

Annual Report

2020 to 2021

Volume 2



PORT STEPHENS
COUNCIL

Financial accounts





Port Stephens Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2021

Port Stephens Council

General Purpose Financial Statements

for the year ended 30 June 2021

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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 B1-2.

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

Port Stephens Council

General Purpose Financial Statements

for the year ended 30 June 2021

Statement by Councillors and Management

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

The attached general purpose financial statements have been prepared in accordance with:

- the *Local Government Act 1993* 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.

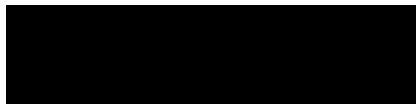
Signed in accordance with a resolution of Council made on 10 August 2021.



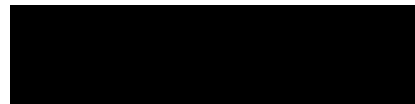
Ryan Palmer
Mayor
10 August 2021



Paul Le Mottee
Councillor
10 August 2021



Wayne Wallis
General Manager
10 August 2021



Tim Hazell
Responsible Accounting Officer
10 August 2021

Port Stephens Council

Statement of Comprehensive Income

for the year ended 30 June 2021

\$ '000	Notes	2021	2020
Net operating result for the year – from Income Statement		32,809	20,067
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-8	10,818	(4,503)
Gain (loss) on revaluation of intangible assets	C1-10	311	–
Total items which will not be reclassified subsequently to the operating result		11,129	(4,503)
Total other comprehensive income for the year		11,129	(4,503)
Total comprehensive income for the year attributable to Council		43,938	15,564

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 2021

\$ '000	Notes	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	C1-1	21,542	16,525
Investments	C1-2	36,145	22,913
Receivables	C1-4	9,673	8,406
Inventories	C1-5	977	5,149
Contract assets and contract cost assets	C1-6	577	–
Non-current assets classified as 'held for sale'	C1-7	42	–
Other	C1-11	1,051	946
Total current assets		70,007	53,939
Non-current assets			
Investments	C1-2	1,102	3,939
Receivables	C1-4	160	172
Inventories	C1-5	10,605	9,820
Infrastructure, property, plant and equipment	C1-8	1,031,239	1,001,598
Investment property	C1-9	42,295	37,575
Intangible Assets	C1-10	5,876	5,835
Right of use assets	C2-1	3,854	4,740
Investments accounted for using the equity method	D2-2	431	540
Other	C1-11	29	37
Total non-current assets		1,095,591	1,064,256
Total assets		1,165,598	1,118,195
LIABILITIES			
Current liabilities			
Payables	C3-1	15,288	13,888
Contract liabilities	C3-2	6,339	2,513
Lease liabilities	C2-1	831	794
Borrowings	C3-3	2,966	3,332
Employee benefit provisions	C3-4	15,937	16,138
Provisions	C3-5	331	428
Total current liabilities		41,692	37,093
Non-current liabilities			
Payables	C3-1	2,922	3,280
Lease liabilities	C2-1	3,209	4,069
Borrowings	C3-3	29,594	29,515
Employee benefit provisions	C3-4	776	771
Total non-current liabilities		36,501	37,635
Total liabilities		78,193	74,728
Net assets		1,087,405	1,043,467
EQUITY			
Accumulated surplus	C4-1	673,059	640,250
IPPE revaluation reserve	C4-1	414,346	403,217
Total equity		1,087,405	1,043,467

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

Port Stephens Council

Statement of Cash Flows

for the year ended 30 June 2021

Original unaudited budget 2021	\$ '000	Notes	Actual 2021	Actual 2020
Cash flows from operating activities				
<i>Receipts:</i>				
63,308	Rates and annual charges		62,905	59,588
45,282	User charges and fees		43,758	44,342
1,213	Investment and interest revenue received		464	1,262
19,381	Grants and contributions		38,863	33,183
–	Bonds, deposits and retention amounts received		–	281
2,762	Other		10,556	13,532
<i>Payments:</i>				
(55,211)	Employee benefits and on-costs		(52,029)	(48,826)
(43,293)	Materials and services		(55,570)	(56,047)
(893)	Borrowing costs		(854)	(796)
–	Bonds, deposits and retention amounts refunded		(198)	–
(6,152)	Other		(6,467)	(6,301)
26,397	Net cash flows from operating activities	G1-1a	41,428	40,218
Cash flows from investing activities				
<i>Receipts:</i>				
–	Sale of investment securities		15,500	35,084
12,950	Sale of real estate assets		6,499	–
250	Sale of infrastructure, property, plant and equipment		273	2,095
<i>Payments:</i>				
–	Purchase of investment securities		(25,299)	(25,736)
–	Purchase of investment property		(88)	(2,012)
(23,529)	Purchase of infrastructure, property, plant and equipment		(31,895)	(58,380)
–	Purchase of real estate assets		(181)	(1,075)
–	Purchase of intangible assets		(138)	(193)
(10,329)	Net cash flows from investing activities		(35,329)	(50,217)
Cash flows from financing activities				
<i>Receipts:</i>				
–	Proceeds from borrowings		3,000	18,100
<i>Payments:</i>				
(4,359)	Repayment of borrowings		(3,287)	(4,782)
–	Principal component of lease payments		(795)	(742)
(4,359)	Net cash flows from financing activities		(1,082)	12,576
11,709	Net change in cash and cash equivalents		5,017	2,577
16,525	Cash and cash equivalents at beginning of year		16,525	13,948
28,234	Cash and cash equivalents at end of year	C1-1	21,542	16,525
26,852	plus: Investments on hand at end of year	C1-2	37,247	26,852
55,086	Total cash, cash equivalents and investments		58,789	43,377

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

Port Stephens Council

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A About Council and these financial statements

A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 26 October 2021. 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* (Act) and *Local Government (General) Regulation 2005* (Regulation), 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.

Historical cost convention

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

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 property – refer Note C1-9
- ii. estimated fair values of infrastructure, property, plant and equipment – refer Note C1-8
- iii. estimated tip remediation provisions – refer Note C3-5
- iv. employee benefit provisions – refer Note C3-4.

Significant judgements in applying the Council's accounting policies

- i. Impairment of receivables – refer Note C1-4.
- ii. Determination of whether performance obligations are sufficiently specific and whether the contract is within the scope of AASB 15 *Revenue from Contracts with Customers* and / or AASB 1058 *Income of Not-for-Profit Entities* – refer to Notes B2-2 – B2-4.
- iii. Determination of the lease term, discount rate (when not implicit in the lease) and whether an arrangement contains a lease – refer to Note C2-1.

A1-1 Basis of preparation (continued)

Monies and other assets received by Council

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. Council does not have any money or property that is required to be held in a Trust Fund.

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 but not yet effective

Certain new accounting standards and interpretations (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2021 reporting period.

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

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

New accounting standards adopted during the year

During the year Council adopted all accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from the first time at 30 June 2021.

Those newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures are further discussed in Note G4-1.

B Financial Performance

B1 Functions or activities

B1-1 Functions or activities – income, expenses and assets

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note B1-2.

\$ '000	Income		Expenses		Operating result		Grants and contributions		Carrying amount of assets	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Functions or activities										
Our Community	6,038	6,013	9,912	10,050	(3,874)	(4,037)	1,005	677	180,876	173,998
Our Council	88,091	84,549	46,188	46,710	41,903	37,839	8,430	11,249	250,233	229,530
Our Environment	22,248	19,517	21,348	19,321	900	196	787	446	4,321	4,383
Our Place	44,033	36,821	50,153	50,752	(6,120)	(13,931)	34,802	24,782	730,168	710,369
Total functions and activities	160,410	146,900	127,601	126,833	32,809	20,067	45,024	37,155	1,165,598	1,118,195

B1-2 Components of functions or activities

Details relating to the Council's functions or activities as reported in B1-1 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.

B2 Sources of income

B2-1 Rates and annual charges

\$ '000	Timing	2021	2020
Ordinary rates			
Residential	2	35,441	34,362
Farmland	2	866	821
Business	2	8,579	8,158
Less: pensioner rebates (mandatory)		(1,067)	(1,066)
Rates levied to ratepayers		43,819	42,275
Pensioner rate subsidies received	2	591	598
Total ordinary rates		44,410	42,873
Annual charges			
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>			
Domestic waste management services	2	15,134	14,131
Waste management services (non-domestic)	2	4,061	2,997
Section 611 charges		11	11
Less: pensioner rebates (mandatory)		(481)	(456)
Annual charges levied		18,725	16,683
Pensioner subsidies received:			
– Domestic waste management	2	261	256
Total annual charges		18,986	16,939
Total rates and annual charges		63,396	59,812

Council has used 2019 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy

Rates and annual charges are recognised as revenue at 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 recognised within the underlying revenue item based on their substance.

B2-2 User charges and fees (*)

\$ '000	Timing	2021	2020
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Waste management services (non-domestic)	2	1,697	1,486
Total specific user charges		1,697	1,486
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Private works – section 67	2	94	95
Section 10.7 certificates (EP&A Act)	2	218	184
Section 603 certificates	2	208	145
Building inspection fees	2	299	283
Building services	2	1,036	1,115
Shop inspection fees	2	223	182
Subdivision fees	2	380	316
Total fees and charges – statutory/regulatory		2,458	2,320
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Animal control		9	4
Cemeteries	2	186	181
Child care	1	2,671	2,377
Holiday parks	1	14,506	9,956
Leisure centre	2	1,898	2,183
Library		84	86
Newcastle airport ^a	2	7,816	14,026
Waste disposal tipping fees	2	426	352
Transport for NSW works (state roads not controlled by Council)	2	4,892	6,110
Parking meters	2	957	439
Parks, gardens and other community services		4	2
Sewerage management fees	1	655	644
Other		1,264	1,239
Rental income - other Council properties [*]	2	363	637
Total fees and charges – other		35,731	38,236
Total user charges and fees		39,886	42,042
Timing of revenue recognition for user charges and fees			
User charges and fees recognised over time (1)		17,833	12,977
User charges and fees recognised at a point in time (2)		22,053	29,065
Total user charges and fees		39,886	42,042

Accounting policy

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 or a deposit in advance. There is no material obligation for Council in relation to refunds or returns.

Where an upfront fee is charged such as joining 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 over the term of the licence.

(*) Items have been reclassified in accordance with The Local Government Code of Accounting Practice and Financial Reporting 2020/21.

B2-2 User charges and fees (*) (continued)

(a) Items in relation to Newcastle Airport have been reclassified as other revenue rather than user charges and fees.

B2-3 Other revenue

\$ '000	Timing	2021	2020
Ex gratia rates	2	116	108
Fines – parking	2	278	398
Fines – other	2	220	252
Legal fees recovery – rates and charges (extra charges)		3	17
Legal fees recovery – other	2	3	212
Commissions and agency fees	1	226	179
Insurance claims recoveries	2	328	481
Events and promotions		46	52
Long service leave receipts		–	2
Private works	1	223	301
Royalties - sand extraction	2	1,406	67
Other revenue - Newcastle airport partnership ^a		768	60
Other		899	808
Total other revenue		4,516	2,937

Timing of revenue recognition for other revenue

Other revenue recognised over time (1)	449	480
Other revenue recognised at a point in time (2)	4,067	2,457
Total other revenue	4,516	2,937

Accounting policy for other revenue

Where the revenue is earned for the provision of specified goods / services under an enforceable contract, revenue is recognised when or as the obligations are satisfied.

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

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

(a) Items in relation to Newcastle Airport have been reclassified as other revenue rather than user charges and fees.

