



Lithgow
CITY COUNCIL

Annual Report

General Purpose Financial Statements

2018/2019

Lithgow City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

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

180 Mort St
Lithgow NSW 2790

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

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2019

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

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

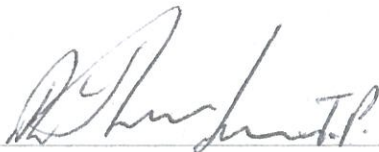
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board.
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

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

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



Raymond Thompson

Mayor

28 October 2019



Steven Ring

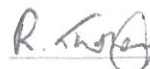
Councillor

28 October 2019



Graeme Faulkner
General Manager

28 October 2019



Ross Gurney

Responsible Accounting Officer

28 October 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
25,913	Rates and annual charges	3a	27,420	25,924
7,477	User charges and fees	3b	6,976	6,703
898	Interest and investment revenue	3c	953	887
1,290	Other revenues	3d	1,573	1,415
7,122	Grants and contributions provided for operating purposes	3e,3f	7,367	7,328
7,349	Grants and contributions provided for capital purposes	3e,3f	3,489	4,330
<u>Other income:</u>				
335	Net gains from the disposal of assets	5	—	—
50,384	Total income from continuing operations		47,778	46,587
Expenses from continuing operations				
14,657	Employee benefits and on-costs	4a	17,227	15,871
1,076	Borrowing costs	4b	1,030	681
10,266	Materials and contracts	4c	10,208	9,601
11,834	Depreciation and amortisation	4d	12,099	11,856
5,503	Other expenses	4e	5,088	5,087
—	Net losses from the disposal of assets	5	420	918
43,336	Total expenses from continuing operations		46,072	44,014
7,048	Operating result from continuing operations		1,706	2,573
7,048	Net operating result for the year		1,706	2,573
7,048	Net operating result attributable to Council		1,706	2,573
(301)	Net operating result for the year before grants and contributions provided for capital purposes		(1,783)	(1,757)

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

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

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		1,706	2,573
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	1,717	2,814
Total other comprehensive income for the year		1,717	2,814
Equity Adjustment Buildings - Specialised ²	10(a)	(1,303)	—
Total and comprehensive income for the year		2,120	5,387
 Total equity adjustments and comprehensive income attributable to Council		 2,120	 5,387

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

(2) Management identified a number of non existant specilised building assets in the 2017/18 financial statements and derecognised them.

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

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	30,052	33,971
Receivables	7	4,967	5,512
Inventories	8a	676	607
Other	8b	216	266
Current assets classified as 'held for sale'	9	350	—
Total current assets		36,261	40,356
Non-current assets			
Infrastructure, property, plant and equipment	10(a)	514,644	512,120
Investment property	11a	5,513	5,494
Total non-current assets		520,157	517,614
TOTAL ASSETS		556,418	557,970
LIABILITIES			
Current liabilities			
Payables	12	4,215	6,457
Income received in advance	12	1,299	1,135
Borrowings	12	1,998	1,993
Provisions	13	3,591	3,541
Total current liabilities		11,103	13,126
Non-current liabilities			
Payables	12	19	9
Borrowings	12	15,796	17,876
Provisions	13	8,827	8,406
Total non-current liabilities		24,642	26,291
TOTAL LIABILITIES		35,745	39,417
Net assets		520,673	518,553
EQUITY			
Accumulated surplus	14a	209,803	208,097
Revaluation reserves	14a	310,870	310,456
Council equity interest		520,673	518,553
Total equity		520,673	518,553

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

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

Statement of Changes in Equity

for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		208,097	310,456	518,553	205,524	307,642	513,166
Net operating result for the year		1,706	–	1,706	2,573	–	2,573
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10(a)	–	1,717	1,717	–	2,814	2,814
Other comprehensive income		–	1,717	1,717	–	2,814	2,814
Total comprehensive income		1,706	1,717	3,423	2,573	2,814	5,387
Equity Adjustment Buildings - Specialised ²	10(a)	–	(1,303)	(1,303)	–	–	–
Equity – balance at end of the reporting period		209,803	310,870	520,673	208,097	310,456	518,553

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

(2) Management identified a number of non-existent specialised building assets included in the 2017/18 financial statements and derecognised them.

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

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
	<u>Receipts</u>			
25,913	Rates and annual charges		27,676	25,393
7,477	User charges and fees		7,484	7,074
898	Investment and interest revenue received		994	872
14,471	Grants and contributions		10,708	12,719
–	Bonds, deposits and retention amounts received		181	228
1,290	Other		4,441	1,987
	<u>Payments</u>			
(14,657)	Employee benefits and on-costs		(16,943)	(15,785)
(10,266)	Materials and contracts		(15,363)	(7,498)
(1,076)	Borrowing costs		(974)	(650)
–	Bonds, deposits and retention amounts refunded		(361)	(114)
(5,503)	Other		(4,625)	(5,516)
18,547	Net cash provided (or used in) operating activities	15b	13,218	18,710
Cash flows from investing activities				
	<u>Receipts</u>			
–	Sale of infrastructure, property, plant and equipment		355	155
	<u>Payments</u>			
–	Purchase of investment property		(19)	–
(32,292)	Purchase of infrastructure, property, plant and equipment		(15,334)	(16,639)
(32,292)	Net cash provided (or used in) investing activities		(14,998)	(16,484)
Cash flows from financing activities				
	<u>Receipts</u>			
–	Proceeds from borrowings and advances		–	3,800
	<u>Payments</u>			
(1,949)	Repayment of borrowings and advances		(2,139)	(1,922)
(1,949)	Net cash flow provided (used in) financing activities		(2,139)	1,878
(15,694)	Net increase/(decrease) in cash and cash equivalents		(3,919)	4,104
–	Plus: cash and cash equivalents – beginning of year	15a	33,971	29,867
(15,694)	Cash and cash equivalents – end of the year	15a	30,052	33,971
(15,694)	Additional Information: Total cash, cash equivalents and investments		30,052	33,971

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

Notes to the Financial Statements

for the year ended 30 June 2019

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 28 October 2019. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not for-profit entity.

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

(a) New and amended standards adopted by Council

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

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 14.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of investment properties – refer Note 11
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- (iii) estimated tip remediation provisions – refer Note 13
- (iv) employee benefit provisions – refer Note 13.

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

Council has not made any significant judgements about the impairment of a number of its receivables – refer Note 7.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- General purpose operations
- Water service
- Sewerage service

(b) The Trust Fund

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

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

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

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

AASB 16 Leases

AASB 16 will result (for YE 19/20 and beyond) in almost all operating leases being recognised on the balance sheet by Council (alongside existing finance leases) with the distinction between operating and finance leases removed.

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1/7/19).

AASB 16 will (on the whole) affect Council's accounting for existing operating lease agreements that are in place as at 30/6/19.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

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

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

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

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

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

AASB 1058 Income of NFP Entities

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

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

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

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

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

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

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

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

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

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

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

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2018.

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Caring for our community	1,781	2,312	3,179	3,733	(1,398)	(1,421)	1,485	1,943	2,501	2,310
Strengthening our economy	119	149	1,225	1,402	(1,106)	(1,253)	57	5	6,932	7,087
Developing our built environment	25,609	20,532	35,985	35,430	(10,376)	(14,898)	2,882	3,182	495,793	504,276
Enhancing our natural environment	43	4,610	1,892	3,173	(1,849)	1,437	34	342	40,242	34,857
Governance and leadership	20,226	18,984	3,791	275	16,435	18,709	4,853	4,812	10,950	9,438
Other	–	–	–	–	–	–	(1)	(468)	–	2
Total functions and activities	47,778	46,587	46,072	44,013	1,706	2,574	9,310	9,816	556,418	557,970

Notes to the Financial Statements

for the year ended 30 June 2019

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

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Caring for our community

Includes supporting Aboriginal, cultural and linguistically diverse communities; ageing populations; children and families; community support and information; health; library programs; regulatory/compliance programs; safety; volunteering and youth.

Strengthening our economy

Includes Council's branding and marketing; art and culture; business and industry development and support; education and training; leadership and communication; heritage; and tourism.

Developing our built environment

Includes cemeteries; community commercial and industrial buildings; cycleways and pathways; environmental health; parks and gardens; recreational facilities; transport; sewage infrastructure; streetscape improvements; tradewaste; and water infrastructure.

Enhancing our natural environment

Includes air; biodiversity; climate change; environmental protection and leadership; natural heritage; stormwater and drainage water and waste and recycling.

Governance and leadership

Includes planning for our future; civic leadership; communication; corporate management; customer service; being an employer of choice; information systems management; and plant and equipment.

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	6,911	6,662
Farmland	1,820	1,762
Mining	2,086	2,035
Business	1,780	1,729
Rates levied to ratepayers	12,597	12,188
Pensioner rate subsidies received	543	293
Total ordinary rates	13,140	12,481
Special rates		
Sewerage services	6,913	6,693
Parking	252	247
Rates levied to ratepayers	7,165	6,940
Total special rates	7,165	6,940
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	3,802	3,522
Stormwater management services	243	240
Water supply services	1,716	1,660
Sewerage services	367	349

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
Waste management services (non-domestic)	642	535
Gas mains	22	22
Annual charges levied	6,792	6,328
Pensioner subsidies received:		
– Water	166	89
– Sewerage	157	86
Total annual charges	7,115	6,503
TOTAL RATES AND ANNUAL CHARGES	27,420	25,924

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

Accounting policy for rates and charges

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

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

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

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

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Water supply services	5,402	4,926
Waste management services (non-domestic)	11	–
Trade waste	42	98
Septic approval	133	138
Total specific user charges	5,588	5,162
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	517	732
Private works – section 67	83	89
Regulatory/statutory fees	33	40
Section 10.7 certificates (EP&A Act)	58	70
Total fees and charges – statutory/regulatory	691	931
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Cemeteries	162	147
Leaseback fees – Council vehicles	107	104
Swimming centres	373	307
Hall and park hire	51	42
Other	4	10
Total fees and charges – other	697	610
TOTAL USER CHARGES AND FEES	6,976	6,703

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

Accounting policy for user charges and fees

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

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

– Overdue rates and annual charges (incl. special purpose rates)	115	113
– Cash and investments	838	774
TOTAL INTEREST AND INVESTMENT REVENUE	953	887

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

Overdue rates and annual charges (general fund)	85	113
General Council cash and investments	838	741

Restricted investments/funds – external:

Water fund operations	30	33
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Total interest and investment revenue	953	887
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Accounting policy for interest and investment revenue

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

\$ '000	Notes	2019	2018
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(d) Other revenues

Rental income – investment property	11	600	689
Rental income – other council properties		47	62
Fines – parking		12	9
Fines – other		47	53
Legal fees recovery – other		1	61
Commissions and agency fees		3	4
Diesel rebate		70	70
Insurance claims recoveries		196	182
Recycling income (non-domestic)		88	–
Sale of abandoned vehicles		1	2
Sales – general		66	32
Esbank house		4	2
Inspections		3	2
Library charges		17	15
Insurance claim - Lithgow Store Storm Damage		263	–
Sales – aquatic centre		–	87
Sales – tourism		33	42
Other		122	103
TOTAL OTHER REVENUE		1,573	1,415

