of reserves

IPPE Revaluation reserve

The infrastructure, property, plant and equipment (IPPE) revaluation reserve is used to record increments and decrements in the revaluation of infrastructure, property, plant and equipment.

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.

D Council structure

D1 Results by fund

General fund refers to all Council activities other than water and sewer. All amounts disclosed in this note are gross i.e. inclusive of 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.

D1-1 Income Statement by fund

\$ '000	General 2022	Water 2022	Sewer 2022
Income from continuing operations			
Rates and annual charges	15,129	1,401	3,116
User charges and fees	7,821	3,003	246
Interest and investment revenue	163	87	71
Other revenues	1,931	48	26
Grants and contributions provided for operating purposes	13,258	80	41
Grants and contributions provided for capital purposes	15,798	323	480
Other income	450	–	–
Total income from continuing operations	54,550	4,942	3,980
Expenses from continuing operations			
Employee benefits and on-costs	13,170	2,303	1,535
Materials and services	16,421	671	424
Borrowing costs	1,005	237	–
Depreciation, amortisation and impairment of non-financial assets	15,446	1,888	1,083
Other expenses	1,722	509	175
Net losses from the disposal of assets	2,783	312	–
Total expenses from continuing operations	50,547	5,920	3,217
Operating result from continuing operations	4,003	(978)	763
Net operating result for the year	4,003	(978)	763
Net operating result attributable to each council fund	4,003	(978)	763
Net operating result for the year before grants and contributions provided for capital purposes	(11,795)	(1,301)	283

D1-2 Statement of Financial Position by fund

ASSETS

Current assets

Cash and cash equivalents	1,490	660	971
Investments	14,529	9,000	10,000
Receivables	13,940	1,402	380
Inventories	1,253	333	57
Other	1,385	2	2
Total current assets	32,597	11,397	11,410

Non-current assets

Infrastructure, property, plant and equipment	1,001,327	83,813	45,628
Intangible assets	–	234	–
Right of use assets	371	–	–
Total non-current assets	1,001,698	84,047	45,628
Total assets	1,034,295	95,444	57,038

LIABILITIES

continued on next page ...

D1-2 Statement of Financial Position by fund (continued)

\$ '000	General 2022	Water 2022	Sewer 2022
Current liabilities			
Payables	8,705	729	91
Contract liabilities	14,028	–	–
Borrowings	2,254	316	–
Employee benefit provision	4,586	308	308
Total current liabilities	<u>29,573</u>	<u>1,353</u>	<u>399</u>
Non-current liabilities			
Borrowings	26,918	4,839	–
Employee benefit provision	252	5	5
Provisions	19,966	–	–
Total non-current liabilities	<u>47,136</u>	<u>4,844</u>	<u>5</u>
Total liabilities	<u>76,709</u>	<u>6,197</u>	<u>404</u>
Net assets	<u>957,586</u>	<u>89,247</u>	<u>56,634</u>
EQUITY			
Accumulated surplus	362,796	62,204	23,168
Revaluation reserves	594,790	27,043	33,466
Council equity interest	<u>957,586</u>	<u>89,247</u>	<u>56,634</u>
Total equity	<u>957,586</u>	<u>89,247</u>	<u>56,634</u>

D2 Interests in other entities

\$ '000	Council's share of net assets	
	2022	2021
Council's share of net assets		
Net share of interests in joint ventures and associates using the equity method – assets		
Joint ventures	–	245
Total net share of interests in joint ventures and associates using the equity method – assets	–	245
Total Council's share of net assets	–	245

D2-1 Interests in joint arrangements

Net carrying amounts – Council's share

\$ '000	Place of business	Nature of relationship	Interest in ownership			
			2022	2021	2022	2021
Arrow Collaborative Services Limited (formerly Strategic Services Australia Limited)	Newcastle	Joint venture	0.0%	6.7%	–	245
Total carrying amounts – material joint ventures					–	245

Details

	Principal activity	Measurement method
Arrow Collaborative Services Limited (formerly Strategic Services Australia Limited)	Provider of services to local government throughout the Hunter Region	Equity

Relevant interests and fair values

	Interest in outputs		Proportion of voting power	
	2022	2021	2022	2021
Arrow Collaborative Services Limited (formerly Strategic Services Australia Limited)	0.0%	6.7%	0.0%	6.7%

Summarised financial information for joint ventures

\$ '000	Strategic Services Australia Limited	
	2022	2021
Statement of financial position		
Current assets		
Cash and cash equivalents	–	4,340
Other current assets	–	1,758
Non-current assets	–	727
Current liabilities		

continued on next page ...

D2-1 Interests in joint arrangements (continued)

\$ '000	Strategic Services Australia Limited	
	2022	2021
Other current liabilities	–	3,121
Non-current liabilities		
Other non-current liabilities	–	26
Net assets	–	3,678
Statement of comprehensive income		
Income	–	6,375
Depreciation and amortisation	–	(137)
Interest expense	–	(1)
Other expenses	–	(7,166)
Profit/(loss) from continuing operations	–	(929)
Profit/(loss) for the period	–	(929)
Total comprehensive income	–	(929)
Share of income – Council (%)	6.7%	6.7%
Profit/(loss) – Council (\$)	–	(62)
Total comprehensive income – Council (\$)	–	(62)
Reconciliation of the carrying amount		
Opening net assets (1 July)	3,678	4,607
Profit/(loss) for the period	–	(929)
Other adjustments to equity	(3,678)	–
Closing net assets	–	3,678
Council's share of net assets (%)	6.7%	6.7%
Council's share of net assets (\$)	–	245

D2-2 Unconsolidated structured entities

Council did not consolidate the following structured entities:

\$ '000	2022	2021
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Upper Hunter Weeds Authority

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	189	186
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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

D2-2 Unconsolidated structured entities (continued)

Upper Hunter Weeds Authority's proclamation.

E Risks and accounting uncertainties

E1-1 Risks relating to financial instruments held

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

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

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

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

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

\$ '000	Carrying value 2022	Carrying value 2021	Fair value 2022	Fair value 2021
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	3,121	1,547	–	1,547
Receivables	15,722	17,551	–	17,551
Investments				
– Debt securities at amortised cost	33,529	32,500	–	32,500
Total financial assets	52,372	51,598	–	51,598
Financial liabilities				
Payables	9,525	8,171	–	8,170
Loans/advances	33,955	36,393	–	36,482
Total financial liabilities	43,480	44,564	–	44,652

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 measure at amortised cost investments** – are based upon estimated future cash flows discounted by the current market 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) **at fair value through other comprehensive income** – 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 its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

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

E1-1 Risks relating to financial instruments held (continued)

- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

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

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

(a) Market risk – interest rate and price risk

\$ '000	2022	2021
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.		
Impact of a 1% movement in interest rates		
– Equity / Income Statement	367	340
Impact of a 10% movement in price of investments		
– Equity / Income Statement	–	–

(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 recover these debts as a secured charge over the land; 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 payment.

\$ '000	Not yet overdue	overdue rates and annual charges < 5 years	≥ 5 years	Total
2022				
Gross carrying amount	–	1,795	60	1,855
2021				
Gross carrying amount	–	2,000	–	2,000

Receivables - non-rates and annual charges and contract assets

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

E1-1 Risks relating to financial instruments held (continued)

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

\$ '000	Not yet overdue	Overdue debts				Total
		0 - 30 days	31 - 60 days	61 - 90 days	> 91 days	
2022						
Gross carrying amount	–	6,084	4,667	52	3,539	14,342
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	11.72%	2.89%
ECL provision	–	–	–	–	415	415
2021						
Gross carrying amount	12,532	150	320	95	2,823	15,920
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ECL provision	–	–	–	–	–	–

(c) Liquidity risk

Payables, lease liabilities and borrowings are both subject to liquidity risk; that is, 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 by maintaining an adequate cash buffer. Payment terms can be extended, and overdraft facilities drawn upon in extenuating circumstances.

