

Dungog Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



General Purpose Financial Statements

for the year ended 30 June 2020

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Overview

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

198 Dowling Street
DUNGOG NSW 2420

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

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

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

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

General Purpose Financial Statements
for the year ended 30 June 2020

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

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


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

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

- present fairly the Council's operating result and financial position for the year; and
- 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 16 December 2020.



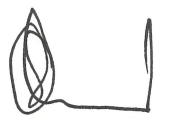
Cr John Connors
MAYOR



Cr Stephen Low
DEPUTY MAYOR



Gareth Curtis
GENERAL MANAGER



Shaun Chandler
RESPONSIBLE ACCOUNTING OFFICER

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
8,402	Rates and annual charges	3a	8,308	7,420
1,550	User charges and fees	3b	1,006	1,219
496	Other revenues	3c	1,954	839
4,119	Grants and contributions provided for operating purposes	3d,3e	4,717	4,996
6,269	Grants and contributions provided for capital purposes	3d,3e	8,138	5,924
456	Interest and investment income	4	390	531
177	Rental income	12c	177	—
21,469	Total income from continuing operations		24,690	20,929
Expenses from continuing operations				
5,522	Employee benefits and on-costs	5a	5,279	4,847
240	Borrowing costs	5b	289	118
5,294	Materials and contracts	5c	5,092	4,900
6,144	Depreciation and amortisation	5d	6,120	6,149
2,635	Other expenses	5e	2,015	1,932
170	Net losses from the disposal of assets	6	1,947	1,291
—	Net share of interests in joint ventures and associates using the equity method	17	11	14
20,005	Total expenses from continuing operations		20,753	19,251
1,464	Operating result from continuing operations		3,937	1,678
1,464	Net operating result for the year		3,937	1,678
1,464	Net operating result attributable to council		3,937	1,678
(4,805)	Net operating result for the year before grants and contributions provided for capital purposes		(4,201)	(4,246)

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

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

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		3,937	1,678
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	2,468	70,990
Other comprehensive income – joint ventures and associates	17	(1)	2
Total items which will not be reclassified subsequently to the operating result		2,467	70,992
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements		–	169
Total items which will be reclassified subsequently to the operating result when specific conditions are met		–	169
Total other comprehensive income for the year		2,467	71,161
Total comprehensive income for the year		6,404	72,839
Total comprehensive income attributable to Council		6,404	72,839

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

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

Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	3,303	2,128
Investments	7(b)	14,000	15,259
Receivables	8	2,803	1,345
Inventories	9a	606	587
Other	9b	37	47
Total current assets		20,749	19,366
Non-current assets			
Investments	7(b)	4,000	5,558
Receivables	8	36	48
Inventories	9a	26	27
Infrastructure, property, plant and equipment	10(a)	385,077	378,434
Right of use assets		—	—
Investments accounted for using the equity method	17	133	145
Total non-current assets		389,272	384,212
Total assets		410,021	403,578
LIABILITIES			
Current liabilities			
Payables	13	2,093	2,693
Income received in advance	13	—	57
Contract liabilities	11	1,525	—
Borrowings	13	237	235
Provisions	14	2,017	1,981
Total current liabilities		5,872	4,966
Non-current liabilities			
Payables	13	64	—
Borrowings	13	4,346	4,559
Provisions	14	3,113	2,991
Total non-current liabilities		7,523	7,550
Total liabilities		13,395	12,516
Net assets		396,626	391,062
EQUITY			
Accumulated surplus	15	139,189	136,093
Revaluation reserves	15	257,437	254,969
Council equity interest		396,626	391,062
Total equity		396,626	391,062

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

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

Statement of Changes in Equity

for the year ended 30 June 2020

\$ '000	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		136,093	254,969	391,062	134,300	183,810	318,110
Correction of prior period errors		–	–	–	113	–	113
Changes due to AASB 1058 and AASB 15 adoption	15	(840)	–	(840)	–	–	–
Changes due to AASB 16 adoption		–	–	–	–	–	–
Net operating result for the year		3,937	–	3,937	1,678	–	1,678
Restated net operating result for the period		3,937	–	3,937	1,678	–	1,678
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10(a)	–	2,468	2,468	–	70,990	70,990
– Joint ventures and associates	17	(1)	–	(1)	2	–	2
– Other reserves movements		–	–	–	–	56	56
– Other reserves Alison Court Impairment Release		–	–	–	–	113	113
Other comprehensive income		(1)	2,468	2,467	2	71,159	71,161
Total comprehensive income		3,936	2,468	6,404	1,680	71,159	72,839
Equity – balance at end of the reporting period		139,189	257,437	396,626	136,093	254,969	391,062

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

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

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Cash flows from operating activities				
Receipts:				
8,402	Rates and annual charges		8,187	7,518
1,727	User charges and fees		966	1,242
456	Investment and interest revenue received		407	531
10,388	Grants and contributions		12,336	10,920
–	Bonds, deposits and retention amounts received		6	15
296	Other		1,883	305
Payments:				
(5,522)	Employee benefits and on-costs		(5,239)	(4,540)
(5,294)	Materials and contracts		(5,637)	(3,370)
(240)	Borrowing costs		(142)	(118)
(2,635)	Other		(2,037)	(1,836)
7,578	Net cash provided (or used in) operating activities	16b	10,730	10,667
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		14,817	9,000
200	Sale of infrastructure, property, plant and equipment		107	163
5	Deferred debtors receipts		12	5
Payments:				
–	Purchase of investment securities		(12,000)	(13,000)
(10,859)	Purchase of infrastructure, property, plant and equipment		(12,349)	(9,414)
–	Purchase of real estate assets		(37)	(9)
(10,654)	Net cash provided (or used in) investing activities		(9,450)	(13,255)
Cash flows from financing activities				
Receipts:				
–	Proceeds from borrowings and advances		–	3,720
Payments:				
(460)	Repayment of borrowings and advances		(211)	(172)
(460)	Net cash flow provided (used in) financing activities		(211)	3,548
(3,536)	Net increase/(decrease) in cash and cash equivalents		1,069	960
–	Plus: cash and cash equivalents – beginning of year	16a	2,128	1,168
(3,536)	Cash and cash equivalents – end of the year	16a	3,197	2,128
–	plus: Investments on hand – end of year	7(b)	18,000	20,817
(3,536)	Total cash, cash equivalents and investments		21,197	22,945

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 16 December 2020. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not for-profit entity.

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

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 10a
- (ii) estimated tip remediation provisions – refer Note 14
- (iii) employee benefit provisions – refer Note 14.

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

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

Monies and other assets received by Council

(a) The Consolidated Fund

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

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

- Clarence Town School of Arts
- Dungog Showground Management Committee
- James Theatre Management Committee
- Martins Creek School of Arts
- Gresford School of Arts
- Paterson School of Arts

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

- Vacy School of Arts
- Vacy Sportsground
- Paterson Sportsground
- Gresford Sporting Complex

(b) The Trust Fund

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

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

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

Volunteer services are used across a range of Council functions, including S355 Committees for community facilities and community groups. The value to Council of these services has not been recognised in the income statement as they cannot be reliably measured.

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

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

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

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

New accounting standards adopted during the year

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2020.

Where relevant, those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 12.

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Functions or activities										
Corporate & client services	1,621	364	3,678	2,392	(2,057)	(2,028)	–	–	28,042	28,411
Public order and safety	71	47	700	558	(629)	(511)	–	–	3,046	3,049
Health	66	66	143	178	(77)	(112)	80	66	1	1
Community services and education	136	125	214	171	(78)	(46)	8	8	1,336	1,390
Housing and community amenities	3,472	3,140	3,635	3,372	(163)	(232)	429	10	6,974	3,993
Recreation and culture	746	709	1,635	1,548	(889)	(839)	843	572	12,921	12,655
Mining, manufacture and construction	94	91	350	388	(256)	(297)	–	–	2,451	2,605
Transport and communication	7,432	7,777	9,249	10,166	(1,817)	(2,389)	1,862	2,057	351,442	347,381
Economic affairs	198	210	697	478	(499)	(268)	–	–	3,570	3,521
General purpose income	10,089	8,400	–	–	10,089	8,400	2,880	2,704	132	145
Other	765	–	452	–	313	–	1	–	106	427
Total functions and activities	24,690	20,929	20,753	19,251	3,937	1,678	6,103	5,417	410,021	403,578

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Corporate & client services

Includes costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policymaking committees, public disclosure (e.g. GIPA), and legislative compliance. Also includes corporate support and other support services, engineering works, and any Council policy compliance.