Accounting policy for other revenue

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

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

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

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

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

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	3,640	4,509	–	–
Financial assistance – local roads component	1,213	–	–	–
Total general purpose	4,853	4,509	–	–
Specific purpose				
Sewerage services	–	–	569	653
Community centres	352	77	–	–
Environmental programs	27	317	–	–
Heritage and cultural	–	11	698	1,298
Library – per capita	61	75	–	–
Library – special projects	13	–	–	–
LIRS subsidy	–	141	–	–
Recreation and culture	146	–	1,008	464
Street lighting	–	70	–	–
Transport (roads to recovery)	817	1,118	–	–
Transport (other roads and bridges funding)	1	–	702	1,015
Other	63	68	–	–
Total specific purpose	1,480	1,877	2,977	3,430
Total grants	6,333	6,386	2,977	3,430
Grant revenue is attributable to:				
– Commonwealth funding	5,670	6,098	612	652
– State funding	614	270	2,365	2,778
– Other funding	49	18	–	–
	6,333	6,386	2,977	3,430

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements		–	–	152	209
S 7.11 – contributions towards amenities/services		–	–	5	80
S 7.12 – fixed development consent levies		–	–	290	271
S 64 – water supply contributions		–	–	21	144
S 64 – sewerage service contributions		–	–	37	130
Total developer contributions – cash		–	–	505	834
Total developer contributions	24	–	–	505	834
Other contributions:					
Cash contributions					
Community services		1	23	–	–
Other councils – joint works/services		9	5	–	–
Recreation and culture		–	–	6	–
RMS contributions (regional roads, block grant)		571	452	–	66
Other		13	16	1	–
Employment		49	92	–	–
Fire contribution		232	232	–	–
Hazard reduction		37	22	–	–
Rebates		93	95	–	–
Waste		29	5	–	–
Total other contributions – cash		1,034	942	7	66
Total other contributions		1,034	942	7	66
Total contributions		1,034	942	512	900
TOTAL GRANTS AND CONTRIBUTIONS		7,367	7,328	3,489	4,330

Accounting policy for grants and contributions

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

Operating grants

Unexpended at the close of the previous reporting period	2,715	3,557
Add: operating grants recognised in the current period but not yet spent	186	2,454
Add: operating grants received for the provision of goods and services in a future period	2,471	–
Less: operating grants recognised in a previous reporting period now spent	(2,662)	(3,296)
Unexpended and held as restricted assets (operating grants)	2,710	2,715

Capital grants

Unexpended at the close of the previous reporting period	951	426
Add: capital grants recognised in the current period but not yet spent	297	787
Add: capital grants received for the provision of goods and services in a future period	–	–
Less: capital grants recognised in a previous reporting period now spent	(637)	(262)
Unexpended and held as restricted assets (capital grants)	611	951

Contributions

Unexpended at the close of the previous reporting period	2,007	1,778
Add: contributions recognised in the current period but not yet spent	457	560
Add: contributions received for the provision of goods and services in a future period	–	–
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate	–	–
Less: contributions recognised in a previous reporting period now spent	(577)	(331)
Unexpended and held as restricted assets (contributions)	1,887	2,007

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	12,671	11,536
Travel expenses	21	19
Employee leave entitlements (ELE)	2,224	2,168
Superannuation	1,537	1,370
Superannuation – defined benefit plans	78	34
Workers' compensation insurance	861	662
Fringe benefit tax (FBT)	82	35
Payroll tax	127	70
Training costs (other than salaries and wages)	175	238
Protective clothing	32	48
Corporate uniforms	12	13
Central west group apprentices	171	353
Other	78	34
Total employee costs	18,069	16,580
Less: capitalised costs	(842)	(709)
TOTAL EMPLOYEE COSTS EXPENSED	17,227	15,871

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

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

\$ '000	Notes	2019	2018
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on overdraft		1	1
Interest on loans		698	647
Total interest bearing liability costs expensed		699	648
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Remediation liabilities	13	267	(60)
Interest applicable on interest free (and favourable) loans to Council		64	93
Total other borrowing costs		331	33
TOTAL BORROWING COSTS EXPENSED		1,030	681

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

Accounting policy for borrowing costs

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

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	4,676	4,879
Contractor and consultancy costs	5,240	4,526
– Contractor and consultancy costs (enter details when material)	4	–
Auditors remuneration ²	90	57
Legal expenses:		
– Legal expenses: planning and development	80	7
– Legal expenses: other	88	107
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	30	25
Total materials and contracts	10,208	9,601
TOTAL MATERIALS AND CONTRACTS	10,208	9,601

Accounting policy for operating leases

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

1. Operating lease payments are attributable to:

Other	30	25
	30	25

2. Auditor remuneration

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

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

Audit and review of financial statements	47	41
Remuneration for audit and other assurance services	47	41
Total Auditor-General remuneration	47	41

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

Other audit and assurance services – internal audit services	43	16
Remuneration for audit and other assurance services	43	16
Total remuneration of non NSW Auditor-General audit firms	43	16
Total Auditor remuneration	90	57

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		496	595
Office equipment		208	133
Furniture and fittings		13	14
Infrastructure:			
– Buildings – specialised		894	1,045
– Other structures		598	504
– Roads		5,215	5,160
– Bridges		155	156
– Footpaths		429	359
– Stormwater drainage		468	467
– Water supply network		1,577	1,530
– Sewerage network		1,899	1,724
– Swimming pools		32	27
Other assets:			
– Library books		33	44
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	10(a),13	82	98
Total gross depreciation and amortisation costs		12,099	11,856
Total depreciation and amortisation costs		12,099	11,856
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E</u>			
		12,099	11,856

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

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

Impairment of non-financial assets

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

\$ '000	2019	2018
(e) Other expenses		
Advertising	91	130
Bad and doubtful debts	76	–
Bank charges	80	94

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
Commissions	42	41
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	517	534
Councillor expenses – mayoral fee	23	22
Councillor expenses – councillors' fees	98	95
Councillors' expenses (incl. mayor) – other (excluding fees above)	33	26
Donations, contributions and assistance to other organisations (Section 356)		
– Donations, contributions and assistance	334	351
Electricity and heating	980	855
Insurance	986	1,054
Lease fees	21	42
Office expenses (including computer expenses)	523	432
Postage	90	85
Printing and stationery	104	117
Street lighting	428	401
Subscriptions and publications	190	253
Telephone and communications	215	258
Valuation fees	89	102
Council election expenses	–	136
Other	168	59
Total other expenses	5,088	5,087
TOTAL OTHER EXPENSES	5,088	5,087

Accounting policy for other expenses

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

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

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Proceeds from disposal – property		–	6
Net gain/(loss) on disposal		–	6
Plant and equipment	10(a)		
Proceeds from disposal – plant and equipment		355	149
Less: carrying amount of plant and equipment assets sold/written off		(246)	(83)
Net gain/(loss) on disposal		109	66
Infrastructure	10(a)		
Less: carrying amount of infrastructure assets sold/written off		(529)	(990)
Net gain/(loss) on disposal		(529)	(990)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(420)	(918)

Accounting policy for disposal of assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	232	421
Cash-equivalent assets		
– Deposits at call	320	3,550
– Short-term deposits	29,500	30,000
Total cash and cash equivalents	30,052	33,971

Accounting policy for cash and cash equivalents

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

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	30,052	–	33,971	–
Attributable to:				
External restrictions	19,726	–	21,052	–
Internal restrictions	10,326	–	12,919	–
Unrestricted	–	–	–	–
	30,052	–	33,971	–

\$ '000	2019	2018
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – general	1,581	1,981
Specific purpose unexpended loans – sewer	1,009	1,931

External restrictions – included in liabilities

2,590	3,912
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External restrictions – other

Developer contributions – general	1,887	2,007
Specific purpose unexpended grants	3,297	3,642
Specific purpose unexpended grants-water fund	24	24
Water supplies	1,462	3,756
Sewerage services	6,298	4,839
Domestic waste management	4,168	2,872

External restrictions – other

17,136	17,140
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Total external restrictions

19,726	21,052
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Internal restrictions

Plant and vehicle replacement	961	680
Employees leave entitlement	831	747
Carry over works	2,017	1,372
Deposits, retentions and bonds	630	808

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019	2018
Election	70	35
Land and building	4,851	7,731
Works in progress	966	1,546
Total internal restrictions	10,326	12,919
TOTAL RESTRICTIONS	30,052	33,971

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	1,255	–	1,379	–
Interest and extra charges	296	–	332	–
User charges and fees	1,174	–	1,446	–
Accrued revenues				
– Interest on investments	162	–	167	–
– Other income accruals	–	–	14	–
Government grants and subsidies	1,611	–	1,371	–
Net GST receivable	374	–	664	–
Other debtors	323	–	268	–
Total	5,195	–	5,641	–
Less: provision of impairment				
Rates and annual charges	(194)	–	(106)	–
Other debtors	(34)	–	(23)	–
Total provision for impairment – receivables	(228)	–	(129)	–
TOTAL NET RECEIVABLES	4,967	–	5,512	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Externally restricted receivables				
Water supply				
– Specific purpose grants	–	–	5	–
– Rates and availability charges	–	–	104	–
– Other	1,406	–	1,452	–
Sewerage services				
– Specific purpose grants	–	–	274	–
– Rates and availability charges	–	–	500	–
– Other	1,150	–	34	–
Total external restrictions	2,556	–	2,369	–
Unrestricted receivables	2,411	–	3,143	–
TOTAL NET RECEIVABLES	4,967	–	5,512	–

\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	129	381
– amounts already provided for and written off this year	–	(252)
Balance at the end of the period	129	129

Accounting policy for receivables

Recognition and measurement

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 6 years past due, whichever occurs first.

