



PORT STEPHENS  
COUNCIL

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# ANNUAL REPORT

2019 to 2020

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Volume 2







# Port Stephens Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2020

# Port Stephens Council

## General Purpose Financial Statements

for the year ended 30 June 2020

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### 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](http://www.portstephens.nsw.gov.au).

## Port Stephens Council

### General Purpose Financial Statements

for the year ended 30 June 2020

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

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

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

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

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

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

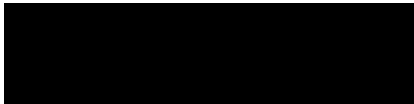
**Signed in accordance with a resolution of Council made on 08 September 2020.**



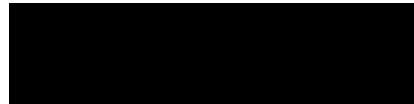
Ryan Palmer  
**Mayor**  
08 September 2020



Glen Dunkley  
**Councillor**  
08 September 2020



Wayne Wallis  
**General Manager**  
08 September 2020



Tim Hazell  
**Responsible Accounting Officer**  
08 September 2020

# Port Stephens Council

## Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
	<b>Income from continuing operations</b>			
59,087	Rates and annual charges	3a	59,812	57,652
41,682	User charges and fees	3b	41,465	44,698
2,503	Other revenues	3c	2,877	6,596
12,339	Grants and contributions provided for operating purposes	3d,3e	12,837	11,918
5,866	Grants and contributions provided for capital purposes	3d,3e	24,318	21,312
1,421	Interest and investment income	4	884	1,451
250	Net gains from the disposal of assets	6	–	278
787	Fair value increment on investment properties	11	13	3,592
3,794	Rental income	14e	4,154	–
–	Net share of interests in joint ventures and associates using the equity method		540	–
127,729	<b>Total income from continuing operations</b>		146,900	147,497
	<b>Expenses from continuing operations</b>			
46,786	Employee benefits and on-costs	5a	49,812	47,553
767	Borrowing costs	5b	797	705
40,103	Materials and contracts	5c	39,023	38,120
16,003	Depreciation and amortisation	5d	17,073	14,683
14,387	Other expenses	5e	17,558	18,058
–	Net losses from the disposal of assets	6	2,570	–
–	Revaluation decrement / impairment of IPP&E	5d	–	3,174
118,046	<b>Total expenses from continuing operations</b>		126,833	122,293
9,683	<b>Operating result from continuing operations</b>		20,067	25,204
9,683	<b>Net operating result for the year</b>		20,067	25,204
	<b>Attributable to:</b>			
9,683	- Council		20,067	25,204
–	- non-controlling interests		–	–
3,817	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		(4,251)	3,892

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

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

# Port Stephens Council

## Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
<b>Net operating result for the year (as per Income Statement)</b>		<b>20,067</b>	<b>25,204</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	(4,503)	8,951
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>(4,503)</b>	<b>8,951</b>
<b>Total other comprehensive income for the year</b>		<b>(4,503)</b>	<b>8,951</b>
<b>Total comprehensive income for the year</b>		<b>15,564</b>	<b>34,155</b>
<b>Attributable to</b>			
- Council		15,564	34,155
- non-controlling interests		—	—

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

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

## Port Stephens Council

### Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7(a)	16,525	13,948
Investments	7(b)	22,913	35,067
Receivables	8	8,406	8,914
Inventories	9a	5,149	5,162
Other	9b	946	610
<b>Total current assets</b>		<u>53,939</u>	<u>63,701</u>
<b>Non-current assets</b>			
Investments	7(b)	3,939	1,222
Receivables	8	172	188
Inventories	9a	9,820	10,030
Infrastructure, property, plant and equipment	10(a)	1,001,598	960,971
Investment property	11	37,575	35,550
Intangible Assets	12	5,835	6,149
Right of use assets	14a	4,740	–
Investments accounted for using the equity method		540	–
Other	9b	37	1,774
<b>Total non-current assets</b>		<u>1,064,256</u>	<u>1,015,884</u>
<b>Total assets</b>		<u>1,118,195</u>	<u>1,079,585</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	15	13,888	14,345
Contract liabilities	13	2,513	–
Lease liabilities	14b	794	–
Borrowings	15	3,332	4,464
Provisions	16	16,566	17,067
<b>Total current liabilities</b>		<u>37,093</u>	<u>35,876</u>
<b>Non-current liabilities</b>			
Payables	15	3,280	–
Lease liabilities	14b	4,069	–
Borrowings	15	29,515	15,064
Provisions	16	771	742
<b>Total non-current liabilities</b>		<u>37,635</u>	<u>15,806</u>
<b>Total liabilities</b>		<u>74,728</u>	<u>51,682</u>
<b>Net assets</b>		<u>1,043,467</u>	<u>1,027,903</u>
<b>EQUITY</b>			
Accumulated surplus	17	640,250	618,886
Revaluation reserves	17	403,217	409,017
<b>Council equity interest</b>		<u>1,043,467</u>	<u>1,027,903</u>
<b>Total equity</b>		<u>1,043,467</u>	<u>1,027,903</u>

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

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

**Port Stephens Council**  
**Statement of Changes in Equity**  
for the year ended 30 June 2020

	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		618,886	409,017	1,027,903	593,330	400,418	993,748
Changes due to AASB 1058 and AASB 15 adoption	17	–	–	–	–	–	–
Changes due to AASB 16 adoption	17	–	–	–	–	–	–
<b>Restated opening balance</b>		<b>618,886</b>	<b>409,017</b>	<b>1,027,903</b>	<b>593,330</b>	<b>400,418</b>	<b>993,748</b>
Net operating result for the year		20,067	–	20,067	25,204	–	25,204
<b>Other comprehensive income</b>							
– Gain (loss) on revaluation of IPP&E	10(a)	–	(4,503)	(4,503)	–	8,951	8,951
<b>Other comprehensive income</b>		<b>–</b>	<b>(4,503)</b>	<b>(4,503)</b>	<b>–</b>	<b>8,951</b>	<b>8,951</b>
<b>Total comprehensive income</b>		<b>20,067</b>	<b>(4,503)</b>	<b>15,564</b>	<b>25,204</b>	<b>8,951</b>	<b>34,155</b>
Transfers between equity items		1,297	(1,297)	–	352	(352)	–
<b>Equity – balance at end of the reporting period</b>		<b>640,250</b>	<b>403,217</b>	<b>1,043,467</b>	<b>618,886</b>	<b>409,017</b>	<b>1,027,903</b>

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

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



## Port Stephens Council

### Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
<b>Cash flows from operating activities</b>				
<i>Receipts:</i>				
58,559	Rates and annual charges		59,588	57,360
41,682	User charges and fees		44,342	47,184
1,421	Investment and interest revenue received		1,262	1,284
16,063	Grants and contributions		33,183	23,646
–	Bonds, deposits and retention amounts received		281	133
6,297	Other		13,532	11,774
<i>Payments:</i>				
(48,815)	Employee benefits and on-costs		(48,826)	(47,166)
(40,133)	Materials and contracts		(43,254)	(39,120)
(767)	Borrowing costs		(796)	(702)
(10,255)	Other		(19,094)	(24,151)
24,052	<b>Net cash provided (or used in) operating activities</b>	18b	40,218	30,242
<b>Cash flows from investing activities</b>				
<i>Receipts:</i>				
–	Sale of investment securities		35,084	32,950
–	Sale of real estate assets		–	2,255
250	Sale of infrastructure, property, plant and equipment		2,095	1,204
<i>Payments:</i>				
–	Purchase of investment securities		(25,736)	(27,997)
–	Purchase of investment property		(2,012)	(491)
(21,138)	Purchase of infrastructure, property, plant and equipment		(58,380)	(27,324)
–	Purchase of real estate assets		(1,075)	(263)
–	Purchase of intangible assets		(193)	(2,150)
(20,888)	<b>Net cash provided (or used in) investing activities</b>		(50,217)	(21,816)
<b>Cash flows from financing activities</b>				
<i>Receipts:</i>				
6,500	Proceeds from borrowings and advances		18,100	–
<i>Payments:</i>				
(3,302)	Repayment of borrowings and advances		(4,782)	(4,306)
–	Lease liabilities (principal repayments)		(742)	–
3,198	<b>Net cash flow provided (used in) financing activities</b>		12,576	(4,306)
6,362	<b>Net increase/(decrease) in cash and cash equivalents</b>		2,577	4,120
13,948	Plus: cash and cash equivalents – beginning of year	18a	13,948	9,828
20,310	<b>Cash and cash equivalents – end of the year</b>	18a	16,525	13,948
36,289	plus: Investments on hand – end of year	7(b)	26,852	36,289
56,599	<b>Total cash, cash equivalents and investments</b>		43,377	50,237

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

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

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# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 1. Basis of preparation

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These financial statements were authorised for issue by Council on 10 November 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

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

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

Council is a not for-profit entity.

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

#### (a) Historical cost convention

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

#### (b) Significant accounting estimates and judgements

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

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

#### Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of investment properties – refer Note 11
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- (iii) estimated tip remediation provisions – refer Note 16
- (iv) employee benefit provisions – refer Note 16.

#### Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

Council has made a judgement about the impairment of a number of its receivables – refer Note 8.

- (ii) Interests in other entities

Council has made a judgement about the relationship it has with external entities - refer Note 19

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 1. Basis of preparation (continued)

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#### **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.

#### **Volunteer services**

Income relating to volunteer services can only be recognised where the amount is material, the services would be purchased if they were not donated and the amount of all volunteer services can be reliably measured. Council is not able to reliably satisfy all these aspects therefore no income and corresponding expense has been recognised in the financial statements.

#### **New accounting standards and interpretations issued not yet effective**

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

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

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

##### **AASB 1059 Service Concession Arrangements: Grantors**

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

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

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



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 1. Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Apart from the standards listed above, there are no other released standards and interpretations (with future effective dates) that are expected to have a material impact on Council.

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

#### **New accounting standards adopted during the year**

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

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

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 18.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>Functions or activities</b>										
Our Community	6,013	3,328	10,050	7,115	(4,037)	(3,787)	677	512	173,998	132,230
Our Council	84,549	86,673	46,710	50,364	37,839	36,309	11,012	5,576	229,530	213,920
Our Environment	19,517	19,040	19,321	17,814	196	1,226	387	467	4,383	4,553
Our Place	36,821	38,456	50,752	47,000	(13,931)	(8,544)	12,109	7,829	710,369	728,882
<b>Total functions and activities</b>	<b>146,900</b>	<b>147,497</b>	<b>126,833</b>	<b>122,293</b>	<b>20,067</b>	<b>25,204</b>	<b>24,187</b>	<b>14,384</b>	<b>1,118,195</b>	<b>1,079,585</b>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

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

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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 2020

### Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
<b>(a) Rates and annual charges</b>			
<b>Ordinary rates</b>			
Residential	1058 (1)	34,362	33,202
Farmland	1058 (1)	821	799
Business	1058 (1)	8,158	7,887
Less: pensioner rebates (mandatory)		(1,066)	(1,061)
<b>Rates levied to ratepayers</b>		<b>42,275</b>	<b>40,827</b>
Pensioner rate subsidies received	1058 (1)	598	581
<b>Total ordinary rates</b>		<b>42,873</b>	<b>41,408</b>
<b>Annual charges</b>			
<small>(pursuant to s.496, s.496A, s.496B, s.501 &amp; s.611)</small>			
Domestic waste management services	1058 (1)	14,131	13,644
Waste management services (non-domestic)	1058 (1)	2,997	2,805
Section 611 charges		11	–
Less: pensioner rebates (mandatory)		(456)	(454)
<b>Annual charges levied</b>		<b>16,683</b>	<b>15,995</b>
Pensioner subsidies received:			
– Domestic waste management	1058 (1)	256	249
<b>Total annual charges</b>		<b>16,939</b>	<b>16,244</b>
<b>TOTAL RATES AND ANNUAL CHARGES</b>		<b>59,812</b>	<b>57,652</b>

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

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

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

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

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

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 which is the beginning of the rating period to which they relate.

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

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

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

#### 2019 accounting policy

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



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
<b>(b) User charges and fees</b>			
<b>Specific user charges</b>			
(per s.502 - specific 'actual use' charges)			
Waste management services (non-domestic)	15 (1)	1,486	1,607
<b>Total specific user charges</b>		<b>1,486</b>	<b>1,607</b>
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Private works – section 67	15 (1)	95	137
Section 10.7 certificates (EP&A Act)	15 (1)	184	195
Section 603 certificates	15 (1)	145	138
Building inspection fees	15 (1)	283	266
Building services	15 (1)	1,115	1,106
Shop inspection fees	15 (1)	182	205
Subdivision fees	15 (1)	316	440
<b>Total fees and charges – statutory/regulatory</b>		<b>2,320</b>	<b>2,487</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Animal control		4	12
Cemeteries	1058 (1)	181	165
Child care	15 (2)	2,377	1,859
Holiday parks	15 (2)	9,956	11,306
Leisure centre	1058 (1)	2,183	100
Library		86	105
Newcastle airport	1058 (1)	14,086	17,045
Waste disposal tipping fees		352	331
RMS (formerly RTA) charges (state roads not controlled by Council)	1058 (1)	6,110	7,187
Parking meters	1058 (1)	439	651
Parks, gardens and other community services		2	–
Sewerage management fees	15 (2)	644	588
Other		1,239	1,255
<b>Total fees and charges – other</b>		<b>37,659</b>	<b>40,604</b>
<b>TOTAL USER CHARGES AND FEES</b>		<b>41,465</b>	<b>44,698</b>

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

- 15 (1)** indicates income recognised under AASB 15 “at a point in time”,
- 15 (2)** indicates income recognised under AASB 15 “over time”,
- 1058 (1)** indicates income recognised under AASB 1058 “at a point in time”, while
- 1058 (2)** indicates income recognised under AASB 1058 “over time”.