B2-4 Grants and contributions

\$ '000	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
General purpose grants and non-developer contributions (untied)					
General purpose (untied)					
Current year allocation					
Financial assistance	2	3,232	3,343	–	–
Payment in advance - future year allocation					
Financial assistance	2	3,459	3,542	–	–
Amount recognised as income during current year		6,691	6,885	–	–
Special purpose grants and non-developer contributions (tied)					
Cash contributions					
Previously specific grants:					
Bushfire and emergency services	2	1,106	1,192	–	800
Child care	1	631	287	–	–
Environmental programs	1	619	174	90	–
Heritage and cultural	1	18	12	–	–
Library	2	246	238	–	–
LIRS subsidy	2	37	48	–	–
Recreation and culture	1	1,370	11	1,581	4,367
Newcastle airport	1	–	–	2,682	5,392
Youth development	1	116	77	–	–
Street lighting	2	75	75	–	–
Weed control	1	233	107	–	–
Transport (roads to recovery)	1	781	1,081	–	–
Transport	1	–	68	8,442	3,330
Other specific grants	1	67	43	25	–
Previously contributions:					
Drainage	2	–	–	4	–
Kerb and gutter	2	–	–	40	33
Natural disaster funding contributions	2	441	–	155	–
Recreation and culture	2	–	–	357	114
Transport for NSW contributions (regional roads, block grant)	2	1,079	1,073	–	–
Other contributions	2	293	117	–	412
Economic development and tourism	2	–	1	–	–
Environmental projects	2	26	59	–	–
Risk management	2	130	237	–	–
Total special purpose grants and non-developer contributions – cash		7,268	4,900	13,376	14,448
Non-cash contributions					
Dedications – subdivisions (other than by s7.4 and s7.11 – EP&A Act, s64 of the LGA)	2	–	–	8,790	5,804
Total other contributions – non-cash		–	–	8,790	5,804
Total special purpose grants and non-developer contributions (tied)		7,268	4,900	22,166	20,252
Total grants and non-developer contributions		13,959	11,785	22,166	20,252
Comprising:					
– Commonwealth funding		8,659	7,985	4,643	119

B2-4 Grants and contributions (continued)

\$ '000	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
– State funding		5,270	3,741	8,333	13,770
– Other funding		30	59	9,190	6,363
		13,959	11,785	22,166	20,252

B2-4 Grants and contributions (continued)

Developer contributions

\$ '000	Notes	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):	G5					
Cash contributions						
S 7.11 – contributions towards amenities/services		2	318	294	7,452	1,456
S 7.12 – fixed development consent levies		2	–	–	374	129
Repealed Funds		2	–	–	–	2,481
Haulage		2	755	758	–	–
Total developer contributions – cash			1,073	1,052	7,826	4,066
Total developer contributions			1,073	1,052	7,826	4,066
Total contributions			1,073	1,052	7,826	4,066
Total grants and contributions			15,032	12,837	29,992	24,318
Timing of revenue recognition for grants and contributions						
Grants and contributions recognised over time (1)			3,834	1,858	12,821	13,090
Grants and contributions recognised at a point in time (2)			11,198	10,979	17,171	11,228
Total grants and contributions			15,032	12,837	29,992	24,318

B2-4 Grants and contributions (continued)

Unspent grants and contributions

Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner or in a future period but which are not yet spent in accordance with those conditions are as follows:

\$ '000	Operating 2021	Operating 2020	Capital 2021	Capital 2020
Unspent grants and contributions				
Unspent funds at 1 July	168	47	352	101
Add: capital grants received for the provision of goods and services in a future period (2021)	79	168	4,700	352
Less: Funds recognised as revenue in previous years that have been spent during the reporting year	–	–	–	–
Less: Funds received in prior year but revenue recognised and funds spent in current year	(168)	(47)	(352)	(101)
Unspent funds at 30 June	79	168	4,700	352
Contributions				
Unspent funds at 1 July	2,776	2,553	1,754	17,300
Add: contributions recognised as revenue in the reporting year but not yet spent in accordance with the conditions	1,074	980	7,825	4,138
Add: contributions received and not recognised as revenue in the current year	20	26	17	102
Add: Interest	1	18	1	121
Less: contributions recognised as revenue in previous years that have been spent during the reporting year	(628)	(801)	(1,359)	(9,893)
Less: Transfer of repealed funds	–	–	–	(10,014)
Unspent contributions at 30 June	3,243	2,776	8,238	1,754

Accounting policy

Grants and contributions – enforceable agreement with sufficiently specific performance obligations

Grant and contribution revenue from an agreement which is enforceable and contains sufficiently specific performance obligations is recognised as or when control of each performance obligations is transferred.

The performance obligations vary according to the agreement. 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.

Performance obligations may be satisfied either at a point in time or over time and this is reflected in the revenue recognition pattern. Point in time recognition occurs when the beneficiary obtains control of the goods / services at a single time (e.g. completion of the project when a report / outcome is provided), whereas over time recognition is where the control of the services is ongoing throughout the project (e.g. provision of community health services through the year).

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.

B2-4 Grants and contributions (continued)

Capital grants

Capital grants received by Council under an enforceable contract for the acquisition or construction of infrastructure, property, plant and equipment to identified specifications which will be under Council's control on completion 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.

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

Developer contributions

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

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

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

Other grants and contributions

Assets, including cash, received from other grants and contributions are recognised at fair value when the asset is received. Council 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.

B2-5 Interest and investment income

\$ '000	2021	2020
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	100	186
– Cash and investments	311	659
– Newcastle airport	35	128
Fair value adjustments		
– Movements in investments at fair value through profit and loss	596	(89)
Finance income on the net investment in the lease	–	–
Total interest and investment income (losses)	1,042	884
Interest and investment income is attributable to:		
Unrestricted investments/financial assets:		
General Council cash and investments	1,040	745
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	2	139
Total interest and investment income	1,042	884

Accounting policy

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 when the shareholder's right to receive payment is established unless the dividend clearly represents a recovery of part of the cost of the investment.

B2-6 Other income (*)

\$ '000	Notes	2021	2020
Fair value increment on investment properties			
Fair value increment on investment properties		889	13
Total fair value increment on investment properties	C1-9	889	13
Rental income			
Investment properties and PPE			
Lease income (excluding variable lease payments not dependent on an index or rate)		2,978	3,146
Lease income relating to variable lease payments not dependent on an index or a rate		330	371
Total Investment properties		3,308	3,517
Total rental income	C2-2	3,308	3,517
Net share of interests in joint ventures and associates using the equity method			
Joint ventures - Arrow Collaborative Services			
Total net share of interests in joint ventures and associates using the equity method		–	540
	D2-2	–	540
Total other income *		4,197	4,070

(*) Items have been reclassified in accordance with The Local Government Code of Accounting Practice and Financial Reporting 2020/21.

B3 Costs of providing services

B3-1 Employee benefits and on-costs

\$ '000	2021	2020
Salaries and wages	37,580	34,858
Salaries and wages – Newcastle airport partnership	3,482	3,655
Travel and other allowances	2,895	3,068
Employee leave entitlements (ELE)	8,250	8,209
Superannuation	4,652	4,443
Workers' compensation insurance	1,570	1,069
Fringe benefit tax (FBT)	18	13
Protective clothing	170	155
Corporate uniform	39	19
Employee medical assessments	10	6
Other	27	29
Total employee costs	58,693	55,524
Less: capitalised costs	(7,031)	(5,712)
Total employee costs expensed	51,662	49,812

Accounting policy

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

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.

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 E3-1 for more information.

B3-2 Materials and services (*)

\$ '000	Notes	2021	2020
Raw materials and consumables		7,304	7,071
– Waste collection (2019 only) and disposal contract		8,759	8,200
– Other contractor and consultancy costs		19,340	18,294
Audit Fees	F2-1	192	190
Previously other expenses (*):			
Councillor and Mayoral fees and associated expenses	F1-2	373	307
Bank charges		492	346
Electricity and heating		1,361	1,434
Insurance		1,887	1,642
Street lighting		892	876
Telephone and communications		272	255
Travel expenses		–	7
Training costs (other than salaries and wages)		371	528
Other expenses		520	397
Memberships		167	137
Newcastle airport		3,897	6,820
Legal expenses:			
– Legal expenses		460	482
Expenses from short-term leases		70	57
Expenses from leases of low value assets		7	22
Expenses from Peppercorn leases		1	1
Variable lease expense relating to usage		4,074	4,562
Other		162	188
Total materials and services *		50,601	51,816

Accounting policy

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

(*) Items have been reclassified in accordance with The Local Government Code of Accounting Practice and Financial Reporting 2020/21.

B3-3 Borrowing costs

\$ '000	2021	2020
(i) Interest bearing liability costs		
Interest on leases	135	174
Interest on overdraft	38	4
Interest on loans	455	459
Interest – Newcastle Airport	223	240
Interest on leases - Newcastle Airport	14	–
Total interest bearing liability costs	865	877
Less: capitalised costs	(11)	(81)
Total interest bearing liability costs expensed	854	796
(ii) Other borrowing costs		
Fair value adjustments on recognition of advances and deferred debtors		
Interest applicable on interest free (and favourable) loans to Council	–	1
Total other borrowing costs	–	1
Total borrowing costs expensed	854	797

Accounting policy

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.

B3-4 Depreciation, amortisation and impairment of non-financial assets

\$ '000	Notes	2021	2020
Depreciation and amortisation			
Plant and equipment		1,882	1,939
Office equipment		359	631
Furniture and fittings		27	18
Land improvements (depreciable)		93	80
Infrastructure:			
	C1-8		
– Buildings – specialised		4,851	4,085
– Other structures		847	505
– Roads		2,838	2,796
– Bridges		53	53
– Footpaths		380	376
– Car parks		141	140
– Stormwater drainage		732	712
– Swimming pools		117	176
– Other open space/recreational assets		1,620	1,382
– Other infrastructure		370	337
Right of use assets	C2-1	858	865
Other assets:			
– Heritage collections		2	2
– Library books		308	301
– Newcastle airport		2,445	2,168
Intangible assets	C1-10	408	507
Total depreciation and amortisation costs		18,331	17,073
Impairment / revaluation decrement			
Inventory - Real Estate		–	–
Total impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	–
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT		18,331	17,073

Accounting policy

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.

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

B3-4 Depreciation, amortisation and impairment of non-financial assets (continued)

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.

B3-5 Other expenses (*)

\$ '000	Notes	2021	2020
Impairment of receivables			
Other		28	332
Total impairment of receivables	C1-4	28	332
Net share of interests in joint ventures and associates using the equity method			
Joint ventures		109	–
Total net share of interests in joint ventures and associates using the equity method	D2-2	109	–
Other			
Contributions/levies to other levels of government			
– NSW rural fire service levy		1,048	801
– Lands department levy (holiday parks)		485	378
– Waste levy		3,223	2,377
Donations, contributions and assistance to other organisations (Section 356)		1,053	877
Rehabilitation and restoration expenses		207	–
Total other		6,016	4,433
Total other expenses *		6,153	4,765

Accounting policy

Other expenses are recorded on an accruals basis when Council has an obligation for the expenses.

Impairment expenses are recognised when identified.

(*) Items have been reclassified in accordance with The Local Government Code of Accounting Practice and Financial Reporting 2020/21.

B4 Gains or losses

B4-1 Gain or loss from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2021	2020
Buildings & Property (excl. investment property)	C1-8		
Proceeds from disposal – property		–	1,990
Less: carrying amount of property assets sold/written off		<u>(1,762)</u>	<u>(4,006)</u>
Gain (or loss) on disposal		<u>(1,762)</u>	<u>(2,016)</u>
Gain (or loss) on disposal of plant and equipment	C1-8		
Proceeds from disposal – plant and equipment		273	105
Less: carrying amount of plant and equipment assets sold/written off		<u>(246)</u>	<u>(205)</u>
Gain (or loss) on disposal		<u>27</u>	<u>(100)</u>
Newcastle airport partnership	C1-8		
Less: carrying amount of infrastructure assets sold/written off		<u>(12)</u>	<u>(32)</u>
Gain (or loss) on disposal		<u>(12)</u>	<u>(32)</u>
Gain (or loss) on disposal of real estate assets held for sale	C1-5		
Proceeds from disposal – real estate assets		6,499	–
Less: carrying amount of real estate assets sold/written off		<u>(2,403)</u>	<u>(422)</u>
Gain (or loss) on disposal		<u>4,096</u>	<u>(422)</u>
Gain (or loss) on disposal of investments	C1-2		
Proceeds from disposal/redemptions/maturities – investments		15,500	35,084
Less: carrying amount of investments sold/redeemed/matured		<u>(15,500)</u>	<u>(35,084)</u>
Gain (or loss) on disposal		<u>–</u>	<u>–</u>
Net gain (or loss) on disposal of assets		<u>2,349</u>	<u>(2,570)</u>

Accounting policy

Gains and losses on disposals are determined by comparing proceeds with carrying amount. 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.