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

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

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

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	676	–	607	–
Total inventories at cost	676	–	607	–
TOTAL INVENTORIES	676	–	607	–

(b) Other assets

Prepayments	216	–	266	–
TOTAL OTHER ASSETS	216	–	266	–

Externally restricted assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Water				
Stores and materials	268	–	156	–
Total water	268	–	156	–
Sewerage				
Stores and materials	23	–	18	–
Total sewerage	23	–	18	–

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total externally restricted assets	291	–	174	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	601	–	699	–
TOTAL INVENTORIES AND OTHER ASSETS	892	–	873	–

Accounting policy for inventories and other assets**Raw materials and stores, work in progress and finished goods**

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

Inventory held for distribution

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

Land held for resale/capitalisation of borrowing costs

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

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

Note 9. Non-current assets classified as held for sale

Non-current assets and disposal group assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Non-current assets 'held for sale'				
Land	350	—	—	—
Total non-current assets 'held for sale'	350	—	—	—
Disposal group assets 'held for sale'				
a. Name of disposal group here ...				
b. Name of disposal group here ...				
Total disposal groups 'held for sale'	—	—	—	—
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	<u>350</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018			Asset movements during the reporting period							as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	1,222	–	1,222	5,458	652	–	–	(804)	–	–	6,526	–	6,526
Plant and equipment	17,866	(15,530)	2,336	1,041	–	(242)	(496)	31	–	–	18,048	(15,378)	2,670
Office equipment	4,156	(3,909)	247	–	299	(4)	(208)	220	–	–	1,069	(515)	554
Furniture and fittings	406	(327)	79	12	–	–	(13)	–	–	–	418	(340)	78
Land:													
– Operational land	17,071	–	17,071	–	–	–	–	–	(350)	–	16,721	–	16,721
– Community land	20,164	–	20,164	–	–	–	–	–	–	–	20,164	–	20,164
Infrastructure:													
– Buildings – specialised ²	66,038	(18,554)	47,484	96	152	–	(894)	–	(1,303)	–	64,224	(18,689)	45,535
– Other structures	25,064	(11,872)	13,192	1,883	58	–	(598)	146	–	–	27,151	(12,470)	14,681
– Roads	287,431	(73,205)	214,226	2,395	425	(229)	(5,215)	329	–	–	289,848	(77,917)	211,931
– Bridges	21,492	(2,543)	18,949	78	–	–	(155)	–	–	–	21,570	(2,698)	18,872
– Footpaths	17,092	(3,526)	13,566	199	313	–	(429)	–	–	–	17,604	(3,955)	13,649
– Bulk earthworks (non-depreciable)	25,639	–	25,639	–	–	–	–	–	–	–	25,639	–	25,639
– Stormwater drainage	42,039	(17,936)	24,103	376	65	(2)	(468)	–	–	–	42,476	(18,402)	24,074
– Water supply network	90,858	(57,701)	33,157	288	176	(18)	(1,577)	–	–	506	92,684	(60,152)	32,532
– Sewerage network	117,889	(41,011)	76,878	1,403	–	(279)	(1,899)	–	–	1,211	120,561	(43,247)	77,314
– Swimming pools	2,767	(168)	2,599	29	15	–	(32)	–	–	–	2,811	(200)	2,611
Other assets:													
– Library books	994	(924)	70	–	–	–	(33)	–	–	–	994	(957)	37
Reinstatement, rehabilitation and restoration assets (refer Note 14):													
– Tip assets	8,210	(7,072)	1,138	–	–	–	(82)	–	–	–	8,210	(7,154)	1,056
Total Infrastructure, property, plant and equipment	766,398	(254,278)	512,120	13,258	2,155	(774)	(12,099)	(78)	(1,653)	1,717	776,718	(262,074)	514,644

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

(2) Management identified a number of non-existent specialised building assets in the 2017/18 financial statements and derecognised them.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

	as at 30/6/2017			Asset movements during the reporting period								as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Tfrs from/(to) investment properties	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	8,278	–	8,278	1,210	–	–	–	(8,266)	–	–	–	1,222	–	1,222
Plant and equipment	17,241	(15,347)	1,894	1,066	–	(83)	(595)	54	–	–	–	17,866	(15,530)	2,336
Office equipment	4,058	(3,776)	282	34	63	–	(133)	–	–	–	–	4,156	(3,909)	247
Furniture and fittings	399	(313)	86	7	–	–	(14)	–	–	–	–	406	(327)	79
Land:														
– Operational land	17,211	–	17,211	–	–	–	–	–	–	(140)	–	17,071	–	17,071
– Community land	20,164	–	20,164	–	–	–	–	–	–	–	–	20,164	–	20,164
Infrastructure:														
– Buildings – specialised	73,387	(19,910)	53,477	293	280	(27)	(1,045)	–	(5,494)	–	–	66,038	(18,554)	47,484
– Other structures	22,335	(11,367)	10,968	281	2,269	–	(504)	178	–	–	–	25,064	(11,872)	13,192
– Roads	283,454	(68,529)	214,925	2,587	1,793	(803)	(5,160)	40	–	–	844	287,431	(73,205)	214,226
– Bridges	21,453	(2,408)	19,045	95	–	(62)	(156)	27	–	–	–	21,492	(2,543)	18,949
– Footpaths	14,187	(3,172)	11,015	2,647	–	(14)	(359)	277	–	–	–	17,092	(3,526)	13,566
– Bulk earthworks (non-depreciable)	25,639	–	25,639	–	–	–	–	–	–	–	–	25,639	–	25,639
– Stormwater drainage	41,964	(17,469)	24,495	–	74	–	(467)	–	–	–	–	42,039	(17,936)	24,103
– Water supply network	88,665	(55,071)	33,594	249	169	(25)	(1,530)	18	–	–	682	90,858	(57,701)	33,157
– Sewerage network	107,413	(41,517)	65,896	3,365	98	(37)	(1,724)	7,699	–	–	1,581	117,889	(41,011)	76,878
– Swimming pools	2,737	(140)	2,597	25	6	–	(27)	–	–	–	–	2,767	(168)	2,599
Other assets:														
– Library books	994	(880)	114	–	–	–	(44)	–	–	–	–	994	(924)	70
Reinstatement, rehabilitation and restoration assets (refer Note 14):														
– Tip assets	3,568	(2,158)	1,410	–	–	(21)	(98)	–	–	(153)	–	8,210	(7,072)	1,138
Total Infrastructure, property, plant and equipment	753,147	(242,057)	511,090	11,859	4,752	(1,072)	(11,856)	27	(5,494)	(293)	3,107	766,398	(254,278)	512,120

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

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

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW).

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

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	5 to 20	Benches, seats etc.	10 to 20
Computer equipment	3		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	12 to 20	Bulk earthworks	20
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Unsealed roads	20
Bridge: concrete	100	Other open space/recreational assets	5 to 50
Bridge: other	50	Other infrastructure	5 to 50
Road pavements	70		
Kerb, gutter and footpaths	32 to 80		

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

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

Land under roads

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(a). 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. Council recognises 0.806 hectares with a carrying value of \$21,600 and 687.36 hectares with a net carrying value of nil due to extensive restrictions on the use of this land in the Community Land asset class. The maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Council only recognises RFS assets acquired prior to 1 July 2002. The procurement and control of RFS assets has been managed by the RFS since 1 July 2002.

Note 10(b). Externally restricted infrastructure, property, plant and equipment

	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
\$ '000						
Water supply						
WIP	4,418	–	4,418	271	–	271
Plant and equipment	1,873	1,850	23	1,969	1,899	70
Office equipment	34	14	20	56	56	–
Land						
Infrastructure	92,683	60,152	32,531	90,858	57,701	33,157
Total water supply	99,008	62,016	36,992	93,154	59,656	33,498
Sewerage services						
WIP	410	–	410	140	–	140
Plant and equipment	374	259	115	315	261	54
Office equipment	–	–	–	8	8	–
Land						
Infrastructure	120,561	43,247	77,314	117,889	41,011	76,878
Total sewerage services	121,345	43,506	77,839	118,352	41,280	77,072
Domestic waste management						
Land						
– Operational land	1,038	–	1,038	1,037	–	1,037
– Community land	463	–	463	463	–	463
Total DWM	1,501	–	1,501	1,500	–	1,500
TOTAL RESTRICTED I, PP&E	221,854	105,522	116,332	213,006	100,936	112,070

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Investment property

\$ '000	2019	2018
(a) Investment property at fair value		
Investment property on hand	5,513	5,494
Reconciliation of annual movement:		
Opening balance	5,494	–
– Transfers from/(to) owner occupied (Note 10)	–	5,494
– Other movements	19	–
CLOSING BALANCE – INVESTMENT PROPERTY	5,513	5,494

(b) Valuation basis

The basis of valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in arms length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2018 revaluations were based on independent assessments made by:
APV Valuers & Asset Management

(c) Contractual obligations at reporting date

Refer to Note 18 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	574	204
Later than 1 year but less than 5 years	540	420
Later than 5 years	334	440
Total minimum lease payments receivable	1,448	1,064

Council lease terms are between 1 and 10 years. All rental payments are due either monthly or annually.

(e) Investment property income and expenditure – summary

Rental income from investment property:		
– Minimum lease payments	600	689
Direct operating expenses on investment property:		
– that generated rental income	(89)	(292)
Net revenue contribution from investment property	511	397
plus:		
Total income attributable to investment property	511	397

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as a separate line item.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Investment property (continued)

Properties that are under construction for future use as investment properties are regarded as investment property. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Note 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	2,064	–	4,977	–
Accrued expenses:				
– Borrowings	47	–	55	–
– Salaries and wages	216	–	–	–
– Other expenditure accruals	1,259	19	616	9
Security bonds, deposits and retentions	629	–	809	–
Total payables	4,215	19	6,457	9
Income received in advance				
Payments received in advance	1,299	–	1,135	–
Total income received in advance	1,299	–	1,135	–
Borrowings				
Loans – secured ¹	2,031	15,796	2,091	17,876
Loan discount	(33)	–	(98)	–
Total borrowings	1,998	15,796	1,993	17,876
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>7,512</u>	<u>15,815</u>	<u>9,585</u>	<u>17,885</u>

(1) Loans are secured over the general rating income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 20.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	554	752	347	917
Sewer	1,195	11,547	1,401	12,702
Payables and borrowings relating to externally restricted assets	1,749	12,299	1,748	13,619
Total payables and borrowings relating to restricted assets	1,749	12,299	1,748	13,619
Total payables and borrowings relating to unrestricted assets	5,763	3,516	7,837	4,266

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
TOTAL PAYABLES AND BORROWINGS	7,512	15,815	9,585	17,885

(b) Current payables and borrowings not anticipated to be settled within the next twelve months

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

Total payables and borrowings	—	—
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(c) Changes in liabilities arising from financing activities

	as at 30/6/2018					as at 30/6/2019
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	19,967	(2,140)	—	—	—	17,827
Loan discount	(98)	—	—	—	—	—
TOTAL	19,869	(2,140)	—	—	—	17,827

	as at 30/6/2017					as at 30/6/2018
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	18,089	(1,922)	3,800	—	—	19,967
Loan discount	(191)	—	—	—	93	(98)
TOTAL	17,898	(1,922)	3,800	—	93	19,869

\$ '000	2019	2018
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(d) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

Bank overdraft facilities ¹	500	500
Credit cards/purchase cards	105	43
Total financing arrangements	605	543

Drawn facilities as at balance date:

– Credit cards/purchase cards	15	18
Total drawn financing arrangements	15	18

Undrawn facilities as at balance date:

– Bank overdraft facilities	500	500
– Credit cards/purchase cards	90	25
Total undrawn financing arrangements	590	525

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

Additional financing arrangements information

Breaches and defaults

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

Security over loans

Loans are secured over the general rating income of Council.

Bank overdrafts

The bank overdraft is secured over the general rating income of Council.