Borrowings are also subject to interest rate risk: the risk that movements in interest rates could adversely affect funding costs. 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 for non-lease liabilities (refer to Note C2-1(b) for lease liabilities) 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	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 - 5 Years	> 5 Years		
2022							
Payables	0.00%	285	285	–	–	570	9,525
Borrowings	3.47%	–	3,573	12,083	27,026	42,682	33,955
Lease liabilities	3.67%	–	144	255	–	399	372
Total financial liabilities		285	4,002	12,338	27,026	43,651	43,852
2021							
Payables	0.00%	100	7,633	–	–	7,733	8,171
Borrowings	3.67%	–	3,709	12,624	29,993	46,326	36,393
Lease liabilities	3.87%	–	126	218	–	344	324
Total financial liabilities		100	11,468	12,842	29,993	54,403	44,888

Loan agreement breaches

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

E2-1 Fair value measurement

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

\$ '000	Notes	Fair value measurement hierarchy					
		Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
		2022	2021	2022	2021	2022	2021
Recurring fair value measurements							
Infrastructure, property, plant and equipment	C1-6						
Plant and equipment		–	–	8,964	8,918	8,964	8,918
Office furniture and equipment		–	–	843	896	843	896
Land		–	–	22,892	20,350	22,892	20,350
Buildings		–	–	46,285	40,102	46,285	40,102
Other structures		–	–	2,399	2,252	2,399	2,252
Roads (incl bulk earthworks)		–	–	711,277	635,485	711,277	635,485
Bridges		–	–	88,847	79,104	88,847	79,104
Footpaths		–	–	6,550	5,489	6,550	5,489
Drainage		–	–	28,360	24,552	28,360	24,552
Ancillary infrastructure		–	–	43,266	23,579	43,266	23,579
Water supply network		–	–	80,510	64,270	80,510	64,270
Sewer network		–	–	43,404	37,777	43,404	37,777
Swimming pools		–	–	4,296	4,031	4,296	4,031
Open spaces		–	–	26,023	22,102	26,023	22,102
Other assets		–	–	66	79	66	79
Waste disposal sites and quarries		–	–	8,082	2,569	8,082	2,569
Total infrastructure, property, plant and equipment		–	–	1,122,064	971,555	1,122,064	971,555

Non-recurring fair value measurements

Valuation techniques

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 (IPPE)

Plant & Equipment, Office Equipment and Furniture & Fittings

E2-1 Fair value measurement (continued)

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 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

E2-1 Fair value measurement (continued)

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 componentising 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.

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

E2-1 Fair value measurement (continued)

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 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.

E2-1 Fair value measurement (continued)

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.

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.

Fair value measurements using significant unobservable inputs (level 3)

A reconciliation of the movements in recurring fair value measurements allocated to Level 3 of the hierarchy is provided below:

\$ '000	Plant and equipment		Office furniture and equipment		Land		Buildings	
	2022	2021	2022	2021	2022	2021	2022	2021
Opening balance	8,918	9,576	896	781	20,350	21,044	40,102	40,393
Total gains or losses for the period								
Other movements								
Change in useful life and PV cost estimate	–	–	–	–	2,541	(694)	6,311	–
Purchases (GBV)	835	1,254	104	245	–	–	1,146	768
Disposals (WDV)	(109)	(251)	(22)	–	–	–	(114)	–
Depreciation and impairment	(1,580)	(1,661)	(135)	(130)	–	–	(1,159)	(1,059)
Other movement (Assets Located or Corrected)	900	–	–	–	–	–	–	–
Closing balance	8,964	8,918	843	896	22,891	20,350	46,286	40,102

\$ '000	Other structures		Roads (including bulk earthworks)		Bridges		Footpaths	
	2022	2021	2022	2021	2022	2021	2022	2021
Opening balance	2,252	1,723	635,485	639,740	79,104	78,116	5,489	5,494
Total gains or losses for the period								
Other movements								
Change in useful life and PV cost estimate	–	406	68,111	–	8,501	–	590	–
Purchases (GBV)	263	167	13,003	3,390	1,697	1,528	498	23
Disposals (WDV)	–	–	(666)	(823)	(42)	(139)	–	–
Depreciation and impairment	(48)	(44)	(4,656)	(7,448)	(413)	(401)	(28)	(28)
Other movement (Assets Located or Corrected)	(67)	–	–	626	–	–	–	–
Closing balance	2,400	2,252	711,277	635,485	88,847	79,104	6,549	5,489

E2-1 Fair value measurement (continued)

\$ '000	Drainage		Ancillary structures		Water supply network		Sewerage network	
	2022	2021	2022	2021	2022	2021	2022	2021
Opening balance	24,552	24,423	23,579	23,017	64,269	65,007	37,777	37,671
Total gains or losses for the period								
Other movements								
Change in useful life and PV cost estimate	2,848	–	1,828	1,042	14,892	408	5,517	649
Purchases (GBV)	1,087	308	21,267	149	3,384	227	1,194	347
Disposals (WDV)	(2)	(53)	(2,226)	–	(312)	(108)	–	–
Depreciation and impairment	(126)	(126)	(493)	(629)	(1,888)	(1,265)	(1,083)	(890)
Other movement (Assets Located or Corrected)	–	–	(688)	–	165	–	–	–
Closing balance	28,359	24,552	43,267	23,579	80,510	64,269	43,405	37,777

\$ '000	Swimming pools		Open space		Other assets		Tips and quarries	
	2022	2021	2022	2021	2022	2021	2022	2021
Opening balance	4,031	4,188	22,103	17,000	79	77	2,569	3,511
Total gains or losses for the period								
Other movements								
Change in useful life and PV cost estimate	349	(132)	1,928	3,166	–	–	11,684	41
Purchases (GBV)	93	143	2,819	2,562	–	19	–	–
Disposals (WDV)	–	–	(53)	(125)	–	–	–	–
Depreciation and impairment	(176)	(168)	(591)	(500)	(13)	(17)	(6,172)	(983)
Other movement (Assets Located or Corrected)	–	–	(184)	–	–	–	–	–
Closing balance	4,297	4,031	26,022	22,103	66	79	8,081	2,569

E2-1 Fair value measurement (continued)

\$ '000	Total	
	2022	2021
Opening balance	971,555	971,761
Change in useful life and PV cost estimate	125,100	4,886
Purchases (GBV)	47,390	11,130
Disposals (WDV)	(3,546)	(1,499)
Depreciation and impairment	(18,561)	(15,349)
Other movement (Assets Located or Corrected)	126	626
Closing balance	1,122,064	971,555

E3-1 Contingencies

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

(a) a description of the funding arrangements, including the method used to determine the Council's rate of contributions to the Fund.

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

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

Division B	1.9 times 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 7.5% of salaries for the year ending 30 June 2022 (increasing to 8.0% in line with the increase in the Superannuation Guarantee) to these members' accumulation accounts, which are paid in addition to members' defined benefits.

The past service contribution for each Pooled Employer is a share of the total past service contributions of \$40 million for 1 July 2019 to 31 December 2021 and \$20.0 million per annum for 1 January 2022 to 31 December 2024, apportioned according to each employer's share of the accrued liabilities as at 30 June 2021. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

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

(b) a 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 is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

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

(c) a description of any agreed allocation of a deficit or surplus on:

- (i) Wind-up of the plan

E3-1 Contingencies (continued)

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

(ii) the Council's withdrawal from the plan

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

(d) given Council accounts for the plan as if it were a defined contribution plan in accordance with the following information:

(i) the fact that the plan is a defined benefit plan.

(ii) the reason why sufficient information is not available to enable Council to account for the plan as a defined benefit plan.

(iii) the expected contributions to the plan for the next annual reporting period.

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 2022 was \$165,288.26. The last formal valuation of the Fund was undertaken by the Fund Actuary, Mr Richard Boyfield, FIAA as at 30 June 2021.

The amount of past service contributions included in the total employer contribution advised above is \$79,575.72. Council's expected contribution to the plan for the next annual reporting period is \$112,140.24.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for Council.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2022 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	2,376.6	
Past Service Liabilities	2,380.7	99.8%
Vested Benefits	2,391.7	99.4%

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

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

Investment return	5.50% 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. Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the final end of year review will be completed by December 2022.

(v) an indication of the level of participation of Council in the plan compared with other participating Council's.

An employer's past service contribution per annum as a percentage of the total past service contributions for all Pooled Employers (of \$40m for each year from 1 July 2019 to 31 December 2021 and \$20m for each year from 1 January 2022 to 31 December 2024) provides an indication of the level of participation of that employer compared with other employers in the Pooled Employer sub-group.

Based on a past service liabilities methodology, the share of the deficit that can be attributed to Council is 0.40%.

(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.

E3-1 Contingencies (continued)

(iii) StateCover Limited

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

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

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

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

(iv) Other guarantees

Council has provided 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 for Murravale Retirement Home.

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.

