

Yabang Cumbra-Cyu

2018 to 2019 Annual Report | Volume 2



PORT STEPHENS
COUNCIL



Port Stephens Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

Port Stephens Council

General Purpose Financial Statements

for the year ended 30 June 2019

Contents	Page
1. Understanding Council's Financial Statements	3
2. Statement by Councillors & Management	5
3. Primary Financial Statements:	
Income Statement	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
4. Notes to the Financial Statements	11
5. Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	95
On the Financial Statements (Sect 417 [3])	96

Overview

Port Stephens Council 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.

Port Stephens Council

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

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

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

Port Stephens Council

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements (continued)

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.

Port Stephens Council

General Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

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

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

Signed in accordance with a resolution of Council made on 10 September 2019.

Ryan Palmer
Mayor
10 September 2019

Sarah Smith
Councillor
10 September 2019

Wayne Wallis
General Manager
10 September 2019

Tim Hazell
Responsible Accounting Officer
10 September 2019

Port Stephens Council

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ^{1, 2}
Income from continuing operations				
<u>Revenue:</u>				
56,787	Rates and annual charges	3a	57,652	56,097
39,367	User charges and fees	3b	44,698	39,752
1,353	Interest and investment revenue	3c	1,451	1,417
6,591	Other revenues	3d	6,596	6,206
11,758	Grants and contributions provided for operating purposes	3e,3f	11,918	12,621
5,811	Grants and contributions provided for capital purposes	3e,3f	21,312	15,125
<u>Other income:</u>				
250	Net gains from the disposal of assets	5	278	816
–	Fair value increment on investment properties	10	3,592	4,799
121,917	Total income from continuing operations		147,497	136,833
Expenses from continuing operations				
45,135	Employee benefits and on-costs	4a	48,294	43,104
698	Borrowing costs	4b	705	679
36,830	Materials and contracts	4c	38,120	40,980
15,621	Depreciation and amortisation	4d	14,683	14,522
13,995	Other expenses	4e	17,317	16,901
–	Revaluation decrement / impairment of IPP&E	4d	3,174	573
112,279	Total expenses from continuing operations		122,293	116,759
9,638	Operating result from continuing operations		25,204	20,074
9,638	Net operating result for the year		25,204	20,074
Attributable to:				
9,638	- Council		25,204	20,074
–	- non-controlling interests		–	–
3,827	Net operating result for the year before grants and contributions provided for capital purposes		3,892	4,949

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

(2) Restated due to prior period error

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

Port Stephens Council

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ^{1,2}
Net operating result for the year (as per Income Statement)		25,204	20,074
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	^{9(a)}	8,951	20,651
Total items which will not be reclassified subsequently to the operating result		8,951	20,651
Total other comprehensive income for the year		8,951	20,651
Total comprehensive income for the year		34,155	40,725
Attributable to			
- Council		34,155	40,725
- non-controlling interests		—	—

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

(2) Restated due to prior period error

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

Port Stephens Council

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	Restated 2018 ¹	Restated 1 July 2017
ASSETS				
Current assets				
Cash and cash equivalent assets	6(a)	13,948	9,828	8,093
Investments	6(b)	35,067	40,209	40,402
Receivables	7	8,914	9,068	9,659
Inventories	8a	5,162	5,849	14,313
Other	8b	610	426	435
Total current assets		<u>63,701</u>	<u>65,380</u>	<u>72,902</u>
Non-current assets				
Investments	6(b)	1,222	1,033	231
Receivables	7	188	190	176
Inventories	8a	10,030	13,102	5,721
Infrastructure, property, plant and equipment	9(a)	960,971	930,630	890,274
Investment property	10a	35,550	31,467	26,000
Intangible assets	11	6,149	4,704	4,716
Other	8b	1,774	8	10
Total non-current assets		<u>1,015,884</u>	<u>981,134</u>	<u>927,128</u>
TOTAL ASSETS		<u>1,079,585</u>	<u>1,046,514</u>	<u>1,000,030</u>
LIABILITIES				
Current liabilities				
Payables	12	14,345	11,167	9,322
Income received in advance	12	–	9	431
Borrowings	12	4,464	3,460	2,837
Provisions	13	17,067	17,220	15,409
Total current liabilities		<u>35,876</u>	<u>31,856</u>	<u>27,999</u>
Non-current liabilities				
Payables	12	–	8	8
Borrowings	12	15,064	20,371	18,721
Provisions	13	742	531	532
Total non-current liabilities		<u>15,806</u>	<u>20,910</u>	<u>19,261</u>
TOTAL LIABILITIES		<u>51,682</u>	<u>52,766</u>	<u>47,260</u>
Net assets		<u>1,027,903</u>	<u>993,748</u>	<u>952,770</u>
EQUITY				
Accumulated surplus	14a	618,886	593,330	572,467
Revaluation reserves	14a	409,017	400,418	380,303
Council equity interest		<u>1,027,903</u>	<u>993,748</u>	<u>952,770</u>
Total equity		<u>1,027,903</u>	<u>993,748</u>	<u>952,770</u>

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

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

Port Stephens Council
Statement of Changes in Equity
for the year ended 30 June 2019

	2019			2018 ¹		
	Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance	593,330	400,418	993,748	567,409	380,303	947,712
Correction of prior period errors	–	–	–	5,311	–	5,311
Restated opening balance	593,330	400,418	993,748	572,720	380,303	953,023
Net operating result for the year	25,204	–	25,204	20,336	–	20,336
Correction of prior period errors	–	–	–	(262)	–	(262)
Restated net operating result for the period	25,204	–	25,204	20,074	–	20,074
Other comprehensive income						
– Gain (loss) on revaluation of IPP&E	–	8,951	8,951	–	20,651	20,651
Other comprehensive income	–	8,951	8,951	–	20,651	20,651
Total comprehensive income	25,204	8,951	34,155	20,074	20,651	40,725
Transfers between equity items	352	(352)	–	536	(536)	–
Equity – balance at end of the reporting period	618,886	409,017	1,027,903	593,330	400,418	993,748

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

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

Port Stephens Council

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
<u>Receipts</u>				
56,226	Rates and annual charges		57,360	55,080
39,283	User charges and fees		47,184	40,774
1,353	Investment and interest revenue received		1,284	1,239
15,468	Grants and contributions		23,646	22,779
–	Bonds, deposits and retention amounts received		133	62
5,887	Other		11,774	12,202
<u>Payments</u>				
(46,193)	Employee benefits and on-costs		(47,166)	(44,132)
(36,049)	Materials and contracts		(39,120)	(44,308)
(698)	Borrowing costs		(702)	(674)
(13,212)	Other		(24,151)	(16,045)
22,065	Net cash provided (or used in) operating activities	15b	30,242	26,977
Cash flows from investing activities				
<u>Receipts</u>				
–	Sale of investment securities		32,950	70,600
–	Sale of real estate assets		2,255	5,460
250	Sale of infrastructure, property, plant and equipment		1,204	984
–	Deferred debtors receipts		–	14
<u>Payments</u>				
–	Purchase of investment securities		(27,997)	(71,209)
–	Purchase of investment property		(491)	(41)
(21,583)	Purchase of infrastructure, property, plant and equipment		(27,324)	(29,966)
–	Purchase of real estate assets		(263)	(2,957)
–	Purchase of intangible assets		(2,150)	(395)
(21,333)	Net cash provided (or used in) investing activities		(21,816)	(27,510)
Cash flows from financing activities				
<u>Receipts</u>				
2,000	Proceeds from borrowings and advances		–	8,000
<u>Payments</u>				
(3,485)	Repayment of borrowings and advances		(4,306)	(5,732)
(1,485)	Net cash flow provided (used in) financing activities		(4,306)	2,268
(753)	Net increase/(decrease) in cash and cash equivalents		4,120	1,735
9,828	Plus: cash and cash equivalents – beginning of year	15a	9,828	8,093
9,075	Cash and cash equivalents – end of the year	15a	13,948	9,828
Additional Information:				
41,242	plus: Investments on hand – end of year	6(b)	36,289	41,242
50,317	Total cash, cash equivalents and investments		50,237	51,070

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Contents of the Notes accompanying the Financial Statements

Note	Details	Page
1	Basis of preparation	12
2(a)	Council functions/activities – financial information	16
2(b)	Council functions/activities – component descriptions	17
3	Income from continuing operations	18
4	Expenses from continuing operations	26
5	Gains or losses from the disposal, replacement and de-recognition of assets	32
6(a)	Cash and cash equivalent assets	33
6(b)	Investments	33
6(c)	Restricted cash, cash equivalents and investments – details	36
7	Receivables	37
8	Inventories and other assets	40
9(a)	Infrastructure, property, plant and equipment	42
9(b)	Externally restricted infrastructure, property, plant and equipment	45
9(c)	Infrastructure, property, plant and equipment – current year impairments	45
10	Investment property	46
11	Intangible assets	48
12	Payables and borrowings	50
13	Provisions	53
14	Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	57
15	Statement of cash flows – additional information	62
16	Interests in other entities	63
17	Commitments	65
18	Contingencies and other assets/liabilities not recognised	66
19	Financial risk management	69
20	Material budget variations	73
21	Fair Value Measurement	75
22	Related Party Transactions	82
23	Events occurring after the reporting date	85
24	Statement of developer contributions	86
25	Financial result and financial position by fund	92
26	Statement of performance measures – consolidated results	93
	Additional Council disclosures (unaudited)	
27	Council information and contact details	94

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 10 September 2019. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not-for-profit entity.

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

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

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

(a) New and amended standards adopted by Council

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

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

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of investment properties – refer Note 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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Significant judgements in applying the council's accounting policies

(i) Impairment of receivables

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

(ii) Interests in other entities

Council has made a judgement about the relationship it has with external entities - refer Note 16

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

(b) The Trust Fund

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

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

A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

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

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

AASB 16 Leases

Nature of the change

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

AASB 16 was issued in February 2016.

When applicable AASB 16 will result in almost all leases being recognised on the balance sheet by lessees with the distinction between operating and finance leases removed.

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

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

Impact

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

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

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$1,221K - refer Note 18.

Of these commitments, approximately \$14K relate to short-term leases and \$79K to low value leases.

Both these lease types and amounts will continue to be accounted for as they currently are (being expensed on a straight-line basis within the Income Statement).

For the remaining operating lease commitments of \$1,128K, Council anticipates it will recognise lease liabilities (on its balance sheet) and also recognise complimentary right-of-use assets (on its balance sheet) on 1 July 2019.

In addition to this, Council currently has a number of other operating leases not previously reported in Note 18, which are likely to be brought to account. Whilst the impact of this has not yet been full determined, it will result in a non-current right of use asset and recognition of a lease liability which will be separated into a current and non-current component.

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

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

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

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

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

AASB 1058 Income of NFP Entities

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

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

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

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

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

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

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

Council will assess each revenue stream but particular impact is expected for grant income where performance obligations need to be satisfied before income can be recognised.

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

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

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

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

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

Port Stephens Council
Notes to the Financial Statements
for the year ended 30 June 2019

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

	Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note 2(b).									
	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)	
\$ '000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Our Community	3,328	2,927	7,115	6,761	(3,787)	(3,834)	512	588	132,230	124,968
Our Council	86,673	82,993	50,364	46,287	36,309	36,706	5,576	5,448	213,920	210,121
Our Environment	19,040	18,509	17,814	18,229	1,226	280	467	413	4,553	4,748
Our Place	38,456	32,404	47,000	45,482	(8,544)	(13,078)	7,829	7,000	728,882	706,676
Total functions and activities	147,497	136,833	122,293	116,759	25,204	20,074	14,384	13,449	1,079,585	1,046,514

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Our Community

Port Stephens is a thriving and strong community respecting diversity and heritage

Children's Services; Community Services; Contract and Services; Library Services.