B5 Performance against budget

B5-1 Material budget variations

Council's original budget was adopted by the Council on dd/MM/yyyy and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions, including new grant programs, changing economic activity, environmental factors, and by decisions made by Council.

While these General Purpose Financial Statements include the original budget adopted by Council, the Act requires Council to review its financial budget on a quarterly basis, so it is able to manage the variation between actuals and budget that invariably occur during the year.

Material variations of more than 10% between original budget and actual results or where the variance is considered material by nature are explained below.

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

\$ '000	2021 Budget	2021 Actual	2021 ----- Variance -----		
REVENUES					
Rates and annual charges	63,648	63,396	(252)	0%	U
User charges and fees	46,024	39,886	(6,138)	(13)%	U
The user fees & charges related to the Newcastle Airport Partnership were impacted due to the COVID-19 pandemic.					
Other revenues	3,572	4,516	944	26%	F
Other income has exceeded the original budget due to income received by the Newcastle Airport Partnership					
Operating grants and contributions	12,408	15,032	2,624	21%	F
During the financial year Council was successful in obtaining operating grants and contributions for various projects from Federal & State bodies that had not been originally budgeted.					
Capital grants and contributions	9,523	29,992	20,469	215%	F
During the financial year Council was successful in obtaining a number of capital grants and contributions for various infrastructure projects from Federal & State bodies that had not been originally budgeted.					
Interest and investment revenue	1,213	1,042	(171)	(14)%	U
Interest income is less than the original budget to inflationary effects of COVID-19 which affected the Newcastle Airport Partnerships cash reserves.					
Net gains from disposal of assets	8,272	2,349	(5,923)	(72)%	U
The sale of commercially developed land was delayed and has now occurred in the 2022 financial year.					
Other income	4,160	4,197	37	1%	F
EXPENSES					
Employee benefits and on-costs	52,267	51,662	605	1%	F
Materials and services	55,158	50,601	4,557	8%	F
Borrowing costs	893	854	39	4%	F

B5-1 Material budget variations (continued)

\$ '000	2021 Budget	2021 Actual	2021 ----- Variance -----	
Depreciation, amortisation and impairment of non-financial assets	17,092	18,331	(1,239)	(7)% U
Other expenses	4,203	6,153	(1,950)	(46)% U

Other expenses is above budget due increased levies from the EPA for domestic waste disposal, emergency services levy and tip remediation costs.

Net losses from disposal of assets	-	-	-	∞ F
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STATEMENT OF CASH FLOWS

Cash flows from operating activities	26,397	41,428	15,031	57% F
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During the financial year Council was successful in obtaining a number of capital and operating grants for various projects that were not originally budgeted for.

Cash flows from investing activities	(10,329)	(35,329)	(25,000)	242% U
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As a result of successful grant applications, Council increased the size of its capital works program.

Cash flows from financing activities	(4,359)	(1,082)	3,277	(75)% F
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During the year the Newcastle Airport Partnership obtained loan proceeds which were not originally budgeted for.

C Financial position

C1 Assets we manage

C1-1 Cash and cash equivalents

\$ '000	2021	2020
Cash and cash equivalents		
Cash on hand and at bank	10,526	16,024
Cash-equivalent assets		
– Deposits at call	3,500	–
– Managed funds	7,516	501
Total cash and cash equivalents	21,542	16,525

Reconciliation of cash and cash equivalents

Total cash and cash equivalents per Statement of Financial Position	21,542	16,525
Balance as per the Statement of Cash Flows	21,542	16,525

Accounting policy

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.

C1-2 Financial investments

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Financial assets at fair value through the profit and loss				
Managed funds	8,992	–	3,910	–
Total	8,992	–	3,910	–
Financial assets at amortised cost				
Long term deposits	27,153	1,102	19,003	3,939
Total	27,153	1,102	19,003	3,939
Total financial investments	36,145	1,102	22,913	3,939
Total cash assets, cash equivalents and investments	57,687	1,102	39,438	3,939

Accounting policy

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.

C1-2 Financial investments (continued)

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

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.

C1-3 Restricted cash, cash equivalents and investments

\$ '000	2021	2021	2020	2020
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	57,687	1,102	39,438	3,939

\$ '000	2021	2020
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund	4,779	520
Deposits, retentions and bonds	1,034	1,232
External restrictions – included in liabilities	5,813	1,752

External restrictions – other

External restrictions included in cash, cash equivalents and investments above comprise:

Developer contributions – general	11,481	4,530
Domestic waste management	2,930	4,561
Crown reserve	2,891	1,430
External restrictions – other	17,302	10,521
Total external restrictions	23,115	12,273

Internal restrictions

Council has internally restricted cash, cash equivalents and investments as follows:

Asset rehabilitation	1,352	–
Commercial properties	4,989	–
Election reserve	400	–
Federal assistance grant in advance	3,459	3,542
Fleet	2,410	–
Newcastle airport partnership	10,542	11,874
Other waste services reserve	183	–
Parking meters	178	–
Section 355C committees	626	674
IT Reserve	380	–
Unexpended loan funds	5,000	5,000
Repealed funds	5,581	10,014
Transport and Environment Reserve	46	–
Administration building reserve	502	–
Ward funds	26	–
Total internal restrictions	35,674	31,104
Total restrictions	58,789	43,377

Internal restrictions over cash, cash equivalents and investments are those assets restricted only by a resolution of the elected Council.

C1-4 Receivables

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Purpose				
Rates and annual charges	3,413	–	2,922	–
Interest and extra charges	202	–	229	–
User charges and fees	739	–	1,060	–
Miscellaneous debtors	328	–	797	–
Contributions to works	143	–	26	–
Accrued revenues				
– Interest on investments	192	–	183	–
– Other income accruals	1,515	–	1,284	–
Government grants and subsidies	169	–	12	–
Net GST receivable	558	–	361	–
Newcastle airport partnership	2,549	–	1,902	–
Other debtors	–	160	–	172
Total	9,808	160	8,776	172
Less: provision of impairment				
User charges and fees	(135)	–	(79)	–
Newcastle airport partnership	–	–	(291)	–
Total provision for impairment – receivables	(135)	–	(370)	–
Total net receivables	9,673	160	8,406	172
Externally restricted receivables				
Domestic waste management	815	–	705	–
Crown reserve	–	–	153	–
Total external restrictions	815	–	858	–
Internally restricted receivables				
Community Loans	200	–	200	–
Newcastle Airport Partnership	2,549	–	1,902	–
Commercial properties	616	–	31	–
Administration building reserve	–	–	734	–
Sustainable energy and water reserve	171	–	148	–
Other waste services reserve	239	–	451	–
Asset Rehabilitation	–	–	409	–
Drainage reserve	196	–	38	–
Election reserve	200	–	400	–
Fleet	–	–	1,315	–
Parking meters	–	–	590	–
IT	305	–	176	–
Ward funds	–	–	39	–
Internally restricted receivables	4,476	–	6,433	–
Unrestricted receivables	4,382	160	1,115	172
Total net receivables	9,673	160	8,406	172

C1-4 Receivables (continued)

\$ '000	2021	2020
Movement in provision for impairment of receivables		
Balance at the beginning of the year	370	5
+ new provisions recognised during the year	137	371
– amounts already provided for and written off this year	(71)	(5)
– amounts written off but not provided for	(2)	3
– amounts provided for but recovered during the year	(291)	–
– previous impairment losses reversed	(8)	(4)
Balance at the end of the year	135	370

Accounting policy

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.

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

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

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

C1-4 Receivables (continued)

Rates and annual charges outstanding are secured against the property.

C1-5 Inventories

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
At cost				
Real estate	977	10,605	4,992	9,820
Stores and materials	–	–	157	–
Total inventories at cost	977	10,605	5,149	9,820
Total inventories	977	10,605	5,149	9,820

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Real estate development				
Residential	752	2,324	–	3,027
Industrial/commercial	225	8,281	4,992	6,793
Total real estate held for resale	977	10,605	4,992	9,820

Accounting policy

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on 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

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.

C1-6 Contract assets and Contract cost assets

\$ '000	2021	2020
Contract assets	577	–
Total contract assets and contract cost assets	577	–

Contract assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Work relating to infrastructure grants	577	–	–	–
Total contract assets	577	–	–	–

C1-6 Contract assets and Contract cost assets (continued)

Accounting policy

Contract assets

Contract assets represent Councils right to payment in exchange for goods or services the Council has transferred to a customer when that right is conditional on something other than the passage of time.

Contract assets arise when the amounts billed to customers are based on the achievement of various milestones established in the contract and therefore the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer. Once an invoice or payment claim is raised or the relevant milestone is reached, Council recognises a receivable.

Impairment of contract assets is assessed using the simplified expected credit loss model where lifetime credit losses are recognised on initial recognition.

Contract cost asset – costs to fulfil a contract

Where costs are incurred to fulfil a contract and these costs are outside the scope of another accounting standard, they are capitalised as contract cost assets if the following criteria are met:

- the costs relate directly to a contract
- the costs generate or enhance resources of Council that will be used to satisfy performance obligations in the future and
- the costs are expected to be recovered.

The capitalised costs are recognised in the Income statement on a systematic basis consistent with the timing of revenue recognition.

Refer to B3-4 for the accounting policy for impairment of contract cost assets.

C1-7 Non-current assets classified as held for sale

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Non-current assets held for sale				
Land	42	–	–	–
Total non-current assets classified as held for sale	42	–	–	–

2 Coachwood Drive, Medowie, valued at its carrying amount of \$42,000, has been transferred from operational land to non-current assets held for sale in accordance with Australian Accounting Standards.

It is fully expected that the sale of 2 Coachwood Drive, Medowie will be completed within 12 months of 30 June 2021.

Accounting policy

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use and are measured at the lower of their carrying amount and fair value less costs to sell.

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

C1-8 Infrastructure, property, plant and equipment

By aggregated asset class	Asset movements during the reporting period													
	At 1 July 2020					At 30 June 2021								
\$ '000	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals ⁽¹⁾	Additions new assets	Carrying value of disposals	Depreciation expense	Transfers	Tfrs from/(to) 'held for sale' category	Tfrs from/(to) investment properties	Revaluation increments / (decrement) to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount
Capital work in progress	20,993	(91)	20,902	844	6,003	(229)	-	(13,136)	-	-	-	14,456	(72)	14,384
Plant and equipment	25,406	(15,089)	10,317	77	340	(246)	(1,882)	842	-	-	-	27,113	(17,665)	9,448
Office equipment	3,301	(2,205)	1,096	13	184	-	(359)	-	-	-	-	3,498	(2,564)	934
Furniture and fittings	1,419	(1,108)	311	237	57	-	(27)	-	-	-	-	1,712	(1,135)	577
Land:														
- Operational land	39,704	(573)	39,131	30	972	-	-	(113)	(42)	(1,490)	-	39,061	(573)	38,488
- Community land	42,885	-	42,885	-	40	-	-	113	-	-	4,316	47,353	-	47,353
- Crown land	29,223	-	29,223	-	-	-	-	-	-	-	-	29,223	-	29,223
- Land under roads (post 1/7/08)	1,985	-	1,985	-	286	-	-	-	-	-	-	2,271	-	2,271
- Newcastle airport	10,126	-	10,126	-	-	-	-	-	-	-	-	10,126	-	10,126
Land improvements – depreciable	9,384	(2,398)	6,986	11	-	-	(93)	844	-	-	-	10,302	(2,554)	7,748
Infrastructure:														
- Buildings – specialised	194,077	(91,466)	102,611	1,408	254	-	(4,851)	5,325	-	(1,245)	148	194,920	(91,270)	103,650
- Other structures	10,423	(4,776)	5,647	61	775	-	(847)	2,693	-	-	-	13,888	(5,559)	8,329
- Roads	417,927	(52,765)	365,162	7,557	4,124	(1,532)	(2,838)	3,148	-	-	-	429,541	(53,918)	375,623
- Bridges	14,941	(2,024)	12,917	119	-	-	(53)	-	-	-	-	15,061	(2,078)	12,983
- Footpaths	67,815	(10,709)	57,106	2,177	1,178	-	(380)	213	-	-	-	71,383	(11,089)	60,294
- Car parks	15,603	(2,171)	13,432	1,473	-	-	(141)	-	-	-	-	17,076	(2,312)	14,764
- Stormwater drainage	235,581	(26,902)	208,679	1,544	2,961	-	(732)	378	-	-	-	240,464	(27,634)	212,830
- Swimming pools	7,794	(4,690)	3,104	35	-	-	(117)	(792)	-	-	1,500	4,882	(1,152)	3,730
- Other open space	33,853	(12,349)	21,504	1,380	-	-	(1,620)	535	-	-	-	35,785	(13,986)	21,799
- Other infrastructure	11,428	(4,052)	7,376	515	22	-	(370)	(50)	-	-	4,854	19,547	(7,200)	12,347
Other assets:														
- Heritage collections	237	(77)	160	-	-	-	(2)	-	-	-	-	237	(79)	158
- Library books	5,705	(3,671)	2,034	-	246	-	(308)	-	-	-	-	5,950	(3,979)	1,971
- Newcastle airport	58,227	(19,323)	38,904	-	5,762	(12)	(2,445)	-	-	-	-	63,895	(21,686)	42,209
Total infrastructure, property, plant and equipment	1,258,037	(256,439)	1,001,598	17,481	23,204	(2,019)	(17,065)	-	(42)	(2,735)	10,818	1,297,744	(266,505)	1,031,239