Public order and safety

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

Health

Includes health administration, food control, etc.

Community services and education

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

Housing and community amenities

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons. Also includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

Recreation and culture

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

Mining, manufacture and construction

Includes building control, quarries and pits and mineral resources.

Transport and communication

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

Economic affairs

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

General purpose income

Includes income from general rates, financial assistance grants, interest income and the share of gains/losses in associates and joint ventures.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
(a) Rates and annual charges			
Ordinary rates			
Residential	1058 (1)	3,651	3,162
Farmland	1058 (1)	2,398	2,087
Business	1058 (1)	364	324
Rates levied to ratepayers		6,413	5,573
Pensioner rate subsidies received	1058 (1)	63	62
Total ordinary rates		6,476	5,635
Annual charges			
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services	1058 (1)	1,599	1,543
Stormwater management services	1058 (1)	42	42
Waste management services (non-domestic)	1058 (1)	152	150
Section 611 charges	1058 (1)	2	1
Sanitary	1058 (1)	7	16
Annual charges levied		1,802	1,752
Pensioner subsidies received:			
– Domestic waste management	1058 (1)	30	33
Total annual charges		1,832	1,785
TOTAL RATES AND ANNUAL CHARGES		8,308	7,420

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

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

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

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts which is the beginning of the rating period to which they relate.

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

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

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

2019 accounting policy

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
(b) User charges and fees			
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Domestic waste management services	1058 (1)	186	255
Total specific user charges		186	255
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Inspection services	15 (1)	2	8
Planning and building regulation	15 (1)	210	226
Private works – section 67	15 (1)	8	18
Town planning	15 (1)	29	113
Building control	15 (1)	44	32
Septic tank applications	15 (1)	18	17
Total fees and charges – statutory/regulatory		311	414
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Caravan park	15 (1)	176	157
Cemeteries	15 (1)	40	41
Tourism	15 (1)	1	2
Onsite sewerage management services	15 (1)	245	226
Inspections and construction certificates – roads	15 (1)	25	103
Other	15 (1)	22	21
Total fees and charges – other		509	550
TOTAL USER CHARGES AND FEES		1,006	1,219

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

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

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

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

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

Accounting policy for user charges and fees

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

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

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

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

2019 accounting policy

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
(c) Other revenues			
Rental income – other council properties (2019 only)		–	153
Fines – other	1058 (1)	9	12
Legal fees recovery – other	15 (1)	362	20
Commissions and agency fees	15 (1)	115	112
Insurance claims recoveries	1058 (1)	176	–
Southern Phone	15 (1)	745	11
Landfill recycling stations sales	15 (1)	94	94
Section 88 fee collected	1058 (1)	410	334
Workers compensation and insurance rebates	1058 (1)	38	51
Other	15 (1)	5	52
<u>TOTAL OTHER REVENUE</u>		<u>1,954</u>	<u>839</u>

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

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

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

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

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

Accounting policy for other revenue

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

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

2019 accounting policy:

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	1058 (1)	854	854	–	–
Financial assistance – local roads component	1058 (1)	626	454	–	–
Payment in advance - future year allocation					
Financial assistance – general component	1058 (1)	904	885	–	–
Financial assistance – local roads component	1058 (1)	496	471	–	–
Total general purpose		2,880	2,664	–	–
Specific purpose					
Community care	1058 (2)	8	8	–	–
Environmental programs	1058 (1)	–	33	–	–
Heritage and cultural	1058 (1)	103	(3)	–	–
Library	1058 (2)	63	32	–	–
Library – special projects	1058 (1)	–	–	17	7
Noxious weeds	1058 (1)	63	60	–	–
Recreation and culture	1058 (1)	109	–	620	559
Street lighting	1058 (1)	21	21	–	–
Transport (roads to recovery)	1058 (1)	–	803	575	–
Transport (other roads and bridges funding)	1058 (1)	1,244	1,214	–	–
Bus shelters	1058 (1)	22	–	–	19
Other	1058 (1)	52	–	326	–
Total specific purpose		1,685	2,168	1,538	585
Total grants		4,565	4,832	1,538	585
Grant revenue is attributable to:					
– Commonwealth funding		2,721	3,490	575	–
– State funding		1,558	1,342	963	585
– Other funding		286	–	–	–
		4,565	4,832	1,538	585

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(e) Contributions						
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.11 – contributions towards amenities/services		1058 (1)	–	–	294	526
Total developer contributions – cash			–	–	294	526
Total developer contributions	25		–	–	294	526
Other contributions:						
Cash contributions						
Bushfire services		1058 (1)	1	23	41	–
Business development		1058 (1)	–	4	–	–
Roads and bridges		1058 (1)	–	–	149	213
RMS contributions (regional roads, block grant)		1058 (1)	–	–	6,105	4,537
Tourism		1058 (1)	2	22	–	–
Water supplies (excl. section 64 contributions)		1058 (1)	1	1	–	–
Other		1058 (1)	–	59	11	63
Emergency services levy		1058 (1)	74	–	–	–
Waste management		1058 (1)	74	55	–	–
Total other contributions – cash			152	164	6,306	4,813
Total other contributions			152	164	6,306	4,813
Total contributions			152	164	6,600	5,339
TOTAL GRANTS AND CONTRIBUTIONS			4,717	4,996	8,138	5,924

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

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

Accounting policy for grants and contributions**Accounting policy from 1 July 2019****Grant income under AASB 15**

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

The performance obligations are varied based on the agreement but include performance obligations within AASB 15 grants, such as completion of milestones. 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

Grant income

Assets arising from grants in the scope of AASB 1058 is recognised at the assets fair value when the asset is received. 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

Capital grants

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

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

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

Contributions

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

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

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

Accounting policy prior to 1 July 2019

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
(f) Unspent grants and contributions – external restrictions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.		
Operating grants		
Unexpended at the close of the previous reporting period	277	2,050
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	166
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(1,939)
Less: operating grants received in a previous reporting period now spent and recognised as income	(176)	–
Unexpended and held as externally restricted assets (operating grants)	101	277
Capital grants		
Unexpended at the close of the previous reporting period	563	–
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	563
Less: capital grants received in a previous reporting period now spent and recognised as income	(109)	–
Unexpended and held as externally restricted assets (capital grants)	454	563
Contributions		
Unexpended at the close of the previous reporting period	6,478	5,716
Add: contributions recognised as income in the current period but not yet spent	304	762
Unexpended and held as externally restricted assets (contributions)	6,782	6,478

Note 4. Interest and investment income

\$ '000	2020	2019
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	35	36
– Cash and investments	355	495
Finance income on the net investment in the lease	–	–
Total Interest and investment income	390	531
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	35	36
General Council cash and investments	345	406
Restricted investments/funds – external:		
Development contributions		
– Section 7.11	10	89
Total interest and investment revenue	390	531

Accounting policy for interest and investment revenue

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	4,834	4,207
Employee leave entitlements (ELE)	544	732
Superannuation	574	517
Workers' compensation insurance	115	100
Fringe benefit tax (FBT)	58	47
Training costs (other than salaries and wages)	47	53
Other	72	64
Total employee costs	6,244	5,720
Less: capitalised costs	(965)	(873)
TOTAL EMPLOYEE COSTS EXPENSED	5,279	4,847

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 16 for more information.

\$ '000	Notes	2020	2019
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on leases		–	–
Interest on loans		149	58
Total interest bearing liability costs		149	58
Total interest bearing liability costs expensed		149	58
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	14	140	60
Total other borrowing costs		140	60
TOTAL BORROWING COSTS EXPENSED		289	118

Accounting policy for borrowing costs

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	5,125	4,750
Contractor and consultancy costs	195	176
Auditors remuneration ²	51	36
Legal expenses:		
– Legal expenses: planning and development	237	361
– Legal expenses: other	13	33
Expenses from short-term leases (2020 only)	–	–
Expenses from leases of low value assets (2020 only)	16	–
Expenses from Peppercorn leases (2020 only)	–	–
Variable lease expense relating to usage (2020 only)	19	–
Operating leases expense (2019 only):		
– Operating lease rentals: minimum lease payments ¹	–	24
Total materials and contracts	5,656	5,380
Less: capitalised costs	(564)	(480)
TOTAL MATERIALS AND CONTRACTS	5,092	4,900

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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

1. Operating lease payments are attributable to:

Computers	–	24
	–	24

2. Auditor remuneration

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

Auditors of the Council - NSW Auditor-General:**(i) Audit and other assurance services**

Audit and review of financial statements	51	36
Remuneration for audit and other assurance services	51	36
Total Auditor-General remuneration	51	36
Total Auditor remuneration	51	36

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Plant and equipment		486	494
Office equipment		8	2
Furniture and fittings		1	—
Infrastructure:	10(a)		
– Buildings – specialised		547	497
– Other structures		74	84
– Roads		3,143	3,349
– Bridges		787	674
– Footpaths		31	14
– Stormwater drainage		439	453
– Swimming pools		110	116
– Other open space/recreational assets		317	332
Right of use assets	12	—	—
Other assets:			
– Library books		38	37
Reinstatement, rehabilitation and restoration assets:			
– Asset reinstatement costs	14, 10(a)	139	97
Total gross depreciation and amortisation costs		6,120	6,149
Total depreciation and amortisation costs		6,120	6,149
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS		6,120	6,149

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

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 10a for IPPE assets.