Community Development and Engagement; Economic Development and Tourism; Strategic Planning; Volunteer Management; Delivery of Council's Financial Assistance Programs.

Management of Aboriginal Places in Port Stephens.

Our Place

Port Stephens is a liveable place supporting local economic growth

Asset Systems; Building and Developer Relations; Building Trades; Civil Assets Planning; Civil Contracts; Civil Projects; Community and Recreation; Community Development and Engagement; Construction; Contract and Services; Design; Emergency Management; Engineering Services; Environmental Health and Compliance; Mechanical and Maintenance Stores; Parks; Planning and Developer Relations; Roads; Roadside and Drainage; Strategic Planning; Survey and Land Information.

Economic Development and Tourism; Development, construction and maintenance of Koala Sanctuary, Hospital and Tourism Facility.

Our Environment

Port Stephens' environment is clean, green, protected and enhanced

Tree Assessment Services; Tree Permit System; Community and Recreation; Rehabilitate, monitor and manage decommissioned landfill sites; Waste Management.

Coastal Management; Community support and advocacy; Deliver Environmental Education and Grant Programs; Develop and implement projects to protect and enhance the local environment; Ecological and Environmental Planning Services; Management and Regulation of Biosecurity Risks; Strategic guidance, current knowledge and best practice advice.

Our Council

Port Stephens Council leads, manages and delivers valued community services in a responsible way

Business Excellence; Citizenship Ceremonies; Commercial Investments; Community Development and Engagement; Corporate Reporting; Corporate Systems and Business Improvement; Customer Relations; Digital and Website; Environmental Management; Facilities Management; Finance; Governance; Holiday Parks; Human Resources; Information and Communication Technologies; Information Services; Liaison with other government agencies; Manage strategic and operational matters; Marketing and Promotions; Public Relations and Marketing; Risk Management; Statutory Property; Support commercial aviation services; Support services for the Mayor, Councillors and senior executive officers; Work Health and Safety.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	33,202	32,292
Farmland	799	795
Business	7,887	7,589
Less: pensioner rebates (mandatory)	(1,061)	(1,033)
Rates levied to ratepayers	40,827	39,643
Pensioner rate subsidies received	581	565
Total ordinary rates	41,408	40,208
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	13,644	13,408
Waste management services (non-domestic)	2,805	2,664
Section 611 charges	–	19
Less: pensioner rebates (mandatory)	(454)	(447)
Annual charges levied	15,995	15,644
Pensioner subsidies received:		
– Domestic waste management	249	245
Total annual charges	16,244	15,889
<u>TOTAL RATES AND ANNUAL CHARGES</u>	<u>57,652</u>	<u>56,097</u>

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

Accounting policy for rates and charges

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

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

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
<small>(per s.502 - specific 'actual use' charges)</small>		
Waste management services (non-domestic)	1,607	1,474
Total specific user charges	1,607	1,474
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Private works – section 67	137	167
Section 10.7 certificates (EP&A Act)	195	216
Section 603 certificates	138	179
Building inspection fees	266	309
Building services	1,106	1,070
Shop inspection fees	205	176
Subdivision fees	440	247
Total fees and charges – statutory/regulatory	2,487	2,364
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Animal control	12	49
Cemeteries	165	167
Child care	1,859	1,477
Fire and emergency services levy (FESL) implementation	–	4
Holiday parks	11,306	11,075
Leisure centre	100	87
Library	105	118
Newcastle airport	17,045	15,125
Parking meters	651	606
Parks, gardens and other community services	–	1
RMS (formerly RTA) charges (state roads not controlled by Council)	7,187	4,687
Sewerage management fees	588	572
Waste disposal tipping fees	331	424
Other	1,255	1,522
Total fees and charges – other	40,604	35,914
TOTAL USER CHARGES AND FEES	44,698	39,752

Accounting policy for user charges and fees

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(c) Interest and investment revenue (including losses)		
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	169	162
– Cash and investments	992	924
– Newcastle airport	290	331
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>1,451</u>	<u>1,417</u>
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	169	162
General Council cash and investments	713	662
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	279	262
Newcastle airport	290	331
Total interest and investment revenue	<u>1,451</u>	<u>1,417</u>

Accounting policy for interest and investment revenue

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

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Other revenues			
Rental income – investment property	10	2,989	2,718
Rental income – other council properties		724	490
Ex gratia rates		57	60
Fines – parking		222	224
Fines – other		372	249
Legal fees recovery – rates and charges (extra charges)		68	111
Legal fees recovery – other		6	61
Commissions and agency fees		199	230
Insurance claims recoveries		677	158
Emergency relief		–	699
Events and promotions		91	107
Long service leave receipts		73	134
Private works		356	307
Other		762	658
TOTAL OTHER REVENUE		6,596	6,206

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	3,272	3,279	–	–
Payment in advance - future year allocation				
Financial assistance	3,393	3,373	–	–
Total general purpose	6,665	6,652	–	–
Specific purpose				
Bushfire and emergency services	1,132	1,110	67	20
Child care	224	173	–	–
Environmental programs	407	519	–	–
Floodplain management	–	–	53	–
Heritage and cultural	15	–	–	–
Library	188	208	–	89
LIRS subsidy	58	67	–	–
Recreation and culture	–	22	2,271	1,138
Storm/flood damage	–	–	–	567
Street lighting	74	72	–	–
Transport (roads to recovery)	424	1,109	–	–
Transport	13	–	2,283	1,193
Family day care	5	129	–	–
Horticultural heritage trust	–	6	–	–
Newcastle airport ¹	–	–	150	–
Youth development	94	73	–	–
Other	43	20	40	139
Weed control	178	143	–	–
Total specific purpose	2,855	3,651	4,864	3,146
Total grants	9,520	10,303	4,864	3,146
Grant revenue is attributable to:				
– Commonwealth funding	7,117	7,904	428	433
– State funding	2,382	2,377	4,436	2,713
– Other funding	21	22	–	–
	9,520	10,303	4,864	3,146

(1) 2018 capital grant restated due to prior period error

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions:					
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		398	356	5,108	4,315
S 7.12 – fixed development consent levies		–	–	446	300
Haulage		579	512	–	321
Total developer contributions – cash		977	868	5,554	4,936
Total developer contributions	24	977	868	5,554	4,936
Other contributions:					
Cash contributions					
Bushfire services		28	–	357	329
Kerb and gutter		–	–	33	–
Recreation and culture		2	5	74	25
RMS contributions (regional roads, block grant)		1,008	1,027	–	–
Other		–	3	–	–
Economic development and tourism		32	38	–	–
Environmental projects		86	145	–	–
Parking		–	–	–	46
Risk management		265	232	–	–
Total other contributions – cash		1,421	1,450	464	400
Non-cash contributions					
Bushfire assets		–	–	1,642	–
Dedications – subdivisions (other than by s7.11)		–	–	8,788	6,643
Total other contributions – non-cash		–	–	10,430	6,643
Total other contributions		1,421	1,450	10,894	7,043
Total contributions		2,398	2,318	16,448	11,979
TOTAL GRANTS AND CONTRIBUTIONS⁻¹		11,918	12,621	21,312	15,125

Accounting policy for grants and contributions

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

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

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

(1) 2018 capital grants restated due to prior period error

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(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	136	124
Add: operating grants received for the provision of goods and services in a future period	–	36
Less: operating grants recognised in a previous reporting period now spent	(89)	(24)
Unexpended and held as restricted assets (operating grants)	47	136
Capital grants		
Unexpended at the close of the previous reporting period	140	144
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	(39)	(4)
Unexpended and held as restricted assets (capital grants)	101	140
Contributions		
Unexpended at the close of the previous reporting period	15,487	15,333
Add: contributions recognised in the current period but not yet spent	4,366	154
Less: contributions recognised in a previous reporting period now spent	–	–
Unexpended and held as restricted assets (contributions)	19,853	15,487

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	32,127	28,950
Salaries and wages – Newcastle airport partnership	3,456	2,798
Travel and other allowances	2,505	2,407
Employee leave entitlements (ELE)	8,591	7,220
Superannuation	4,135	3,772
Workers' compensation insurance	562	672
Fringe benefit tax (FBT)	20	36
Training costs (other than salaries and wages)	574	607
Protective clothing	167	173
Conferences	163	131
Corporate uniform	48	10
Occupational health and safety	28	32
Other	30	22
Total employee costs	52,406	46,830
Less: capitalised costs	(4,112)	(3,726)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>	<u>48,294</u>	<u>43,104</u>

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on overdraft	4	2
Interest on loans	508	576
Interest – Newcastle airport partnership	209	200
Less: capitalised costs	(19)	(104)
Total interest bearing liability costs expensed	<u>702</u>	<u>674</u>
(ii) Other borrowing costs		
Fair value adjustments on recognition of advances and deferred debtors		
Interest applicable on interest free (and favourable) loans to Council	3	5
Total other borrowing costs	<u>3</u>	<u>5</u>
<u>TOTAL BORROWING COSTS EXPENSED</u>	<u>705</u>	<u>679</u>

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	7,514	7,634
– Waste collection and disposal contract	12,320	11,100
– Other contractor and consultancy costs	17,763	18,656
Auditors remuneration ²	129	137
Legal expenses:		
– Legal expenses	727	2,779
– Legal provision write back	(925)	–
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	462	521
Other	130	153
Total materials and contracts	38,120	40,980
TOTAL MATERIALS AND CONTRACTS	38,120	40,980

Accounting policy for operating leases

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

1. Operating lease payments are attributable to:

Buildings	114	122
Computers	292	399
Other	56	–
	462	521

2. Auditor remuneration

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

Auditors of the Council - NSW Auditor-General:

(i) Audit and other assurance services

Audit and review of financial statements	82	76
Remuneration for audit and other assurance services	82	76
Total Auditor-General remuneration	82	76

Non NSW Auditor-General audit firms

(i) Audit and other assurance services

Internal audit services: PKF Lawler	47	61
Remuneration for audit and other assurance services	47	61
Total remuneration of non NSW Auditor-General audit firms	47	61
Total Auditor remuneration	129	137

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		1,833	1,424
Office equipment		452	277
Furniture and fittings		24	18
Land improvements (depreciable)		77	25
Infrastructure:			
– Buildings – specialised		4,016	4,892
– Other structures		560	317
– Roads		2,500	2,710
– Bridges		13	12
– Footpaths		256	119
– Stormwater drainage		208	191
– Swimming pools		171	309
– Other open space/recreational assets		754	846
– Other infrastructure		352	314
Other assets:			
– Heritage collections		2	2
– Library books		253	127
– Car parks		541	523
– Newcastle airport		1,966	1,824
– Other		–	186
Intangible assets	11	705	406
Total depreciation and amortisation costs		14,683	14,522
Impairment / revaluation decrement			
Land		–	573
Inventory - Real Estate		3,174	–
Total impairment / revaluation decrement costs / (reversals) charged to Income Statement		3,174	573
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT</u>		17,857	15,095