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

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

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

Note 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	1,245	–	1,288	–
Long service leave	2,346	351	2,253	196
Sub-total – aggregate employee benefits	3,591	351	3,541	196
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	8,476	–	8,210
Sub-total – asset remediation/restoration	–	8,476	–	8,210
TOTAL PROVISIONS	3,591	8,827	3,541	8,406

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Provisions relating to restricted assets				
Total provisions relating to restricted assets	—	—	—	—
Total provisions relating to unrestricted assets	3,591	8,827	3,541	8,406
<u>TOTAL PROVISIONS</u>	<u>3,591</u>	<u>8,827</u>	<u>3,541</u>	<u>8,406</u>

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

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

Provisions – employees benefits	2,260	2,133
	<u>2,260</u>	<u>2,133</u>

(c) Description of and movements in provisions

\$ '000	ELE provisions		
	Annual leave	Long service leave	Total
2019			
At beginning of year	1,288	2,449	3,737
Other	(43)	248	205
Total ELE provisions at end of period	<u>1,245</u>	<u>2,697</u>	<u>3,942</u>
2018			
At beginning of year	1,228	2,292	3,520
Other	60	157	217
Total ELE provisions at end of period	<u>1,288</u>	<u>2,449</u>	<u>3,737</u>

\$ '000	Other provisions	
	Asset remediation	Total
2019		
At beginning of year	8,210	8,210
Other	266	266
Total other provisions at end of period	<u>8,476</u>	<u>8,476</u>
2018		
At beginning of year	8,270	8,270
Unwinding of discount	(60)	(60)
Total other provisions at end of period	<u>8,210</u>	<u>8,210</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

Nature and purpose of non-employee benefit provisions

Asset remediation

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

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

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

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

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

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

Restoration

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

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Rehabilitation

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

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

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

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

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

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

Self-insurance

Council has decided to self-insure for various risks, including public liability and professional indemnity. A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note 6(c).

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

Fair value through other comprehensive income reserve (FVOCI)

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

Available for sale investments revaluation reserve (2018 only)

Changes in fair value are taken to the available-for-sale investments revaluation reserve, amounts are recognised in profit and loss when the associated assets are sold or impaired.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

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

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

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

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

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

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

Classification of financial assets

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

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

Measurement of equity instruments

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

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

Impairment of financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	30,052	33,971
Balance as per the Statement of Cash Flows		30,052	33,971

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

Net operating result from Income Statement	1,706	2,573
Adjust for non-cash items:		
Depreciation and amortisation	12,099	11,856
Net losses/(gains) on disposal of assets	420	918
Amortisation of premiums, discounts and prior period fair valuations		
– Interest exp. on interest-free loans received by Council (previously fair valued)	64	93
Unwinding of discount rates on reinstatement provisions	350	(60)
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	446	133
Increase/(decrease) in provision for impairment of receivables	99	(252)
Decrease/(increase) in inventories	(69)	189
Decrease/(increase) in other current assets	50	(21)
Increase/(decrease) in payables	(2,913)	2,687
Increase/(decrease) in accrued interest payable	(8)	(2)
Increase/(decrease) in other accrued expenses payable	869	115
Increase/(decrease) in other liabilities	(16)	264
Increase/(decrease) in provision for employee benefits	205	217
Increase/(decrease) in other provisions	(84)	–
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	13,218	18,710

Note 16. Interests in other entities

Associates

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

(a) Net carrying amounts – Council's share

\$ '000	Nature of relationship	Measurement method	2019	2018
Upper Macquarie County Council	Associate	Equity	256	231
Total carrying amounts – material associates			256	231

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities (continued)

Principal activity	Place of business
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(b) Details

Upper Macquarie County Council	Weed Control	Bathurst
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(c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2019	2018	2019	2018	2019	2018
Upper Macquarie County Council	25%	25%	25%	25%	25%	25%

(d) Summarised financial information for associates

\$ '000	Upper Macquarie County Council	
	2019	2018
Statement of financial position		
Current assets		
Cash and cash equivalents	993	822
Other current assets	132	72
Non-current assets	124	175
Current liabilities		
Current financial liabilities (excluding trade and other payables and provisions)	98	52
Other current liabilities	113	77
Non-current liabilities		
Non-current financial liabilities (excluding trade and other payables and provisions)	13	16
Net assets	1,025	924
Reconciliation of the carrying amount		
Opening net assets (1 July)	924	891
Profit/(loss) for the period	101	33
Closing net assets	1,025	924
Council's share of net assets (%)	25%	25%
Council's share of net assets (\$)	256	231
Statement of comprehensive income		
Income	1,414	1,193
Interest income	22	14
Depreciation and amortisation	(53)	(50)
Other expenses	(1,282)	(1,124)
Profit/(loss) from continuing operations	101	33
Profit/(loss) for period	101	33
Total comprehensive income	101	33
Share of income – Council (%)	25%	25%
Profit/(loss) – Council (\$)	25	8

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities (continued)

\$ '000	Upper Macquarie County Council	
	2019	2018
Total comprehensive income – Council (\$)	25	8
Summarised Statement of cash flows		
Cash flows from operating activities	177	158
Cash flows from investing activities	(2)	(105)
Net increase (decrease) in cash and cash equivalents	175	53

(i) County Councils

Council is a member of the Upper Macquarie County Council, a body corporate established under the Local Government Act 1993 (NSW) to control weeds. Council is one of four constituent councils and does not have significant influence over the County Council. Accordingly, the County Council has not been consolidated in the financial statements.

Accounting Policy for Associates

Interests in associates are accounted for using the equity method in accordance with AASB128 Investments in Associates and Joint Ventures. Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If the Council's share of losses of an associate equals or exceeds its interest in the associate, the Council discontinues recognising its share of further losses.

The Council's share in the associates's gains or losses arising from transactions between itself and its associate are eliminated.

Adjustments are made to the associate's accounting policies where they are different from those of the Council for the purpose of the consolidated financial statements.

Note 17. Commitments

\$ '000	2019	2018
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(a) Capital commitments (exclusive of GST)

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

Buildings	675	–
Water assets	1,239	61
Sewer assets	–	1
Roads	159	25
Other	560	–
Total commitments	2,633	87
These expenditures are payable as follows:		
Within the next year	2,633	87
Total payable	2,633	87

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Commitments (continued)

\$ '000	2019	2018
Sources for funding of capital commitments:		
Future grants and contributions	739	–
Section 7.11 and 64 funds/reserves	99	–
Unexpended grants	225	–
Externally restricted reserves	1,239	62
Internally restricted reserves	322	25
Unexpended loans	9	–
Total sources of funding	2,633	87

Details of capital commitments

Council's capital commitments relate to the Union theatre for Buildings and the Water Assets capital commitments relates to Smart Meters and network. The road asset commitment is the Hartley Vale Bridge.

(b) Investment in joint operations – commitments

For capital commitments and other commitments relating to investments in joint operations, refer to Note 17 (c)

Note 18. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED**1. Guarantees****(i) Defined benefit superannuation contribution plans**

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

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

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

Description of the funding arrangements.

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

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

Division B	1.9 times employee contributions
Division C	2.5% salaries
Division D	1.64 times employee contributions

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

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

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

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

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

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$ 380,753.92. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

The amount of additional contributions included in the total employer contribution advised above is \$293,400. Council's expected contribution to the plan for the next annual reporting period is \$268,906.68.

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

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

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

Based on a Past Services Liabilities methodology, for item (d) (iv), the share of the surplus that can be attributed to Council is 0.37%.

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

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

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

* Plus promotional increases

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

(ii) Statewide Limited

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

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

(iii) StateCover Limited

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

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

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

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

(iv) Other guarantees

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

2. Other liabilities

(i) Third party claims

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

Council believes that it is appropriately covered for all claims through its insurance coverage and 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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management

Risk management

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

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

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

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

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

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	232	3,971	322	3,971
Receivables	4,967	5,512	4,967	5,477
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	29,820	30,000	29,820	30,000
Total financial assets	35,019	39,483	35,109	39,448
Financial liabilities				
Loans/advances	17,794	19,869	17,794	19,869
Payables	4,234	6,466	4,234	6,466
Total financial liabilities	22,028	26,335	22,028	26,335

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current 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) **'available-for-sale'** – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

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

Council 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 there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	123	123	(123)	(123)
2018				
Possible impact of a 1% movement in interest rates	141	141	(141)	(141)

(b) Credit risk

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

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

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

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

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

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	64	769	157	142	123	1,255
2018						
Gross carrying amount	125	880	132	126	116	1,379

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	2,874	78	241	39	708	3,940
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	4.85%	0.87%
ECL provision	—	—	—	—	34	34
2018						
Gross carrying amount	2,665	100	104	72	1,286	4,227
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ECL provision	—	—	—	—	—	—

(c) Liquidity risk

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

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

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

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

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	629	3,545	—	—	4,174	4,234
Loans and advances	3.66%	—	1,998	5,521	10,275	17,794	17,794
Total financial liabilities		629	5,543	5,521	10,275	21,968	22,028
2018							
Trade/other payables	0.00%	809	5,654	—	—	6,463	6,466
Loans and advances	3.63%	—	2,141	6,226	11,601	19,968	19,869
Total financial liabilities		809	7,795	6,226	11,601	26,431	26,335

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 25/06/2018 and is unaudited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	25,913	27,420	1,507	6% F
User charges and fees	7,477	6,976	(501)	(7)% U
Interest and investment revenue	898	953	55	6% F
Other revenues	1,290	1,573	283	22% F
The increase in other revenue is due to the receipt of an insurance claim for the Lithgow store building storm damage.				
Operating grants and contributions	7,122	7,367	245	3% F
Capital grants and contributions	7,349	3,489	(3,860)	(53)% U
The key reasons for this variance are Lithgow City Council was unsuccessful in obtaining grants which were budgeted for the Lithgow Resource Recovery centre and Lithgow CBD Revitalisation. The Cullen Bullen STP grant was deferred into the 2019/20 year.				
Net gains from disposal of assets	335	–	(335)	100% U
This variance to budget for Net gains from disposal of assets relates to the disposal of a number of high value road assets which were renewed and disposal of a number building assets as were not owned by Council.				
EXPENSES				
Employee benefits and on-costs	14,657	17,227	(2,570)	(18)% U
The original budget was set at \$14.657m(below 2017/18 actuals) as over \$2.0m of salaries and wages was allocated to the capital program. A number of grant applications were unsuccessful and some projects were transferred to the 2019/20 year so the high level of capital wages did not eventuate.				
Borrowing costs	1,076	1,030	46	4% F
Materials and contracts	10,266	10,208	58	1% F
Depreciation and amortisation	11,834	12,099	(265)	(2)% U
Other expenses	5,503	5,088	415	8% F
Net losses from disposal of assets	–	420	(420)	∞ U
The variation to budget on net losses from disposal of assets relates to the disposal of a number of high value road assets which were renewed and disposal of a number of buildings assets as they were not owned by Council.				

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----
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STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	18,547	13,218	(5,329)	(29)%	U
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This variance is due to employment costs being higher than original budget and a significant value of materials and contracts accrued at 30 June 2018 which were paid in the 2018/19 year.

Net cash provided from (used in) investing activities	(32,292)	(14,998)	17,294	(54)%	F
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This variance is due to changes to the substantial capital program for 2018/19. A number of grant funded projects did not proceed due to grant applications being unsuccessful. Some project were transferred to the 2019/20 year and \$6.6m of the 2018/19 capital were carried forward into the 2019/20 capital program.

Net cash provided from (used in) financing activities	(1,949)	(2,139)	(190)	10%	U
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This variance is due to the negative impact of falling interest rates on the discounting of provisions.