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

C1-8 Infrastructure, property, plant and equipment (continued)

By aggregated asset class	At 1 July 2019							Asset movements during the reporting period					At 30 June 2020	
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Transfers	Revaluation increments / (decrements) to equity (ARR)	Gross carrying amount	Accumulated depreciation and impairment	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		
Land:														
– 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		
Land improvements – depreciable	9,187	(2,412)	6,775	302	–	(11)	(80)	–	–	9,384	(2,398)	6,986		
– Newcastle airport	–	–	–	–	10,126	–	–	–	–	10,126	–	10,126		
Infrastructure:														
– 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		
– 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		
– Car parks	11,610	(8,804)	2,806	408	–	(105)	(140)	–	10,463	15,603	(2,171)	13,432		
Other assets:														
– 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		
Total infrastructure, property, plant and equipment	1,192,351	(231,380)	960,971	29,652	32,757	(4,220)	(15,701)	2,640	(4,503)	1,258,037	(256,439)	1,001,598		

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

C1-8 Infrastructure, property, plant and equipment (continued)

Accounting policy

Initial recognition of infrastructure, property, plant and equipment (IPPE)

IPPE is measured initially at cost. Cost includes the fair value of the consideration given to acquire the asset (net of discounts and rebates) and any directly attributable cost of bringing the asset to working condition for its intended use (inclusive of import duties and taxes).

When infrastructure, property, plant and equipment is acquired by Council at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

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.

Useful lives of IPPE

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

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

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

Revaluation model

Infrastructure, property, plant and equipment are held at fair value. 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 IPPE 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 IPPE revaluation reserve to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Land under roads

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

C1-8 Infrastructure, property, plant and equipment (continued)

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

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

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 C2-1.

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.

C1-9 Investment properties

\$ '000	2021	2020
Owned investment property		
Investment property on hand at fair value	42,295	37,575
Total owned investment property	42,295	37,575
Owned investment property		
At fair value		
Opening balance at 1 July	37,575	35,550
Capitalised subsequent expenditure	88	2,012
Net gain/(loss) from fair value adjustments	889	13
Transfers from/(to) inventories (Note C1-5)	1,008	–
Transfers from/(to) owner occupied (Note C1-8)	2,735	–
Closing balance at 30 June	42,295	37,575

Accounting policy

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

C1-10 Intangible assets

Intangible assets are as follows:

\$ '000	2021	2020
Intangibles		
Opening values at 1 July		
Gross book value	8,876	8,690
Accumulated amortisation	(3,041)	(2,541)
Net book value – opening balance	5,835	6,149
Movements for the year		
Purchases	138	218
Amortisation charges	(408)	(507)
Disposals	–	(25)
Revaluation	311	–
Closing values at 30 June		
Gross book value	9,325	8,876
Accumulated amortisation	(3,449)	(3,041)
Total Intangibles– net book value	5,876	5,835

Accounting policy

IT development and software

Software development costs include only those costs directly attributable to the development phase (including external direct costs of materials and services, direct payroll, and payroll-related costs of employees' time spent on the project) and are only recognised following completion of technical feasibility, and where the Council has an intention and ability to use the asset. Amortisation is calculated on a straight-line basis over periods generally ranging from three to five years.

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.

C1-11 Other

Other assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Prepayments	860	–	826	–
Prepayments - Newcastle airport partnership	191	29	120	37
Total other assets	1,051	29	946	37

C1-11 Other (continued)

Current other assets not anticipated to be settled within the next 12 months

The following inventories and other assets, even though classified as current are not expected to be recovered in the next 12 months;

\$ '000	2021	2021	2020	2020
	Current	Non-current	Current	Non-current
Total externally restricted assets	—	—	—	—
Total internally restricted assets	—	—	—	—
Total unrestricted assets	1,051	29	946	37
Total other assets	1,051	29	946	37

C2 Leasing activities

C2-1 Council as a lessee

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

Terms and conditions of leases:

Plant and equipment

Council leases vehicles and equipment with lease terms varying from 5 to 10 years and include a renewal option to allow Council to renew for another year at their discretion. The lease contains an annual pricing mechanism based on either fixed increases or CPI movements at each anniversary of the lease inception.

Office and IT equipment

Leases for office and IT equipment are generally for low value assets, except for significant items such as photocopiers. The leases are for between 2 and 3 years with a renewal option of another 3 years, the payments are fixed, however some of the leases include variable payments based on usage.

Other assets - Other

Council leases car parks with lease term of 3 years and include an option to allow Council to renew for another two years at their discretion. The lease contains an annual pricing mechanism based on either fixed increases or CPI movements at each anniversary of the lease inception.

Land

Council leases land for their holiday park, with a lease term of 40 years and no renewal option. The lease contains an annual pricing mechanism based on CPI movements at each anniversary of the lease inception.

Newcastle Airport leases land with a lease term of 81 years and includes 3 renewal options to allow the Airport to renew for another 30 years at their discretion. There are fixed lease payments as well as variable lease payments, the fixed payments increase by CPI at each anniversary of the lease inception and the variable payment is based on a percentage of revenue.

Extension options

Council includes options in some of the leases to provide flexibility and certainty to operations and reduce costs of moving premises; and the extension options are at Council's discretion.

At commencement date and each subsequent reporting date, Council assesses where it is reasonably certain that the extension options will be exercised.

(a) Right of use assets

\$ '000	Plant & Equipment	Newcastle Airport	Office equipment	Other assets - Other	Land - Operational Land	Total
2021						
Opening balance at 1 July	3,167	338	462	318	455	4,740
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	–	–	–	–	–	–
Adjustments to right-of-use assets due to re-measurement of lease liability	–	–	–	(6)	(22)	(28)
Depreciation charge	(528)	(4)	(179)	(98)	(49)	(858)
Balance at 30 June	2,639	334	282	215	384	3,854

C2-1 Council as a lessee (continued)

\$ '000	Plant & Equipment	Newcastle Airport	Office equipment	Other assets - Other	Land - Operational Land	Total
2020						
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	3,696	342	641	418	509	5,606
Adjustments to right-of-use assets due to re-measurement of lease liability	–	–	–	–	–	–
Depreciation charge	(529)	(4)	(179)	(100)	(53)	(865)
Balance at 30 June	3,167	338	462	318	455	4,740

(b) Lease liabilities

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Lease liabilities	830	2,872	794	3,728
Lease liabilities - Newcastle Airport	1	337	–	341
Total lease liabilities	831	3,209	794	4,069

(c) (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
2021					
Cash flows	953	2,960	1,287	5,200	4,040
2020					
Cash flows	944	3,234	2,008	6,187	4,863

(ii) Lease liabilities relating to restricted assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Externally restricted assets				
Crown reserve	43	362	42	427
Domestic waste reserve	500	2,270	475	2,770
Lease liabilities relating to externally restricted assets	543	2,632	517	3,197
Total lease liabilities relating to restricted assets	543	2,632	517	3,197
Total lease liabilities relating to unrestricted assets	288	577	277	872
Total lease liabilities	831	3,209	794	4,069

C2-1 Council as a lessee (continued)

(d) Income Statement

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

\$ '000	2021	2020
Interest on lease liabilities	149	174
Variable lease payments based on usage not included in the measurement of lease liabilities	4,074	4,562
Depreciation of right of use assets	858	865
Expenses relating to short-term leases	70	57
Expenses relating to low-value leases	7	22
Expenses relating to peppercorn leases	1	1
	5,160	5,682

(e) Statement of Cash Flows

Total cash outflow for leases	5,093	5,558
	5,093	5,558

(f) 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

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

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

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

C2-1 Council as a lessee (continued)

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.

C2-2 Council as a lessor

Operating leases

Council leases out a number of properties to community groups; these leases have been classified as operating leases for financial reporting purposes and the assets are included in the Statement of Financial Position as:

- investment property – where the asset is held predominantly for rental or capital growth purposes (refer note C1-9)
- property, plant and equipment – where the rental is incidental, or the asset is held to meet Councils service delivery objective (refer note C1-8).

\$ '000	2021	2020
(i) Assets held as investment property		
Investment property operating leases relate to the assets held predominately for rental purposes.		
The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below		
Lease income (excluding variable lease payments not dependent on an index or rate)	2,839	3,146
Lease income relating to variable lease payments not dependent on an index or a rate	330	371
Total income relating to operating leases for investment property assets	3,169	3,517
Operating lease expenses		
Direct operating expenses that generated rental income	539	546
Total expenses relating to operating leases	539	546
Repairs and maintenance: investment property		
Contractual obligations for future repairs and maintenance	31	2
Total repairs and maintenance: investment property	31	2

C2-2 Council as a lessor (continued)

\$ '000	2021	2020
(ii) Assets held as property, plant and equipment		
Council provides operating leases on Council buildings for the purpose of service delivery objectives, the table below relates to operating leases on assets disclosed in C1-8.		
Lease income (excluding variable lease payments not dependent on an index or rate)	139	91
Total income relating to operating leases for Council assets	139	91

Amount of IPPE leased out by Council under operating leases

Buildings	6,446	6,602
Furniture and Fittings	53	–
Land - Council Land	1,786	1,786
Open Space Other	187	234
Other Assets - Carparks	184	–
Other Structures	30	30
Total amount of IPPE leased out by Council under operating leases	8,686	8,652

(iii) Maturity analysis of undiscounted lease payments to be received after reporting date for all operating leases:

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

< 1 year	2,726	2,431
1–2 years	2,413	1,798
2–3 years	1,559	1,797
3–4 years	273	1,265
4–5 years	204	217
> 5 years	635	476
Total undiscounted lease payments to be received	7,810	7,984

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, 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 for an operating lease and as finance income using amortised cost basis for finance leases.

C3 Liabilities of Council

C3-1 Payables

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Payables				
Goods and services	9,245	2,922	8,097	3,280
Accrued expenses:				
– Other expenditure accruals	3,579	–	3,197	–
Security bonds, deposits and retentions	1,034	–	1,232	–
Unclaimed monies	2	–	12	–
Rates in advance	1,423	–	1,230	–
Other	5	–	120	–
Total payables	15,288	2,922	13,888	3,280
Total payables	15,288	2,922	13,888	3,280

Current payables not anticipated to be settled within the next twelve months

\$ '000	2021	2020
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
Total payables and borrowings	396	396

Accounting policy

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.

C3-2 Contract Liabilities

\$ '000	Notes	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Grants and contributions received in advance:					
Unexpended capital grants (to construct Council controlled assets)	(i)	4,635	–	946	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	144	–	671	–
Total grants received in advance		4,779	–	1,617	–
User fees and charges received in advance:					
Fees - holiday park deposits	(iii)	1,337	–	881	–
Fees - rent	(iii)	–	–	15	–
Fees - Newcastle airport	(iii)	223	–	–	–

C3-2 Contract Liabilities (continued)

\$ '000	2021	2021	2020	2020
	Current	Non-current	Current	Non-current
Total user fees and charges received in advance	1,560	–	896	–
Total contract liabilities	6,339	–	2,513	–

Notes

(i) Council has received funding to construct assets including transport infrastructure, recreation and cultural facilities 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, mostly environmental protection and child care that were 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 in advance for holiday park fees and Newcastle airport fees are recorded as a contract liability on receipt and recognised as revenue once the service has been fully delivered.