#### Accounting policy for user charges and fees

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

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 3. Revenue from continuing operations (continued)

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

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

#### **2019 accounting policy**

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

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
<b>(c) Other revenues</b>			
Rental income – investment property (2019 only)		–	2,989
Rental income – other council properties (2019 only)		–	724
Ex gratia rates	1058 (1)	108	57
Fines – parking	1058 (1)	398	222
Fines – other	1058 (1)	252	372
Legal fees recovery – rates and charges (extra charges)		17	68
Legal fees recovery – other	1058 (1)	212	6
Commissions and agency fees	15 (2)	179	199
Insurance claims recoveries	1058 (1)	481	677
Events and promotions		52	91
Long service leave receipts		2	73
Private works	15 (2)	301	356
Other		875	762
<b><u>TOTAL OTHER REVENUE</u></b>		<b><u>2,877</u></b>	<b><u>6,596</u></b>

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

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

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

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

#### Accounting policy for other revenue

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

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

#### 2019 accounting policy:

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

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

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

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

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
<b>(d) Grants</b>					
<b>General purpose (untied)</b>					
<b>Current year allocation</b>					
Financial assistance	1058 (1)	3,343	3,272	–	–
<b>Payment in advance - future year allocation</b>					
Financial assistance	1058 (1)	3,542	3,393	–	–
<b>Total general purpose</b>		<b>6,885</b>	<b>6,665</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>					
Bushfire and emergency services	1058 (1)	1,192	1,132	800	67
Child care	1058 (1)	287	224	–	–
Environmental programs	15 (2)	174	407	–	–
Floodplain management		–	–	–	53
Heritage and cultural		12	15	–	–
Library	1058 (1)	238	188	–	–
LIRS subsidy		48	58	–	–
Recreation and culture		11	–	4,367	2,271
Street lighting		75	74	–	–
Transport (roads to recovery)	1058 (2)	1,081	424	–	–
Transport		68	13	3,330	2,283
Family day care		–	5	–	–
Newcastle airport		–	–	5,392	150
Youth development		77	94	–	–
Other	1058 (1)	43	43	–	40
Weed control	15 (2)	107	178	–	–
<b>Total specific purpose</b>		<b>3,413</b>	<b>2,855</b>	<b>13,889</b>	<b>4,864</b>
<b>Total grants</b>		<b>10,298</b>	<b>9,520</b>	<b>13,889</b>	<b>4,864</b>
<b>Grant revenue is attributable to:</b>					
– Commonwealth funding		7,985	7,117	119	428
– State funding		2,313	2,382	13,770	4,436
– Other funding		–	21	–	–
		<b>10,298</b>	<b>9,520</b>	<b>13,889</b>	<b>4,864</b>

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

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

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



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
<b>(e) Contributions</b>						
<b>Developer contributions:</b>						
<b>(s7.4 &amp; s7.11 - EP&amp;A Act, s64 of the LGA):</b>						
<b>Cash contributions</b>						
S 7.11 – contributions towards amenities/services		1058 (1)	294	398	1,456	5,108
S 7.12 – fixed development consent levies			–	–	129	446
Repealed Funds			–	–	2,481	–
Haulage		1058 (1)	758	579	–	–
<b>Total developer contributions – cash</b>			<b>1,052</b>	<b>977</b>	<b>4,066</b>	<b>5,554</b>
<b>Total developer contributions</b>	27		<b>1,052</b>	<b>977</b>	<b>4,066</b>	<b>5,554</b>
<b>Other contributions:</b>						
<b>Cash contributions</b>						
Bushfire services			–	28	–	357
Kerb and gutter			–	–	33	33
Recreation and culture			–	2	114	74
RMS contributions (regional roads, block grant)		1058 (1)	1,073	1,008	–	–
Other		1058 (1)	117	–	412	–
Economic development and tourism			1	32	–	–
Environmental projects			59	86	–	–
Risk management		1058 (1)	237	265	–	–
<b>Total other contributions – cash</b>			<b>1,487</b>	<b>1,421</b>	<b>559</b>	<b>464</b>
<b>Non-cash contributions</b>						
Bushfire services			–	–	–	1,642
Dedications – subdivisions (other than by s7.11)			–	–	5,804	8,788
<b>Total other contributions – non-cash</b>			<b>–</b>	<b>–</b>	<b>5,804</b>	<b>10,430</b>
<b>Total other contributions</b>			<b>1,487</b>	<b>1,421</b>	<b>6,363</b>	<b>10,894</b>
<b>Total contributions</b>			<b>2,539</b>	<b>2,398</b>	<b>10,429</b>	<b>16,448</b>
<b>TOTAL GRANTS AND CONTRIBUTIONS</b>			<b>12,837</b>	<b>11,918</b>	<b>24,318</b>	<b>21,312</b>

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

- 15 (1)** indicates income recognised under AASB 15 “at a point in time”,
- 15 (2)** indicates income recognised under AASB 15 “over time”,
- 1058 (1)** indicates income recognised under AASB 1058 “at a point in time”, while
- 1058 (2)** indicates income recognised under AASB 1058 “over time”.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 3. Revenue from continuing operations (continued)

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#### **Accounting policy for grants and contributions**

##### **Accounting policy from 1 July 2019**

##### **Grant income under AASB 15**

Where grant income arises from an agreement which is enforceable and contains sufficiently specific performance obligations then the revenue are recognised when control of each performance obligations is satisfied.

Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Each performance obligation is considered to ensure that the revenue recognition reflects the transfer of control and within grant agreements there may be some performance obligations where control transfers at a point in time and others which have continuous transfer of control over the life of the contract.

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

##### **Grant income**

Assets arising from grants in the scope of AASB 1058 is recognised at the assets fair value when the asset is received. Councils considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

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

##### **Capital grants**

Capital grants received to enable Council to acquire or construct an item of infrastructure, property, plant and equipment to identified specifications which will be under Council's control and which is enforceable are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin.

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

##### **Contributions**

NSW Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of s7.4, 7.11 and 7.12 of the Environmental Planning and Assessment Act 1979.

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

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

##### **Accounting policy prior to 1 July 2019**

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

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 3. Revenue from continuing operations (continued)

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

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.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
<b>(f) Unspent grants and contributions – external restrictions</b>		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.		
<b>Operating grants</b>		
Unexpended at the close of the previous reporting period	47	136
<b>Add:</b> operating grants received for the provision of goods and services in a future period (2021)	168	–
<b>Less:</b> operating grants recognised in a previous reporting period now spent (2019 only)	–	(89)
<b>Less:</b> operating grants received in a previous reporting period now spent and recognised as income	(47)	–
<b>Unexpended and held as externally restricted assets (operating grants)</b>	<b>168</b>	<b>47</b>
<b>Capital grants</b>		
Unexpended at the close of the previous reporting period	101	140
<b>Add:</b> capital grants received for the provision of goods and services in a future period (2021)	352	–
<b>Less:</b> capital grants recognised in a previous reporting period now spent (2019 only)	–	(39)
<b>Less:</b> capital grants received in a previous reporting period now spent and recognised as income	(101)	–
<b>Unexpended and held as externally restricted assets (capital grants)</b>	<b>352</b>	<b>101</b>
<b>Contributions</b>		
Unexpended at the close of the previous reporting period	19,853	15,487
<b>Add:</b> contributions recognised as income in the current period but not yet spent	5,385	4,366
<b>Less:</b> contributions recognised in a previous reporting period now spent	(10,694)	–
<b>Unexpended and held as externally restricted assets (contributions)</b>	<b>14,544</b>	<b>19,853</b>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 4. Interest and investment income

\$ '000	2020	2019
<b>Interest on financial assets measured at amortised cost</b>		
– Overdue rates and annual charges (incl. special purpose rates)	186	169
– Cash and investments	659	992
– Newcastle airport	128	290
<b>Fair value adjustments</b>		
– Movements in investments at fair value through profit and loss	(89)	–
Finance income on the net investment in the lease	–	–
<b>Total Interest and investment income</b>	<b>884</b>	<b>1,451</b>
<b>Interest revenue is attributable to:</b>		
<b>Unrestricted investments/financial assets:</b>		
Overdue rates and annual charges (general fund)	–	169
General Council cash and investments	745	713
<b>Restricted investments/funds – external:</b>		
Development contributions		
– Section 7.11	139	279
Newcastle airport	–	290
<b>Total interest and investment revenue</b>	<b>884</b>	<b>1,451</b>

#### 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 2020

### Note 5. Expenses from continuing operations

<u>\$ '000</u>	<u>2020</u>	<u>2019</u>
<b>(a) Employee benefits and on-costs</b>		
Salaries and wages	34,858	32,127
Salaries and wages – Newcastle airport partnership	3,655	3,456
Travel and other allowances	3,068	2,505
Employee leave entitlements (ELE)	8,209	8,591
Superannuation	4,443	4,135
Workers' compensation insurance	1,069	562
Fringe benefit tax (FBT)	13	20
Protective clothing	155	167
Corporate uniform	19	48
Occupational health and safety	6	28
Other	29	26
<b>Total employee costs</b>	<b>55,524</b>	<b>51,665</b>
Less: capitalised costs	(5,712)	(4,112)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>	<b>49,812</b>	<b>47,553</b>

#### **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 21 for more information.



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
<b>(b) Borrowing costs</b>		
<b>(i) Interest bearing liability costs</b>		
Interest on leases	174	–
Interest on overdraft	4	4
Interest on loans	459	508
Interest – Newcastle airport partnership	240	209
Interest on leases - Newcastle Airport	–	–
<b>Total interest bearing liability costs</b>	<b>877</b>	<b>721</b>
Less: capitalised costs	(81)	(19)
<b>Total interest bearing liability costs expensed</b>	<b>796</b>	<b>702</b>
<b>(ii) Other borrowing costs</b>		
Fair value adjustments on recognition of advances and deferred debtors		
Interest applicable on interest free (and favourable) loans to Council	1	3
<b>Total other borrowing costs</b>	<b>1</b>	<b>3</b>
<b><u>TOTAL BORROWING COSTS EXPENSED</u></b>	<b><u>797</u></b>	<b><u>705</u></b>

#### Accounting policy for borrowing costs

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
<b>(c) Materials and contracts</b>		
Raw materials and consumables	7,071	7,514
– Waste collection (2019 only) and disposal contract	8,200	12,320
– Other contractor and consultancy costs	18,294	17,763
Auditors remuneration <sup>2</sup>	146	129
<b>Legal expenses:</b>		
– Legal expenses	482	727
– Legal provision write back	–	(925)
Expenses from short-term leases (2020 only)	57	–
Expenses from leases of low value assets (2020 only)	22	–
Expenses relating to peppercorn leases (2020 only)	1	–
Variable lease expense relating to usage (2020 only)	4,562	–
<b>Operating leases expense (2019 only):</b>		
– Operating lease rentals: minimum lease payments <sup>1</sup>	–	462
Other	188	130
<b>TOTAL MATERIALS AND CONTRACTS</b>	<b>39,023</b>	<b>38,120</b>

#### Accounting policy for materials and contracts

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

#### Operating leases (2019 only)

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

#### 1. Operating lease payments are attributable to:

Buildings	–	114
Computers	–	292
Other	–	56
	–	462

#### 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	99	82
--	----	----

###### Remuneration for audit and other assurance services

	99	82
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###### Total Auditor-General remuneration

##### Non NSW Auditor-General audit firms

###### (i) Audit and other assurance services

Internal audit services: PKF Lawler	47	47
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###### Remuneration for audit and other assurance services

	47	47
--	----	----

###### Total remuneration of non NSW Auditor-General audit firms

	47	47
--	----	----

###### Total Auditor remuneration

	146	129
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## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
<b>(d) Depreciation, amortisation and impairment of non-financial assets</b>			
<b>Depreciation and amortisation</b>			
Plant and equipment		1,939	1,833
Office equipment		631	452
Furniture and fittings		18	24
Land improvements (depreciable)		80	77
<b>Infrastructure:</b>			
	10(a)		
– Buildings – specialised		4,085	4,016
– Other structures		505	560
– Roads		2,796	2,500
– Bridges		53	13
– Footpaths		376	256
– Stormwater drainage		712	208
– Swimming pools		176	171
– Other open space/recreational assets		1,382	754
– Other infrastructure		337	352
<b>Right of use assets</b>			
	14	865	–
<b>Other assets:</b>			
– Heritage collections		2	2
– Library books		301	253
– Car parks		140	541
– Newcastle airport		2,168	1,966
Intangible assets	12	507	705
Total depreciation and amortisation costs		17,073	14,683
<b>Impairment / revaluation decrement</b>			
Inventory - Real Estate		–	3,174
Total impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	3,174
<b>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT</b>		17,073	17,857

#### Accounting policy for depreciation, amortisation and impairment expenses of non-financial assets

##### Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets, Note 11 for intangible assets and Note 14a for right of use 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.

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 5. Expenses from continuing operations (continued)

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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 2020

#### Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
<b>(e) Other expenses</b>		
Bad and doubtful debts	332	16
Bank charges	346	265
Contributions/levies to other levels of government		
– Lands department levy (holiday parks)	378	403
– NSW rural fire service levy	801	507
– Waste levy	2,377	1,742
Councillor expenses – mayoral fee	63	61
Councillor expenses – councillors' fees	184	180
Councillors' expenses (incl. mayor) – other (excluding fees above)	60	126
Donations, contributions and assistance to other organisations (Section 356)	877	932
Electricity and heating	1,434	1,686
Insurance	1,642	1,598
Memberships	137	131
Newcastle airport	6,864	7,925
Street lighting	876	1,083
Telephone and communications	255	264
Training costs (other than salaries and wages)	528	737
Travel expenses	7	4
Other	397	398
<b>Total other expenses</b>	<b>17,558</b>	<b>18,058</b>
<b>TOTAL OTHER EXPENSES</b>	<b>17,558</b>	<b>18,058</b>

#### 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 2020

### Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
<b>Buildings &amp; Property (excl. investment property)</b>			
Proceeds from disposal – property		1,990	452
Less: carrying amount of property assets sold/written off		(4,006)	(803)
<b>Net gain/(loss) on disposal</b>		<b>(2,016)</b>	<b>(351)</b>
<b>Plant and equipment</b>	10(a)		
Proceeds from disposal – plant and equipment		105	199
Less: carrying amount of plant and equipment assets sold/written off		(205)	(836)
<b>Net gain/(loss) on disposal</b>		<b>(100)</b>	<b>(637)</b>
<b>Newcastle airport partnership</b>	10(a)		
Proceeds from disposal – infrastructure		–	553
Less: carrying amount of infrastructure assets sold/written off		(32)	(553)
<b>Net gain/(loss) on disposal</b>		<b>(32)</b>	<b>–</b>
<b>Real estate assets held for sale</b>	9		
Proceeds from disposal – real estate assets		–	2,255
Less: carrying amount of real estate assets sold/written off		(422)	(989)
<b>Net gain/(loss) on disposal</b>		<b>(422)</b>	<b>1,266</b>
<b>Investments</b>	7(b)		
Proceeds from disposal/redemptions/maturities – investments		35,084	32,950
Less: carrying amount of investments sold/redeemed/matured		(35,084)	(32,950)
<b>Net gain/(loss) on disposal</b>		<b>–</b>	<b>–</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>(2,570)</b>	<b>278</b>

#### 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 2020

#### Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
<b>Cash and cash equivalents</b>		
Cash on hand and at bank	16,024	12,448
Cash-equivalent assets		
– Deposits at call	–	1,500
– Managed funds	501	–
<b>Total cash and cash equivalents</b>	<u>16,525</u>	<u>13,948</u>

