

Annual Report

General Purpose Financial Statements



Lithgow City Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020



General Purpose Financial Statements

for the year ended 30 June 2020

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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 2020

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 2020.

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.

Lithgow City Council

General Purpose Financial Statements

for the year ended 30 June 2020

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.

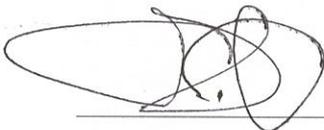
Signed in accordance with a resolution of Council made on 26 October 2020.



Raymond Thompson
Mayor
26 October 2020



Wayne McAndrew
Councillor
26 October 2020



Craig Butler
General Manager
26 October 2020



Ross Gurney
Responsible Accounting Officer
26 October 2020

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
27,245	Rates and annual charges	3a	27,903	27,420
7,363	User charges and fees	3b	6,854	6,976
496	Other revenues	3c	1,177	1,573
7,870	Grants and contributions provided for operating purposes	3d,3e	10,051	7,367
4,500	Grants and contributions provided for capital purposes	3d,3e	1,739	3,489
873	Interest and investment income	4	632	953
638	Net gains from the disposal of assets	6	59	–
701	Rental income	14d	784	–
49,686	Total income from continuing operations		49,199	47,778
Expenses from continuing operations				
17,426	Employee benefits and on-costs	5a	18,383	17,227
665	Borrowing costs	5b	1,493	1,030
9,175	Materials and contracts	5c	12,936	10,208
11,863	Depreciation and amortisation	5d	12,420	12,099
4,927	Other expenses	5e	4,545	5,088
–	Net losses from the disposal of assets	6	–	420
–	Fair value decrement on investment properties	12	274	–
44,056	Total expenses from continuing operations		50,051	46,072
5,630	Operating result from continuing operations		(852)	1,706
5,630	Net operating result for the year		(852)	1,706
5,630	Net operating result attributable to council		(852)	1,706
1,130	Net operating result for the year before grants and contributions provided for capital purposes		(2,591)	(1,783)

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		(852)	1,706
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	11(a)	61,305	1,717
Total other comprehensive income for the year		61,305	1,717
Equity Adjustment Buildings - Specialised ²	10(a)	–	(1,303)
Total and comprehensive income for the year		60,453	2,120
Total equity adjustments and comprehensive income attributable to Council		60,453	2,120

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

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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

Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	1,981	552
Investments	7(b)	24,990	29,500
Receivables	8	6,475	4,967
Inventories	9a	737	676
Other	9b	288	216
Current assets classified as 'held for sale'	10	–	350
Total current assets		34,471	36,261
Non-current assets			
Infrastructure, property, plant and equipment	11(a)	576,544	514,644
Investment property	12	5,168	5,513
Right of use assets	14a	35	–
Total non-current assets		581,747	520,157
Total assets		616,218	556,418
LIABILITIES			
Current liabilities			
Payables	15	5,690	4,215
Income received in advance	15	–	1,299
Contract liabilities	13	277	–
Lease liabilities	14b	21	–
Borrowings	15	1,408	1,998
Provisions	16	3,750	3,591
Total current liabilities		11,146	11,103
Non-current liabilities			
Payables	15	28	19
Lease liabilities	14b	14	–
Borrowings	15	14,338	15,796
Provisions	16	9,700	8,827
Total non-current liabilities		24,080	24,642
Total liabilities		35,226	35,745
Net assets		580,992	520,673
EQUITY			
Accumulated surplus	17	213,077	209,803
Revaluation reserves	17	367,915	310,870
Council equity interest		580,992	520,673
Total equity		580,992	520,673

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

\$ '000	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		209,803	310,870	520,673	208,097	310,456	518,553
Changes due to AASB 1058 and AASB 15 adoption	17	(134)	–	(134)	–	–	–
Changes due to AASB 16 adoption	17	–	–	–	–	–	–
Restated opening balance		209,669	310,870	520,539	208,097	310,456	518,553
Net operating result for the year		(852)	–	(852)	1,706	–	1,706
Restated net operating result for the period		(852)	–	(852)	1,706	–	1,706
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	11(a)	–	61,305	61,305	–	1,717	1,717
Other comprehensive income		–	61,305	61,305	–	1,717	1,717
Total comprehensive income		(852)	61,305	60,453	1,706	1,717	3,423
Equity Adjustment Buildings - Specialised ²	10(a)	–	–	–	–	(1,303)	(1,303)
Transfers between equity items		4,260	(4,260)	–	–	–	–
Equity – balance at end of the reporting period		213,077	367,915	580,992	209,803	310,870	520,673

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

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Cash flows from operating activities				
Receipts:				
27,099	Rates and annual charges		28,945	27,676
6,982	User charges and fees		3,567	7,484
863	Investment and interest revenue received		737	994
12,126	Grants and contributions		12,545	10,708
–	Bonds, deposits and retention amounts received		–	181
2,695	Other		5,081	4,441
Payments:				
(17,517)	Employee benefits and on-costs		(18,139)	(16,943)
(8,618)	Materials and contracts		(16,874)	(15,363)
(675)	Borrowing costs		(632)	(974)
–	Bonds, deposits and retention amounts refunded		(73)	(361)
(4,924)	Other		(3,622)	(4,625)
18,031	Net cash provided (or used in) operating activities	18b	11,535	13,218
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		326	–
–	Sale of infrastructure, property, plant and equipment		1,248	355
Payments:				
–	Purchase of investment securities		4,510	–
–	Purchase of investment property		65	(19)
(17,067)	Purchase of infrastructure, property, plant and equipment		(14,153)	(15,334)
(17,067)	Net cash provided (or used in) investing activities		(8,004)	(14,998)
Cash flows from financing activities				
Payments:				
(1,536)	Repayment of borrowings and advances		(2,081)	(2,139)
–	Lease liabilities (principal repayments)		(21)	–
(1,536)	Net cash flow provided (used in) financing activities		(2,102)	(2,139)
(572)	Net increase/(decrease) in cash and cash equivalents		1,429	(3,919)
30,052	Plus: cash and cash equivalents – beginning of year	18a	552	33,971
29,480	Cash and cash equivalents – end of the year	18a	1,981	30,052
–	plus: Investments on hand – end of year	7(b)	24,990	29,500
29,480	Total cash, cash equivalents and investments		26,971	59,552

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 28 October 2020. 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) 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.

(b) 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 12
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 11
- (iii) estimated tip remediation provisions – refer Note 16
- (iv) employee benefit provisions – refer Note 16.

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 8.

COVID 19 Impact

The Coronavirus (COVID 19) Pandemic continues to impact both communities and business throughout the world including Australia and the community where Council operates. The Pandemic has had a financial impact for Council in the financial year ended 30 June 2020, which was reported to Council in May 2020, and is expected to impact the following financial year. As at the end of the current reporting period Council estimated a loss from COVID 19 of approximately \$115,000 mainly from the use of halls, facilities, sporting ovals and events, commercial arrangements including Council's aquatic centre, leases and licenses for community and commercial buildings, other fines and others. Council provided rental relief packages to commercial and community leasing portfolios based on evaluation of requests received. The financial impact of the rental relief packages has been accounted for and reflected in the financial statements under relevant income category. No material changes have been noted in asset values and collection of rates.

Notes to the Financial Statements

for the year ended 30 June 2020

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.

Volunteer services

Council has an average of 70 hours per week of volunteer services donated, 60 hours at Eskbank House Museum and 10 hours at the Lithgow library. Council does not recognise this in the income statement on the basis that these services would not be procured if not donated and on the low value/materiality level.

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2020 reporting period.

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

As at the date of authorisation of these financial statements Council does not consider that any of these new (and still to be applied) standards and interpretations are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

New accounting standards adopted during the year

During the year Council adopted the following accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from 1 July 2019:

- AASB 16 Leases
- AASB 15 Revenue from contracts with customers and associated amending standards.
- AASB 1058 Income of Not-for-profit entities

Notes to the Financial Statements
for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 17.

Notes to the Financial Statements

for the year ended 30 June 2020

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		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Functions or activities										
Caring for our community	584	1,781	2,529	3,179	(1,945)	(1,398)	544	1,485	2,842	2,501
Strengthening our economy	65	119	1,139	1,225	(1,074)	(1,106)	–	57	7,168	6,932
Developing our built environment	22,299	25,609	41,779	35,985	(19,480)	(10,376)	4,733	2,882	556,151	495,793
Enhancing our natural environment	5,119	43	4,470	1,892	649	(1,849)	253	34	38,366	40,242
Governance and leadership	21,132	20,226	134	3,791	20,998	16,435	4,973	4,853	11,691	10,950
Other	–	–	–	–	–	–	–	(1)	–	–
Total functions and activities	49,199	47,778	50,051	46,072	(852)	1,706	10,503	9,310	616,218	556,418

Notes to the Financial Statements

for the year ended 30 June 2020

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

\$ '000	2020	2019
(a) Rates and annual charges		
Ordinary rates		
Residential	7,541	6,911
Farmland	1,898	1,820
Mining	2,116	2,086
Business	1,834	1,780
Less: pensioner rebates (mandatory)	(344)	–
Rates levied to ratepayers	13,045	12,597
Pensioner rate subsidies received	389	543
Total ordinary rates	13,434	13,140
Special rates		
Sewerage services	6,932	6,913
Parking	247	252
Rates levied to ratepayers	7,179	7,165
Total special rates	7,179	7,165
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	4,005	3,802
Stormwater management services	242	243
Water supply services	1,863	1,716
Sewerage services	470	367
Waste management services (non-domestic)	641	642
Gas mains	20	22
Less: pensioner rebates (mandatory)	(522)	–
Annual charges levied	6,719	6,792
Pensioner subsidies received:		
– Water	184	166
– Sewerage	172	157
– Domestic waste management	215	–
Total annual charges	7,290	7,115
TOTAL RATES AND ANNUAL CHARGES	27,903	27,420

Council has used 2019 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 which is the beginning of the rating period to which they relate.

Prepaid rates are recognised as a financial liability until the beginning of the rating period.

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

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates and are in substance a rates payment.

2019 accounting policy

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Water supply services	5,320	5,402
Waste management services (non-domestic)	14	11
Trade waste	78	42
Septic approval	131	133
Total specific user charges	5,543	5,588
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Planning and building regulation	452	517
Private works – section 67	229	83
Regulatory/statutory fees	21	33
Section 10.7 certificates (EP&A Act)	49	58
Total fees and charges – statutory/regulatory	751	691
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Cemeteries	178	162
Leaseback fees – Council vehicles	–	107
Swimming centres	317	373
Hall and park hire	43	51
Other	22	4
Total fees and charges – other	560	697
TOTAL USER CHARGES AND FEES	6,854	6,976

Accounting policy for user charges and fees

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

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

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

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

2019 accounting policy

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

\$ '000	2020	2019
(c) Other revenues		
Rental income – investment property	–	600
Rental income – other council properties (2019 only)	–	47
Fines – parking	8	12
Fines – other	47	47
Legal fees recovery – other	74	1

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
Commissions and agency fees	3	3
Diesel rebate	84	70
Insurance claims recoveries	84	196
Recycling income (non-domestic)	31	88
Sale of abandoned vehicles	33	1
Sales – general	–	66
Esbank house	2	4
Inspections	5	3
Library charges	10	17
Insurance claim - Lithgow Store Storm Damage	–	263
Sales – aquatic centre	59	–
Sales – tourism	47	33
Credit card surcharge	18	–
RFS Section 44 Reimbursement	513	–
Other	105	122
Other Council properties Hire	54	–
TOTAL OTHER REVENUE	1,177	1,573

Accounting policy for other revenue

Where the revenue relates to a contract with customer, the revenue is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

Where the revenue relates to a contract which is not enforceable or does not contain sufficiently specific performance obligations then revenue is recognised when an unconditional right to a receivable arises or the cash is received, which is earlier.