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

Depreciation and amortisation

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

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

Impairment of non-financial assets

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

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

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(e) Other expenses		
Bad and doubtful debts	16	3
Bank charges	265	263
Contributions/levies to other levels of government		
– Lands department levy (holiday parks)	403	514
– NSW rural fire service levy	507	476
– Waste levy	1,742	1,758
Councillor expenses – mayoral fee	61	61
Councillor expenses – councillors' fees	180	173
Councillors' expenses (incl. mayor) – other (excluding fees above)	126	109
Donations, contributions and assistance to other organisations (Section 356)	932	951
Election expenses	–	431
Electricity and heating	1,686	1,616
Insurance	1,598	1,540
Memberships	131	112
Newcastle airport	7,925	7,100
Street lighting	1,083	1,182
Telephone and communications	264	291
Other	398	321
Total other expenses	17,317	16,901
<u>TOTAL OTHER EXPENSES</u>	<u>17,317</u>	<u>16,901</u>

Accounting policy for other expenses

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Proceeds from disposal – property		452	300
Less: carrying amount of property assets sold/written off		(803)	(214)
Net gain/(loss) on disposal		(351)	86
Plant and equipment			
	9(a)		
Proceeds from disposal – plant and equipment		199	684
Less: carrying amount of plant and equipment assets sold/written off		(836)	(1,980)
Net gain/(loss) on disposal		(637)	(1,296)
Newcastle airport partnership			
	9(a)		
Proceeds from disposal – infrastructure		553	–
Less: carrying amount of infrastructure assets sold/written off		(553)	(22)
Net gain/(loss) on disposal		–	(22)
Real estate assets held for sale			
	8		
Proceeds from disposal – real estate assets		2,255	5,460
Less: carrying amount of real estate assets sold/written off		(989)	(3,412)
Net gain/(loss) on disposal		1,266	2,048
Investments			
	6(b)		
Proceeds from disposal/redemptions/maturities – investments		32,950	70,600
Less: carrying amount of investments sold/redeemed/matured		(32,950)	(70,600)
Net gain/(loss) on disposal		–	–
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>278</u>	<u>816</u>

Accounting policy for disposal of assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement. The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	12,448	9,828
Cash-equivalent assets		
– Deposits at call	1,500	–
Total cash and cash equivalents	13,948	9,828

Accounting policy for cash and cash equivalents

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

Note 6(b). Investments

\$ '000	2019		2018	
	Current	Non-current	Current	Non-current
Investments				
a. 'Financial assets at fair value through profit and loss'				
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	35,067	1,222	40,209	1,033
Total Investments	35,067	1,222	40,209	1,033
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	49,015	1,222	50,037	1,033
Financial assets at amortised cost / held to maturity (2018)				
Long term deposits	35,067	1,222	40,209	1,033
Total	35,067	1,222	40,209	1,033

Accounting policy for investments

Accounting policy under AASB 9 – applicable from 1 July 2018

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Fair value through other comprehensive income – equity instruments

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

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

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

Financial assets through profit or loss

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

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Classification

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

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

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

(b) Held to maturity investments

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

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (Note 8) and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

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

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

(d) Available for sale financial assets

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

Recognition and de-recognition

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

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

Impairment of financial assets

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

Impairment of available for sale investments

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019		2018	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	49,015	1,222	50,037	1,033
attributable to:				
External restrictions	28,770	1,222	25,683	1,033
Internal restrictions	20,245	–	24,353	–
Unrestricted	–	–	1	–
	49,015	1,222	50,037	1,033

\$ '000	2019	2018
---------	------	------

Details of restrictions

External restrictions – included in liabilities

Deposits, retentions and bonds	951	818
External restrictions – included in liabilities	951	818

External restrictions – other

Developer contributions – general	19,853	15,486
Specific purpose unexpended grants	148	276
Domestic waste management	5,880	6,493
Carparking meters crown lands	65	558
Crown holiday parks	3,095	3,085
External restrictions – other	29,041	25,898

Total external restrictions

	29,992	26,716
--	--------	--------

Internal restrictions

Asset rehabilitation	842	407
Election reserve	200	100
Federal assistance grant in advance	3,393	3,373
Fleet	21	1,095
Newcastle airport partnership	14,753	15,057
Other waste services reserve	129	612
Parking meters	160	407
Section 355C committees	728	896
Sustainable energy and water reserve	–	250
Unexpended loan funds	–	2,000
Ward funds	19	2
Community Loans	–	154
Total internal restrictions	20,245	24,353

TOTAL RESTRICTIONS

	50,237	51,069
--	--------	--------

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	2,698	–	2,406	–
Interest and extra charges	229	–	216	–
User charges and fees	606	–	507	–
Miscellaneous debtors	599	–	1,025	–
Contributions to works	27	–	45	–
Accrued revenues				
– Interest on investments	472	–	318	–
– Other income accruals	1,643	–	2,280	–
Government grants and subsidies	99	–	172	–
Net GST receivable	625	–	465	–
Newcastle airport partnership	1,916	–	1,634	–
Other debtors	–	193	–	196
Total	8,914	193	9,068	196
Less: provision of impairment				
Other debtors	–	(5)	–	(6)
Total provision for impairment – receivables	–	(5)	–	(6)
TOTAL NET RECEIVABLES	8,914	188	9,068	190
Externally restricted receivables				
Domestic waste management	658	–	705	–
Total external restrictions	658	–	705	–
Internally restricted receivables				
Community Loans	200	–	46	–
Receivables – Newcastle Airport Partnership	1,916	–	1,634	–
Commercial properties	2,735	–	3,171	–
Administration building reserve	764	–	895	–
Sustainable energy and water reserve	125	–	–	–
Other waste services reserve	638	–	–	–
Internally restricted receivables	6,378	–	5,746	–
Unrestricted receivables	1,878	188	2,617	190
TOTAL NET RECEIVABLES	8,914	188	9,068	190

\$ '000	2019	2018
---------	------	------

Movement in provision for impairment of receivables

Balance at the beginning of the year (calculated in accordance with AASB 139)	6	52
+ new provisions recognised during the year	5	–
– amounts already provided for and written off this year	(6)	(42)
– amounts provided for but recovered during the year	–	(4)

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

\$ '000	2019	2018
Balance at the end of the period	5	6

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 12 months past due, whichever occurs first. None of the receivables that have been written off are subject to enforcement activity.

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred)

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

Rates and annual charges outstanding are secured against the property.

Port Stephens Council

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

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	5,019	10,030	5,653	13,102
Stores and materials	143	–	196	–
Total inventories at cost	<u>5,162</u>	<u>10,030</u>	<u>5,849</u>	<u>13,102</u>
TOTAL INVENTORIES	<u>5,162</u>	<u>10,030</u>	<u>5,849</u>	<u>13,102</u>
(b) Other assets				
Prepayments	610	24	426	8
Other	–	1,750	–	–
TOTAL OTHER ASSETS	<u>610</u>	<u>1,774</u>	<u>426</u>	<u>8</u>

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total externally restricted assets	–	–	–	–
Total internally restricted assets	5,019	11,788	5,653	13,110
Total unrestricted assets	753	16	622	–
TOTAL INVENTORIES AND OTHER ASSETS	<u>5,772</u>	<u>11,804</u>	<u>6,275</u>	<u>13,110</u>

(i) Other disclosures

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Details for real estate development					
Residential		–	2,954	–	2,860
Industrial/commercial		5,019	7,076	5,653	10,242
Total real estate for resale		<u>5,019</u>	<u>10,030</u>	<u>5,653</u>	<u>13,102</u>

(Valued at the lower of cost and net realisable value)

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Represented by:					
Acquisition costs		773	9,692	773	12,866
Development costs		4,246	338	4,880	236
Total costs		5,019	10,030	5,653	13,102
Total real estate for resale		5,019	10,030	5,653	13,102
Movements:					
Real estate assets at beginning of the year		5,653	13,102	14,116	5,721
– Purchases and other costs		161	102	2,738	219
– Transfers in from (out to) Note 9		194	–	–	–
– WDV of sales (expense)	5	(989)	–	(3,412)	–
– Impairment write down		–	(3,174)	–	–
– Transfer between current/non-current		–	–	(7,162)	7,162
– Transfers in from (out to) Note 10		–	–	(627)	–
Total real estate for resale		5,019	10,030	5,653	13,102

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

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

Inventory held for distribution

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

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

	Asset movements during the reporting period										as at 30/6/2019			
	as at 30/6/2018	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	TfRs from/(to) real estate assets (Note 8)	Revaluation increments / (decrement) to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress		4,190	(74)	4,116	3,249	1,092	-	-	763	-	-	9,311	(91)	9,220
Plant and equipment		17,587	(8,859)	8,728	2,852	1,976	(188)	(1,833)	(21)	-	-	25,300	(13,788)	11,512
Office equipment		2,327	(1,129)	1,198	218	505	-	(452)	-	-	-	3,051	(1,580)	1,471
Furniture and fittings		1,171	(1,065)	106	93	-	-	(24)	36	-	-	1,300	(1,089)	211
Land:														
- Operational land		38,407	(572)	37,835	26	1,204	(454)	-	321	-	-	39,505	(573)	38,932
- Community land		42,294	-	42,294	-	597	(24)	-	(321)	(26)	-	42,518	-	42,518
- Crown land		29,548	-	29,548	-	-	(325)	-	-	-	-	29,223	-	29,223
- Land under roads (post 1/7/08)		1,985	-	1,985	-	-	-	-	-	-	-	1,985	-	1,985
Land improvements – depreciable		2,780	(695)	2,085	68	-	-	(77)	4,699	-	-	9,187	(2,412)	6,775
Infrastructure:														
- Buildings – specialised		177,270	(83,610)	93,660	1,774	2,251	(315)	(4,016)	1,640	-	-	183,879	(88,879)	95,000
- Other structures		6,303	(2,181)	4,122	319	131	-	(560)	1,368	-	-	9,700	(4,321)	5,379
- Roads		462,034	(54,941)	407,093	4,859	3,295	-	(2,500)	(22,918)	-	-	443,749	(53,919)	389,830
- Bridges		11,408	(320)	11,088	16	-	-	(13)	(167)	-	-	11,257	(333)	10,924
- Footpaths		32,898	(3,482)	29,416	422	1,365	-	(256)	23,744	-	-	63,126	(8,435)	54,691
- Car parks		11,417	(8,263)	3,154	192	-	-	(541)	-	-	-	11,610	(8,804)	2,806
- Stormwater drainage		197,809	(5,985)	191,824	1,372	2,845	-	(208)	246	-	-	202,514	(6,435)	196,079
- Swimming pools		8,190	(4,710)	3,480	114	-	(57)	(171)	(294)	-	-	7,584	(4,513)	3,071
- Other open space		29,941	(11,998)	17,943	1,092	1,207	(143)	(754)	(6,861)	(180)	8,977	32,237	(10,957)	21,280
- Other infrastructure		9,716	(3,712)	6,004	609	377	(32)	(352)	496	-	-	10,817	(3,715)	7,102
Other assets:														
- Heritage collections		232	(72)	160	6	-	-	(2)	-	-	-	237	(75)	162
- Library books		5,218	(3,117)	2,101	236	-	-	(253)	-	-	-	5,455	(3,370)	2,085
- Newcastle airport		46,068	(16,123)	29,945	3,291	-	(553)	(1,966)	-	-	-	48,806	(18,091)	30,715
- Other		5,527	(2,782)	2,745	-	-	-	-	(2,731)	(14)	-	-	-	-
Total infrastructure, property, plant and equipment		1,144,320	(213,690)	930,630	20,808	16,845	(2,091)	(13,978)	-	(194)	8,951	1,192,351	(231,380)	960,971