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

Impairment of non-financial assets

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(e) Other expenses		
Advertising	53	59
Training costs (other than salaries and wages)	–	–
Travel expenses	–	–
Agency collection costs – Australia Post	19	20
Bank charges	10	–
Commissions	60	80
Contributions/levies to other levels of government		
– NSW RB	–	28
– NSW fire brigade levy	25	–
– NSW rural fire service levy	407	287
– Waste levy	410	334
– Other contributions/levies	7	–
Councillor expenses – mayoral fee	15	15
Councillor expenses – councillors' fees	87	84
Councillors' expenses (incl. mayor) – other (excluding fees above)	3	8
Donations, contributions and assistance to other organisations (Section 356)	3	2
Electricity and heating	93	97
Fees and charges	–	18
Insurance	307	368
Newcastle regional library	18	14
Postage	25	30
Printing and stationery	23	38
Street lighting	94	113
Subscriptions and publications	4	28
Telephone and communications	56	45
Valuation fees	40	6
Weight of loads co-operative	16	16
Other	240	242
TOTAL OTHER EXPENSES	2,015	1,932

Accounting policy for other expenses

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

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Property (excl. investment property)			
Proceeds from disposal – property		(2)	–
Less: carrying amount of property assets sold/written off		(32)	–
Net gain/(loss) on disposal		(34)	–
Plant and equipment			
	10(a)		
Proceeds from disposal – plant and equipment		109	163
Less: carrying amount of plant and equipment assets sold/written off		(223)	(197)
Net gain/(loss) on disposal		(114)	(34)
Infrastructure			
	10(a)		
Less: carrying amount of infrastructure assets sold/written off		(1,799)	(1,257)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets (continued)

\$ '000	Notes	2020	2019
Net gain/(loss) on disposal		<u>(1,799)</u>	<u>(1,257)</u>
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(1,947)</u>	<u>(1,291)</u>

Accounting policy for disposal of assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	3,303	1,801
Cash-equivalent assets		
– Deposits at call	–	327
Total cash and cash equivalents	3,303	2,128

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Investments				
a. 'Financial assets at fair value through profit and loss'				
– 'Held for trading'	–	–	–	56
b. 'Financial assets at amortised cost'	14,000	4,000	15,259	5,502
Total Investments	14,000	4,000	15,259	5,558
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	17,303	4,000	17,387	5,558
Financial assets at fair value through the profit and loss				
Listed equity securities	–	–	–	56
Total	–	–	–	56
Financial assets at amortised cost				
Long term deposits	12,500	–	13,000	–
NCD's, FRN's (with maturities > 3 months)	1,500	4,000	2,259	5,502
Total	14,000	4,000	15,259	5,502

Accounting policy for investments

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

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

Financial assets

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

Classification

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Total cash, cash equivalents and investments	17,303	4,000	17,387	5,558
attributable to:				
External restrictions	5,110	4,000	4,703	5,558
Internal restrictions	11,922	–	11,483	–
Unrestricted	271	–	1,201	–
	17,303	4,000	17,387	5,558

\$ '000	2020	2019
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	1,504	–
Specific purpose unexpended loans – general	–	2,000

External restrictions – included in liabilities

External restrictions – other

Developer contributions – general	6,635	6,331
Specific purpose unexpended grants (recognised as revenue) – general fund	–	840
Bike path	8	8
Deposits and retentions	216	210
Kerb and gutter	10	10
Pavement	54	54
Rail services australia	39	39
RLCIP infrastructure funding	1	1
Domestic waste management	643	768

External restrictions – other

Total external restrictions

Internal restrictions

Plant and vehicle replacement	3,640	3,384
Employees leave entitlement	1,210	1,210
Buildings and grounds	386	169
Discontinued funds transfer	750	749
Insurance equalisation	295	269
Other waste management	559	446
RB unexpended	1,148	1,036
Settlement for the aged	228	166
Shire properties	343	154
Special projects	3,363	3,642
Town funds	–	112
Other	–	146

Total internal restrictions

TOTAL RESTRICTIONS

21,032 21,744

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Purpose				
Rates and annual charges	647	—	497	—
Interest and extra charges	(66)	—	—	—
User charges and fees	14	—	11	—
Private works	13	—	14	—
Accrued revenues				
– Interest on investments	49	—	—	—
– Other income accruals	228	—	78	—
Net investment in finance lease	—	—	—	—
Deferred debtors	—	36	—	48
Government grants and subsidies	1,078	—	—	—
Net GST receivable	188	—	374	—
Kerb and guttering	7	—	9	—
Rates legal costs recovery	22	—	21	—
RMS (formerly RTA)	246	—	182	—
Contributions	387	—	100	—
Other debtors	47	—	107	—
Total	2,860	36	1,393	48
Less: provision of impairment				
Rates and annual charges	(36)	—	(33)	—
Other debtors	(21)	—	(15)	—
Total provision for impairment – receivables	(57)	—	(48)	—
TOTAL NET RECEIVABLES	2,803	36	1,345	48

\$ '000	2020	2019
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	48	—
+ new provisions recognised during the year	9	48
Balance at the end of the year	57	48

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

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

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

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

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

- the other party is unlikely to pay its credit obligations to Council in full, without recourse by 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.

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, for example when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 5 years past due, whichever occurs first.

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

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

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	204	–	166	27
Stores and materials	402	–	421	–
Total inventories at cost	606	–	587	27
(ii) Inventories at net realisable value (NRV)				
Real estate for resale	–	26	–	–
Total inventories at net realisable value (NRV)	–	26	–	–
TOTAL INVENTORIES	606	26	587	27
(b) Other assets				
Prepayments	37	–	47	–
TOTAL OTHER ASSETS	37	–	47	–

(i) Other disclosures

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Details for real estate development				
Residential	204	26	166	27
Total real estate for resale	204	26	166	27
(Valued at the lower of cost and net realisable value)				
Represented by:				
Acquisition costs	204	26	166	27
Total costs	204	26	166	27
Total real estate for resale	204	26	166	27
Movements:				
Real estate assets at beginning of the year	166	27	158	26
– Purchases and other costs	38	(1)	8	1
Total real estate for resale	204	26	166	27

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

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

Land held for resale/capitalisation of borrowing costs

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	as at 30/06/19			Asset movements during the reporting period							as at 30/06/20		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	874	–	874	6,849	218	–	–	(874)	–	–	7,067	–	7,067
Plant and equipment	9,659	(6,108)	3,551	819	–	223	(486)	–	–	–	9,998	(6,338)	3,660
Office equipment	630	(621)	9	–	25	–	(8)	–	–	–	655	(628)	27
Furniture and fittings	254	(252)	2	–	33	–	(1)	–	–	–	287	(253)	34
Land:													
– Operational land	8,338	–	8,338	3	–	–	–	–	–	35	8,376	–	8,376
– Community land	5,595	–	5,595	–	385	–	–	–	–	12	5,992	–	5,992
Infrastructure:													
– Buildings – specialised	32,557	(25,000)	7,557	64	570	54	(547)	–	–	–	32,811	(25,221)	7,590
– Other structures	1,674	(845)	829	71	101	1	(74)	–	–	2	1,806	(880)	926
– Roads	189,654	(73,278)	116,376	1,295	–	1,607	(3,143)	464	–	126	189,932	(76,421)	113,511
– Bridges	65,303	(26,549)	38,754	78	–	191	(787)	238	–	–	65,428	(27,336)	38,092
– Footpaths	1,319	(252)	1,067	18	–	–	(31)	–	–	–	1,337	(283)	1,054
– Bulk earthworks (non-depreciable)	167,649	–	167,649	1,009	–	–	–	79	–	–	168,737	–	168,737
– Stormwater drainage	35,492	(11,334)	24,158	613	–	–	(439)	20	40	2,289	36,789	(10,108)	26,681
– Swimming pools	2,541	(2,209)	332	–	–	–	(110)	–	–	–	2,541	(2,319)	222
– Other open space/recreational assets	6,067	(4,221)	1,846	177	–	33	(317)	73	–	–	6,055	(4,309)	1,746
Other assets:													
– Library books	828	(688)	140	–	37	–	(38)	–	–	–	865	(725)	140
Reinstatement, rehabilitation and restoration assets (refer Note 14):													
– Tip & quarry assets	2,381	(1,024)	1,357	–	–	–	(139)	–	–	4	2,385	(1,163)	1,222
Total Infrastructure, property, plant and equipment	530,815	(152,381)	378,434	10,996	1,369	2,109	(6,120)	–	40	2,468	541,061	(155,984)	385,077