2019 accounting policy:

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

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

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

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

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

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance		1,798	3,640	–	–
Financial assistance – local roads component		638	1,213	–	–
Payment in advance - future year allocation					
Financial assistance – general component		1,872	–	–	–
Financial assistance – local roads component		664	–	–	–
Total general purpose		4,972	4,853	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
Specific purpose					
Sewerage services		–	–	–	569
Community centres	1058 (2)	159	352	–	–
Environmental programs		–	27	–	–
Heritage and cultural		–	–	–	698
Library – per capita		116	61	–	–
Library – special projects		16	13	–	–
Recreation and culture		–	146	633	1,008
Street lighting		73	–	–	–
Transport (roads to recovery)		1,195	817	–	–
Transport (other roads and bridges funding)		–	1	515	702
Waste services		–	–	253	–
Bushfire relief		2,567	–	–	–
Other		4	63	–	–
Total specific purpose		4,130	1,480	1,401	2,977
Total grants		9,102	6,333	1,401	2,977
Grant revenue is attributable to:					
– Commonwealth funding		6,167	5,670	130	612
– State funding		2,885	614	1,271	2,365
– Other funding		50	49	–	–
		9,102	6,333	1,401	2,977

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

15 (2) indicates income recognised under AASB 15 “over time”,

1058 (1) indicates income recognised under AASB 1058 “at a point in time”, while

1058 (2) indicates income recognised under AASB 1058 “over time”.

\$ '000	Notes	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(e) Contributions					
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements		–	–	116	152
S 7.11 – contributions towards amenities/services		–	–	22	5
S 7.12 – fixed development consent levies		–	–	132	290
S 64 – water supply contributions		–	–	31	21
S 64 – sewerage service contributions		–	–	34	37
Total developer contributions – cash		–	–	335	505
Total developer contributions	27	–	–	335	505
Other contributions:					
Cash contributions					
Community services		–	1	–	–
Other councils – joint works/services		1	9	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	Operating 2020	Operating 2019	Capital 2020	Capital 2019
Recreation and culture		–	–	3	6
RMS contributions (regional roads, block grant)		468	571	–	–
Employment		60	49	–	–
Fire contribution		232	232	–	–
Hazard reduction		21	37	–	–
Rebates		67	93	–	–
Waste		–	29	–	–
Event sponsorships		13	–	–	–
ESL contribution		87	–	–	–
Other		–	13	–	1
Total other contributions – cash		949	1,034	3	7
Total other contributions		949	1,034	3	7
Total contributions		949	1,034	338	512
TOTAL GRANTS AND CONTRIBUTIONS		10,051	7,367	1,739	3,489

\$ '000	2020	2019
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(f) Unspent grants and contributions – external restrictions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.

Operating grants

Unexpended at the close of the previous reporting period	2,710	2,715
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	385	186
Add: operating grants received for the provision of goods and services in a future period	2,536	2,471
Less: operating grants recognised in a previous reporting period now spent (2019 only)	(2,616)	(2,662)
Less: operating grants received in a previous reporting period now spent and recognised as income	–	–
Unexpended and held as externally restricted assets (operating grants)	3,015	2,710

Capital grants

Unexpended at the close of the previous reporting period	611	951
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	310	297
Add: capital grants received for the provision of goods and services in a future period	165	–
Less: capital grants recognised in a previous reporting period now spent (2019 only)	(404)	(637)
Less: capital grants received in a previous reporting period now spent and recognised as income	(22)	–
Unexpended and held as externally restricted assets (capital grants)	660	611

Contributions

Unexpended at the close of the previous reporting period	1,887	2,007
Add: contributions recognised as income in the current period but not yet spent	270	457
Add: contributions received for the provision of goods and services in a future period	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
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 (2019 only)	–	–
Less: contributions recognised in a previous reporting period now spent	(172)	(577)
Unexpended and held as externally restricted assets (contributions)	<u>1,985</u>	<u>1,887</u>

Note 4. Interest and investment income

\$ '000	2020	2019
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	67	115
– Cash and investments	565	838
Finance income on the net investment in the lease	–	–
Total Interest and investment income	<u>632</u>	<u>953</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	51	85
General Council cash and investments	565	838
Restricted investments/funds – external:		
Water fund operations	16	30
Total interest and investment revenue	<u>632</u>	<u>953</u>

Accounting policy for interest and investment revenue

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	14,286	12,671
Travel expenses	24	21
Employee leave entitlements (ELE)	1,852	2,224
Superannuation	1,465	1,537
Superannuation – defined benefit plans	149	78
Workers' compensation insurance	1,018	861
Fringe benefit tax (FBT)	82	82
Payroll tax	105	127
Training costs (other than salaries and wages)	184	175
Protective clothing	55	32
Corporate uniforms	13	12
Central west group apprentices	88	171
Other	93	78
Total employee costs	19,414	18,069
Less: capitalised costs	(1,031)	(842)
TOTAL EMPLOYEE COSTS EXPENSED	18,383	17,227

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	2020	2019
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on leases		1	–
Interest on overdraft		–	1
Interest on loans		626	698
Total interest bearing liability costs		627	699
Total interest bearing liability costs expensed		627	699
(ii) Other borrowing costs			
Fair value adjustments on recognition of advances and deferred debtors			
– Remediation liabilities	16	833	267
Interest applicable on interest free (and favourable) loans to Council		33	64
Total other borrowing costs		866	331

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

<u>TOTAL BORROWING COSTS EXPENSED</u>	1,493	1,030
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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 as incurred.

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	4,715	4,676
Contractor and consultancy costs	7,859	5,240
– Contractor and consultancy costs	6	4
Auditors remuneration ²	69	90
Legal Fees:		
– planning and development	129	80
– debt recovery	40	–
– other	113	88
Expenses from short-term leases (2020 only)	5	–
Operating leases expense (2019 only):		
– Operating lease rentals: minimum lease payments ¹	–	30
Total materials and contracts	12,936	10,208
<u>TOTAL MATERIALS AND CONTRACTS</u>	12,936	10,208

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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
	–	30

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	46	47
Remuneration for audit and other assurance services	46	47

Total Auditor-General remuneration

	46	47
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Non NSW Auditor-General audit firms**(i) Audit and other assurance services**

Other audit and assurance services – internal audit services	23	43
Remuneration for audit and other assurance services	23	43

Total remuneration of non NSW Auditor-General audit firms

	23	43
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Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

Total Auditor remuneration	69	90	
\$ '000	Notes	2020	2019
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Plant and equipment		370	496
Office equipment		315	208
Furniture and fittings		10	13
Infrastructure:	11(a)		
– Buildings – specialised		899	894
– Other structures		724	598
– Roads		5,380	5,215
– Bridges		157	155
– Footpaths		438	429
– Stormwater drainage		471	468
– Water supply network		1,648	1,577
– Sewerage network		1,849	1,899
– Swimming pools		33	32
Right of use assets	14	21	–
Other assets:			
– Library books		24	33
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	16,11(a)	81	82
Total gross depreciation and amortisation costs		<u>12,420</u>	<u>12,099</u>
Total depreciation and amortisation costs		<u>12,420</u>	<u>12,099</u>
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS		<u>12,420</u>	<u>12,099</u>

Accounting policy for depreciation, amortisation and impairment expenses of non-financial assets**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 11 for IPPE assets and Note 15 for right of use 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	2020	2019
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(e) Other expenses

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
Advertising	80	91
Training costs (other than salaries and wages)	–	–
Travel expenses	–	–
Bad and doubtful debts	–	76
Bank charges	84	80
Commissions	47	42
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	626	517
Councillor expenses – mayoral fee	26	23
Councillor expenses – councillors' fees	106	98
Councillors' expenses (incl. mayor) – other (excluding fees above)	24	33
Donations, contributions and assistance to other organisations (Section 356)		
– Donations, contributions and assistance	60	334
Electricity and heating	985	980
Insurance	662	986
Lease fees	28	21
Office expenses (including computer expenses)	559	523
Postage	62	90
Printing and stationery	123	104
Street lighting	338	428
Subscriptions and publications	274	190
Telephone and communications	242	215
Valuation fees	91	89
Other	128	168
Total other expenses	4,545	5,088
<u>TOTAL OTHER EXPENSES</u>	<u>4,545</u>	<u>5,088</u>

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Property (excl. investment property)			
Proceeds from disposal – property		1,000	–
Less: carrying amount of property assets sold/written off		(420)	–
Net gain/(loss) on disposal		580	–
Plant and equipment			
	11(a)		
Proceeds from disposal – plant and equipment		248	355
Less: carrying amount of plant and equipment assets sold/written off		(161)	(246)
Net gain/(loss) on disposal		87	109
Infrastructure			
	11(a)		
Less: carrying amount of infrastructure assets sold/written off		(928)	(529)
Net gain/(loss) on disposal		(928)	(529)
Investment properties			
	12		
Less: carrying amount of investment property sold/written off		(6)	–
Net gain/(loss) on disposal		(6)	–
Investments			
	7(b)		
Proceeds from disposal/redemptions/maturities – investments		326	–
Net gain/(loss) on disposal		326	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		59	(420)

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 2020

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	1,981	552
Total cash and cash equivalents	1,981	552

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 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Debt securities at amortised cost				
- Term Deposits	24,990	-	29,500	-
Total Investments	24,990	-	29,500	-
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	26,971	-	30,052	-

Accounting policy for investments

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

Fair value through other comprehensive income – equity instruments

Council has a number of strategic investments in entities over which they do not have significant influence nor control. Council has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to accumulated surplus and is not reclassified to profit or loss.

Other net gains and losses excluding dividends are recognised in Other Comprehensive Income Statement.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Council's financial assets measured at fair value through profit or loss comprise investments in FRNs and NCDs in the Statement of Financial Position.

Note 7(c). Restricted cash, cash equivalents and investments

\$ '000	2020	2020	2019	2019
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	26,971	–	30,052	–
attributable to:				
External restrictions	20,473	–	19,726	–
Internal restrictions	6,498	–	10,326	–
Unrestricted	–	–	–	–
	26,971	–	30,052	–

\$ '000	2020	2019
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	3,651	–
Specific purpose unexpended grants – water fund (2020 only)	24	–
Specific purpose unexpended grants – sewer fund (2020 only)	–	–
Specific purpose unexpended loans – general	1,570	1,581
Specific purpose unexpended loans – water	950	–
Specific purpose unexpended loans – sewer	9	1,009
External restrictions – included in liabilities	6,204	2,590

External restrictions – other

Developer contributions – general	1,985	1,887
Specific purpose unexpended grants (recognised as revenue) – general fund	–	3,297
Specific purpose unexpended grants (recognised as revenue) – water fund	–	24
Water supplies	–	1,462
Sewerage services	7,532	6,298
Domestic waste management	4,752	4,168
External restrictions – other	14,269	17,136

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(c). Restricted cash, cash equivalents and investments (continued)

\$ '000	2020	2019
Total external restrictions	20,473	19,726
Internal restrictions		
Plant and vehicle replacement	429	961
Employees leave entitlement	754	831
Carry over works	1,291	2,017
Deposits, retentions and bonds	558	630
Election	110	70
Land and building	1,558	4,851
Works in progress	1,798	966
Total internal restrictions	6,498	10,326
TOTAL RESTRICTIONS	26,971	30,052

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Purpose				
Rates and annual charges	1,737	–	1,255	–
Interest and extra charges	253	–	296	–
User charges and fees	3,241	–	1,174	–
Accrued revenues				
– Interest on investments	100	–	162	–
– Other income accruals	30	–	–	–
Net investment in finance lease	–	–	–	–
Government grants and subsidies	1,053	–	1,611	–
Net GST receivable	160	–	374	–
Other debtors	129	–	323	–
Total	6,703	–	5,195	–
Less: provision of impairment				
Rates and annual charges	(194)	–	(194)	–
Other debtors	(34)	–	(34)	–
Total provision for impairment – receivables	(228)	–	(228)	–
TOTAL NET RECEIVABLES	6,475	–	4,967	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Externally restricted receivables				
Water supply				
– Other	3,508	–	1,406	–
Sewerage services				
– Other	831	–	1,150	–
Total external restrictions	4,339	–	2,556	–
Unrestricted receivables	2,136	–	2,411	–
TOTAL NET RECEIVABLES	6,475	–	4,967	–

\$ '000	2020	2019
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	228	129
Balance at the end of the year	228	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.

Impairment

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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 7 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.

Rates and annual charges outstanding are secured against the property.