#### Accounting policy for cash and cash equivalents

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

#### Note 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Investments</b>				
a. 'Financial assets at fair value through profit and loss'				
b. 'Financial assets at amortised cost'	22,913	3,939	35,067	1,222
<b>Total Investments</b>	<u>22,913</u>	<u>3,939</u>	<u>35,067</u>	<u>1,222</u>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</b>	<u>39,438</u>	<u>3,939</u>	<u>49,015</u>	<u>1,222</u>
<b>Financial assets at amortised cost</b>				
Managed funds	3,910	–	–	–
Long term deposits	19,003	3,939	35,067	1,222
<b>Total</b>	<u>22,913</u>	<u>3,939</u>	<u>35,067</u>	<u>1,222</u>

#### Accounting policy for investments

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

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

#### Financial assets

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

#### Classification

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

- amortised cost
- fair value through profit and loss (FVTPL)

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 7(b). Investments (continued)

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- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

#### **Amortised cost**

Assets measured at amortised cost are financial assets where:

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

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

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

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

#### **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.

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020	2020	2019	2019
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	39,438	3,939	49,015	1,222
<b>attributable to:</b>				
External restrictions	8,334	3,939	28,770	1,222
Internal restrictions	31,104	–	20,245	–
Unrestricted	–	–	–	–
	<u>39,438</u>	<u>3,939</u>	<u>49,015</u>	<u>1,222</u>

\$ '000	2020	2019
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#### Details of restrictions

##### External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	520	–
Deposits, retentions and bonds	1,232	951
<b>External restrictions – included in liabilities</b>	<u>1,752</u>	<u>951</u>

##### External restrictions – other

Developer contributions – general	4,530	19,853
Specific purpose unexpended grants (recognised as revenue) – general fund	–	148
Domestic waste management	4,561	5,880
Carparking meters crown lands <sup>1</sup>	–	65
Crown holiday parks <sup>1</sup>	–	3,095
Crown reserve	1,430	–
<b>External restrictions – other</b>	<u>10,521</u>	<u>29,041</u>
<b>Total external restrictions</b>	<u>12,273</u>	<u>29,992</u>

##### Internal restrictions

Asset rehabilitation	–	842
Election reserve	–	200
Federal assistance grant in advance	3,542	3,393
Fleet	–	21
Newcastle airport partnership	11,874	14,753
Other waste services reserve	–	129
Parking meters	–	160
Section 355C committees	674	728
Unexpended loan funds	5,000	–
Ward funds	–	19
Repealed funds	10,014	–
<b>Total internal restrictions</b>	<u>31,104</u>	<u>20,245</u>

#### TOTAL RESTRICTIONS

<u>43,377</u>	<u>50,237</u>
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(1) Balance consolidated into the Crown Reserve

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Purpose</b>				
Rates and annual charges	2,922	–	2,698	–
Interest and extra charges	229	–	229	–
User charges and fees	1,060	–	606	–
Miscellaneous debtors	797	–	599	–
Contributions to works	26	–	27	–
Accrued revenues				
– Interest on investments	183	–	472	–
– Other income accruals	1,284	–	1,643	–
Net investment in finance lease	–	–	–	–
Government grants and subsidies	12	–	99	–
Net GST receivable	361	–	625	–
Newcastle airport partnership	1,902	–	1,916	–
Other debtors	–	172	–	193
<b>Total</b>	<b>8,776</b>	<b>172</b>	<b>8,914</b>	<b>193</b>
<b>Less: provision of impairment</b>				
User charges and fees	(79)	–	–	–
Newcastle airport partnership	(291)	–	–	(5)
<b>Total provision for impairment – receivables</b>	<b>(370)</b>	<b>–</b>	<b>–</b>	<b>(5)</b>
<b>TOTAL NET RECEIVABLES</b>	<b>8,406</b>	<b>172</b>	<b>8,914</b>	<b>188</b>
<b>Externally restricted receivables</b>				
Domestic waste management	705	–	658	–
Crown Reserve	153	–	–	–
<b>Total external restrictions</b>	<b>858</b>	<b>–</b>	<b>658</b>	<b>–</b>
<b>Internally restricted receivables</b>				
Community Loans	200	–	200	–
Newcastle Airport Partnership	1,902	–	1,916	–
Commercial properties	31	–	2,735	–
Administration building reserve	734	–	764	–
Sustainable energy and water reserve	148	–	125	–
Other waste services reserve	451	–	638	–
Asset Rehabilitation	409	–	–	–
Drainage reserve	38	–	–	–
Election reserve	400	–	–	–
Fleet	1,315	–	–	–
Parking meters	590	–	–	–
IT	176	–	–	–
Ward funds	39	–	–	–
<b>Internally restricted receivables</b>	<b>6,433</b>	<b>–</b>	<b>6,378</b>	<b>–</b>
<b>Unrestricted receivables</b>	<b>1,115</b>	<b>172</b>	<b>1,878</b>	<b>188</b>
<b>TOTAL NET RECEIVABLES</b>	<b>8,406</b>	<b>172</b>	<b>8,914</b>	<b>188</b>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 8. Receivables (continued)

\$ '000	2020	2019
<b>Movement in provision for impairment of receivables</b>		
Balance at the beginning of the year	5	6
+ new provisions recognised during the year	371	5
– amounts already provided for and written off this year	(5)	(6)
+ amounts written off but not provided for	3	–
– previous impairment losses reversed	(4)	–
<b>Balance at the end of the year</b>	<b>370</b>	<b>5</b>

#### Accounting policy for receivables

##### Recognition and measurement

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

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

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

##### Impairment

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

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

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

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

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

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

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 deemed uncollectable, whichever occurs first.

Receivables with a contractual amount of \$68,000 written off during the reporting period are still subject to enforcement activity.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 8. Receivables (continued)

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

Rates and annual charges outstanding are secured against the property.



## Port Stephens Council

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

#### Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>(a) Inventories</b>				
<b>(i) Inventories at cost</b>				
Real estate for resale	4,992	9,820	5,019	10,030
Stores and materials	157	–	143	–
<b>Total inventories at cost</b>	<b>5,149</b>	<b>9,820</b>	<b>5,162</b>	<b>10,030</b>
<b>TOTAL INVENTORIES</b>	<b>5,149</b>	<b>9,820</b>	<b>5,162</b>	<b>10,030</b>
<b>(b) Other assets</b>				
Prepayments	946	37	610	24
Other	–	–	–	1,750
<b>TOTAL OTHER ASSETS</b>	<b>946</b>	<b>37</b>	<b>610</b>	<b>1,774</b>

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Total externally restricted assets</b>	–	–	–	–
<b>Total internally restricted assets</b>	–	–	5,019	11,788
<b>Total unrestricted assets</b>	<b>6,095</b>	<b>9,857</b>	<b>753</b>	<b>16</b>
<b>TOTAL INVENTORIES AND OTHER ASSETS</b>	<b>6,095</b>	<b>9,857</b>	<b>5,772</b>	<b>11,804</b>

#### (i) Other disclosures

\$ '000	Notes	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>(a) Details for real estate development</b>					
Residential		–	3,027	–	2,954
Industrial/commercial		4,992	6,793	5,019	7,076
<b>Total real estate for resale</b>		<b>4,992</b>	<b>9,820</b>	<b>5,019</b>	<b>10,030</b>

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 9. Inventories and other assets (continued)

\$ '000	Notes	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Represented by:</b>					
Acquisition costs		774	9,403	773	9,692
Development costs		4,218	417	4,246	338
<b>Total costs</b>		<b>4,992</b>	<b>9,820</b>	<b>5,019</b>	<b>10,030</b>
<b>Total real estate for resale</b>		<b>4,992</b>	<b>9,820</b>	<b>5,019</b>	<b>10,030</b>
<b>Movements:</b>					
Real estate assets at beginning of the year		5,019	10,030	5,653	13,102
– Purchases and other costs		106	79	161	102
– Transfers in from (out to) Note 11		890	(890)	194	–
– WDV of sales (expense)	6	–	(422)	(989)	–
– Impairment write down		–	–	–	(3,174)
– Transfer between current/non-current		(1,023)	1,023	–	–
<b>Total real estate for resale</b>		<b>4,992</b>	<b>9,820</b>	<b>5,019</b>	<b>10,030</b>

#### Accounting policy for inventories and other assets

##### Raw materials and stores, work in progress and finished goods

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

##### Land held for resale/capitalisation of borrowing costs

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

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

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

	Asset movements during the reporting period										as at 30/06/20		
	as at 30/06/19	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	Transfers	Revaluation increments / (decrement) to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress		9,311	(91)	9,220	5,333	7,480	(115)	-	(1,015)	-	20,993	(91)	20,902
Plant and equipment		25,300	(13,788)	11,512	939	10	(208)	(1,939)	-	-	25,406	(15,089)	10,317
Office equipment		3,051	(1,580)	1,471	257	-	-	(631)	-	-	3,301	(2,205)	1,096
Furniture and fittings		1,300	(1,089)	211	118	-	-	(18)	-	-	1,419	(1,108)	311
<b>Land:</b>													
- Operational land		39,505	(573)	38,932	61	228	(980)	-	890	-	39,704	(573)	39,131
- Community land		42,518	-	42,518	-	368	-	-	-	-	42,885	-	42,885
- Crown land		29,223	-	29,223	-	-	-	-	-	-	29,223	-	29,223
- Land under roads (post 1/7/08)		1,985	-	1,985	-	-	-	-	-	-	1,985	-	1,985
- Newcastle airport		-	-	-	-	10,126	-	-	-	-	10,126	-	10,126
Land improvements – depreciable		9,187	(2,412)	6,775	302	-	(11)	(80)	-	-	9,384	(2,398)	6,986
<b>Infrastructure:</b>													
- Buildings – specialised		183,879	(88,879)	95,000	6,593	4,756	(304)	(4,085)	649	-	194,077	(91,466)	102,611
- Other structures		9,700	(4,321)	5,379	642	116	(27)	(505)	41	-	10,423	(4,776)	5,647
- Roads		443,749	(53,919)	389,830	5,203	3,753	(2,413)	(2,796)	57	(28,472)	417,927	(52,765)	365,162
- Bridges		11,257	(333)	10,924	20	-	-	(53)	-	2,026	14,941	(2,024)	12,917
- Footpaths		63,126	(8,435)	54,691	-	1,596	-	(376)	-	1,196	67,815	(10,709)	57,106
- Car parks		11,610	(8,804)	2,806	408	-	(105)	(140)	-	10,463	15,603	(2,171)	13,432
- Stormwater drainage		202,514	(6,435)	196,079	1,440	1,425	(25)	(712)	189	10,284	235,581	(26,902)	208,679
- Swimming pools		7,584	(4,513)	3,071	209	-	-	(176)	-	-	7,794	(4,690)	3,104
- Other open space		32,237	(10,957)	21,280	1,547	25	-	(1,382)	34	-	33,853	(12,349)	21,504
- Other infrastructure		10,817	(3,715)	7,102	559	52	-	(337)	-	-	11,428	(4,052)	7,376
<b>Other assets:</b>													
- Heritage collections		237	(75)	162	-	-	-	(2)	-	-	237	(77)	160
- Library books		5,455	(3,370)	2,085	250	-	-	(301)	-	-	5,705	(3,671)	2,034
- Newcastle airport		48,806	(18,091)	30,715	5,771	2,822	(32)	(2,168)	1,795	-	58,227	(19,323)	38,904
<b>Total infrastructure, property, plant and equipment</b>		<b>1,192,351</b>	<b>(231,380)</b>	<b>960,971</b>	<b>29,652</b>	<b>32,757</b>	<b>(4,220)</b>	<b>(15,701)</b>	<b>2,640</b>	<b>(4,503)</b>	<b>1,258,037</b>	<b>(256,439)</b>	<b>1,001,598</b>

(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 2020

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

\$ '000	Asset movements during the reporting period										as at 30/06/19		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Tfirs from/(to) real estate assets (Note 9)	Revaluation increments / (decrements) 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
<b>Land:</b>													
– 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
<b>Infrastructure:</b>													
– 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
– 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
– Car parks	11,417	(8,263)	3,154	192	–	–	(541)	–	–	–	11,610	(8,804)	2,806
<b>Other assets:</b>													
– 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
– Other	5,527	(2,782)	2,745	–	–	–	–	(2,731)	(14)	–	–	–	–
– Newcastle airport	46,068	(16,123)	29,945	3,291	–	(553)	(1,966)	–	–	–	48,806	(18,091)	30,715
<b>Total Infrastructure, property, plant and equipment</b>	<b>1,144,320</b>	<b>(213,690)</b>	<b>930,630</b>	<b>20,808</b>	<b>16,845</b>	<b>(2,091)</b>	<b>(13,978)</b>	<b>–</b>	<b>(194)</b>	<b>8,951</b>	<b>1,192,351</b>	<b>(231,380)</b>	<b>960,971</b>

(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 2020

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

##### Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent 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:

<b>Plant and equipment</b>	Years	<b>Other equipment</b>	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	<b>Buildings</b>	
Heavy plant/road making equipment	5 to 8	Buildings	15 to 65
Other plant and equipment	5 to 15		
<b>Transportation assets</b>		<b>Stormwater assets</b>	
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	<b>Other infrastructure assets</b>	
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 2020

### Note 10(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.

Where the Crown reserves are under a lease arrangement they are accounted for under AASB 16 Leases, refer to Note 14.

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

\$ '000	as at 30/06/20			as at 30/06/19		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Land						
<b>Domestic waste management</b>						
Buildings	4,332	2,030	2,302	4,332	1,933	2,399
<b>Total DWM</b>	<b>4,332</b>	<b>2,030</b>	<b>2,302</b>	<b>4,332</b>	<b>1,933</b>	<b>2,399</b>
<b>TOTAL RESTRICTED IPP&amp;E</b>	<b>4,332</b>	<b>2,030</b>	<b>2,302</b>	<b>4,332</b>	<b>1,933</b>	<b>2,399</b>



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 11. Investment properties

\$ '000	2020	2019
Owned investment property		
Investment property on hand at fair value	37,575	35,550
<b>Total owned investment property</b>	<b>37,575</b>	<b>35,550</b>

#### (a) Reconciliation – owned investment property

##### Reconciliation of annual movement:

<b>Opening balance</b>	35,550	31,467
– Capitalised expenditure – this year	2,012	491
– Net gain/(loss) from fair value adjustments	13	3,592
<b>CLOSING BALANCE – OWNED INVESTMENT PROPERTY</b>	<b>37,575</b>	<b>35,550</b>

#### (b) Leasing arrangements – Council as lessor (2019 only)

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
Later than 1 year but less than 5 years	–	6,371
Later than 5 years	–	618
<b>Total minimum lease payments receivable</b>	<b>–</b>	<b>9,446</b>

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.