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

	as at 30/6/2017		Asset movements during the reporting period										as at 30/6/2018	
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	Adjustments and transfers	Tifs from/(to) intangible assets (Note 11)	Revaluation increments / (decrements) to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	959	(1)	958	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)	1,198
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	38,407	(572)	37,835
- Community land	71,353	-	71,353	-	489	-	-	-	-	-	-	42,294	-	42,294
- Crown land	-	-	-	-	-	-	-	-	-	-	-	29,548	-	29,548
- Land under roads (post 1/7/08)	1,143	-	1,143	-	-	-	-	-	290	(827)	-	1,985	-	1,985
Land improvements - depreciable	1,922	-	1,922	-	-	-	(25)	-	64	-	-	2,780	(695)	2,085
- Land held for bio banking	1,012	(383)	629	-	168	-	-	-	1,314	-	-	-	-	-
Infrastructure:														
- Buildings - specialised	148,890	(65,810)	83,080	304	3,896	(767)	(4,892)	-	-	-	13,385	177,270	(83,610)	93,660
- Other structures	5,295	(1,531)	3,764	27	413	-	(317)	-	(1,346)	16	-	6,303	(2,181)	4,122
- Roads	447,718	(52,231)	395,487	10,793	3,782	(258)	(2,710)	-	220	-	-	462,034	(54,941)	407,093
- Bridges	11,408	(308)	11,100	-	-	-	(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	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
- Car parks	11,234	(7,739)	3,495	4	180	-	(523)	-	-	-	-	11,417	(8,263)	3,154
Other assets:														
- Heritage collections	230	(70)	160	1	-	-	(2)	-	-	-	-	232	(72)	160
- Library books	4,968	(2,991)	1,977	250	-	-	(127)	-	-	-	-	5,218	(3,117)	2,101
- Other	5,488	(2,726)	2,762	18	205	-	(186)	-	(56)	-	-	5,527	(2,782)	2,745
- Newcastle airport	43,640	(14,406)	29,234	-	2,805	(22)	(1,824)	-	-	(262)	-	46,068	(16,123)	29,945
Total Infrastructure, property, plant and equipment	1,076,945	(186,673)	890,272	14,536	22,323	(2,216)	(14,116)	(573)	-	(262)	20,651	1,144,320	(213,690)	930,630

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

Land is not depreciated. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Council will obtain ownership at the end of the lease term. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	20
Office furniture	10 to 20	Benches, seats etc.	25
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings	15 to 65
Other plant and equipment	5 to 15		
Transportation assets		Stormwater assets	
Sealed roads		Drains	80 to 100
- Base	50	Culverts	50 to 80
- Seal	15 to 25	Flood control structures	80 to 100
- Sub-base	100		
Unsealed roads	100	Other infrastructure assets	
Bridge concrete	100	Bulk earthworks	20
Bridge other	60 to 100	Swimming pools	50
Kerb, gutter and footpaths	80	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.

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

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

These Rural Fire Service assets are recognised as assets of the Council in these financial statements.

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

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Land						
Domestic waste management						
Buildings	4,332	1,933	2,399	3,483	1,580	1,903
Total DWM	4,332	1,933	2,399	3,483	1,580	1,903
TOTAL RESTRICTED I,PP&E	4,332	1,933	2,399	3,483	1,580	1,903

Note 9(c). Infrastructure, property, plant and equipment – current year impairments

\$ '000	Notes	2019	2018
(i) Impairment losses recognised in the Income Statement:			
– Change in land usage (road reserve)		–	(573)
Total impairment losses		–	(573)
IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L	4d	–	(573)

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Investment property

\$ '000	2019	2018
(a) Investment property at fair value		
Investment property on hand	35,550	31,467
Reconciliation of annual movement:		
Opening balance	31,467	26,000
– Capitalised expenditure – this year	491	41
– Net gain/(loss) from fair value adjustments	3,592	4,799
– Transfers from/(to) inventories (Note 8)	–	627
CLOSING BALANCE – INVESTMENT PROPERTY	35,550	31,467

(b) Valuation basis

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

The 2019 revaluations were based on independent assessments made by: Sean Fox who is an employee of Knight Frank and is a Certified Practising Valuer (without limitation). API No 6755.

(c) Repairs and maintenance - Council as lessor

Contractual obligations at reporting date for future repairs and maintenance are \$12,875

(d) Leasing arrangements – Council as lessor

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

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

Within 1 year	2,457	1,959
Later than 1 year but less than 5 years	6,371	4,120
Later than 5 years	618	2,832
Total minimum lease payments receivable	9,446	8,911

Lease terms vary from 1 to 5 years with options to renew. Rental payments are due monthly in advance and do not include contingent rental adjustments.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Investment property (continued)

\$ '000	2019	2018
(e) Amounts recognised in profit and loss for investment property		
Rental income from investment property:		
– Minimum lease payments	2,989	2,718
Direct operating expenses on investment property:		
– that generated rental income	(649)	(532)
Net revenue contribution from investment property	<u>2,340</u>	<u>2,186</u>
plus:		
Fair value movement for year	<u>3,592</u>	<u>4,799</u>
Total income attributable to investment property	<u>5,932</u>	<u>6,985</u>

Accounting policy for investment property

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Intangible assets

\$ '000	2019	2018
Intangible assets are as follows:		
Opening values at 1 July		
Gross book value	6,541	6,147
Accumulated amortisation	(1,837)	(1,431)
Net book value – opening balance	4,704	4,716
Movements for the year		
– Purchases	2,149	133
– Transfers from note 9	–	262
– Amortisation charges	(705)	(406)
Closing values at 30 June		
Gross book value	8,690	6,541
Accumulated amortisation	(2,541)	(1,837)
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u>	<u>6,149</u>	<u>4,704</u>

The net book value of intangible assets represents:

– Software	1,034	971
– Newcastle Airport (right to operate)	1,595	213
– Biodiversity credits	3,520	3,520
	<u>6,149</u>	<u>4,704</u>

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.

Biodiversity credits

Biodiversity credits that are obtained with the intention to sell are recognised as an asset. Where they have a finite useful life are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives. Biodiversity credits that have an indefinite useful life are not amortised and are assessed for impairment annually.

When Biodiversity credits is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised within the income statement..

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Intangible assets (continued)

Right to Operate

Fit out costs incurred for the international processing area within the terminal required by the Department of Home Affairs for border security activities required for international flights represents NAP's contractual / legal right to operate international airport services, and is recognised at cost as an intangible asset.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 ² Current	2018 ² Non-current
Payables				
Goods and services	8,744	–	6,002	–
Accrued expenses:				
– Other expenditure accruals	2,536	–	2,494	8
Security bonds, deposits and retentions	951	–	818	–
Unclaimed monies	10	–	8	–
Rates in advance	1,143	–	978	–
Other	961	–	867	–
Total payables	14,345	–	11,167	8
Income received in advance				
Payments received in advance	–	–	9	–
Total income received in advance	–	–	9	–
Borrowings				
Loans – secured ¹	4,464	8,814	3,460	14,121
Loans – Newcastle airport	–	6,250	–	6,250
Total borrowings	4,464	15,064	3,460	20,371
TOTAL PAYABLES AND BORROWINGS	18,809	15,064	14,636	20,379

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

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

(2) Restated due to prior period error

\$ '000	2019 Current	2019 Non-current	2018 ² Current	2018 ² Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Domestic waste management	1,797	732	1,825	1,441
Other	951	–	818	–
Crown holiday park reserve	34	–	34	34
Payables and borrowings relating to externally restricted assets	2,782	732	2,677	1,475
Internally restricted assets				
Drainage reserve	–	–	144	–
Newcastle airport	4,162	6,250	2,623	10,898
Payables and borrowings relating to internally restricted assets	4,162	6,250	2,767	10,898
Total payables and borrowings relating to restricted assets	6,944	6,982	5,444	12,373
Total payables and borrowings relating to unrestricted assets	11,865	8,082	9,192	8,006

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019 Current	2019 Non-current	2018 ² Current	2018 ² Non-current
TOTAL PAYABLES AND BORROWINGS	18,809	15,064	14,636	20,379

(2) Restated due to prior period error

\$ '000	2019	2018
---------	------	------

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

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

Payables – security bonds, deposits and retentions	396	378
Total payables and borrowings	396	378

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/6/2018					as at 30/6/2019
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	17,581	(4,306)	–	3	–	13,278
Loans – Newcastle airport	6,250	–	–	–	–	6,250
TOTAL	23,831	(4,306)	–	3	–	19,528

\$ '000	as at 30/6/2017					as at 30/6/2018
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	15,308	2,268	–	5	–	17,581
Loans – Newcastle airport	6,250	–	–	–	–	6,250
TOTAL	21,558	2,268	–	5	–	23,831

\$ '000	2019	2018
---------	------	------

(d) Financing arrangements

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

Bank overdraft facilities ¹	2,500	2,500
Credit cards/purchase cards	500	500
Bank loan facilities - Newcastle Airport	25,000	–
Total financing arrangements	28,000	3,000

Drawn facilities as at balance date:

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019	2018
– Credit cards/purchase cards	4	4
– Bank loan facilities - Newcastle Airport	6,250	–
Total drawn financing arrangements	6,254	4
Undrawn facilities as at balance date:		
– Bank overdraft facilities	2,500	2,500
– Credit cards/purchase cards	496	496
– Bank loan facilities - Newcastle Airport	18,750	–
Total undrawn financing arrangements	21,746	2,996

Additional financing arrangements information

Breaches and defaults

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

Security over loans

Loans are secured over the general rating income of Council.

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	4,047	–	3,628	–
Sick leave	2,966	–	3,142	–
Long service leave	7,500	742	6,769	531
Flexi time / RDO leave	299	–	256	–
Sub-total – aggregate employee benefits	14,812	742	13,795	531
Asset remediation/restoration:				
Asset remediation/restoration (future works)	1,355	–	1,600	–
Sub-total – asset remediation/restoration	1,355	–	1,600	–
Other provisions				
Other	900	–	1,825	–
Sub-total – other provisions	900	–	1,825	–
TOTAL PROVISIONS	17,067	742	17,220	531

(a) Provisions relating to restricted assets

Externally restricted assets

Domestic waste management	1,355	–	1,600	–
Provisions relating to externally restricted assets	1,355	–	1,600	–

Internally restricted assets

Drainage	900	–	1,825	–
Provisions relating to internally restricted assets	900	–	1,825	–

Total provisions relating to restricted assets	2,255	–	3,425	–
---	--------------	----------	--------------	----------

Total provisions relating to unrestricted assets	14,812	742	13,795	531
---	---------------	------------	---------------	------------

TOTAL PROVISIONS	17,067	742	17,220	531
-------------------------	---------------	------------	---------------	------------

\$ '000	2019	2018
---------	------	------

(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	9,776	8,477
	<u>9,776</u>	<u>8,477</u>

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

(c) Description of and movements in provisions

\$ '000	Other provisions		Total
	Legal Costs Provision	Asset Remediation	
2019			
At beginning of year	1,825	1,600	3,425
Amounts used (payments)	–	(245)	(245)
Unused amounts reversed	(925)	–	(925)
Total other provisions at end of period	900	1,355	2,255
2018			
At beginning of year	–	1,600	1,600
Additional provisions	1,825	–	1,825
Total other provisions at end of period	1,825	1,600	3,425

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

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

On-costs

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

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

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

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

Restoration

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

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

Rehabilitation

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

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

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

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

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

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

Fair value through other comprehensive income reserve (FVOCI)

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

Available for sale investments revaluation reserve (2018 only)

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

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

Nature of prior-period error

Council is adjusting for the difference in accounting policies with regards to capital government grants that have been accounted for when consolidating its joint operation. Newcastle Airport Partnership has been accounting for government grants under AASB 120 which requires grant income to be accounted for as income over the life of the asset. Council accounts for government grants under AASB 1004 which requires the grant to be accounted as income upon receipt. Under AASB 10, parent entities are to prepare consolidated financial statements which have uniform accounting policies across both entities.