F People and relationships

F1 Related party disclosures

F1-1 Key management personnel (KMP)

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	2022	2021
Compensation:		
Short-term benefits	1,013	1,349
Post-employment benefits	84	67
Total	1,097	1,416

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		Transactions	Outstanding		Impairment	
\$ '000	Ref	during the year	balances	Terms and conditions	provision on	Impairment
			including		outstanding	expense
			commitments		balances	
2022						
Supply of catering services	1	–	–	Normal Trade Terms & Conditions	–	–
Supply of fabrication services	2	88	–	Normal Trade Terms & Conditions	–	–
Supply of fabrication services	3	15	–	Normal Trade Terms & Conditions	–	–
Employee expenses relating to close family member of KMP	4	135	–	Employment Conditions	–	–
Supply of flowers and decorates	5	1	–	Normal Trade Terms & Conditions	–	–
2021						
Supply of catering services	1	3	–	Normal Trade Terms & Conditions	–	–
Supply of fabrication services	2	52	–	Normal Trade Terms & Conditions	–	–
Supply of fabrication services	3	3	–	Normal Trade Terms & Conditions	–	–
Employee expenses relating to close family member of KMP	4	167	–	Employment Conditions	–	–
Supply of flowers and decorates	5	1	–	Normal Trade Terms & Conditions	–	–

F1-1 Key management personnel (KMP) (continued)

- 1 Council acquired the catering services during the 2020/2021 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 services were invoiced on an arms length basis and were payable under normal payment terms following the Council's procurement processes. No catering services were entered for the period to 3 December 2021 when the business was removed as a related party.
- 2 Council acquired fabrication services during the 2021/2022 and 2020/2021 years from Sycolah, a business which is owned by the direct family members of a member of the KMP of the Council. These services were invoiced on an arms length basis and were payable under normal payment terms following the Council's procurement processes.
- 3 Council acquired fabrication services during the 2021/2022 and 2020/2021 years from FNL Industries, a business which is owned by associated family members of a member of the KMP of the Council. These services were invoiced on an arms length basis and were payable under normal payment terms following the Council's procurement processes.
- 4 One (1) close family members of one (1) members of Council's KMP was employed by Council for the complete financial years 2021/2022 and 2020/2021 years under the relevant employee award on an arm's length basis. From the 21 December 2021 to the 30 June 2022 two (2) additional close family members of two (2) members of Council's KMP were employed by Council under the relevant employee award on an arm's length basis.
- 5 Council acquired flowers and decorates during the 2021/2022 and 2020/2021 year from Jolimilla Pty Ltd Trading as Chocolate and Moss Floristry, a business which is owned by a member of the KMP of the Council. These acquisitions were invoiced on an arms length basis and were payable under normal payment terms following the Council's procurement processes.

F1-2 Councillor and Mayoral fees and associated expenses

\$ '000	2022	2021
The aggregate amount of Councillor and Mayoral fees and associated expenses included in materials and services expenses in the Income Statement are:		
Mayoral fee	36	39
Councillors' fees	84	78
Other Councillors' expenses (including Mayor)	11	13
Total	131	130

F2 Other relationships

F2-1 Audit fees

\$ '000	2022	2021
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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	62	60
Remuneration for audit and other assurance services	62	60
Total Auditor-General remuneration	62	60

Non NSW Auditor-General audit firms

(i) Audit and other assurance services

Audit and review of financial statements: Council's Auditor	13	11
Other services	18	35
Other audit and assurance services (ARIC)	13	5
Remuneration for audit and other assurance services	44	51
Total remuneration of non NSW Auditor-General audit firms	44	51
Total audit fees	106	111

G Other matters

G1-1 Statement of Cash Flows information

Reconciliation of net operating result to cash provided from operating activities

\$ '000	2022	2021
Net operating result from Income Statement	3,788	12,431
Add / (less) non-cash items:		
Depreciation and amortisation	18,417	12,451
(Gain) / loss on disposal of assets	3,095	1,437
Non-cash capital grants and contributions	(69)	–
Share of net (profits)/losses of associates/joint ventures using the equity method	245	63
Movements in operating assets and liabilities and other cash items:		
(Increase) / decrease of receivables	1,723	(7,763)
Increase / (decrease) in provision for impairment of receivables	106	–
(Increase) / decrease of inventories	(79)	(66)
(Increase) / decrease of other current assets	(1,100)	(44)
Increase / (decrease) in payables	756	1,234
Increase / (decrease) in accrued interest payable	(7)	16
Increase / (decrease) in other accrued expenses payable	113	(321)
Increase / (decrease) in other liabilities	409	219
Increase / (decrease) in contract liabilities	6,718	2,995
Increase / (decrease) in employee benefit provision	(800)	80
Increase / (decrease) in other provisions	–	48
Net cash flows from operating activities	33,315	22,780

G2-1 Commitments

Capital commitments (exclusive of GST)

\$ '000	2022	2021
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Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

Road infrastructure	–	329
Plant and equipment	188	703
Buildings	–	5,294
Bridge infrastructure	3,280	1,555
Sporting Grounds & Venues	–	24
Sewerage Services	217	–
Water Supply	1,491	–
Total commitments	5,176	7,905

These expenditures are payable as follows:

Within the next year	5,176	7,905
Total payable	5,176	7,905

Sources for funding of capital commitments:

Unrestricted general funds	247	129
Future grants and contributions	3,364	5,209
Unexpended grants	523	114
Externally restricted reserves	854	–
Internally restricted reserves	188	746
Unexpended loans	–	1,476
Other funding (Insurance Claim)	–	231
Total sources of funding	5,176	7,905

Details of capital commitments

2021 Year

Plant & Equipment: Purchase of Caterpillar 140M Motor Grader, 2x Toro Groundmaster mowers, 3x Work Utility vehicles, mini Bobcat and plant trailers

Bridges: Replacement of Cmaerons Bridge

Building Infrastructure: Design and Construction of Hunter Warbirds & Terminal Building, Reconstruction of Liverpool Lodge Units 3&4, Replacement of Campbells Corner Roofing and construction of public amenities and restoration of 133 Kelly St Scone site.

Sporting Grounds: Upgrade of Wilson Memorial Oval Canteen and change rooms

Road Infrastructure: Detailed Design for MR358 Rehabilitation works and Design works for Moonan Brook and Hunter Road initial sealing works

2022

Plant & Equipment: Purchase of 4x work Utility vehicles

Bridges: Replacement of 9 Bridges under the Fixing Country Bridges Program

Water Infrastructure: Water Mains Replacement program and Upgrade of Aberdeen Intake infrastructure pumps & electrical

Water & Sewerage Management Plans: Development of the Integrated Water Cycle Management Strategy

G3-1 Events occurring after the reporting date

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

G4 Statement of developer contributions as at 30 June 2022

G4-1 Summary of developer contributions

\$ '000	Opening balance at 1 July 2021	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2022	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Roads	275	85	-	2	-	-	362	-
Parking	5	-	-	-	-	-	5	-
Open space	40	4	-	-	-	-	44	-
Cycleways	46	-	-	-	-	-	46	-
Bushfire	-	-	-	-	-	-	-	-
Waste	-	-	-	-	-	-	-	-
S7.11 contributions – under a plan	366	89	-	2	-	-	457	-
S7.12 levies – under a plan	473	198	-	3	(169)	-	505	-
Total S7.11 and S7.12 revenue under plans	839	287	-	5	(169)	-	962	-
S64 contributions	3,804	528	-	26	-	-	4,358	-
Total contributions	4,643	815	-	31	(169)	-	5,320	-

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.

G4-2 Developer contributions by plan

\$ '000	Opening balance at 1 July 2021	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2022	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
CONTRIBUTION PLAN – SCONE/ABERDEEN								
Roads	269	85	-	2	-	-	356	-
Parking	5	-	-	-	-	-	5	-
Open space	30	4	-	-	-	-	34	-
Cycleways	46	-	-	-	-	-	46	-
Total	350	89	-	2	-	-	441	-
CONTRIBUTION PLAN – MERRIWA								
Open space	8	-	-	-	-	-	8	-
Total	8	-	-	-	-	-	8	-
CONTRIBUTION PLAN – MURRURUNDI								
Roads	6	-	-	-	-	-	6	-

continued on next page ...