#### (c) Amounts recognised in profit and loss for investment property

##### Rental income from investment property:

– Minimum lease payments	–	2,989
<b>Direct operating expenses on investment property:</b>		
– that generated rental income	–	(649)
<b>Net revenue contribution from investment property</b>	<b>–</b>	<b>2,340</b>

plus:

<b>Fair value movement for year</b>	–	3,592
<b>Total income attributable to investment property</b>	<b>–</b>	<b>5,932</b>

#### 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 2020

### Note 12. Intangible assets

Intangible assets are as follows:

\$ '000	2020	2019
<b>Intangibles</b>		
<b>Opening values at 1 July</b>		
Gross book value	8,690	6,541
Accumulated amortisation	(2,541)	(1,837)
<b>Net book value – opening balance</b>	<b>6,149</b>	<b>4,704</b>
<b>Movements for the year</b>		
– Purchases	218	2,149
– Disposals	–	1
– Amortisation charges	(507)	(705)
- Disposals	(25)	–
<b>Closing values at 30 June</b>		
Gross book value	8,876	8,690
Accumulated amortisation	(3,041)	(2,541)
<b>Total Intangibles– net book value</b>	<b>5,835</b>	<b>6,149</b>

#### 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.

##### 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 2020

#### Note 13. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
<b>Contract liabilities</b>			
<b>Grants and contributions received in advance:</b>			
Unexpended capital grants (to construct Council controlled assets)	(i)	946	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	671	–
<b>Total grants received in advance</b>		<b>1,617</b>	<b>–</b>
<b>User fees and charges received in advance:</b>			
Fees - holiday park deposits	(iii)	881	–
Fees - rent	(iii)	15	–
<b>Total user fees and charges received in advance</b>		<b>896</b>	<b>–</b>
<b><u>Total contract liabilities</u></b>		<b><u>2,513</u></b>	<b><u>–</u></b>

#### Notes

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

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

(iii) Fees paid in advance do not meet the definition of a performance obligation and therefore the funds received are recorded as a contract liability on receipt and recognised as revenue once the service has been fully delivered.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 13. Contract assets and liabilities (continued)

\$ '000	2020 Current	2020 Non-current
<b>(i) Contract liabilities relating to restricted assets</b>		
<b>Externally restricted assets</b>		
Unspent grants held as contract liabilities (excl. Water & Sewer)	520	–
<b>Contract liabilities relating to externally restricted assets</b>	<b>520</b>	<b>–</b>

\$ '000	2020
<b>(ii) Revenue recognised (during the financial year) from opening contract liability balances</b>	
<b>Grants and contributions received in advance:</b>	
Capital grants (to construct Council controlled assets)	101
Operating grants (received prior to performance obligation being satisfied)	47
Capital contributions (to construct Council controlled assets)	–
Operating contributions (received prior to performance obligation being satisfied)	–
<b>User Fees and Charges received in advance:</b>	
Upfront fees – leisure centre	–
<b>Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period</b>	<b>148</b>

#### Significant changes in contract assets and liabilities

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

#### Accounting policy for contract assets and liabilities

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

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

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



# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 14. Leases (continued)

\$ '000	Plant & Equipment	Newcastle Airport	Office equipment	Other assets - Other	Land - Operational Land	Total
Adoption of AASB 16 at 1 July 2019 – first time lease recognition						
	3,696	342	641	418	509	5,606
Depreciation charge	(529)	(4)	(179)	(100)	(53)	(865)
<b><u>RIGHT OF USE ASSETS</u></b>	<b><u>3,167</u></b>	<b><u>338</u></b>	<b><u>462</u></b>	<b><u>318</u></b>	<b><u>455</u></b>	<b><u>4,740</u></b>

\$ '000	2020 Current	2020 Non-current
<b>(b) Lease liabilities</b>		
Lease liabilities	794	3,728
Lease liabilities - Newcastle Airport	–	341
<b><u>TOTAL LEASE LIABILITIES</u></b>	<b><u>794</u></b>	<b><u>4,069</u></b>

#### (i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows and therefore the amounts will not be the same as the recognised lease liability in the statement of Financial Position:

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	944	3,234	2,008	6,187	4,863

\$ '000	2020 Current	2020 Non-current
<b>(ii) Lease liabilities relating to restricted assets</b>		
<b>Externally restricted assets</b>		
Holiday Park Reserve	42	427
Domestic Waste Reserve	475	2,770
<b>Lease liabilities relating to externally restricted assets</b>	<b>517</b>	<b>3,197</b>
<b>Total lease liabilities relating to restricted assets</b>	<b>517</b>	<b>3,197</b>
<b>Total lease liabilities relating to unrestricted assets</b>	<b>277</b>	<b>872</b>
<b><u>Total lease liabilities</u></b>	<b><u>794</u></b>	<b><u>4,069</u></b>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 14. Leases (continued)

\$ '000	2020
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##### (c) Income Statement

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

Interest on lease liabilities	174
Interest on lease liabilities - Newcastle Airport	–
Variable lease payments based on usage not included in the measurement of lease liabilities	4,562
Variable lease payments - Newcastle Airport	–
Depreciation of right of use assets	865
Depreciation of right of use assets - Newcastle Airport	–
Expenses relating to short-term leases	57
Expenses relating to short-term leases - Newcastle Airport	–
Expenses relating to low-value leases	22
Expenses relating to low-value leases - Newcastle Airport	–
Expenses relating to peppercorn leases	1
	5,681

##### (d) Statement of Cash Flows

Total cash outflow for leases	5,558
	5,558

#### Leases at significantly below market value – concessionary / peppercorn leases

Council has a lease at significantly below market for land and buildings which is used to provide emergency facilities.

The lease is for 5 years that require payment of \$1,000 per year and include a renewal option to allow Council to renew for up to twice the non-cancellable lease term at their discretion. The lease contains an annual pricing mechanism based on CPI movements at each anniversary of the lease inception. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

Council does not believe that the lease in place is material from a statement of financial position or performance perspective.

#### Accounting policy

##### Accounting policies under AASB 16 – applicable from 1 July 2019

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

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

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

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 14. Leases (continued)

right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

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

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

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

#### **Exceptions to lease accounting**

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

#### **Leases at significantly below market value / concessionary leases**

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

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

Refer to Note 5c and Note 15.

#### **(ii) Council as a lessor**

#### **(e) Operating leases**

Council leases out a number of properties and /or plant and equipment to community groups; these leases have been classified as operating leases for financial reporting purposes and the assets are included as investment property (refer note 11) and/or IPP&E (refer in this note part (v) below) in the Statement of Financial Position.

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

<b>\$ '000</b>	<b>2020</b>
<b>(i) Operating lease income</b>	
<b>Investment properties</b>	
Lease income (excluding variable lease payments not dependent on an index or rate)	3,055
Lease income relating to variable lease payments not dependent on an index or a rate	371
<b>Other lease income</b>	
Room/Facility Hire	728
<b>Total income relating to operating leases</b>	<b>4,154</b>
<b>(ii) Operating lease expenses</b>	
<b>Investment properties</b>	
Direct operating expenses that generated rental income	546
<b>Other leased assets</b>	



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 14. Leases (continued)

\$ '000	2020
Other	417
<b>Total expenses relating to operating leases</b>	<b>963</b>

#### (iii) Repairs and maintenance: investment property

Contractual obligations for future repairs and maintenance	2
<b>Total repairs and maintenance: investment property</b>	<b>2</b>

#### (iv) Maturity analysis of contractual lease income

Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

< 1 year	2,431
1–2 years	1,798
2–3 years	1,797
3–4 years	1,265
4–5 years	217
> 5 years	476
<b>Total undiscounted contractual lease income receivable</b>	<b>7,984</b>

#### Accounting policy

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

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

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

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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 15. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Payables</b>				
Goods and services	8,097	3,280	8,744	–
Accrued expenses:				
– Other expenditure accruals	3,197	–	2,536	–
Security bonds, deposits and retentions	1,232	–	951	–
Unclaimed monies	12	–	10	–
Rates in advance	1,230	–	1,143	–
Other	120	–	961	–
<b>Total payables</b>	<b>13,888</b>	<b>3,280</b>	<b>14,345</b>	<b>–</b>
<b>Borrowings</b>				
Loans – secured <sup>1</sup>	3,332	17,665	4,464	8,814
Loans – Newcastle airport partnership	–	11,850	–	6,250
<b>Total borrowings</b>	<b>3,332</b>	<b>29,515</b>	<b>4,464</b>	<b>15,064</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>17,220</u></b>	<b><u>32,795</u></b>	<b><u>18,809</u></b>	<b><u>15,064</u></b>

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

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>(a) Payables and borrowings relating to restricted assets</b>				
<b>Externally restricted assets</b>				
Domestic waste management	2,022	–	1,797	732
Other	1,232	–	951	–
Crown holiday park reserve	401	5,449	34	–
Payables and borrowings relating to externally restricted assets	3,655	5,449	2,782	732
<b>Internally restricted assets</b>				
Newcastle airport partnership	5,316	15,130	4,162	6,250
Payables and borrowings relating to internally restricted assets	5,316	15,130	4,162	6,250
<b>Total payables and borrowings relating to restricted assets</b>	<b>8,971</b>	<b>20,579</b>	<b>6,944</b>	<b>6,982</b>
<b>Total payables and borrowings relating to unrestricted assets</b>	<b>8,249</b>	<b>12,216</b>	<b>11,865</b>	<b>8,082</b>
<b><u>TOTAL PAYABLES AND BORROWINGS</u></b>	<b><u>17,220</u></b>	<b><u>32,795</u></b>	<b><u>18,809</u></b>	<b><u>15,064</u></b>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 15. Payables and borrowings (continued)

\$ '000	2020	2019
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#### (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	396
<b>Total payables and borrowings</b>	<b>396</b>	<b>396</b>

#### (c) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	13,278	7,704	–	1	–	14	20,997
Lease liabilities	–	4,863	–	–	–	–	4,863
Loans – Newcastle airport	6,250	5,600	–	–	–	–	11,850
<b>TOTAL</b>	<b>19,528</b>	<b>18,167</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>14</b>	<b>37,710</b>

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	17,581	(4,306)	–	3	–	13,278
Loans – Newcastle airport	6,250	–	–	–	–	6,250
<b>TOTAL</b>	<b>23,831</b>	<b>(4,306)</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>19,528</b>

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 15. Payables and borrowings (continued)

\$ '000	2020	2019
<b>(d) Financing arrangements</b>		
<b>(i) Unrestricted access was available at balance date to the following lines of credit:</b>		
Bank overdraft facilities <sup>1</sup>	2,500	2,500
Credit cards/purchase cards	1,000	500
Bank loan facilities - Port Stephens Council	7,500	–
Bank loan facilities - Newcastle Airport	25,000	25,000
<b>Total financing arrangements</b>	<b>36,000</b>	<b>28,000</b>
<b>Drawn facilities as at balance date:</b>		
– Credit cards/purchase cards	366	4
– Bank loan facilities - Newcastle Airport	11,850	6,250
<b>Total drawn financing arrangements</b>	<b>12,216</b>	<b>6,254</b>
<b>Undrawn facilities as at balance date:</b>		
– Bank overdraft facilities	2,500	2,500
– Credit cards/purchase cards	634	496
– Bank loan facilities - Port Stephens Council	7,500	–
– Bank loan facilities - Newcastle Airport	13,150	18,750
<b>Total undrawn financing arrangements</b>	<b>23,784</b>	<b>21,746</b>

#### 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 if any events of default specified in the contract occur.

#### 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.

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 15. Payables and borrowings (continued)

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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 2020

### Note 16. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
<b>Provisions</b>				
<b>Employee benefits</b>				
Annual leave	4,447	–	4,047	–
Sick leave	2,962	–	2,966	–
Long service leave	8,393	771	7,500	742
Flexi time / RDO leave	336	–	299	–
<b>Sub-total – aggregate employee benefits</b>	<b>16,138</b>	<b>771</b>	<b>14,812</b>	<b>742</b>
<b>Asset remediation/restoration:</b>				
Asset remediation/restoration (future works)	263	–	1,355	–
<b>Sub-total – asset remediation/restoration</b>	<b>263</b>	<b>–</b>	<b>1,355</b>	<b>–</b>
<b>Other provisions</b>				
Other	165	–	900	–
<b>Sub-total – other provisions</b>	<b>165</b>	<b>–</b>	<b>900</b>	<b>–</b>
<b><u>TOTAL PROVISIONS</u></b>	<b><u>16,566</u></b>	<b><u>771</u></b>	<b><u>17,067</u></b>	<b><u>742</u></b>

#### (a) Provisions relating to restricted assets

##### Externally restricted assets

Domestic waste management	263	–	1,355	–
Provisions relating to externally restricted assets	263	–	1,355	–

##### Internally restricted assets

Drainage	–	–	900	–
Provisions relating to internally restricted assets	–	–	900	–

##### Total provisions relating to restricted assets

	263	–	2,255	–
<b>Total provisions relating to unrestricted assets</b>	<b>16,303</b>	<b>771</b>	<b>14,812</b>	<b>742</b>

##### TOTAL PROVISIONS

	16,566	771	17,067	742
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\$ '000	2020	2019
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#### (b) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	11,156	9,776
	<u>11,156</u>	<u>9,776</u>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 16. Provisions (continued)

##### (c) Description of and movements in provisions

\$ '000	Other provisions		Total
	Other Provisions	Asset remediation	
<b>2020</b>			
At beginning of year	900	1,355	2,255
Additional provisions	165	–	165
Amounts used (payments)	(900)	(1,092)	(1,992)
Total other provisions at end of year	165	263	428
<b>2019</b>			
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 year	900	1,355	2,255

#### 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.

##### Provision for commercial concessions - Newcastle Airport

Newcastle airport has an obligation to pay commercial concessions, mostly rent and fee's to it's tenants as a result of Covid-19.

#### 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 borrowing cost.

#### 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

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 16. Provisions (continued)

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sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### **Other long-term employee benefit obligations**

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

#### **On-costs**

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

These amounts include superannuation 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.

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.