COVID 19

Council's rate and annual charges collections have not been significantly impacted by the COVID 19 Pandemic and are comparable to prior years, therefore no adjustment has been made to the impairment provision. Cash flows and interest income maybe impacted in 2020/21 due to the State Government legislating that rate instalment payments can be deferred until September 30 and no interest on outstanding rates and water usage accounts can be charged for the first six months. The impact this may have is not able to be quantified at this stage, however, it is not expected to be material.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	737	–	676	–
Total inventories at cost	737	–	676	–
TOTAL INVENTORIES	737	–	676	–
(b) Other assets				
Prepayments	288	–	216	–
TOTAL OTHER ASSETS	288	–	216	–

Externally restricted assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Water				
Stores and materials	576	–	268	–
Total water	576	–	268	–
Sewerage				
Stores and materials	46	–	23	–
Total sewerage	46	–	23	–
Total externally restricted assets	622	–	291	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	403	–	601	–
TOTAL INVENTORIES AND OTHER ASSETS	1,025	–	892	–

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

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

Land held for resale/capitalisation of borrowing costs

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 10. Non-current assets classified as held for sale

Non-current assets and disposal group assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 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 ...				
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	–	–	350	–

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 2020

Note 11(a). Infrastructure, property, plant and equipment

	as at 30/06/19			Asset movements during the reporting period								as at 30/06/20		
	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 decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	6,526	–	6,526	267	488	–	–	(5,792)	–	–	–	1,491	–	1,491
Plant and equipment	18,048	(15,378)	2,670	1,743	–	(161)	(370)	24	36	–	–	17,512	(13,571)	3,941
Office equipment	1,069	(515)	554	33	253	–	(315)	118	–	–	–	1,473	(830)	643
Furniture and fittings	418	(340)	78	4	–	–	(10)	–	–	–	–	422	(350)	72
Land:														
– Operational land	16,721	–	16,721	–	–	–	–	–	(279)	–	644	17,086	–	17,086
– Community land	20,164	–	20,164	–	–	(70)	–	–	279	–	3,156	23,529	–	23,529
Infrastructure:														
– Buildings – specialised	64,224	(18,689)	45,535	138	1,072	(31)	(899)	233	751	–	1,033	76,012	(28,180)	47,832
– Other structures	27,151	(12,470)	14,681	799	651	(273)	(724)	547	(704)	–	3,313	26,762	(8,472)	18,290
– Roads	289,848	(77,917)	211,931	3,790	1,191	(385)	(5,380)	2	–	–	47,713	341,782	(82,920)	258,862
– Bridges	21,570	(2,698)	18,872	–	134	–	(157)	192	–	–	–	21,896	(2,856)	19,040
– Footpaths	17,604	(3,955)	13,649	59	359	(37)	(438)	40	–	(150)	–	17,536	(4,050)	13,486
– Bulk earthworks (non-depreciable)	25,639	–	25,639	51	–	(74)	–	–	–	–	1,796	27,411	–	27,411
– Stormwater drainage	42,476	(18,402)	24,074	–	78	–	(471)	–	–	–	2,777	41,269	(14,811)	26,458
– Water supply network	92,684	(60,152)	32,532	2,327	174	(127)	(1,648)	4,395	–	–	311	98,998	(61,033)	37,965
– Sewerage network	120,561	(43,247)	77,314	577	28	–	(1,849)	93	–	–	712	122,392	(45,519)	76,873
– Swimming pools	2,811	(200)	2,611	–	–	–	(33)	–	–	–	–	2,810	(233)	2,577
Other assets:														
– Library books	994	(957)	37	–	–	–	(24)	–	–	–	–	994	(981)	13
Reinstatement, rehabilitation and restoration assets (refer Note 17):														
– Tip assets	8,210	(7,154)	1,056	–	–	–	(81)	–	–	–	–	8,210	(7,235)	975
Total Infrastructure, property, plant and equipment	776,718	(262,074)	514,644	9,788	4,428	(1,158)	(12,399)	(148)	83	(150)	61,455	847,585	(271,041)	576,544

(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 2020

Note 11(a). Infrastructure, property, plant and equipment (continued)

\$ '000	as at 30/06/18			Asset movements during the reporting period							as at 30/06/19		
	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	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 17):													
– 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).

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11(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
		Stormwater assets	
Water and sewer assets		Drains	80 to 100
Dams and reservoirs	80 to 100	Culverts	50 to 80
Bores	20 to 40	Flood control structures	80 to 100
Reticulation pipes: PVC	70 to 80		
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
		Other infrastructure assets	
Transportation assets		Bulk earthworks	20
Sealed roads: surface	12 to 20	Swimming pools	50
Sealed roads: structure	50	Unsealed roads	20
Unsealed roads	20	Other open space/recreational assets	5 to 50
Bridge: concrete	100	Other infrastructure	5 to 50
Bridge: other	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 2020

Note 11(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. 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 11(b). Externally restricted infrastructure, property, plant and equipment

\$ '000	as at 30/06/20			as at 30/06/19		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	–	–	–	4,418	–	4,418
Plant and equipment	206	183	23	1,873	1,850	23
Office equipment	141	42	99	34	14	20
Land						
Infrastructure	98,998	61,033	37,965	92,683	60,152	32,531
Total water supply	99,345	61,258	38,087	99,008	62,016	36,992
Sewerage services						
WIP	453	–	453	410	–	410
Plant and equipment	369	255	114	374	259	115
Land						
Infrastructure	122,392	45,519	76,873	120,561	43,247	77,314
Total sewerage services	123,214	45,774	77,440	121,345	43,506	77,839
Domestic waste management						
Land						
– Operational land	951	–	951	1,038	–	1,038
– Community land	605	–	605	463	–	463
Total DWM	1,556	–	1,556	1,501	–	1,501
TOTAL RESTRICTED IPP&E	224,115	107,032	117,083	221,854	105,522	116,332

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties

\$ '000	2020	2019
Owned investment property		
Investment property on hand at fair value	5,168	5,513
Total owned investment property	5,168	5,513

(a) Reconciliation – owned investment property

Reconciliation of annual movement:

Opening balance	5,513	5,494
– Disposals during year	(6)	–
– Net gain/(loss) from fair value adjustments	(274)	–
– Other movements	(65)	19
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	5,168	5,513

(b) Valuation basis (2019 only)

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 (2019 only)

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

\$ '000	2020	2019
(d) Leasing arrangements – Council as lessor (2019 only)		
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	569	574
Later than 1 year but less than 5 years	828	540
Later than 5 years	345	334
Total minimum lease payments receivable	1,742	1,448

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 (2019 only)

Rental income from investment property:		
– Minimum lease payments	–	600
Direct operating expenses on investment property:		
– that generated rental income	(134)	(89)
Net revenue contribution from investment property	(134)	511

plus:

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties (continued)

\$ '000	2020	2019
Fair value movement for year	(274)	–
Total income attributable to investment property	(408)	511

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.

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 13. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	277	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	–	–
Total grants received in advance		277	–
Total contract liabilities		277	–

Notes

(i) Council has received funding to construct assets including sporting and recycling facilities. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

\$ '000	2020 Current	2020 Non-current
(i) Contract liabilities relating to restricted assets		
Externally restricted assets		
Unspent grants held as contract liabilities (excl. Water & Sewer)	3,675	–
Contract liabilities relating to externally restricted assets	3,675	–
Total contract liabilities relating to restricted assets	3,675	–
Total contract liabilities relating to unrestricted assets	(3,398)	–
Total contract liabilities	277	–

\$ '000	2020
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(ii) Revenue recognised (during the financial year) from opening contract liability balances

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Contract assets and liabilities (continued)

\$ '000	2020
Grants and contributions received in advance:	
Capital grants (to construct Council controlled assets)	–
Operating grants (received prior to performance obligation being satisfied)	–
Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period	–

Significant changes in contract assets and liabilities

The contract liabilities have arisen on adoption of AASB 15 and AASB 1058. Previously income received in advance was recognised for reciprocal contracts. The increase in a contract liability is primarily due to grants in the scope of AASB 15 and capital grants received by Council to acquire or construct assets which will be under Council's control. Previously, revenue was recognised on receipt of the funds.

Accounting policy for contract assets and liabilities

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer.

When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or before the payment is due, Council presents the work in progress as a contract asset, unless the rights to that amount of consideration are unconditional, in which case Council recognises a receivable.

When an amount of consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases

The Council has applied AASB 16 using the modified retrospective (cumulative catch-up) method and therefore the comparative information has not been restated and continues to be reported under AASB 117 and related Interpretations.

(i) Council as a lessee

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

Terms and conditions of leases

Office and IT equipment

Leases for office and IT equipment are generally for low value assets, except for significant items such as photocopiers. The leases are for 5 years with no renewal option, the payments are fixed, however some of the leases include variable payments based on usage.

\$ '000	Plant & Equipment	Ready to use	Total
(a) Right of use assets			
Opening balance at 30 June 2019	–	–	–
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	56	–	56
Depreciation charge	(21)	–	(21)
<u>RIGHT OF USE ASSETS</u>	<u>35</u>	<u>–</u>	<u>35</u>

\$ '000	2020 Current	2020 Non-current
(b) Lease liabilities		
Lease liabilities	21	14
<u>TOTAL LEASE LIABILITIES</u>	<u>21</u>	<u>14</u>

(i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	–	–	–	–	35
\$ '000					2020

(c) Income Statement

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

Interest on lease liabilities

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	2020
Depreciation of right of use assets	21
Expenses relating to short-term leases	5
	28

Accounting policy**Accounting policies under AASB 16 – applicable from 1 July 2019**

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

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

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

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

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

Accounting policy under AASB 117 and associated Accounting Interpretations (2019 only)

Refer to Note 5c and Note 17.

(d) Operating leases

Council leases out a number of properties to community groups; these leases have been classified as operating leases for financial reporting purposes and the assets are included as investment property (refer note 12) in the Statement of Financial Position.

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

\$ '000	2020
(i) Operating lease income	
Investment properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	661
Other lease income	
Leaseback fees - council vehicles	123

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	2020
Total income relating to operating leases	784
(ii) Operating lease expenses	
Investment properties	
Direct operating expenses that generated rental income	134
Other leased assets	
Total expenses relating to operating leases	134
(iii) Repairs and maintenance: investment property	
Total repairs and maintenance: investment property	–
(iv) Maturity analysis of contractual lease income	
Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:	
< 1 year	569
1–2 years	512
2–3 years	489
3–4 years	122
4–5 years	109
> 5 years	453
Total undiscounted contractual lease income receivable	2,254

\$ '000	Plant & Equipment 2020
(v) Reconciliation of IPP&E assets leased out as operating leases	
Opening balance as at 1 July 2019	5,513
Additions renewals	16
Additions new assets	–
Reinstatement costs for impaired assets	–
Carrying value of disposals	(6)
Depreciation expense	–
Impairment loss/revaluation decrements (recognised in P/L)	(274)
Impairment reversal / prior period revaluation decrements reversal (via P&L)	–
Impairment loss (recognised in equity)	–
Impairment reversal (recognised in equity)	–
WIP transfers	–
Adjustments and transfers	–
Amalgamations transfers in/(out)	–
Transfers from/(to) 'held for sale' category	–
Transfers from/(to) real estate assets (Note 8)	–
Transfers from/(to) investment property	(82)
Transfers from/(to) right-of-use assets	–
Revaluation decrements to equity (ARR)	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	Plant & Equipment 2020
Revaluation increments to equity (ARR)	–
Other movement (details here)	–
Closing balance as at 30 June 2020	5,167

Accounting policy

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

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

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

The lease income is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Goods and services – operating expenditure	511	–	2,064	–
Accrued expenses:				
– Borrowings	42	–	47	–
– Salaries and wages	353	–	216	–
– Other expenditure accruals	2,658	28	1,259	19
Security bonds, deposits and retentions	556	–	629	–
Other	90	–	–	–
Prepaid rates	1,480	–	–	–
Total payables	5,690	28	4,215	19
Income received in advance (2019 only)				
Payments received in advance	–	–	1,299	–
Total income received in advance	–	–	1,299	–
Borrowings				
Loans – secured ¹	1,408	14,338	2,031	15,796
Loan discount	–	–	(33)	–
Total borrowings	1,408	14,338	1,998	15,796
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>7,098</u>	<u>14,366</u>	<u>7,512</u>	<u>15,815</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 22.