Revenue recognised that was included in the contract liability balance at the beginning of the period

\$ '000	2021	2020
Grants and contributions received in advance:		
Capital grants (to construct Council controlled assets)	892	101
Operating grants (received prior to performance obligation being satisfied)	653	47
Total revenue recognised that was included in the contract liability balance at the beginning of the period	1,545	148

Accounting policy

Contract liabilities are recorded when 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.

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.

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. Prior to financial year 2020, revenue was recognised on receipt of the funds.

C3-3 Borrowings

\$ '000	2021	2021	2020	2020
	Current	Non-current	Current	Non-current

C3-3 Borrowings (continued)

\$ '000	2021	2021	2020	2020
	Current	Non-current	Current	Non-current
Loans – secured ¹	2,966	14,744	3,332	17,665
Loans – Newcastle airport partnership	–	14,850	–	11,850
Total borrowings	2,966	29,594	3,332	29,515

(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 E.

(a) Changes in liabilities arising from financing activities

\$ '000	2020		Non-cash movements				2021
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	20,997	(3,314)	–	–	–	27	17,710
Lease liability (Note C2-1b)	4,863	(823)	–	–	–	–	4,040
Loans – Newcastle airport	11,850	3,000	–	–	–	–	14,850
Total liabilities from financing activities	37,710	(1,137)	–	–	–	27	36,600

\$ '000	2019		Non-cash movements				2020
	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 liability (Note C2-1b)	–	4,863	–	–	–	–	4,863
Loans – Newcastle airport	6,250	5,600	–	–	–	–	11,850
Total liabilities from financing activities	19,528	18,167	–	1	–	14	37,710

(b) Financing arrangements

\$ '000	2021	2020
Total facilities		
Bank overdraft facilities ¹	2,500	2,500
Credit cards/purchase cards	1,000	1,000
Bank loan facilities - Port Stephens Council	7,500	7,500
Bank loan facilities - Newcastle Airport	25,000	25,000
Total financing arrangements	36,000	36,000
Drawn facilities		
– Credit cards/purchase cards	414	366
– Bank loan facilities - Newcastle Airport	14,850	11,850
Total drawn financing arrangements	15,264	12,216
Undrawn facilities		
– Bank overdraft facilities	2,500	2,500
– Credit cards/purchase cards	586	634
– Bank loan facilities - Port Stephens Council	7,500	7,500
– Bank loan facilities - Newcastle Airport	10,150	13,150
Total undrawn financing arrangements	20,736	23,784

C3-3 Borrowings (continued)

Additional financing arrangements information

Breaches and defaults

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

During the financial year the Newcastle Airport Partnership amended its facility agreement with the ANZ Bank as a result of the COVID-19 pandemic. The amendment waived in full any material adverse effects on its financial covenants caused by the COVID-19 pandemic up to and including 30 June 2021. Management are currently in negotiations to extend this waiver as a result of the continued adverse effects of the COVID-19 pandemic.

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

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

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

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

C3-4 Employee benefit provisions

\$ '000	2021	2021	2020	2020
	Current	Non-current	Current	Non-current
Annual leave	4,349	–	4,447	–
Sick leave	2,677	–	2,962	–
Long service leave	8,592	776	8,393	771
Flexi time / RDO leave	319	–	336	–
Total employee benefit provisions	15,937	776	16,138	771

Employee benefit provisions relating to restricted assets

Total employee benefit provisions relating to restricted assets	–	–	–	–
Total employee benefit provisions relating to unrestricted assets	15,937	776	16,138	771
Total employee benefit provisions	15,937	776	16,138	771

Current employee benefit provisions not anticipated to be settled within the next twelve months

\$ '000	2021	2020
The following provisions, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	10,545	11,156
	10,545	11,156

Description of and movements in provisions

Accounting policy

Employee benefit provisions are presented as current liabilities in the Statement of Financial Position if 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 and therefore all annual leave and vested long service leave (or that which vests within 12 months) is presented as current.

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

C3-4 Employee benefit provisions (continued)

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

C3-5 Provisions

\$ '000	2021 Current	2021 Non-Current	2020 Current	2020 Non-Current
Other provisions				
Other - Commercial concessions				
Newcastle airport partnership	331	-	165	-
Sub-total – other provisions	331	-	165	-
Asset remediation/restoration:				
Asset remediation/restoration (future works)	-	-	263	-
Sub-total – asset remediation/restoration	-	-	263	-
Total provisions	331	-	428	-

Description of and movements in provisions

\$ '000	Other provisions		
	Asset remediation	Other Provisions	Net carrying amount
2021			
At beginning of year	263	165	428
Additional provisions	207	-	207
Amounts used (payments)	(470)	-	(470)
Total other provisions at end of year	-	165	165
2020			
At beginning of year	1,355	900	2,255
Additional provisions	-	165	165
Amounts used (payments)	(1,092)	(900)	(1,992)
Total other provisions at end of year	263	165	428

Nature and purpose of 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 fees to its tenants as a result of Covid-19.

C3-5 Provisions (continued)

Accounting policy

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.

Asset remediation – tips and quarries

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 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.

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

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

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.

C4 Reserves

C4-1 Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment (IPPE) revaluation reserve is used to record increments and decrements in the revaluation of infrastructure, property, plant and equipment.

D Council structure

D1 Results by fund

Council utilises only a general fund for its operations.

D2 Interests in other entities

D2-1 Subsidiaries

Council has no interest in any controlled entities (subsidiaries).

D2-2 Interests in joint arrangements

Joint arrangements

Arrow Collaborative Services Limited (Hunter Councils)

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

Arrow Collaborative Services 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. Arrow Collaborative Services Limited was previously known as Strategic Services Australia Limited.

Arrow Collaborative Services Limited has the same year end date as Council.

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 (%)

Arrow Collaborative Services Limited 11.71%

(a) Summarised financial information for individually immaterial joint ventures

<u>\$ '000</u>	<u>2021</u>	<u>2020</u>
Arrow Collaborative Services Limited		
Carrying Amount of Investment in joint ventures that are not individually material	431	540
Council's Share of those joint ventures:		
Profit/(loss) from continuing operations	(109)	540
Total comprehensive income – individually immaterial joint ventures	(109)	540

(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.

D2-2 Interests in joint arrangements (continued)

(c) Risk associated with the interests in joint ventures

\$ '000	2021	2020
Commitments relating to joint ventures held	–	–
Contingent liabilities incurred jointly with other investments over joint ventures held	–	–

Each of the partners in Arrow Collaborative Services 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)

			Interest in ownership		Interest in voting	
			2021	2020	2021	2020
Name of joint operation	Principal activity	Place of business				
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%

Council assets employed in the joint operations

\$ '000	2021	2020
Council's share of assets jointly owned with other partners		
Current assets	13,282	13,606
Current liabilities	(4,227)	(5,158)
Non current assets	54,300	51,083
Non-current liabilities	(18,139)	(15,515)
Total net assets employed – Council and jointly owned	45,216	44,016

Share of joint operations expenditure commitments

Capital commitments

Payable not later than 1 year	901	11,034
Total capital commitments	901	11,034

Contingent liabilities of joint operations

Share of contingent liabilities incurred jointly with other participants	100	100
Share of contingent liabilities for which Council is severally liable	100	100

D2-2 Interests in joint arrangements (continued)

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.

D3 Discontinued operations

D3-1 Discontinued operations

Council did not have any discontinued operations during the year ended 30 June 2021.

E Risks and accounting uncertainties

E1-1 Risks relating to financial instruments held

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 Council.

Council's objective is to maximise its return on cash and investments while maintaining an adequate level of liquidity and preserving capital. The finance team manage the cash and investments portfolio with the assistance of independent advisers. Council has an investment policy which complies with s 625 of the Act and the Ministerial Investment Order. The policy is regularly reviewed by Council and a monthly investment report is provided to Council setting out the make-up and performance of the portfolio as required by local government regulations.

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 the finance team under policies approved by the Councillors.

The fair value of Receivables, loans, investments and financial liabilities approximates the carrying amount.

The risks associated with the financial instruments held are:

- interest rate risk – the risk that movements in interest rates could affect returns
- 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 a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from its independent advisers before placing any cash and investments.

(a) Market risk – interest rate and price risk

\$ '000	2021	2020
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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.

Impact of a 1% movement in interest rates		
– Equity / Income Statement	229	363
Impact of a 10% movement in price of investments		
– Equity / Income Statement	391	–

(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.

E1-1 Risks relating to financial instruments held (continued)

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

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

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2021						
Gross carrying amount	–	2,724	268	259	162	3,413
2020						
Gross carrying amount	–	2,279	272	237	134	2,922

Receivables - non-rates and annual charges and contract assets

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

The loss allowance provision 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
2021						
Gross carrying amount	3,171	1,242	1,103	447	592	6,555
Expected loss rate (%)	0.13%	0.04%	0.06%	2.19%	2.78%	0.48%
ECL provision	4	–	1	10	16	31
2020						
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%
ECL provision	2	289	2	6	71	370

(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, 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.

E1-1 Risks relating to financial instruments held (continued)

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	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 - 5 Years	> 5 Years		
2021							
Trade/other payables	0.00%	1,036	14,253	2,921	–	18,210	18,210
Loans and advances	1.63%	–	3,464	29,262	1,136	33,862	32,560
Lease liabilities	0.00%	–	953	2,960	1,287	5,200	4,040
Total financial liabilities		1,036	18,670	35,143	2,423	57,272	54,810
2020							
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
Total financial liabilities		1,244	17,825	31,541	10,288	60,898	54,879

E2-1 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).

E2-1 Fair value measurement (continued)

	Notes	Fair value measurement hierarchy					
		Level 2 Significant observable inputs 2021	Level 2 Significant observable inputs 2020	Level 3 Significant unobservable inputs 2021	Level 3 Significant unobservable inputs 2020	Total 2021	Total 2020
\$ '000							
Recurring fair value measurements							
Financial assets							
Financial investments	C1-2	8,992	3,910	-	-	8,992	3,910
at fair value through profit or loss							
Total financial assets		8,992	3,910	-	-	8,992	3,910
Investment property							
Investment properties held	C1-9	42,295	37,575	-	-	42,295	37,575
Total investment property		42,295	37,575	-	-	42,295	37,575
Infrastructure, property, plant and equipment							
Plant and equipment	C1-8	-	-	9,448	10,317	9,448	10,317
Office equipment		-	-	934	1,096	934	1,096
Furniture and fittings		-	-	577	311	577	311
Land		48,614	49,257	78,847	74,093	127,461	123,350
Land Improvements		-	-	7,748	6,986	7,748	6,986
Buildings – specialised		-	-	103,650	102,611	103,650	102,611
Other Structures		-	-	8,329	5,647	8,329	5,647
Infrastructure		-	-	714,370	689,280	714,370	689,280
Other Assets		-	-	44,338	41,098	44,338	41,098
Total infrastructure, property, plant and equipment		48,614	49,257	968,241	931,439	1,016,855	980,696
Non-current assets classified as held for sale							
Land	C1-7	42	-	-	-	42	-
Total NCA's classified as held for sale		42	-	-	-	42	-

E2-1 Fair value measurement (continued)

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.

Valuation techniques

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 (IPPE)

Plant & Equipment, Office Equipment, Furniture & Fittings

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

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

Land

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

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

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

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

Sale prices of comparable land parcels in close proximity were adjusted for differences in key attributes such as size and configuration. The most significant inputs into this valuation approach are price per square metre. Since extensive professional judgements were required to determine the inputs these assets were classified as having been valued using Level 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.

E2-1 Fair value measurement (continued)

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, 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.