Note 21. Fair Value Measurement

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

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets and liabilities

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

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

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

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

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

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

		Fair value measurement hierarchy				
2019	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Recurring fair value measurements						
Financial assets						
Investments						
– ‘Held to maturity’		30/06/19	29,500	–	–	29,500
Total financial assets			29,500	–	–	29,500

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

2019	Notes	Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Financial liabilities	12					
Bonds and security deposits		30/06/19	–	603	–	603
Accrued interest		30/06/19	162	–	–	162
Total financial liabilities			162	603	–	765
Investment property	11					
Investment properties		01/02/17	–	–	5,313	5,313
Total investment property			–	–	5,313	5,313
Infrastructure, property, plant and equipment	10(a)					
Operational land		30/06/18	–	–	16,373	16,373
Community land		01/02/17	–	–	20,164	20,164
Plant and equipment		30/06/18	–	–	2,669	2,669
Office equipment		30/06/18	–	–	554	554
Furniture and fittings		30/06/18	–	–	78	78
Buildings		01/02/17	–	–	45,534	45,534
Other structures		30/06/17	–	–	14,682	14,682
Roads		01/02/17	–	–	211,929	211,929
Bridges		01/02/17	–	–	18,872	18,872
Footpaths		01/02/17	–	–	13,654	13,654
Bulk earthworks		01/02/17	–	–	25,639	25,639
Stormwater drainage		30/06/18	–	–	24,073	24,073
Water supply		30/06/18	–	–	32,531	32,531
Sewerage network		30/06/18	–	–	77,314	77,314
Swimming pools		01/02/17	–	–	2,610	2,610
Library books		30/06/18	–	–	–	–
Tip asset rehabilitation		30/06/18	–	–	1,056	1,056
Work in Progress		30/06/18	–	–	6,528	6,528
Total infrastructure, property, plant and equipment			–	–	514,260	514,260
Non-current assets classified as 'held for sale'	9					
Operational Land			–	–	350	350
Total NCA's classified as 'held for sale'			–	–	350	350

2018	Notes	Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Financial assets						
Investments						
– 'Held to maturity'		30/06/18	30,000	–	–	30,000
Total financial assets			30,000	–	–	30,000

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

2018	Notes	Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Financial liabilities	12					
Bonds and security deposits		30/06/18	–	808	–	808
Accrued interest		30/06/18	55	–	–	55
Total financial liabilities			55	808	–	863
Investment property	11					
Investment properties		01/02/17	–	–	5,494	5,494
Total investment property			–	–	5,494	5,494
Infrastructure, property, plant and equipment	10(a)					
Operational land		30/06/18	–	–	17,071	17,071
Community land		01/02/17	–	–	20,164	20,164
Plant and equipment		30/06/18	–	–	2,336	2,336
Office equipment		30/06/18	–	–	247	247
Furniture and fittings		30/06/18	–	–	79	79
Buildings		01/02/17	–	–	47,484	47,484
Other structures		30/06/17	–	–	13,192	13,192
Roads		01/02/17	–	–	214,226	214,226
Bridges		01/02/17	–	–	18,949	18,949
Footpaths		01/02/17	–	–	13,566	13,566
Bulk earthworks		01/02/17	–	–	25,639	25,639
Stormwater drainage		01/02/17	–	–	24,103	24,103
Water supply		30/06/18	–	–	33,157	33,157
Sewerage network		30/06/18	–	–	76,878	76,878
Swimming pools		01/02/17	–	–	2,599	2,599
Library books		30/06/18	–	–	70	70
Tip asset rehabilitation		30/06/18	–	–	1,138	1,138
Work in Progress		30/06/18	–	–	1,220	1,220
Total infrastructure, property, plant and equipment			–	–	512,118	512,118

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

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

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

\$ '000	Property, plant and equipment
2018	
Opening balance	511,089
Transfers from/(to) another asset class	(5,494)
Purchases (GBV)	16,611
Disposals (WDV)	(1,072)
Depreciation and impairment	(11,856)
FV gains – other comprehensive income	2,814
Other movement - transfer from WIP to P&L	27
Closing balance	512,119

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

\$ '000	Property, plant and equipment
2019	
Opening balance	512,119
Closing balance	512,119

b. Information relating to the transfers into and out of the level 3 fair valuation hierarchy (as disclosed in the table above) includes:

For each FV hierarchy transfer into or out of level 3, please reference and list the details and reasons for the change here.

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

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

	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment		
Road infrastructure	Depreciated historical cost	Cost per sq metres dimensions and specification, pattern of consumption components useful life residual value asset condition
Bulk earthworks	Current replacement cost	Cost per Sq metre
Footpaths	Depreciated historical cost	Cost per sq metre pattern of consumption components useful lives asset conditions
Bridges	Depreciated historical cost	Cost per Sq metre, dimensions and specifications, pattern of consumption components, useful lives, asset conditions
Stormwater drainage	Depreciated historical cost	Cost per unit/ per metre
Water supply network	Depreciated historical cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Sewerage network	Depreciated historical cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Other structures	Depreciated historical cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Library books	Depreciated historical cost	Unit Costs
Tip assets	Depreciated historical cost	Unit Costs
Swimming pools	Depreciated historical cost	Cost per unit

d. The valuation process for level 3 fair value measurements

Water and Sewer assets are subject to a full revaluation process by a registered valuer each 5 years.

During the interim years water and sewer assets are incrementally revalued via an index published by the NSW Office of Water.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

Tip Assets shown in the balance sheet represent the taking up of, and restatement of the provision for tip remediation. In this regard the Tip Asset represents the net present value of the future expenditure on tip remediation and then depreciated over the life of the tip.

(3) Highest and best use

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Related Party Transactions

Key management personnel

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

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

\$ '000	2019	2018
Compensation:		
Short-term benefits	1,317	1,016
Post-employment benefits	118	110
Other long-term benefits	–	26
Termination benefits	–	17
Total	1,435	1,169

Note 23. Events occurring after the reporting date

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								
Roads	1,078	–	–	–	–	–	1,078	–
Bushfire	129	5	–	–	–	–	134	–
S7.11 contributions – under a plan	1,207	5	–	–	–	–	1,212	–
S7.12 levies – under a plan	505	290	–	–	(260)	–	535	–
Total S7.11 and S7.12 revenue under plans	1,712	295	–	–	(260)	–	1,747	–
S7.4 planning agreements	295	162	–	–	(317)	–	140	–
Total contributions	2,007	457	–	–	(577)	–	1,887	–

S7.11 Contributions – under a plan

CONTRIBUTION PLAN

Roads	1,078	–	–	–	–	–	1,078	–
Bushfire	129	5	–	–	–	–	134	–
Total	1,207	5	–	–	–	–	1,212	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Statement of developer contributions (continued)

	as at 30/6/2018			Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Contributions received during the year					Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
S7.12 Levies – under a plan								
CONTRIBUTION PLAN								
Other S 7.12 Plan 12/13	249	290	–	–	(260)	–	279	–
Other (previous yrs)	256	–	–	–	–	–	256	–
Total	505	290	–	–	(260)	–	535	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	18,424	1,716	7,280
User charges and fees	1,394	5,503	79
Interest and investment revenue	923	30	–
Other revenues	1,572	1	–
Grants and contributions provided for operating purposes	7,044	166	157
Grants and contributions provided for capital purposes	2,862	21	606
Total income from continuing operations	32,219	7,437	8,122
Expenses from continuing operations			
Employee benefits and on-costs	13,705	1,950	1,572
Borrowing costs	519	26	485
Materials and contracts	5,767	2,980	1,461
Depreciation and amortisation	8,580	1,608	1,911
Other expenses	4,369	237	482
Net losses from the disposal of assets	128	4	288
Total expenses from continuing operations	33,068	6,805	6,199
Operating result from continuing operations	(849)	632	1,923
Net operating result for the year	(849)	632	1,923
Net operating result attributable to each Council fund	(849)	632	1,923
Net operating result for the year before grants and contributions provided for capital purposes	(3,711)	611	1,317
NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.			
(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.			
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	21,259	1,486	7,307
Receivables	2,411	1,406	1,150
Inventories	385	268	23
Other	216	–	–
Non-current assets classified as 'held for sale'	350	–	–
Total current assets	24,621	3,160	8,480
Non-current assets			
Infrastructure, property, plant and equipment	399,811	36,993	77,840
Investment property	5,513	–	–
Total non-current assets	405,324	36,993	77,840
TOTAL ASSETS	429,945	40,153	86,320

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
LIABILITIES			
Current liabilities			
Payables	3,998	144	73
Income received in advance	1,054	245	–
Borrowings	711	165	1,122
Provisions	3,591	–	–
Total current liabilities	9,354	554	1,195
Non-current liabilities			
Payables	19	–	–
Borrowings	3,497	752	11,547
Provisions	8,827	–	–
Total non-current liabilities	12,343	752	11,547
TOTAL LIABILITIES	21,697	1,306	12,742
Net assets	408,248	38,847	73,578
EQUITY			
Accumulated surplus	157,119	15,131	37,553
Revaluation reserves	251,129	23,716	36,025
Council equity interest	408,248	38,847	73,578
Total equity	408,248	38,847	73,578

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

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

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

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

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

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(1,363)	(3.08)%	(1.99)%	4.18%	(7.75)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions	44,289					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	36,056	75.47%	73.97%	64.90%	67.23%	>60.00%
Total continuing operating revenue ¹	47,778					
3. Unrestricted current ratio						

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
Current assets less all external restrictions	13,688	1.93x	1.81x	2.72x	4.08x	>1.50x
Current liabilities less specific purpose liabilities	7,094					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	11,766	3.71x	4.49x	5.45x	2.91x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,169					
5. Rates, annual charges, interest and extra charges outstanding percentage						
Rates, annual and extra charges outstanding	1,357	4.80%	5.92%	5.82%	5.13%	<10.00%
Rates, annual and extra charges collectible	28,274					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	30,052	8.93 mths	12.95 mths	9.10 mths	8.80 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	3,367					

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(11.21)%	(5.70)%	8.24%	(1.92)%	17.52%	12.35%	>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	66.57%	65.12%	97.49%	96.64%	90.61%	89.21%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	1.93x	1.81x	5.70x	15.77x	7.10x	4.04x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	2.19x	3.65x	86.35x	7.35x	7.66x	6.82x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	7.04%	5.44%	0.00%	6.27%	0.00%	7.10%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	6.31	8.93	∞	∞	∞	∞	>3.00
Payments from cash flow of operating and financing activities	mths	mths					mths

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

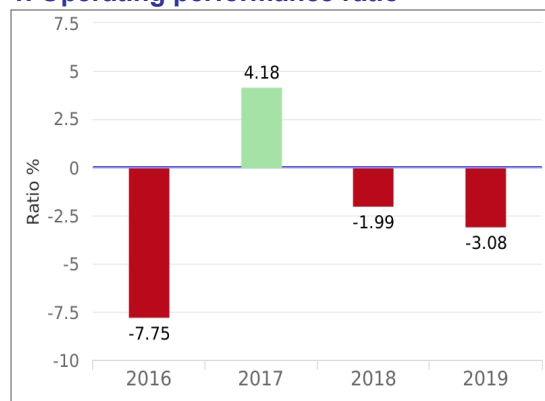
(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2018/19 result

2018/19 ratio (3.08)%

Council had anticipated that the operating performance ratio would be below benchmark for 2018/19. Employment costs being higher than the original budget has impacted this measure for 2018/19. Council has planned for improvement in the operating performance ratio in 2019/20, including ongoing improvements to asset management to ensure that depreciation expense is accurately calculated.