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	1,942	1,572	554	752
Sewer	697	9,978	1,195	11,547
Payables and borrowings relating to externally restricted assets	2,639	11,550	1,749	12,299
Total payables and borrowings relating to restricted assets	2,639	11,550	1,749	12,299
Total payables and borrowings relating to unrestricted assets	4,459	2,816	5,763	3,516
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>7,098</u>	<u>14,366</u>	<u>7,512</u>	<u>15,815</u>

(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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	17,827	(2,081)	–	–	–	–	15,746
Lease liabilities	–	35	–	–	–	–	35
Loan discount	–	–	–	–	–	–	–
TOTAL	17,827	(2,046)	–	–	–	–	15,781

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	19,967	(2,140)	–	–	–	17,827
Loan discount	(98)	–	–	–	–	–
TOTAL	19,869	(2,140)	–	–	–	17,827

\$ '000	2020	2019
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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	105
Total financing arrangements	605	605
Drawn facilities as at balance date:		
– Credit cards/purchase cards	19	15
Total drawn financing arrangements	19	15
Undrawn facilities as at balance date:		
– Bank overdraft facilities	500	500
– Credit cards/purchase cards	86	90
Total undrawn financing arrangements	586	590

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions				
Employee benefits				
Annual leave	1,451	–	1,245	–
Long service leave	2,299	457	2,346	351
Sub-total – aggregate employee benefits	3,750	457	3,591	351
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	9,243	–	8,476
Sub-total – asset remediation/restoration	–	9,243	–	8,476
<u>TOTAL PROVISIONS</u>	<u>3,750</u>	<u>9,700</u>	<u>3,591</u>	<u>8,827</u>

(a) Provisions relating to restricted assets

Total provisions relating to restricted assets	–	–	–	–
Total provisions relating to unrestricted assets	3,750	9,700	3,591	8,827
<u>TOTAL PROVISIONS</u>	<u>3,750</u>	<u>9,700</u>	<u>3,591</u>	<u>8,827</u>

\$ '000	2020	2019
---------	------	------

(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	2,320	2,260
	<u>2,320</u>	<u>2,260</u>

(c) Description of and movements in provisions

\$ '000	ELE provisions		
	Annual leave	Long service leave	Total
2020			
At beginning of year	1,245	2,697	3,942
Other	206	59	265
Total ELE provisions at end of year	1,451	2,756	4,207
2019			
At beginning of year	1,288	2,449	3,737
Other	(43)	248	205
Total ELE provisions at end of year	1,245	2,697	3,942

Other provisions

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

\$ '000	Asset remediation	Total
2020		
At beginning of year	8,477	8,477
Amounts used (payments)	(68)	(68)
Unwinding of discount	833	833
Other	1	1
Total other provisions at end of year	9,243	9,243
2019		
At beginning of year	8,210	8,210
Other	266	266
Total other provisions at end of year	8,476	8,476

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

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

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

Restoration

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

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

Rehabilitation

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

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

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

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

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

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

Note 17. 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. 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 ended 30 June 2020, the Council has adopted AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-profit Entities* and AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method and therefore the comparative information for the year ended 30 June 2019 has not been restated and continues to comply with AASB 111 *Construction Contracts*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 1004 *Contributions* and associated Accounting Interpretations.

All adjustments on adoption of AASB 15 and AASB 1058 have been taken to retained earnings at 1 July 2019.

(ii) AASB 15 and AASB 1058

The following approach has been applied on transition to AASB 15 and AASB 1058:

- Council has not adopted the completed contract expedient and therefore has not excluded revenue which was fully recognised in previous years in accordance with the former accounting standards and pronouncements
- Council has retrospectively restated contracts for modifications that occurred before 1 July 2019 unless such contract modification were minor.

Costs incurred in fulfilling customer contracts

Prior to adopting AASB 15 Council would recognise direct costs associated with fulfilling customer contracts as expenses when incurred, as they did not qualify for recognition as assets under any other accounting standards. Under AASB 15, as these costs relate directly to the contracts, generate resources used in satisfying the contracts, and are expected to be recovered, they are capitalised as 'costs to fulfil a contract' assets and released through profit and loss on the same basis as the revenue is recognised.

Upfront fees – Council leisure centre

Prior to adopting AASB 15, the Council recognised membership joining fees on receipt. Under AASB 15, since the fees do not relate to a performance obligation, they are combined with other goods and services transferred to the customer and therefore they are now spread over the expected life of the contract with the customer (i.e the membership life). Memberships and other services do not cross over financial years.

Revenue recognition from contract modifications

In relation to contract modifications, AASB 15 requires customer approval, which is a more prudent criteria than the probability requirement in the previous standards and has resulted in deferral of revenue where unapproved works have been performed.

Transfer of control to a customer – over time or at a point in time

AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. The entity has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

Principal v agent

Prior to adoption of AASB 15, the Council had assessed that they were a principal in transactions where another party was involved in providing the goods or services including pass-through grants.

Under AASB 15, the indicators of a principal have changed and there are now a number of performance obligations within grant agreements where the Council is acting as an agent since the only obligation is to transfer the funds to a third party. The result is that Council can only recognise the "commission" to which they are entitled rather than the gross revenue and expenses. There is no change to reported profit.

Licences

Council has reviewed the licences it grants and considers that all licences are either short-term or low value and elects to recognise all revenue from licences up-front rather than spreading them over the life of the licence.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**Prepaid rates**

Under AASB 1004, rates were recorded as revenue at the earliest of receipt of the funds from the ratepayer and the beginning of the rating period. Under AASB 1058, prepaid rates are recognised as a financial liability until the beginning of the rating period.

Grants – operating

Under AASB 1004, most grant income was recognised as revenue on receipt. Under AASB 15, where an agreement is enforceable and contains sufficiently specific performance obligations, the revenue is either recognised over time as the work is performed, or recognised at the point in time that the control of the services passes to the customer.

Grants – capital

Under AASB 1004, most grant monies were recorded as revenue on receipt. Under AASB 1058, where Council has received assets (including cash) to acquire or construct a non-financial asset, the asset is to be controlled by Council and the contract is enforceable, then the asset is recognised as a contract liability on receipt and recorded as revenue as the performance obligation to acquire or construct the asset is completed.

Changes in presentation

In addition to the above changes in accounting policies, the Council has also amended the presentation of certain items to align them with the requirements of AASB 15 and AASB 1058:

Council was required recognise one amendment to align with the requirements of AASB 15 and AASB 1058 for Unexpended capital grants (to construct Council controlled assets) under Contract Liabilities. Council is in receipt of grant funds to construct sporting and recycling facilities. The funds were received under an enforceable contract which requires Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot be recognised as revenue.

Comparison of financial statement line items under AASB 15 compared to previous standards for the current year

The following tables show the impact of adopting AASB 15 and AASB 1058 on the Council's financial statements for the year ended 30 June 2020.

Statement of Financial Position

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
Current assets					
Cash and cash equivalents	1,981	–	–	1,981	
Investments	24,990	–	–	24,990	
Receivables	6,475	–	–	6,475	
Inventories	737	–	–	737	
Other	288	–	–	288	
Total current assets	34,471	–	–	34,471	
Current liabilities					
Payables	5,690	–	–	5,690	
Contract liabilities	277	–	(277)	–	
Lease liabilities	21	–	–	21	
Borrowings	1,408	–	–	1,408	
Provisions	3,750	–	–	3,750	
Total current liabilities	11,146	–	(277)	10,869	

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
Non-current assets					
Infrastructure, property, plant and equipment	576,544	–	–	576,544	
Investment property	5,168	–	–	5,168	
Right of use assets	35	–	–	35	
Total non-current assets	581,747	–	–	581,747	
Non-current liabilities					
Payables	28	–	–	28	
Lease liabilities	14	–	–	14	
Borrowings	14,338	–	–	14,338	
Provisions	9,700	–	–	9,700	
Total Non-current liabilities	24,080	–	–	24,080	
Net assets	580,992	–	277	581,269	
Equity					
Accumulated surplus	213,077	–	–	213,077	
Revaluation reserves	367,915	–	–	367,915	
Council equity interest	580,992	–	–	580,992	
Total equity	580,992	–	–	580,992	

The only difference recognised between previous accounting standards and AASB 15 and AASB 1058 relates to contract liabilities. This relates unexpended capital grants (to construct Council controlled assets). Council is in receipt of funds to construct sporting and recycling facilities. The funds were received under an enforceable contract to construct an identifiable asset which will be under Council's control.

Income Statement

\$ '000	Income Statement and comprehen- sive income under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Income Statement and comprehen- sive income under previous revenue standards	Notes
Income from continuing operations					
Rates and annual charges	27,903	–	–	27,903	
User charges and fees	6,854	–	–	6,854	
Other revenues	1,177	–	–	1,177	
Grants and contributions provided for operating purposes	10,051	–	–	10,051	
Grants and contributions provided for capital purposes	1,739	–	143	1,882	
Interest and investment income	632	–	–	632	
Net gains from the disposal of assets	59	–	–	59	

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
Rental income	784	–	–	784	
Total Income from continuing operations	49,199	–	143	49,342	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	18,383	–	–	18,383	
Borrowing costs	1,493	–	–	1,493	
Materials and contracts	12,936	–	–	12,936	
Depreciation and amortisation	12,420	–	–	12,420	
Other expenses	4,545	–	–	4,545	
Fair value decrement on investment properties	274	–	–	274	
Total Expenses from continuing operations	50,051	–	–	50,051	
Total Operating result from continuing operations	(852)	–	143	(709)	
Net operating result for the year	(852)	–	143	(709)	
Total comprehensive income	60,453	–	–	60,453	

The impact on grants for capital purposes is less than 10% and is not material or significant.

Adjustments to the current year figures for the year ended 30 June 2020

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract assets	–	–	–
Total assets	556,418	–	556,418
Contract liabilities	–	134	134
Total liabilities	35,745	134	35,879
Accumulated surplus	209,803	(134)	209,669
Total equity	520,673	(134)	520,539

(i) AASB 16 Leases

Council as a lessee

Under AASB 117, Council assessed whether leases were operating or finance leases, based on its assessment of whether the significant risks and rewards of ownership had been transferred to Council or remained with the lessor. Under AASB 16, there

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low-value assets).

Council has used the exception to lease accounting for short-term leases and leases of low-value assets, and the lease expense relating to these leases is recognised in the Income Statement on a straight-line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition. Council has used the following expedients:

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.
- Lease liabilities have been discounted using the Council's incremental borrowing rate at 1 July 2019.
- Right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjustment by the any prepaid or accrued lease payments.
- A single discount rate was applied to all leases with similar characteristics.
- The right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset.
- Excluded leases with an expiry date prior to 30 June 2020 from the Statement of Financial Position, and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$56,000 at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 1.88%.

\$ '000	Balance at 1 July 2019
Operating lease commitments at 30 June 2019 per Council financial statements	–
Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases	
Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019	–
Add:	
Contracts not accounted for as operating lease commitments last year	56
Finance lease liabilities	–
Extension options reasonably certain to be exercised not included in the commitments note	–
Variable lease payments linked to an index	–
Other	–
Less:	
Short-term leases included in commitments note	–
Leases for low-value assets included in commitments note	–
Other	–
Lease liabilities recognised at 1 July 2019	56

Council as a lessor

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16 except for sub-leases, which have now been classified in relation to the right-of-use asset under the head lease rather than the underlying asset.