The errors identified above have been corrected by restating the balances at the beginning of the earliest period presented (1 July 2017) and taking the adjustment through Accumulated Surplus at that date. Comparatives have been changed to reflect the correction of errors. The impact of each line is shown in the tables below.

Changes to the opening Statement of Financial Position at 1 July 2017

Statement of Financial Position

\$ '000	Original Balance 1 July, 2017	Impact Increase/ (decrease)	Restated Balance 1 July, 2017
Total assets	1,000,030	–	1,000,030
Deferred Income - Newcastle Airport Partnership	5,291	(5,058)	233
Total income received in advance	5,489	(5,058)	431
Total payables and borrowings	36,377	(5,058)	31,319
Total liabilities	52,318	(5,058)	47,260
Accumulated Surplus	567,409	5,058	572,467
Revaluation Reserves	380,303	–	380,303
Total equity	947,712	5,058	952,770

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

Adjustments to the comparative figures for the year ended 30 June 2018

Statement of Financial Position

\$ '000	Original Balance 30 June, 2018	Impact Increase/ (decrease)	Restated Balance 30 June, 2018
Total assets	1,046,514	–	1,046,514
Deferred Income - Newcastle Airport Partnership	5,049	(5,049)	–
Total income received in advance	5,058	(5,049)	9
Total payables and borrowings	40,064	(5,049)	35,015
Total liabilities	57,815	(5,049)	52,766
Accumulated Surplus	588,281	5,311	593,592
Revaluation Reserves	400,418	–	400,418
Total equity	988,699	5,311	993,748

Income Statement

\$ '000	Original Balance 30 June, 2018	Impact Increase/ (decrease)	Restated Balance 30 June, 2018
Grants & Contributions provided for capital purposes	15,387	(262)	15,125
Total grants	13,711	(262)	13,449
Total income from continuing operations	137,095	(262)	136,833
Total expenses from continuing operations	116,759	–	116,759
Operating result from discontinued operations	–	–	–
Net operating result for the year	20,336	(262)	20,074

Statement of Comprehensive Income

\$ '000	Original Balance 30 June, 2018	Impact Increase/ (decrease)	Restated Balance 30 June, 2018
Net operating result for the year	20,336	(262)	20,074
Total comprehensive income for the year	20,336	(262)	20,074

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

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

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

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.
- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

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

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

Classification of financial assets

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

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

Measurement of equity instruments

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

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

Impairment of financial assets

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

Transition adjustments to equity

Council has assessed the transition to AASB 9 and deemed any impact to be not applicable or immaterial e.g. the increase in expected credit losses for trade receivables.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Transition adjustments to assets & liabilities

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

\$ '000	Classific- ation under AASB 139	Classific- ation under AASB 9	Carrying amount under AASB 139	Reclassi- fication	Remeasu- rements	Carrying amount under AASB 9
Financial assets						
Trade & other receivables	Loans & receivables	Amortised cost	9,258	-	-	9,258
Cash and cash equivalents	Loans & receivables	Amortised cost	9,828	-	-	9,828
Term Deposits (i)	Held to Maturity	Amortised cost	41,242	-	-	41,242
Total financial assets under AASB 9 at 1 July 2018			60,328	-	-	60,328
Financial liabilities						
Trade Payables	Other financial liabilities	Other financial liabilities	11,175	-	-	11,175
Borrowings (secured & unsecured)	Other financial liabilities	Other financial liabilities	23,831	-	-	23,831
Total financial liabilities under AASB 9 at 1 July 2018			35,006	-	-	35,006

Notes to the table above

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

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

(d) Voluntary changes in accounting policies

Nature of changes in accounting policies

Council has performed an annual review of its accounting policies and changed the classification of its bio banking credits from Non Current Inventory to Non Current Intangible Assets. The initial value recognised and subsequent measurement of the asset remains unchanged upon retrospective adjustment. The change has been made in order to enhance the relevance of information contained in the financial statements.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

The above change in accounting policy has impacted on the Statement of Financial Position at 1 July, 2017.

Comparatives have been changed to reflect the accounting policy changes. The impact on the line items affected within the Statement of Financial Position has been shown in the tables below. There has been no impact on Liabilities and Equity within the Statement of Financial Position or the Income Statement itself.

Changes to the opening Statement of Financial Position at 1 July 2017

Statement of Financial Position

\$ '000	Original Balance 1 July, 2017	Impact Increase/ (decrease)	Restated Balance 1 July, 2017
Inventory	23,554	(3,520)	20,034
Intangible assets	1,196	3,520	4,716
Total assets	1,000,030	-	1,000,030

Adjustments to the comparative figures for the year ended 30 June 2018

Statement of Financial Position

\$ '000	Original Balance 30 June, 2018	Impact Increase/ (decrease)	Restated Balance 30 June, 2018
Inventory	22,471	(3,520)	18,951
Intangible assets	1,184	3,520	4,704
Total assets	1,046,514	-	1,046,514

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	13,948	9,828
Balance as per the Statement of Cash Flows		13,948	9,828
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		25,204	20,074
Adjust for non-cash items:			
Depreciation and amortisation		14,683	14,522
Net losses/(gains) on disposal of assets		(278)	(816)
Non-cash capital grants and contributions		(10,430)	(6,643)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		(3,592)	(4,799)
– Revaluation decrements / impairments of IPP&E direct to P&L		3,174	573
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		3	5
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		157	609
Increase/(decrease) in provision for impairment of receivables		(1)	(46)
Decrease/(increase) in inventories		53	1
Decrease/(increase) in other current assets		(1,950)	11
Increase/(decrease) in payables		2,742	1,769
Increase/(decrease) in other accrued expenses payable		34	(305)
Increase/(decrease) in other liabilities		385	212
Increase/(decrease) in provision for employee benefits		1,228	(15)
Increase/(decrease) in other provisions		(1,170)	1,825
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		30,242	26,977
(c) Non-cash investing and financing activities			
Dedicated subdivisions		8,788	6,643
RFS assets		1,642	–
Total non-cash investing and financing activities		10,430	6,643
(d) Net cash flows attributable to discontinued operations			
There are no cash flows that relate to discontinued operations			

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities

(a) Joint arrangements

(i) Joint operations

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

\$ '000	Name of joint operation	Principal activity	Place of business	Interest in ownership		Interest in voting	
				2019	2018	2019	2018
	Newcastle Airport Partnership and Newcastle Airport Pty Ltd	Airport Operation	Williamstown	50%	50%	50%	50%
	Greater Newcastle Aerotropolis Partnership & Greater Newcastle Aerotropolis Pty Ltd	Airport Operation	Williamstown	50%	0%	50%	0%

(b) Council assets employed in the joint operations

\$ '000	2019	2018 ¹
Council's share of assets jointly owned with other partners		
Current assets	16,761	16,810
Current liabilities	(4,470)	(2,487)
Non current assets	32,380	30,181
Non-current liabilities	(6,278)	(6,278)
Total net assets employed – Council and jointly owned	38,393	38,226

(1) Restated due to prior period error

(c) Share of joint operations expenditure commitments

\$ '000	2019	2018
Capital commitments		
Payable not later than 1 year	5,395	1,317
Total capital commitments	5,395	1,317

(d) Contingent liabilities of joint operations

\$ '000	2019	2018
Share of contingent liabilities incurred jointly with other participants	100	100
Share of contingent liabilities for which Council is severally liable	100	100

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities (continued)

Accounting policy for joint arrangements:

The council has determined that it has joint operations.

Joint operations:

In relation to its joint operations, where the Council 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.

(b) Subsidiaries, joint arrangements and associates not recognised

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

Aggregate information for joint ventures that are not individually material

Strategic Services Australia Limited (Council Support Services Joint Venture)

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. Council's unconsolidated share of the net assets and net profit of the Joint Venture is as follows:

2019

Net Profit	(57)
Net Assets	583

2018

Net Profit	352
Net Assets	641

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Commitments

\$ '000	2019	2018
(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	6,775	238
Plant and equipment	228	659
Newcastle airport	5,395	1,317
Other	1,072	1,622
Total commitments	13,470	3,836
These expenditures are payable as follows:		
Within the next year	13,470	3,836
Total payable	13,470	3,836

(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	421	450
Later than one year and not later than 5 years	538	614
Later than 5 years	262	–
Total non-cancellable operating lease commitments	1,221	1,064

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

Computer, Printing Equipment, Land and Car Parks. Contingent rentals may be payable depending on the condition of items or usage during the lease term.

Conditions relating to finance and 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 (c)

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

Description of the funding arrangements.

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

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

Division B	1.9 times employee contributions for non 180 Point Members. Nil for 180 Point Members
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 2018 to to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities.

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

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

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

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$661,972.64. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 31 December 2018, relating to the period ending 30 June 2018.

The amount of additional contributions included in the total employer contribution advised above is \$337,154.66. Council's expected contribution to the plan for the next annual reporting period is \$638,180.60.

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

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

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$676,000 as at 30 June 2019.

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

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

Investment return	5.75% per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

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

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

(iv) Other guarantees

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

2. Other liabilities

(i) Third party claims

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

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

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

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

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

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

(iii) Legal Matters

Council is dealing with general 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.

ASSETS NOT RECOGNISED

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management

Risk management

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

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

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

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

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.

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	13,948	9,828	13,948	9,828
Receivables	9,102	9,258	9,102	9,257
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	36,289	41,242	36,289	41,242
Total financial assets	59,339	60,328	59,339	60,327
Financial liabilities				
Payables	14,345	11,175	14,345	11,175
Loans/advances	19,528	23,831	19,528	23,831
Total financial liabilities	33,873	35,006	33,873	35,006

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 financial assets at amortised cost / held-to-maturity (2018) 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.

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

Council's financial services section manages the cash and investments portfolio.

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

The risks associated with the instruments held are:

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

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

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	412	–	(412)	–
2018				
Possible impact of a 1% movement in interest rates	338	–	(338)	–

(b) Credit risk

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

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

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

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

The level of outstanding receivables is reported to the financial services section manager on a monthly basis and monitoring of acceptable collection performance is carried out.