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 16. Provisions (continued)

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

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

#### **Other Provisions**

##### **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.

##### **Provision for commercial concessions - Newcastle Airport**

Liabilities for commercial concessions, that are a result of Covid-19 are expected to be wholly settled within 12 months after the end of the reporting date and 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 2020

### Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

---

#### (a) Nature and purpose of reserves

##### **Infrastructure, property, plant and equipment revaluation reserve**

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

##### **Fair value through other comprehensive income reserve (FVOCI)**

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

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

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

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

The impacts of adopting these standards and associated transition disclosures are provided below:

#### (ii) AASB 15 and AASB 1058

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

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

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

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

#### **Principal v agent**

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

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

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

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

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##### **Licences**

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

##### **Grants – operating**

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

##### **Grants – capital**

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

##### **Changes in presentation**

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

- Movement of balances between receivables and contract assets.
- Additional line items of contract assets, contract cost assets and contract liabilities have been created

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

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

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

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

#### Statement of Financial Position as at 30 June 2020

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards	Notes
<b>Current assets</b>					
Cash and cash equivalents	16,525	–	–	16,525	
Investments	22,913	–	–	22,913	
Receivables	8,406	–	–	8,406	
Inventories	5,149	–	–	5,149	
Other	946	–	–	946	
<b>Total current assets</b>	<b>53,939</b>	<b>–</b>	<b>–</b>	<b>53,939</b>	
<b>Current liabilities</b>					
Payables	13,888	896	–	14,784	(i)
Contract liabilities	2,513	(896)	(1,617)	–	(i)
Lease liabilities	794	–	–	794	
Borrowings	3,332	–	–	3,332	
Provisions	16,566	–	–	16,566	
<b>Total current liabilities</b>	<b>37,093</b>	<b>–</b>	<b>(1,617)</b>	<b>35,476</b>	
<b>Non-current assets</b>					
Investments	3,939	–	–	3,939	
Receivables	172	–	–	172	
Inventories	9,820	–	–	9,820	
Infrastructure, property, plant and equipment	1,001,598	–	–	1,001,598	
Investment property	37,575	–	–	37,575	
Intangible assets	5,835	–	–	5,835	
Right of use assets	4,740	–	–	4,740	
Investments accounted for using equity method	540	–	–	540	
Other	37	–	–	37	
<b>Total non-current assets</b>	<b>1,064,256</b>	<b>–</b>	<b>–</b>	<b>1,064,256</b>	
<b>Non-current liabilities</b>					
Payables	3,280	–	–	3,280	
Lease liabilities	4,069	–	–	4,069	
Borrowings	29,515	–	–	29,515	
Provisions	771	–	–	771	
<b>Total Non-current liabilities</b>	<b>37,635</b>	<b>–</b>	<b>–</b>	<b>37,635</b>	

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific-ation	Remeasur-ement	Carrying amount under previous revenue standards	Notes
Net assets	1,043,467	–	1,617	1,045,084	
<b>Equity</b>					
Accumulated surplus	640,250	–	1,617	641,867	
Revaluation reserves	403,217	–	–	403,217	
<b>Council equity interest</b>	1,043,467	–	1,617	1,045,084	
<b>Total equity</b>	1,043,467	–	1,617	1,045,084	

(i) Transfer of part of the contract liability to payables (income received in advance) and elimination of contract liability which arises under AASB 15 for funds that have been received prior to the satisfaction of performance obligations.

#### Income Statement for the year ended 30 June 2020

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassific-ation	Remeasur-ement	Income Statement and comprehensive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	59,812	–	–	59,812	
User charges and fees	41,465	–	–	41,465	
Other revenues	2,877	–	–	2,877	
Grants and contributions provided for operating purposes	12,837	–	671	13,508	(i)
Grants and contributions provided for capital purposes	24,318	–	946	25,264	(i)
Interest and investment income	884	–	–	884	
Fair value increment on investment properties	13	–	–	13	
Rental income	4,154	–	–	4,154	
Net share of interests in joint ventures and associates using the equity method	540	–	–	540	
<b>Total Income from continuing operations</b>	146,900	–	1,617	148,517	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	49,812	–	–	49,812	
Borrowing costs	797	–	–	797	
Materials and contracts	39,023	–	–	39,023	
Depreciation and amortisation	17,073	–	–	17,073	

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
Other expenses	17,558	–	–	17,558	
Net losses from the disposal of assets	2,570	–	–	2,570	
<b>Total Expenses from continuing operations</b>	<b>126,833</b>	<b>–</b>	<b>–</b>	<b>126,833</b>	
<b>Total Operating result from continuing operations</b>	<b>20,067</b>	<b>–</b>	<b>1,617</b>	<b>21,684</b>	
Net operating result for the year	20,067	–	1,617	21,684	
<b>Total comprehensive income</b>	<b>15,564</b>	<b>–</b>	<b>–</b>	<b>15,564</b>	

(i) Difference in revenue between recognition on receipt under the old standards and as / when performance obligations are met under new standards.

"The adoption of AASB 15 and AASB 1058 has not materially changed the statement of cash flows for the year ended 30 June 2020."

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

#### Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract assets	–	–	–
<b>Total assets</b>	<b>1,079,585</b>	<b>–</b>	<b>1,079,585</b>
Contract liabilities	–	148	148
<b>Total liabilities</b>	<b>51,682</b>	<b>148</b>	<b>51,830</b>
Accumulated surplus	618,886	(148)	618,738
<b>Total equity</b>	<b>1,027,903</b>	<b>(148)</b>	<b>1,027,755</b>

### (iii) AASB 16 Leases

#### Council as a lessee

Under AASB 117, Council assessed whether leases were operating or finance leases, based on its assessment of whether the significant risks and rewards of ownership had been transferred to Council or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low-value assets).

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Practical expedients used on transition

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

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

#### Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$5.26m at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 3.26%.

\$ '000	Balance at 1 July 2019
<b>Operating lease commitments at 30 June 2019 per Council financial statements</b>	1,221
<b>Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases</b>	
<b>Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019</b>	1,183
<b>Add:</b>	
Contracts not accounted for as operating lease commitments last year	3,893
Remeasurement due to lease modification	280
<b>Less:</b>	
Short-term leases included in commitments note	(14)
Leases for low-value assets included in commitments note	(79)
<b>Lease liabilities recognised at 1 July 2019</b>	<u>5,263</u>

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

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

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

<b>\$ '000</b>	<b>Original Balance 1 July, 2019</b>	<b>Impact Increase/ (decrease)</b>	<b>Restated Balance 1 July, 2019</b>
Rights-of-use assets	–	5,263	5,263
<b>Total assets</b>	<b>1,079,585</b>	<b>5,263</b>	<b>1,084,848</b>
Leases	–	5,263	5,263
<b>Total liabilities</b>	<b>51,682</b>	<b>5,263</b>	<b>56,945</b>
Accumulated surplus	618,886	–	618,886
<b>Total equity</b>	<b>1,027,903</b>	<b>–</b>	<b>1,027,903</b>



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 18. Statement of cash flow information

\$ '000	Notes	2020	2019
<b>(a) Reconciliation of cash and cash equivalents</b>			
Total cash and cash equivalents per Statement of Financial Position	7(a)	16,525	13,948
<b>Balance as per the Statement of Cash Flows</b>		<b>16,525</b>	<b>13,948</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		20,067	25,204
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		17,073	14,683
Net losses/(gains) on disposal of assets		2,570	(278)
Non-cash capital grants and contributions		(5,804)	(10,430)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		89	–
– Investment property		(13)	(3,592)
– Revaluation decrements / impairments of IPP&E direct to P&L		–	3,174
Amortisation of premiums, discounts and prior period fair valuations			
– Interest exp. on interest-free loans received by Council (previously fair valued)		1	3
Share of net (profits)/losses of associates/joint ventures using the equity method		(540)	–
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		159	157
Increase/(decrease) in provision for impairment of receivables		365	(1)
Decrease/(increase) in inventories		(14)	53
Decrease/(increase) in other current assets		1,401	(1,950)
Increase/(decrease) in payables		2,633	2,742
Increase/(decrease) in other accrued expenses payable		661	34
Increase/(decrease) in other liabilities		(471)	385
Increase/(decrease) in contract liabilities		2,513	–
Increase/(decrease) in provision for employee benefits		1,355	1,228
Increase/(decrease) in other provisions		(1,827)	(1,170)
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>40,218</b>	<b>30,242</b>
<b>(c) Non-cash investing and financing activities</b>			
Dedicated subdivisions		5,804	8,788
RFS assets		–	1,642
<b>Total non-cash investing and financing activities</b>		<b>5,804</b>	<b>10,430</b>
<b>(d) Net cash flows attributable to discontinued operations</b>			
There are no cash flows that relate to discontinued operations			

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 19. Interests in other entities

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#### Joint arrangements

##### (i) Joint ventures

##### **Strategic Services Australia Limited (Hunter Councils)**

Council has an interest in Strategic Services Australia Limited, along with other Member Councils of Hunter Councils. The activities of this organisation are not controlled by any one Council.

Strategic Services Australia Limited has been established to improve the quality and efficiency of local government service throughout the Hunter Region. One such service is the establishment and provision of a Record Repository Centre for the use of the Member Councils and to outsource this service to other organisations.

This Organisation was established in January 2003 as Hunter Councils Limited after receiving Minister's consent, pursuant to Section 358(1) (a) of the Local Government Act 1993.

Strategic Services Australia Limited has the same year end date as Council.

This is the first year that Council has recognised the value of its interest in Strategic Services Australia Limited. Previously Council disclosed the value within the notes to the financial statements but never recognised within the Statement of Financial Position and Income Statement as it was considered immaterial. This decision has changed due to the growth of the organisation.

##### **Aggregate information for joint ventures that are not individually material**

The Group has interests in a number of joint ventures none of which is considered individually material. The table below summarises, in aggregate, the financial information of individually immaterial joint ventures.

##### **Council's share**

##### Percentage Owned (%)

Strategic Services Australia Limited 11.71%

##### **(a) Summarised financial information for individually immaterial joint ventures**

<b>\$ '000</b>	<b>2020</b>	<b>2019</b>
<b>Strategic Services Australia Limited</b>		
Carrying Amount of Investment in joint ventures that are not individually material	540	–
<b>Council's Share of those joint ventures:</b>		
Profit/(loss) from continuing operations	540	–
<b>Total comprehensive income – individually immaterial joint ventures</b>	<b>540</b>	<b>–</b>

##### **(b) Unrecognised share of losses**

The unrecognised share of losses of joint ventures due to the Council's interest, reduce to zero under the equity methods are \$0 for the reporting period and \$0 on a cumulative basis.

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 19. Interests in other entities (continued)

##### (c) Risk associated with the interests in joint ventures

\$ '000	2020	2019
Commitments relating to joint ventures held	–	–
Contingent liabilities incurred jointly with other investments over joint ventures held	–	–

Each of the partners in Strategic Services Australia Limited are jointly and severally liable for the debts of the organisation.

There are no significant restrictions on the ability of joint ventures to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the council.

##### (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	
				2020	2019	2020	2019
	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%	50%	50%	50%

##### (b) Council assets employed in the joint operations

\$ '000	2020	2019
<b>Council's share of assets jointly owned with other partners</b>		
Current assets	13,606	16,761
Current liabilities	(5,158)	(4,470)
Non current assets	51,083	32,380
Non-current liabilities	(15,515)	(6,278)
<b>Total net assets employed – Council and jointly owned</b>	<b>44,016</b>	<b>38,393</b>

##### (c) Share of joint operations expenditure commitments

###### Capital commitments

Payable not later than 1 year	11,034	5,395
<b>Total capital commitments</b>	<b>11,034</b>	<b>5,395</b>

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 19. Interests in other entities (continued)

<b>\$ '000</b>	<b>2020</b>	<b>2019</b>
<b>(d) Contingent liabilities of joint operations</b>		
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 2020

#### Note 19. Interests in other entities (continued)

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##### **Accounting policy for joint arrangements:**

AASB 11 Joint Arrangements defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations.

The council has determined that it has joint operations and joint ventures.

##### **Joint ventures:**

Joint ventures are those joint arrangements, which provide Council with rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method in accordance with AASB 128 Associates and Joint Ventures. Under this method, the investment is initially recognised as cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

Council's share in the joint ventures gains or losses arising from transactions between itself and its joint venture are eliminated.

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

##### **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.

In addition to the joint ventures and associates disclosed individually above, Council has interests in a number of individually immaterial joint ventures and associates that have still been accounted for using the equity method.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 20. Commitments

\$ '000	2020	2019
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#### (a) Capital commitments (exclusive of GST)

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

##### Property, plant and equipment

Buildings	723	6,775
Plant and equipment	561	228
Newcastle airport	11,034	5,395
Other	564	1,072
<b>Total commitments</b>	<b>12,882</b>	<b>13,470</b>

##### These expenditures are payable as follows:

Within the next year	12,882	13,470
<b>Total payable</b>	<b>12,882</b>	<b>13,470</b>

##### Details of capital commitments

The majority of Councils capital commitments relate to the Newcastle Airport building and terminal development.

\$ '000	2020	2019
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#### (b) Non-cancellable operating lease commitments (2019 only)

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

Within the next year	–	421
Later than one year and not later than 5 years	–	538
Later than 5 years	–	262
<b>Total non-cancellable operating lease commitments</b>	<b>–</b>	<b>1,221</b>

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

Refer to Note 14 for information relating to leases for 2020.

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 19 (c)

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 21. Contingencies

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

##### LIABILITIES NOT RECOGNISED

###### 1. Guarantees

###### (i) Defined benefit superannuation contribution plans

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

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

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

###### *Description of the funding arrangements.*

Pooled employers are required to pay 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 2020. 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 2020

### Note 21. Contingencies (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 2020 was \$631,543. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 31 December 2019, relating to the period ending 30 June 2019.

The amount of additional contributions included in the total employer contribution advised above is \$309,698. Council's expected contribution to the plan for the next annual reporting period is \$609,035.

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

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

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$332,000 as at 30 June 2020.