Adjustments to the current year figures for the year ended 30 June 2020

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Rights-of-use assets	–	56	56
Total assets	–	56	56
Payables – accrued interest on leases (30/6/2019)	–	–	–
Leases	–	56	56
Total liabilities	–	56	56
Accumulated surplus	–	–	–
Total equity	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	1,981	552
Balance as per the Statement of Cash Flows		1,981	552
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		(852)	1,706
Adjust for non-cash items:			
Depreciation and amortisation		12,420	12,099
Net losses/(gains) on disposal of assets		(59)	420
Adoption of AASB 15/1058		(134)	–
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		274	–
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		33	64
Unwinding of discount rates on reinstatement provisions		833	350
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(1,508)	446
Increase/(decrease) in provision for impairment of receivables		–	99
Decrease/(increase) in inventories		(61)	(69)
Decrease/(increase) in other current assets		(72)	50
Increase/(decrease) in payables		(1,553)	(2,913)
Increase/(decrease) in accrued interest payable		(5)	(8)
Increase/(decrease) in other accrued expenses payable		1,545	869
Increase/(decrease) in other liabilities		198	(16)
Increase/(decrease) in contract liabilities		277	–
Increase/(decrease) in provision for employee benefits		265	205
Increase/(decrease) in other provisions		(66)	(84)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		11,535	13,218

Note 19. 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	2020	2019
Upper Macquarie County Council	Associate	Equity	257	256
Total carrying amounts – material associates			257	256

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Interests in other entities (continued)

(b) Details

	Principal activity	Place of business
Upper Macquarie County Council	Weed Control	Bathurst

(c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2020	2019	2020	2019	2020	2019
Upper Macquarie County Council	25%	25%	25%	25%	25%	25%

(d) Summarised financial information for associates

\$ '000	Upper Macquarie County Council	
	2020	2019
Statement of financial position		
Current assets		
Cash and cash equivalents	1,107	993
Other current assets	61	132
Non-current assets		
	92	124
Current liabilities		
Current financial liabilities (excluding trade and other payables and provisions)	44	98
Other current liabilities	165	113
Non-current liabilities		
Non-current financial liabilities (excluding trade and other payables and provisions)	22	13
Net assets	1,029	1,025
Reconciliation of the carrying amount		
Opening net assets (1 July)	1,025	924
Profit/(loss) for the period	4	101
Closing net assets	1,029	1,025
Council's share of net assets (%)	25%	25%
Council's share of net assets (\$)	257	256
Statement of comprehensive income		
Income	1,256	1,414
Interest income	20	22
Depreciation and amortisation	(48)	(53)
Other expenses	(1,184)	(1,282)
Profit/(loss) from continuing operations	44	101
Profit/(loss) for period	44	101
Total comprehensive income	44	101
Share of income – Council (%)	25%	25%

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Interests in other entities (continued)

\$ '000	Upper Macquarie County Council	
	2020	2019
Profit/(loss) – Council (\$)	11	25
Total comprehensive income – Council (\$)	11	25
Summarised Statement of cash flows		
Cash flows from operating activities	130	177
Cash flows from investing activities	(16)	(2)
Net increase (decrease) in cash and cash equivalents	114	175

(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 20. Commitments

\$ '000	2020	2019
---------	------	------

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	333	675
Water assets	111	1,239
Roads	120	159
Other	–	560
Total commitments	564	2,633
These expenditures are payable as follows:		
Within the next year	564	2,633
Total payable	564	2,633

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Commitments (continued)

\$ '000	2020	2019
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	111	1,239
Internally restricted reserves	453	322
Unexpended loans	–	9
Total sources of funding	564	2,633

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Contingencies

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

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

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

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

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

Description of the funding arrangements.

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

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

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

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

The past service contribution for each Pooled Employer is a share of the total past service contributions of \$40.0 million for 1 July 2019 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These past service contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Contingencies (continued)

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$ 148,856.00. The last valuation of the Scheme was performed by [insert name and qualifications] on [insert date], and covers the period ended 30 June xxxx.

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

The estimated employer reserves financial position for the Pooled Employers at 30 June 2020 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,695.2	
Past Service Liabilities	1,773.2	95.6%
Vested Benefits	1,757.5	96.5%

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$xx as at 30 June 2020.

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 *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Contingencies (continued)

(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 2020

Note 22. 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 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	1,981	322	26,971	322
Receivables	6,475	4,967	6,475	4,967
Investments				
– 'Financial assets at amortised cost'	26,070	29,820	–	29,820
Total financial assets	34,526	35,109	33,446	35,109
Financial liabilities				
Lease liabilities	35	–	35	–
Loans/advances	15,746	17,794	15,746	17,794
Payables	5,718	4,234	5,718	4,234
Total financial liabilities	21,499	22,028	21,499	22,028

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. 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
2020				
Possible impact of a 1% movement in interest rates	104	104	(104)	(104)
2019				
Possible impact of a 1% movement in interest rates	123	123	(123)	(123)

(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
2020						
Gross carrying amount	200	1,020	183	181	153	1,737
2019						
Gross carrying amount	64	769	157	142	123	1,255

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. 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 2020 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
2020						
Gross carrying amount	3,035	299	36	45	1,551	4,966
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	2.21%	0.69%
ECL provision	–	–	–	–	34	34
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

(c) Liquidity risk

Payables, lease liabilities 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 for non-lease liabilities and therefore the balances in the table may not equal the balances in the Statement of Financial Position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 - 5 Years	> 5 Years		
2020							
Trade/other payables	0.00%	556	2,840	28	–	3,424	4,238
Loans and advances	3.49%	–	1,408	5,887	8,450	15,745	15,746
Total financial liabilities		556	4,248	5,915	8,450	19,169	19,984
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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Material budget variations

Note 23. Material budget variations

Council's original financial budget for 19/20 was adopted by the Council on 24/06/2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----		
REVENUES					
Rates and annual charges	27,245	27,903	658	2%	F
User charges and fees	7,363	6,854	(509)	(7)%	U
Other revenues	496	1,177	681	137%	F
This variation is due to the Section 44 bushfire claim for the Gospers Mountain fire of \$512,584.					
Operating grants and contributions	7,870	10,051	2,181	28%	F
This variance relates to Bushfire relief grants of \$2.567m.					
Capital grants and contributions	4,500	1,739	(2,761)	(61)%	U
This variance relates mostly to the change to timing of the Cullen Bullen sewerage project, budgeted capital grant of \$2.0m.					
Interest and investment revenue	873	632	(241)	(28)%	U
This variance relates to lower interest rates and lower reserve balances then budgeted.					
Net gains from disposal of assets	638	59	(579)	(91)%	U
This variance relates to the disposal of Infrastructure assets when renewed and is not budgeted. The Technology One Asset Management module will improve management of asset disposal. Disposal of plant did not proceed as planned due to COVID-19.					
Rental income	701	784	83	12%	F
EXPENSES					
Employee benefits and on-costs	17,426	18,383	(957)	(5)%	U
Borrowing costs	665	1,493	(828)	(125)%	U
The borrowing costs unfavourable variance relates to the winding back of the remediation liability for the landfill sites and has increased by \$520,000 from last year, due to lower interest rates and inflation.					
Materials and contracts	9,175	12,936	(3,761)	(41)%	U
This variance mostly relates to the Bushfire Relief works where the majority of work were contracted.					
Depreciation and amortisation	11,863	12,420	(557)	(5)%	U

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
Other expenses	4,927	4,545	382	8% F
Net losses from disposal of assets	-	-	-	∞ F
Fair value decrement on investment property	-	274	(274)	∞ U

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Material budget variations

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
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STATEMENT OF CASH FLOWS

Cash flows from operating activities	18,031	11,535	(6,496)	(36)%	U
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The \$7.3m variance is a combination of employee entitlements and materials and contracts being over budget and the impact of delayed water billing due to the smart meter project.

Cash flows from investing activities	(17,067)	(8,004)	9,063	(53)%	F
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The variance relates to Council not completing all of the original 2019/20 capital works program.

Cash flows from financing activities	(1,536)	(2,102)	(566)	37%	U
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This variance relates to Council paying down \$1.0m on Sewer Fund loan.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. 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

2020	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	
\$ '000					
Recurring fair value measurements					
Financial assets					
Investments					
– 'Held to maturity'	30/06/20	24,990	–	–	24,990
Total financial assets		24,990	–	–	24,990

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

2020		Fair value measurement hierarchy			
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
\$ '000					
Financial liabilities					
Bonds and security deposits	30/06/20	–	558	–	558
Accrued interest	30/06/20	100	–	–	100
Total financial liabilities		100	558	–	658
Investment property					
Investment properties	30/06/20	–	–	5,168	5,168
Total investment property		–	–	5,168	5,168
Infrastructure, property, plant and equipment					
Operational land	30/06/20	–	–	17,086	17,086
Community land	30/06/20	–	–	23,529	23,529
Plant and equipment	30/06/20	–	–	3,941	3,941
Office equipment	30/06/20	–	–	646	646
Furniture and fittings	30/06/20	–	–	71	71
Buildings	30/06/20	–	–	47,832	47,832
Other structures	30/06/20	–	–	18,290	18,290
Roads	30/06/20	–	–	259,842	259,842
Bridges	01/02/17	–	–	19,040	19,040
Footpaths	30/06/20	–	–	10,605	10,605
Bulk earthworks	30/06/20	–	–	27,411	27,411
Stormwater drainage	30/06/20	–	–	26,458	26,458
Water supply	30/06/20	–	–	37,965	37,965
Sewerage network	30/06/20	–	–	76,873	76,873
Swimming pools	01/02/17	–	–	2,577	2,577
Library books	30/06/18	–	–	13	13
Tip asset rehabilitation	30/06/18	–	–	975	975
Work in Progress	30/06/20	–	–	1,469	1,469
Total infrastructure, property, plant and equipment		–	–	574,623	574,623
2019					
		Fair value measurement hierarchy			
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
\$ '000					
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 2020

Note 24. Fair Value Measurement (continued)

2019	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	
\$ '000					
Financial liabilities					
Bonds and security deposits	30/06/19	–	603	–	603
Accrued interest	30/06/19	162	–	–	162
Total financial liabilities		162	603	–	765
Investment property					
Investment properties	01/02/17	–	–	5,313	5,313
Total investment property		–	–	5,313	5,313
Infrastructure, property, plant and equipment					
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'					
Operational Land		–	–	350	350
Total NCA's classified as 'held for sale'		–	–	350	350

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

(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
2019	
Opening balance	512,119
Transfers from/(to) another asset class	(350)
Purchases (GBV)	15,413
Disposals (WDV)	(774)
Depreciation and impairment	(12,099)
FV gains – other comprehensive income	1,717
FV losses - other comprehensive income	–
Other movement - transfer from WIP to P&L	(78)
Other movement - transfer to other comprehensive income	(1,303)
Closing balance	514,645
2020	
Opening balance	514,645
Transfers from/(to) another asset class	83
Purchases (GBV)	14,216
Disposals (WDV)	(1,158)
Depreciation and impairment	(12,399)
FV gains – other comprehensive income	61,455
FV losses - other comprehensive income	(3,031)
Other movement - transfer from WIP to P&L	(148)
Other movement - transfer to other comprehensive income	–
Closing balance	573,663

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.

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
---------	-------------------------	-----------------------	---------------------

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment			
Specialised buildings	47,832	Depreciated historical cost	Cost per sq metre, consumption rate, condition, useful life
Road infrastructure	258,862	Depreciated historical cost	Cost per sq metres dimensions and specification, pattern of consumption components useful life residual value asset condition
Bulk earthworks	27,411	Current replacement cost	Cost per Sq metre
Footpaths	10,605	Depreciated historical cost	Cost per sq metre pattern of consumption components useful lives asset conditions
Bridges	19,040	Depreciated historical cost	Cost per Sq metre, dimensions and specifications, pattern of consumption components, useful lives, asset conditions
Stormwater drainage	26,458	Depreciated historical cost	Cost per unit/ per metre
Water supply network	37,965	Depreciated historical cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Sewerage network	76,873	Depreciated historical cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Other structures	18,290	Depreciated historical cost	Unit rates, pattern of consumption, components, useful life, residual value, asset condition
Library books	13	Depreciated historical cost	Unit Costs
Tip assets	975	Depreciated historical cost	Unit Costs
Swimming pools	2,577	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 and index published by the NSW Office of Water.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

(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 2020

Note 25. Related party disclosures

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	2020	2019
Compensation:		
Post-employment benefits	122	118
Short-term benefits	1,253	1,317
Total	1,375	1,435

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Events occurring after the reporting date

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

The Coronavirus (COVID 19) Pandemic continues to impact both communities and business throughout the world including Australia and the community where Council operates. This Pandemic has had financial impact for Council in the financial year ended 30 June 2020, which was reported to Council, and is expected to further impact the following financial year.

The scale, timing and duration of potential impacts on Council is unknown, however, it is expected that there will be a decrease in projected income.

In the period after balance sheet date to signing of this report, Council was financially sound and there have not been any additional significant adverse operational or financial impacts as a result of COVID 19 Pandemic or other circumstances and any known impacts to date have been reflected in the 30 June 2020 financial statements.