E2-1 Fair value measurement (continued)

Fair value measurements using significant unobservable inputs (level 3)

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 (30/6/21) 2021	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment			
Plant & Office Equipment	10,382	Cost approach	Current replacement cost of modern equivalent asset, asset condition, useful life and residual value
Furniture & Fittings	577	Cost approach	Current replacement cost of modern equivalent asset, asset condition, useful life and residual value
Land & Land Improvements	86,595	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	103,650 8,329	Cost approach Cost approach	Unit price Current replacement cost of modern equivalent asset, asset condition, useful life and residual value
Infrastructure	714,370	Cost approach	Current replacement cost of modern equivalent asset, asset condition, useful life and residual value
Other Assets	44,338	Cost approach	Current replacement cost of modern equivalent asset, asset condition, useful life and residual value

E2-1 Fair value measurement (continued)

A reconciliation of the movements in recurring fair value measurements allocated to Level 3 of the hierarchy is provided below:

	Plant and office equipment		Furniture and fittings		Land and land improvements		Buildings	
	2021	2020	2021	2020	2021	2020	2021	2020
\$ '000								
Opening balance	11,413	12,984	311	211	81,079	80,503	102,611	95,000
Transfers from/(to) another asset class	842	—	—	—	957	—	5,325	649
Purchases	614	1,206	293	118	336	667	1,662	11,349
Disposals	(246)	(208)	—	—	—	(11)	—	(304)
Depreciation and impairment	(2,241)	(2,569)	(27)	(18)	(93)	(80)	(4,851)	(4,083)
Revaluation increments/decrements	—	—	—	—	4,316	—	148	—
Transfers from/(to) Note C1-9	—	—	—	—	—	—	(1,245)	—
Closing balance	10,382	11,413	577	311	86,595	81,079	103,650	102,611
	Other structures		Infrastructure		Other assets		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
\$ '000								
Opening balance	5,647	5,379	689,280	685,783	41,098	32,962	931,439	912,822
Transfers from/(to) another asset class	2,693	42	3,432	280	—	1,795	13,249	2,766
Purchases	836	758	23,085	16,237	6,008	8,843	32,834	39,178
Disposals	—	(27)	(1,532)	(2,543)	(12)	(32)	(1,790)	(3,125)
Depreciation and impairment	(847)	(505)	(6,249)	(5,972)	(2,756)	(2,470)	(17,064)	(15,697)
Revaluation increments/decrements	—	—	6,354	(4,505)	—	—	10,818	(4,505)
Transfers from/(to) Note C1-9	—	—	—	—	—	—	(1,245)	—
Closing balance	8,329	5,647	714,370	689,280	44,338	41,098	968,241	931,439

Highest and best use

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

E3-1 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 2021. 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 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.

E3-1 Contingencies (continued)

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 2021 was \$480,225. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA as at 30 June 2020.

The amount of additional contributions included in the total employer contribution advised above is \$337,700. Council's expected contribution to the plan for the next annual reporting period is \$528,360.

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

Employer reserves only *	\$millions	Asset Coverage
Assets	2,620.5	
Past Service Liabilities	2,445.6	107.2%
Vested Benefits	2,468.7	106.2%

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

The share of any surplus or deficit that is broadly attributed to Council is 0.84% as at 30 June 2021.

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

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

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

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

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

E3-1 Contingencies (continued)

(iv) Other guarantees

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

2. Other liabilities

(i) Third party claims

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

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

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

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

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

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

(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.

F People and relationships

F1 Related party disclosures

F1-1 Key management personnel (KMP)

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

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

\$ '000	2021	2020
Compensation:		
Short-term benefits	3,762	3,893
Post-employment benefits	311	332
Termination benefits	292	279
Total	4,365	4,504

Other transactions with KMP and their related parties

Nature of the transaction		Transactions during the year	Outstanding balances including commitments	Terms and conditions	Impairment provision on outstanding balances	Impairment expense
\$ '000	Ref					
2021						
Director remuneration	1	53	-		-	-
Director remuneration	2	26	-		-	-
Payment of contributions, annual membership and advertising	3	590	-		-	-
Legal services	4	245	1		-	-
Tourism services and annual subscription	5	120	-		-	-
Training service	6	18	-		-	-
Cleaning services	7	23	-		-	-
Sub lease of Council buildings	8	68	-		-	-
Supply of goods, contributions, mayoral donation and painting services	9	299	-		-	-
Supply of goods	10	41	-		-	-
2020						
Director remuneration	1	66	-		-	-

continued on next page ...

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F1-1 Key management personnel (KMP) (continued)

Nature of the transaction	Ref	Transactions during the year	Outstanding balances including commitments	Terms and conditions	Impairment provision on outstanding balances	Impairment expense
Director remuneration	2	32	—		—	—
Payment of contributions, annual membership and advertising	3	408	—		—	—
Legal services	4	215	—		—	—
Tourism services and annual subscription	5	92	—		—	—
Training service	6	10	—		—	—
Cleaning services	7	20	—		—	—
Sub lease of Council buildings	8	64	—		—	—
Supply of goods, contributions, mayoral donation and painting services	9	11	4		—	—
Supply of goods	10	26	—		—	—
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, payments were also made for annual membership and advertising services. 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 tourism promotion services from Screen Hunter (a division of Strategic Services Australia Ltd) which is a joint operation between 11 Hunter Councils and an annual subscription to core funding. A member of Council's KMP is a Director of Strategic Services Australia and is not remunerated for their Directorship		
6				Port Stephens Council paid for 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.		
7				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.		
8				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.		

F1-1 Key management personnel (KMP) (continued)

9 During the 2020 financial year Port Stephens Council paid expenses to Port Stephens Koalas in relation to a grant received on their behalf. During the 2021 financial year Port Stephens Council paid contributions, a mayoral donation and received payment for painting services provided to Port Stephens Koalas. Port Stephens Koalas has 2 members of Council's KMP as a director.

10 Port Stephens Council purchased products from S & K Latham 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.

F1-2 Councillor and Mayoral fees and associated expenses

\$ '000	2021	2020
<p>The aggregate amount of Councillor and Mayoral fees and associated expenses included in materials and services expenses in the Income Statement are:</p>		
Mayoral fee	84	63
Councillors' fees	219	184
Other Councillors' expenses (including Mayor)	70	60
Total	373	307

F1-3 Other related parties

	Ref	Transactions during the year	Outstanding balances including commitments	Terms and conditions	Impairment provision on outstanding balances	Impairment expense
\$ '000						
2020						
Shareholder dividend	1	2,000	—		—	—

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. No dividend was received for the year ended 30 June 2021.

F2 Other relationships

F2-1 Audit fees

\$ '000	2021	2020
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	81	99
Remuneration for audit and other assurance services	81	99
Total Auditor-General remuneration	81	99
Non NSW Auditor-General audit firms		
(i) Audit and other assurance services		
Internal audit services - PKF Lawler	41	47
Internal audit services - Newcastle airport partnership	15	13
Audit and review of financial statements - Newcastle airport partnership	55	31
Remuneration for audit and other assurance services	111	91
Total remuneration of non NSW Auditor-General audit firms	111	91
Total audit fees	192	190

G Other matters

G1-1 Statement of Cash Flows information

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

\$ '000	2021	2020
Net operating result from Income Statement	32,809	20,067
Adjust for non-cash items:		
Depreciation and amortisation	18,331	17,073
Net losses/(gains) on disposal of assets	(2,349)	2,570
Non-cash capital grants and contributions	(8,790)	(5,804)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as ‘at fair value’ or ‘held for trading’	(596)	89
– Investment property	(889)	(13)
Amortisation of premiums, discounts and prior period fair valuations		
– Interest exp. on interest-free loans received by Council (previously fair valued)	–	1
Share of net (profits)/losses of associates/joint ventures using the equity method	109	(540)
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	(1,020)	159
Increase/(decrease) in provision for impairment of receivables	(235)	365
Decrease/(increase) in inventories	157	(14)
Decrease/(increase) in other current assets	(97)	1,401
Decrease/(increase) in contract assets	(577)	–
Increase/(decrease) in payables	790	2,633
Increase/(decrease) in other accrued expenses payable	382	661
Increase/(decrease) in other liabilities	(130)	(471)
Increase/(decrease) in contract liabilities	3,826	2,513
Increase/(decrease) in provision for employee benefits	(196)	1,355
Increase/(decrease) in other provisions	(97)	(1,827)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	41,428	40,218

(b) Non-cash investing and financing activities

Dedicated subdivisions	8,790	5,804
RFS assets	–	–
Total non-cash investing and financing activities	8,790	5,804

(c) Net cash flows attributable to discontinued operations

There are no cash flows that relate to discontinued operations

G2-1 Commitments

Capital commitments (exclusive of GST)

\$ '000	2021	2020
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Road and civil infrastructure	1,994	–
Buildings	1,285	723
Plant and equipment	676	561
Newcastle airport	901	11,034
Aquatic Structures	1,505	–
Other	564	564
Total commitments	6,925	12,882
These expenditures are payable as follows:		
Within the next year	6,925	12,882
Total payable	6,925	12,882

Details of capital commitments

The majority of Council's capital commitments relate to the Newcastle Airport building terminal development and development of Little Beach boat ramp.

G3-1 Events occurring after the reporting date

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

G4 Changes from prior year statements

G4-1 Changes in accounting policy

Adoption of new accounting standards – not retrospective

No newly adopted standards had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures for the year ended 30 June 2021.

G4-2 Correction of errors

Correction of prior period errors

There was no correction of prior period errors for the year ended 30 June 2021.

G4-3 Changes in accounting estimates

Changes in accounting estimates

There were no changes in accounting estimates for the year ended 30 June 2021.

G5 Statement of developer contributions as at 30 June 2021

G5-1 Summary of developer contributions ^{1, 2}

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Civic Administration	7	319	-	-	(242)	-	84	-
Civic Administration - Works Depot	487	263	-	-	-	-	750	-
Town Centre Upgrades	68	256	-	-	-	-	324	-
Public Open Space, Parks and Reserves	243	1,209	-	-	(120)	-	1,332	-
Sports and Leisure Facilities	772	3,357	-	-	-	-	4,129	-
Community and Cultural Facilities	27	734	-	-	-	-	761	-
Road Works	145	824	-	-	(313)	-	656	-
Meadow, Traffic and Transport	68	390	-	-	-	-	458	-
Shared Paths	76	145	-	-	(23)	-	198	-
Bus Facilities	8	6	-	-	-	-	14	-
Fire and Emergency	11	72	-	-	-	-	83	-
Flood and Drainage Works	36	213	-	-	-	-	249	-
Cross Boundary Contributions	3	(3)	-	-	-	-	-	-
Haulage	2,450	775	-	1	(1,044)	-	2,182	-
Kings Hill Urban Release Area	-	4	-	-	-	-	4	-
S7.11 contributions – under a plan	4,401	8,564	-	1	(1,742)	-	11,224	-
S7.12 levies – under a plan	129	374	-	-	(246)	-	257	-
Total S7.11 and S7.12 revenue under plans	4,530	8,938	-	1	(1,988)	-	11,481	-
Fern Bay - Repealed Funds	1,510	-	-	1	-	-	1,511	-
Total contributions	6,040	8,938	-	2	(1,988)	-	12,992	-

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

(2) Total internally levied contributions included in 'Cash' contributions is \$37,393

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.