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

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

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

\* Plus promotional increases

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

#### (ii) Statewide Limited

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

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

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

#### (iii) StateCover Limited

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



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 21. Contingencies (continued)

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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 2020

### Note 22. Financial risk management

#### Risk management

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

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

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

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

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 2020	Carrying value 2019	Fair value 2020	Fair value 2019
<b>Financial assets</b>				
<b>Measured at amortised cost</b>				
Cash and cash equivalents	16,525	13,948	16,525	13,948
Receivables	8,578	9,102	8,640	9,102
Investments				
– 'Financial assets at amortised cost'	26,852	36,289	26,852	36,289
<b>Total financial assets</b>	<b>51,955</b>	<b>59,339</b>	<b>52,017</b>	<b>59,339</b>
<b>Financial liabilities</b>				
Payables	17,168	14,345	17,816	14,345
Loans/advances	32,847	19,528	32,847	19,528
Lease liabilities	4,863	–	4,863	–
<b>Total financial liabilities</b>	<b>54,878</b>	<b>33,873</b>	<b>55,526</b>	<b>33,873</b>

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** – 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 2020

#### Note 22. 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 there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **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
<b>2020</b>				
Possible impact of a 1% movement in interest rates	363	–	(363)	–
<b>2019</b>				
Possible impact of a 1% movement in interest rates	412	–	(412)	–

#### (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 2020

### Note 22. 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
<b>2020</b>						
Gross carrying amount	–	2,279	272	237	134	2,922
<b>2019</b>						
Gross carrying amount	–	2,184	203	188	123	2,698

##### Receivables - non-rates and annual charges

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

The loss allowance provision as at 30 June 2020 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
<b>2020</b>						
Gross carrying amount	2,883	968	120	782	1,273	6,026
Expected loss rate (%)	0.06%	29.91%	1.58%	0.77%	5.61%	6.15%
<b>ECL provision</b>	2	289	2	6	71	370
<b>2019</b>						
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%
<b>ECL provision</b>	4	–	–	1	13	18

#### (c) Liquidity risk

Payables, lease liabilities and borrowings are 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 2020

#### Note 22. 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 for non-lease liabilities (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	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
<b>2020</b>							
Trade/other payables	0.00%	1,244	13,274	6,560	–	21,078	17,168
Loans and advances	1.89%	–	3,757	22,095	9,104	34,956	32,847
Lease liabilities	0.00%	–	794	2,886	1,184	4,864	4,864
<b>Total financial liabilities</b>		<b>1,244</b>	<b>17,825</b>	<b>31,541</b>	<b>10,288</b>	<b>60,898</b>	<b>54,879</b>
<b>2019</b>							
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
<b>Total financial liabilities</b>		<b>961</b>	<b>28,820</b>	<b>8,553</b>	<b>941</b>	<b>39,275</b>	<b>33,873</b>

#### 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 2020

### Note 23. Material budget variations

Council's original financial budget for 19/20 was adopted by the Council on 29/01/2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----		
<b>REVENUES</b>					
<b>Rates and annual charges</b>	<b>59,087</b>	<b>59,812</b>	<b>725</b>	<b>1%</b>	<b>F</b>
<b>User charges and fees</b>	<b>41,682</b>	<b>41,465</b>	<b>(217)</b>	<b>(1)%</b>	<b>U</b>
<b>Other revenues</b>	<b>2,503</b>	<b>2,877</b>	<b>374</b>	<b>15%</b>	<b>F</b>
Other revenues were higher than originally budgeted for due to the receipt of insurance recoveries for assets that were damaged during the year.					
<b>Operating grants and contributions</b>	<b>12,339</b>	<b>12,837</b>	<b>498</b>	<b>4%</b>	<b>F</b>
<b>Capital grants and contributions</b>	<b>5,866</b>	<b>24,318</b>	<b>18,452</b>	<b>315%</b>	<b>F</b>
Council was successful in obtaining a number of capital grants during the year which was higher than originally budgeted for.					
<b>Interest and investment revenue</b>	<b>1,421</b>	<b>884</b>	<b>(537)</b>	<b>(38)%</b>	<b>U</b>
The rapid decline in interest rates as a result of Covid-19 impacted on Council's investment earnings.					
<b>Net gains from disposal of assets</b>	<b>250</b>	<b>-</b>	<b>(250)</b>	<b>100%</b>	<b>U</b>
Council made an overall net loss on disposal of IPPE primarily due to the disposal of infrastructure. Due to its uncertain nature Council does not budget for the disposal of infrastructure assets.					
<b>Fair value increment on investment property</b>	<b>787</b>	<b>13</b>	<b>(774)</b>	<b>(98)%</b>	<b>U</b>
The fair value increase in Council's investment property portfolio was impacted due to Covid-19.					
<b>Rental income</b>	<b>3,794</b>	<b>4,154</b>	<b>360</b>	<b>9%</b>	<b>F</b>
<b>Joint ventures and associates – net profits</b>	<b>-</b>	<b>540</b>	<b>540</b>	<b>∞</b>	<b>F</b>
Council has recognised its share of Strategic Services Australia Ltd for the first time which was not originally budgeted for.					

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 23. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
<b>EXPENSES</b>				
Employee benefits and on-costs	46,786	49,812	(3,026)	(6)% U
Borrowing costs	767	797	(30)	(4)% U
Materials and contracts	40,103	39,023	1,080	3% F
Depreciation and amortisation	16,003	17,073	(1,070)	(7)% U
Other expenses	14,387	17,558	(3,171)	(22)% U
Other expenses exceeded the original budget due to the write off of bad debts arising from consolidation with the Newcastle Airport Partnership.				

<b>Net losses from disposal of assets</b>	-	2,570	(2,570)	∞	U
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This item primarily relates to the disposal of infrastructure assets. Due to its uncertain nature Council does not budget for the disposal of infrastructure assets.

#### STATEMENT OF CASH FLOWS

<b>Cash flows from operating activities</b>	24,052	40,218	16,166	67%	F
Cash flows from operating activities exceeded the original budget due to the receipt of capital grants for new infrastructure projects.					
<b>Cash flows from investing activities</b>	(20,888)	(50,217)	(29,329)	140%	U
Cash flows from investing activities are higher than originally budgeted for due to the increase in the capital works program which was funded from a mixture of bank loans, contributions and grants.					
<b>Cash flows from financing activities</b>	3,198	12,576	9,378	293%	F
Cash flow from financing activities exceeded the original budget due to additional bank loans that were obtained to fund new community infrastructure projects.					

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 24. Fair Value Measurement

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

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

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

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

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

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

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

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

2020	Date of latest valuation	Fair value measurement hierarchy \$ '000			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements</b>					
<b>Investment property</b>					
		–	37,575	–	37,575
		–	37,575	–	37,575
<b>Infrastructure, property, plant and equipment</b>					
		–	–	10,317	10,317
		–	–	1,096	1,096
		–	–	311	311
		–	49,257	74,093	123,350
		–	–	6,986	6,986
		–	–	102,611	102,611
		–	–	5,647	5,647
	30/06/20	–	–	675,848	675,848
		–	–	54,552	54,552
		–	49,257	931,461	980,718
2019	Date of latest valuation	Fair value measurement hierarchy \$ '000			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements</b>					
<b>Investment property</b>					
		–	35,550	–	35,550
		–	35,550	–	35,550
<b>Infrastructure, property, plant and equipment</b>					



## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 24. Fair Value Measurement (continued)

2019	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
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		–	–	35,770	35,770
<b>Total infrastructure, property, plant and equipment</b>		–	38,932	912,821	951,753

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 2 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:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
- Office Equipment - Computers, photocopiers, calculators etc.

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 24. Fair Value Measurement (continued)

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- 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 2 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 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,

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 24. Fair Value Measurement (continued)

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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. Therefore, Level 3 is best suited.

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 2020

#### Note 24. 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
<b>2019</b>								
<b>Opening balance</b>	9,927	106	75,912	93,660	4,122	666,847	38,105	888,679
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)	3,725	8,754
Disposals (WDV)	(188)	–	(349)	(315)	–	17,575	(553)	16,170
Depreciation and impairment	(2,285)	(24)	(77)	(4,016)	(560)	(232)	(2,762)	(9,956)
Transfer from prior year	–	–	–	–	–	(4,254)	–	(4,254)
Revaluation increments/decrements	–	–	(26)	–	–	8,977	–	8,951
Transfers from/(to) Note 8	–	–	–	–	–	(180)	–	(180)
<b>Closing balance</b>	<b>12,984</b>	<b>211</b>	<b>80,503</b>	<b>94,994</b>	<b>5,379</b>	<b>682,979</b>	<b>35,770</b>	<b>912,820</b>
<b>2020</b>								
<b>Opening balance</b>	12,984	211	80,503	94,994	5,379	682,979	35,770	912,820
Transfers from/(to) another asset class	–	–	–	657	42	280	44	1,023
Purchases (GBV)	1,206	118	667	11,349	758	15,825	9,273	39,196
Disposals (WDV)	(208)	–	(11)	(304)	(27)	(2,438)	(137)	(3,125)
Depreciation and impairment	(2,569)	(18)	(80)	(4,085)	(505)	(5,832)	(2,611)	(15,700)
Revaluation increments/decrements	–	–	–	–	–	(14,966)	10,463	(4,503)
Transfers from/(to) Note 8	–	–	–	–	–	–	1,750	1,750
<b>Closing balance</b>	<b>11,413</b>	<b>311</b>	<b>81,079</b>	<b>102,611</b>	<b>5,647</b>	<b>675,848</b>	<b>54,552</b>	<b>931,461</b>

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 24. Fair Value Measurement (continued)

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

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

	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
<b>\$ '000</b>			
<b>Infrastructure, property, plant and equipment</b>			
Plant & Office Equipment	11,413	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Furniture & Fittings	311	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Land & Land Improvements	81,079	Community Land - land values obtained from the NSW Valuer-General. Crown Land - land values based on the NSW Valuer-General where applicable, otherwise compared to similar properties. Any restrictions on land such as zoning, has been taken into consideration.	Land value, land area
Buildings - Specialised Other Structures	102,611 5,647	Cost approach Cost approach	Unit price Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Infrastructure	675,848	Cost approach	Current replacement cost of modern equivalent asst, asset condition, useful life and residual value
Other Assets	54,552	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 2020

### Note 24. Fair Value Measurement (continued)

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#### (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 2020

**Note 25. Related party disclosures**

**(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:

	2020	2019
<b>Compensation:</b>		
Short-term benefits	3,893	4,146
Post-employment benefits	332	360
Termination benefits	279	—
<b>Total</b>	<b>4,504</b>	<b>4,506</b>

**(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
<b>2020</b>						
Director remuneration	1	66	—	—	—	—
Director remuneration	2	32	—	—	—	—
Payment of contributions	3	408	—	—	—	—
Legal services	4	215	—	—	—	—
Training services	5	92	—	—	—	—
Tourism services	6	10	—	—	—	—
Cleaning services	10	20	—	—	—	—
Sub lease of Council buildings	11	64	—	—	—	—
Supply of Goods	12	11	4	4	—	—

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 25. Related party disclosures (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						
Supply of goods	13	26	—		—	—
<b>2019</b>						
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	—		—	—
Cleaning services	10	24	—		—	—
Sub lease of Council buildings	11	66	—		—	—
Supply of Goods	12	4	4		—	—
Supply of goods	13	—	—		—	—

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 2020

#### Note 25. Related party disclosures (continued)

6	Port Stephens Council paid for tourism promotion services from Screen Hunter (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
7	Port Stephens Council received purchasing rebates from Strategic Services Australia Ltd which is a joint operation between 11 Hunter Councils. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship.
8	Port Stephens Council purchased surveying services from the Le Mottee Group Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
9	Port Stephens Council purchased training services from Noble Works Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
10	Port Stephens Council purchased cleaning services from Crest Birubi Beach Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.
11	Crest Birubi Beach Pty Ltd (a company which has a member of Council's KMP as a director) have a sublease with Birubi Point Surf Lifesaving Club in relation to a Council owned building. The rent is based on current market rates and subject to periodic review.
12	Port Stephens Council paid expenses to Port Stephens Koalas in relation to a grant received on their behalf during the year. Port Stephens Koalas has 2 members of Council's KMP as a director.
13	Port Stephens Council purchased products from S & K Iatham Pty Ltd during the year, a company which has a member of Council's KMP as a director. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following the council's procurement processes.

#### (c) Other related party transactions

\$ '000	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
<b>2020</b>						
Shareholder dividend	1	2,000	-		-	-
<b>2019</b>						
Shareholder dividend	1	1,943	-		-	-

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 25. Related party disclosures (continued)

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

### Note 26. Events occurring after the reporting date

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

### Note 27. Statement of developer contributions

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

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

### Summary of contributions and levies <sup>1</sup>

	as at 30/06/19		Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance		Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
Civic Administration	505	294	8	4	(317)	—	494	—	
Town Centre Upgrades	—	68	—	—	—	—	68	—	
Public Open Space, Parks and Reserves	—	243	—	—	—	—	243	—	
Sports and Leisure Facilities	—	772	—	—	—	—	772	—	
Community and Cultural Facilities	—	27	—	—	—	—	27	—	
Road Works	—	145	—	—	—	—	145	—	
Medowvie, Traffic and Transport	—	68	—	—	—	—	68	—	
Shared Paths	—	76	—	—	—	—	76	—	

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 27. Statement of developer contributions (continued)

	as at 30/06/19		Contributions received during the year				as at 30/06/20		
	Opening Balance		Cash	Non-cash	Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000									
Bus Facilities	-		8	-	-	-	-	8	-
Fire and Emergency	-		11	-	-	-	-	11	-
Flood and Drainage Works	-		36	-	-	-	-	36	-
Cross Boundary Contributions	-		3	-	-	-	-	3	-
Haulage	2,460		758	17	17	(802)	-	2,450	-
<b>S7.11 contributions – under a plan</b>	<b>2,965</b>		<b>2,509</b>	<b>25</b>	<b>21</b>	<b>(1,119)</b>	-	<b>4,401</b>	-
<b>S7.12 levies – under a plan</b>	-		129	-	-	-	-	129	-
<b>Total S7.11 and S7.12 revenue under plans</b>	<b>2,965</b>		<b>2,638</b>	<b>25</b>	<b>21</b>	<b>(1,119)</b>	-	<b>4,530</b>	-
Repealed funds	15,387		2,481	102	108	(9,575)	-	8,503	-
Fern Bay - Repealed Funds	1,500		-	-	10	-	-	1,510	-
<b>Total contributions</b>	<b>19,852</b>		<b>5,119</b>	<b>127</b>	<b>139</b>	<b>(10,694)</b>	-	<b>14,543</b>	-

(1) Interest is earned according to the opening balance for the year

### S7.11 Contributions – under a plan

#### CATCHMENT DISTRICT – RAYMOND TERRACE - RURAL

Town Centre Upgrades	-	17	-	-	-	-	-	17	-
Public Open Space, Parks and Reserves	-	68	-	-	-	-	-	68	-
Sports and Leisure Facilities	-	240	-	-	-	-	-	240	-
Road Works	-	58	-	-	-	-	-	58	-
Shared Paths	-	9	-	-	-	-	-	9	-
Bus Facilities	-	-	-	-	-	-	-	-	-
Fire and Emergency	-	6	-	-	-	-	-	6	-