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

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

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	–	2,184	203	188	123	2,698
2018						
Gross carrying amount	–	1,929	179	177	121	2,406

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	5,198	454	100	118	539	6,409
Expected loss rate (%)	0.07%	0.11%	0.38%	1.24%	2.32%	0.29%
ECL provision	4	–	–	1	13	18
2018						
Gross carrying amount	4,929	977	493	63	396	6,858
Expected loss rate (%)	0.07%	0.11%	0.38%	1.24%	2.32%	0.24%
ECL provision	3	1	2	1	9	16

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types,

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	payable in: ≤ 1 Year	1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	961	13,384	–	–	14,345	14,345
Loans and advances	3.14%	–	11,274	8,553	941	20,768	19,528
Total financial liabilities		<u>961</u>	<u>28,820</u>	<u>8,553</u>	<u>941</u>	<u>39,275</u>	<u>33,873</u>
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		<u>826</u>	<u>14,344</u>	<u>19,305</u>	<u>2,126</u>	<u>36,601</u>	<u>35,006</u>

Loan agreement breaches

There were no loan agreement breaches recorded during the year.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 26/06/2018 and is unaudited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	56,787	57,652	865	2% F
User charges and fees	39,367	44,698	5,331	14% F
User fees and charges increased above budget due to the receipt of additional work from RMS under the State Roads maintenance program.				
Interest and investment revenue	1,353	1,451	98	7% F
Other revenues	6,591	6,596	5	0% F
Operating grants and contributions	11,758	11,918	160	1% F
Capital grants and contributions	5,811	21,312	15,501	267% F
Council was gifted a significant amount of infrastructure from development subdivisions which exceeded the original budgeted amount.				
Net gains from disposal of assets	250	278	28	11% F
Council was able to generate higher than expected disposal gains as a result of property developments				
Fair value increment on investment property	–	3,592	3,592	∞ F
Fair value increases on investment property were higher than expected due to strong growth in commercial assets. Fair value increments are a non cash transaction and do not form part of Council's underlying surplus.				
EXPENSES				
Employee benefits and on-costs	45,135	48,294	(3,159)	(7)% U
Borrowing costs	698	705	(7)	(1)% U
Materials and contracts	36,830	38,120	(1,290)	(4)% U

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
Material and contracts costs increased due to being awarded additional work under the RMS State Roads maintenance program.				
Depreciation and amortisation	15,621	14,683	938	6% F
Other expenses	13,995	17,317	(3,322)	(24)% U
Other expenses exceeded the original budget due to growth at the Newcastle Airport.				
Revaluation decrement / impairment of IPP&E	-	3,174	(3,174)	∞ U

STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	22,065	30,242	8,177	37% F
Cashflows from operating activities exceeded the original budget due to the receipt of capital grants for new infrastructure projects.				
Net cash provided from (used in) investing activities	(21,333)	(21,816)	(483)	2% U
Net cash provided from (used in) financing activities	(1,485)	(4,306)	(2,821)	190% U

Cashflows from financing activities varied due to proceeds from loans which were drawn down on in June 2018. .

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement

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

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

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

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

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

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

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

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

2019	Notes	Date of latest valuation	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						
	10					
		Investment properties held	–	35,550	–	35,550
		Total investment property	–	35,550	–	35,550
Infrastructure, property, plant and equipment						
	9(a)					
		Plant and equipment	–	–	11,512	11,512
		Office equipment	–	–	1,471	1,471
		Furniture and fittings	–	–	211	211
		Land	–	38,932	73,726	112,658
		Land Improvements	–	–	6,775	6,775
		Buildings – specialised	–	–	95,000	95,000
		Other Structures	–	–	5,379	5,379
		Infrastructure	–	–	682,977	682,977
		Other Assets	–	–	5,053	5,053
		Total infrastructure, property, plant and equipment	–	38,932	882,104	921,036

2018	Notes	Date of latest valuation	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						
	10					
		Investment properties held	–	31,467	–	31,467
		Total investment property	–	31,467	–	31,467

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

2018	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
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

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

(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.

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

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:

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

- 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 was valued in accordance with the Australian Accounting Standard AASB 116 Property, Plant and Equipment, and the Code of Accounting Practice and Financial Reporting.

Values were determined using valuation of Council's total Land under Roads at the average rate unit of land and applying discounting factors which reflects the restrictions placed on land under roads. This asset class is classified as Level 3 asset as significant inputs used in this methodology are unobservable.

There has been no change to the valuation process 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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

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

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

\$ '000	Plant and office equipment	Furniture and fittings	Land and land improvements	Buildings	Other structures	Infrastructure	Other assets	Total
2018								
Opening balance	10,236	78	75,046	83,081	3,764	649,199	8,394	829,798
Transfers from/(to) another asset class	–	–	1,061	(1,346)	220	–	(56)	(121)
Purchases (GBV)	2,204	46	657	4,201	439	22,451	659	30,657
Disposals (WDV)	(771)	(18)	–	(767)	–	(442)	–	(1,998)
Depreciation and impairment	(1,701)	–	(25)	(4,892)	(317)	(4,501)	(838)	(12,274)
Transfer from prior year	(41)	–	–	–	–	–	–	(41)
Revaluation increments/decrements	–	–	(827)	13,383	16	140	–	12,712
Transfers from/(to) Note 8	–	–	–	–	–	–	–	–
Closing balance	9,927	106	75,912	93,660	4,122	666,847	8,159	858,733
2019								
Opening balance	9,927	106	75,912	93,660	4,122	666,847	8,159	858,733
Transfers from/(to) another asset class	(21)	36	4,378	1,640	1,368	–	(2,745)	4,656
Purchases (GBV)	5,551	93	665	4,025	449	(5,754)	435	5,464
Disposals (WDV)	(188)	–	(349)	(315)	–	17,575	(796)	15,927
Depreciation and impairment	(2,285)	(24)	(77)	(4,016)	(560)	(232)	–	(7,194)
Transfer from prior year	–	–	–	–	–	(4,254)	–	(4,254)
Revaluation increments/decrements	–	–	(26)	–	–	8,977	–	8,951
Transfers from/(to) Note 8	–	–	–	–	–	(180)	–	(180)
Closing balance	12,984	211	80,503	94,994	5,379	682,979	5,053	882,103

Port Stephens Council
Notes to the Financial Statements
for the year ended 30 June 2019
Note 21. Fair Value Measurement (continued)

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

	Fair value (30/6/19)	Valuation techniques	Unobservable inputs
c. Significant unobservable valuation inputs used (for level 3 asset classes) and their relationship to fair value.			
Infrastructure, property, plant and equipment			
Plant & Office Equipment	12,984	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Furniture & Fittings	211	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Land & Land Improvements	80,503	Community Land - land values obtained from the NSW Valuer-General. Crown Land - land values based on the NSW Valuer-General where applicable, otherwise restrictions on land such as zoning, has been taken into consideration.	Land value, land area
Buildings - Specialised Other Structures	94,994 5,379	Cost approach Cost approach	Unit price Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Infrastructure	682,979	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Other Assets	5,053	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

(5) Highest and best use

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Related Party Transactions

(a) Key management personnel

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

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

	2019	2018
Compensation:		
Short-term benefits	4,146	3,318
Post-employment benefits	360	292
Termination benefits	–	162
Total	4,506	3,772

(b) Other transactions with KMP and their related parties

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

Nature of the transaction	Ref	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
2019						
Director remuneration	1	42	–	–	–	–
Director remuneration	2	9	–	–	–	–
Payment of contributions	3	399	–	–	–	–
Legal services	4	240	–	–	–	–
Training services	5	86	–	–	–	–
Tourism services	6	3	–	–	–	–
Rebates	7	1	–	–	–	–
Surveying services	8	40	–	–	–	–

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Related Party Transactions (continued)

Nature of the transaction	Ref	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000						
Cleaning services	10	24	—		—	—
Sub lease of Council buildings	11	66	—		—	—
Supply of Goods	12	4	4		—	—
2018						
Director remuneration	1	42	—		—	—
Director remuneration	2	—	—		—	—
Payment of contributions	3	398	—		—	—
Legal services	4	321	4		—	—
Training services	5	90	—		—	—
Tourism services	6	32	—		—	—
Rebates	7	19	—		—	—
Surveying services	8	6	—		—	—
Training services	9	38	—		—	—
Cleaning services	10	24	—		—	—
Sub lease of Council buildings	11	66	—		—	—
Supply of Goods	12	—	—		—	—

1 Members 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 Members of Council's KMP is remunerated for the provision of board member services by Greater Newcastle Aerotropolis Pty Ltd which Port Stephens Council has a 50% shareholding in.

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.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Related Party Transactions (continued)

Note 23. Events occurring after the reporting date

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

- On 27 August 2019 Council resolved to secure loan funding up to \$5 million for proposed community projects and loan funding up to \$4 million for the construction of a Koala Sanctuary at Council's accommodation property Treescape.

Port Stephens Council

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

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 new release areas.

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

SUMMARY OF CONTRIBUTIONS AND LEVIES

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	19	19	-	-	-	-	38	-
Roads	1,212	601	-	21	(130)	-	1,704	-
Traffic facilities	28	-	-	1	-	-	29	-
Parking	(8)	-	-	-	-	-	(8)	-
Open space	2,304	839	-	42	(293)	85	2,977	214
Community facilities	2,158	1,026	-	39	(838)	-	2,385	(129)
Recreation	5,571	2,142	-	99	(27)	(84)	7,701	(85)
Fire Fighting Facilities	339	89	-	6	-	-	434	-
Civic Administration	385	398	-	7	(285)	-	505	-
Haulage	2,402	579	20	43	(584)	-	2,460	-
Meadowie, Traffic and Transport	201	395	-	4	-	-	600	-
S7.11 contributions – under a plan	14,612	6,088	20	262	(2,157)	1	18,826	-
S7.12 levies – under a plan	809	446	65	15	(334)	-	1,001	-
Total S7.11 and S7.12 revenue under plans	15,421	6,534	85	277	(2,491)	1	19,827	-
S7.11 not under plans	-	-	-	-	-	-	-	-
S7.4 planning agreements	-	-	-	-	-	-	-	-
Repealed funds	66	-	-	1	(41)	-	26	-
S64 contributions	-	-	-	-	-	-	-	-
Total contributions	15,487	6,534	85	278	(2,532)	1	19,853	-

Port Stephens Council

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

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	24	6	-	-	-	-	30	-
Open space	108	9	-	2	-	-	119	-
Community facilities	160	11	-	3	-	-	174	-
Recreation	242	22	-	4	-	-	268	-
Total	534	48	-	9	-	-	591	-

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	169	89	-	3	-	-	261	-
Parking	(11)	-	-	-	-	-	(11)	-
Open space	420	136	-	8	-	-	564	-
Community facilities	302	145	-	5	(118)	-	334	-
Recreation	1,249	346	-	22	(27)	-	1,590	-
Total	2,129	716	-	38	(145)	-	2,738	-

Port Stephens Council

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

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	399	242	-	7	(22)	-	626	-
Open space	594	287	-	11	(1)	-	891	-
Community facilities	133	425	-	2	(395)	-	165	-
Recreation	1,969	873	-	35	-	-	2,877	-
Medowie, Traffic and Transport	201	395	-	4	-	-	600	-
Total	3,296	2,222	-	59	(418)	-	5,159	-

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	38	27	-	1	-	-	66	-
Open space	172	42	-	3	(6)	-	211	-
Community facilities	(46)	49	-	-	-	-	3	-
Recreation	284	101	-	5	-	-	390	-
Total	448	219	-	9	(6)	-	670	-