Note 27. 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 30/06/19			Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance	Contributions received during the year					Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
Roads	1,078	20	–	–	–	–	1,098	–
Bushfire	134	1	–	–	–	–	135	–
S7.11 contributions – under a plan	1,212	21	–	–	–	–	1,233	–
S7.12 levies – under a plan	535	132	–	–	(136)	–	531	–
Total S7.11 and S7.12 revenue under plans	1,747	153	–	–	(136)	–	1,764	–
S7.4 planning agreements	140	117	–	–	(36)	–	221	–
Total contributions	1,887	270	–	–	(172)	–	1,985	–

Notes to the Financial Statements
for the year ended 30 June 2020

Note 27. Statement of developer contributions (continued)

\$ '000	as at 30/06/19						as at 30/06/20	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
S7.11 Contributions – under a plan								
CONTRIBUTION PLAN								
Roads	1,078	20	–	–	–	–	1,098	–
Bushfire	134	1	–	–	–	–	135	–
Total	1,212	21	–	–	–	–	1,233	–

S7.12 Levies – under a plan

CONTRIBUTION PLAN

Other S 7.12 Plan 12/13	279	132	–	–	(136)	–	275	–
Other (previous yrs)	256	–	–	–	–	–	256	–
Total	535	132	–	–	(136)	–	531	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	18,961	1,697	7,245
User charges and fees	1,330	5,396	128
Interest and investment revenue	616	16	–
Other revenues	1,159	17	1
Grants and contributions provided for operating purposes	9,688	184	179
Grants and contributions provided for capital purposes	1,681	31	27
Net gains from disposal of assets	59	–	–
Rental income	784	–	–
Total income from continuing operations	34,278	7,341	7,580
Expenses from continuing operations			
Employee benefits and on-costs	14,698	1,809	1,876
Borrowing costs	985	41	467
Materials and contracts	7,911	2,931	2,094
Depreciation and amortisation	8,881	1,676	1,863
Other expenses	3,901	229	415
Net losses from the disposal of assets	(123)	127	(4)
Fair value decrement on investment property	274	–	–
Total expenses from continuing operations	36,527	6,813	6,711
Operating result from continuing operations	(2,249)	528	869
Net operating result for the year	(2,249)	528	869
Net operating result attributable to each council fund	(2,249)	528	869
Net operating result for the year before grants and contributions provided for capital purposes	(3,930)	497	842

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.

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	865	974	142
Investments	17,590	–	7,400
Receivables	2,136	3,508	831
Inventories	426	288	23
Other	288	–	–
Total current assets	21,305	4,770	8,396
Non-current assets			
Infrastructure, property, plant and equipment	461,017	38,087	77,440

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund (continued)

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Investment property	5,168	–	–
Right of use assets	35	–	–
Total non-current assets	466,220	38,087	77,440
TOTAL ASSETS	487,525	42,857	85,836

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund (continued)

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
LIABILITIES			
Current liabilities			
Payables	5,078	449	163
Income received in advance	(283)	283	–
Contract liabilities	277	–	–
Lease liabilities	21	–	–
Borrowings	(336)	1,210	534
Provisions	3,750	–	–
Total current liabilities	8,507	1,942	697
Non-current liabilities			
Payables	28	–	–
Lease liabilities	14	–	–
Borrowings	2,788	1,572	9,978
Provisions	9,700	–	–
Total non-current liabilities	12,530	1,572	9,978
TOTAL LIABILITIES	21,037	3,514	10,675
Net assets	466,488	39,343	75,161
EQUITY			
Accumulated surplus	158,996	15,657	38,424
Revaluation reserves	307,492	23,686	36,737
Council equity interest	466,488	39,343	75,161
Total equity	466,488	39,343	75,161

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.

Note 29(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	2019	Prior periods 2018	2017	Benchmark
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(2,376)	(5.01)%	(3.08)%	(1.99)%	4.18%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	47,401					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	37,350	76.01%	77.28%	73.97%	64.90%	>60.00%
Total continuing operating revenue	49,140					
3. Unrestricted current ratio						

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(a). Statement of performance measures – consolidated results (continued)

\$ '000	Amounts	Indicator	2019	Prior periods		Benchmark
	2020	2020		2018	2017	
Current assets less all external restrictions	9,037	3.60x	1.93x	1.81x	2.72x	>1.50x
Current liabilities less specific purpose liabilities	2,512					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	11,537	3.21x	3.71x	4.49x	5.45x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	3,595					
5. Rates, annual charges, interest and extra charges outstanding percentage						
Rates, annual and extra charges outstanding	1,796	6.12%	4.66%	5.92%	5.82%	<10.00%
Rates, annual and extra charges collectible	29,327					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	1,981	0.57 mths	0.16 mths	12.95 mths	9.10 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	3,453					

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(11.42)%	(11.21)%	6.80%	8.24%	11.15%	17.52%	>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	66.78%	69.25%	97.07%	97.49%	97.28%	90.61%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	3.60x	1.93x	2.46x	5.70x	12.05x	7.10x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	1.99x	2.19x	54.00x	86.35x	6.79x	7.66x	>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	8.81%	6.74%	0.00%	0.00%	0.00%	0.00%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	0.25	(2.45)	∞	∞	∞	∞	>3.00
Payments from cash flow of operating and financing activities	mths	mths					mths

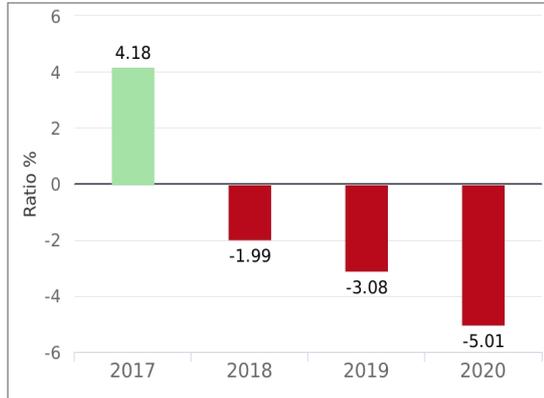
(1) - (2) Refer to Notes at Note 31a above.

(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 2020

Note 29(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 2019/20 result

2019/20 ratio (5.01)%

Council has not met this ratio due to Employee Entitlements being over budget \$1.0m and Materials and Contracts after adjustment for Bushfire Recovery being over budget by \$1.0m.

Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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 2019/20 result

2019/20 ratio 76.01%

Council has continued to perform above the benchmark of 60%.

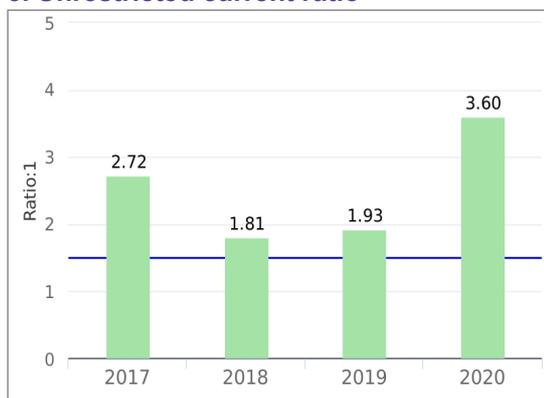
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

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 2019/20 result

2019/20 ratio 3.60x

Council continues to perform above the benchmark of 1.5x, the slight decrease is due to the impact of COVID 19 on rates receipts.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

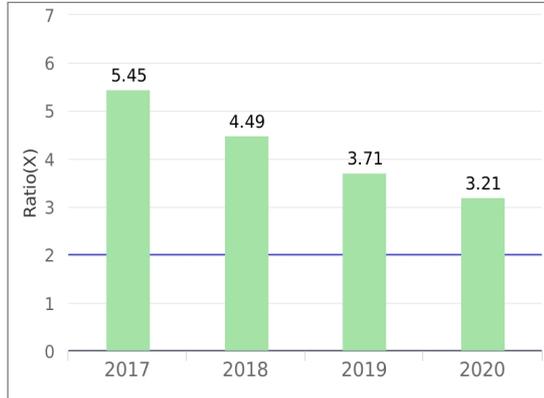
Ratio achieves benchmark

Ratio is outside benchmark

Notes to the Financial Statements
for the year ended 30 June 2020

Note 29(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 2019/20 result

2019/20 ratio 3.21x

Council continues to perform above the benchmark of 2.00x, the .50 decrease is due to COVID 19 and deferred water billing due dates.

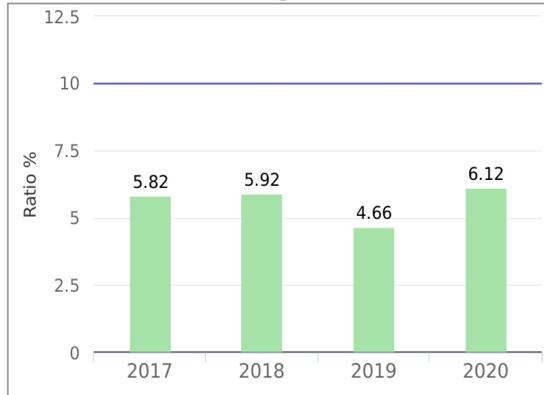
Benchmark: — > 2.00x

■ Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

■ 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 2019/20 result

2019/20 ratio 6.12%

While Council's performance is strong and below the benchmark of 10%, the increase of 1.4% is due the impact of COVID 19 on receipts which resulted in a \$400,000 increase in outstanding rates and annual charges.

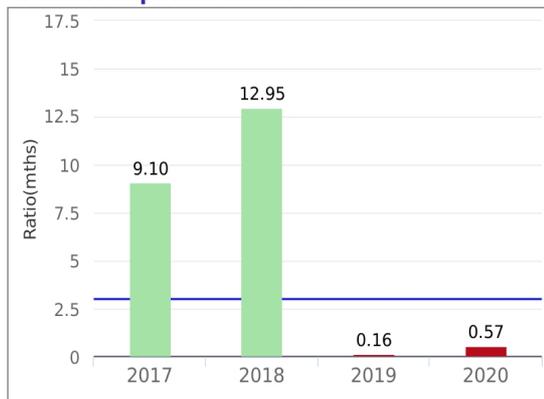
Benchmark: — < 10.00%

■ Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

■ 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 2019/20 result

2019/20 ratio 0.57 mths

Council has changed its investment strategy to maximise interest returns, this has resulted in Council increasing the term deposits from three months to six month terms. Council manages its cash flow by having a term deposit mature every week to Council's cash flow requirements.

Benchmark: — > 3.00mths

■ Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #28

■ Ratio is outside benchmark

Lithgow City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30. Council information and contact details

Note 30. 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**

Craig Butler

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**

Ray 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 Lithgow City Council

Opinion

I have audited the accompanying financial statements of Lithgow City Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been prepared, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 23 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.



Chariee Bultitude
Delegate of the Auditor-General for New South Wales

18 December 2020
SYDNEY



Cr Raymond Thompson
 Mayor
 Lithgow City Council
 PO Box 19
 LITHGOW NSW 2790

Contact: Chariee Bultitude
 Phone no: 02 9275 7104
 Our ref: D2030412/1755

18 December 2020

Dear Mayor

**Report on the Conduct of the Audit
 for the year ended 30 June 2020
 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 2020 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 2020 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

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	27.9	27.4	 2
Grants and contributions revenue	11.7	10.8	 9
Operating result from continuing operations	(0.8)	1.7	 150
Net operating result before capital grants and contributions	(2.5)	(1.7)	 45

Council's operating result from continuing operations was a deficit of \$0.85 million (\$1.7 million surplus for the year ended 30 June 2019) which is \$2.5 million lower than the 2018–19 result. This result includes a decrease in user charges and fees (\$0.12 million), an increase in rates and annual charges (\$0.48 million), an increase in grants and contribution revenue (\$0.93 million), a decrease in other revenues with rental income reported separately (\$0.39 million), net gain from disposal of assets (\$0.05 million) and rental income (\$0.78 million). The eventual net decrease of Council's operating result is due to an increase in materials and contracts expense as noted below.

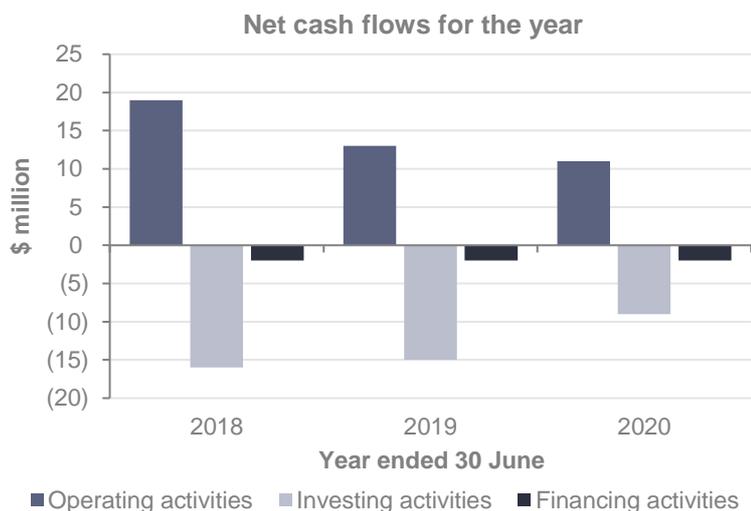
The net operating result before capital grants and contributions (\$2.5 million) was \$0.8 million lower than the 2018–19 result. This result includes an increase in materials and contracts of (\$2.7 million) mainly related to bushfire relief works.