G4-2 Developer contributions by plan (continued)

\$ '000	Opening balance at 1 July 2021	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2022	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Open space	2	-	-	-	-	-	2	-
Total	8	-	-	-	-	-	8	-

S7.12 Levies – under a plan

CONTRIBUTION PLAN – SHIRE WIDE

Other	473	198	-	3	(169)	-	505	-
Total	473	198	-	3	(169)	-	505	-

G5 Statement of performance measures

G5-1 Statement of performance measures – consolidated results

\$ '000	Amounts 2022	Indicator 2022	2021	Indicators 2020	2019	Benchmark
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(9,473)	(20.21)%	(11.54)%	(9.21)%	(4.04)%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	46,871					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	33,492	52.77%	51.29%	51.20%	61.84%	> 60.00%
Total continuing operating revenue	63,472					
3. Unrestricted current ratio						
Current assets less all external restrictions	15,783	1.45x	1.80x	3.09x	0.86x	> 1.50x
Current liabilities less specific purpose liabilities	10,849					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	10,186	2.68x	2.49x	3.74x	5.02x	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,796					
5. Rates and annual charges outstanding percentage						
Rates and annual charges outstanding	1,969	9.00%	10.07%	8.93%	8.14%	< 10.00%
Rates and annual charges collectable	21,888					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	36,650	9.76 months	9.93 months	11.44 months	6.91 months	> 3.00 months
Monthly payments from cash flow of operating and financing activities	3,756					

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

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

G5-2 Statement of performance measures by fund

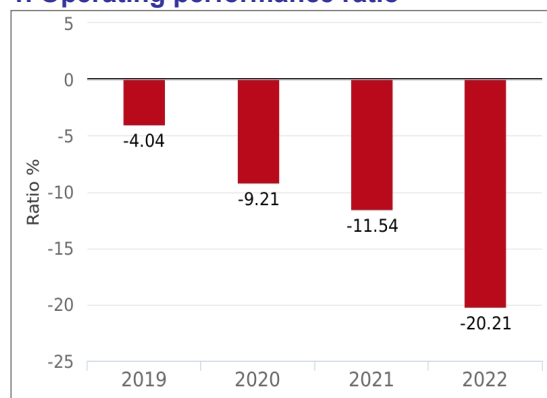
\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2022	2021	2022	2021	2022	2021	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(21.82)%	(12.45)%	(28.17)%	(17.58)%	8.09%	5.68%	> 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	46.74%	45.86%	91.85%	72.17%	86.91%	92.31%	> 60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	1.45x	1.80x	8.42x	10.43x	28.60x	17.92x	> 1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	2.27x	2.15x	3.17x	2.67x	∞	∞	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates and annual charges outstanding percentage							
Rates and annual charges outstanding	11.33%	9.93%	0.00%	10.50%	0.00%	10.60%	< 10.00%
Rates and annual charges collectable							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	9.32 months	9.72 months	∞	∞	∞	∞	> 3.00 months
Monthly payments from cash flow of operating and financing activities							

End of the audited financial statements

H Additional Council disclosures (unaudited)

H1-1 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 2021/22 result

2021/22 ratio (20.21)%

Council sustained a negative performance ratio for the 2021/2022 year which has been an increasing trend over the last 4 years. A number of factors have contributed to this decline including: 1. Increase in infrastructure write-downs following revaluations; 2. Continued pressure on a number of Council's business operations; 3. Additional costs attributed to maintenance and care of MR358 whilst awaiting rehabilitation; 4. Increased cost of road infrastructure repairs and maintenance; and 5. Loss sustained from Water Fund Operations.

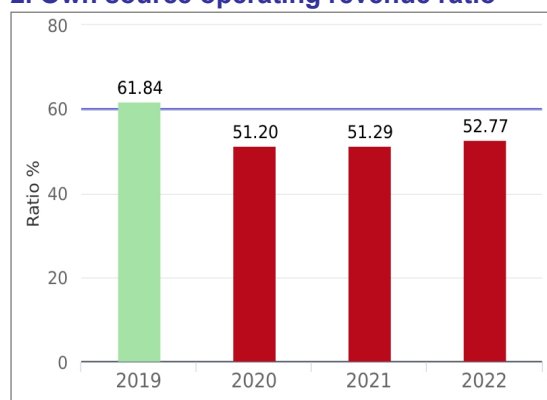
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

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 2021/22 result

2021/22 ratio 52.77%

Council's own source ratio continues to be affected by the influx of capital grant funding received during the 2021/2022 year with a number of major infrastructure projects continuing.

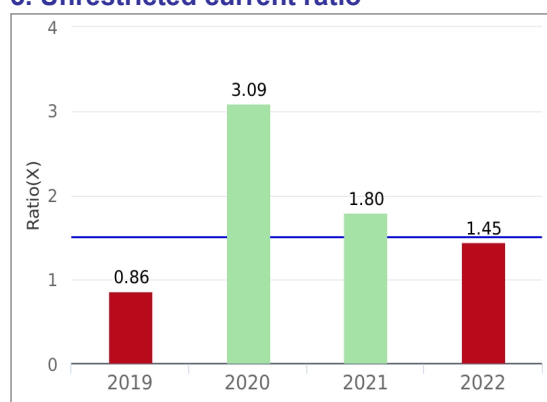
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

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 2021/22 result

2021/22 ratio 1.45x

Council's unrestricted current ratio is below the recommended benchmark of 1.5x. Concern is that the ratio has declined over the last 3 years which is coupled with the pressure on Council's business operations and a number of overruns experienced in capital infrastructure projects. Business Service reviews including capital infrastructure project delivery are to be conducted in 2022/2023 to identify Council's deficiencies in its operations and identify cost savings accordingly to improve the unrestricted ratio.

Benchmark: — > 1.50x

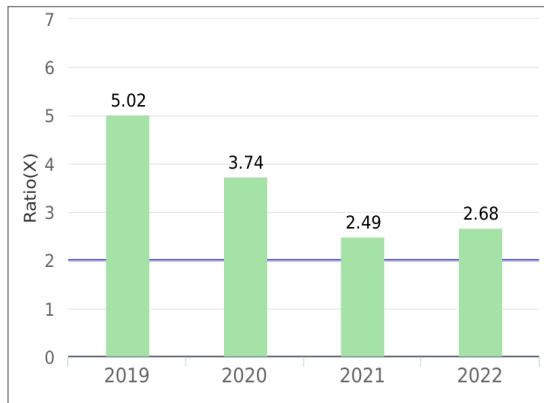
Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

H1-1 Statement of performance measures – consolidated results (graphs) (continued)

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 2021/22 result

2021/22 ratio 2.68x

Council's debt service ratio has stabilised and improved from the 2021 year following sustained borrowings over the last three years.

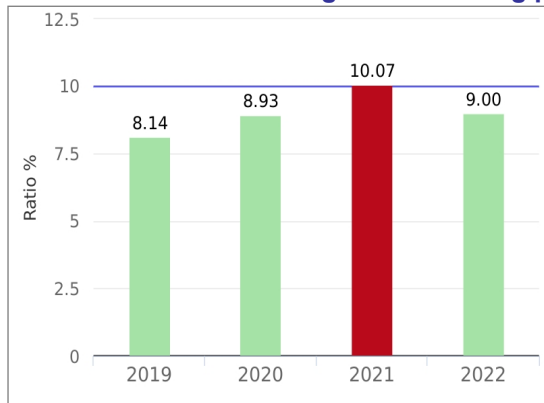
Benchmark: — > 2.00x

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

5. Rates and annual charges outstanding percentage



Purpose of rates and annual charges outstanding percentage

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

Commentary on 2021/22 result

2021/22 ratio 9.00%

Improvement in Council's collection has occurred during the 2021/2022 year following re-engaging of debt collection recovery action. Collection processes and procedures to be monitored over the 2022/2023 year to ensure further reduction in the %.

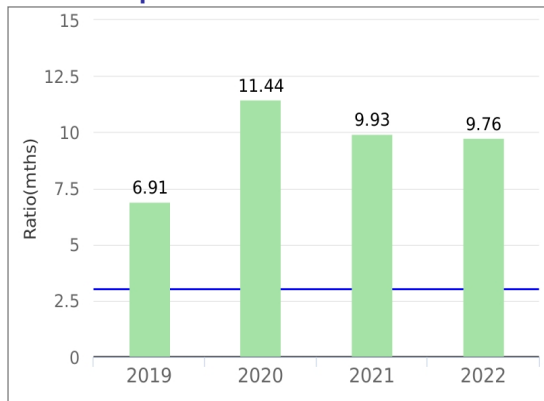
Benchmark: — < 10.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

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 2021/22 result

2021/22 ratio 9.76 months

The ratio has continued to remain above benchmark and consistent over the last three years.

Benchmark: — > 3.00months

Source of benchmark: Code of Accounting Practice and Financial Reporting

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 Upper Hunter Shire Council

Opinion

I have audited the accompanying financial statements of Upper Hunter Shire Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2022, the Statement of Financial Position as at 30 June 2022, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been prepared, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2022, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

The Council's annual report for the year ended 30 June 2022 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note B5-1 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.



Lawrissa Chan
Director, Financial Audit

31 January 2023
SYDNEY



Cr Maurice Collison
Mayor
Upper Hunter Shire Council
PO Box 208
SCONE NSW 2337

Contact: Lawrissa Chan
Phone no: 02 9275 7255
Our ref: D2300680/1796

31 January 2023

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2022
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 2022 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 2022 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

	2022	2021	Variance
	\$m	\$m	%
Rates and annual charges revenue	19.6	19.2	↑ 2.1
Grants and contributions revenue	30.0	30.0	—
Operating result from continuing operations	3.8	12.4	↓ 69.4
Net operating result before capital grants and contributions	(12.8)	(6.4)	↓ 100.0

Rates and annual charges revenue (\$19.6 million) increased by \$0.4 million (2.3 per cent) in 2021–22 due to the annual rate peg increase applied to ordinary rates.