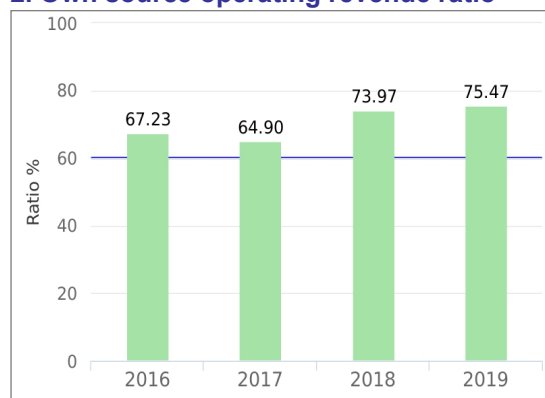
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2018/19 result

2018/19 ratio 75.47%

The General, Water and Sewer funds all performed above the benchmark, the water and sewer funds being over 80% due to the high proportion of annual and usage charges.

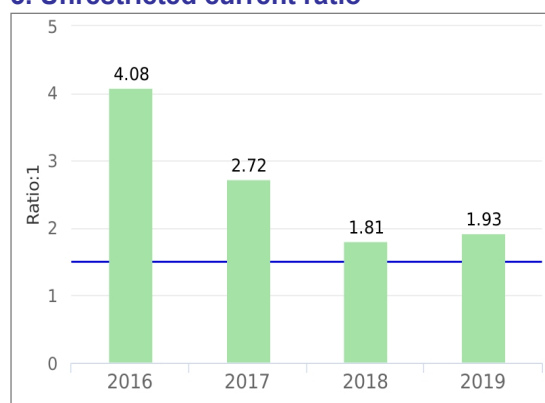
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2018/19 result

2018/19 ratio 1.93x

Council has performed above the benchmark due to actively managing working capital requirements and investments.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

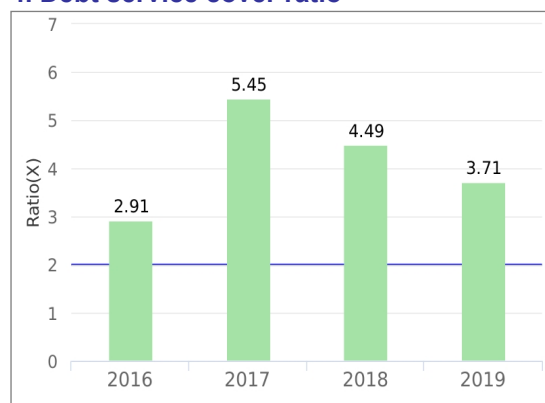
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 3.71x

Council has performed above this benchmark for 2018/19. The ratio has declined due to a new loan for the Portland Sewerage Treatment Plant.

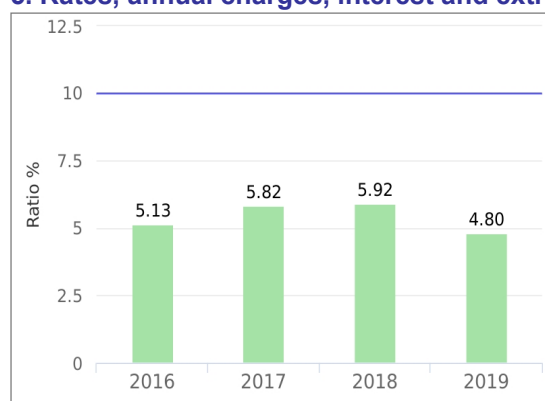
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2018/19 result

2018/19 ratio 4.80%

Council has increased performance against this ratio due to actively managing accounts receivable and reviewing policies.

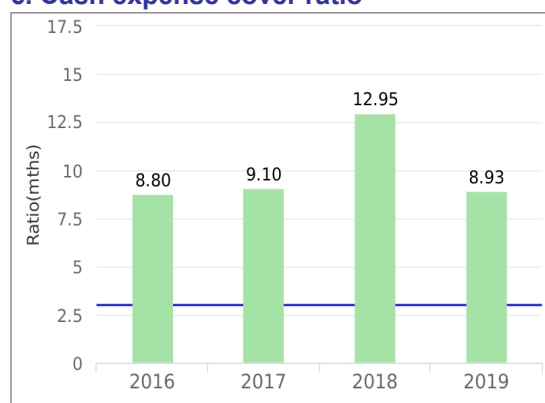
Benchmark: — < 10.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 8.93 mths

Council has performed well against this KPI as it actively manages procurement, accounts payable, accounts receivable, investments and debt collection to ensure adequate cashflow.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 27. Council information and contact details

Principal place of business:

180 Mort St
Lithgow NSW 2790

Contact details

Mailing Address:

PO Box 19
Lithgow NSW 2790

Telephone: 02 6354 9999

Facsimile: 02 6351 4259

Opening hours:

Monday to Friday
8:15am to 4:30pm

Internet: <http://www.council.lithgow.com>

Email: council@lithgow.nsw.gov.au

Officers

General Manager

Graeme Faulkner

Responsible Accounting Officer

Ross Gurney

Public Officer

Ross Gurney

Auditors

NSW Audit office
Level 19
Tower 2 Darling Park
201 Sussex Street
SYDNEY NSW 2000

Elected members

Mayor

Raymond Thompson

Councillors

Cassandra Coleman
Deanna Goodsell
Darryl Goodwin
Stephen Lesslie
Wayne McAndrew
Steven Ring
Ronald Smith
Maree Statham

Other information

ABN: 59 986 092 492



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Lithgow City Council

To the Councillors of the Lithgow City Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 20 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.



Caroline Karakatsanis
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY



Cr Raymond Thompson
Mayor
Lithgow City Council
180 Mort St,
Lithgow NSW 2790

Contact: Caroline Karakatsanis
Phone no: 02 9275 7143
Our ref: D1904694/1755

29 October 2019

Dear Mayor,

**Report on the Conduct of the Audit
for the year ended 30 June 2019
Lithgow City Council**




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

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

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

INCOME STATEMENT

Operating result

	2019 \$m	2018 \$m	Variance %
Rates and annual charges revenue	27.4	25.9	 5.8
Grants and contributions revenue	10.8	11.6	 6.9
Operating result for the year	1.7	2.5	 32
Net operating result before capital grants and contributions	(1.7)	(1.7)	--

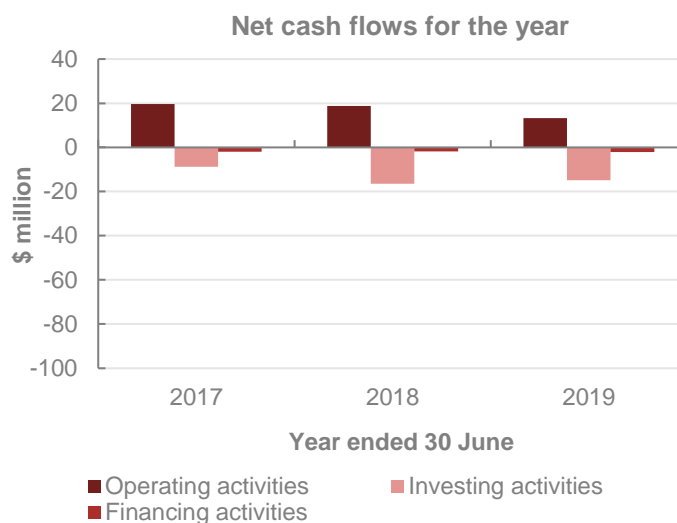
Council's operating result was a surplus of \$1.7 million (\$2.5 million surplus for the year ended 30 June 2018). The net operating result before capital grants and contributions was a deficit of \$1.7 million (\$1.7 million deficit for the year ended 30 June 2018). These movements were mainly due to the increase in rates and annual charges and grants and contributions that were provided for operation purposes and were received during the year. Expenses reflected an increase in employee benefits and on costs, as well as depreciation (which is consistent with the significant asset revaluations in the prior year).

Rates and annual charges revenue were \$27.4 million (\$25.9 million for the year ended 30 June 2018). The increase of \$1.5 million (5.8 per cent) is consistent with an increase in ordinary rates in line with the rate peg, approved variation and rise in the total number of rateable properties.

Grants and contributions revenue were \$10.8 million (\$11.6 million for the year ended 30 June 2018). The decrease of \$0.8 million (6.9 per cent) is primarily due to a decrease in grants and contributions provided for capital purpose.

STATEMENT OF CASH FLOWS

- Council's cash and cash equivalents was \$30.0 million (33.9 million for the year ended 30 June 2018). There was a net reduction in cash and cash equivalents of \$3.9 million at 30 June 2019.
- Net cash provided by operating activities has decreased by \$5.5 million. This is mainly due to the increased amount spent on materials and contracts and employee and benefits costs.
- Net cash used in investing activities decreased by \$1.5 million. This is mainly due to the decrease in the amount used in the purchase of infrastructure, plant and equipment of \$1.2 million.
- Net cash used in financing activities increased by \$3.9 million. This is mainly due to repayment of outstanding loans due within the year.



FINANCIAL POSITION

Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	19.7	21.0	<ul style="list-style-type: none"> • External restricted cash and investment are restricted in their use by externally imposed requirements. The decrease of \$1.3 million is mainly due to the decrease in specific purpose unexpended grants- water fund.
Internal restrictions	10.3	12.9	
Unrestricted	-	-	
Cash and investments	30.0	33.9	<ul style="list-style-type: none"> • Internally restricted cash and investments have been restricted in their use by resolution or policy of council to reflect identified programs of works and any forward plans identified by the Council. The decrease in the internal restrictions is primarily due to decrease in the land and building programs.

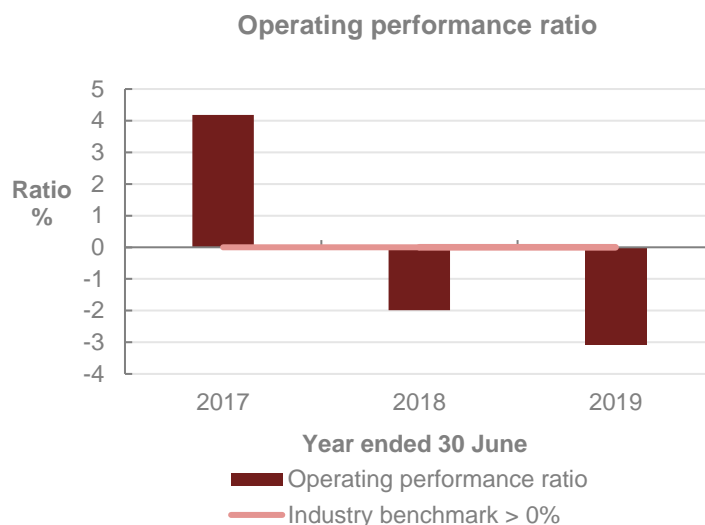
Debt

Council has \$17.8 million of borrowings as at 30 June 2019 (2018:19.8 million). The decrease in 2019 relates to principal repayments made in accordance with the loan schedule.