Port Stephens Council

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

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CATCHMENT DISTRICT - TILIGERRY 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	16	12	-	-	-	-	28	-
Open space	(9)	24	-	-	(100)	85	-	85
Community facilities	98	26	-	2	-	-	126	-
Recreation	342	61	-	6	-	(84)	325	(85)
Total	447	123	-	8	(100)	1	479	-

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	19	19	-	-	-	-	38	-
Roads	9	99	-	-	(108)	-	-	-
Parking	3	-	-	-	-	-	3	-
Open space	-	193	-	-	(181)	-	12	129
Community facilities	715	207	-	13	(318)	-	617	(129)
Recreation	376	469	-	7	-	-	852	-
Total	1,122	987	-	20	(607)	-	1,522	-

Port Stephens Council

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

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	2	-	1	-	-	32	-
Open space	22	3	-	-	-	-	25	-
Community facilities	1	3	-	-	-	-	4	-
Recreation	37	7	-	1	-	-	45	-
Total	89	15	-	2	-	-	106	-

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	528	124	-	9	-	-	661	-
Traffic facilities	28	-	-	1	-	-	29	-
Open space	997	145	-	18	(5)	-	1,155	-
Community facilities	795	160	-	14	(7)	-	962	-
Recreation	1,072	263	-	19	-	-	1,354	-
Total	3,420	692	-	61	(12)	-	4,161	-

Port Stephens Council

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

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	2,402	579	20	43	(584)	-	2,460	-
Fire Fighting Facilities	339	89	-	6	-	-	434	-
Civic Administration	385	398	-	7	(285)	-	505	-
Total	3,126	1,066	20	56	(869)	-	3,399	-

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	809	446	65	15	(334)	-	1,001	-
Total	809	446	65	15	(334)	-	1,001	-

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25. Financial result and financial position by fund

Council utilises only a general fund for its operations.

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26. Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	3,196	2.61%	(0.08)%	7.10%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	122,315				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	109,567	76.29%	78.24%	76.57%	>60.00%
Total continuing operating revenue ¹	143,627				
3. Unrestricted current ratio					
Current assets less all external restrictions	34,273	1.59x	2.08x	3.18x	>1.50x
Current liabilities less specific purpose liabilities	21,567				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	18,584	3.71x	2.36x	6.35x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	5,011				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,784	2.99%	2.84%	2.80%	<10.00%
Rates, annual and extra charges collectible	59,681				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	50,237	5.22	5.53	5.81	>3.00
Monthly payments from cash flow of operating and financing activities	9,620	mths	mths	mths	mths

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

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

Port Stephens Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 27. 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

Telephone: 02 4988 0255

Facsimile: 02 4988 0130

Opening hours:

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

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 19, Tower 2 Darling Park, 201 Sussex St,
Sydney NSW 2000

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 statements

Port Stephens Council

To the Councillors of the Port Stephens Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

Furqan Yousuf

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY



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

Contact: Furqan Yousuf
Phone no: 02 9275 7470
Our ref: D1924473/1779

29 October 2019

Dear Cr Palmer

Report on the Conduct of the Audit for the year ended 30 June 2019 Port Stephens Council

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

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

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

INCOME STATEMENT

Operating result

	2019 \$m	2018 \$m	Variance %
Rates and annual charges revenue	57.7	56.1	↑ 2.9
Grants and contributions revenue	33.2	27.7	↑ 19.9
Operating result for the year	25.2	20.1	↑ 25.4
Net operating result before capital grants and contributions	3.9	5.0	↓ 22.0

The Council’s operating result for the year was a surplus of \$25.2 million, which was \$5.1 million higher than the 2017–18 operating result. The improved operating result was mainly due to an increase in revenue from grants and contributions by \$5.5 million. The Council budgeted for an operating surplus of \$9.6 million.

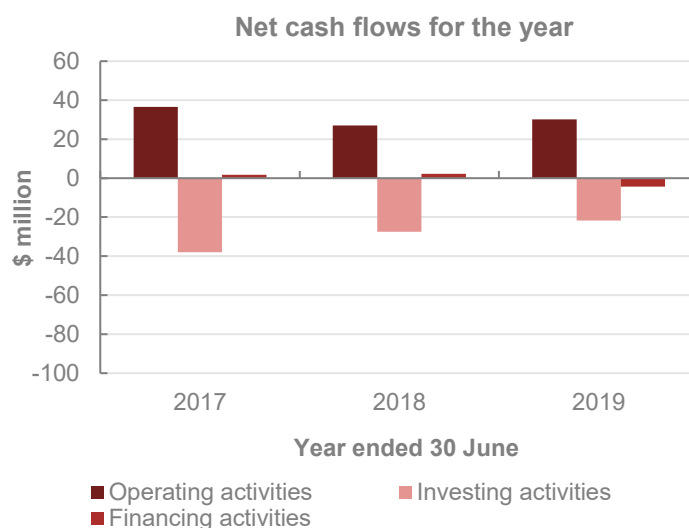
The Council’s net operating result before capital grants and contributions was \$3.9 million, which was \$1.1 million lower than the 2017–18 net operating result before capital grants and contributions. The movement is mainly attributable to the following factors:

- impairment loss of real estate assets held as inventory by \$3.1 million
- increase in employee benefits and on-costs by \$5.2 million or 12.0 per cent, mainly as a result of increase in number of full-time equivalent employees from 483 to 503 and increase in award rates and leave entitlement expense as a result from an increase from award changes of \$1.5 million
- increase of \$1.6 million or 2.9 per cent in revenue from rates and annual charges, consistent with the 2.3 per cent rate peg increase and rise in the total number of rateable properties
- increase of \$4.9 million or 12.4 per cent in revenue from user charges and fees, represented by \$1.9 million from Newcastle Airport and \$2.5 million from RMS charges.

Grants and contributions revenue increased by \$5.5 million (19.9 per cent) to \$33.2 million in 2018–19 mainly due to an increase in the amount recognised for bushfire assets and assets dedicated in lieu of cash contributions by \$3.8 million.

STATEMENT OF CASH FLOWS

- The Council’s cash and cash equivalents was \$13.9 million (\$9.8 million for the year ended 30 June 2018). There was a net increase in cash and cash equivalents of \$4.1 million at 30 June 2019.
- Net cash inflows from the operating activities increased by \$3.2 million mainly due to increased RMS charges received during the year.
- Net cash outflows from the investing activities decreased by \$5.7 million mainly due to lower net movement in investment securities.
- Net cash outflows from financing activities increased by \$6.6 million due to increase in repayment of borrowings.



FINANCIAL POSITION

Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	30.0	26.7	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$3.3 million primarily due to an increase in available cash balance relating to the developer contributions.
Internal restrictions	20.2	24.3	
Unrestricted	--	--	
Cash and investments	50.2	51.0	<ul style="list-style-type: none"> Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The decrease in the internal restrictions of \$4.1 million is mainly due to expended special purpose loan funds of \$2.0 million.

Debt

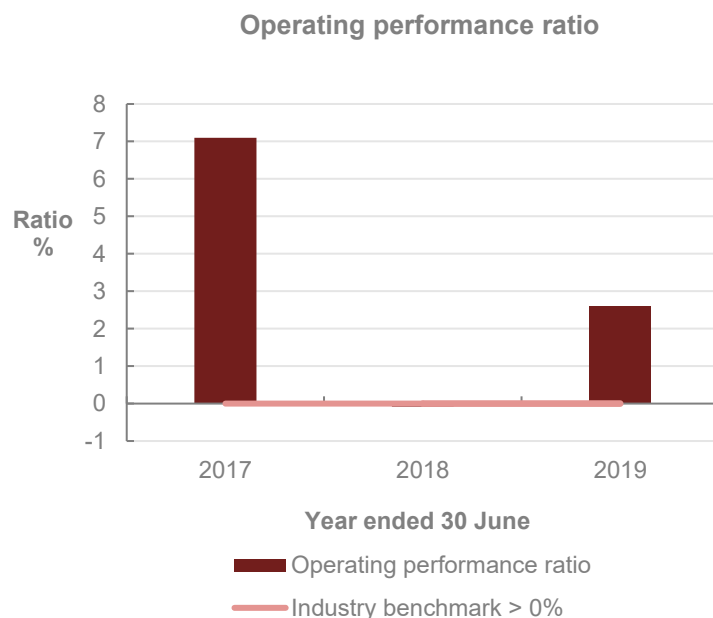
The Council has \$19.5 million of borrowings as at 30 June 2019 (2018: \$23.8 million)

The Council has an accumulated drawdown facility limit of \$28.0 million as at 30 June 2019 (2018: \$3.0 million), of which \$25.0 million pertains to the Newcastle Airport Partnership joint venture. As at 30 June 2019, \$21.7 million of the facility remains unutilised.

PERFORMANCE

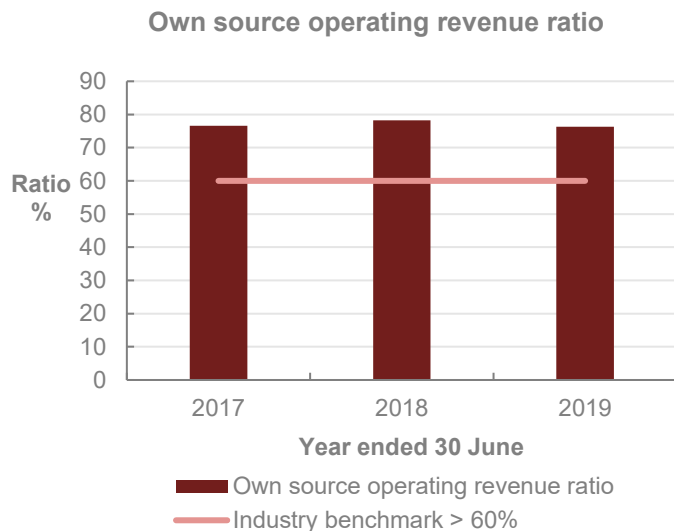
Operating performance ratio

- The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.
- The Council's operating performance ratio of 2.61 per cent is above the industry benchmark of zero per cent.
- The operating performance ratio has improved from prior year ratio of negative 0.08 per cent mainly due to increase in Council's operational revenues in 2018–19.



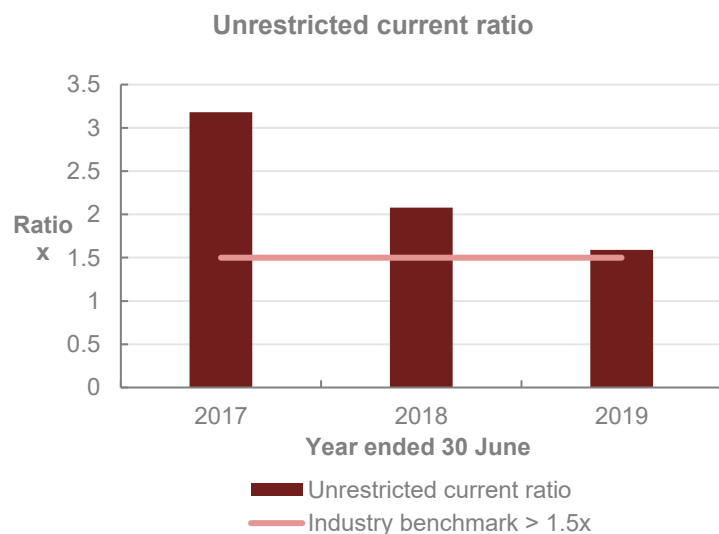
Own source operating revenue ratio

- The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.
- The Council's own source operating revenue ratio of 76.29 per cent is above the industry benchmark of 60 per cent. This indicates that the Council has a diversified source of income and does not have an overly strong reliance on operating grants and contributions.
- The Council's own source operating revenue ratio has remained steady over the past three years.