Grants and contributions revenue (\$30.0 million) was consistent with 2021–22. Operating grants and contributions increased by \$2.2 million mainly due to an increase of \$2.0 million of financial assistance grant revenue. Capital grants and contributions reduced by \$2.3 million due to decreased recreation and culture grants.

The Council's operating result from continuing operations (\$3.8 million including depreciation and amortisation expense of \$18.4 million), was \$8.6 million lower than the 2020-21 result. This was mainly due to increased depreciation expense of \$6.0 million and increases in increase in materials and services costs by \$3.0 million.

The net operating result before capital grants and contributions (\$12.8 million deficit) was \$6.4 million higher than the 2020-21 result.

STATEMENT OF CASH FLOWS

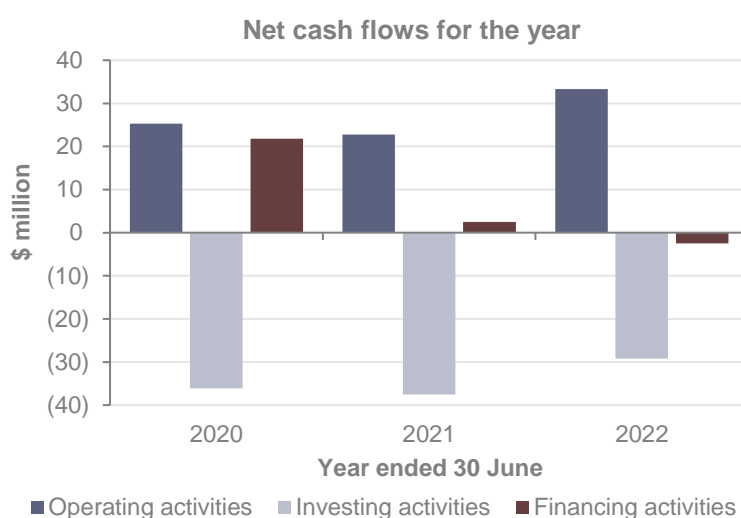
The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year.

The increase in cash provided from operating activities is mainly due to increased receipt of grants and contributions during the year.

The decrease in cash used in financing activities is mainly due to repayment of borrowings.

The Council's cash and cash equivalent balances at 30 June 2022 was \$3.1 million (2021: \$1.5 million).

The net cash flow for the year was an increase of \$1.5 million.



FINANCIAL POSITION

Cash and investments

Cash and investments	2022	2021	Commentary
	\$m	\$m	
Total cash, cash equivalents and investments	36.7	34.0	<ul style="list-style-type: none"> Cash and investments increased by \$2.6 million. Externally restricted cash and investment are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$7.7 million primarily due to an increase in specific purpose unexpended grants.
Restricted and allocated cash, cash equivalents and investments:			
• External restrictions	36.3	28.5	
• Internal allocations	-	4.4	<ul style="list-style-type: none"> Council did not disclose any internally allocated funds at year end, and disclosed \$0.3 million in unrestricted and unallocated cash and investments. Council spent internally allocated cash on different priorities, due to timing of outstanding receivables.

Debt

The Council has \$34.3 million of borrowings as at 30 June 2022 (2021: \$36.7 million).

The Council has an accumulated drawdown facility limit of \$0.6 million as at 30 June 2022 (2021: \$0.6 million), which remained unutilised at the end of the year.

PERFORMANCE

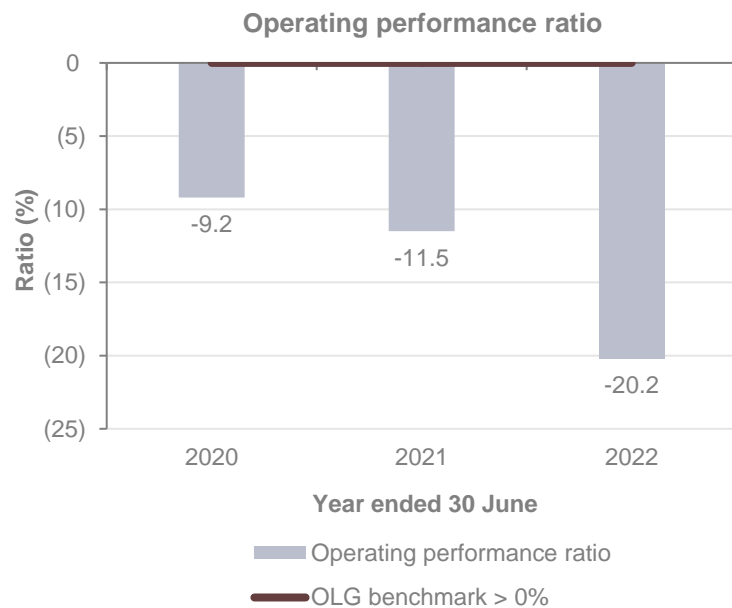
Performance measures

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

Operating performance ratio

The Council did not meet the OLG benchmark for the current reporting period.

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



Own source operating revenue ratio

The Council did not meet the OLG benchmark for the current reporting period.

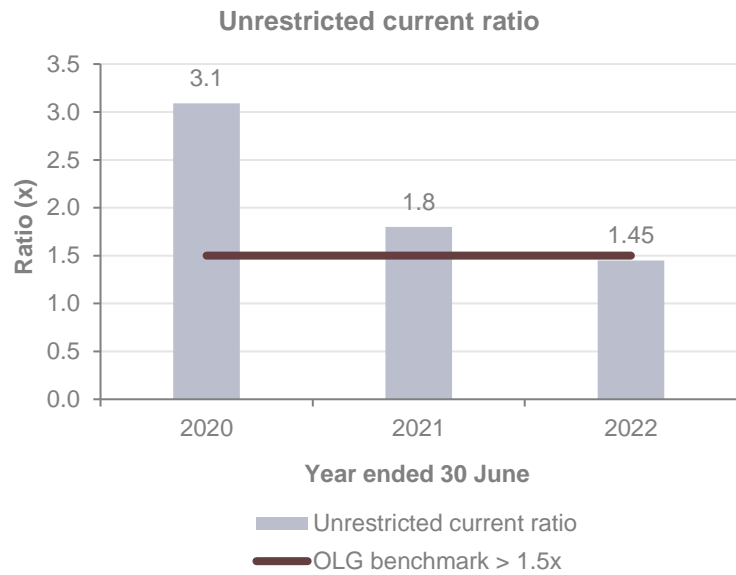
The 'own source operating revenue ratio' measures the Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

The Council did not meet the OLG benchmark for the current reporting period.

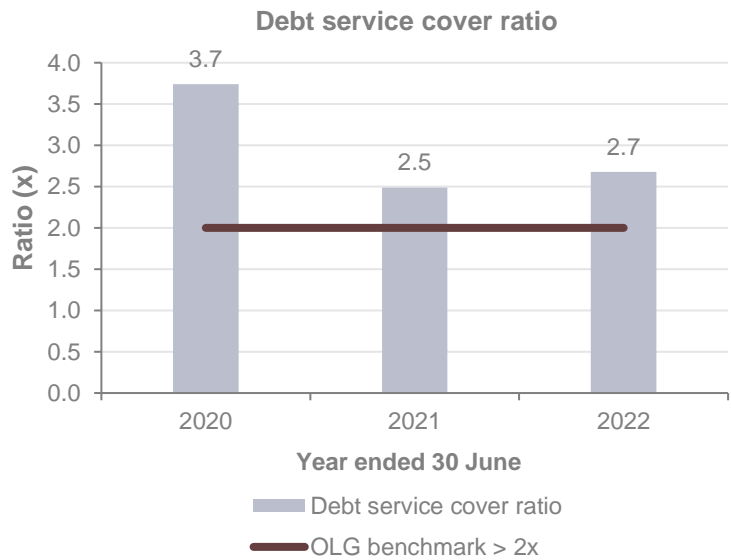
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

The Council met the OLG benchmark for the current reporting period.