PERFORMANCE

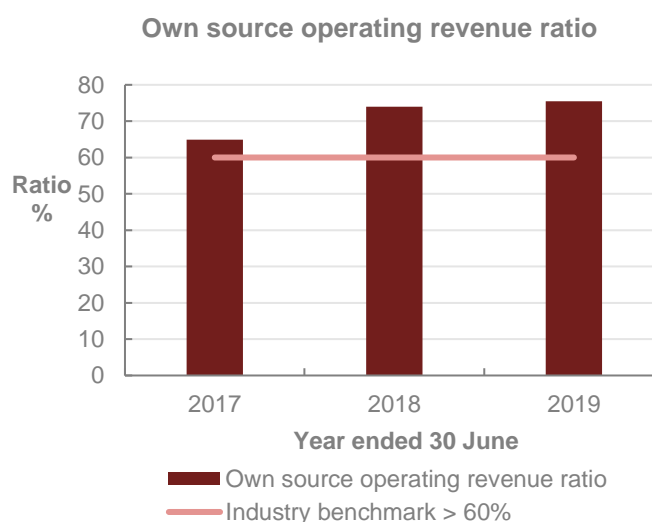
Operating performance ratio

- The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.
- The negative operating performance ratio of 3.1 per cent is below the industry benchmark of greater than 0 per cent. This indicates the Council has higher operating expenditure than operating revenue and cannot contain the operating expenditures within operating income.
- The operating performance ratio deteriorated due to the increase in employee benefits, material and contracts and depreciation expense.



Own source operating revenue ratio

- The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.
- The Council's own source operating revenue ratio of 75.4 per cent is above the industry benchmark of 60 per cent. This indicates the council is not reliant on external funding sources such as grants and contributions.
- The own source operating revenue ratio slightly increased in 2019, due to the increase in operating grants.

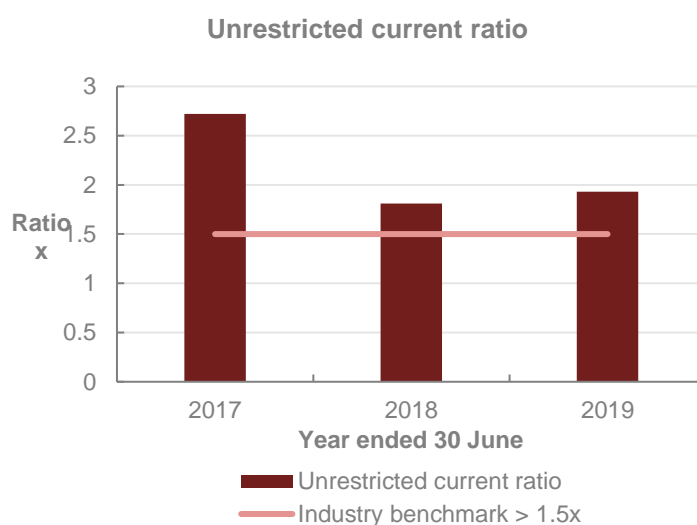


Unrestricted current ratio

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

The Council's liquidity ratio of 1.93 times is greater than the industry benchmark minimum of greater than 1.5 times. This indicates that the Council has sufficient liquidity to meet its current liabilities as and when they fall due.

The council's unrestricted current ratio has remained steady.

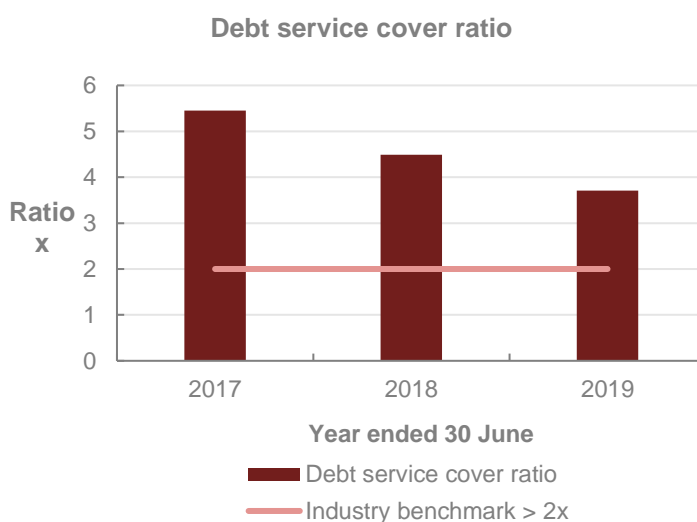


Debt service cover ratio

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

The Council's debt service cover ratio is 3.7 times, this is greater than the industry benchmark of 2 times. This indicates that Council has adequate revenue to cover the principal repayments and borrowing costs. The Council's debt service cover ratio has improved this year due to repayment of borrowings as scheduled.

Council holds loans with a value of \$17.8 million as at 30 June 2019.

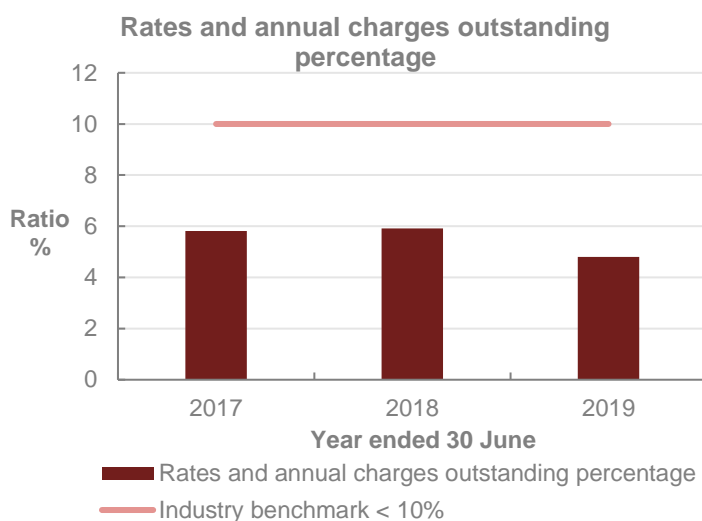


Rates and annual charges outstanding percentage

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

The Council's rates and annual charges outstanding ratio of 4.8 per cent is within the industry benchmark of less than 10 per cent for regional and rural councils.

The rates and annual charges outstanding percentage has decreased from previous years (5.9 per cent in 2018) but remains below the benchmark for rural councils indicating that the Council's rate of recovery measures continue to be effective whilst taking into account the circumstances of the ratepayers in collecting and reducing outstanding debts.

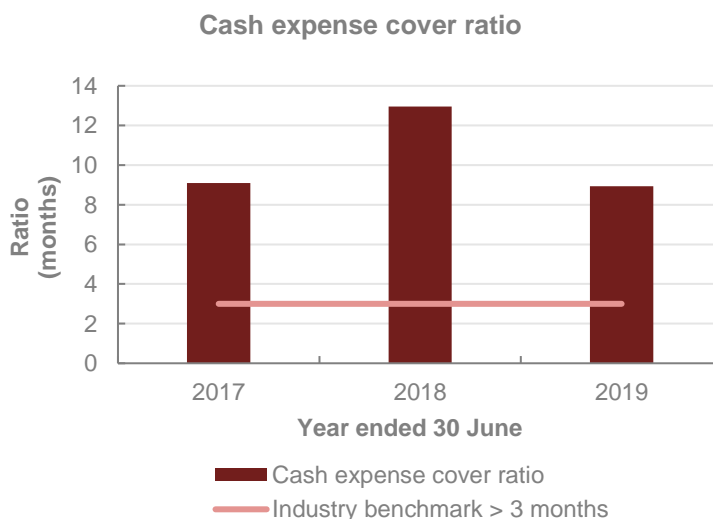


Cash expense cover ratio

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

The Council's cash expense cover ratio was 8.9 months, which is above the industry benchmark of greater than 3 months. This indicates that Council has the capacity to cover 8.9 months of operating cash expenditure without additional cash inflows at 30 June 2019.

The Council's cash expense cover ratio has remained steady.



Infrastructure, property, plant and equipment renewals

The Council has additions and renewals of \$16.6 million of assets in the 2018–19 financial year, compared to \$16.3 million of assets in the 2017–18 financial year.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"> • a simplified model for classifying and measuring financial assets • a new method for calculating impairment • a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 14.</p>

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.



Caroline Karakatsanis
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

cc: Graeme Faulkner, General Manager

Lithgow City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

Special Purpose Financial Statements

for the year ended 30 June 2019

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Background

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

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

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

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

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

Special Purpose Financial Statements
for the year ended 30 June 2019

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

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

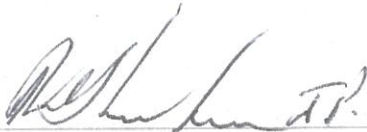
- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,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

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

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

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

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



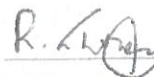
Raymond Thompson
Mayor
28 October 2019



Steven Ring
Councillor
28 October 2019



Graeme Faulkner
General Manager
28 October 2019



Ross Gurney
Responsible Accounting Officer
28 October 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	1,716	1,660
User charges	5,402	4,926
Fees	101	74
Interest	30	33
Grants and contributions provided for non-capital purposes	166	89
Other income	1	1
Total income from continuing operations	7,416	6,783
Expenses from continuing operations		
Employee benefits and on-costs	1,950	1,499
Borrowing costs	26	56
Materials and contracts	2,980	3,544
Depreciation, amortisation and impairment	1,608	1,566
Loss on sale of assets	4	25
Other expenses	237	223
Total expenses from continuing operations	6,805	6,913
Surplus (deficit) from continuing operations before capital amounts	611	(130)
Grants and contributions provided for capital purposes	21	144
Surplus (deficit) from continuing operations after capital amounts	632	14
Surplus (deficit) from all operations before tax	632	14
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(168)	–
SURPLUS (DEFICIT) AFTER TAX	464	14
Plus accumulated surplus	14,261	14,247
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	168	–
Closing accumulated surplus	14,893	14,261
Return on capital %	1.7%	(0.2)%
Subsidy from Council	–	955
Calculation of dividend payable:		
Surplus (deficit) after tax	464	14
Less: capital grants and contributions (excluding developer contributions)	(21)	–
Surplus for dividend calculation purposes	443	14
Potential dividend calculated from surplus	221	7

Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	7,280	7,041
Liquid trade waste charges	42	98
Fees	37	46
Grants and contributions provided for non-capital purposes	157	86
Total income from continuing operations	7,516	7,271
Expenses from continuing operations		
Employee benefits and on-costs	1,572	1,397
Borrowing costs	485	454
Materials and contracts	1,461	2,327
Depreciation, amortisation and impairment	1,911	1,746
Loss on sale of assets	288	27
Other expenses	482	422
Total expenses from continuing operations	6,199	6,373
Surplus (deficit) from continuing operations before capital amounts	1,317	898
Grants and contributions provided for capital purposes	606	783
Surplus (deficit) from continuing operations after capital amounts	1,923	1,681
Surplus (deficit) from all operations before tax	1,923	1,681
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(362)	(247)
SURPLUS (DEFICIT) AFTER TAX	1,561	1,434
Plus accumulated surplus	33,525	31,844
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	362	247
Closing accumulated surplus	35,448	33,525
Return on capital %	2.3%	1.8%
Subsidy from Council	–	675
Calculation of dividend payable:		
Surplus (deficit) after tax	1,561	1,434
Less: capital grants and contributions (excluding developer contributions)	(606)	(653)
Surplus for dividend calculation purposes	955	781
Potential dividend calculated from surplus	477	391