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 27. Statement of developer contributions (continued)

	as at 30/06/19		Contributions received during the year			Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance		Cash	Non-cash	Held as restricted asset				Cumulative internal borrowings due/(payable)	
Flood and Drainage Works	-	-	2	-	-	-	-	-	2	-
<b>Total</b>	-	-	<b>400</b>	-	-	-	-	-	<b>400</b>	-
<b>CATCHMENT DISTRICT – CENTRAL GROWTH CORRIDOR</b>										
Town Centre Upgrades	-	-	28	-	-	-	-	-	28	-
Public Open Space, Parks and Reserves	-	-	85	-	-	-	-	-	85	-
Sports and Leisure Facilities	-	-	264	-	-	-	-	-	264	-
Road Works	-	-	62	-	-	-	-	-	62	-
Medowie, Traffic and Transport	-	-	68	-	-	-	-	-	68	-
Shared Paths	-	-	6	-	-	-	-	-	6	-
Bus Facilities	-	-	-	-	-	-	-	-	-	-
Flood and Drainage Works	-	-	17	-	-	-	-	-	17	-
<b>Total</b>	-	-	<b>530</b>	-	-	-	-	-	<b>530</b>	-
<b>CATCHMENT DISTRICT – TOMAREE</b>										
Town Centre Upgrades	-	-	15	-	-	-	-	-	15	-
Public Open Space, Parks and Reserves	-	-	33	-	-	-	-	-	33	-
Sports and Leisure Facilities	-	-	80	-	-	-	-	-	80	-
Community and Cultural Facilities	-	-	27	-	-	-	-	-	27	-
Road Works	-	-	25	-	-	-	-	-	25	-
Shared Paths	-	-	12	-	-	-	-	-	12	-
Bus Facilities	-	-	-	-	-	-	-	-	-	-
Fire and Emergency	-	-	5	-	-	-	-	-	5	-
Flood and Drainage Works	-	-	17	-	-	-	-	-	17	-
<b>Total</b>	-	-	<b>214</b>	-	-	-	-	-	<b>214</b>	-
<b>CATCHMENT DISTRICT – FERN BAY</b>										
Town Centre Upgrades	-	-	8	-	-	-	-	-	8	-

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 27. Statement of developer contributions (continued)

	as at 30/06/19		Contributions received during the year				Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance		Cash	Non-cash		Held as restricted asset				Cumulative internal borrowings due/(payable)	
<b>\$ '000</b>											
Public Open Space, Parks and Reserves	-	57	-	-	-	-	-	-	-	57	-
Sports and Leisure Facilities	-	188	-	-	-	-	-	-	-	188	-
Shared Paths	-	49	-	-	-	-	-	-	-	49	-
Bus Facilities	-	8	-	-	-	-	-	-	-	8	-
Cross Boundary Contributions	-	3	-	-	-	-	-	-	-	3	-
Fern Bay - Repealed Funds	1,500	-	-	-	-	10	-	-	-	1,510	-
<b>Total</b>	<b>1,500</b>	<b>313</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,823</b>	<b>-</b>
<b>CATCHMENT DISTRICT – SHIRE WIDE</b>											
Haulage	2,460	758	17	-	-	17	(802)	-	-	2,450	-
Civic Administration	505	294	8	-	-	4	(317)	-	-	494	-
<b>Total</b>	<b>2,965</b>	<b>1,052</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>(1,119)</b>	<b>-</b>	<b>-</b>	<b>2,944</b>	<b>-</b>
<b>S7.12 Levies – under a plan</b>											
<b>S7.12 LEVIES – UNDER A PLAN</b>											
Section 7.12	-	129	-	-	-	-	-	-	-	129	-
<b>Total</b>	<b>-</b>	<b>129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>129</b>	<b>-</b>

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 28. Result by fund

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Council utilises only a general fund for its operations.

## Port Stephens Council

### Notes to the Financial Statements

for the year ended 30 June 2020

#### Note 29. Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
<b>1. Operating performance ratio</b>					
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	<b>(2,145)</b>	<b>(1.76)%</b>	2.61%	(0.08)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	<b>122,118</b>				
<b>2. Own source operating revenue ratio <sup>3</sup></b>					
Total continuing operating revenue excluding all grants and contributions <sup>1</sup>	<b>109,281</b>	<b>74.63%</b>	76.86%	78.24%	>60.00%
Total continuing operating revenue <sup>1</sup>	<b>146,436</b>				
<b>3. Unrestricted current ratio</b>					
Current assets less all external restrictions	<b>44,747</b>				
Current liabilities less specific purpose liabilities	<b>20,586</b>	<b>2.17x</b>	1.59x	2.08x	>1.50x
<b>4. Debt service cover ratio</b>					
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>15,725</b>	<b>2.49x</b>	3.71x	2.36x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<b>6,321</b>				
<b>5. Rates, annual charges, interest and extra charges outstanding percentage <sup>3</sup></b>					
Rates, annual and extra charges outstanding	<b>1,921</b>	<b>3.05%</b>	2.95%	2.84%	<10.00%
Rates, annual and extra charges collectible	<b>62,942</b>				
<b>6. Cash expense cover ratio</b>					
Current year's cash and cash equivalents plus all term deposits	<b>39,467</b>	<b>4.03</b>	5.22	5.53	>3.00
Monthly payments from cash flow of operating and financing activities	<b>9,791</b>	<b>mths</b>	mths	mths	mths

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

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

(3) Reclassification has occurred on comparative figures for this line item

# Port Stephens Council

## Notes to the Financial Statements

for the year ended 30 June 2020

### Note 30. Council information and contact details

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**Principal place of business:**

116 Adelaide Street  
Raymond Terrace NSW 2324

**Contact details****Mailing Address:**

PO Box 42  
Raymond Terrace NSW 2324

**Opening hours:**

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

**Telephone:** 02 4988 0255

**Facsimile:** 02 4988 0130

**Internet:** [www.portstephens.nsw.gov.au](http://www.portstephens.nsw.gov.au)

**Email:** [council@portstephens.nsw.gov.au](mailto: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 Port Stephens Council

### Opinion

I have audited the accompanying financial statements of Port Stephens Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information. The financial statements include the consolidated financial statements of the Council and the entities it controlled at the year's end or from time to time during the year.

In my opinion:

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

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

### Basis for Opinion

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

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

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

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

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

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

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

### **Other Information**

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

### **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/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). The description forms part of my auditor's report.

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 23 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



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

22 October 2020  
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: D2023028/1779

22 October 2020

Dear Cr Palmer

## Report on the Conduct of the Audit for the year ended 30 June 2020 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 2020 as required by section 415 of the *Local Government Act 1993* (the Act).

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

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2020 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

### INCOME STATEMENT

#### Operating result

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	59.8	57.7	↑ 3.6
Grants and contributions revenue	37.2	33.2	↑ 12.0
Operating result for the year	20.1	25.2	↓ 20.2
Net operating result before capital grants and contributions	(4.3)	3.9	↓ 210

Rates and annual charges revenue increased by \$2.1 million (3.6 per cent) to \$59.8 million in 2019–20. The movement is consistent with the increase in ordinary rates in line with the 2.7 per cent rate peg and the rise in the total number of rateable properties.

Grants and contributions revenue increase by \$3.9 million (12.0 per cent) to \$37.2 million in 2019-20. This was due to an increase of \$5.2 million in grant income received by Newcastle Airport Partnership and \$2.1 million increase in recreation and culture grants, offset by a decrease in developer and other contributions.

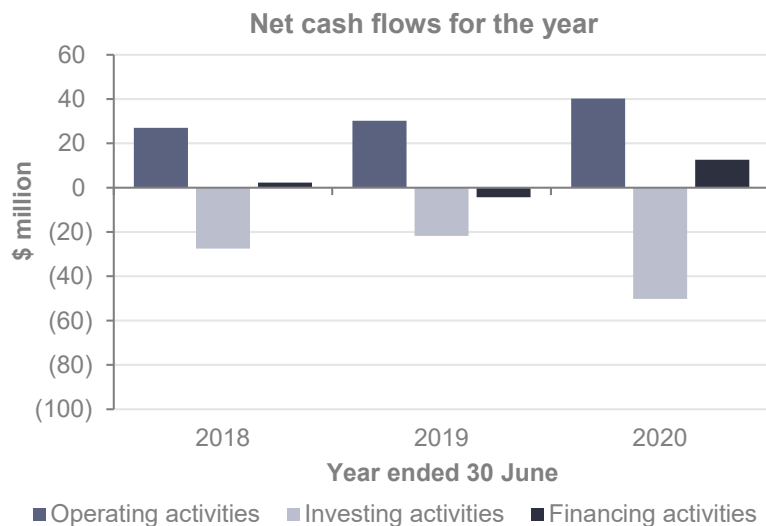
The Council’s operating result for the year was a surplus of \$20.1 million, which was \$5.1 million lower than the 2018–19 operating result. The decline in operating result was mainly attributable to the following factors:

- increase in employee benefits and on-costs by \$2.3 million (4.8 per cent), mainly as a result of increase in number of full-time equivalent employees from 503 to 532 and increase in award rates and employee leave entitlement expense as a result of the increased award rates.
- increase in depreciation and amortisation expense of \$2.4 million (16.3 per cent), mainly due to additions and renewals of \$38.8 million in Council’s infrastructure, property, plant and equipment assets.

The Council’s net operating result before capital grants and contributions was a deficit of \$4.3 million, which was \$8.2 million lower than the 2018-19 net operating result before capital grants and contributions. The movement is mainly attributable to the decrease of \$5.1 million in the net operating result and an increase of \$3.0 million in the capital grants and contributions, as explained above.

## STATEMENT OF CASH FLOWS

- The Council’s cash and cash equivalents was \$16.5 million (\$13.9 million for the year ended 30 June 2019). There was a net increase in cash and cash equivalents of \$2.6 million at 30 June 2020.
- Net cash inflows from operating activities increased by \$10.0 million mainly due to increased RMS charges received during the year.
- Net cash outflows from the investing activities increased by \$28.4 million mainly due to increased purchases of infrastructure, property, plant and equipment, partially offset by sale of investment securities.
- Net cash inflows from financing activities increased by \$16.9 million, mainly due to proceeds from borrowings of \$18.1 million.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	12.3	30.0	<ul style="list-style-type: none"><li>Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have decreased by \$17.7 million primarily due to a decrease in available cash balance relating to the developer contributions.</li></ul>
Internal restrictions	31.1	20.2	
Unrestricted	-	-	
<b>Cash and investments</b>	<b>43.4</b>	<b>50.2</b>	<ul style="list-style-type: none"><li>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 increase in the internal restrictions of \$10.9 million is mainly due to the newly created internal restriction category of Repealed funds carrying a balance of \$10.0 million at 30 June 2020.</li><li>Unrestricted balances provide liquidity for day-to-day operations of the Council.</li></ul>

### Debt

The Council has \$32.8 million of borrowings as at 30 June 2020 (2019: \$19.5 million)

The Council has an accumulated drawdown facility limit of \$36.0 million as at 30 June 2020 (2019: \$28.0 million), of which \$25.0 million pertains to the Newcastle Airport Partnership joint venture. As at 30 June 2020, \$23.8 million of the total facility remains unutilised.

## PERFORMANCE

### Performance measures

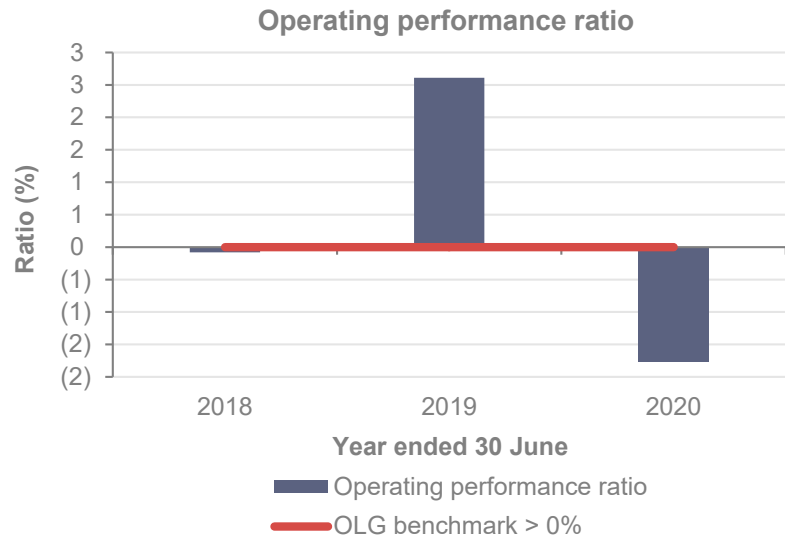
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

#### Operating performance ratio

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

The Council's operating performance ratio of negative 1.76 per cent did not meet the OLG benchmark for the financial year 2019-20.

This is mainly due to COVID-19 leading to lower revenues from user charges and fees.



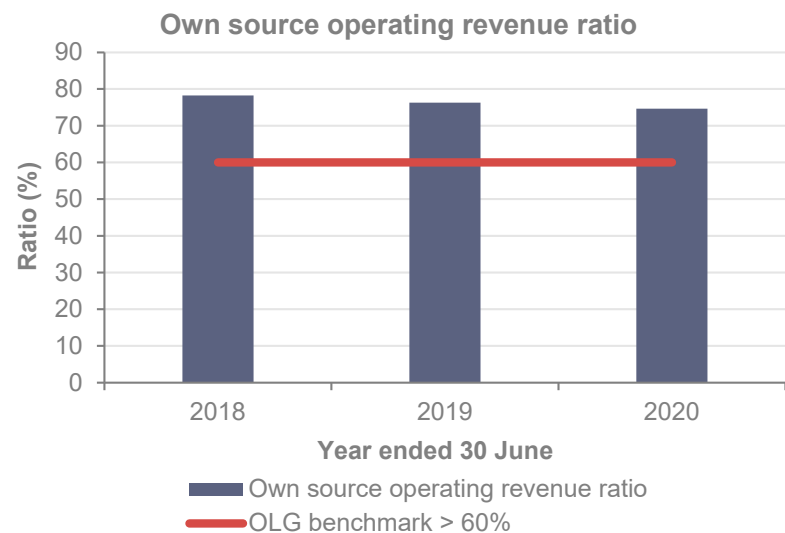
#### Own source operating revenue ratio

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 74.63 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.

The 2018-19 ratio was restated as a result of the application of a new Accounting Standard.

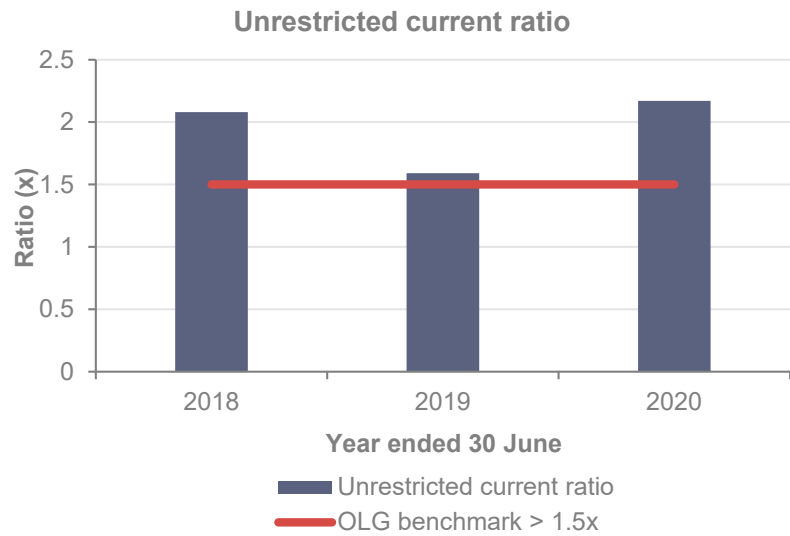


### Unrestricted current ratio

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

The Council's liquidity ratio of 2.17 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 they fall due.