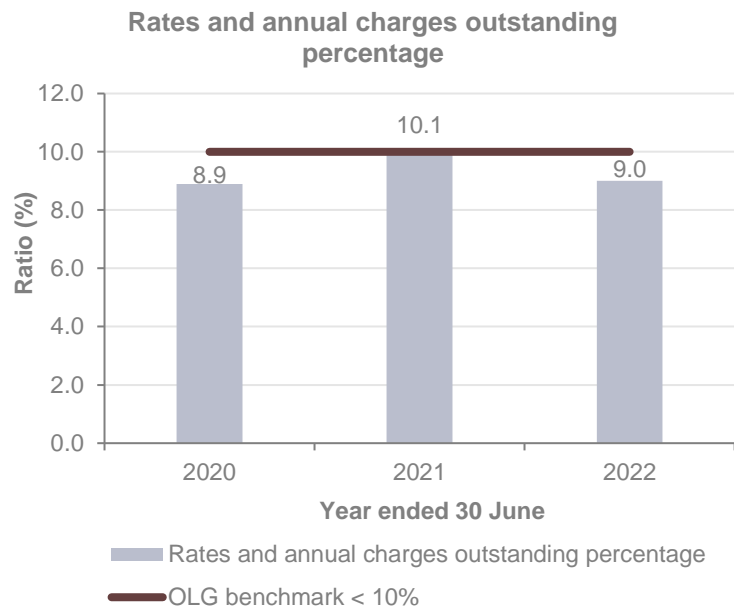
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding percentage

The Council met the OLG benchmark for the current reporting period.

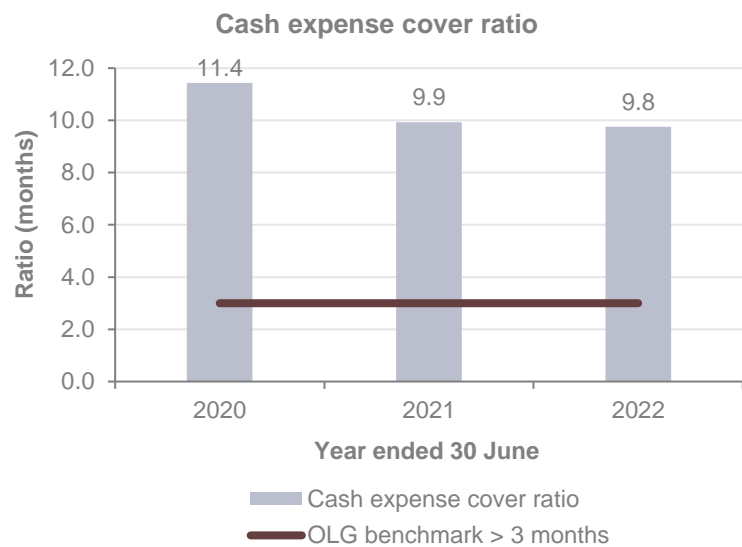
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.



Cash expense cover ratio

The Council met the OLG benchmark for the current reporting period.

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



Infrastructure, property, plant and equipment renewals

Council reported asset renewals of \$18.1 million in 2021-22 (\$14.9 million in 2020-21). Significant renewals included:

- road renewals of \$4.9 million (\$1.7 million in 2020-21)
- earthwork asset renewals of \$2.3 million (\$0.7 million in 2020-21)
- ancillary infrastructure assets renewals of \$1.4 million (\$0.1 million in 2020-21).

OTHER MATTERS

Legislative compliance

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

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



Lawrissa Chan
Director, Financial Audit

Upper Hunter Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2022

Upper Hunter Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2022

Contents	Page
Statement by Councillors and Management	3
Special Purpose Financial Statements:	
Income Statement of water supply business activity	4
Income Statement of sewerage business activity	5
Statement of Financial Position of water supply business activity	6
Statement of Financial Position of sewerage business activity	7
Note – Significant Accounting Policies	8
Auditor's Report on Special Purpose Financial Statements	11

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).

Upper Hunter Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2022

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 26 September 2022.



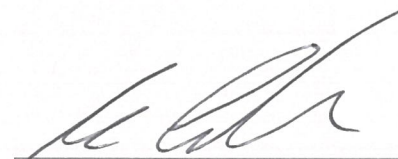
Maurice Collison
Mayor
28 October 2022



James Burns
Councillor
28 October 2022



Greg McDonald
General Manager
28 October 2022



Kristian Enevoldson
Responsible Accounting Officer
28 October 2022

Upper Hunter Shire Council

Income Statement of water supply business activity

for the year ended 30 June 2022

\$ '000	2022	2021
Income from continuing operations		
Access charges	1,401	1,352
User charges	3,003	2,995
Interest and investment income	87	114
Grants and contributions provided for operating purposes	80	40
Other income	48	49
Total income from continuing operations	4,619	4,550
Expenses from continuing operations		
Employee benefits and on-costs	2,303	2,581
Borrowing costs	237	268
Materials and services	671	624
Depreciation, amortisation and impairment	1,888	1,265
Net loss from the disposal of assets	312	108
Calculated taxation equivalents	72	18
Other expenses	509	504
Total expenses from continuing operations	5,992	5,368
Surplus (deficit) from continuing operations before capital amounts	(1,373)	(818)
Grants and contributions provided for capital purposes	323	1,699
Surplus (deficit) from continuing operations after capital amounts	(1,050)	881
Surplus (deficit) from all operations before tax	(1,050)	881
Surplus (deficit) after tax	(1,050)	881
Plus accumulated surplus	63,197	62,313
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	72	18
Less:		
– Surplus dividend paid	(15)	(15)
Closing accumulated surplus	62,204	63,197
Return on capital %	(1.4)%	(0.8)%
Subsidy from Council	4,204	1,577
Calculation of dividend payable:		
Surplus (deficit) after tax	(1,050)	881
Less: capital grants and contributions (excluding developer contributions)	(323)	(1,595)
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Upper Hunter Shire Council

Income Statement of sewerage business activity

for the year ended 30 June 2022

\$ '000	2022	2021
Income from continuing operations		
Access charges	3,116	3,047
User charges	236	232
Liquid trade waste charges	10	10
Interest and investment income	71	94
Grants and contributions provided for operating purposes	41	37
Other income	26	13
Total income from continuing operations	3,500	3,433
Expenses from continuing operations		
Employee benefits and on-costs	1,535	1,589
Materials and services	424	506
Depreciation, amortisation and impairment	1,083	890
Calculated taxation equivalents	25	6
Other expenses	175	253
Total expenses from continuing operations	3,242	3,244
Surplus (deficit) from continuing operations before capital amounts	258	189
Grants and contributions provided for capital purposes	480	246
Surplus (deficit) from continuing operations after capital amounts	738	435
Surplus (deficit) from all operations before tax	738	435
Less: corporate taxation equivalent (25%) [based on result before capital]	(65)	(49)
Surplus (deficit) after tax	673	386
Plus accumulated surplus	22,419	21,992
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	25	6
– Corporate taxation equivalent	65	49
Less:		
– Surplus dividend paid	(14)	(14)
Closing accumulated surplus	23,168	22,419
Return on capital %	0.6%	0.5%
Subsidy from Council	1,412	405
Calculation of dividend payable:		
Surplus (deficit) after tax	674	386
Less: capital grants and contributions (excluding developer contributions)	(480)	(54)
Surplus for dividend calculation purposes	194	332
Potential dividend calculated from surplus	97	166

Upper Hunter Shire Council

Statement of Financial Position of water supply business activity

as at 30 June 2022

\$ '000	2022	2021
Current assets		
Cash and cash equivalents	660	333
Investments	9,000	10,000
Receivables	1,402	1,496
Inventories	333	354
Other	2	1
Total current assets	11,397	12,184
Non-current assets		
Infrastructure, property, plant and equipment	83,813	68,954
Intangible assets	234	234
Total non-current assets	84,047	69,188
Total assets	95,444	81,372
LIABILITIES		
Current liabilities		
Payables	729	473
Borrowings	316	318
Employee benefit provisions	308	377
Total current liabilities	1,353	1,168
Non-current liabilities		
Borrowings	4,839	5,137
Employee benefit provisions	5	9
Total non-current liabilities	4,844	5,146
Total liabilities	6,197	6,314
Net assets	89,247	75,058
EQUITY		
Accumulated surplus	62,204	63,197
Revaluation reserves	27,043	11,861
Total equity	89,247	75,058

Upper Hunter Shire Council

Statement of Financial Position of sewerage business activity

as at 30 June 2022

\$ '000	2022	2021
Current assets		
Cash and cash equivalents	971	390
Investments	10,000	10,000
Receivables	380	371
Inventories	57	62
Other	2	2
Total current assets	11,410	10,825
Non-current assets		
Infrastructure, property, plant and equipment	45,628	39,899
Total non-current assets	45,628	39,899
Total assets	57,038	50,724
LIABILITIES		
Current liabilities		
Payables	91	227
Employee benefit provisions	308	377
Total current liabilities	399	604
Non-current liabilities		
Employee benefit provisions	5	9
Total non-current liabilities	5	9
Total liabilities	404	613
Net assets	56,634	50,111
EQUITY		
Accumulated surplus	23,168	22,419
Revaluation reserves	33,466	27,692
Total equity	56,634	50,111

Note – 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 (Act)*, the *Local Government (General) Regulation 2005 (Regulation)* and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, fair value 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, and returns 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

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):

Note – Significant Accounting Policies (continued)

Notional rate applied (%)

Corporate income tax rate – **26%** (19/20 27.5%)

Land tax – the first \$900,000 of combined land values attracts **0%**. For the combined land values in excess of \$900,000 up to \$4,616,000 the rate is **\$100 + 1.6%**. For the remaining combined land value that exceeds \$4,616,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **4.85%** on the value of taxable salaries and wages in excess of \$1,200,000.