Rates and annual charges revenue (\$27.9 million) increased by \$0.48 million (2 per cent) in 2019–20 mainly due to the rate peg and natural growth of rateable properties.

Grants and contributions revenue (\$11.7 million) increased by \$0.93 million (9 per cent) in 2019–20 due to additional grant funding received.

STATEMENT OF CASH FLOWS

- Cash flows from operating activities decreased from 2018-19 due to an increase in payments for materials and contracts.
- Council's cash outflows used in investing activities was \$8.0 million. This is due to a decrease in payments for infrastructure, property, plant and equipment and an increase in receipts for sale of investment securities.
- Net cash from financing activities has been steady over the previous three years.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	20.47	19.73	• Externally restricted cash and investments are restricted in their use by externally imposed requirements. Externally restricted funds remained steady compared to last year.
Internal restrictions	6.50	10.32	
Unrestricted	-	-	
Cash and investments	26.97	30.05	• Internally restricted cash and investments have been restricted in their use by resolution or by a policy of Council to reflect identified programs of works and any forward plans identified by Council. Internal restrictions for infrastructure and facilities have decreased.

Debt

At 30 June 2020, Council recognised \$15.7 million in loans (30 June 2019: \$17.8 million). The loans had decreased primarily due to principal repayments made in accordance with the loan schedules.

PERFORMANCE

Performance measures

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

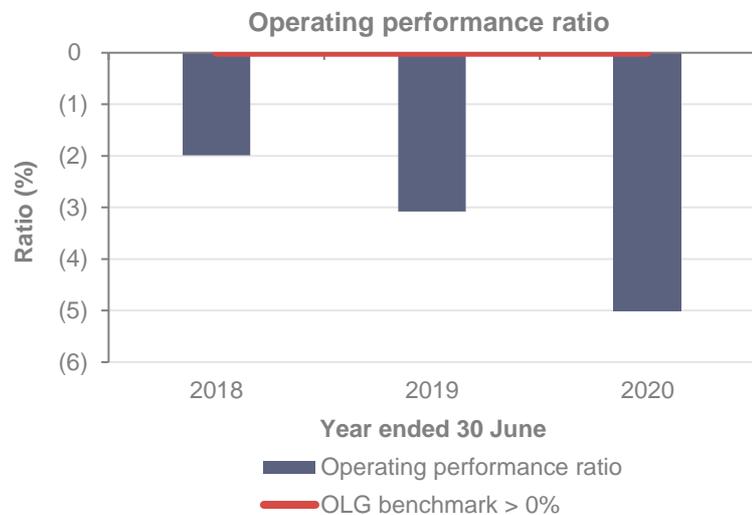
Operating performance ratio

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 OLG is greater than zero per cent.

The negative operating performance ratio of 5.01 per cent is below the industry benchmark of zero per cent. This indicates the Council has higher operating expenditures than operating revenue and cannot contain the operating expenditures within operating income.

The operating performance ratio decreased to -5.01 per cent

(2019: -3.08 per cent) mainly due to the increase in materials and contracts 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 OLG is greater than 60 per cent.

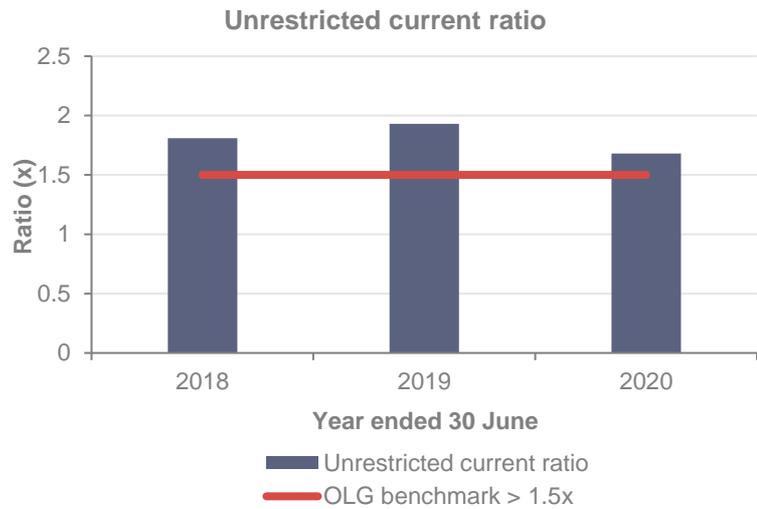
The Council exceeded the OLG benchmark for the current reporting period.



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 OLG is greater than 1.5 times.

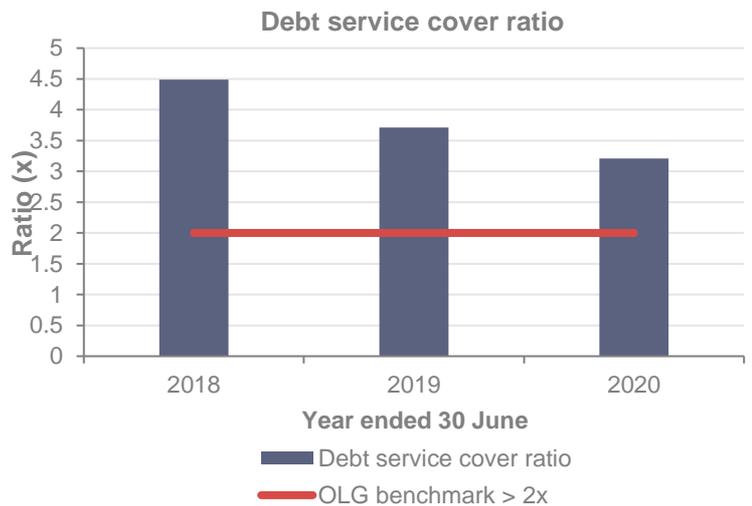
The Council exceeded the OLG benchmark for the current reporting period.



Debt service cover ratio

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

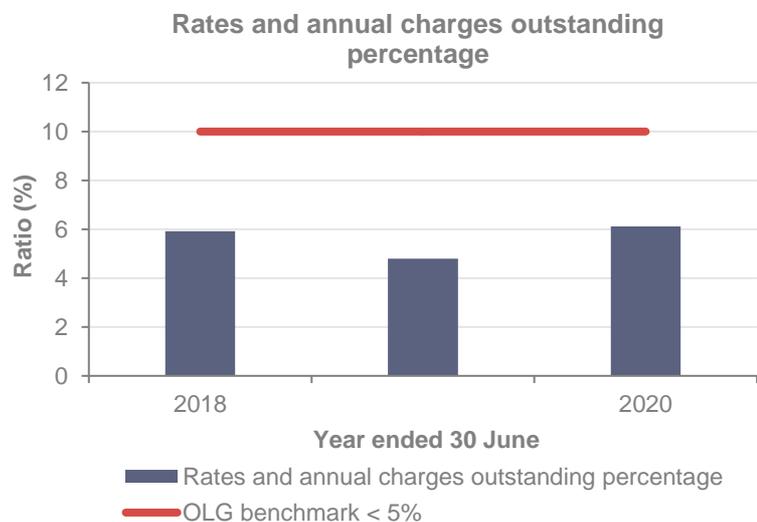
The Council exceeded the OLG benchmark for the current reporting period.



Rates and annual charges outstanding percentage

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

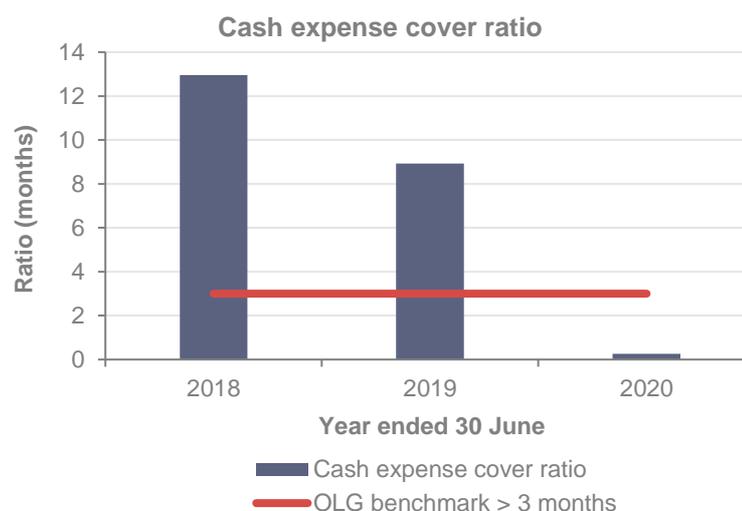
The Council result was within the OLG benchmark for the current reporting period. The Council rates and annual charges outstanding percentage increased due to the impact of COVID-19 on collections, which resulted in a \$0.4 million increase in arrears.



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 OLG is greater than three months.

The Council has changed its investment strategy to maximise interest returns, this has resulted in Council increasing the term deposits from three months to six months terms. Council manages its cashflow by having a term deposit mature every week.



Infrastructure, property, plant and equipment renewals

During the 30 June 2020 financial year, Council recognised \$14.2 million in additions renewals (30 June 2019: \$17.3 million). Council performed a revaluation of operational and community land, buildings – specialised, other structures, roads, bridges, footpaths, bulk earthworks and stormwater drainage infrastructure asset categories. This resulted in a revaluation increment of \$61.3 million.

OTHER MATTERS

Impact of new accounting standards

AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income for Not-for-Profit Entities'

The Council adopted the new accounting standards AASB 15 'Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' (collectively referred to as the Revenue Standards) for the first time in their 2019–20 financial statements.

AASB 15 introduces a new approach to recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 impacts the timing and amount of revenue recorded in a councils' financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

AASB 1058 prescribes how not-for-profit entities account for transactions conducted on non-commercial terms and the receipt of volunteer services. AASB 1058 significantly impacts the timing and amount of income recorded in a councils' financial statements, particularly for grant income and rates which are paid before the commencement of the rating period.

The Council recognised a \$0.13 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 17.

AASB 16 'Leases'

The Council adopted the new accounting standard AASB 16 'Leases' for the first time in their 2019–20 financial statements.

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right-of-use asset, with a corresponding lease liability.

AASB 16 results in lessees recording more assets and liabilities in the Statement of Financial Position and changes the timing and pattern of expenses recorded in the Income Statement.

The Council recognised right-of-use assets of \$0.03 million and lease liabilities of \$0.02 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 14.

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.



Chariee Bultitude
Delegate of the Auditor-General for New South Wales

cc: Mr Craig Butler, General Manager
Mr Neil Maltby, Audit, Risk and Improvement Committee, Chair

Lithgow City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2020



Special Purpose Financial Statements

for the year ended 30 June 2020

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

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).

Lithgow City Council

Special Purpose Financial Statements

for the year ended 30 June 2020

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

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

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

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

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

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

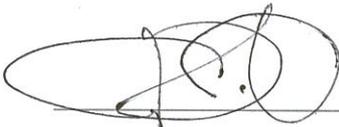
Signed in accordance with a resolution of Council made on 26 October 2020.