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/18			Asset movements during the reporting period								as at 30/06/19		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	965	–	965	842	–	–	–	(933)	–	–	–	874	–	874
Plant and equipment	9,583	(5,701)	3,882	349	–	(197)	(494)	–	11	–	–	9,659	(6,108)	3,551
Office equipment	625	(619)	6	5	–	–	(2)	–	–	–	–	630	(621)	9
Furniture and fittings	252	(252)	–	2	–	–	–	–	–	–	–	254	(252)	2
Land:														
– Operational land	6,976	–	6,976	98	–	–	–	–	–	(354)	1,618	8,338	–	8,338
– Community land	5,471	–	5,471	–	–	–	–	–	–	(369)	493	5,595	–	5,595
Infrastructure:														
– Buildings – specialised	32,389	(24,503)	7,886	55	–	–	(497)	–	113	–	–	32,557	(25,000)	7,557
– Other structures	1,606	(759)	847	68	–	–	(84)	–	–	–	–	1,674	(845)	829
– Roads	217,045	(80,840)	136,205	4,105	–	(1,257)	(3,349)	462	18	(20,108)	–	189,654	(73,278)	116,376
– Bridges	55,625	(33,646)	21,979	2,111	–	–	(674)	264	–	–	15,337	65,303	(26,549)	38,754
– Footpaths	1,242	(241)	1,001	56	21	–	(14)	–	2	–	–	1,319	(252)	1,067
– Bulk earthworks (non-depreciable)	91,946	–	91,946	1,170	–	–	–	160	–	–	74,373	167,649	–	167,649
– Stormwater drainage	35,010	(10,881)	24,129	482	–	–	(453)	36	–	–	–	35,492	(11,334)	24,158
– Swimming pools	2,525	(2,093)	432	16	–	–	(116)	–	–	–	–	2,541	(2,209)	332
– Other open space/recreational assets	5,978	(3,889)	2,089	78	–	–	(332)	11	–	–	–	6,067	(4,221)	1,846
Other assets:														
– Library books	790	(651)	139	38	–	–	(37)	–	–	–	–	828	(688)	140
Reinstatement, rehabilitation and restoration assets (refer Note 14):														
– Tip assets	2,381	(927)	1,454	–	–	–	(97)	–	–	–	–	2,381	(1,024)	1,357
Total Infrastructure, property, plant and equipment	470,409	(165,002)	305,407	9,475	21	(1,454)	(6,149)	–	144	(20,831)	91,821	530,815	(152,381)	378,434

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Stormwater assets			
Drains	80 to 100		
Culverts	50 to 80		
Flood control structures	80 to 100		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk earthworks	Infinite
Sealed roads: structure	50	Swimming pools	80
Sealed roads: other	30 to 60	Unsealed roads	20
Unsealed roads	20	Other open space/recreational assets	50
Bridge: concrete	80	Other infrastructure	25
Bridge: timber	50		
Road pavements	80		
Kerb, gutter and footpaths	40		

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

Land under roads

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Crown reserves

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

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

Rural Fire Service assets

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

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

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

\$ '000	as at 30/06/20			as at 30/06/19		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Domestic waste management						
Plant and equipment	159	16	143	143	86	57
Buildings	152	32	120	135	28	107
Other structures	159	83	76	132	66	66
Other assets	2	2	—	2	2	—
Total DWM	472	133	339	412	182	230
Other restricted assets						
— Stormwater drainage	36,789	10,108	26,681	35,492	11,334	24,158
Total other restrictions	36,789	10,108	26,681	35,492	11,334	24,158
TOTAL RESTRICTED IPP&E	37,261	10,241	27,020	35,904	11,516	24,388

Note 11. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	1,354	—
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	151	—
Total grants received in advance		1,505	—
User fees and charges received in advance:			
Other		20	—
Total user fees and charges received in advance		20	—

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Contract assets and liabilities (continued)

Total contract liabilities	1,525	—
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Notes

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

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

\$ '000	2020 Current	2020 Non-current
(i) Contract liabilities relating to restricted assets		
Externally restricted assets		
Unspent grants held as contract liabilities (excl. Water & Sewer)	1,504	—
Contract liabilities relating to externally restricted assets	1,504	—
Total contract liabilities relating to restricted assets	1,504	—
Total contract liabilities relating to unrestricted assets	21	—
Total contract liabilities	1,525	—
\$ '000		2020

(ii) Revenue recognised (during the financial year) from opening contract liability balances**Grants and contributions received in advance:**

Capital grants (to construct Council controlled assets)	109
Operating grants (received prior to performance obligation being satisfied)	176

Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period	285
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Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Leases

Note 12. Leases

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

(i) Council as a lessee

Council has leases over office and IT equipment. Information relating to the leases in place and associated balances and transactions is provided below.

Terms and conditions of leases

Office and IT equipment

Leases for photocopiers and IT equipment are considered low value assets. The leases are for 5 years, with no renewal option. The payments are fixed, however some of the leases include variable payments based on usage.

\$ '000	2020
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(a) Income Statement

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

Interest on lease liabilities	–
Variable lease payments based on usage not included in the measurement of lease liabilities	19
Income from sub-leasing right of use assets	–
Depreciation of right of use assets	–
Impairment of right of use assets	–
Expenses relating to short-term leases	–
Expenses relating to low-value leases	16
Expenses relating to Peppercorn leases	–
Other	–
	35

(b) Statement of Cash Flows

Total cash outflow for leases	35
	35

Accounting policy

Accounting policies under AASB 16 – applicable from 1 July 2019

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Leases (continued)

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

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

(c) Operating leases

Council leases out a number of properties for community groups, emergency services, medical services, commercial use and aged housing. These leases have been classified as operating leases for financial reporting purposes and the assets are included as IPP&E. They have not been classified under AASB 140 Investment Property as they are held for strategic and community purposes.

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

\$ '000	2020
(i) Operating lease income	
Mt. Richardson Radio Station	5
Alison Court Aged Units	122
Dungog Information Neighbourhood Service	4
Clarence Town Pre-School Rental	3
Clarence Town Community Centre	2
Paterson Golf/Tennis Clubs	2
Dungog Saleyards	7
Workshop	4
Lease income (excluding variable lease payments not dependent on an index or rate)	—
Lease income relating to variable lease payments not dependent on an index or a rate	—
Other lease income	
External plant and equipment hire	—
Room/Facility Hire	—
Leaseback fees - council vehicles	28
Other	—
Total income relating to operating leases	177

(ii) Maturity analysis of contractual lease income

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

< 1 year	152
1–2 years	154

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Leases (continued)

\$ '000	2020
2–3 years	156
3–4 years	157
4–5 years	159
> 5 years	161
Total undiscounted contractual lease income receivable	939

Accounting policy

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Goods and services – operating expenditure	1,676	–	2,240	–
Accrued expenses:				
– Borrowings	7	–	–	–
– Other expenditure accruals	–	–	137	–
Advances	–	(1)	–	–
Security bonds, deposits and retentions	216	–	210	–
Other	62	65	–	–
Prepaid rates	132	–	106	–
Total payables	2,093	64	2,693	–
Income received in advance (2019 only)				
Payments received in advance	–	–	57	–
Total income received in advance	–	–	57	–
Borrowings				
Loans – secured ¹	235	4,346	233	4,559
Government advances	2	–	2	–
Total borrowings	237	4,346	235	4,559
TOTAL PAYABLES AND BORROWINGS	2,330	4,410	2,985	4,559