In accordance with the Department of Planning, Industry & Environment – 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 Best Practice Management of Water Supply and Sewer Guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the Act.

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

Income tax

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

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

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

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

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

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

Local government rates and charges

A calculation of the equivalent rates and charges for all Category 1 businesses has been applied to all 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.

(i) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed. Subsidies occur where 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. The overall effect of subsidies is contained within the Income Statements of business activities.

(ii) 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'.

Funds are subsequently available for meeting commitments or financing future investment strategies. The rate of return is disclosed for each of Council's business activities on the Income Statement.

Note – Significant Accounting Policies (continued)

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 3.66% at 30/6/22.

(iii) Dividends

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

A local government water supply and sewerage business is permitted to pay annual dividends from their water supply or sewerage business surpluses. Each dividend must be calculated and approved in accordance with the DPIE – Water guidelines and must not exceed 50% of the relevant surplus in any one year, or the number of water supply or sewerage assessments at 30 June 2022 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best Practice Management of Water Supply and Sewer Guidelines, a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are submitted to DPIE – Water.



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statements
Upper Hunter Shire Council

To the Councillors of 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 Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2022, the Statement of Financial Position of each Declared Business Activity as at 30 June 2022 and the Significant accounting policies note.

The Declared Business Activities of the Council are:

- water supply
- sewerage.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's Declared Business Activities as at 30 June 2022, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in the Significant accounting policies note and the Local Government Code of Accounting Practice and Financial Reporting 2021–22 (LG Code).

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the Significant accounting policies note 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 2022 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 the Significant accounting policies note to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

A handwritten signature in black ink, appearing to read 'Lawrissa Chan', written in a cursive style.

Lawrissa Chan
Director, Financial Audit

31 January 2023
SYDNEY

Upper Hunter Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2022

Upper Hunter Shire Council

Special Schedules

for the year ended 30 June 2022

Contents	Page
Special Schedules:	
Permissible income for general rates	3
Report on infrastructure assets as at 30 June 2022	4

Upper Hunter Shire Council

Permissible income for general rates

\$ '000	Notes	Calculation 2021/22	Calculation 2022/23
Notional general income calculation ¹			
Last year notional general income yield	a	11,405	11,641
Plus or minus adjustments ²	b	8	26
Notional general income	c = a + b	11,413	11,667
Permissible income calculation			
Or rate peg percentage	e	2.00%	2.00%
Or plus rate peg amount	i = e x (c + g)	228	233
Sub-total	k = (c + g + h + i + j)	11,641	11,900
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	11,642	11,901
Less notional general income yield	p	11,641	11,899
Catch-up or (excess) result	q = o - p	1	3
Carry forward to next year ⁶	t = q + r + s	1	3

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 (NSW)*.
- (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 Act. 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 2023.

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 2021–22 (LG Code) and is in accordance with the books and records of the Council.

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Council's annual report for the year ended 30 June 2022 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 2022'.

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

The scope of my audit does not include, nor provide assurance:

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

A handwritten signature in black ink, appearing to read 'Lawrissa Chan', written in a cursive style.

Lawrissa Chan
Director, Financial Audit

31 January 2023
SYDNEY

Upper Hunter Shire Council

Report on infrastructure assets as at 30 June 2022

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard \$ '000	Estimated cost to bring to the agreed level of service set by Council \$ '000	2021/22 Required maintenance ^a \$ '000	2021/22 Actual maintenance \$ '000	Net carrying amount \$ '000	Gross replacement cost (GRC) \$ '000	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – non-specialised	25	25	17	8	301	335	0.0%	100.0%	0.0%	0.0%	0.0%
	Buildings – specialised	600	400	384	496	31,182	46,005	60.0%	40.0%	0.0%	0.0%	0.0%
	Administration Centres	120	100	66	66	6,470	9,547	95.0%	5.0%	0.0%	0.0%	0.0%
	Council Works Depot	120	100	40	46	1,682	2,981	0.0%	100.0%	0.0%	0.0%	0.0%
	Council Public Halls	120	100	63	84	3,430	6,070	0.0%	80.0%	20.0%	0.0%	0.0%
	Libraries	50	20	16	14	550	786	0.0%	80.0%	20.0%	0.0%	0.0%
	Cultural Facilities	50	20	8	6	2,671	4,165	0.0%	0.0%	100.0%	0.0%	0.0%
Sub-total		1,085	765	594	720	46,286	69,889	52.5%	39.6%	7.9%	0.0%	0.0%
Other structures	Other structures	100	26	125	129	2,333	2,785	53.9%	36.3%	8.2%	1.2%	0.4%
	Other structures earthworks	–	–	–	–	67	67	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	100	26	125	129	2,400	2,852	55.0%	35.4%	8.0%	1.2%	0.4%
Roads	Sealed roads	1,775	1,272	2,372	2,302	199,875	226,760	43.7%	51.6%	2.5%	1.0%	1.1%
	Sealed roads surface	1,172	713	–	–	40,485	55,242	29.9%	26.7%	37.1%	6.0%	0.3%
	Unsealed roads	3,633	2,689	3,225	3,956	80,336	113,002	21.6%	41.8%	29.9%	6.1%	0.6%
	Bridges	1,087	1,087	465	212	56,215	74,081	58.2%	30.9%	7.1%	3.5%	0.2%
	Footpaths	376	276	70	24	6,550	8,176	2.4%	82.8%	7.2%	6.9%	0.8%
	Bulk earthworks	–	–	–	–	367,730	370,291	100.0%	0.0%	0.0%	0.0%	0.0%
	Culverts	–	–	–	–	32,632	41,998	83.4%	16.2%	0.4%	0.0%	0.0%
	Kerb and Gutter	1,000	675	–	–	22,850	30,135	35.6%	39.7%	20.5%	3.6%	0.7%
Sub-total	9,043	6,712	6,132	6,494	806,673	919,685	65.2%	24.7%	7.9%	1.8%	0.4%	
Water supply network	Mains / Pipes	1,000	750	350	164	58,550	85,572	39.0%	10.0%	32.0%	19.0%	0.0%
	Reservoirs	200	100	82	19	11,880	17,990	10.0%	54.0%	29.0%	7.0%	0.0%
	Pumping Stations	250	150	99	49	4,783	7,615	0.0%	100.0%	0.0%	0.0%	0.0%
	Treatment Plants	350	250	115	84	3,818	20,077	0.0%	100.0%	0.0%	0.0%	0.0%
	Bores/Wells	100	50	–	9	1,041	2,146	24.0%	26.0%	50.0%	0.0%	0.0%
	Other Infrastructure	50	25	–	–	438	1,025	0.0%	0.0%	100.0%	0.0%	0.0%
	Sub-total	1,950	1,325	646	325	80,510	134,425	26.5%	34.6%	25.8%	13.0%	0.0%
	Mains / Pipes	750	500	142	771	24,425	43,540	12.0%	16.0%	61.0%	11.0%	0.0%
	Pumping Stations	200	150	82	108	5,728	10,346	18.0%	4.0%	78.0%	0.0%	0.0%
	Treatment Plants	300	250	334	344	11,495	24,914	0.0%	0.0%	88.0%	12.0%	0.0%

Upper Hunter Shire Council

Report on infrastructure assets as at 30 June 2022 (continued)