G5-2 Developer contributions by plan

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
CATCHMENT DISTRICT – RAYMOND TERRACE - RURAL								
Town Centre Upgrades	17	81	-	-	-	-	98	-
Public Open Space, Parks and Reserves	68	303	-	-	-	-	371	-
Sports and Leisure Facilities	240	922	-	-	-	-	1,162	-
Community and Cultural Facilities	-	123	-	-	-	-	123	-
Road Works	58	292	-	-	(313)	-	37	-
Shared Paths	9	51	-	-	(23)	-	37	-
Bus Facilities	-	-	-	-	-	-	-	-
Fire and Emergency	6	27	-	-	-	-	33	-
Flood and Drainage Works	2	13	-	-	-	-	15	-
Kings Hill Urban Release Area	-	1	-	-	-	-	1	-
Total	400	1,813	-	-	(336)	-	1,877	-
CATCHMENT DISTRICT – CENTRAL GROWTH CORRIDOR								
Town Centre Upgrades	28	77	-	-	-	-	105	-
Public Open Space, Parks and Reserves	85	431	-	-	-	-	516	-
Sports and Leisure Facilities	264	1,342	-	-	-	-	1,606	-
Community and Cultural Facilities	-	100	-	-	-	-	100	-
Road Works	62	276	-	-	-	-	338	-
Medowie, Traffic and Transport	68	390	-	-	-	-	458	-
Shared Paths	6	15	-	-	-	-	21	-
Bus Facilities	-	1	-	-	-	-	1	-
Flood and Drainage Works	17	96	-	-	-	-	113	-
Kings Hill Urban Release Area	-	2	-	-	-	-	2	-
Total	530	2,730	-	-	-	-	3,260	-
CATCHMENT DISTRICT – TOMAREE								
Town Centre Upgrades	15	77	-	-	-	-	92	-
Public Open Space, Parks and Reserves	33	473	-	-	(120)	-	386	-
Sports and Leisure Facilities	80	1,083	-	-	-	-	1,163	-
Community and Cultural Facilities	27	511	-	-	-	-	538	-
Road Works	25	256	-	-	-	-	281	-

G5-2 Developer contributions by plan (continued)

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Shared Paths	12	63	-	-	-	-	75	-
Bus Facilities	-	-	-	-	-	-	-	-
Fire and Emergency	5	45	-	-	-	-	50	-
Flood and Drainage Works	17	104	-	-	-	-	121	-
Kings Hill Urban Release Area	-	1	-	-	-	-	1	-
Total	214	2,613	-	-	(120)	-	2,707	-
CATCHMENT DISTRICT – FERN BAY								
Town Centre Upgrades	8	21	-	-	-	-	29	-
Public Open Space, Parks and Reserves	57	2	-	-	-	-	59	-
Sports and Leisure Facilities	188	10	-	-	-	-	198	-
Community and Cultural Facilities	-	-	-	-	-	-	-	-
Shared Paths	49	16	-	-	-	-	65	-
Road Works	-	-	-	-	-	-	-	-
Bus Facilities	8	5	-	-	-	-	13	-
Cross Boundary Contributions	3	(3)	-	-	-	-	-	-
Fern Bay - Repealed Funds	1,510	-	-	1	-	-	1,511	-
Total	1,823	51	-	1	-	-	1,875	-
CATCHMENT DISTRICT – SHIRE WIDE								
Haulage	2,450	775	-	1	(1,044)	-	2,182	-
Civic Administration	7	319	-	-	(242)	-	84	-
Civic Administration - Works Depot	487	263	-	-	-	-	750	-
Total	2,944	1,357	-	1	(1,286)	-	3,016	-
S7.12 Levies – under a plan								
S7.12 LEVIES – UNDER A PLAN								
Section 7.12	129	374	-	-	(246)	-	257	-
Total	129	374	-	-	(246)	-	257	-

G6 Statement of performance measures

G6-1 Statement of performance measures – consolidated results

\$ '000	Amounts 2021	Indicator 2021	Indicators 2020 2019		Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(284)	(0.22)%	(1.56)%	2.61%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	127,180				
2. Own source operating revenue ratio ³					
Total continuing operating revenue excluding all grants and contributions ¹	112,148	71.63%	74.57%	76.86%	> 60.00%
Total continuing operating revenue ¹	156,576				
3. Unrestricted current ratio					
Current assets less all external restrictions	47,179				
Current liabilities less specific purpose liabilities	22,692	2.08x	2.17x	1.59x	> 1.50x
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	18,901				
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4,936	3.83x	2.53x	3.71x	> 2.00x
5. Rates and annual charges outstanding percentage ³					
Rates and annual charges outstanding	2,192				
Rates and annual charges collectable	66,650	3.29%	3.05%	2.95%	< 10.00%
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	49,797	5.01	4.03	5.22	> 3.00
Monthly payments from cash flow of operating and financing activities	9,933	mths	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

H Additional Council disclosures (unaudited)

H1-1 Council information and contact details

Principal place of business:

116 Adelaide Street
Raymond Terrace NSW 2324

Contact details

Mailing Address:

PO Box 42
Raymond Terrace NSW 2324

Telephone: 02 4988 0255

Facsimile: 02 4988 0130

Opening hours:

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

Internet: www.portstephens.nsw.gov.au

Email: council@portstephens.nsw.gov.au

Officers

General Manager

Wayne Wallis

Responsible Accounting Officer

Tim Hazell

Public Officer

Tony Wickham

Auditors

The Audit Office of New South Wales
Level 19, Tower 2 Darling Park, 201 Sussex St,
Sydney NSW 2000

Elected members

Mayor

Ryan Palmer

Councillors

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

Other information

ABN: 16 744 377 876



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Port Stephens Council

To the Councillors of the Port Stephens Council

Opinion

I have audited the accompanying financial statements of Port Stephens Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2021, the Statement of Financial Position as at 30 June 2021, 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 2021, 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 2021 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. 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 B5-1 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

8 October 2021
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: D2120680/1779

8 October 2021

Dear Cr Palmer

**Report on the Conduct of the Audit
for the year ended 30 June 2021
Port Stephens Council**

I have audited the general purpose financial statements (GPFS) of Port Stephens Council (the Council) for the year ended 30 June 2021 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 2021 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

	2021 \$m	2020 \$m	Variance %
Rates and annual charges revenue	63.4	59.8	6.0
Grants and contributions revenue	45.0	37.2	21.0
Operating result from continuing operations	32.8	20.1	63.2
Net operating result before capital grants and contributions	2.8	(4.3)	165

The Council's operating result from continuing operations (\$32.8 million including depreciation and amortisation expense of \$18.3 million) was \$12.7 million higher than the 2019-20 result. This was mainly due to:

- \$7.8 million higher grants and contributions revenue
- \$3.6 million higher rates and annual charges revenue
- \$2.3 million higher income from disposal of assets primarily due to sale of real estate assets.

The net operating result before capital grants and contributions (\$2.8 million) was \$7.1 million higher than the 2019-20 result. This was mainly due to higher revenue from rates, annual charges and income from disposal of real estate assets. This was partially offset by \$2.2 million increase in capital grants and contributions revenue for the year.

Rates and annual charges revenue (\$63.4 million) increased by \$3.6 million (6.0 per cent) in 2020–21 mainly due to:

- annual rate peg increase applied to ordinary rates (2.6 per cent)
- increase of \$1.1 million for non-domestic waste management services

Grants and contributions revenue (\$45.0 million) increased by \$7.8 million (21.0 per cent) in 2020-21 mainly due to \$3.8 million increase in cash developer contributions collected under the *Environmental Planning & Assessment Act 1979* (EP&A Act) and \$3.0 million increase in revenue from non-cash asset dedications.

STATEMENT OF CASH FLOWS

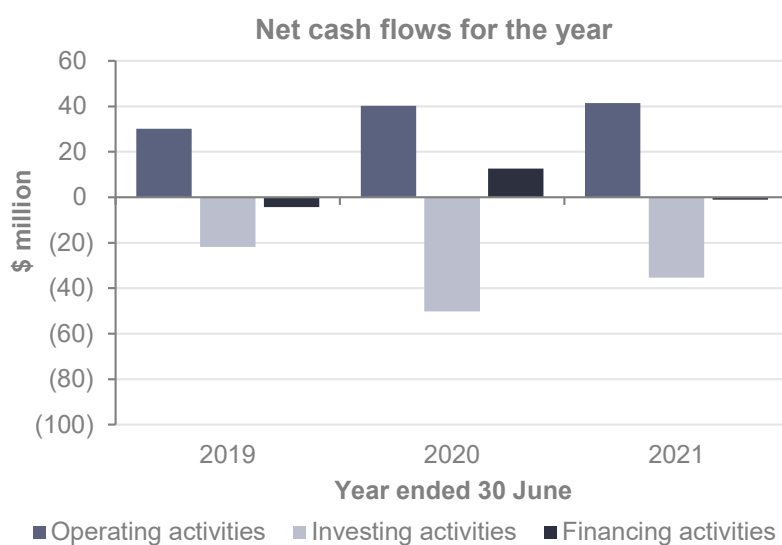
The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year.

The increase in cash provided from operating activities is mainly due to increase in grants and contributions receipt during the year.

The decrease in cash used in investing activities is mainly due to lower payments for purchases of infrastructure, property, plant and equipment.

The decrease in cash provided from financing activities is due to reduced borrowings during the year.

The Council's cash and cash equivalent balances at 30 June 2021 was \$58.8 million (2020: \$43.4 million). The net cash flow for the year was an increase of \$5.0 million.



FINANCIAL POSITION

Cash and investments

Cash and investments	2021	2020	Commentary
	\$m	\$m	
Total cash, cash equivalents and investments	58.8	43.4	<ul style="list-style-type: none"> Cash and investments increased by \$15.1 million. Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$10.8 million primarily due to increase in available cash balance relating to the developer contributions and specific purpose unexpended grants. Internally restricted cash and investments are due to Council policy or decisions to restrict funds for forward plans including strategic capital projects. The increase is mainly due to a in the internal restrictions of \$4.6 million is mainly due to increase in Asset Rehabilitation, Commercial Properties and Fleet reserve balances. This increase was partially offset by the decrease in Repealed Fund balance.
Restricted cash and investments:			
<ul style="list-style-type: none"> External restrictions Internal restrictions 	23.1 35.7	12.3 31.1	

Debt

The Council has \$32.6 million of borrowings as at 30 June 2021 (2020: \$32.8 million)

The Council has an accumulated drawdown facility limit of \$36.0 million as at 30 June 2021 (2020: \$36.0 million), of which \$25.0 million pertains to the Newcastle Airport Partnership joint venture. As at 30 June 2021, \$20.7 million of the total facility remains unutilised.

PERFORMANCE

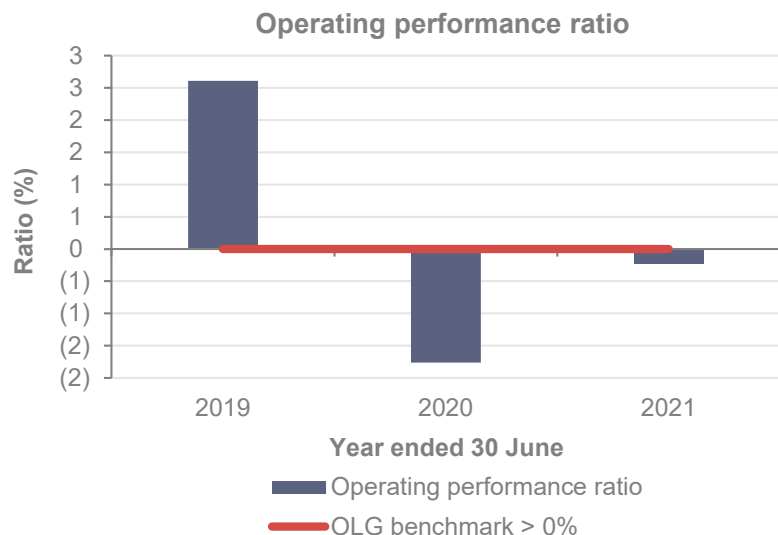
Performance measures

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 OLG is greater than zero per cent.

The Council did not meet the OLG benchmark for the current reporting period.

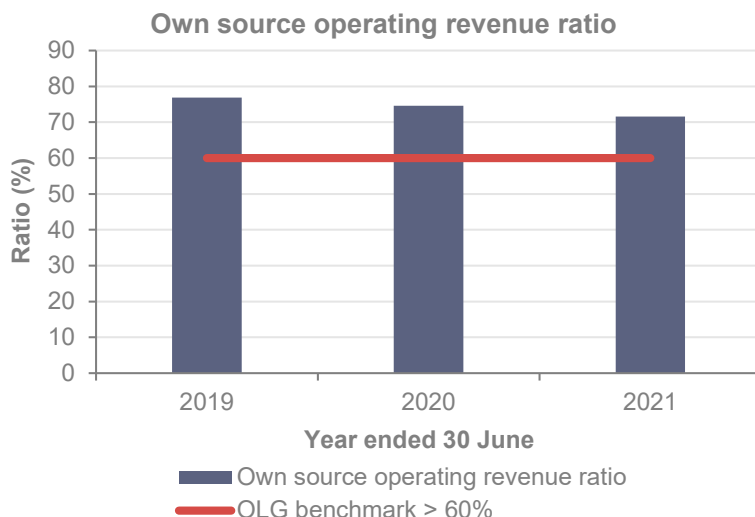


Own source operating revenue ratio

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

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

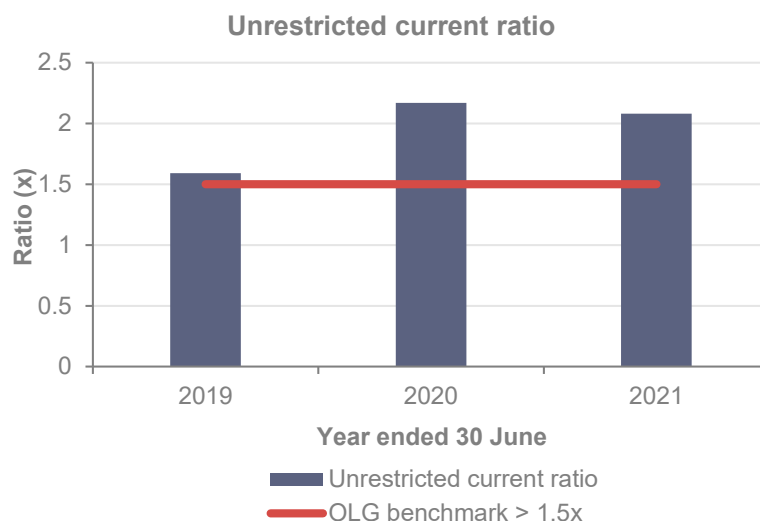
The 2019-20 ratio was restated as a result of the reclassifications in accordance with the Local Government Code of Accounting Practice and Financial Reporting 2020-21.