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	1,486	3,780
Receivables	1,406	1,561
Inventories	268	156
Total current assets	3,160	5,497
Non-current assets		
Infrastructure, property, plant and equipment	36,993	33,498
Total non-current assets	36,993	33,498
TOTAL ASSETS	40,153	38,995
LIABILITIES		
Current liabilities		
Payables	144	7
Income received in advance	245	184
Borrowings	165	156
Total current liabilities	554	347
Non-current liabilities		
Borrowings	752	917
Total non-current liabilities	752	917
TOTAL LIABILITIES	1,306	1,264
NET ASSETS	38,847	37,731
EQUITY		
Accumulated surplus	15,131	14,501
Revaluation reserves	23,716	23,230
<u>TOTAL EQUITY</u>	<u>38,847</u>	<u>37,731</u>

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	7,307	6,770
Receivables	1,150	808
Inventories	23	18
Total current assets	8,480	7,596
Non-current assets		
Infrastructure, property, plant and equipment	77,840	77,072
Total non-current assets	77,840	77,072
TOTAL ASSETS	86,320	84,668
LIABILITIES		
Current liabilities		
Payables	73	371
Borrowings	1,122	1,030
Total current liabilities	1,195	1,401
Non-current liabilities		
Borrowings	11,547	12,702
Total non-current liabilities	11,547	12,702
TOTAL LIABILITIES	12,742	14,103
NET ASSETS	73,578	70,565
EQUITY		
Accumulated surplus	37,553	35,630
Revaluation reserves	36,025	34,935
TOTAL EQUITY	73,578	70,565

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

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

a. Water Supply Service

Comprising the whole of the water supply operations and net assets servicing the Lithgow area.

b. Sewerage (Waste Water) Service

Comprising the whole of the sewerage reticulation and treatment operations and net assets servicing the Lithgow area.

Category 2

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

Council does not operate any Category 2 businesses.

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

Note 1. Significant Accounting Policies (continued)

Monetary amounts

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

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 27.5%

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

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

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

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

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

Income tax

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

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

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

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

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

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

Local government rates and charges

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

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

Note 1. Significant Accounting Policies (continued)

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Lithgow City Council

To the Councillors of the Lithgow City Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Lithgow City Council (the Council) Declared Business Activities, which comprise the Income Statement of each Declared Business Activity for the year ended 30 June 2019, the Statement of Financial Position of each Declared Business Activity as at 30 June 2019, Note 1 Significant accounting policies for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- water supply
- sewerage.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'C. Karakatsanis'.

Caroline Karakatsanis
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY

Lithgow City Council

SPECIAL SCHEDULES
for the year ended 30 June 2019

Special Schedules

for the year ended 30 June 2019

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Permissible income for general rates

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	13,340	12,920
Plus or minus adjustments ²	b	35	99
Notional general income	c = a + b	13,375	13,019
Permissible income calculation			
Special variation percentage ³	d	9.00%	0.00%
Or rate peg percentage	e	0.00%	2.30%
Less expiring special variation amount	g	(637)	—
Plus special variation amount	$h = d \times (c + g)$	1,146	—
Or plus rate peg amount	$i = e \times (c + g)$	—	299
Sub-total	k = (c + g + h + i + j)	13,884	13,318
Plus (or minus) last year's carry forward total	l	5	27
Sub-total	n = (l + m)	5	27
Total permissible income	o = k + n	13,889	13,345
Less notional general income yield	p	13,885	13,340
Catch-up or (excess) result	q = o - p	5	5
Carry forward to next year ⁶	t = q + r + s	5	5

Notes

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

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Buildings	Buildings	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Buildings – non-specialised	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Buildings – specialised	3,620	3,620	467	456	45,534	64,223	6.0%	22.0%	40.0%	32.0%	0.0%
	Other	—	—	—	—	1	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	3,620	3,620	467	456	45,535	64,223	6.0%	22.0%	40.0%	32.0%	0.0%
Other structures	Other structures	1,969	1,969	675	901	14,681	27,152	49.0%	27.0%	10.0%	2.0%	12.0%
	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	1,969	1,969	675	901	14,681	27,152	49.0%	27.0%	10.0%	2.0%	12.0%
Roads	Sealed roads	8,123	8,123	866	696	213,973	260,890	9.0%	6.0%	75.0%	7.0%	3.0%
	Unsealed roads	902	902	990	1,470	23,533	28,956	9.0%	6.0%	75.0%	7.0%	3.0%
	Bridges	247	247	12	18	18,872	18,872	17.0%	29.0%	47.0%	7.0%	0.0%
	Footpaths	77	77	43	25	13,654	13,650	0.0%	7.0%	91.0%	2.0%	0.0%
	Other road assets	—	—	—	—	62	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Bulk earthworks	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	—	—	—	—	(3)	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	9,349	9,349	1,911	2,209	270,091	322,368	9.1%	7.4%	74.0%	6.8%	2.7%
Water supply network	Water supply network	3,290	3,290	1,480	700	32,531	92,683	11.0%	8.0%	63.0%	17.0%	1.0%
	Other	—	—	—	—	1	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	3,290	3,290	1,480	700	32,532	92,683	11.0%	8.0%	63.0%	17.0%	1.0%
Sewerage network	Sewerage network	2,170	2,170	1,399	688	77,314	120,561	40.0%	17.0%	35.0%	7.0%	1.0%
	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	2,170	2,170	1,399	688	77,314	120,561	40.0%	17.0%	35.0%	7.0%	1.0%
Stormwater drainage	Stormwater drainage	6,764	6,764	123	255	24,073	42,475	0.0%	9.0%	0.0%	91.0%	0.0%
	Other	—	—	—	—	1	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	6,764	6,764	123	255	24,074	42,475	0.0%	9.0%	0.0%	91.0%	0.0%

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

Asset Class	Asset Category	Estimated cost to bring to the agreed level of service set by Council		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Open space / recreational assets	Swimming pools	5	5	37	93	2,611	2,810	96.0%	0.0%	3.0%	1.0%	0.0%
	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	5	5	37	93	2,611	2,810	96.0%	0.0%	3.0%	1.0%	0.0%
Other infrastructure assets	Other	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	—	—	—	—	—	—	0.0%	0.0%	0.0%	0.0%	100.0%
TOTAL - ALL ASSETS		27,167	27,167	6,092	5,302	466,838	672,272	16.0%	11.5%	54.7%	15.7%	2.1%

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

Infrastructure asset condition assessment 'key'

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
Infrastructure asset performance indicators (consolidated) *						
Buildings and infrastructure renewals ratio ¹						
Asset renewals ²	8,010					
Depreciation, amortisation and impairment	11,267	71.09%	86.97%	99.15%	53.84%	>=100.00%
Infrastructure backlog ratio ¹						
Estimated cost to bring assets to a satisfactory standard	27,167					
Net carrying amount of infrastructure assets	466,838	5.82%	6.04%	7.22%	11.03%	<2.00%
Asset maintenance ratio						
Actual asset maintenance	5,302					
Required asset maintenance	6,092	87.03%	74.89%	81.53%	78.84%	>100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	27,167					
Gross replacement cost	672,272	4.04%	4.23%	—	—	

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

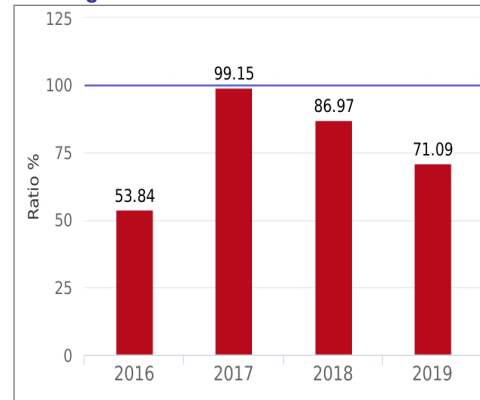
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

Buildings and infrastructure renewals ratio



Infrastructure renewals ratio

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

Commentary on result

18/19 ratio 71.09%

Council is continuing to work towards this benchmark. Council's performance has been impacted by the delay in the implementation of the Technology One asset management module and a number of unsuccessful grant application and the transfer of the Cullen Bullen sewerage treatment plant to the 2019/20 capital program.

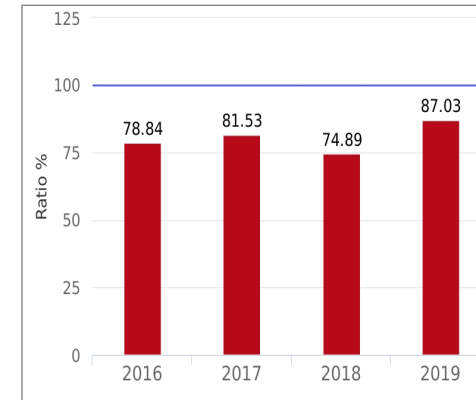
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result

18/19 ratio 87.03%

Council's performance against this KPI has improved. Delays in the implementation of the Technology One asset management module has impacted performance against this KPI.

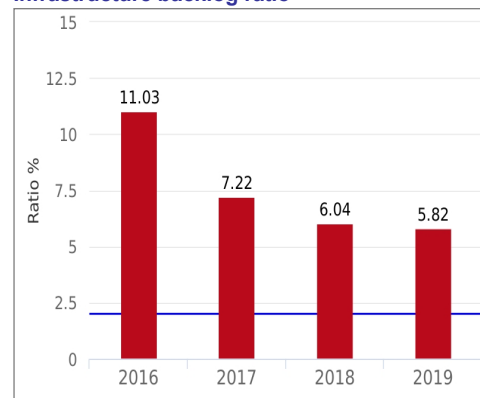
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result

18/19 ratio 5.82%

Council's performance continues improve against this benchmark, delays in the implementation of the Technology One asset management module have impacted performance for this KPI.

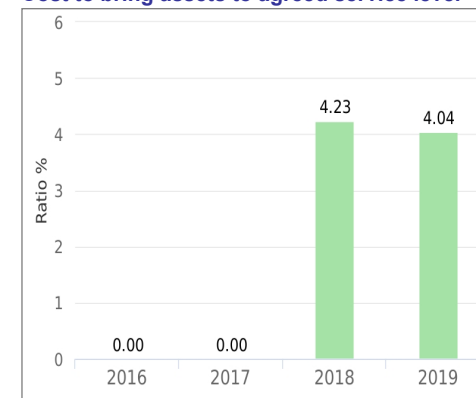
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result

18/19 ratio 4.04%

Council has performed strongly against this KPI and achieved the benchmark. Council expects with the implementation of the Technology One asset management module improve performance against this KPI.

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2019	2018	2019	2018	2019	2018	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²	81.11%	76.81%	18.26%	16.27%	73.88%	195.19%	>=100.00%
Depreciation, amortisation and impairment							
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard	6.08%	6.40%	10.11%	9.73%	2.81%	2.76%	<2.00%
Net carrying amount of infrastructure assets							
Asset maintenance ratio							
Actual asset maintenance	121.82%	77.88%	47.30%	53.90%	49.18%	92.09%	>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	4.73%	4.99%	3.55%	3.55%	1.80%	1.80%	
Gross replacement cost							

(1) Excludes Work In Progress (WIP)

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Lithgow City Council

To the Councillors of Lithgow City Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'C. Karakatsanis'.

Caroline Karakatsanis
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY