



PORT STEPHENS
COUNCIL

Shine Bright



Port Stephens

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

**"A great lifestyle in a
treasured environment"**



General Purpose Financial Statements

for the year ended 30 June 2018

| Contents | Page |
|--|------|
| 1. Understanding Council's Financial Statements | 2 |
| 2. Statement by Councillors and Management | 3 |
| 3. Primary Financial Statements: | |
| – Income Statement | 4 |
| – Statement of Comprehensive Income | 5 |
| – Statement of Financial Position | 6 |
| – Statement of Changes in Equity | 7 |
| – Statement of Cash Flows | 8 |
| 4. Notes to the Financial Statements | 9 |
| 5. Independent Auditor's Reports: | |
| – On the Financial Statements (Sect 417 [2]) | 79 |
| – On the Conduct of the Audit (Sect 417 [3]) | |

Overview

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

116 Adelaide Street
Raymond Terrace NSW 2324

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

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2018

Understanding Council's financial statements

Introduction

Each year, individual local governments across New South Wales are required to present a set of audited financial statements to their council and community.

What you will find in the statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2018.

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

About the Councillor/Management Statement

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

About the primary financial statements

The financial statements incorporate five 'primary' financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses.

This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, Property, Plant and Equipment.

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

Council's annual financial statements are required to be audited by the NSW Audit Office. In NSW the auditor provides 2 audit reports:

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

Who uses the financial statements?

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

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

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

General Purpose Financial Statements for the year ended 30 June 2018

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

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

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

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

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

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


Signed in accordance with a resolution of Council made on 11 September 2018.



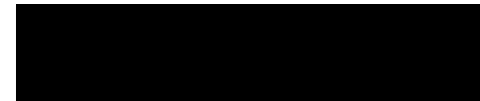
Ryan Palmer
Mayor
11 September 2018



Chris Doohan
Councillor
11 September 2018



Wayne Wallis
General Manager
11 September 2018



Tim Hazell
Responsible Accounting Officer
11 September 2018

Income Statement

for the year ended 30 June 2018

| Original unaudited budget 2018 | \$ '000 | Notes | Actual 2018 | Actual 2017 |
|--|---|-------|----------------|----------------|
| Income from continuing operations | | | | |
| <i>Revenue:</i> | | | | |
| 54,709 | Rates and annual charges | 3a | 55,287 | 53,415 |
| 38,984 | User charges and fees | 3b | 39,752 | 37,971 |
| 1,322 | Interest and investment revenue | 3c | 1,417 | 1,192 |
| 5,374 | Other revenues | 3d | 6,206 | 8,068 |
| 12,023 | Grants and contributions provided for operating purposes | 3e,f | 13,431 | 16,488 |
| 5,703 | Grants and contributions provided for capital purposes | 3e,f | 15,387 | 14,309 |
| <i>Other income:</i> | | | | |
| 250 | Net gains from the disposal of assets | 5 | 816 | 259 |
| 615 | Fair value increment on investment property | 10 | 4,799 | 525 |
| 118,980 | Total income from continuing operations | | 137,095 | 132,227 |
| Expenses from continuing operations | | | | |
| 42,123 | Employee benefits and on-costs | 4a | 43,104 | 41,795 |
| 903 | Borrowing costs | 4b | 679 | 714 |
| 39,940 | Materials and contracts | 4c | 40,980 | 36,275 |
| 15,235 | Depreciation and amortisation | 4d | 14,522 | 14,985 |
| 13,034 | Other expenses | 4e | 16,901 | 15,046 |
| – | Revaluation decrement / impairment of IPP&E | 4d | 573 | 696 |
| 111,235 | Total expenses from continuing operations | | 116,759 | 109,511 |
| 7,745 | Operating result from continuing operations | | 20,336 | 22,716 |
| 7,745 | Net operating result for the year | | 20,336 | 22,716 |
| 7,745 | Net operating result attributable to Council | | 20,336 | 22,716 |
| 2,042 | Net operating result for the year before grants and contributions provided for capital purposes | | 4,949 | 8,407 |

This statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

for the year ended 30 June 2018

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|---------------|----------------|
| Net operating result for the year (as per Income Statement) | | 20,336 | 22,716 |
| Other comprehensive income: | | | |
| Amounts that will not be reclassified subsequently to the operating result | | | |
| Gain (loss) on revaluation of IPP&E | 9 | 20,651 | (2,270) |
| Impairment (loss) reversal relating to IPP&E | 9 | – | 352 |
| Total items which will not be reclassified subsequently to the operating result | | 20,651 | (1,918) |
| Amounts that will be reclassified subsequently to the operating result when specific conditions are met | | | |
| Gain (loss) on revaluation of available for sale investments | | – | 48 |
| Total items which will be reclassified subsequently to the operating result when specific conditions are met | | – | 48 |
| Total other comprehensive income for the year | | 20,651 | (1,870) |
| Total comprehensive income for the year | | 40,987 | 20,846 |
| Total comprehensive income attributable to Council | | 40,987 | 20,846 |

This statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2018

| \$ '000 | Notes | 2018 | Restated 2017 | Restated 1 July 2016 |
|---|-------|------------------|------------------|-------------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 6a | 9,828 | 8,093 | 7,735 |
| Investments | 6b | 40,209 | 40,402 | 25,911 |
| Receivables | 7 | 9,068 | 9,659 | 12,761 |
| Inventories | 8 | 5,849 | 14,313 | 12,277 |
| Other | 8 | 426 | 435 | 513 |
| Total current assets | | 65,380 | 72,902 | 59,197 |
| Non-current assets | | | | |
| Investments | 6b | 1,033 | 231 | 244 |
| Receivables | 7 | 190 | 176 | 199 |
| Inventories | 8 | 16,622 | 9,241 | 8,077 |
| Infrastructure, property, plant and equipment | 9 | 930,630 | 890,274 | 884,162 |
| Investment property | 10 | 31,467 | 26,000 | 21,500 |
| Intangible assets | 11 | 1,184 | 1,196 | 1,398 |
| Other | 8 | 8 | 10 | – |
| Total non-current assets | | 981,134 | 927,128 | 915,580 |
| TOTAL ASSETS | | 1,046,514 | 1,000,030 | 974,777 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Payables | 12 | 11,167 | 9,322 | 7,443 |
| Income received in advance | 12 | 260 | 605 | 245 |
| Borrowings | 12 | 3,460 | 2,837 | 3,014 |
| Provisions | 13 | 17,220 | 15,409 | 14,797 |
| Total current liabilities | | 32,107 | 28,173 | 25,499 |
| Non-current liabilities | | | | |
| Payables | 12 | 8 | 8 | 7 |
| Income received in advance | 12 | 4,798 | 4,884 | 5,145 |
| Borrowings | 12 | 20,371 | 18,721 | 16,698 |
| Provisions | 13 | 531 | 532 | 562 |
| Total non-current liabilities | | 25,708 | 24,145 | 22,412 |
| TOTAL LIABILITIES | | 57,815 | 52,318 | 47,911 |
| Net assets | | 988,699 | 947,712 | 926,866 |
| EQUITY | | | | |
| Accumulated surplus | 14 | 588,281 | 567,409 | 543,738 |
| Revaluation reserves | 14 | 400,418 | 380,303 | 383,128 |
| Total equity | | 988,699 | 947,712 | 926,866 |

This statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
for the year ended 30 June 2018

| | Notes | 2018 | | | | Restated 2017 | | | | | |
|--|--------|---------------------|----------------------|------------------------------------|----------------|---------------------|----------------------|----------------|--------------|------------------------------------|----------------|
| | | Accumulated surplus | Revaluation reserves | | Total equity | Accumulated surplus | Revaluation reserves | | Total equity | | |
| | | | IPP&E | Available - for - sale investments | | | Total | IPP&E | | Available - for - sale investments | Total |
| Opening balance | | 567,409 | 380,303 | - | 380,303 | 947,712 | 543,738 | 353,628 | (48) | 353,580 | 897,318 |
| Correction of prior period errors | 14 (b) | - | - | - | - | - | - | 29,548 | - | 29,548 | 29,548 |
| Restated opening balance | | 567,409 | 380,303 | - | 380,303 | 947,712 | 543,738 | 383,176 | (48) | 383,128 | 926,866 |
| Net operating result for the year | | 20,336 | - | - | - | 20,336 | 22,716 | - | - | - | 22,716 |
| Other comprehensive income | | | | | | | | | | | |
| - Gain (loss) on revaluation of IPP&E | 9 | - | 20,651 | - | 20,651 | 20,651 | - | (2,270) | - | (2,270) | (2,270) |
| - Gain (loss) on revaluation of available-for-sale investments | | - | - | - | - | - | - | - | 48 | 48 | 48 |
| - Impairment (loss) reversal relating to IPP&E | 9 | - | - | - | - | - | - | 352 | - | 352 | 352 |
| Other comprehensive income | | - | 20,651 | - | 20,651 | 20,651 | - | (1,918) | 48 | (1,870) | (1,870) |
| Total comprehensive income (c&d) | | 20,336 | 20,651 | - | 20,651 | 40,987 | 22,716 | (1,918) | 48 | (1,870) | 20,846 |
| Transfers between equity items | | 536 | (536) | - | (536) | - | 955 | (955) | - | (955) | - |
| Equity – balance at end of the reporting period | | 588,281 | 400,418 | - | 400,418 | 988,699 | 567,409 | 380,303 | - | 380,303 | 947,712 |

This statement should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2018

| Original unaudited budget 2018 | \$ '000 | Notes | Actual 2018 | Actual 2017 |
|---|--|-------|----------------|----------------|
| Cash flows from operating activities | | | | |
| Receipts: | | | | |
| 54,333 | Rates and annual charges | | 55,080 | 53,302 |
| 38,984 | User charges and fees | | 40,774 | 41,215 |
| 1,322 | Investment and interest revenue received | | 1,239 | 1,137 |
| 15,726 | Grants and contributions | | 22,779 | 24,940 |
| – | Bonds, deposits and retention amounts received | | 62 | 101 |
| 5,373 | Other | | 12,202 | 14,395 |
| Payments: | | | | |
| (42,290) | Employee benefits and on-costs | | (44,132) | (41,789) |
| (39,595) | Materials and contracts | | (44,308) | (39,809) |
| (903) | Borrowing costs | | (674) | (669) |
| (8,388) | Other | | (16,045) | (16,282) |
| 24,562 | Net cash provided (or used in) operating activities | 15b | 26,977 | 36,541 |
| Cash flows from investing activities | | | | |
| Receipts: | | | | |
| – | Sale of investment securities | | 70,600 | 85,152 |
| – | Sale of real estate assets | | 5,460 | – |
| 250 | Sale of infrastructure, property, plant and equipment | | 984 | 1,564 |
| – | Deferred debtors receipts | | 14 | 11 |
| Payments: | | | | |
| – | Purchase of investment securities | | (71,209) | (99,582) |
| – | Purchase of investment property | | (41) | (115) |
| (26,384) | Purchase of infrastructure, property, plant and equipment | | (29,966) | (22,408) |
| – | Purchase of real estate assets | | (2,957) | (2,249) |
| – | Purchase of intangible assets | | (395) | (357) |
| (26,134) | Net cash provided (or used in) investing activities | | (27,510) | (37,984) |
| Cash flows from financing activities | | | | |
| Receipts: | | | | |
| 6,000 | Proceeds from borrowings and advances | | 8,000 | 4,870 |
| – | Proceeds from finance leases | | – | (1) |
| Payments: | | | | |
| (2,808) | Repayment of borrowings and advances | | (5,732) | (3,029) |
| – | Repayment of finance lease liabilities | | – | (39) |
| 3,192 | Net cash flow provided (used in) financing activities | | 2,268 | 1,801 |
| 1,620 | Net increase/(decrease) in cash and cash equivalents | | 1,735 | 358 |
| 13,533 | Plus: cash and cash equivalents – beginning of year | 15a | 8,093 | 7,735 |
| | Cash and cash equivalents – end of the year | 15a | 9,828 | 8,093 |
| Additional Information: | | | | |
| 26,155 | plus: Investments on hand – end of year | 6b | 41,242 | 40,633 |
| 41,308 | Total cash, cash equivalents and investments | | 51,070 | 48,726 |

This statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

| Note | Details | Page |
|---|---|------|
| 1 | Basis of preparation | 10 |
| 2(a) | Council functions/activities – financial information | 14 |
| 2(b) | Council functions/activities – component descriptions | 15 |
| 3 | Income from continuing operations | 16 |
| 4 | Expenses from continuing operations | 23 |
| 5 | Gains or losses from the disposal of assets | 27 |
| 6(a) | Cash and cash equivalent assets | 27 |
| 6(b) | Investments | 28 |
| 6(c) | Restricted cash, cash equivalents and investments – details | 29 |
| 7 | Receivables | 30 |
| 8 | Inventories and other assets | 31 |
| 9 | Infrastructure, property, plant and equipment | 33 |
| 10 | Investment property | 36 |
| 11 | Intangible assets | 37 |
| 12 | Payables and borrowings | 38 |
| 13 | Provisions | 41 |
| 14 | Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors | 44 |
| 15 | Statement of cash flows – additional information | 46 |
| 16 | Interests in other entities | 47 |
| 17 | Commitments for expenditure | 49 |
| 18 | Contingencies and other liabilities/assets not recognised | 50 |
| 19 | Financial risk management | 55 |
| 20 | Material budget variations | 59 |
| 21 | Fair value measurement | 61 |
| 22 | Related party transactions | 67 |
| 23 | Statement of developer contributions | 71 |
| 24 | Statement of performance measures – consolidated results | 77 |
| Additional council disclosures (unaudited) | | |
| 25 | Council information and contact details | 78 |

n/a – not applicable

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 11/09/2018.

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

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

Basis of preparation

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

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

Rounded dollars have been used in Note 22 Related party disclosures in relation to the disclosure of specific related party transactions.

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

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

- Income statement
- Statement of cash flows
- Note 20 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

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

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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 10,
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 9,
- (iii) estimated tip remediation provisions – refer Note 13,
- (iv) employee benefit provisions – refer Note 13.

Significant judgements in applying the Council's accounting policies

- (v) Impairment of receivables

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

Monies and other assets received by Council

- (a) The Consolidated Fund

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

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

- General Purpose Operations
- Newcastle Airport Partnership & Newcastle Airport Pty Limited
- Section 355 Committees

Strategic Services Australia Limited has not been consolidated as it is immaterial to The Consolidated Fund. All interest in Strategic Services Australia Limited has been disclosed in Note 19.

- (b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993* (NSW) (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies. At this point in time Council does not hold any Trust monies or properties.

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.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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

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

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

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

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

- *AASB 9 Financial Instruments*

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

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

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

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

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

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

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

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

- *AASB 16 Leases*

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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

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

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

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

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

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

| Functions/activities | Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b). | | | | | | | | | |
|--|--|----------------|-------------------------------------|----------------|---|---------------|--|---------------|---|------------------|
| | Income from continuing operations | | Expenses from continuing operations | | Operating result from continuing operations | | Grants included in income from continuing operations | | Total assets held (current and non-current) | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Governance | 162 | 233 | 3,138 | 2,796 | (2,977) | (2,563) | – | – | 8,958 | 9,071 |
| Administration | 6,930 | 4,041 | 23,938 | 21,774 | (17,007) | (17,733) | 9 | 25 | 98,756 | 97,857 |
| Public Order and Safety | 1,952 | 2,577 | 4,741 | 4,497 | (2,790) | (1,920) | 1,100 | 1,055 | 10,627 | 7,067 |
| Health | 393 | 645 | 577 | 588 | (184) | 57 | (3) | – | – | – |
| Environment | 20,172 | 18,742 | 22,238 | 20,411 | (2,067) | (1,669) | 1,669 | 1,378 | – | – |
| Community services and education | 2,314 | 2,199 | 2,739 | 2,877 | (425) | (678) | 481 | 417 | 11,965 | 11,500 |
| Housing and Community Amenities | 1,294 | 936 | 4,869 | 4,309 | (3,575) | (3,373) | – | – | 206,596 | 200,175 |
| Recreation and Culture | 5,835 | 4,355 | 8,828 | 8,556 | (2,993) | (4,201) | 826 | 442 | 134,092 | 124,122 |
| Mining, Manufacturing and Construction | 1,726 | 1,911 | 1,744 | 1,895 | (18) | 16 | – | – | – | – |
| Transport and Communication | 31,338 | 31,754 | 28,243 | 27,046 | 3,096 | 4,708 | 2,480 | 4,035 | 463,675 | 447,424 |
| Economic Affairs | 16,977 | 15,415 | 15,704 | 14,762 | 1,274 | 653 | 742 | 631 | 111,845 | 102,181 |
| General purpose income | 48,002 | 49,419 | – | – | 48,002 | 49,419 | 7,217 | 10,033 | – | – |
| Total functions and activities | 137,095 | 132,227 | 116,759 | 109,511 | 20,336 | 22,716 | 14,521 | 18,016 | 1,046,514 | 1,000,030 |

Notes to the Financial Statements

for the year ended 30 June 2018

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

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

Governance

Includes costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meeting of Council and policy-making committees, public disclosure (e.g. GIPA), and legislative compliance.

Administration

Includes corporate support and other support services, engineering works, and any Council policy compliance.

Public Order and Safety

Includes Council's fire and emergency services levy, fire protection, emergency services, beach control, enforcement of regulations and animal control.

Health

Includes immunisation, food control, health centres etc.

Environment

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

Community services and education

Includes administration and education; social protection (welfare); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's' services, including family day care; child care; and other family and children services.

Housing and Community Amenities

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

Recreation and Culture

Includes public libraries; museums; art galleries; community centres and halls, including public halls and performing arts venues; sporting grounds and venues; swimming pools; parks; gardens; lakes; and other sporting, recreational and cultural services.

Mining, Manufacturing and Construction

Includes building control, quarries and pits, mineral resources, and abattoirs.

Transport and Communication

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

Economic Affairs

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations

| \$ '000 | 2018 | 2017 |
|--|----------------------|----------------------|
| (a) Rates and annual charges | | |
| Ordinary rates | | |
| Residential | 31,259 | 30,300 |
| Farmland | 795 | 836 |
| Business | 7,589 | 7,313 |
| Total ordinary rates | 39,643 | 38,449 |
| Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611) | | |
| Domestic waste management services | 12,961 | 12,303 |
| Waste management services (non-domestic) | 2,664 | 2,654 |
| Section 611 charges | 19 | 9 |
| Total annual charges | 15,644 | 14,966 |
| <u>TOTAL RATES AND ANNUAL CHARGES</u> | <u>55,287</u> | <u>53,415</u> |

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

Accounting policy for rates and annual charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 2017 |
|---|---------------|---------------|
| (b) User charges and fees | | |
| Specific user charges (per s.502 – specific 'actual use' charges) | | |
| Waste management services (non-domestic) | 1,474 | 1,342 |
| Total specific user charges | 1,474 | 1,342 |
| Other user charges and fees | | |
| (i) Fees and charges – statutory and regulatory functions (per s.608) | | |
| Building inspection fees | 309 | 355 |
| Building services | 1,070 | 1,060 |
| Private works – section 67 | 167 | 169 |
| Shop inspection fees | 176 | 175 |
| Section 149 certificates (EPA Act) | 216 | 232 |
| Section 603 certificates | 179 | 188 |
| Subdivision fees | 247 | 230 |
| Total fees and charges – statutory/regulatory | 2,364 | 2,409 |
| (ii) Fees and charges – other (incl. general user charges (per s.608)) | | |
| Animal control | 49 | 59 |
| Cemeteries | 167 | 164 |
| Child care | 1,477 | 1,349 |
| Fire and emergency services levy (FESL) implementation | 4 | 122 |
| Holiday parks | 11,075 | 10,636 |
| Leisure centre | 87 | 84 |
| Library | 118 | 114 |
| Newcastle airport partnership | 15,125 | 14,139 |
| Parking meters | 606 | 490 |
| Parks, gardens and other community services | 1 | 8 |
| RMS (formerly RTA) charges (state roads not controlled by Council) | 4,687 | 4,747 |
| Sewerage management fees | 572 | 569 |
| Telecentre | – | 17 |
| Waste disposal tipping fees | 424 | 307 |
| Other | 1,522 | 1,415 |
| Total fees and charges – other | 35,914 | 34,220 |
| TOTAL USER CHARGES AND FEES | 39,752 | 37,971 |

Accounting policy for user charges and fees

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 2017 |
|--|---------------------|---------------------|
| (c) Interest and investment revenue (including losses) | | |
| Interest | | |
| – Overdue rates and annual charges (incl. special purpose rates) | 162 | 153 |
| – Cash and investments | 924 | 717 |
| – Newcastle airport partnership | 331 | 320 |
| Other | – | 2 |
| <u>TOTAL INTEREST AND INVESTMENT REVENUE</u> | <u>1,417</u> | <u>1,192</u> |
| Interest revenue is attributable to: | | |
| Unrestricted investments/financial assets: | | |
| Overdue rates and annual charges (general fund) | 162 | 153 |
| General Council cash and investments | 662 | 490 |
| Restricted investments/funds – external: | | |
| Development contributions | | |
| – Section 7.11 | 262 | 229 |
| Newcastle airport partnership | 331 | 320 |
| <u>Total interest and investment revenue recognised</u> | <u>1,417</u> | <u>1,192</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 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|---------------------|---------------------|
| (d) Other revenues | | | |
| Rental income – investment property | 10 | 2,718 | 2,653 |
| Rental income – other council properties | | 490 | 497 |
| Ex gratia rates | | 60 | 65 |
| Fines – parking | | 224 | 260 |
| Fines – other | | 249 | 312 |
| Legal fees recovery – rates and charges (extra charges) | | 111 | 163 |
| Legal fees recovery – other | | 61 | 64 |
| Commissions and agency fees | | 230 | 196 |
| Emergency relief | | 699 | 1,889 |
| Events and promotions | | 107 | 71 |
| Insurance claim recoveries | | 158 | 542 |
| Long service leave receipts | | 134 | 55 |
| Private works | | 307 | 400 |
| Other | | 658 | 901 |
| <u>TOTAL OTHER REVENUE</u> | | <u>6,206</u> | <u>8,068</u> |

Accounting policy for other revenue

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 Operating | 2017 Operating | 2018 Capital | 2017 Capital |
|--|-------------------|-------------------|-----------------|-----------------|
| (e) Grants | | | | |
| General purpose (untied) | | | | |
| Current year allocation | | | | |
| Financial assistance | 3,279 | 6,237 | – | – |
| Payment in advance – future year allocation | | | | |
| Financial assistance | 3,373 | 3,218 | – | – |
| Other | | | | |
| Pensioners' rates subsidies – general component | 565 | 578 | – | – |
| Total general purpose | 7,217 | 10,033 | – | – |
| Specific purpose | | | | |
| Pensioners' rates subsidies: | | | | |
| – Domestic waste management | 245 | 242 | – | – |
| Bushfire and emergency services | 1,110 | 1,179 | 20 | – |
| Child care | 173 | 191 | – | – |
| Environmental protection | 519 | 670 | – | – |
| Family day care | 129 | 118 | – | – |
| Flood restoration | – | – | 567 | 72 |
| Heritage and cultural | – | 10 | – | – |
| Horticultural heritage trust | 6 | 30 | – | – |
| Library | 208 | 195 | 89 | 112 |
| LIRS subsidy | 67 | 76 | – | – |
| Newcastle airport partnership | – | – | 262 | 261 |
| Recreation and culture | 22 | 3 | 1,138 | 603 |
| Street lighting | 72 | 71 | – | – |
| Transport (roads to recovery) | 1,109 | 1,168 | – | – |
| Transport | – | 501 | 1,193 | 2,218 |
| Youth development | 73 | 74 | – | – |
| Weed control | 143 | 91 | – | – |
| Other | 20 | 67 | 139 | 31 |
| Total specific purpose | 3,896 | 4,686 | 3,408 | 3,297 |
| Total grants | 11,113 | 14,719 | 3,408 | 3,297 |
| Grant revenue is attributable to: | | | | |
| – Commonwealth funding | 8,149 | 11,842 | 433 | – |
| – State funding | 2,942 | 2,877 | 2,975 | 3,297 |
| – Other funding | 22 | – | – | – |
| | 11,113 | 14,719 | 3,408 | 3,297 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | 2018 Operating | 2017 Operating | 2018 Capital | 2017 Capital |
|---|-------|-------------------|-------------------|-----------------|-----------------|
| (f) Contributions | | | | | |
| Developer contributions: | | | | | |
| (s7.4 & s7.11 – EP&A Act, s64 of the LGA): | | | | | |
| Cash contributions | | | | | |
| S 7.11 – contributions towards amenities/services | | 868 | 459 | 4,936 | 2,993 |
| Total developer contributions – cash | | 868 | 459 | 4,936 | 2,993 |
| Total developer contributions | 23 | 868 | 459 | 4,936 | 2,993 |
| Other contributions: | | | | | |
| Cash contributions | | | | | |
| Bushfire services | | – | – | 329 | 910 |
| Economic development and tourism | | 38 | 29 | – | – |
| Environmental projects | | 145 | 164 | – | – |
| Parking | | – | – | 46 | – |
| Recreation and culture | | 5 | – | 25 | 229 |
| Risk management | | 232 | 103 | – | – |
| RMS contributions (regional roads, block grant) | | 1,027 | 1,014 | – | – |
| Other | | 3 | – | – | – |
| Total other contributions – cash | | 1,450 | 1,310 | 400 | 1,139 |
| Non-cash contributions | | | | | |
| Dedications – subdivisions (other than by s7.11) | | – | – | 6,643 | 6,880 |
| Total other contributions – non-cash | | – | – | 6,643 | 6,880 |
| Total other contributions | | 1,450 | 1,310 | 7,043 | 8,019 |
| Total contributions | | 2,318 | 1,769 | 11,979 | 11,012 |
| TOTAL GRANTS AND CONTRIBUTIONS | | 13,431 | 16,488 | 15,387 | 14,309 |

Accounting policy for contributions

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 2017 |
|--|---------------|---------------|
| (g) Unspent grants and contributions | | |
| Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner: | | |
| Operating grants | | |
| Unexpended at the close of the previous reporting period | 124 | 371 |
| Add: operating grants received for the provision of goods and services in a future period | 37 | – |
| Less: operating grants recognised in a previous reporting period now spent | (24) | (247) |
| Unexpended and held as restricted assets (operating grants) | <u>137</u> | <u>124</u> |
| Capital grants | | |
| Unexpended at the close of the previous reporting period | 144 | 264 |
| Add: capital grants recognised in the current period but not yet spent | – | – |
| Add: capital grants received for the provision of goods and services in a future period | – | – |
| Less: capital grants recognised in a previous reporting period now spent | (4) | (120) |
| Unexpended and held as restricted assets (capital grants) | <u>140</u> | <u>144</u> |
| Contributions | | |
| Unexpended at the close of the previous reporting period | 15,333 | 13,933 |
| Add: contributions recognised in the current period but not yet spent | 154 | 1,400 |
| Add: contributions received for the provision of goods and services in a future period | – | – |
| Less: contributions recognised in a previous reporting period now spent | – | – |
| Unexpended and held as restricted assets (contributions) | <u>15,487</u> | <u>15,333</u> |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

| \$ '000 | 2018 | 2017 |
|--|---------------|---------------|
| (a) Employee benefits and on-costs | | |
| Salaries and wages | 28,950 | 28,352 |
| Salaries and wages – Newcastle airport partnership | 2,798 | 2,429 |
| Travel and other allowances | 2,407 | 2,386 |
| Employee leave entitlements (ELE) | 7,220 | 6,784 |
| Superannuation | 3,772 | 3,724 |
| Workers' compensation insurance | 672 | 644 |
| Fringe benefit tax (FBT) | 36 | 29 |
| Training costs (other than salaries and wages) | 607 | 393 |
| Protective clothing | 173 | 131 |
| Conferences | 131 | 137 |
| Corporate uniform | 10 | 1 |
| Occupational health and safety | 32 | 31 |
| Other | 22 | 23 |
| Total employee costs | 46,830 | 45,064 |
| Less: capitalised costs | (3,726) | (3,269) |
| TOTAL EMPLOYEE COSTS EXPENSED | 43,104 | 41,795 |

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 18 for more information.

| (b) Borrowing costs | 2018 | 2017 |
|--|------------|------------|
| (i) Interest bearing liability costs | | |
| Interest on overdraft | 2 | – |
| Interest on loans | 576 | 527 |
| Interest – Newcastle airport partnership | 200 | 234 |
| Total interest bearing liability costs | 778 | 761 |
| Less: capitalised costs | (104) | (92) |
| Total interest bearing liability costs expensed | 674 | 669 |
| (ii) Other borrowing costs | | |
| Interest applicable on interest free (and favourable) loans to Council | 5 | 45 |
| Total other borrowing costs | 5 | 45 |
| TOTAL BORROWING COSTS EXPENSED | 679 | 714 |

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.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

| \$ '000 | 2018 | 2017 |
|--|----------------------|----------------------|
| (c) Materials and contracts | | |
| Raw materials and consumables | 7,634 | 6,917 |
| Contractor and consultancy costs | | |
| – Waste collection and disposal contract | 11,100 | 10,844 |
| – Other contractor and consultancy costs | 18,656 | 16,958 |
| Auditors remuneration ⁽²⁾ | 137 | 115 |
| Legal expenses: | | |
| – Legal expenses | 2,779 | 651 |
| Operating leases: | | |
| – Operating lease rentals: minimum lease payments ⁽¹⁾ | 521 | 681 |
| Other | 153 | 109 |
| <u>TOTAL MATERIALS AND CONTRACTS</u> | <u>40,980</u> | <u>36,275</u> |

Operating leases

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

1. Operating lease payments are attributable to:

| | | |
|-----------|-------------------|-------------------|
| Computers | 521 | 681 |
| | <u>521</u> | <u>681</u> |

2. Auditor remuneration

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

Auditors of the Council – NSW Auditor-General:

(i) Audit and other assurance services

| | | |
|--|------------------|------------------|
| Audit and review of financial statements | 76 | 75 |
| Remuneration for audit and other assurance services | <u>76</u> | <u>75</u> |

Total Auditor-General remuneration

| | |
|------------------|------------------|
| <u>76</u> | <u>75</u> |
|------------------|------------------|

Non NSW Auditor-General audit firms:

(i) Audit and other assurance services

| | | |
|--|------------------|------------------|
| Internal audit services: PKF Lawler | 61 | 40 |
| Remuneration for audit and other assurance services | <u>61</u> | <u>40</u> |

Total remuneration of non NSW Auditor-General audit firms

| | |
|------------------|------------------|
| <u>61</u> | <u>40</u> |
|------------------|------------------|

Total Auditor remuneration

| | |
|-------------------|-------------------|
| <u>137</u> | <u>115</u> |
|-------------------|-------------------|

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|---------------|---------------|
| (d) Depreciation, amortisation and impairment | | | |
| Depreciation and amortisation | | | |
| Plant and equipment | | 1,424 | 1,822 |
| Office equipment | | 277 | 192 |
| Furniture and fittings | | 18 | 34 |
| Land improvements (depreciable) | | 25 | 18 |
| Infrastructure: | | | |
| – Buildings – specialised | | 4,892 | 5,144 |
| – Other structures | | 317 | 234 |
| – Roads | | 2,710 | 2,649 |
| – Bridges | | 12 | 12 |
| – Footpaths | | 119 | 119 |
| – Stormwater drainage | | 191 | 188 |
| – Swimming pools | | 309 | 307 |
| – Other open space/recreational assets | | 846 | 827 |
| – Other infrastructure | | 314 | 268 |
| Other assets: | | | |
| – Heritage collections | | 2 | 2 |
| – Library books | | 127 | 127 |
| – Car parks | | 523 | 518 |
| – Newcastle airport partnership | | 1,824 | 1,784 |
| – Other | | 186 | 192 |
| Intangible assets | 12 | 406 | 548 |
| Total depreciation and amortisation costs | | 14,522 | 14,985 |
| Impairment / revaluation decrement of IPP&E | | | |
| Land | | 573 | – |
| Infrastructure: | | | |
| – Buildings – specialised | | – | 696 |
| Total IPP&E impairment / revaluation decrement costs / (reversals) | | 573 | 696 |
| TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED | | 15,095 | 15,681 |

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets and Note 11 for intangible assets.

Impairment of non-financial assets

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

| \$ '000 | 2018 | 2017 |
|--|---------------|---------------|
| (e) Other expenses | | |
| Bad and doubtful debts | 3 | 10 |
| Bank charges | 263 | 247 |
| Contributions/levies to other levels of government | | |
| – Lands department levy (holiday parks) | 514 | 365 |
| – NSW rural fire service levy | 476 | 464 |
| – Waste levy | 1,758 | 1,773 |
| Councillor expenses – mayoral fee | 61 | 60 |
| Councillor expenses – councillors' fees | 173 | 170 |
| Councillors' expenses (incl. mayor) – other (excluding fees above) | 109 | 68 |
| Donations, contributions and assistance to other organisations (Section 356) | 951 | 936 |
| Election expenses | 431 | – |
| Electricity and heating | 1,616 | 1,318 |
| Insurance | 1,540 | 1,693 |
| Memberships | 112 | 149 |
| Newcastle airport partnership | 7,100 | 6,139 |
| Street lighting | 1,182 | 1,063 |
| Telephone and communications | 291 | 284 |
| Other | 321 | 307 |
| Total other expenses | 16,901 | 15,046 |
| TOTAL OTHER EXPENSES | 16,901 | 15,046 |

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 2018

Note 5. Gains or losses from the disposal of assets

| \$ '000 | Notes | 2018 | 2017 |
|--|-------|----------------|-------------|
| Property (excl. investment property) | 9 | | |
| Proceeds from disposal – property | | 300 | 1,295 |
| Less: carrying amount of property assets sold/written off | | (214) | (942) |
| Net gain/(loss) on disposal | | 86 | 353 |
| Plant and equipment | 9 | | |
| Proceeds from disposal – plant and equipment | | 684 | 221 |
| Less: carrying amount of plant and equipment assets sold/written off | | (1,980) | (257) |
| Net gain/(loss) on disposal | | (1,296) | (37) |
| Newcastle airport partnership | 9 | | |
| Proceeds from disposal – infrastructure | | – | 49 |
| Less: carrying amount of infrastructure assets sold/written off | | (22) | (107) |
| Net gain/(loss) on disposal | | (22) | (58) |
| Real estate assets held for sale | 8 | | |
| Proceeds from disposal – real estate assets | | 5,460 | – |
| Less: carrying amount of real estate assets sold/written off | | (3,412) | – |
| Net gain/(loss) on disposal | | 2,048 | – |
| Financial assets | 6 | | |
| Proceeds from disposal/redemptions/maturities – financial assets | | 70,600 | 42,576 |
| Less: carrying amount of financial assets sold/redeemed/matured | | (70,600) | (42,576) |
| Net gain/(loss) on disposal | | – | – |
| NET GAIN/(LOSS) ON DISPOSAL OF ASSETS | | 816 | 259 |

Accounting policy for disposal of assets

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

Note 6(a). Cash and cash equivalent assets

| | | | |
|--|--|--------------|--------------|
| Cash and cash equivalents | | | |
| Cash on hand and at bank | | 9,828 | 5,093 |
| Cash-equivalent assets | | | |
| – Short-term deposits | | – | 3,000 |
| Total cash and cash equivalents | | 9,828 | 8,093 |

Accounting policy for cash and cash equivalents

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(b). Investments

| \$ '000 | 2018 | | 2017 | |
|--|---------------|--------------|---------------|-------------|
| | Current | Non-current | Current | Non-current |
| Investments | | | | |
| a. 'Held to maturity' | 40,209 | 1,033 | 40,402 | 231 |
| Total investments | 40,209 | 1,033 | 40,402 | 231 |
| TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS | 50,037 | 1,033 | 48,495 | 231 |
| Held to maturity investments | | | | |
| Long term deposits | 40,209 | 1,033 | 40,402 | 231 |
| Total | 40,209 | 1,033 | 40,402 | 231 |

Accounting policy for investments

Classification

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

(a) Held to maturity investments

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

Recognition and de-recognition

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

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

| \$ '000 | 2018 | | 2017 | |
|--|---------------|--------------|---------------|-------------|
| | Current | Non-current | Current | Non-current |
| Total cash, cash equivalents and investments | 50,037 | 1,033 | 48,495 | 231 |
| attributable to: | | | | |
| External restrictions (refer below) | 25,684 | 1,033 | 25,222 | 231 |
| Internal restrictions (refer below) | 24,353 | – | 23,273 | – |
| | 50,037 | 1,033 | 48,495 | 231 |

| \$ '000 | 2018 | 2017 |
|---------|------|------|
|---------|------|------|

Details of restrictions

External restrictions – included in liabilities

| | | |
|--|------------|------------|
| Deferred revenue | – | 198 |
| Deposits, retentions and bonds | 818 | 756 |
| External restrictions – included in liabilities | 818 | 954 |

External restrictions – other

| | | |
|--------------------------------------|---------------|---------------|
| Developer contributions – general | 15,487 | 15,333 |
| Specific purpose unexpended grants | 277 | 268 |
| Domestic waste management | 6,493 | 6,007 |
| Carparking meters crown lands | 558 | 653 |
| Crown holiday parks | 3,085 | 2,238 |
| External restrictions – other | 25,899 | 24,499 |
| Total external restrictions | 26,717 | 25,453 |

Internal restrictions

| | | |
|--------------------------------------|---------------|---------------|
| Asset rehabilitation | 407 | 174 |
| Drainage reserve | – | 204 |
| Election reserve | 100 | 400 |
| Federal assistance grant in advance | 3,373 | 3,218 |
| Fleet | 1,095 | 700 |
| Newcastle airport partnership | 15,057 | 13,845 |
| Other waste services reserve | 612 | 435 |
| Parking meters | 407 | 241 |
| Section 355C committees | 896 | 977 |
| Sustainable energy and water reserve | 250 | 250 |
| Unexpended loan funds | 2,000 | 2,795 |
| Ward funds | 2 | 34 |
| Community Loans | 154 | – |
| Total internal restrictions | 24,353 | 23,273 |

TOTAL RESTRICTIONS

| | |
|---------------|---------------|
| 51,070 | 48,726 |
|---------------|---------------|

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

| \$ '000 | 2018 | | 2017 | |
|---|--------------|-------------|--------------|-------------|
| | Current | Non-current | Current | Non-current |
| Purpose | | | | |
| Rates and annual charges | 2,406 | – | 2,200 | – |
| Interest and extra charges | 216 | – | 191 | – |
| User charges and fees | 507 | – | 437 | – |
| Private works | 1,025 | – | 424 | – |
| Contributions to works | 45 | – | 50 | – |
| Accrued revenues | | | | |
| – Interest on investments | 318 | – | 165 | – |
| – Other income accruals | 2,280 | – | 3,243 | – |
| Deferred debtors | – | – | 14 | – |
| Government grants and subsidies | 172 | – | 13 | – |
| Net GST receivable | 465 | – | 518 | – |
| Newcastle airport partnership | 1,634 | – | 1,599 | – |
| RMS contributions | – | – | 805 | – |
| Other debtors | – | 196 | – | 228 |
| Total | 9,068 | 196 | 9,659 | 228 |
| Less: provision for impairment | | | | |
| Other debtors | – | (6) | – | (52) |
| Total provision for impairment – receivables | – | (6) | – | (52) |
| TOTAL NET RECEIVABLES | 9,068 | 190 | 9,659 | 176 |
| Externally restricted receivables | | | | |
| Domestic waste management | 705 | – | 522 | – |
| Total external restrictions | 705 | – | 522 | – |
| Internally restricted receivables | | | | |
| Community Loans | 46 | – | 200 | – |
| Receivables – Newcastle Airport Partnership | 1,634 | – | 1,599 | – |
| Commercial properties | 3,171 | – | 2,730 | – |
| Other Waste Reserve | – | – | 1,060 | – |
| Administration building reserve | 895 | – | 741 | – |
| Internally restricted receivables | 5,746 | – | 6,330 | – |
| Unrestricted receivables | 2,617 | 190 | 2,807 | 176 |
| TOTAL NET RECEIVABLES | 9,068 | 190 | 9,659 | 176 |

Movement in provision for impairment of receivables

| | 2018 | 2017 |
|--|----------|-----------|
| Balance at the beginning of the year | 52 | 48 |
| + new provisions recognised during the year | – | 6 |
| – amounts already provided for and written off this year | (42) | (2) |
| – amounts provided for but recovered during the year | (4) | – |
| Balance at the end of the year | 6 | 52 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

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

Impairment

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

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income statement.

Note 8. Inventories and other assets

| \$ '000 | 2018 | | 2017 | |
|--------------------------------------|--------------|---------------|---------------|--------------|
| | Current | Non-current | Current | Non-current |
| (a) Inventories | | | | |
| Inventories at cost | | | | |
| Real estate for resale (refer below) | 5,653 | 13,102 | 14,116 | 5,721 |
| Stores and materials | 196 | – | 197 | – |
| Bio banking credits | – | 3,520 | – | 3,520 |
| Total inventories at cost | 5,849 | 16,622 | 14,313 | 9,241 |
| TOTAL INVENTORIES | 5,849 | 16,622 | 14,313 | 9,241 |
| (b) Other assets | | | | |
| Prepayments | 426 | 8 | 435 | 10 |
| TOTAL OTHER ASSETS | 426 | 8 | 435 | 10 |

There are no restrictions applicable to the above assets.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

| \$ '000 | Notes | 2018 | | 2017 | |
|--|-------|--------------|---------------|---------------|--------------|
| | | Current | Non-current | Current | Non-current |
| (i) Other disclosures | | | | | |
| Details for real estate development | | | | | |
| Residential | | – | 2,860 | 862 | 2,548 |
| Industrial/commercial | | 5,653 | 10,242 | 13,254 | 3,173 |
| Total real estate for resale | | 5,653 | 13,102 | 14,116 | 5,721 |
| (Valued at the lower of cost and net realisable value) | | | | | |
| Represented by: | | | | | |
| Acquisition costs | | 773 | 12,866 | 11,774 | 2,513 |
| Development costs | | 4,880 | 236 | 2,342 | 3,208 |
| Total costs | | 5,653 | 13,102 | 14,116 | 5,721 |
| Total real estate for resale | | 5,653 | 13,102 | 14,116 | 5,721 |
| Movements: | | | | | |
| Real estate assets at beginning of the year | | 14,116 | 5,721 | 12,060 | 4,557 |
| – Purchases and other costs | | 2,738 | 219 | 2,056 | 193 |
| – Transfers in from (out to) Note 9 | | – | – | – | 971 |
| – WDV of sales (expense) | 5 | (3,412) | – | – | – |
| – Transfer between current/non-current | | (7,162) | 7,162 | – | – |
| – Transfers in from (out to) Note 10 | | (627) | – | – | – |
| Total real estate for resale | | 5,653 | 13,102 | 14,116 | 5,721 |

Accounting policy

Raw materials and stores, work in progress and finished goods

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

Inventory held for distribution

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

Land held for resale/capitalisation of borrowing costs

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

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

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

Note 9. Infrastructure, property, plant and equipment

| Asset class | as at 30/6/2017 | | | Asset movements during the reporting period | | | | | | | | as at 30/6/2018 | | | |
|---|-----------------------|---|---------------------|---|----------------------|-----------------------------|----------------------|--|---------------------------|--|--|--|-----------------------|---|---------------------|
| | Gross carrying amount | Accumulated depreciation and impairment | Net carrying amount | Additions renewals | Additions new assets | Carrying value of disposals | Depreciation expense | Impairment loss / revaluation decrements (recognised in P/L) | Adjustments and transfers | Tfns from/(to) intangible assets (Note 11) | Revaluation decrements to equity (ARR) | Revaluation increments to equity (ARR) | Gross carrying amount | Accumulated depreciation and impairment | Net carrying amount |
| | | | | | | | | | | | | | | | |
| \$ '000 | | | | | | | | | | | | | | | |
| Capital work in progress | 959 | (1) | 960 | 23 | 3,406 | – | – | – | (272) | – | – | – | 4,190 | 74 | 4,116 |
| Plant and equipment | 17,960 | 8,472 | 9,488 | 19 | 1,415 | (770) | (1,424) | – | – | – | – | – | 17,587 | 8,859 | 8,728 |
| Office equipment | 1,626 | 878 | 748 | 129 | 600 | (1) | (277) | – | – | – | – | – | 2,327 | 1,129 | 1,199 |
| Furniture and fittings | 1,125 | 1,047 | 78 | – | 45 | – | (18) | – | – | – | – | – | 1,171 | 1,065 | 106 |
| Land: | | | | | | | | | | | | | | | |
| – Operational land | 30,282 | – | 30,282 | 2 | 8 | (214) | – | (573) | (354) | – | – | 8,077 | 37,801 | 572 | 37,229 |
| – Community land | 71,353 | – | 71,353 | – | 489 | – | – | – | – | – | – | – | 71,842 | – | 71,842 |
| – Land held for bio banking | 1,143 | – | 1,143 | – | – | – | – | – | 290 | – | (827) | – | 607 | – | 607 |
| – Land under roads (post 1/7/08) | 1,922 | – | 1,922 | – | – | – | – | – | 64 | – | – | – | 1,985 | – | 1,985 |
| Land improvements – depreciable | 1,012 | 383 | 629 | – | 168 | – | (25) | – | 1,314 | – | – | – | 2,780 | 695 | 2,085 |
| Infrastructure: | | | | | | | | | | | | | | | |
| – Buildings – specialised | 148,890 | 65,810 | 83,080 | 304 | 3,896 | (767) | (4,892) | – | (1,346) | – | – | 13,385 | 177,270 | 83,610 | 93,660 |
| – Other structures | 5,295 | 1,531 | 3,764 | 27 | 413 | – | (317) | – | 220 | – | – | 16 | 6,303 | 2,181 | 4,122 |
| – Roads | 447,718 | 52,231 | 395,487 | 10,793 | 3,782 | (258) | (2,710) | – | – | – | – | – | 462,034 | 54,941 | 407,093 |
| – Bridges | 11,408 | 308 | 11,100 | (0) | – | – | (12) | – | – | – | – | – | 11,408 | 320 | 11,088 |
| – Footpaths | 31,362 | 3,363 | 27,999 | 498 | 1,038 | – | (119) | – | – | – | – | – | 32,898 | 3,482 | 29,416 |
| – Stormwater drainage | 193,759 | 5,794 | 187,965 | 2,256 | 1,813 | (19) | (191) | – | – | – | – | – | 197,809 | 5,985 | 191,824 |
| – Swimming pools | 8,151 | 4,400 | 3,751 | 38 | – | – | (309) | – | – | – | – | – | 8,190 | 4,710 | 3,480 |
| – Other open space/recreational assets | 28,284 | 11,124 | 17,160 | 152 | 1,452 | – | (846) | – | 24 | – | – | – | 29,941 | 11,998 | 17,943 |
| – Other infrastructure | 9,136 | 3,399 | 5,737 | 22 | 608 | (165) | (314) | – | 116 | – | – | – | 9,716 | 3,712 | 6,004 |
| Other assets: | | | | | | | | | | | | | | | |
| – Heritage collections | 230 | 70 | 160 | 1 | – | – | (2) | – | – | – | – | – | 232 | 72 | 159 |
| – Library books | 4,968 | 2,991 | 1,977 | 250 | – | – | (127) | – | – | – | – | – | 5,218 | 3,117 | 2,101 |
| – Car parks | 11,234 | 7,739 | 3,495 | 4 | 180 | – | (523) | – | – | – | – | – | 11,417 | 8,263 | 3,154 |
| – Newcastle airport partnership | 43,640 | 14,406 | 29,234 | – | 2,805 | (22) | (1,824) | – | – | (262) | – | – | 46,068 | 16,123 | 29,945 |
| – Other | 5,488 | 2,726 | 2,762 | 18 | 205 | – | (186) | – | (56) | – | – | – | 5,527 | 2,782 | 2,744 |
| TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP. | 1,076,945 | 186,671 | 890,274 | 14,536 | 22,324 | (2,216) | (14,116) | (573) | – | (262) | (827) | 21,478 | 1,144,320 | 213,690 | 930,630 |

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 2018

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

| Plant and equipment | Years | Other equipment | Years |
|--------------------------------------|--------------|--------------------------|--------------|
| Office equipment | 5 to 10 | Playground equipment | 5 to 15 |
| Office furniture | 10 to 20 | Benches, seats etc. | 10 to 20 |
| Computer equipment | 4 | | |
| Vehicles | 5 to 8 | Buildings | |
| Heavy plant/road making equipment | 5 to 8 | Buildings: masonry | 50 to 100 |
| Other plant and equipment | 5 to 15 | Buildings: other | 20 to 40 |
| Transportation assets | | Stormwater assets | |
| Sealed roads: surface | 20 | Drains | 80 to 100 |
| Sealed roads: structure | 50 | Culverts | 50 to 80 |
| Unsealed roads | 20 | Flood control structures | 80 to 100 |
| Bridge: concrete | 100 | | |
| Bridge: other | 50 | | |
| Road pavements | 60 | | |
| Kerb, gutter and footpaths | 40 | | |
| Other infrastructure assets | | | |
| Bulk earthworks | 20 | | |
| Swimming pools | 50 | | |
| Unsealed roads | 20 | | |
| Other open space/recreational assets | 20 | | |
| Other infrastructure | 20 | | |

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 2018

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

Crown reserves

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

Rural Fire Service assets

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

Council will only recognise Rural Fire Service assets which it deems to have control of. This includes the construction of buildings and assets that are purchased and reside in the LGA. Plant and equipment not purchased or constructed is not recognised as an asset.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Investment property

| \$ '000 | 2018 | 2017 |
|---|---------------|---------------|
| (a) Investment property at fair value | | |
| Investment property on hand | 31,467 | 26,000 |
| Reconciliation of annual movement: | | |
| Opening balance | 26,000 | 21,500 |
| – Capitalised expenditure – this year | 41 | 115 |
| – Net gain/(loss) from fair value adjustments | 4,799 | 525 |
| – Transfers from/(to) inventories (Note 8) | 627 | – |
| – Transfers from/(to) owner occupied (Note 9) | – | 3,860 |
| CLOSING BALANCE – INVESTMENT PROPERTY | 31,467 | 26,000 |
| (b) Valuation basis | | |
| <p>The basis of valuation of investment property 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.</p> <p>The 2018 revaluations were based on independent assessments made by: Sean Fox who is an employee of Knight Frank Newcastle and Certified Practising Valuer (without limitation). API No. 67552.</p> | | |
| (c) Leasing arrangements – Council as lessor | | |
| <p>The investment property are leased to tenants under long-term operating leases with rentals payable monthly.</p> <p>Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:</p> | | |
| Within 1 year | 1,959 | 2,227 |
| Later than 1 year but less than 5 years | 4,120 | 3,645 |
| Later than 5 years | 2,832 | 1,395 |
| Total minimum lease payments receivable | 8,911 | 7,267 |
| (d) Investment property income and expenditure – summary | | |
| Rental income from investment property: | | |
| – Minimum lease payments | 2,718 | 2,653 |
| Direct operating expenses on investment property: | | |
| – that generated rental income | (532) | (519) |
| Net revenue contribution from investment property | 2,186 | 2,134 |
| plus: | | |
| Fair value movement for year | 4,799 | 525 |
| Total income attributable to investment property | 6,985 | 2,659 |

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 part of other income.

Properties that are under construction for future use as investment property 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.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Intangible assets

| \$ '000 | 2018 | 2017 |
|--|--------------|--------------|
| Intangible assets represent identifiable non-monetary assets without physical substance. | | |
| Intangible assets are as follows: | | |
| Opening values: | | |
| Gross book value (1/7) | 2,627 | 2,185 |
| Accumulated amortisation (1/7) | (1,431) | (787) |
| Net book value – opening balance | 1,196 | 1,398 |
| Movements for the year | | |
| – Purchases | 133 | 357 |
| – Transfers from note 9 | 262 | – |
| – Amortisation charges | (406) | (549) |
| – Gross book value written off | – | (10) |
| Closing values: | | |
| Gross book value (30/6) | 3,021 | 2,627 |
| Accumulated amortisation (30/6) | (1,837) | (1,431) |
| TOTAL INTANGIBLE ASSETS – NET BOOK VALUE ¹ | 1,184 | 1,196 |
| ¹ The net book value of intangible assets represent: | | |
| – Software | 971 | 1,196 |
| – Newcastle Airport Partnership | 213 | – |
| | 1,184 | 1,196 |

Accounting policy for intangible assets

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Payables and borrowings

| \$ '000 | 2018 | | 2017 | |
|---|---------------|---------------|---------------|---------------|
| | Current | Non-current | Current | Non-current |
| Payables | | | | |
| Goods and services | 6,002 | – | 4,233 | – |
| Accrued expenses: | | | | |
| – Other expenditure accruals | 2,494 | 8 | 2,799 | 8 |
| Security bonds, deposits and retentions | 818 | – | 756 | – |
| Unclaimed monies | 8 | – | 2 | – |
| Rates in advance | 978 | – | 844 | – |
| Other | 867 | – | 688 | – |
| Total payables | 11,167 | 8 | 9,322 | 8 |
| Income received in advance | | | | |
| Payments received in advance | 9 | – | 198 | – |
| Deferred income – Newcastle airport partnership | 251 | 4,798 | 407 | 4,884 |
| Total income received in advance | 260 | 4,798 | 605 | 4,884 |
| Borrowings | | | | |
| Loans – secured ¹ | 3,460 | 14,121 | 2,837 | 12,471 |
| Other – Newcastle airport partnership | – | 6,250 | – | 6,250 |
| Total borrowings | 3,460 | 20,371 | 2,837 | 18,721 |
| TOTAL PAYABLES AND BORROWINGS | 14,887 | 25,177 | 12,764 | 23,613 |

(a) Payables and borrowings relating to restricted assets

| | 2018 | | 2017 | |
|---|---------------|---------------|---------------|---------------|
| | Current | Non-current | Current | Non-current |
| Externally restricted assets | | | | |
| Domestic waste management | 1,825 | 1,441 | 1,742 | 2,128 |
| Other | 818 | – | 756 | – |
| Crown holiday park reserve | 34 | 34 | 154 | 68 |
| Payables and borrowings relating to externally restricted assets | 2,677 | 1,475 | 2,652 | 2,196 |
| Internally restricted assets | | | | |
| Drainage reserve | 144 | – | 564 | 143 |
| Newcastle airport partnership | 2,623 | 10,898 | 2,267 | 11,167 |
| Payables and borrowings relating to internally restricted assets | 2,767 | 10,898 | 2,831 | 11,310 |
| Total payables and borrowings relating to restricted assets | 5,444 | 12,373 | 5,483 | 13,506 |
| Total payables and borrowings relating to unrestricted assets | 9,443 | 12,804 | 7,281 | 10,107 |
| TOTAL PAYABLES AND BORROWINGS | 14,887 | 25,177 | 12,764 | 23,613 |

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 19.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Payables and borrowings (continued)

| \$ '000 | 2018 | 2017 |
|---------|------|------|
|---------|------|------|

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

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

| | | |
|--|------------|------------|
| Payables – security bonds, deposits and retentions | 378 | 378 |
| | <u>378</u> | <u>378</u> |

(c) Changes in liabilities arising from financing activities

| Class of borrowings | 2017 | | Non-cash changes | | | 2018 |
|---------------------------------------|------------------------------|--------------|------------------|--------------------|--------------------------|-------------------------------|
| | Opening balance as at 1/7/17 | Cash flows | Acquisition | Fair value changes | Other non-cash movements | Closing balance as at 30/6/18 |
| Loans – secured | 15,308 | 2,268 | – | 5 | – | 17,581 |
| Other – Newcastle airport partnership | 6,250 | – | – | – | – | 6,250 |
| TOTAL | 21,558 | 2,268 | – | 5 | – | 23,831 |

| \$ '000 | 2018 | 2017 |
|---------|------|------|
|---------|------|------|

(d) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

| | | |
|---|--------------|--------------|
| Bank overdraft facilities ⁽¹⁾ | 2,500 | 5,000 |
| Credit cards/purchase cards | 2,235 | 2,200 |
| Master lease facilities | – | 1,000 |
| Total financing arrangements | 4,735 | 8,200 |
| Drawn facilities as at balance date: | | |
| – Credit cards/purchase cards | 4 | – |
| Total drawn financing arrangements | 4 | – |
| Undrawn facilities as at balance date: | | |
| – Bank overdraft facilities | 2,500 | 5,000 |
| – Credit cards/purchase cards | 2,231 | 2,200 |
| – Lease facilities | – | 1,000 |
| Total undrawn financing arrangements | 4,731 | 8,200 |

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Payables

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

Borrowings

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

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

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

Finance leases

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

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Provisions

| \$ '000 | 2018 | | 2017 | |
|--|----------------------|-------------------|----------------------|-------------------|
| | Current | Non-current | Current | Non-current |
| Provisions | | | | |
| Employee benefits: | | | | |
| Annual leave | 3,628 | – | 3,386 | – |
| Sick leave | 3,142 | – | 3,204 | – |
| Long service leave | 6,769 | 531 | 6,611 | 532 |
| Flexi time / RDO leave | 256 | – | 211 | – |
| Other – redundancy | – | – | 397 | – |
| Sub-total – aggregate employee benefits | 13,795 | 531 | 13,809 | 532 |
| Asset remediation/restoration: | | | | |
| Asset remediation/restoration (future works) | 1,600 | – | 1,600 | – |
| Sub-total – asset remediation/restoration | 1,600 | – | 1,600 | – |
| Other provisions: | | | | |
| Other | 1,825 | – | – | – |
| <u>TOTAL PROVISIONS</u> | <u>17,220</u> | <u>531</u> | <u>15,409</u> | <u>532</u> |

(a) Provisions relating to restricted assets

| | 2018 | | 2017 | |
|---|----------------------|-------------------|----------------------|-------------------|
| | Current | Non-current | Current | Non-current |
| Externally restricted assets | | | | |
| Domestic waste management | 1,600 | – | 1,600 | – |
| Provisions relating to externally restricted assets | 1,600 | – | 1,600 | – |
| Internally restricted assets | | | | |
| Drainage | 1,825 | – | – | – |
| Provisions relating to internally restricted assets | 1,825 | – | – | – |
| Total provisions relating to restricted assets | 3,425 | – | 1,600 | – |
| Total provisions relating to unrestricted assets | 13,795 | 531 | 13,809 | 532 |
| <u>TOTAL PROVISIONS</u> | <u>17,220</u> | <u>531</u> | <u>15,409</u> | <u>532</u> |

| \$ '000 | 2018 | 2017 |
|---------|------|------|
|---------|------|------|

(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 | 8,477 | 8,716 |
| | 8,477 | 8,716 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

| 2018 | Other provisions | | Total |
|--|-----------------------|-------------------|--------------|
| | Legal costs provision | Asset remediation | |
| At beginning of year | – | 1,600 | 1,600 |
| Changes to provision: | | | |
| Additional provisions | 1,825 | – | 1,825 |
| Total other provisions at end of year | 1,825 | 1,600 | 3,425 |
| 2017 | | | |
| At beginning of year | – | 1,600 | 1,600 |
| Total other provisions at end of year | – | 1,600 | 1,600 |

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.

Legal costs provision

Council has a legal obligation to pay legal costs as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required when legal proceedings are finalised.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. Provisions (continued)

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. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect 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 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.

Provision for legal costs

Liabilities for legal costs expected to be wholly settled within 12 months after the end of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

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.

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000

(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.

Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve is used to account for the fair value movements in all financial assets so classified that remain on hand at year end.

Upon sale, amounts in reserves are recognised in the Income Statement (in full) by way of transfer from the reserve.

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

Nature of prior-period error

Council has recognised the value of Crown Land deemed to be under its control for the first time.

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

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

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

| | Original Balance 1 July, 2016 | Impact Increase/ (decrease) | Restated Balance 1 July, 2016 |
|---|-------------------------------------|-----------------------------------|-------------------------------------|
| Statement of Financial Position | | | |
| Infrastructure, property, plant and equipment | 854,614 | 29,548 | 884,162 |
| Total Assets | 945,229 | 29,548 | 974,777 |
| Total Liabilities | 47,911 | – | 47,911 |
| Accumulated Surplus | 543,738 | – | 543,738 |
| Revaluation Reserve | 353,580 | 29,548 | 383,128 |
| Total equity | 897,318 | 29,548 | 926,866 |

Notes to the Financial Statements

for the year ended 30 June 2018

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

\$ '000

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

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

| Statement of Financial Position | Original Balance 30 June, 2017 | Impact Increase/ (decrease) | Restated Balance 30 June, 2017 |
|---|---|--|---|
| Infrastructure, property, plant and equipment | 860,726 | 29,548 | 890,274 |
| Total assets | 970,482 | 29,548 | 1,000,030 |
| Total liabilities | 52,318 | – | 52,318 |
| Accumulated Surplus | 567,409 | – | 567,409 |
| Revaluation Reserve | 350,755 | 29,548 | 380,303 |
| Total equity | 918,164 | 29,548 | 947,712 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Statement of cash flows – additional information

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|---------------|---------------|
| (a) Reconciliation of cash assets | | | |
| Total cash and cash equivalent assets | 6a | 9,828 | 8,093 |
| Balance as per the Statement of Cash Flows | | 9,828 | 8,093 |
| (b) Reconciliation of net operating result to cash provided from operating activities | | | |
| Net operating result from Income Statement | | 20,336 | 22,716 |
| Adjust for non-cash items: | | | |
| Depreciation and amortisation | | 14,522 | 14,985 |
| Net losses/(gains) on disposal of assets | | (816) | (259) |
| Non-cash capital grants and contributions | | (6,643) | (6,880) |
| Losses/(gains) recognised on fair value re-measurements through the P&L: | | | |
| – investment property | | (4,799) | (525) |
| – Revaluation decrements / impairments of IPP&E direct to P&L | | 573 | 696 |
| – Other | | – | (512) |
| Amortisation of premiums, discounts and prior period fair valuations | | | |
| – Interest exp. on interest-free loans received by Council (previously fair valued) | | 5 | 45 |
| +/- Movement in operating assets and liabilities and other cash items: | | | |
| Decrease/(increase) in receivables | | 609 | 3,954 |
| Increase/(decrease) in provision for doubtful debts | | (46) | 3 |
| Decrease/(increase) in inventories | | 1 | 20 |
| Decrease/(increase) in other assets | | 11 | 68 |
| Increase/(decrease) in payables | | 1,769 | 73 |
| Increase/(decrease) in other accrued expenses payable | | (305) | 1,230 |
| Increase/(decrease) in other liabilities | | (50) | 344 |
| Increase/(decrease) in employee leave entitlements | | (15) | 582 |
| Increase/(decrease) in other provisions | | 1,825 | – |
| Net cash provided from/(used in) operating activities from the Statement of Cash Flows | | 26,977 | 36,540 |
| (c) Non-cash investing and financing activities | | | |
| Dedicated subdivisions | | 6,643 | 6,880 |
| Total non-cash investing and financing activities | | 6,643 | 6,880 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Interests in other entities

\$ '000

(a) Joint arrangements

(i) Joint operations

(a) Council is involved in the following joint operations (JO's)

| Name of joint operation | Principal activity | Place of business | Interest in ownership | | Interest in voting | |
|---|----------------------------|-------------------|-----------------------|------|--------------------|------|
| | | | 2018 | 2017 | 2018 | 2017 |
| Newcastle Airport Partnership and Newcastle Airport Pty Ltd | Domestic Airport Operation | Williamstown | 50% | 50% | 50% | 50% |

(b) Council assets employed in the joint operations

| | 2018 | 2017 |
|--|---------------|---------------|
| Council's share of assets jointly owned with other partners | | |
| Current assets | 16,810 | 15,528 |
| Current liabilities | (2,924) | (2,267) |
| Property, plant and equipment | 30,187 | 29,235 |
| Other non-current assets | 29 | 10 |
| Non-current liabilities | (10,926) | (11,168) |
| Total net assets employed – Council and jointly owned | 33,176 | 31,338 |

(c) Share of joint operations expenditure commitments

| | 2018 | 2017 |
|----------------------------------|--------------|------------|
| Capital commitments | | |
| Payable not later than 1 year | 1,317 | 484 |
| Total capital commitments | 1,317 | 484 |

(d) Contingent liabilities of joint operations

| | 2018 | 2017 |
|--|------|------|
| Share of contingent liabilities incurred jointly with other participants | 100% | 100% |
| Share of contingent liabilities for which Council is severally liable | 100% | 100% |

Accounting policy for joint arrangements

The Council has determined that it has joint operations.

Joint operations

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Interests in other entities (continued)

\$ '000

(b) Subsidiaries, joint arrangements and associates not recognised

The following subsidiaries, joint arrangements and associates have not been recognised in this financial report.

| Name of entity/operation | Principal activity/type of entity | 2018 Net profit | 2018 Net assets |
|--|---|--------------------|--------------------|
| Strategic Services Australia Limited (formerly known as Hunter Councils Limited) | Council Support Services Joint Venture | 352 | 641 |

Reasons for non-recognition

The Joint Venture has not been recognised as part of Council's financial performance or financial position as it has been deemed immaterial for the purposes of consolidation.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Commitments for expenditure

| \$ '000 | 2018 | 2017 |
|--|--------------|--------------|
| (a) Capital commitments (exclusive of GST) | | |
| Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities: | | |
| Property, plant and equipment | | |
| Buildings | 238 | 50 |
| Plant and equipment | 659 | 311 |
| Newcastle airport | 1,317 | 515 |
| Other | 1,622 | 5,584 |
| Total commitments | 3,836 | 6,460 |
| These expenditures are payable as follows: | | |
| Within the next year | 3,836 | 6,460 |
| Total payable | 3,836 | 6,460 |

(b) Operating lease commitments (non-cancellable)

a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:

| | | |
|--|------------|------------|
| Within the next year | 249 | 270 |
| Total non-cancellable operating lease commitments | 249 | 270 |

b. Non-cancellable operating leases include the following assets:

Computer and printing equipment. Contingent rentals may be payable depending on the condition of items or usage during the lease term.

Conditions relating to operating leases:

- All operating lease agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

(c) Investment in joint operations – commitments

For capital commitments and other commitments relating to investments in joint operations, refer to Note 16(a).

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Contingencies and other liabilities/assets not recognised

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

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council participates in an employer-sponsored defined benefit superannuation scheme and makes contributions as determined by the superannuation scheme's trustees.

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

While the scheme's most recent full actuarial review indicated that the net assets of the scheme were sufficient to meet the accrued benefits of the scheme's defined benefit member category, member councils are required to make contributions in future years where the scheme goes into deficit (as has occurred in previous years).

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of any share of the net deficit and accordingly Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future planned contributions being made to the defined benefit scheme to rectify past (and projected) deficit positions will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

Member councils are treated as Pooled Employers for the purposes of AASB119. Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund.

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

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

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2017.

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

Notes to the Financial Statements

for the year ended 30 June 2018

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

LIABILITIES NOT RECOGNISED: (continued)

1. Guarantees (continued)

(i) Defined benefit superannuation contribution plans (continued)

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

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

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

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

The plan is a defined benefit plan. However, 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). As such, there is not sufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would for a single employer sponsored defined benefit plan.

The amount of Council employer contributions to the defined benefit section of the Fund and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2018 was \$661,396.06.

The last valuation of the Fund was by the Actuary, Mr Richard Boyfield, FIAA on 12 December 2017, relating to the period ended 30 June 2017. However, the position is monitored annually and the actuary has estimated that, as at 30 June 2018, a deficit still exists. Effective from 1 July 2009, employers are required to make additional contributions to assist in extinguishing this deficit. The amount of additional contributions included in the total employer contribution advised above is \$308,000.

Council's expected contributions to the Fund for the next annual reporting period is \$684,501.12.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2018 is:

| Employer reserves only * | \$ millions | Asset Coverage |
|--------------------------|-------------|----------------|
| Assets | 1,817.8 | |
| Past Service Liabilities | 1,787.5 | 101.7% |
| Vested Benefits | 1,778.0 | 102.2% |

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

Notes to the Financial Statements

for the year ended 30 June 2018

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

LIABILITIES NOT RECOGNISED: (continued)

1. Guarantees (continued)

(i) Defined benefit superannuation contribution plans (continued)

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

| | |
|--------------------|----------------|
| Investment return | 6.0% per annum |
| Salary inflation * | 3.5% per annum |
| Increase in CPI | 2.5% per annum |

* Plus promotional increases

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

Please note that the estimated employer reserves financial position above is a preliminary calculation and once all the relevant information has been received by the Funds Actuary, the 2018 triennial review will be completed around December 2018.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$1,026,000 as at 30 June 2018.

(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.

Notes to the Financial Statements

for the year ended 30 June 2018

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

LIABILITIES NOT RECOGNISED (continued):

1. Guarantees (continued)

(iii) StateCover Limited (continued)

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2018

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

ASSETS NOT RECOGNISED (continued):

(ii) Infringement notices/fines (continued)

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.

(iii) Legal Matters

Council is dealing with general legal matters as part of normal operations. No specific disclosure is made as these matters do not represent a significant and probable outflow of resources other than those already provided for.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management

\$ '000

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.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

| | Carrying value | | Fair value | |
|------------------------------------|----------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Financial assets | | | | |
| Cash and cash equivalents | 9,828 | 8,093 | 9,828 | 8,093 |
| Investments | | | | |
| – 'Held to maturity' | 41,242 | 40,633 | 41,242 | 40,633 |
| Receivables | 9,258 | 9,835 | 9,257 | 9,835 |
| Total financial assets | 60,328 | 58,561 | 60,327 | 58,561 |
| Financial liabilities | | | | |
| Payables | 11,175 | 9,330 | 11,210 | 9,330 |
| Loans/advances | 23,831 | 21,558 | 23,831 | 21,558 |
| Total financial liabilities | 35,006 | 30,888 | 35,041 | 30,888 |

Fair value is determined as follows:

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

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

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

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

Council has an investment policy which complies with the *Local Government Act 1993* and Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the investments held are:

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

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

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

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

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

| | Increase of values/rates | | Decrease of values/rates | |
|--|--------------------------|--------|--------------------------|--------|
| | Profit | Equity | Profit | Equity |
| 2018 | | | | |
| Possible impact of a 1% movement in interest rates | 338 | – | (338) | – |
| 2017 | | | | |
| Possible impact of a 1% movement in interest rates | 310 | – | (310) | – |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

(b) Credit risk

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

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

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

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

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

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

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

A profile of Council's receivables credit risk at balance date follows:

| | 2018 Rates and annual charges | 2018 Other receivables | 2017 Rates and annual charges | 2017 Other receivables |
|---|--|------------------------------|--|------------------------------|
| (i) Ageing of receivables – % | | | | |
| Current (not yet overdue) | 0% | 62% | 0% | 75% |
| Overdue | 100% | 38% | 100% | 25% |
| | 100% | 100% | 100% | 100% |
| (ii) Ageing of receivables – value | | | 2018 | 2017 |
| Rates and annual charges | | | | |
| Not yet due | | | – | – |
| < 1 year overdue | | | 1,929 | 1,433 |
| 1 – 2 years overdue | | | 179 | 419 |
| 2 – 5 years overdue | | | 177 | 282 |
| > 5 years overdue | | | 121 | 66 |
| | | | 2,406 | 2,200 |
| Other receivables | | | | |
| Not yet due | | | 4,929 | 5,799 |
| 0 – 30 days overdue | | | 977 | – |
| 31 – 60 days overdue | | | 493 | – |
| 61 – 90 days overdue | | | 63 | – |
| > 91 days overdue | | | 396 | 1,888 |
| | | | 6,858 | 7,687 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Financial risk management (continued)

\$ '000

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk by borrowing long term and fixing the interest rate on a 4-year renewal basis. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

| \$ '000 | Weighted average interest rate | Subject to no maturity | payable in: | | | Total cash outflows | Actual carrying values |
|------------------------------------|--------------------------------------|------------------------------|---------------|---------------|--------------|---------------------------|------------------------------|
| | | | ≤ 1 Year | 1 – 5 Years | > 5 Years | | |
| 2018 | | | | | | | |
| Trade/other payables | 0.00% | 826 | 10,341 | 8 | – | 11,175 | 11,175 |
| Loans and advances | 3.41% | – | 4,003 | 19,297 | 2,126 | 25,426 | 23,831 |
| Total financial liabilities | | 826 | 14,344 | 19,305 | 2,126 | 36,601 | 35,006 |
| 2017 | | | | | | | |
| Trade/other payables | 0.00% | 758 | 8,564 | 8 | – | 9,330 | 9,330 |
| Loans and advances | 3.31% | – | 3,312 | 18,285 | 1,258 | 22,855 | 21,558 |
| Total financial liabilities | | 758 | 11,876 | 18,293 | 1,258 | 32,185 | 30,888 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 13 June 2017 and is not required to be audited.

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

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

Note that for variations* of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

| \$ '000 | 2018 Budget | 2018 Actual | 2018 ----- Variance* ----- | | |
|--|----------------|----------------|-------------------------------|------|----------|
| REVENUES | | | | | |
| Rates and annual charges | 54,709 | 55,287 | 578 | 1% | F |
| User charges and fees | 38,984 | 39,752 | 768 | 2% | F |
| Interest and investment revenue | 1,322 | 1,417 | 95 | 7% | F |
| Other revenues | 5,374 | 6,206 | 832 | 15% | F |
| Other revenues were higher then expected due to emergency relief income that was not budgeted for. | | | | | |
| Operating grants and contributions | 12,023 | 13,431 | 1,408 | 12% | F |
| Council was successful in obtaining a number of environmental protection grants during the year which weren't originally budgeted for. Council also received more developer contributions than expected. | | | | | |
| Capital grants and contributions | 5,703 | 15,387 | 9,684 | 170% | F |
| Council was gifted a number of infrastructure assets from development subdivisions this year which were higher then expected. These dedications are a non cash related and do not form part of Council's underlying surplus. | | | | | |
| Net gains from disposal of assets | 250 | 816 | 566 | 226% | F |
| Council was able to generate higher then expected disposal gains as a result of property developments. | | | | | |
| Fair value increment on investment property | 615 | 4,799 | 4,184 | 680% | F |
| Fair value increases on investment property were higher then expected due to strong growth in existing assets and the addition of an extra property into the portfolio from commercial development activates. Fair value increments are a non cash transaction and do not form part of Council's underlying surplus. | | | | | |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Material budget variations (continued)

| \$ '000 | 2018 Budget | 2018 Actual | 2018 Variance* | | |
|---|----------------|----------------|-------------------|---------|----------|
| EXPENSES | | | | | |
| Employee benefits and on-costs | 42,123 | 43,104 | (981) | (2%) | U |
| Borrowing costs | 903 | 679 | 224 | 25% | F |
| Council was able to lock in existing and new loans at lower than expected interests during the financial year. | | | | | |
| Materials and contracts | 39,940 | 40,980 | (1,040) | (3%) | U |
| Depreciation and amortisation | 15,235 | 14,522 | 713 | 5% | F |
| Other expenses | 13,034 | 16,901 | (3,867) | (30%) | U |
| Other expenses are above budget due to operating expenses related to consolidation of Newcastle Airport Partnership Pty Ltd. Without this consolidation there would be no material budget variations. | | | | | |
| Revaluation decrement / impairment of IPP&E | - | 573 | (573) | 0% | U |
| The impairment related to the transition of council land to a road reserve. This change in use resulted in a fair value decrement. Council does not budget for asset impairments. | | | | | |
| Budget variations relating to Council's Cash Flow Statement include: | | | | | |
| Cash flows from operating activities | 24,562 | 26,977 | 2,415 | 9.8% | F |
| Cash flows from investing activities | (26,134) | (27,510) | (1,376) | 5.3% | U |
| Cash flows from financing activities | 3,192 | 2,268 | (924) | (28.9%) | U |
| Cash flows from financing activities were lower than budget due to the early payment of bank loans prior to 30 June. Early settlements from property development were used to repay loans used to fund the development. | | | | | |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement

\$ '000

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

- Infrastructure, property, plant and equipment
- 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) The following table presents all assets and liabilities that have been measured and recognised at fair values:

| 2018 | Fair value measurement hierarchy | | | Total |
|--|---|--|--|----------------|
| | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | |
| Recurring fair value measurements | | | | |
| Investment property | | | | |
| Investment properties held | – | 31,467 | – | 31,467 |
| Total investment property | – | 31,467 | – | 31,467 |
| Infrastructure, property, plant and equipment | | | | |
| Plant and equipment | – | – | 8,728 | 8,728 |
| Office equipment | – | – | 1,199 | 1,199 |
| Furniture and fittings | – | – | 106 | 106 |
| Land | – | 37,229 | 74,434 | 111,663 |
| Land Improvements | – | – | 2,085 | 2,085 |
| Buildings – specialised | – | – | 93,660 | 93,660 |
| Other Structures | – | – | 4,122 | 4,122 |
| Infrastructure | – | – | 666,847 | 666,847 |
| Other Assets | – | – | 8,159 | 8,159 |
| Total infrastructure, property, plant and equipment | – | 37,229 | 859,340 | 896,569 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

\$ '000

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

| 2017 | Fair value measurement hierarchy | | | Total |
|--|---|--|--|----------------|
| | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | |
| Recurring fair value measurements | | | | |
| Investment property | | | | |
| Investment properties held | – | 26,000 | – | 26,000 |
| Total investment property | – | 26,000 | – | 26,000 |
| Infrastructure, property, plant and equipment | | | | |
| Plant and equipment | – | – | 9,488 | 9,488 |
| Office equipment | – | – | 748 | 748 |
| Furniture and fittings | – | – | 78 | 78 |
| Land | – | 30,282 | 74,418 | 104,700 |
| Land Improvements | – | – | 628 | 628 |
| Buildings – specialised | – | – | 83,081 | 83,081 |
| Other Structures | – | – | 3,764 | 3,764 |
| Infrastructure | – | – | 649,199 | 649,199 |
| Other Assets | – | – | 8,394 | 8,394 |
| Total infrastructure, property, plant and equipment | – | 30,282 | 829,798 | 860,080 |

(2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

Council's policy for determining transfers between fair value hierarchies is:
– at the date of the event or change in circumstances that caused the transfer.

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

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

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

Investment property

Council obtains valuations of its investment properties every year or when there are indicators of a change in the carrying value of the asset.

The best evidence of Fair Value is the current price in an active market for similar assets. The following information is used where necessary:

The investment property held by Council has been valued by the valuer using valuation techniques that are appropriate and for which sufficient data was available to measure fair value, maximising the use of observable inputs namely Level 3 inputs (based on per square metres). The income approach is used to value the investment properties and has not changed from prior years.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

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

Infrastructure, property, plant and equipment (IPP&E) continued

Plant & Equipment, Office Equipment, Furniture & Fittings

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
 - Office Equipment - Computers, photocopiers, calculators etc.
 - Furniture & Fittings - Chairs, desks and display boards.
-

Land

The main components of Land include Community Land, Operational Land & Land Under Roads

Community Land is based on either the Land Value provided by the Valuer-General or an average unit rate based on the Land Value for similar properties where the Valuer-General did not provide a Land Value having regard to the highest and best use for the land.

Operational land has been valued at market value, having regard to the "highest and best use", after identifying all elements that would be taken into account by buyers and sellers in settling the price, including but not limited to:

1. The land's description and/or dimensions;
2. Planning and other constraints on development; and
3. The potential for alternative use.

Sale prices of comparable land parcels in close proximity were adjusted for differences in key attributes such as size and configuration. The most significant inputs into this valuation approach are price per square metre. Since extensive professional judgements were required to determine the inputs these assets were classified as having been valued using Level 3 valuation inputs. There has been no change to the valuation techniques during the reporting period.

Land Under Roads acquired post 1 July 2008 have been valued using the square meter rates of adjacent Community Land having regard to the highest and best use for the land. There has been no change to the valuation techniques during the reporting period.

Buildings - Specialised & Other Structures

The approach estimated the replacement cost of each building and componentising of significant parts with different useful lives and taking into account a range of factors. The unit rates could be supported by market evidence (Level 2 inputs), other inputs (such as estimates of residual value, useful life and asset condition) required extensive professional judgement and impacted significantly on the final determination of fair value. As such, these assets have been valued using Level 3 inputs. There has been no change to the valuation

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

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

Infrastructure, property, plant and equipment (IPP&E) continued

Infrastructure

The main components of infrastructure include Roads, Bridges, Footpaths, Stormwater Drainage, Recreational and open areas

Roads bridges and footpaths are valued using the cost replacement approach. Valuations for these asset classes were undertaken in-house based on actual costs and assumptions from Council's Engineering Department. No market based evidence (Level 2) inputs are available therefore Level 3 valuation inputs were used for this asset class. There has been no change to the valuation process during the reporting period.

Assets within this class comprise pits, pipes, open channels, headwalls and various types of water quality devices.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets. There has been no change to the valuation process during the reporting period.

Councils recreational areas and swimming pools have been valued in house by experienced engineering and asset management staff using the cost approach. The approach estimated the replacement cost for each pool by componentising its significant parts.

Other Assets

Other Assets include Other assets in this class includes heritage collections library books, carparks and joint venture operations.

All other asset classes have also been recorded at replacement cost.

While some elements of gross replacement values could be supported from market evidence (Level 2 input) other inputs (such as estimates of pattern of consumption, residual value, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

\$ '000

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

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

| | Plant & Office Equipment | Furniture & Fittings | Land & Land Improvements | Total |
|---|--------------------------------|----------------------------|--------------------------------|---------------|
| Opening balance – 1/7/16 | 11,557 | 114 | 44,999 | 56,670 |
| Transfers from/(to) another asset class | – | – | (49) | (49) |
| Purchases (GBV) | 1,138 | – | 567 | 1,705 |
| Disposals (WDV) | (445) | (3) | – | (448) |
| Depreciation and impairment | (2,014) | (34) | (18) | (2,065) |
| Recognition of Crown Land | – | – | 29,547 | 29,547 |
| Closing balance – 30/6/17 | 10,236 | 78 | 75,046 | 85,360 |
| Transfers from/(to) another asset class | – | – | 1,668 | 1,668 |
| Purchases (GBV) | 2,204 | 46 | 657 | 2,907 |
| Disposals (WDV) | (771) | (18) | – | (789) |
| Depreciation and impairment | (1,701) | – | (25) | (1,726) |
| Swing from prior year | (41) | – | – | (41) |
| Revaluation increments/decrements | – | – | (827) | (827) |
| Closing balance – 30/6/18 | 9,927 | 106 | 76,519 | 86,552 |

| | Buildings | Other Structures | Infrastructure | Other Assets | Total |
|---|---------------|---------------------|----------------|-----------------|----------------|
| Opening balance – 1/7/16 | 86,744 | 2,145 | 634,497 | 8,990 | 732,376 |
| Transfers from/(to) another asset class | (50) | 44 | 348 | (116) | 226 |
| Purchases (GBV) | 3,798 | 1,841 | 18,777 | 372 | 24,788 |
| Disposals (WDV) | – | (32) | (52) | (13) | (97) |
| Depreciation and impairment | (5,475) | (234) | (4,371) | (839) | (10,919) |
| Transfers from/to investment properties | (1,692) | – | – | – | (1,692) |
| Revaluation increments/decrements | (244) | – | – | – | (244) |
| Closing balance – 30/6/17 | 83,081 | 3,764 | 649,199 | 8,394 | 744,438 |
| Transfers from/(to) another asset class | (1,346) | 220 | – | (56) | (1,182) |
| Purchases (GBV) | 4,201 | 439 | 22,451 | 659 | 27,750 |
| Disposals (WDV) | (767) | – | (442) | – | (1,209) |
| Depreciation and impairment | (4,892) | (317) | (4,501) | (838) | (10,548) |
| Revaluation increments/decrements | 13,383 | 16 | 140 | – | 13,539 |
| Closing balance – 30/6/18 | 93,660 | 4,122 | 666,847 | 8,159 | 772,788 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Fair value measurement (continued)

\$ '000

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

b. 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.

| Class | Fair value (30/6/18) \$'000 | Valuation technique/s | Unobservable inputs |
|--------------------------|-----------------------------------|--|---|
| IPP&E | | | |
| Plant & Office Equipment | 9,927 | Cost approach | Current replacement cost of modern equivalent asst, asset condition, useful life and residual value |
| Furniture & Fittings | 106 | Cost approach | Current replacement cost of modern equivalent asst, asset condition, useful life and residual value |
| Land & Land Improvements | 76,519 | Community Land - land values obtained from the NSW Valuer-General. Crown Land - land values based on the NSW Valuer-General where applicable , otherwise compared to similar properties. Any restrictions on land such as zoning, has been taken into consideration. | Land value, land area |
| Buildings - Specialised | 93,660 | Cost approach | Unit price |
| Other Structures | 4,122 | Cost approach | Current replacement cost of modern equivalent asst, asset condition, useful life and residual value |
| Infrastructure | 666,847 | Cost approach | Current replacement cost of modern equivalent asst, asset condition, useful life and residual value |
| Other Assets | 8,159 | Cost approach | Current replacement cost of modern equivalent asst, asset condition, useful life and residual value |

(5). 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 2018

Note 22. Related party transactions

\$ '000

a. Key management personnel

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

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

| | 2018 | 2017 |
|--------------------------|--------------|--------------|
| Compensation: | | |
| Short-term benefits | 3,318 | 3,387 |
| Post-employment benefits | 292 | 282 |
| Termination benefits | 162 | – |
| Total | 3,772 | 3,669 |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Related party transactions (continued)

\$ '000

b. Other transactions with KMP and their related parties

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

| Nature of the transaction | Ref | Value of transactions during year | Outstanding balance (incl. loans and commitments) | Terms and conditions | Provisions for doubtful debts outstanding | Doubtful debts expense recognised |
|--------------------------------|-----|-----------------------------------|---|-------------------------|---|-----------------------------------|
| 2018 | | | | | | |
| Director remuneration | 1 | 42 | – | n/a | – | – |
| Payment of contributions | 3 | 398 | – | 30 day terms on invoice | – | – |
| Legal services | 4 | 321 | 4 | n/a | – | – |
| Training services | 5 | 90 | – | 30 day terms on invoice | – | – |
| Tourism services | 6 | 32 | – | 30 day terms on invoice | – | – |
| Rebates | 7 | 19 | – | n/a | – | – |
| Surveying services | 8 | 6 | – | 30 day terms on invoice | – | – |
| Training services | 9 | 38 | – | 30 day terms on invoice | – | – |
| Cleaning services | 10 | 24 | – | 30 day terms on invoice | – | – |
| Sub lease of Council buildings | 11 | 66 | – | 30 day terms on invoice | – | – |
| 2017 | | | | | | |
| Director remuneration | 1 | 38 | – | n/a | – | – |
| Purchase of materials | 2 | 22 | – | 30 day terms on invoice | – | – |
| Payment of contributions | 3 | 391 | – | n/a | – | – |
| Legal Services | 4 | 205 | – | 30 day terms on invoice | – | – |
| Training services | 5 | 87 | – | 30 day terms on invoice | – | – |
| Tourism services | 6 | 32 | – | 30 day terms on invoice | – | – |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Related party transactions (continued)

b. Other transactions with KMP and their related parties (continued)

- 1 A member of Council's KMP is remunerated for the provision of board member services by Newcastle Airport Pty Ltd which Port Stephens Council has a 50% shareholding in
- 2 Port Stephens Council purchased road base materials from Grafil Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
- 3 A member of Council's KMP is a board member of Destination Port Stephens (a non profit organisation) which receives an annual contribution from Council towards generating economic activity within the LGA. The KMP member is not remunerated by Destination Port Stephens for their Directorship
- 4 Port Stephens Council paid for legal services from Local Government Legal (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
- 5 Port Stephens Council paid for training services from Local Government Training Solutions (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
- 6 Port Stephens Council paid for tourism promotion services from Screen Hunter (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
- 7 Port Stephens Council received purchasing rebates from Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
- 8 Port Stephens Council purchased surveying services from the Le Mottee Group Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
- 9 Port Stephens Council purchased training services from Noble Works Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
- 10 Port Stephens Council purchased cleaning services from Crest Birubi Beach Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
- 11 Crest Birubi Beach Pty Ltd (a company which has a member of Council's KMP as a director) have a sublease with Birubi Point Surf Lifesaving Club in relation to a Council owned building. The rent is based on current market rates and subject to periodic review.

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

Note 22. Related party transactions (continued)

\$ '000

c. Other related party transactions

Nature of the transaction

| | | Value of transactions during year (incl. loans and commitments) | Outstanding balance | Terms and conditions | Provisions for doubtful debts outstanding | Doubtful debts expense recognised |
|----------------------|-------|---|---------------------|----------------------|---|-----------------------------------|
| 2018 | | | | | | |
| Shareholder dividend | Ref 1 | 1,903 | – | n/a | – | – |
| 2017 | | | | | | |
| Shareholder dividend | Ref 1 | 1,234 | – | n/a | – | – |

1 Port Stephens Council is a 50% shareholder in the joint operation of Newcastle Airport Pty Ltd for which it receives an annual dividend from.

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

Note 23. Statement of developer contributions

\$ '000

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in the Port Stephens local government area.

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|--|-----------------|--|-----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Drainage | (1) | 20 | - | - | - | - | 19 | - |
| Roads | 1,319 | 494 | - | 21 | (622) | - | 1,212 | - |
| Traffic facilities | 39 | 3 | - | 1 | (15) | - | 28 | - |
| Parking | (8) | - | - | - | - | - | (8) | - |
| Open space | 1,992 | 780 | - | 34 | (631) | 129 | 2,304 | 129 |
| Community facilities | 2,407 | 880 | - | 43 | (1,043) | (129) | 2,158 | (129) |
| Recreation | 4,664 | 1,862 | - | 79 | (1,034) | - | 5,571 | - |
| Fire Fighting Facilities | 339 | 75 | - | 6 | (81) | - | 339 | - |
| Civic Administration | 276 | 356 | - | 5 | (252) | - | 385 | - |
| Haulage | 3,182 | 833 | 21 | 54 | (1,687) | - | 2,403 | - |
| Medowie, Traffic and Transport | - | 201 | - | - | - | - | 201 | - |
| S7.11 contributions – under a plan | 14,210 | 5,504 | 21 | 243 | (5,365) | - | 14,612 | - |
| S7.12 levies – under a plan | 998 | 300 | - | 17 | (506) | - | 809 | - |
| Total S7.11 and S7.12 revenue under plans | 15,208 | 5,804 | 21 | 260 | (5,871) | - | 15,421 | - |
| Repealed funds | 125 | - | - | 2 | (61) | - | 66 | - |
| Total contributions | 15,333 | 5,804 | 21 | 262 | (5,932) | - | 15,487 | - |

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

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CATCHMENT DISTRICT – WESTERN SHIRE

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 68 | 25 | - | 1 | (70) | - | 24 | - |
| Open space | 78 | 28 | - | 2 | - | - | 108 | - |
| Community facilities | 130 | 27 | - | 3 | - | - | 160 | - |
| Recreation | 193 | 46 | - | 3 | - | - | 242 | - |
| Total | 469 | 126 | - | 9 | (70) | - | 534 | - |

CATCHMENT DISTRICT – RAYMOND TERRACE

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 34 | 175 | - | - | (40) | - | 169 | - |
| Parking | (11) | - | - | - | - | - | (11) | - |
| Open space | 232 | 265 | - | 4 | (81) | - | 420 | - |
| Community facilities | 117 | 308 | - | 2 | (125) | - | 302 | - |
| Recreation | 640 | 633 | - | 11 | (35) | - | 1,249 | - |
| Total | 1,012 | 1,381 | - | 17 | (281) | - | 2,129 | - |

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

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CATCHMENT DISTRICT – MEDOWIE

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|--------------------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 396 | 131 | - | 7 | (135) | - | 399 | - |
| Medowie, Traffic and Transport | - | 201 | - | - | - | - | 201 | - |
| Open space | 389 | 199 | - | 6 | - | - | 594 | - |
| Community facilities | 286 | 232 | - | 5 | (390) | - | 133 | - |
| Recreation | 1,568 | 476 | - | 26 | (101) | - | 1,969 | - |
| Total | 2,639 | 1,239 | - | 44 | (626) | - | 3,296 | - |

CATCHMENT DISTRICT – KARUAH / SWAN BAY

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 67 | 36 | - | 1 | (66) | - | 38 | - |
| Open space | 117 | 53 | - | 2 | - | - | 172 | - |
| Community facilities | (110) | 64 | - | - | - | - | (46) | - |
| Recreation | 155 | 126 | - | 3 | - | - | 284 | - |
| Total | 229 | 279 | - | 6 | (66) | - | 448 | - |

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

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CATCHMENT DISTRICT - TILGERRY PENINSULA

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 21 | 21 | - | 1 | (27) | - | 16 | - |
| Open space | (42) | 33 | - | - | - | - | (9) | - |
| Community facilities | 65 | 32 | - | 1 | - | - | 98 | - |
| Recreation | 249 | 89 | - | 4 | - | - | 342 | - |
| Total | 293 | 175 | - | 6 | (27) | - | 447 | - |

CATCHMENT DISTRICT – TOMAREE PENINSULA

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Drainage | (1) | 20 | - | - | - | - | 19 | - |
| Roads | 24 | 77 | - | - | (92) | - | 9 | - |
| Parking | 3 | - | - | - | - | - | 3 | - |
| Open space | 250 | 167 | - | 4 | (550) | 129 | - | 129 |
| Community facilities | 780 | 187 | - | 13 | (136) | (129) | 715 | (129) |
| Recreation | (35) | 411 | - | - | - | - | 376 | - |
| Total | 1,021 | 862 | - | 17 | (778) | - | 1,122 | - |

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

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CATCHMENT DISTRICT – RURAL BALANCE

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 29 | - | - | - | - | - | 29 | - |
| Open space | 22 | - | - | - | - | - | 22 | - |
| Community facilities | 1 | - | - | - | - | - | 1 | - |
| Recreation | 36 | - | - | 1 | - | - | 37 | - |
| Total | 88 | - | - | 1 | - | - | 89 | - |

CATCHMENT DISTRICT – FERN BAY

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Roads | 680 | 29 | - | 11 | (192) | - | 528 | - |
| Traffic facilities | 39 | 3 | - | 1 | (15) | - | 28 | - |
| Open space | 946 | 35 | - | 16 | - | - | 997 | - |
| Community facilities | 1,138 | 30 | - | 19 | (392) | - | 795 | - |
| Recreation | 1,858 | 81 | - | 31 | (898) | - | 1,072 | - |
| Total | 4,661 | 178 | - | 78 | (1,497) | - | 3,420 | - |

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

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CATCHMENT DISTRICT – SHIRE WIDE

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|--------------------------|-----------------|--|-----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Haulage | 3,182 | 833 | 21 | 54 | (1,688) | - | 2,402 | - |
| Fire Fighting Facilities | 339 | 75 | - | 6 | (81) | - | 339 | - |
| Civic Administration | 276 | 356 | - | 5 | (252) | - | 385 | - |
| Total | 3,797 | 1,264 | 21 | 65 | (2,021) | - | 3,126 | - |

S7.12 LEVIES – UNDER A PLAN

S7.12 LEVIES – UNDER A PLAN

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|--------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Section 7.12 | 998 | 300 | - | 17 | (506) | - | 809 | - |
| Total | 998 | 300 | - | 17 | (506) | - | 809 | - |

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Statement of performance measures – consolidated results

| \$ '000 | Amounts 2018 | Indicator 2018 | Prior periods 2017 | 2016 | Benchmark |
|--|-----------------|-------------------|-----------------------|----------|-----------|
| Local government industry indicators – consolidated | | | | | |
| 1. Operating performance ratio | | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses | <u>(93)</u> | -0.08% | 7.10% | 4.09% | > 0.00% |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions | <u>116,093</u> | | | | |
| 2. Own source operating revenue ratio | | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions | <u>102,662</u> | 78.08% | 76.57% | 80.45% | > 60.00% |
| Total continuing operating revenue ⁽¹⁾ | <u>131,480</u> | | | | |
| 3. Unrestricted current ratio | | | | | |
| Current assets less all external restrictions ⁽²⁾ | <u>38,991</u> | 2.05x | 3.18x | 3.53x | > 1.5x |
| Current liabilities less specific purpose liabilities ^(3, 4) | <u>18,975</u> | | | | |
| 4. Debt service cover ratio | | | | | |
| Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation | <u>15,108</u> | 2.36x | 6.35x | 4.71x | > 2x |
| Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement) | <u>6,411</u> | | | | |
| 5. Rates, annual charges, interest and extra charges outstanding percentage | | | | | |
| Rates, annual and extra charges outstanding ⁽⁵⁾ | <u>1,644</u> | 2.84% | 2.80% | 2.69% | 10% |
| Rates, annual and extra charges collectible | <u>57,951</u> | | | | |
| 6. Cash expense cover ratio | | | | | |
| Current year's cash and cash equivalents plus all term deposits | <u>51,070</u> | 5.53 mths | 5.8 mths | 3.4 mths | > 3 mths |
| Payments from cash flow of operating and financing activities | <u>9,241</u> | | | | |

Notes

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

(2) Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

(3) Refer to Notes 12 and 13.

(4) Refer to Note 12(b) and 13(b) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

(5) Net of rates in advance.

END OF AUDITED FINANCIAL STATEMENTS

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25. Council information and contact details

Principal place of business:

116 Adelaide Street
Raymond Terrace NSW 2324

Contact details

Mailing address:

PO Box 42
Raymond Terrace NSW 2324

Opening hours:

8:30am to 5:00pm
Monday to Friday

Telephone: 02 4988 0255

Facsimile: 02 4988 0130

Internet: www.portstephens.nsw.gov.au

Email: council@portstephens.nsw.gov.au

Officers

GENERAL MANAGER

Wayne Wallis

RESPONSIBLE ACCOUNTING OFFICER

Tim Hazell

PUBLIC OFFICER

Tony Wickham

AUDITORS

The Audit Office of New South Wales
Level 15, 1 Margaret Street,
Sydney, NSW, 2001

Elected members

MAYOR

Ryan Palmer

COUNCILLORS

Cr John Nell
Cr Glen Dunkley
Cr Jaimie Abbott
Cr Chris Doohan
Cr Steve Tucker
Cr Sarah Smith
Cr Paul Le Mottee
Cr Ken Jordan
Cr Giacomo Arnott

Other information

ABN: 16 744 377 876



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial report
Port Stephens Council

To the Councillors of Port Stephens Council

Opinion

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

In my opinion,

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial report have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to:

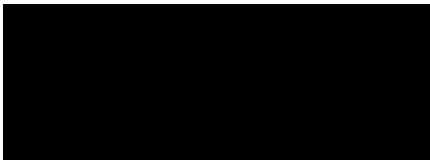
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does *not* provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 20 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.



Nathan Carter
Director, Financial Audit Services

29 October 2019
SYDNEY

Mr Ryan Palmer
Mayor
Port Stephens Council
PO Box 42
RAYMOND TERRACE NSW 2324

Contact: Nathan Carter
Phone no: 9275 7349
Our ref: D1826191/1779

29 October 2018

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2018
Port Stephens Council**

I have audited the general purpose financial statements of Port Stephens Council (the Council) for the year ended 30 June 2018 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2018 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

| | 2018 \$m | 2017 \$m | Variance % |
|--|-------------|-------------|---------------|
| Rates and annual charges revenue | 55.3 | 53.4 | ↑ 3.6 |
| Grants and contributions revenue | 28.8 | 30.8 | ↓ 6.5 |
| Materials and contracts expense | 41 | 36.3 | ↑ 13 |
| Operating result for the year | 20.3 | 22.7 | ↓ 10.6 |
| Net operating result before capital amounts | 4.9 | 8.4 | ↓ 41.7 |

Our insights inform and challenge government to improve outcomes for citizens



Council’s net operating result for the year was \$20.3 million, which was \$2.4 million or 10.6 per cent lower than the 2016–17 result, while the net operating result before capital grants and contributions was \$4.9 million, which was \$3.5 million or 41.7 per cent lower than the 2016–17 result.

This is attributable to an overall increase in expenses of \$7.2 million, mainly caused by the increase in materials and contracts expenses, noted below, which is offset by an increase in total income of \$4.9 million. The increase in total income is mainly due to an increase in the fair value of investment property of \$4.8m in 2017–18 (\$0.5m in 2016–17).

Materials and contracts expense of \$41 million increased by \$4.7 million or 13 per cent in 2017–18. This was mainly attributable due to:

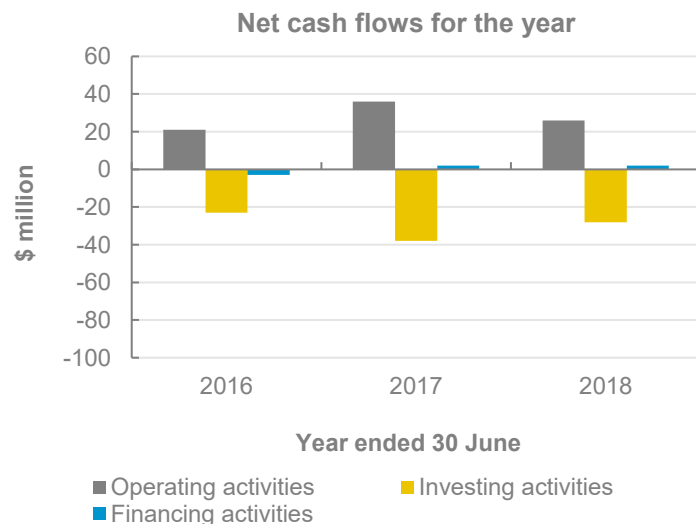
- recognition of a provision for legal settlement of \$2.1 million in 2017–18 related to an ongoing legal matter
- increase in contractor and consultancy costs of \$1.9 million.

Grants and contributions revenue of \$28.8 million decreased by \$2 million or 6.5 per cent in 2017–2018. This was mainly due to a \$2.9 million reduction in financial assistance grant income, which is recognised as revenue upon receipt.

Rates and annual charges revenue increased by \$1.9 million or 3.6 per cent in 2017–18. The increase is a combination of the IPART approved increase of 1.5 per cent and growth in the Council area. There was no special rate variation in 2017–18.

STATEMENT OF CASH FLOWS

- The decrease in cash provided from operating activities of \$9.5 million is largely due to a decrease in receipts from grants and contributions of \$2.1 million, a decrease in other receipts of \$2.2 million, an increase in payments to employees of \$2.3 million and an increase in payments for materials and contracts of \$4.5 million.
- The decrease in net cash used in investing activities of \$10.5 million is largely due to an increase in receipts from the sale of real estate assets of \$5.4 million, a decrease in net payments for the purchase of investment securities \$14.4 million offset by an increase in purchases of infrastructure, property, plant and equipment of \$7.6 million.



FINANCIAL POSITION

Cash and Investments

| Cash and Investments | 2018 | 2017 | Commentary |
|-----------------------------|---------------|---------------|---|
| | \$m | \$m | |
| External restrictions | 26,717 | 25,453 | • The increase in externally restricted cash and investments is mainly due to increases in cash held for domestic waste management and crown holiday parks. |
| Internal restrictions | 24,353 | 23,273 | |
| Unrestricted | - | - | |
| Cash and investments | 51,070 | 48,726 | <ul style="list-style-type: none"> • The increase in internally restricted cash and investments is largely due to an increase in cash and investments from the Newcastle Airport Partnership (\$15.1 million in 2017–18 vs \$13.8 million in 2016–17). • Council does not have any unrestricted cash and investments. |

PERFORMANCE RATIOS

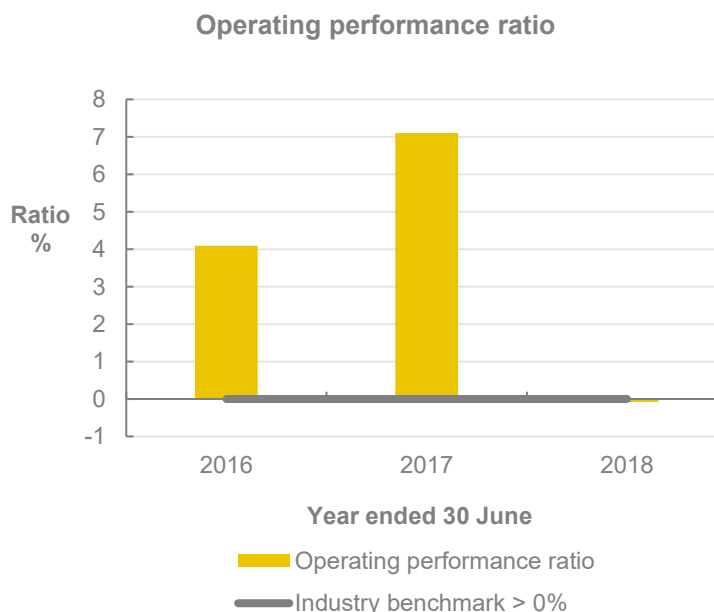
The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 24 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 and is not audited.

Operating performance ratio

Council's operating performance ratio was (0.08) per cent in 2017–18, which is marginally below the benchmark.

The reasons for the decline in the net operating result are included in the 'Income Statement' commentary above.

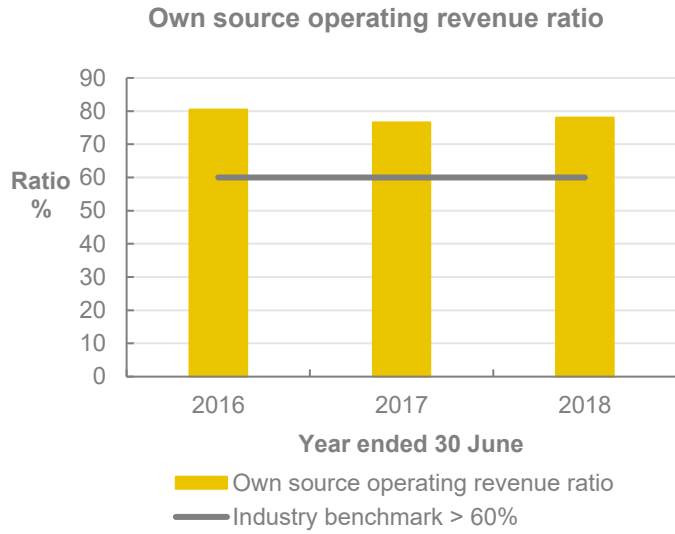
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

Council has exceeded the benchmark in the current year, as a result of its diversified operating revenue, which includes income of \$15.1 million from the Newcastle Airport Partnership.

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.

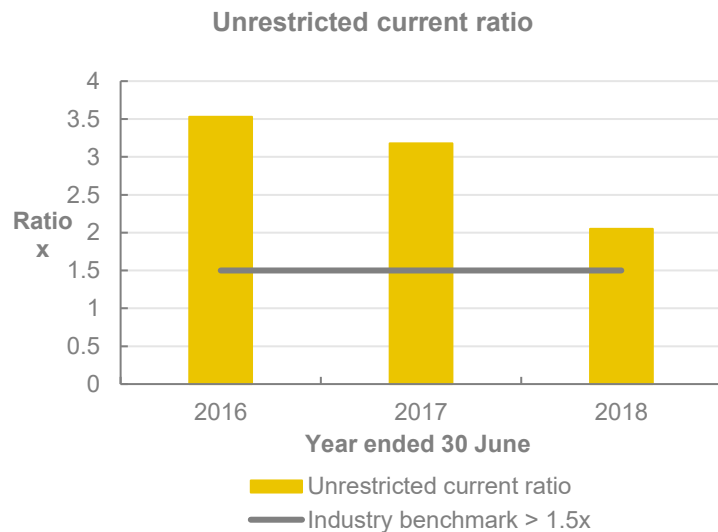


Unrestricted current ratio

Council has exceeded the benchmark in the current year. Although the ratio remains positive it has decreased from the prior year as a result of:

- a decrease in real estate inventory of \$8.5 million, mainly due to reclassification from current assets to non-current assets during the year
- an increase in payables of \$1.8 million.

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

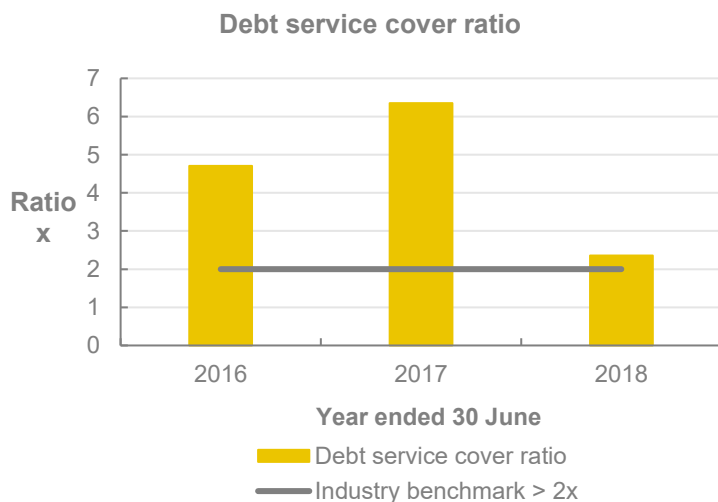


Debt service cover ratio

Council has marginally exceeded the benchmark in the current year. The ratio has decreased from the prior year because of:

- a decline in the net operating result, as noted in the 'Income Statement' commentary above
- an increase in repayments of borrowings of \$2.7 million from the prior year.

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.



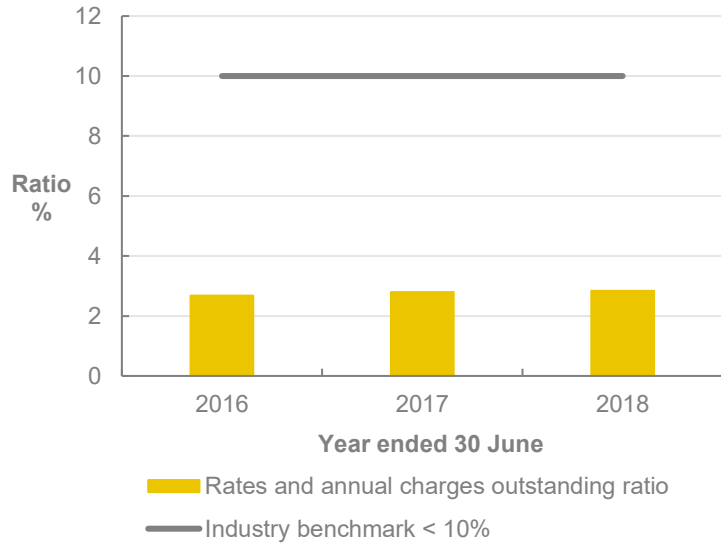
Our insights inform and challenge government to improve outcomes for citizens

Rates and annual charges outstanding ratio

Councils rates and annual charges outstanding ratio has remained stable over the last three years and remains better than the industry benchmark.

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

Rates and annual charges outstanding ratio

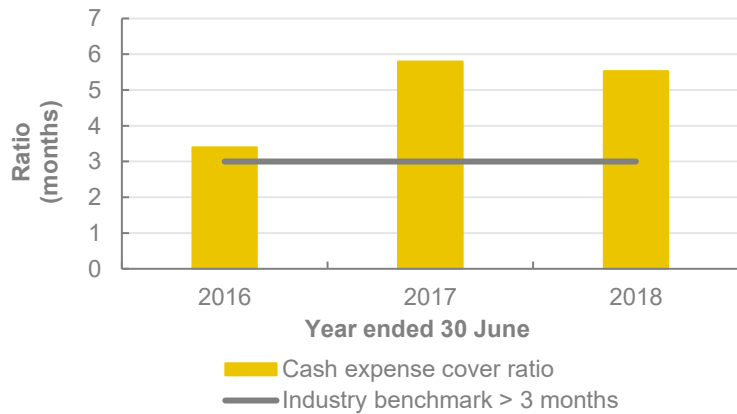


Cash expense cover ratio

Councils cash expense cover ratio exceeds the industry benchmark and has remained relatively stable from the prior year.

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.

Cash expense cover ratio



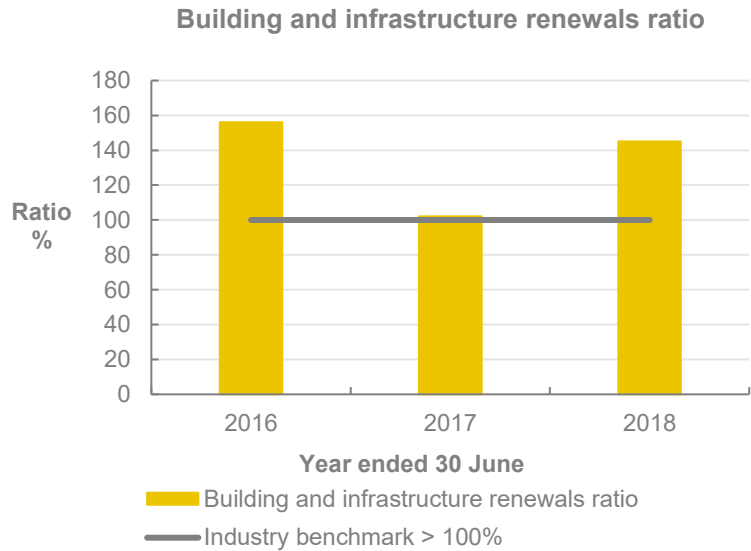
Building and infrastructure renewals ratio (unaudited)

Council has exceeded the benchmark in the current year and improved the position from the prior year because of:

- an increase in asset renewals from \$10.6 million in 2016–17 to \$14.5 million in 2017–18
- relatively consistent depreciation expense.

The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from council's Special Schedule 7 which is not audited.



OTHER MATTERS

New accounting standards implemented

AASB 2016-2 'Disclosure Initiative – Amendments to AASB 107'

Effective for annual reporting periods beginning on or after 1 January 2017

This Standard requires entities to provide disclosures that enable users of financial statements to evaluate changes (both cash flows and non-cash changes) in liabilities arising from financing activities.

Council's disclosure of the changes in their liabilities arising from financing activities is disclosed in Note 12.

Legislative compliance

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

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



Nathan Carter
 Director, Financial Audit Services

cc: Mr Wayne Wallis, General Manager
 Mr Ben Niland, Chair of the Audit and Risk Committee
 Mr Tim Hurst, Chief Executive of the Office of Local Government

Port Stephens

SPECIAL SCHEDULES
for the year ended 30 June 2018

**"A great lifestyle in a
treasured environment"**



Special Schedules

for the year ended 30 June 2018

Contents

Special Schedules ¹

| | |
|--|---|
| Special Schedule 1 | Net Cost of Services |
| Special Schedule 2 Special Schedule 2 | Permissible income for general rates Independent Auditors Report |
| Special Schedule 7 | Report on Infrastructure Assets |

¹ Special Schedules are not audited (with the exception of Special Schedule 2).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2018

\$'000

| Function or activity | Expenses from continuing operations | Income from continuing operations | | Net cost of services |
|--|-------------------------------------|-----------------------------------|------------|----------------------|
| | | Non-capital | Capital | |
| Governance | 3,138 | 162 | – | (2,976) |
| Administration | 23,938 | 6,932 | – | (17,006) |
| Public order and safety | | | | |
| Fire service levy, fire protection, emergency services | 119 | 3 | – | (116) |
| Beach control | 791 | – | – | (791) |
| Enforcement of local government regulations | 1,938 | 465 | – | (1,473) |
| Animal control | – | 73 | – | 73 |
| Other | 1,893 | 1,061 | 349 | (483) |
| Total public order and safety | 4,741 | 1,602 | 349 | (2,790) |
| Health | 577 | 393 | – | (184) |
| Environment | | | | |
| Noxious plants and insect/vermin control | 167 | 264 | – | 97 |
| Other environmental protection | 1,416 | 1,061 | 829 | 474 |
| Solid waste management | 16,577 | 18,013 | – | 1,436 |
| Street cleaning | 75 | – | – | (75) |
| Drainage | 4,002 | – | – | (4,002) |
| Stormwater management | – | – | – | – |
| Total environment | 22,237 | 19,338 | 829 | (2,070) |
| Community services and education | | | | |
| Administration and education | 8 | 25 | – | 17 |
| Social protection (welfare) | 1,233 | 368 | 100 | (765) |
| Aged persons and disabled | – | – | – | – |
| Children's services | 1,498 | 1,820 | – | 322 |
| Total community services and education | 2,739 | 2,213 | 100 | (426) |
| Housing and community amenities | | | | |
| Public cemeteries | 122 | 167 | – | 45 |
| Public conveniences | – | – | – | – |
| Street lighting | 1,671 | – | – | (1,671) |
| Town planning | 3,076 | 1,127 | – | (1,949) |
| Other community amenities | – | – | – | – |
| Total housing and community amenities | 4,869 | 1,294 | – | (3,575) |

Special Schedule 1 – Net Cost of Services (continued)

for the year ended 30 June 2018

\$'000

| Function or activity | Expenses from continuing operations | Income from continuing operations | | Net cost of services |
|---|-------------------------------------|-----------------------------------|---------------|----------------------|
| | | Non-capital | Capital | |
| Recreation and culture | | | | |
| Public libraries | 1,820 | 391 | – | (1,429) |
| Museums | – | – | – | – |
| Art galleries | – | – | – | – |
| Community centres and halls | 665 | (264) | – | (929) |
| Performing arts venues | – | – | – | – |
| Other performing arts | – | – | – | – |
| Other cultural services | 440 | – | – | (440) |
| Sporting grounds and venues | 9 | – | – | (9) |
| Swimming pools | 1,588 | – | – | (1,588) |
| Parks and gardens (lakes) | 712 | 72 | 12 | (628) |
| Other sport and recreation | 3,595 | 687 | 5,145 | 2,237 |
| Total recreation and culture | 8,829 | 886 | 5,157 | (2,786) |
| Fuel and energy | – | – | – | – |
| Agriculture | – | – | – | – |
| Mining, manufacturing and construction | | | | |
| Building control | 1,744 | 1,726 | – | (18) |
| Other mining, manufacturing and construction | – | – | – | – |
| Total mining, manufacturing and const. | 1,744 | 1,726 | – | (18) |
| Transport and communication | | | | |
| Urban roads (UR) – local | 5,099 | 1,163 | 8,196 | 4,260 |
| Urban roads – regional | 3,582 | 5,714 | – | 2,132 |
| Sealed rural roads (SRR) – local | 1,137 | – | – | (1,137) |
| Sealed rural roads (SRR) – regional | – | – | – | – |
| Unsealed rural roads (URR) – local | 643 | – | – | (643) |
| Unsealed rural roads (URR) – regional | – | – | – | – |
| Bridges on UR – local | – | – | – | – |
| Bridges on SRR – local | 213 | – | – | (213) |
| Bridges on URR – local | – | – | – | – |
| Bridges on regional roads | – | – | – | – |
| Parking areas | 578 | 331 | 46 | (201) |
| Footpaths | – | – | – | – |
| Aerodromes | 11,955 | 15,104 | – | 3,149 |
| Other transport and communication | 5,036 | 839 | – | (4,197) |
| Total transport and communication | 28,243 | 23,151 | 8,242 | 3,150 |
| Economic affairs | | | | |
| Camping areas and caravan parks | 9,154 | 11,149 | – | 1,995 |
| Other economic affairs | 6,550 | 5,118 | 710 | (722) |
| Total economic affairs | 15,704 | 16,267 | 710 | 1,273 |
| Totals – functions | 116,759 | 73,964 | 15,387 | (27,408) |
| General purpose revenues ⁽¹⁾ | | 47,744 | | 47,744 |
| Share of interests – joint ventures and associates using the equity method | – | – | | – |
| NET OPERATING RESULT ⁽²⁾ | 116,759 | 121,708 | 15,387 | 20,336 |

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges

(2) As reported in the Income Statement

Special Schedule 2 – Permissible income for general rates

for the year ended 30 June 2019

| \$'000 | | Calculation 2018/19 | Calculation 2017/18 |
|---|-------------------------|------------------------|------------------------|
| Notional general income calculation ⁽¹⁾ | | | |
| Last year notional general income yield | a | 40,767 | 39,685 |
| Plus or minus adjustments ⁽²⁾ | b | 364 | 430 |
| Notional general income | c = (a + b) | 41,131 | 40,115 |
| Permissible income calculation | | | |
| Special variation percentage ⁽³⁾ | d | 0.00% | 0.00% |
| Or rate peg percentage | e | 2.30% | 1.50% |
| Or crown land adjustment (incl. rate peg percentage) | f | 2.32% | 1.53% |
| Less expiring special variation amount | g | – | – |
| Plus special variation amount | h = d x (c – g) | – | – |
| Or plus rate peg amount | i = c x e | – | – |
| Or plus Crown land adjustment and rate peg amount | j = c x f | 954 | 614 |
| Sub-total | k = (c + g + h + i + j) | 42,085 | 40,729 |
| Plus (or minus) last year's carry forward total | l | (0) | 17 |
| Less valuation objections claimed in the previous year | m | (21) | – |
| Sub-total | n = (l + m) | (21) | 17 |
| Total permissible income | o = k + n | 42,064 | 40,746 |
| Less notional general income yield | p | 42,049 | 40,767 |
| Catch-up or (excess) result | q = o – p | 15 | (21) |
| Plus income lost due to valuation objections claimed ⁽⁴⁾ | r | – | 21 |
| Less unused catch-up ⁽⁵⁾ | s | – | – |
| Carry forward to next year | t = q + r – s | 15 | (0) |

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.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (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 Special Schedule 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Port Stephens Council

To the Councillors of Port Stephens Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of Port Stephens Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), and is in accordance with the books and records of the Council.

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than 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 and the Special Schedules excluding Special Schedule 2 (the other Schedules).

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.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

My opinion does *not* provide assurance:

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



Nathan Carter
Director, Financial Audit Services

29 October 2018
SYDNEY

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018

\$'000

| Asset class | Asset category | Estimated cost to bring assets to satisfactory standard | Estimated cost to bring to the agreed level of service set by Council | 2017/18 Required maintenance ^a | 2017/18 Actual maintenance | Net carrying amount | Gross replacement cost (GRC) | Assets in condition as a percentage of gross replacement cost | | | | |
|-------------------------|-------------------|---|---|---|----------------------------|---------------------|------------------------------|---|--------------|--------------|-------------|-------------|
| | | | | | | | | 1 | 2 | 3 | 4 | 5 |
| Buildings | Buildings | 1,481 | 1,481 | 1,575 | 1,944 | 93,660 | 175,686 | 26% | 38% | 31% | 5% | 0% |
| | Sub-total | 1,481 | 1,481 | 1,575 | 1,944 | 93,660 | 175,686 | 25.7% | 38.0% | 30.9% | 5.3% | 0.1% |
| Other structures | Other structures | – | – | 202 | 319 | 4,122 | 5,319 | 4% | 76% | 21% | 0% | 0% |
| | Sub-total | – | – | 202 | 319 | 4,122 | 5,319 | 3.5% | 75.7% | 20.8% | 0.0% | 0.0% |
| Roads | Sealed roads | 10,051 | 10,051 | 3,491 | 4,145 | 331,465 | 340,903 | 21% | 46% | 21% | 8% | 4% |
| | Unsealed roads | – | – | 700 | 703 | 8,159 | 11,540 | 6% | 0% | 94% | 0% | 0% |
| | Bridges | 80 | 80 | 100 | 8 | 11,088 | 11,432 | 21% | 79% | 0% | 0% | 0% |
| | Footpaths | 65 | 65 | 109 | 226 | 52,246 | 57,573 | 9% | 27% | 59% | 5% | 0% |
| | Other road assets | 1,001 | 1,001 | 768 | 397 | 44,639 | 46,814 | 12% | 22% | 62% | 4% | 0% |
| | Sub-total | 11,197 | 11,197 | 5,168 | 5,477 | 447,596 | 468,262 | 18.3% | 40.9% | 31.1% | 6.8% | 2.9% |

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

\$'000

| Asset class | Asset category | Estimated cost to bring assets to satisfactory standard | Estimated cost to bring to the agreed level of service set by Council | 2017/18 Required maintenance ^a | 2017/18 Actual maintenance | Net carrying amount | Gross replacement cost (GRC) | Assets in condition as a percentage of gross replacement cost | | | | |
|---------------------------------------|---------------------------|---|---|---|----------------------------|---------------------|------------------------------|---|--------------|--------------|--------------|-------------|
| | | | | | | | | 1 | 2 | 3 | 4 | 5 |
| Stormwater drainage | Stormwater drainage | 1,006 | 1,006 | 1,220 | 1,083 | 191,824 | 190,202 | 22% | 76% | 1% | 1% | 0% |
| | Sub-total | 1,006 | 1,006 | 1,220 | 1,083 | 191,824 | 190,202 | 22.0% | 76.0% | 1.0% | 1.0% | 0.0% |
| Open space/recreational assets | Swimming pools | – | – | 291 | 261 | 3,480 | 6,838 | 0% | 79% | 21% | 0% | 0% |
| | Open space | 251 | 251 | 3,552 | 3,293 | 17,943 | 35,243 | 2% | 54% | 30% | 13% | 1% |
| | Sub-total | 251 | 251 | 3,843 | 3,554 | 21,423 | 42,081 | 1.7% | 58.3% | 28.7% | 10.6% | 0.7% |
| Other infrastructure assets | Other | 80 | 80 | 36 | 158 | 6,004 | 13,207 | 21% | 33% | 32% | 14% | 0% |
| | Sub-total | 80 | 80 | 36 | 158 | 6,004 | 13,207 | 21.0% | 33.0% | 32.0% | 14.0% | 0.0% |
| | TOTAL – ALL ASSETS | 14,015 | 14,015 | 12,043 | 12,537 | 764,630 | 894,757 | 19.7% | 48.7% | 24.5% | 5.5% | 1.6% |

Notes:

^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 |

Special Schedule 7 – Report on Infrastructure Assets (continued)

for the year ended 30 June 2018

| | Amounts 2018 | Indicator 2018 | Prior periods | | Benchmark |
|--|-----------------|-------------------|---------------|---------|-----------|
| | | | 2017 | 2016 | |
| Infrastructure asset performance indicators * consolidated | | | | | |
| 1. Buildings and infrastructure renewals ratio ⁽¹⁾ | | | | | |
| Asset renewals ⁽²⁾ | 11,957 | 123.14% | 99.97% | 156.05% | >= 100% |
| Depreciation, amortisation and impairment | 9,710 | | | | |
| 2. Infrastructure backlog ratio ⁽¹⁾ | | | | | |
| Estimated cost to bring assets to a satisfactory standard | 14,015 | 1.83% | 1.91% | 2.15% | < 2.00% |
| Net carrying amount of infrastructure assets | 764,630 | | | | |
| 3. Asset maintenance ratio | | | | | |
| Actual asset maintenance | 12,537 | 104.10% | 93.34% | 141.60% | > 100% |
| Required asset maintenance | 12,043 | | | | |
| 4. Cost to bring assets to agreed service level | | | | | |
| Estimated cost to bring assets to an agreed service level set by Council | 14,015 | 1.57% | 1.59% | 1.74% | |
| Gross replacement cost | 894,757 | | | | |

Notes

* All asset performance indicators are calculated using the asset 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.

**Port Stephens Council
Holiday Parks & Investment Property Report
Financial Year 2017/2018**

| Holiday Parks | | Operating Income | Operating Expenditure | EBITDA (6) | Net Yield % (1) | Notes |
|----------------------------|---------|-----------------------------|----------------------------------|-------------------|----------------------------|------------------|
| Fingal Bay | Crown | 4,085,343 | 2,565,649 | 1,519,694 | 13% | |
| Halifax | Crown | 2,803,460 | 1,938,844 | 864,616 | 13% | |
| Shoal Bay | Crown | 1,001,227 | 638,939 | 362,288 | | |
| | Council | <u>1,859,422</u> | <u>1,186,601</u> | <u>672,821</u> | 8% | |
| | | 2,860,649 | 1,825,539 | 1,035,109 | | |
| Thou Walla | Council | 731,838 | 707,644 | 24,194 | 0% | 2 |
| TreEscape | Council | 717,768 | 705,100 | 12,668 | 0% | 3 & 4 |
| | | | | | | |
| Investment Property | | Operating Income | Operating Expenditure | EBITDA (6) | Net Yield % (1) | |
| | Total | 2,718,373 | 532,094 | 2,186,279 | 7% | 5 |
| | | | | | | |
| Newcastle Airport | | Operating Income | Operating Expenditure | Net Profit | Net Yield % (7) | |
| | Total | 15,696,656 | 11,955,252 | 3,741,404 | 12% | |

Notes

- 1** Net Yield = EBITDA / capital
- 2** Yield returns were affected by a transition from outsourced operation to insured
- 3** Yield returns are dependent on the Koloa Hospital project which is yet to be constructed
- 4** Includes notional rent from the Business Development Unit
- 5** Councils policy on the required return on capital in commercial property investments is between 7-9%
- 6** EBITDA used as the numerator for Return on Investment calculation in accordance with Crown Lands reporting
- 7** Net Yield = Net Profit / capital



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