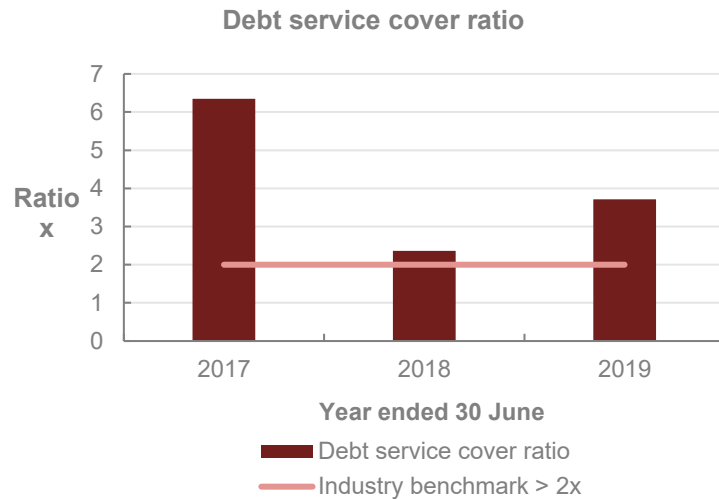
Unrestricted current ratio

- The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.
- The Council's liquidity ratio of 1.59 is above the industry benchmark minimum of greater than 1.5 times. This indicates that the Council has sufficient liquidity to meet its current liabilities as and when they fall due.
- The Council's unrestricted current ratio has decreased from prior year mainly due to an increase in externally restricted cash.



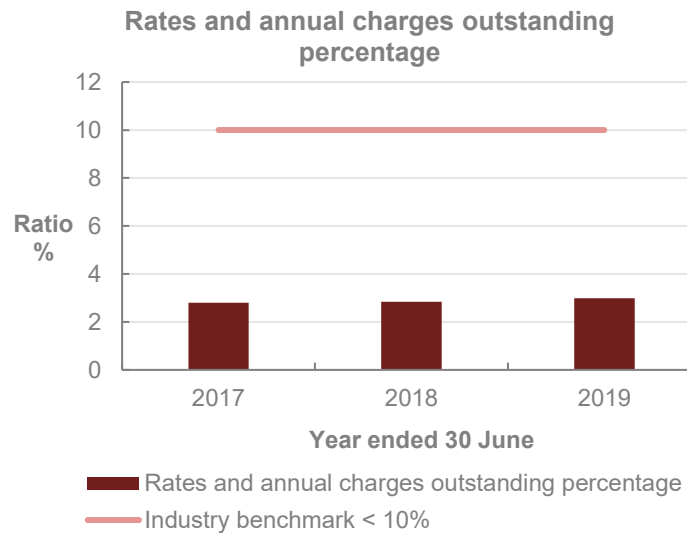
Debt service cover ratio

- The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.
- The Council's debt service cover ratio of 3.71 times is above the industry benchmark of greater than 2 times.
- The Council's debt service cover ratio has increased from the prior year mainly due to the improved net operating result in 2018–19.



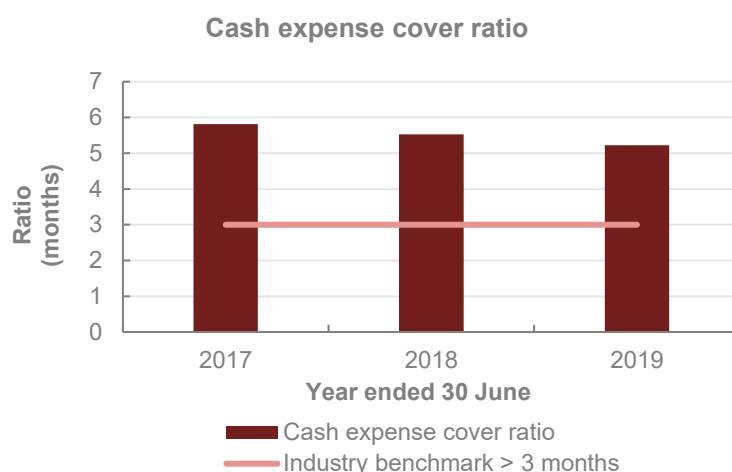
Rates and annual charges outstanding percentage

- The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for regional councils.
- The Council's rates and annual charges outstanding percentage of 2.99 per cent is within the benchmark of less than 10 per cent for regional councils.
- The Council's rates and annual charges outstanding percentage remained consistent over the past three years. The collection procedures of the Council operated effectively to collect more than 90 per cent of the rates and annual charges revenue within the receivable due dates.



Cash expense cover ratio

- This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.
- The Council's cash expense cover ratio was 5.2 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 5.2 months of operating cash expenditure without additional cash inflows at 30 June 2019.
- The cash expense cover ratio decreased compared with prior year due to increased cash outflows from repayment of borrowings and increased payroll costs in 2018–19.



Infrastructure, property, plant and equipment renewals

The Council has renewed \$10.8 million of assets in 2018–19 financial year, compared to \$12.0 million of assets in the prior year.

OTHER MATTERS

New accounting standards implemented

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

Legislative compliance

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

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

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.

Furqan Yousuf
Delegate of the Auditor-General for New South Wales

cc: Mr Wayne Wallis, General Manager
Mr Frank Cordingley, Chair of the Audit and Risk Committee
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment



Port Stephens Council

SPECIAL SCHEDULES
for the year ended 30 June 2019

Port Stephens

Special Schedules

for the year ended 30 June 2019

Contents

Page

Special Schedules ¹

Permissible income for general rates	3
Independent Auditors Report	4
Report on Infrastructure Assets	7

Port Stephens Council

Permissible income for general rates

for the year ended 30 June 2019

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	42,049	40,767
Plus or minus adjustments ²	b	372	364
Notional general income	c = a + b	42,421	41,131
Permissible income calculation			
Or rate peg percentage	e	2.70%	0.00%
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	2.32%
Or plus rate peg amount	$i = e \times (c + g)$	1,145	–
Or plus Crown land adjustment and rate peg amount	$j = f \times (c + g)$	–	954
Sub-total	k = (c + g + h + i + j)	43,566	42,085
Plus (or minus) last year's carry forward total	l	15	–
Less valuation objections claimed in the previous year	m	–	(21)
Sub-total	n = (l + m)	15	(21)
Total permissible income	o = k + n	43,581	42,064
Less notional general income yield	p	43,572	42,049
Catch-up or (excess) result	q = o – p	10	15
Carry forward to next year ⁶	t = q + r + s	10	15

Notes

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Port Stephens Council

To the Councillors of Port Stephens Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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.

Furqan Yousuf

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY

Port Stephens Council

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Buildings	Buildings	1,715	1,715	2,682	2,578	95,000	171,650	20.8%	33.1%	36.4%	8.6%	1.2%
	Sub-total	1,715	1,715	2,682	2,578	95,000	171,650	20.8%	33.1%	36.4%	8.6%	1.1%
Other structures	Other structures	-	-	123	173	5,379	8,172	11.8%	72.7%	15.5%	0.0%	0.0%
	Sub-total	-	-	123	173	5,379	8,172	11.8%	72.7%	15.5%	0.0%	0.0%
Roads	Sealed roads	10,767	10,767	4,063	4,038	335,367	380,248	23.6%	45.0%	20.7%	7.1%	3.7%
	Unsealed roads	-	-	729	732	8,097	10,503	6.2%	0.4%	93.4%	0.0%	0.0%
	Bridges	-	-	5	10	10,924	11,432	21.0%	79.0%	0.0%	0.0%	0.0%
	Footpaths	169	169	345	434	54,691	61,005	14.4%	25.5%	55.0%	5.1%	0.0%
	Other road assets	301	301	2,102	2,026	49,172	61,827	19.9%	12.7%	66.6%	0.9%	0.1%
	Sub-total	11,237	11,237	7,244	7,240	458,251	525,015	21.7%	38.7%	31.1%	5.8%	2.7%
Stormwater drainage	Stormwater drainage	588	588	1,060	1,036	196,079	198,795	25.0%	72.9%	1.5%	0.6%	0.0%
	Sub-total	588	588	1,060	1,036	196,079	198,795	25.0%	72.9%	1.5%	0.6%	0.0%
Open space /recreational assets	Swimming pools	-	-	125	137	3,071	6,838	0.0%	15.0%	85.0%	0.0%	0.0%
	Open space	321	321	3,496	3,359	21,280	32,327	11.6%	52.0%	28.5%	5.8%	2.1%
	Sub-total	321	321	3,621	3,496	24,351	39,165	9.5%	45.6%	38.4%	4.8%	1.7%
Other infrastructure assets	Other	300	300	264	328	7,102	13,207	15.0%	46.0%	29.0%	10.0%	0.0%
	Sub-total	300	300	264	328	7,102	13,207	15.0%	46.0%	29.0%	10.0%	0.0%
	TOTAL - ALL ASSETS	14,161	14,161	14,994	14,851	786,162	956,004	21.5%	45.5%	26.0%	5.2%	1.8%

(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 |

Port Stephens Council

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

-
- | | | |
|---|-----------|-----------------------------------|
| 4 | Poor | Renewal required |
| 5 | Very poor | Urgent renewal/upgrading required |

Port Stephens Council

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	10,769	114.92%	123.14%	99.97%	>=100.00%
Depreciation, amortisation and impairment	9,371				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	14,161	1.80%	1.83%	1.91%	<2.00%
Net carrying amount of infrastructure assets	786,162				
Asset maintenance ratio					
Actual asset maintenance	14,851	99.05%	104.10%	93.34%	>100.00%
Required asset maintenance	14,994				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	14,161	1.48%	1.57%	1.59%	
Gross replacement cost	956,004				

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

(1) Excludes Work In Progress (WIP)

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

Port Stephens Council
Holiday Parks & Investment Property Report
Financial Year 2018/2019

Holiday Parks		Operating Income	Operating Expenditure	EBITDA (3)	Net Yield % (1)	Notes
Fingal Bay	Crown	4,186,818	2,664,234	1,522,584	13%	
Halifax	Crown	2,785,830	2,005,231	780,599	11%	
Shoal Bay	Crown	1,012,399	620,330	392,069		
	Council	<u>1,880,170</u>	<u>1,152,042</u>	<u>728,129</u>		
		2,892,570	1,772,372	1,120,198	9%	
Thou Walla	Council	928,591	872,778	55,813	1%	
TreEscape	Council	633,930	658,021	(24,091)	0%	
Investment Property						
	Total	2,994,239	650,484	2,343,756	7%	2
Newcastle Airport						
	Total	17,585,206	13,623,931	3,961,275	13%	

Notes

- 1** Net Yield = EBITDA / capital
- 2** Councils policy on the required return on capital in commercial property investments is between 7-9%
- 3** EBITDA used as the numerator for Return on Investment calculation in accordance with Crown Lands reporting
- 4** Net Yield = Net Profit / capital







p 02 4988 0255

e council@portstephens.nsw.gov.au

116 Adelaide Street | PO Box 42

Raymond Terrace NSW 2324

 **PORTSTEPHENS.NSW.GOV.AU**