The Council's unrestricted current ratio has increased from prior year mainly due to a decrease in externally restricted cash.

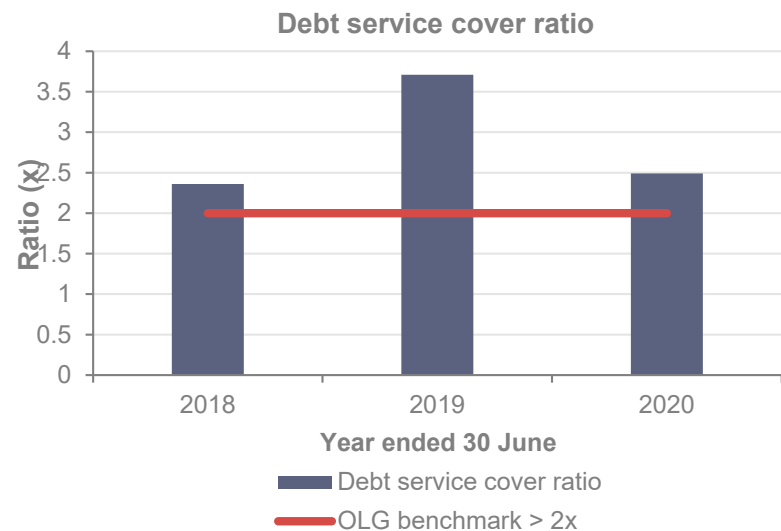


### Debt service cover ratio

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

The Council's debt service cover ratio of 2.49 times is above the industry benchmark of greater than 2 times.

The Council's debt service cover ratio has decreased from the prior year mainly due to the decline in net operating result in 2019-20.





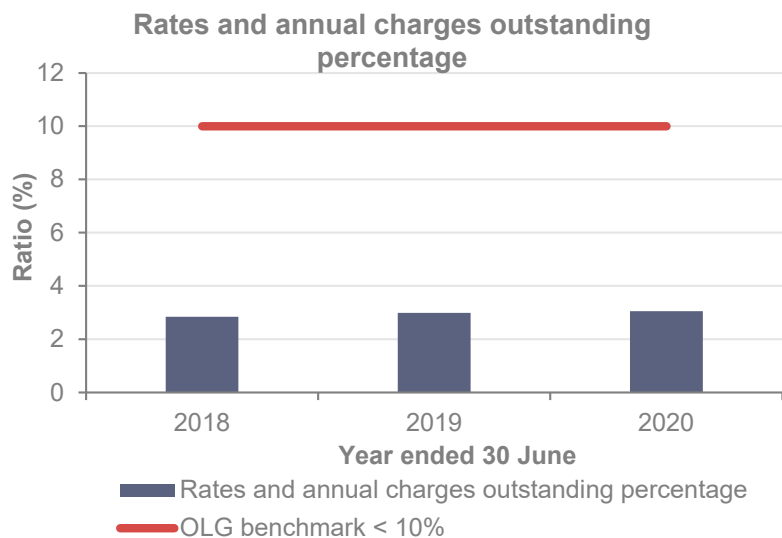
### Rates and annual charges outstanding percentage

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

The Council's rates and annual charges outstanding percentage of 3.05 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. This indicates that 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.

The 2018-19 ratio was restated as a result of the application of a new accounting standard.

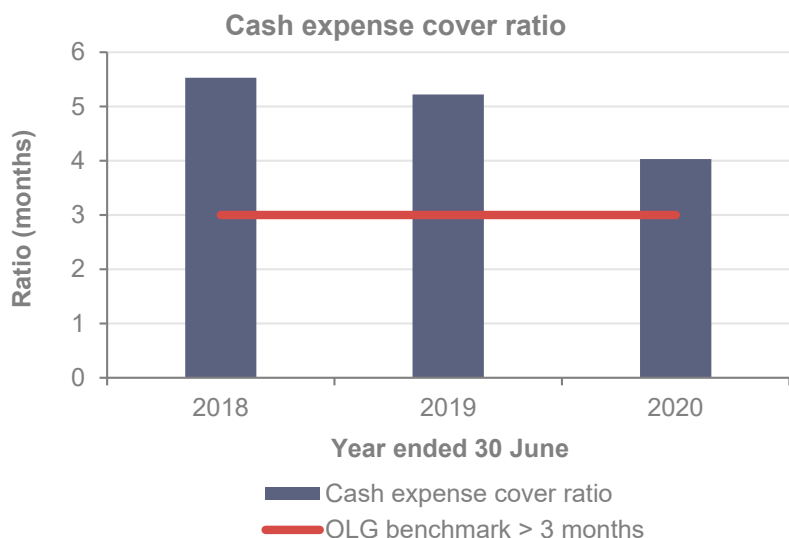


### Cash expense cover ratio

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

The Council's cash expense cover ratio was 4.03 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 4.03 months of operating cash expenditure without additional cash inflows at 30 June 2020.

The cash expense cover ratio decreased compared with prior year due to increased cash outflows from purchases of infrastructure assets.



### Infrastructure, property, plant and equipment renewals

The Council has renewed \$24.3 million of assets in 2019-20 financial year, compared to \$17.6 million of assets in the prior year.

## **OTHER MATTERS**

### **Impact of new accounting standards**

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

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

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

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

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

#### **AASB 16 'Leases'**

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

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

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

The Council recognised right-of-use assets of \$5.3 million and corresponding lease liabilities of \$5.3 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 17.

## 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 Ben Niland, Chair of the Audit Committee  
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment



# Port Stephens Council

SPECIAL SCHEDULES  
for the year ended 30 June 2020

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# Port Stephens Council

## Special Schedules

for the year ended 30 June 2020

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<b>Special Schedules</b>	
Permissible income for general rates	3
Report on Infrastructure Assets - Values	4

# Port Stephens Council

## Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
<b>Notional general income calculation <sup>1</sup></b>			
Last year notional general income yield	a	43,572	42,049
Plus or minus adjustments <sup>2</sup>	b	334	372
<b>Notional general income</b>	c = a + b	<b>43,906</b>	<b>42,421</b>
<b>Permissible income calculation</b>			
Or rate peg percentage	e	2.60%	2.70%
Or plus rate peg amount	i = e x (c + g)	1,142	1,145
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>45,048</b>	<b>43,566</b>
Plus (or minus) last year's carry forward total	l	10	15
<b>Sub-total</b>	n = (l + m)	<b>10</b>	<b>15</b>
<b>Total permissible income</b>	o = k + n	<b>45,058</b>	<b>43,581</b>
Less notional general income yield	p	45,065	43,572
<b>Catch-up or (excess) result</b>	q = o - p	<b>(7)</b>	<b>10</b>
Plus income lost due to valuation objections claimed <sup>4</sup>	r	7	-
<b>Carry forward to next year <sup>6</sup></b>	t = q + r + s	<b>-</b>	<b>10</b>

### 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.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (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 2021.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 28 (LG Code), and is in accordance with the books and records of the Council.

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

### Basis for Opinion

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

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

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

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

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

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

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

### Emphasis of Matter - Basis of Accounting

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

## **Other Information**

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedule 'Report on infrastructure assets as at 30 June 2020.

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

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

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

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Schedule**

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

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

## **Auditor's Responsibilities for the Audit of the Schedule**

My objectives are to:

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

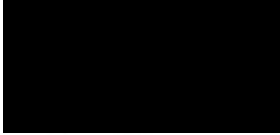
Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate,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

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



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

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



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

22 October 2020  
SYDNEY

Port Stephens Council  
Report on Infrastructure Assets  
as at 30 June 2020

Asset Class	Asset Category	Estimated cost			2019/20 Required maintenance <sup>a</sup> \$ '000	2019/20 Actual maintenance \$ '000	Net carrying amount \$ '000	Gross replacement cost (GRC) \$ '000	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard \$ '000	Estimated cost to bring assets to agreed level of service set by Council \$ '000	Estimated cost to bring assets to agreed level of service set by Council \$ '000					1	2	3	4	5
<b>Buildings</b>	Buildings	1,524	1,524	2,718	2,747	102,611	189,791	19.7%	39.1%	33.6%	6.6%	1.0%	
	<b>Sub-total</b>	<b>1,524</b>	<b>1,524</b>	<b>2,718</b>	<b>2,747</b>	<b>102,611</b>	<b>189,791</b>	<b>19.7%</b>	<b>39.1%</b>	<b>33.6%</b>	<b>6.6%</b>	<b>1.0%</b>	
<b>Other structures</b>	Other structures	-	-	203	176	5,647	13,354	7.2%	44.5%	48.3%	0.0%	0.0%	
	<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>203</b>	<b>176</b>	<b>5,647</b>	<b>13,354</b>	<b>7.2%</b>	<b>44.5%</b>	<b>48.3%</b>	<b>0.0%</b>	<b>0.0%</b>	
<b>Roads</b>	Sealed roads	10,317	10,317	4,063	4,037	300,661	339,756	50.5%	30.6%	14.0%	4.3%	0.6%	
	Unsealed roads	-	-	796	799	8,905	10,054	6.4%	41.4%	42.6%	9.6%	0.0%	
	Bridges	-	-	12	14	12,917	14,941	38.5%	52.8%	0.5%	8.2%	0.0%	
	Footpaths	191	191	402	371	57,106	67,816	15.8%	23.4%	53.6%	7.1%	0.1%	
	Other road assets	491	491	2,102	1,969	69,027	79,940	18.1%	59.9%	18.6%	3.0%	0.4%	
	<b>Sub-total</b>	<b>10,999</b>	<b>10,999</b>	<b>7,375</b>	<b>7,190</b>	<b>448,616</b>	<b>512,507</b>	<b>39.6%</b>	<b>35.1%</b>	<b>20.1%</b>	<b>4.7%</b>	<b>0.5%</b>	
<b>Stormwater drainage</b>	Stormwater drainage	610	610	1,060	976	208,679	235,509	23.8%	72.8%	2.6%	0.7%	0.1%	
	<b>Sub-total</b>	<b>610</b>	<b>610</b>	<b>1,060</b>	<b>976</b>	<b>208,679</b>	<b>235,509</b>	<b>23.8%</b>	<b>72.8%</b>	<b>2.6%</b>	<b>0.7%</b>	<b>0.1%</b>	
<b>Open space recreational assets</b>	Swimming pools	-	-	129	124	3,104	6,838	0.0%	15.0%	85.0%	0.0%	0.0%	
	Open space	320	320	3,496	3,654	21,504	32,328	11.8%	51.7%	28.5%	6.0%	2.0%	
	<b>Sub-total</b>	<b>320</b>	<b>320</b>	<b>3,625</b>	<b>3,778</b>	<b>24,608</b>	<b>39,166</b>	<b>9.7%</b>	<b>45.3%</b>	<b>38.4%</b>	<b>5.0%</b>	<b>1.7%</b>	
<b>Other infrastructure assets</b>	Other	380	380	271	222	7,376	13,381	15.0%	46.0%	29.0%	10.0%	0.0%	
	<b>Sub-total</b>	<b>380</b>	<b>380</b>	<b>271</b>	<b>222</b>	<b>7,376</b>	<b>13,381</b>	<b>15.0%</b>	<b>46.0%</b>	<b>29.0%</b>	<b>10.0%</b>	<b>0.0%</b>	
	<b>TOTAL - ALL ASSETS</b>	<b>13,833</b>	<b>13,833</b>	<b>15,252</b>	<b>15,089</b>	<b>797,537</b>	<b>1,003,708</b>	<b>30.2%</b>	<b>45.4%</b>	<b>19.8%</b>	<b>4.1%</b>	<b>0.5%</b>	

(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

## Port Stephens Council

### Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

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3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

# Port Stephens Council

## Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
<b>Infrastructure asset performance indicators (consolidated) *</b>					
<b>Buildings and infrastructure renewals ratio <sup>1</sup></b>					
Asset renewals <sup>2</sup>	<b>16,621</b>	<b>157.37%</b>	114.92%	123.14%	>=100.00%
Depreciation, amortisation and impairment	<b>10,562</b>				
<b>Infrastructure backlog ratio <sup>1</sup></b>					
Estimated cost to bring assets to a satisfactory standard	<b>13,833</b>	<b>1.73%</b>	1.80%	1.83%	<2.00%
Net carrying amount of infrastructure assets	<b>797,538</b>				
<b>Asset maintenance ratio</b>					
Actual asset maintenance	<b>15,089</b>	<b>98.93%</b>	99.05%	104.10%	>100.00%
Required asset maintenance	<b>15,252</b>				
<b>Cost to bring assets to agreed service level</b>					
Estimated cost to bring assets to an agreed service level set by Council	<b>13,833</b>	<b>1.38%</b>	1.48%	1.57%	
Gross replacement cost	<b>1,003,708</b>				

(\*) 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 and Investment Property Report**  
**Financial Year 2019/2020**

<b>Holiday Parks</b>	<b>Operating Income</b>	<b>Operating Expenditure</b>	<b>EBITDA (3)</b>	<b>Net Yield % (1)</b>	<b>Notes</b>
Fingal Bay Crown	4,022,583	3,267,768	754,815	6%	
Halifax Crown	2,559,717	2,292,381	267,336	3%	
Shoal Bay Crown	877,528	785,621	91,906	2%	
Council	1,629,694	1,459,011	170,683		
	2,507,222	2,244,633	262,589		
Thou Walla Council	827,503	810,789	16,714	0%	
TreEscape Council	81,348	432,645	(351,297)	-3%	
<b>Investment Property</b>	<b>Operating Income</b>	<b>Operating Expenditure</b>	<b>EBITDA (3)</b>	<b>Net Yield % (1)</b>	<b>Notes</b>
	3,427,196	595,056	2,832,140	8% 2	
	Total				
<b>Newcastle Airport</b>	<b>Operating Income</b>	<b>Operating Expenditure</b>	<b>EBITDA (3)</b>	<b>Net Yield % (4)</b>	<b>Notes</b>
	19,606,293	13,733,723	5,872,571	12%	
	Total				

**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





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COUNCIL

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