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

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Payables and borrowings relating to restricted assets				
Total payables and borrowings relating to unrestricted assets	2,330	4,410	2,985	4,559
TOTAL PAYABLES AND BORROWINGS	2,330	4,410	2,985	4,559

(b) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	4,792	(211)	–	–	–	–	4,581
Government advances	2	–	–	–	–	–	2
TOTAL	4,794	(211)	–	–	–	–	4,583

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Payables and borrowings (continued)

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	1,243	3,549	–	–	–	4,792
Government advances	3	(1)	–	–	–	2
TOTAL	1,246	3,548	–	–	–	4,794

\$ '000	2020	2019
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(c) Financing arrangements

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

Credit cards/purchase cards	85	77
Total financing arrangements	85	77

Undrawn facilities as at balance date:

– Credit cards/purchase cards	78	71
Total undrawn financing arrangements	78	71

Additional financing arrangements information

Breaches and defaults

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions				
Employee benefits				
Annual leave	679	–	611	–
Sick leave	–	7	6	–
Long service leave	1,335	94	1,364	94
Sub-total – aggregate employee benefits	2,014	101	1,981	94
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	3,012	–	2,897
Sub-total – asset remediation/restoration	–	3,012	–	2,897
Other provisions				
Other	3	–	–	–
Sub-total – other provisions	3	–	–	–
<u>TOTAL PROVISIONS</u>	<u>2,017</u>	<u>3,113</u>	<u>1,981</u>	<u>2,991</u>

\$ '000	2020	2019
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(a) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	1,971	1,932
	1,971	1,932

(b) Description of and movements in provisions

\$ '000	ELE provisions			
	Annual leave	Sick leave	Long service leave	Total
2020				
At beginning of year	611	6	1,458	2,075
Other	68	1	(29)	40
Total ELE provisions at end of year	679	7	1,429	2,115
2019				
At beginning of year	569	8	1,191	1,768
Other	42	(2)	267	307
Total ELE provisions at end of year	611	6	1,458	2,075

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Provisions (continued)

\$ '000	Other provisions		Total
	Asset remediation	Provision for impairment - aged units	
2020			
At beginning of year	2,897	113	3,010
Other	115	(113)	2
Total other provisions at end of year	3,012	—	3,012
2019			
At beginning of year	2,813	113	2,926
Other	84	—	84
Total other provisions at end of year	2,897	113	3,010

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Provisions (continued)

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

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

Restoration

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

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

Rehabilitation

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

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

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

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

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

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

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

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

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

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

Statement of Financial Position

(ii) AASB 15 and AASB 1058

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

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

Costs incurred in fulfilling customer contracts

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

Revenue recognition from contract modifications

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

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

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

Principal v agent

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

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

Prepaid rates

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

Grants – operating

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Grants – capital

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

Changes in presentation

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

- Additional line item for contract liabilities has been created.

\$ '000	Balance at 1 July 2019
Opening contract balances at 1 July 2019	
Contract assets	
– Under AASB 15	–
– Under AASB 1058	–
Total Contract assets	–
Contract liabilities	
– Under AASB 15	–
– Under AASB 1058	840
Total Contract liabilities	840

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

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

Statement of Financial Position

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur-e ment	Carrying amount under previous revenue standards	Notes
Current assets					
Cash and cash equivalents	3,303	–	–	3,303	
Investments	14,000	–	–	14,000	
Receivables	2,803	–	–	2,803	
Inventories	606	–	–	606	
Other	37	–	–	37	
Total current assets	20,749	–	–	20,749	
Current liabilities					
Payables	2,093	20	–	2,113	
Contract liabilities	1,525	(20)	(1,505)	–	
Borrowings	237	–	–	237	

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassification	Remeasurement	Carrying amount under previous revenue standards	Notes
Provisions	2,017	–	–	2,017	
Total current liabilities	5,872	–	(1,505)	4,367	
Non-current assets					
Investments	4,000	–	–	4,000	
Receivables	36	–	–	36	
Inventories	26	–	–	26	
Infrastructure, property, plant and equipment	385,077	–	–	385,077	
Investments accounted for using equity method	133	–	–	133	
Total non-current assets	389,272	–	–	389,272	
Non-current liabilities					
Payables	64	–	–	64	
Borrowings	4,346	–	–	4,346	
Provisions	3,113	–	–	3,113	
Total Non-current liabilities	7,523	–	–	7,523	
Net assets	396,626	–	1,505	398,131	
Equity					
Accumulated surplus	139,189	–	1,505	140,694	
Revaluation reserves	257,437	–	–	257,437	
Council equity interest	396,626	–	1,505	398,131	
Total equity	396,626	–	1,505	398,131	

The above table shows the reversal of the impacts of new accounting standards recognised to give a restated Statement of Financial Position before the reclassifications.

Income Statement

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	8,308	–	–	8,308	
User charges and fees	1,006	–	–	1,006	
Other revenues	1,954	–	–	1,954	
Grants and contributions provided for operating purposes	4,717	–	131	4,848	

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
Grants and contributions provided for capital purposes	8,138	—	1,374	9,512	
Interest and investment income	390	—	—	390	
Rental income	177	—	—	177	
Total Income from continuing operations	24,690	—	1,505	26,195	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	5,279	—	—	5,279	
Borrowing costs	289	—	—	289	
Materials and contracts	5,092	—	—	5,092	
Depreciation and amortisation	6,120	—	—	6,120	
Other expenses	2,015	—	—	2,015	
Net losses from the disposal of assets	1,947	—	—	1,947	
Net share of interests in joint ventures and associates using the equity method	11	—	—	11	
Total Expenses from continuing operations	20,753	—	—	20,753	
Total Operating result from continuing operations	3,937	—	1,505	5,442	
Net operating result for the year	3,937	—	1,505	5,442	
Total comprehensive income	6,404	—	—	6,404	

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

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract assets	—	—	—
Total assets	403,472	—	403,472
Contract liabilities	—	840	840
Total liabilities	12,410	840	13,250
Accumulated surplus	136,093	(840)	135,253
Total equity	391,062	(840)	390,222

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	3,303	2,128
Balance as per the Statement of Cash Flows		3,303	2,128
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		3,937	1,678
Adjust for non-cash items:			
Depreciation and amortisation		6,120	6,149
Net losses/(gains) on disposal of assets		1,947	1,291
Adoption of AASB 15/1058		(840)	–
Share of net (profits)/losses of associates/joint ventures using the equity method		11	14
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(1,467)	(490)
Increase/(decrease) in provision for impairment of receivables		9	48
Decrease/(increase) in inventories		19	(22)
Decrease/(increase) in other current assets		10	(9)
Increase/(decrease) in payables		(564)	1,552
Increase/(decrease) in accrued interest payable		7	–
Increase/(decrease) in other accrued expenses payable		(137)	134
Increase/(decrease) in other liabilities		101	44
Increase/(decrease) in contract liabilities		1,525	–
Increase/(decrease) in provision for employee benefits		40	307
Increase/(decrease) in other provisions		118	(29)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		10,836	10,667

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Interests in other entities

\$ '000	Council's share of net income		Council's share of net assets	
	2020	2019	2020	2019
Joint ventures	(11)	(14)	133	145
Total	(11)	(14)	133	145

Joint arrangements

(i) Joint ventures

Council has incorporated the following joint ventures into its consolidated financial statements.

(a) Net carrying amounts – Council's share

\$ '000	Nature of relationship	Measurement method	2020	2019
Strategic Services Australia Limited	Joint venture	Accrual	133	145
Total carrying amounts – material joint ventures			133	145

(b) Details

	Principal activity
Strategic Services Australia Limited	To improve quality and efficiency of local government services in the Hunter region.