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.

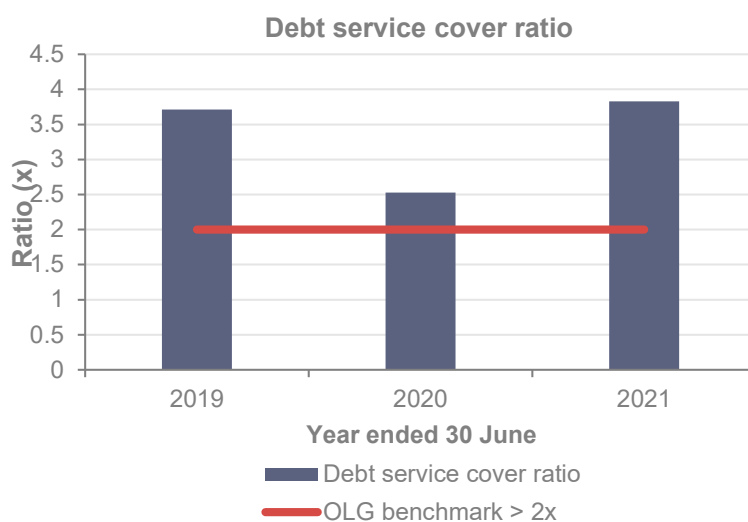
The Council met the OLG benchmark for the current reporting period.



Debt service cover ratio

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

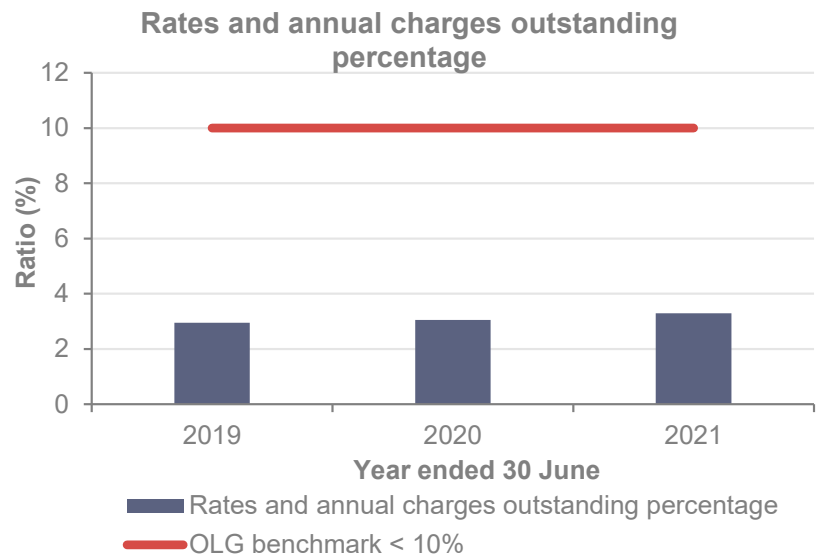
The Council met the OLG benchmark for the current reporting period.



Rates and annual charges outstanding percentage

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

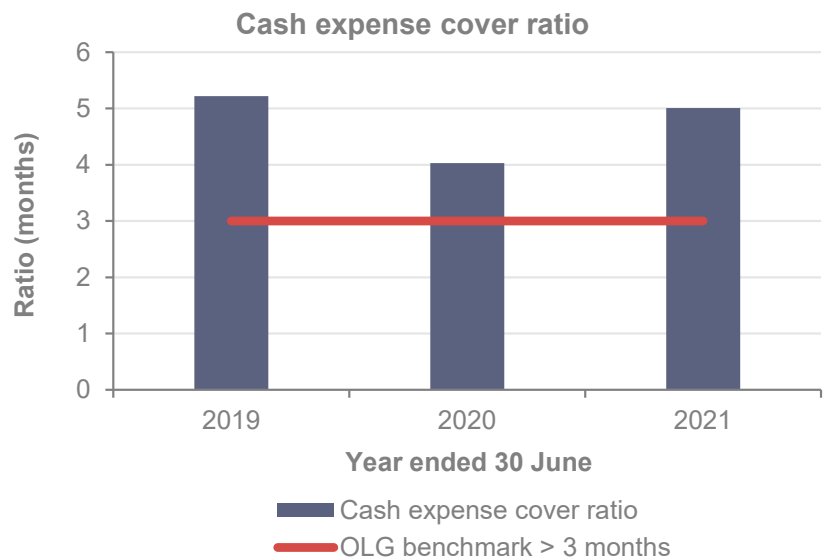
The Council met the OLG benchmark for the current reporting period.



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 met the OLG benchmark for the current reporting period.



Infrastructure, property, plant and equipment renewals

Council reported asset renewals of \$16.6 million in 2020-21 (\$24.3 million in 2019-20). Significant renewals included:

- road renewals of \$7.8 million (\$5.2 million in 2019-20)
- footpath renewals of \$2.2 million (Nil in 2019-20).

OTHER MATTERS

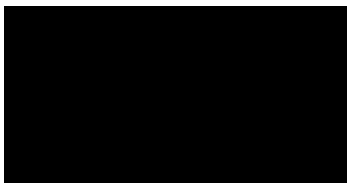
Legislative compliance

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 GPFS
- 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 2021

Port Stephens Council

Special Schedules

for the year ended 30 June 2021

Contents	Page
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Permissible income for general rates	3
Report on infrastructure assets as at 30 June 2021	7

Port Stephens Council

Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2021/22
Notional general income calculation ¹			
Last year notional general income yield	a	43,572	45,065
Plus or minus adjustments ²	b	334	385
Notional general income	c = a + b	43,906	45,450
Permissible income calculation			
Or rate peg percentage	e	2.60%	2.00%
Or plus rate peg amount	i = e x (c + g)	1,142	909
Sub-total	k = (c + g + h + i + j)	45,048	46,359
Plus (or minus) last year's carry forward total	l	10	-
Less valuation objections claimed in the previous year	m	-	(7)
Sub-total	n = (l + m)	10	(7)
Total permissible income	o = k + n	45,058	46,352
Less notional general income yield	p	45,065	46,296
Catch-up or (excess) result	q = o - p	(7)	56
Plus income lost due to valuation objections claimed ⁴	r	7	-
Carry forward to next year ⁶	t = q + r + s	-	56

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 2022.

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 2020–21 (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 2021 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 2021'.

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. 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

8 October 2021
SYDNEY

Port Stephens Council

Report on infrastructure assets as at 30 June 2021

Asset Class	Asset Category	Estimated cost			2020/21 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 to the agreed level of service set by Council \$ '000	2020/21 Required maintenance \$ '000				1	2	3	4	5
Buildings	Other	1,781	1,781	2,498	103,650	194,745	21.4%	27.7%	43.0%	7.2%	0.7%	
	Sub-total	1,781	1,781	2,498	103,650	194,745	21.4%	27.7%	43.0%	7.2%	0.7%	
Other structures	Other structures	61	61	207	8,329	19,553	3.6%	51.1%	44.8%	0.4%	0.1%	
	Sub-total	61	61	207	8,329	19,553	3.6%	51.1%	44.8%	0.4%	0.1%	
Roads	Sealed roads	10,538	10,538	4,021	308,698	349,731	52.8%	29.2%	13.3%	4.0%	0.7%	
	Unsealed roads	-	-	814	8,886	10,054	6.4%	41.4%	42.6%	9.6%	0.0%	
	Bridges	-	-	20	12,983	15,057	38.2%	53.0%	0.7%	8.1%	0.0%	
	Footpaths	282	282	302	60,294	71,398	20.0%	22.4%	51.0%	6.6%	0.0%	
	Other road assets	491	491	2,175	72,803	84,265	12.1%	54.8%	23.3%	8.1%	1.7%	
	Sub-total	11,311	11,311	7,332	463,664	530,505	40.6%	33.3%	20.2%	5.2%	0.7%	
Stormwater drainage	Stormwater drainage	610	610	1,066	212,830	240,360	24.9%	71.0%	3.2%	0.8%	0.1%	
	Sub-total	610	610	1,066	212,830	240,360	24.9%	71.0%	3.2%	0.8%	0.1%	
Open space /Swimming pools recreational assets	Open space	-	-	117	3,730	4,917	0.0%	15.0%	85.0%	0.0%	0.0%	
	Sub-total	359	359	3,729	21,799	23,289	15.1%	47.3%	28.2%	7.8%	1.6%	
Other infrastructur e assets	Other	350	350	218	12,347	19,248	10.0%	48.0%	32.0%	10.0%	0.0%	
	Sub-total	350	350	218	12,347	19,248	10.0%	48.0%	32.0%	10.0%	0.0%	
Total – all assets		14,472	14,472	15,167	826,349	1,032,617	31.3%	41.8%	21.7%	4.6%	0.6%	

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

Infrastructure asset condition assessment 'key'

#	Condition	Integrated planning and reporting (IP&R) description
1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required

Port Stephens Council

Report on infrastructure assets as at 30 June 2021 (continued)

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

Port Stephens Council

Report on infrastructure assets as at 30 June 2021

Infrastructure asset performance indicators (consolidated) *

\$ '000	Amounts 2021	Indicator 2021	Indicators		Benchmark
			2020	2019	
Buildings and infrastructure renewals ratio					
Asset renewals ¹	16,269	137.78%	157.37%	114.92%	>=100.00%
Depreciation, amortisation and impairment	11,808				
Infrastructure backlog ratio					
Estimated cost to bring assets to a satisfactory standard	14,472	1.72%	1.69%	1.80%	<2.00%
Net carrying amount of infrastructure assets	840,733				
Asset maintenance ratio					
Actual asset maintenance	14,725	97.09%	98.93%	99.05%	>100.00%
Required asset maintenance	15,167				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	14,472	1.40%	1.38%	1.48%	
Gross replacement cost	1,032,617				

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

(1) 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 2020/2021**

Holiday Parks	Operating Income	Operating Expenditure	EBITDA (3)	Net Yield % (1)	Notes
Fingal Bay Crown	4,906,642	3,757,151	1,149,491	10%	
Halifax Crown	3,470,605	2,477,262	993,343	11%	
Shoal Bay Crown	1,282,623	873,452	409,171	8%	
Council	2,382,014	1,622,125	759,889		
	3,664,637	2,495,576	1,169,060		
Thou Walla Council	1,252,759	1,004,784	247,975	5%	
TreEscape Council	1,606,437	1,982,027	(375,591)	-3%	5

Investment Property	Operating Income	Operating Expenditure	EBITDA (3)	Net Yield % (1)	Notes
Total	3,188,677	562,093	2,626,584	6%	2

Newcastle Airport	Operating Income	Operating Expenditure	EBITDA (3)	Net Yield % (4)	Notes
Total	11,301,175	10,089,913	1,211,263	2%	6

Notes

- 1 Net Yield = EBITDA/Capital
- 2 Councils policy on the required return on capital in commercial property investments is between 7-9%. This years returns have been affected by vacancies COVID-19
- 3 EBITDA used as the numerator for Return on Investment calculation in accordance with Crown Lands reporting
- 4 Net Yield = Net Profit/Capital
- 5 The Koala Sanctuary is in its first year of operation.
- 6 Due to the financial impacts of COVID-19, no dividend was paid by the Newcastle Airport Partnership to Council.





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