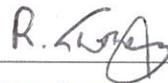
Raymond Thompson
Mayor
26 October 2020



Wayne McAndrew
Councillor
26 October 2020



Craig Butler
General Manager
26 October 2020



Ross Gurney
Responsible Accounting Officer
26 October 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	1,697	1,716
User charges	5,318	5,402
Fees	78	101
Interest	16	30
Grants and contributions provided for non-capital purposes	184	166
Other income	17	1
Total income from continuing operations	7,310	7,416
Expenses from continuing operations		
Employee benefits and on-costs	1,809	1,950
Borrowing costs	41	26
Materials and contracts	2,931	2,980
Depreciation, amortisation and impairment	1,676	1,608
Loss on sale of assets	127	4
Other expenses	229	237
Total expenses from continuing operations	6,813	6,805
Surplus (deficit) from continuing operations before capital amounts	497	611
Grants and contributions provided for capital purposes	31	21
Surplus (deficit) from continuing operations after capital amounts	528	632
Surplus (deficit) from all operations before tax	528	632
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(137)	(168)
SURPLUS (DEFICIT) AFTER TAX	391	464
Plus accumulated surplus	14,893	14,261
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	137	168
Closing accumulated surplus	15,421	14,893
Return on capital %	1.4%	1.7%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	391	464
Less: capital grants and contributions (excluding developer contributions)	(31)	(21)
Surplus for dividend calculation purposes	360	443
Potential dividend calculated from surplus	180	221

Income Statement – Sewerage Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	7,245	7,280
Liquid trade waste charges	78	42
Fees	50	37
Grants and contributions provided for non-capital purposes	179	157
Other income	1	–
Total income from continuing operations	7,553	7,516
Expenses from continuing operations		
Employee benefits and on-costs	1,876	1,572
Borrowing costs	467	485
Materials and contracts	2,094	1,461
Depreciation, amortisation and impairment	1,863	1,911
Loss on sale of assets	(4)	288
Other expenses	415	482
Total expenses from continuing operations	6,711	6,199
Surplus (deficit) from continuing operations before capital amounts	842	1,317
Grants and contributions provided for capital purposes	27	606
Surplus (deficit) from continuing operations after capital amounts	869	1,923
Surplus (deficit) from all operations before tax	869	1,923
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(232)	(362)
SURPLUS (DEFICIT) AFTER TAX	637	1,561
Plus accumulated surplus	35,448	33,525
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	232	362
Closing accumulated surplus	36,317	35,448
Return on capital %	1.7%	2.3%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	637	1,561
Less: capital grants and contributions (excluding developer contributions)	(27)	(606)
Surplus for dividend calculation purposes	610	955
Potential dividend calculated from surplus	305	477

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	974	1,486
Receivables	3,508	1,406
Inventories	288	268
Total current assets	4,770	3,160
Non-current assets		
Infrastructure, property, plant and equipment	38,087	36,993
Total non-current assets	38,087	36,993
TOTAL ASSETS	42,857	40,153
LIABILITIES		
Current liabilities		
Payables	449	144
Income received in advance	283	245
Borrowings	1,210	165
Total current liabilities	1,942	554
Non-current liabilities		
Borrowings	1,572	752
Total non-current liabilities	1,572	752
TOTAL LIABILITIES	3,514	1,306
NET ASSETS	39,343	38,847
EQUITY		
Accumulated surplus	15,657	15,131
Revaluation reserves	23,686	23,716
TOTAL EQUITY	39,343	38,847

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	142	7,307
Investments	7,400	–
Receivables	831	1,150
Inventories	23	23
Total current assets	8,396	8,480
Non-current assets		
Infrastructure, property, plant and equipment	77,440	77,840
Total non-current assets	77,440	77,840
TOTAL ASSETS	85,836	86,320
LIABILITIES		
Current liabilities		
Payables	163	73
Borrowings	534	1,122
Total current liabilities	697	1,195
Non-current liabilities		
Borrowings	9,978	11,547
Total non-current liabilities	9,978	11,547
TOTAL LIABILITIES	10,675	12,742
NET ASSETS	75,161	73,578
EQUITY		
Accumulated surplus	38,424	37,553
Revaluation reserves	36,737	36,025
TOTAL EQUITY	75,161	73,578

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

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 2093 (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 2020

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 2020

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 0.88% at 30/6/20.

(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 2020 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 Lithgow City Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Lithgow City Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activities declared by Council.

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity.

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 2020, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 28 (LG Code).

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to 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 2020 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.

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

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



Chariee Bultitude
Delegate of the Auditor-General for New South Wales

18 December 2020
SYDNEY

Lithgow City Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



Special Schedules

for the year ended 30 June 2020

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Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
Notional general income calculation ¹			
Last year notional general income yield	a	13,885	13,340
Plus or minus adjustments ²	b	3	35
Notional general income	c = a + b	13,888	13,375
Permissible income calculation			
Special variation percentage ³	d	0.00%	9.00%
Or rate peg percentage	e	2.60%	0.00%
Less expiring special variation amount	g	–	(637)
Plus special variation amount	h = d x (c + g)	–	1,146
Or plus rate peg amount	i = e x (c + g)	361	–
Special variation percentage			
Sub-total	k = (c + g + h + i + j)	14,249	13,884
Plus (or minus) last year's carry forward total	l	4	5
Sub-total	n = (l + m)	4	5
Total permissible income	o = k + n	14,253	13,889
Less notional general income yield	p	14,265	13,885
Catch-up or (excess) result	q = o – p	(11)	5
Carry forward to next year ⁶	t = q + r + s	(11)	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.



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 2021.

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 28 (LG Code), and is in accordance with the books and records of the Council.

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Council's annual report for the year ended 30 June 2020 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 2020.

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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



Chariee Bultitude
Delegate of the Auditor-General for New South Wales

18 December 2020
SYDNEY

Report on Infrastructure Assets as at 30 June 2020

Asset Class	Asset Category	Estimated cost		2019/20 Required maintenance ^a \$ '000	2019/20 Actual maintenance \$ '000	Net carrying amount \$ '000	Gross replacement cost (GRC) \$ '000	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard \$ '000	to bring to the agreed level of service set by Council \$ '000					1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
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	1,471	1,471	717	891	47,832	76,012	10.4%	30.8%	47.4%	11.1%	0.3%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	1,471	1,471	717	891	47,832	76,012	10.4%	30.8%	47.4%	11.1%	0.3%
Other structures	Other structures	231	231	1,378	1,599	18,290	26,762	29.9%	20.2%	46.8%	2.4%	0.8%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	231	231	1,378	1,599	18,290	26,762	29.9%	20.2%	46.8%	2.4%	0.8%
Roads	Sealed roads	1,517	1,517	1,747	1,112	240,341	317,450	6.6%	4.1%	87.3%	1.8%	0.3%
	Unsealed roads	135	135	1,880	1,588	18,520	24,331	8.9%	6.2%	82.5%	2.0%	0.4%
	Bridges	424	424	27	27	19,040	21,896	17.0%	29.0%	47.0%	7.0%	0.0%
	Footpaths	32	32	82	188	10,605	14,505	5.4%	1.9%	91.8%	0.7%	0.2%
	Other road assets	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Bulk earthworks	–	–	–	–	27,411	27,411	6.7%	4.2%	86.9%	1.8%	0.3%
	Other	–	–	–	–	2,882	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	2,108	2,108	3,736	2,915	318,799	405,593	7.2%	5.5%	85.0%	2.1%	0.3%
Water supply network	Water supply network	3,325	3,325	1,510	1,266	37,965	98,998	15.9%	7.6%	59.5%	16.1%	0.9%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	3,325	3,325	1,510	1,266	37,965	98,998	15.9%	7.6%	59.5%	16.1%	0.9%
Sewerage network	Sewerage network	2,187	2,187	1,429	1,109	76,873	122,392	40.3%	16.9%	34.8%	7.0%	1.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	2,187	2,187	1,429	1,109	76,873	122,392	40.3%	16.9%	34.8%	7.0%	1.0%
Stormwater drainage	Stormwater drainage	–	–	324	198	26,458	41,269	0.3%	0.0%	99.7%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	–	–	324	198	26,458	41,269	0.3%	0.0%	99.7%	0.0%	0.0%

Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

Asset Class	Asset Category	Estimated cost		2019/20 Required maintenance ^a	2019/20 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
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000					
Open space / recreational assets	Swimming pools	5	5	49	126	2,577	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	49	126	2,577	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%	0.0%
TOTAL - ALL ASSETS		9,327	9,327	9,143	8,104	528,794	773,836	14.6%	10.2%	69.3%	5.4%	0.5%

(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 2020

\$ '000	Amounts 2020	Indicator 2020	2019	Prior periods 2018 2017		Benchmark
Infrastructure asset performance indicators (consolidated) *						
Buildings and infrastructure renewals ratio ¹						
Asset renewals ²	12,778					
Depreciation, amortisation and impairment	11,599	110.16%	71.09%	86.97%	99.15%	>=100.00%
Infrastructure backlog ratio ¹						
Estimated cost to bring assets to a satisfactory standard	9,327					
Net carrying amount of infrastructure assets	528,794	1.76%	5.82%	6.04%	7.22%	<2.00%
Asset maintenance ratio						
Actual asset maintenance	8,104					
Required asset maintenance	9,143	88.64%	87.03%	74.89%	81.53%	>100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	9,327					
Gross replacement cost	773,836	1.21%	4.04%	4.23%	0.00%	

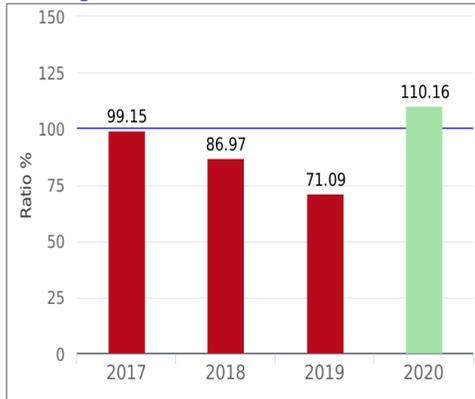
(*) All asset performance indicators are calculated using classes identified in the previous table.

(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 2020

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

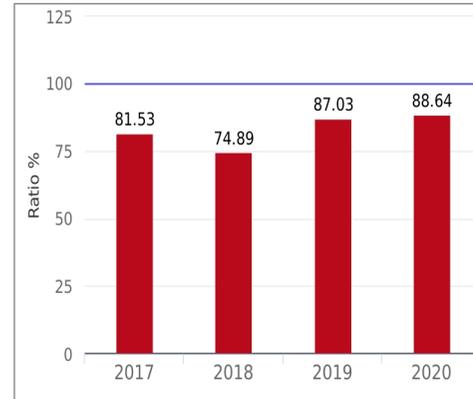
Commentary on result

19/20 ratio 110.16%

Council has performed above this benchmark, this attributable to number of significant waterfund capital works coming online.

Benchmark: — $\geq 100.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #28 ■ 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.

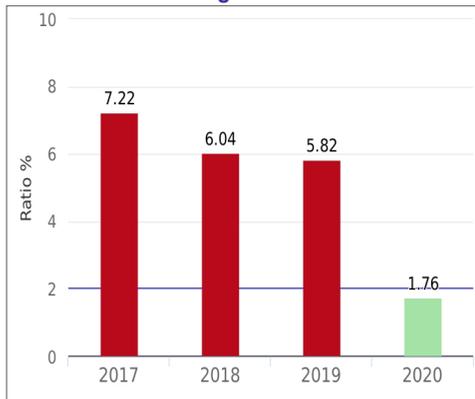
Commentary on result

19/20 ratio 88.64%

Council has under performed on this ratio due to resourcing issues and the impact of the drought and bushfires.

Benchmark: — $> 100.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #28 ■ 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.

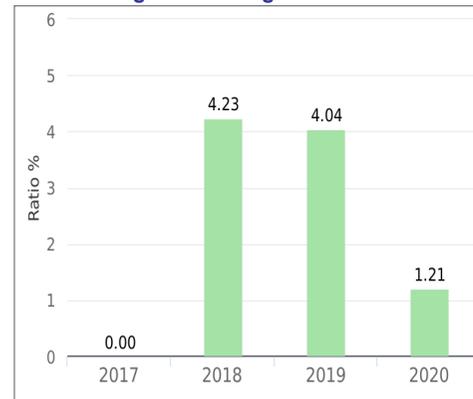
Commentary on result

19/20 ratio 1.76%

Council has achieved the benchmark for this ratio. This attributable to Council's renewals policy targeting condition score five and revaluation and updated conditions scores as Council implements the Technology One Asset Management module.

Benchmark: — $< 2.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #28 ■ 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

19/20 ratio 1.21%

Council has achieved the benchmark for this ratio. This attributable to Council's renewals policy targeting condition score five and revaluation and updated conditions scores as Council implements the Technology One Asset Management module

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2020	2019	2020	2019	2020	2019	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	66.48%	81.11%	407.89%	18.26%	36.24%	73.88%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	0.92%	6.08%	8.76%	10.11%	2.84%	2.81%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	92.34%	121.82%	83.84%	47.30%	77.61%	49.18%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	0.69%	4.73%	3.36%	3.55%	1.79%	1.80%	

(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.