(c) Relevant interests and fair values

\$ '000	Interest in outputs		Interest in ownership		Proportion of voting power	
	2020	2019	2020	2019	2020	2019
Strategic Services Australia Limited	2.9%	2.9%	2.9%	2.9%	7.7%	7.7%

(d) Summarised financial information for joint ventures

\$ '000	Strategic Services Australia Limited	
	2020	2019
Statement of financial position		
Current assets		
Cash and cash equivalents	5,101	5,311
Other current assets	1,446	1,605
Non-current assets	310	329
Current liabilities		
Current financial liabilities (excluding trade and other payables and provisions)	570	795
Other current liabilities	1,669	1,446
Non-current liabilities		
Non-current financial liabilities (excluding trade and other payables and provisions)	11	20
Net assets	4,607	4,984

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Interests in other entities (continued)

\$ '000	Strategic Services Australia Limited	
	2020	2019
Reconciliation of the carrying amount		
Opening net assets (1 July)	4,984	5,469
Profit/(loss) for the period	(377)	(485)
Closing net assets	4,607	4,984
Council's share of net assets (%)	2.9%	2.9%
Council's share of net assets (\$)	134	145
Statement of comprehensive income		
Income	5,632	5,662
Depreciation and amortisation	(105)	(111)
Interest expense	(1)	(5)
Other expenses	(5,903)	(6,031)
Profit/(loss) from continuing operations	(377)	(485)
Profit/(loss) for the period	(377)	(485)
Total comprehensive income	(377)	(485)
Share of income – Council (%)	2.9%	2.9%
Profit/(loss) – Council (\$)	(22)	(14)
Total comprehensive income – Council (\$)	(22)	(14)

Accounting policy for joint arrangements

Interests in joint ventures are accounted for using the equity method in accordance with *AASB128 Investments in Associates and Joint Ventures*.

Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

If Council's share of losses of an associate equals or exceeds its interest in the associate, Council discontinues recognising its share of further losses.

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

Adjustments are made to the associate's accounting policies where they are different from those of the Council for the purposes of the consolidated financial statements.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Commitments

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

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

Property, plant and equipment

Other	1,943	2,745
Total commitments	1,943	2,745

These expenditures are payable as follows:

Within the next year	1,943	2,745
Total payable	1,943	2,745

Sources for funding of capital commitments:

Unrestricted general funds	164	—
Future grants and contributions	1,779	745
Unexpended loans	—	2,000
Total sources of funding	1,943	2,745

Details of capital commitments

Council has contracts in place for the construction of 3 x concrete bridges, which are to replace existing timber bridges. The contracts for these projects were signed in 2019, with construction to be completed in the 2021 financial year. Council has also committed to the construction of new lighting systems at two community sporting & recreation facilities, both of which are expected to be completed in 2021.

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

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

Within the next year	—	31
Later than one year and not later than 5 years	—	94
Total non-cancellable operating lease commitments	—	125

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

Refer to Note 12 for information relating to leases for 2020.
Leased assets comprise computer and other equipment.

Conditions relating to finance and operating leases:

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Contingencies

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

Description of the funding arrangements.

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Contingencies (continued)

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$117,168.53. The last valuation of the Scheme was performed by Richard Boyfield FIAA on 30 June 2019, and covers the period ended 30 June 2020.

The amount of additional contributions included in the total employer contribution advised above is \$78,400. Council's expected contribution to the plan for the next annual reporting period is \$97,497.56.

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

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

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

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

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

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

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Contingencies (continued)

(iv) Strategic Services Australia Limited (previously Hunter Councils Limited)

Council is a joint guarantor for a loan of \$2.86 million which was drawn down on July 1, 2003 by Hunter Councils Limited. The total loan approved was for \$3.4 million of which Council's exposure will be \$97,920.

2. Other liabilities

(i) Third party claims

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

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

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

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

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

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

ASSETS NOT RECOGNISED

(i) Land under roads

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

(ii) Infringement notices/fines

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Financial risk management

Risk management

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

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

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk. Financial risk management is carried out by Council's finance section under policies approved by the Council.

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2020				
Possible impact of a 1% movement in interest rates	214	214	(214)	(214)
2019				
Possible impact of a 1% movement in interest rates	228	228	(228)	(228)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Financial risk management (continued)

(b) Credit risk

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

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

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

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

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be high credit quality.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

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 recover these debts as a secured charge over the land; 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 payment.

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2020						
Gross carrying amount	106	320	77	42	36	581
2019						
Gross carrying amount	106	214	96	48	33	497

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2020						
Gross carrying amount	2,262	9	4	18	21	2,314
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	100.00%	0.91%
ECL provision	—	—	—	—	21	21
2019						
Gross carrying amount	633	13	184	99	15	944
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	100.00%	1.59%
ECL provision	—	—	—	—	15	15

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Financial risk management (continued)

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

The amounts disclosed in the table are the undiscounted contracted cash flows for non-lease liabilities and therefore the balances in the table may not equal the balances in the Statement of Financial Position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
2020							
Trade/other payables	0.00%	216	1,673	–	–	1,889	2,025
Loans and advances	3.26%	787	371	1,849	3,569	6,576	4,583
Total financial liabilities		<u>1,003</u>	<u>2,044</u>	<u>1,849</u>	<u>3,569</u>	<u>8,465</u>	<u>6,608</u>
2019							
Trade/other payables	0.00%	210	2,225	–	–	2,435	2,587
Loans and advances	3.19%	–	380	1,850	3,939	6,169	4,794
Total financial liabilities		<u>210</u>	<u>2,605</u>	<u>1,850</u>	<u>3,939</u>	<u>8,604</u>	<u>7,381</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Material budget variations

Council's original financial budget for 19/20 was adopted by the Council on 26/06/2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
Rates and annual charges	8,402	8,308	(94)	(1)% U
User charges and fees	1,550	1,006	(544)	(35)% U
Landfill tipping fees lower than anticipated.				
Other revenues	496	1,954	1,458	294% F
Proceeds from sale of investment in Southern Phone company.				
Operating grants and contributions	4,119	4,717	598	15% F
Early receipt of 2021 Financial Assistance Grant.				
Capital grants and contributions	6,269	8,138	1,869	30% F
Developer contributions higher than budgeted, significant amount of accrued capital grant income due to new accounting standards.				
Interest and investment revenue	456	390	(66)	(14)% U
Lower than expected investment returns.				
Rental income	177	177	—	0% F

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Material budget variations

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
EXPENSES				
Employee benefits and on-costs	5,522	5,279	243	4% F
Borrowing costs	240	289	(49)	(20)% U
Borrowing costs higher than anticipated.				
Materials and contracts	5,294	5,092	202	4% F
Savings in IT hardware/software licencing & support, plant maintenance and waste programs.				
Depreciation and amortisation	6,144	6,120	24	0% F
Other expenses	2,635	2,015	620	24% F
Net losses from disposal of assets	170	1,947	(1,777)	(1,045)% U
Disposal of road and bridges assets not budgeted. Plant turnover lower than anticipated.				
Joint ventures and associates – net losses	–	11	(11)	∞ U
STATEMENT OF CASH FLOWS				
Cash flows from operating activities	7,578	10,730	3,152	42% F
Cash flows from investing activities	(10,654)	(9,450)	1,204	(11)% F
Cash flows from financing activities	(460)	(211)	249	(54)% F

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

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

2020	Fair value measurement hierarchy				Total
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
\$ '000					
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Operational land	30/06/2018	–	8,376	–	8,376
Community land	30/06/2018	–	5,992	–	5,992
Buildings	30/06/2018	–	–	7,590	7,590
Other structures	30/06/2018	–	–	2,894	2,894
Roads	30/06/2019	–	–	113,511	113,511
Bridges	30/06/2019	–	–	38,092	38,092
Footpaths		–	–	1,054	1,054
Bulk earthworks	30/06/2019	–	–	168,737	168,737
Stormwater drainage	30/06/2020	–	–	26,681	26,681
Other assets	30/06/2020	–	–	174	174
Restoration assets	30/06/2012	–	–	1,222	1,222
Plant and Equipment	30/06/2020	–	–	3,687	3,687
Total infrastructure, property, plant and equipment		–	14,368	363,642	378,010

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

2019	Fair value measurement hierarchy				Total
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
\$ '000					
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Operational land	30/06/2018	—	8,338	—	8,338
Community land	30/06/2018	—	5,595	—	5,595
Buildings	30/06/2018	—	—	7,444	7,444
Other structures	30/06/2018	—	—	2,982	2,982
Roads	30/06/2019	—	—	116,358	116,358
Bridges	30/06/2019	—	—	38,754	38,754
Footpaths		—	—	1,067	1,067
Bulk earthworks	30/06/2019	—	—	167,649	167,649
Stormwater drainage		—	—	24,158	24,158
Other assets		—	—	131	131
Restoration assets		—	—	1,357	1,357
Plant and Equipment		—	—	3,596	3,596
Total infrastructure, property, plant and equipment		—	13,933	363,496	377,429

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

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

Current Replacement Costs (CRC)

Current Replacement Cost is the minimum that it would cost, in the normal course of business, to replace the existing asset with a technologically modern equivalent asset with the same economic benefits.

Residual Value (RV)

The Residual Value of an asset is the estimated amount that would be obtained today from disposal of the asset after deducting the estimated costs of disposal.