Asset Class	Asset Category	Estimated cost				Net carrying amount \$ '000	Gross replacement cost (GRC) \$ '000	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard \$ '000	to bring to the agreed level of service set by Council \$ '000	2021/22 Required maintenance ^a \$ '000	2021/22 Actual maintenance \$ '000			1	2	3	4	5
Sewerage network	Other Infrastructure	75	50	–	–	1,757	3,021	22.0%	26.0%	8.0%	44.0%	0.0%
	Sub-total	1,325	950	558	1,223	43,405	81,821	9.5%	10.0%	69.4%	11.1%	0.0%
Stormwater drainage	Stormwater drainage pits	284	114	–	–	3,059	3,756	55.2%	13.0%	25.1%	6.7%	0.0%
	Pipes	1,200	753	191	129	14,910	19,129	43.5%	17.2%	30.5%	8.8%	0.0%
	Box Culverts	1,419	1,101	–	–	6,952	11,578	21.4%	9.5%	29.0%	40.1%	0.0%
	Headwalls	123	99	–	–	478	687	52.7%	10.6%	13.9%	22.7%	0.1%
	Open Channel	28	–	–	–	1,119	1,119	57.1%	33.4%	9.5%	0.0%	0.0%
	Basin	37	–	–	–	1,352	1,352	44.7%	45.7%	9.6%	0.0%	0.0%
	Causeways	213	213	–	–	184	475	0.0%	0.0%	50.0%	50.0%	0.0%
	Other (Dish Drain)	44	22	–	–	305	418	5.9%	52.3%	30.2%	11.5%	0.0%
Sub-total	3,348	2,302	191	129	28,359	38,514	37.7%	16.0%	28.1%	18.2%	0.0%	
Open space / recreational assets	Swimming pools	1,000	1,000	100	98	4,296	10,352	1.2%	44.8%	30.2%	23.8%	0.0%
	Parks and Gardens	500	348	530	566	5,067	6,778	23.9%	40.8%	26.1%	7.3%	1.9%
	Sportsgrounds	1,200	1,040	519	1,122	17,103	21,461	40.9%	33.6%	16.9%	7.4%	1.2%
	Open Space Earthworks	–	–	–	–	3,853	3,853	100.0%	0.0%	0.0%	0.0%	0.0%
Sub-total	2,700	2,388	1,149	1,786	30,319	42,444	33.9%	34.4%	20.1%	10.7%	0.9%	
Other infrastructure assets	Aerodrome	184	184	86	77	21,147	22,077	59.1%	31.4%	6.2%	3.4%	0.0%
	Saleyards	277	154	156	111	14,082	15,557	80.8%	13.4%	4.1%	0.9%	0.8%
	Depots	241	125	39	54	2,962	3,827	13.1%	63.0%	17.5%	3.3%	3.1%
	Transport Ancillaries	100	100	101	31	1,754	2,228	40.4%	22.1%	36.8%	0.8%	0.0%
	Ancillary Infrastructure Earthworks	–	–	–	–	3,321	3,321	0.0%	0.0%	0.0%	0.0%	100.0%
Sub-total	802	563	382	273	43,266	47,010	57.5%	25.3%	7.4%	2.2%	7.6%	
Total – all assets		20,353	15,031	9,777	11,079	1,081,218	1,336,640	55.1%	25.7%	14.4%	4.2%	0.6%

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

Infrastructure asset condition assessment 'key'

#	Condition	Integrated planning and reporting (IP&R) description
1	Excellent/very good	No work required (normal maintenance)

continued on next page ...

Upper Hunter Shire Council

Report on infrastructure assets as at 30 June 2022 (continued)

2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Upper Hunter Shire Council

Report on infrastructure assets as at 30 June 2022

Infrastructure asset performance indicators (consolidated) *

\$ '000	Amounts 2022	Indicator 2022	2021	Indicators 2020	2019	Benchmark
Buildings and infrastructure renewals ratio						
Asset renewals ¹	18,050					
Depreciation, amortisation and impairment	10,168	177.52%	161.00%	108.43%	138.23%	>= 100.00%
Infrastructure backlog ratio						
Estimated cost to bring assets to a satisfactory standard	20,353					
Net carrying amount of infrastructure assets	1,089,922	1.87%	1.32%	1.17%	1.21%	< 2.00%
Asset maintenance ratio						
Actual asset maintenance	11,079					
Required asset maintenance	9,777	113.32%	117.95%	109.09%	102.36%	> 100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	15,031					
Gross replacement cost	1,336,640	1.12%	1.10%	0.89%	0.97%	

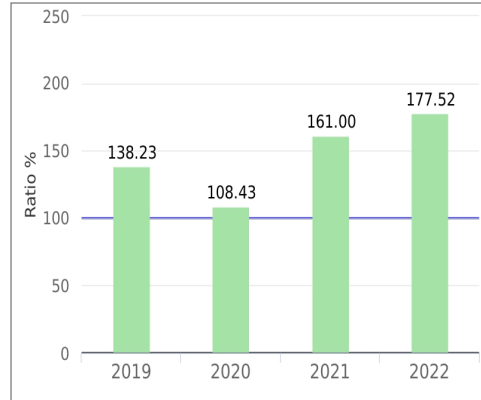
(*) All asset performance indicators are calculated using classes identified in the previous table.

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

Upper Hunter Shire Council

Report on infrastructure assets as at 30 June 2022

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

Commentary on result

21/22 ratio 177.52%

Council's renewal ratio has increased during the 2021/2022 year with a number of major infrastructure projects progressed with continued Federal and State Government grant funding stimulus. It is expected that continuation of these funding opportunities to continue over the next year.

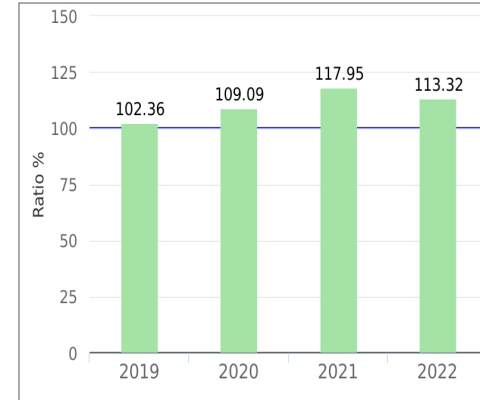
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting

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

21/22 ratio 113.32%

Council continues with its focus towards its infrastructure maintenance and renewal programs. Continued adherence to these programs will help limit the exposure to future backlog issues placed upon its infrastructure asset base.

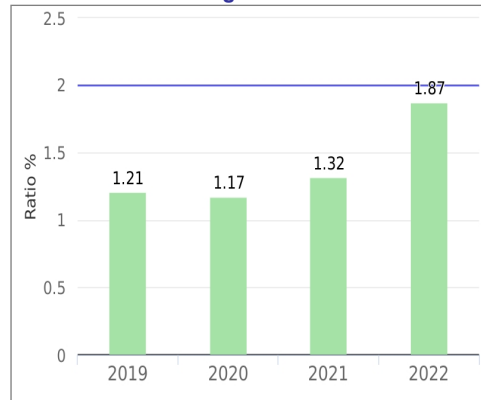
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting

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

21/22 ratio 1.87%

Increase in Council's backlog ratio has been evident in the 2021/2022 year with pressure on the road network infrastructure being experienced following a multitude of extreme weather events and the significant increase in the cost of maintenance delivery.

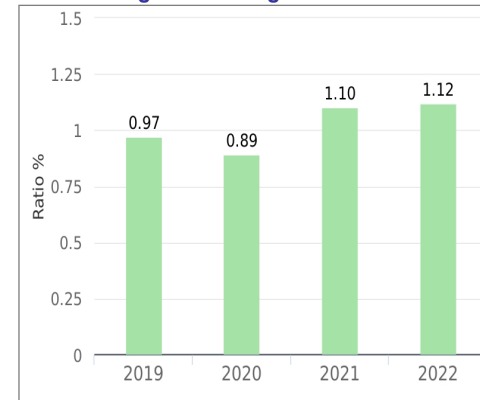
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting

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

21/22 ratio 1.12%

Council's cost to bring its infrastructure assets to an agreed level of service to the community has increased in line with the backlog ratio increments over the last two years. Council acknowledges and is committed to investing in the maintenance and renewal of its primary infrastructure base such as roads, water and sewerage to ensure it provides a satisfactory level of service to its residents and community.

Upper Hunter Shire Council

Report on infrastructure assets as at 30 June 2022

Infrastructure asset performance indicators (by fund)

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2022	2021	2022	2021	2022	2021	
Buildings and infrastructure renewals ratio							
Asset renewals ¹	250.80%	209.86%	0.00%	0.00%	0.00%	0.00%	>= 100.00%
Depreciation, amortisation and impairment							
Infrastructure backlog ratio							
Estimated cost to bring assets to a satisfactory standard	1.77%	1.21%	2.42%	2.06%	3.05%	2.51%	< 2.00%
Net carrying amount of infrastructure assets							
Asset maintenance ratio							
Actual asset maintenance	111.17%	110.09%	50.31%	173.22%	219.18%	154.17%	> 100.00%
Required asset maintenance							
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	1.14%	1.06%	0.99%	1.26%	1.16%	1.26%	
Gross replacement cost							

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