Condition Assessment

Condition assessment of the various assets has been undertaken IPWEA guidelines and Council requirements using the skills of consultants, experienced engineering and operational staff. All assets, with the exception of unsealed roads, have been rated using a 1 to 5 rating system where a rating of 1 represents "as new" condition and a rating of 5 represents "very poor" condition requiring renewal of the asset. Unsealed Roads have been rated utilising a 1 to 3 rating system where a rating of 1 represents "as new" condition and a rating of 3 represents "very poor" condition requiring renewal of the asset.

Where Council is unable to derive fair valuations using quoted market prices of identical assets (i.e. 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:

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

Plant & equipment, office equipment and furniture & fittings

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The purchase cost of these assets is taken as their fair value. There has been no change in the valuation process during the period.

Operational land

The valuation of Council's operational land was undertaken as at 30 June 2018 by Nicholas Brady Valuations (NICHOLAS BRADY AAPI (VAL,P&M) Certified Practising Valuer, Real Estate Valuers, Registration No. 3609).

The land value has been assessed by direct comparison on a rate per square metre, and has been valued in accordance with the Dungog Shire Council Draft LEP 2013. The valuations were based on the Draft LEP 2013 as the "market place" would also have due regard to the proposed zoning. Sale prices of comparable land parcels were considered where appropriate. The most significant unobservable input into the valuation of operational land is the price per square metre. These assets have been classified as using Level 3 valuation inputs due to the professional judgement required and used by the Valuer to determine the price per square metre. There have been no changes in the valuation process during the period.

Community Land

Land values based on the 2016 valuation made by the Valuer-General were used to value Council's Community Land, where the Valuer-General did not provide a land value, an average unit rate based on similar properties was used taking into regard the highest or best use for the land. As these rates are not considered to be observable market evidence they have been classified as Level 3 valuation inputs. There has been no change in the valuation process during the period.

Buildings

Council's buildings were valued using the summation (cost) approach by Nicholas Brady Valuations (NICHOLAS BRADY AAPI (VAL, P&M) Certified Practising Valuer, Real Estate Valuers, Registration No. 3609) as at 30 June 2018.

Having regard to the specialised nature of the majority of the improvements, Council's buildings were valued by the Summation Approach, whereby the depreciated replacement cost of the improvements is added to the land value.

The replacement cost of each building was estimated taking into account different components within the building, their use and useful lives. The unit rate could be supported by market evidence making it a Level 2 input, however, inputs such as estimates of residual use, and patterns of consumption required significant professional judgement and impact significantly on

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

the final determination of fair value. As such, these assets have been valued using Level 3 unobservable inputs. There have been no changes in the valuation process during the period.

Roads

Roads have been classified into Regional, Rural Local Sealed, Rural Local Unsealed, Urban Local Sealed and Urban Local Unsealed Roads categories for condition rating and valuation purposes.

Sealed Roads - All

Data collection - data collection for sealed roads was undertaken by external consultants utilising video and in-vehicle roughness count technologies. Where an intersection occurs, the pavement values are attributed to the through road.

Componentisation - road assets have been componentised in accordance with required guidelines. Sealed roads have been broken down into three (3) components being earthworks (non-depreciable), pavement and seal. The pavement and seal have been separated due to different life expectations for these two components. Costs are based upon existing road dimensions.

Condition - condition assessment was undertaken by external consultants utilising video and in-vehicle roughness count technologies. The roads have been segmented and the pavement condition information detailed for each segment. Condition indicators were collected as follows:-

- Regional Roads:-
 - o Roughness - NAASRA standards used
 - o Pavement defects - by area
 - o Surface defects - by area
 - o Cracking - all cracking types recorded by area
- Local Sealed Roads (Rural and Urban):-
 - o Pavement defects - by area
 - o Surface defects - by area
 - o Cracking - all cracking types recorded by area

From the above condition indicators, a 1 to 5 rating system was utilised to identify the condition of the asset.

Percentage life remaining - the rating of the road was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:

Rating	Factor applied	Percentage Depreciated	% Life Remaining
1	0	0 %	100 %
2	4	16 %	84 %
3	9	36 %	64 %
4	16	64 %	36 %
5	25	100 %	0 %

Useful life - traffic volumes and geographical location play little part in the life of a road asset as it is assumed that the asset was designed for the traffic loadings to be carried. Useful lives have therefore been determined based upon experience, observed lives of assets and industry standards as follows:

- Earthworks - no useful life has been applied as earthworks do not depreciate over time.
- Pavement - the useful life of a sealed pavement was adopted as 60 years based upon the following:
 - 0 year - Year of construction
 - 15 years - Reseal
 - 30 years - Rehabilitation
 - 45 years - Reseal
 - 60 years - Full reconstruction
- Seal - The useful life of the seal was based on 20 years as per industry standard;

Current Replacement Cost (CRC) - the CRC has been determined as follows:

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

- Earthworks - CRC is based on topography to determine the amount of earthworks required and current costings for the construction of the earthworks in today's dollars;
 - Pavement - CRC has been based upon the cost to rehabilitate these roads utilising the average of three (3) recent projects undertaken by Council;
 - Seal - CRC has been based upon current contracted sealing costs through Dungog Shire Council's involvement with the regional procurement tenders.
- Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of sealed roads, it was determined that the following residual values apply:
- Earthworks - have an indefinite life/residual value and will therefore not be depreciated;
 - Pavements - whilst pavements may have some residual value in terms of the possibility of the in-situ material being re-used in the rehabilitation of the pavement. It has, however, been determined that existing pavements would need to be treated (stabilised) or replaced at the end of their useful lives and the cost of such would more or less negate the value of that pavement component. Therefore, the residual value has been determined to have no material value in the calculation of depreciation;
 - Seals - These have no financial implications on the application of the next seal. Therefore there is no residual value.

Depreciation - all sealed road assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data Limitations – inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets, there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

Unsealed Roads - All

Data collection - data collection for sealed roads was undertaken by external consultants utilising video and in-vehicle roughness count technologies. Where an intersection occurs, the pavement values are attributed to the through road.

Componentisation - the road asset has been componentised in accordance with required guidelines. As there is no "surface" on unsealed roads, the unsealed road asset has been broken down into two (2) components being earthworks (non-depreciable) and pavement. Costs are based upon existing road dimensions.

Condition - The roads have been segmented and assessment undertaken by experienced Council engineering and operational staff. As the surface condition of unsealed roads is highly changeable due to weather and climatic conditions, the condition was then based upon the depth of gravel on individual sections. From these indicators, a 1 to 3 rating system was utilised to identify the condition of the asset.

Percentage life remaining - as the rating of the road was based upon depth of gravel and it is expected that this depth will deteriorate consistently over time, the percentage of life remaining was based upon a straight line depreciation model. This process may be reviewed for future revaluations.

Useful life - Useful lives have been determined based upon experience, observed lives of assets and industry standards as follows:

- Earthworks - no useful life has been applied as earthworks do not depreciate over time.
 - Pavement - the useful life of the unsealed pavement was adopted as 20 years based upon experience and observed lives of assets.
- Current Replacement Cost (CRC) - the CRC has been determined as follows:
- Earthworks - CRC has been based on topography to determine the amount of earthworks required and current costings for the construction of the earthworks in today's dollars;
 - Pavement - CRC has been based upon the minimum gravel depths as determined by Council standards as set out in Council's "Road Strategy", normal Council practice and current costings for the construction of the pavement in today's dollars.

Residual values - In practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of unsealed roads, it was determined that the following residual values apply:

- Earthworks - have an indefinite life/residual value and will therefore not be depreciated;

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

- Pavements - in the case of unsealed road pavements, full depreciation or end of useful life is determined when there is no residual gravel on the pavement. By definition, there is no material available to be re-used therefore there is no residual value for the determination of depreciation.

Depreciation - all unsealed road assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data limitations – inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets, there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

Bridges

In accordance with the definitions used by the Grants Commission, a structure with an opening of greater than 6m in deck length is assessed as a bridge. Bridges have been broken down into timber structures (full or part timber construction) and non-timber structures (primarily concrete or concrete/steel structures) for condition rating and valuation purposes.

Timber Bridges

Data collection - data collection for timber bridges was undertaken via physical measurement by Council staff to determine dimensions.

Componentisation - timber bridge assets have been componentised into two (2) components being substructure and superstructure. The substructure and superstructure have been separated to allow for differential condition rating of these two components.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each bridge. A 1 to 5 rating system was then utilised to identify the condition of each component of the asset and an average condition of these two components adopted as the overall bridge condition.

Percentage life remaining - the rating of the timber bridge was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:

Rating	Percentage Depreciated	% Life Remaining
1	0 %	100 %
2	16 %	84 %
3	36 %	64 %
4	64 %	36 %
5	100 %	0 %

Useful life - useful lives have therefore been determined based upon experience, observed lives of assets and industry standards. The useful life of a timber bridge has been adopted as 50 years.

Current Replacement Cost (CRC) - the CRC has been determined has been determined based upon experience, observed lives of assets and industry standards.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of timber bridges, there would be no residual components that would have any value in the replacement of the asset with a concrete structure. Therefore there is no residual value applied.

Depreciation - all timber bridges have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data Limitations – inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets, there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

Non-Timber Bridges

Data collection - data collection for non-timber bridges was undertaken via physical measurement by Council staff to determine dimensions.

Componentisation - non-timber bridge assets have not been componentised any further than it being a single asset.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each bridge. A 1 to 5 rating system was then utilised to identify the condition of the asset.

Percentage life remaining - as non-timber bridges deteriorate at a different rate to timber bridges, the following exponential decay curve was utilised to calculate the percentage of life remaining:

Rating	Percentage Depreciated	% Life Remaining
1	0 %	100 %
2	16 %	84 %
3	36 %	64 %
4	64 %	36 %
5	100 %	0 %

Useful life - useful lives have therefore been determined based upon experience, observed lives of assets and industry standards. The useful life of a non-timber bridge has been adopted as 80 years.

Current Replacement Cost (CRC) - the CRC has been determined based upon the Rawlinson's Australian Construction Handbook, recent bridge tenders received by Council and industry standards.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of non-timber bridges, there would be no residual components that would be expected to last double the 80 year useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - all non-timber bridges have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Data limitations – inputs such as estimated patterns of consumption, residual values, asset condition and useful life required extensive professional judgement which impacted significantly on the final determination of fair value. Additionally, due to limitations in the historical records of very long lived assets, there may be some uncertainty regarding the actual design, specifications and dimensions of some assets.

Rural stormwater drainage & causeways

Drainage structures on the rural road network have been broken down into culvert structures and causeways.

Culvert Structures

Data collection - data collection was undertaken via physical measurement by Council staff to determine dimensions. There is a limitation in the data due to only 23% of unsealed rural roads, 48% of sealed rural roads and 96% of regional roads stormwater network being inspected and the data from this applied across the entire rural stormwater network.

Componentisation - the culvert asset has been componentised into two (2) components being the culvert pipe or box section and the headwall component. These have been separated to allow for differential condition rating of these two components.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each structure. A 1 to 5 rating system was then utilised to identify the condition of each component of the asset and an average condition of these two components adopted as the overall culvert structure condition.

Percentage life remaining - the rating of the structure was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

Rating	Percentage Depreciated	% Life Remaining
1	0 %	100 %
2	16 %	84 %
3	36 %	64 %
4	64 %	36 %
5	100 %	0 %

Useful life - useful lives have been determined based upon experience, observed lives of assets and industry standards.
Current Replacement Cost (CRC) - the CRC has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of concrete culvert structures, there would be no residual components that would be expected to last double the initial useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - all concrete culvert structures have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Causeways

Data collection - data collection for causeways was undertaken via physical measurement by Council staff to determine dimensions.

Componentisation - the causeway asset has been componentised into two (2) components being the culvert pipe or box section (if existing) and the causeway component. These have been separated to allow for differential condition rating of these two components.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each bridge. A 1 to 5 rating system was then utilised to identify the condition of the asset.

Percentage life remaining - the rating of the structure was then used to calculate the percentage of life remaining based upon an exponential decay curve as shown below:

Rating	Percentage Depreciated	% Life Remaining
1	0 %	100 %
2	16 %	84 %
3	36 %	64 %
4	64 %	36 %
5	100 %	0 %

Useful life - useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - the CRC has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of concrete causeway structures, there would be no residual components that would be expected to last double the 80 year useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - all causeway structures have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

Urban stormwater drainage

Council's urban drainage assets were revalued for the financial year ended 30 June 2020 by Council's Engineering Department.

Data collection - data collection was undertaken via works as executed construction plans and checked via field observation by Council staff to determine dimensions and age.

Componentisation - the asset has been componentised into individual components within the asset class.

Condition - condition assessment was undertaken by age due to the high accuracy of construction plans, which are spot-checked via field observation by Council Engineering staff. Condition information was then derived for each structure. A 1 to 5 rating system was subsequently utilised to determine the condition of drainage structure.

Percentage life remaining - the rating of the asset was then utilised to determine the percentage of life remaining.

Useful life - useful lives have been determined based upon experience, observed lives of assets, industry standards and modelling per Dr. Peter Coombes.

Current Replacement Cost (CRC) - the CRC has been determined based upon experience, observed lives of assets, industry standards and NSW Reference Rate Manual 2014 with CPI adjustment.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of concrete culvert structures, there would be no residual components that would be expected to last double the initial useful life and therefore would not have any value in the replacement of the asset. Therefore there is no residual value applied.

Depreciation - all drainage structures have been assessed as to their condition based on age and field checks. The remaining life of the asset has then been determined based on that condition assessment. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Footpath, kerb & gutter and guardrail

Ancillary items on the road network have been broken down into footpaths, kerb & gutter and guardrail assets.

Footpaths and Kerb & Gutter

Data collection - data collection was undertaken via physical measurement by Council staff to determine dimensions and use of aerial photography for confirmation.

Componentisation - footpaths, bike paths and kerb & gutter have been segmented to different locations and identified as individual assets.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each asset. A 1 to 5 rating system was then utilised to identify the condition of each asset.

Percentage life remaining - the rating of the asset was then used to calculate the percentage of life remaining.

Useful life - useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - the CRC has been determined has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of these assets, there would be no residual components that would be expected to last double the initial useful life. Whilst there may be a residual earthworks value, this would be negated by the cost to remove the existing fully depreciated asset. Therefore there is no residual value applied.

Depreciation - all of these assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Guardrail

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

Data Collection - data collection was undertaken via physical measurement by Council staff to determine dimensions and use of aerial photography for confirmation.

Componentisation - guardrail sections have been identified as individual assets.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each section. A 1 to 5 rating system was then utilised to identify the condition of each asset.

Percentage life remaining - the rating of the guardrail was then used to calculate the percentage of life remaining.

Useful life - useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - the CRC has been determined has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of guardrail, there would be no residual components that would be expected to last double the initial useful life. Therefore there is no residual value applied.

Depreciation - all guardrail assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Park assets (non-building) & other structures

Data collection - data collection was undertaken via physical measurement by Council staff to determine dimensions and use of aerial photography for confirmation.

Componentisation - asset have been identified as individual assets.

Condition - condition assessment was undertaken by experienced Council engineering and operational staff. Condition information was detailed for each section. A 1 to 5 rating system was then utilised to identify the condition of each asset.

Percentage life remaining - the rating of the asset was then used to calculate the percentage of life remaining.

Useful life - useful lives have been determined based upon experience, observed lives of assets and industry standards.

Current Replacement Cost (CRC) - the CRC has been determined has been determined based upon experience, observed lives of assets, industry standards and Rawlinson's Australian Construction Handbook.

Residual values - in practice, the residual value of many assets or components of such are often insignificant and therefore immaterial in the calculation of the depreciable amount. In the case of these assets, there would be no residual components that would be expected to last double the initial useful life. Therefore there is no residual value applied.

Depreciation - all of these assets have been assessed as to their condition. The remaining life of the asset has then been determined based on the condition assessment, the percentage life remaining and the overall useful life of the asset. The residual depreciable value of the asset was then divided by the remaining useful life to determine the annual depreciation rate.

Landfill and quarry assets

See note 11 for background and breakdown of these assets.

Values are estimates of rehabilitation costs, and these included capping of landfill, revegetation of roadside quarries, battering of high walls, safety fencing and other associated restoration works.

There is extensive professional judgement which impacts 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 design, specification and dimensions of these assets.

Inputs include discount rates, cost escalation, cost timing and regulation changes.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

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

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

\$ '000	Building specialised	Other structures	Roads	Bridges	Bulk earthworks
2019					
Opening balance	7,886	3,368	136,205	21,979	91,946
Purchases (GBV)	55	162	4,105	2,111	1,170
Disposals (WDV)	—	—	(1,257)	—	—
Depreciation and impairment	(497)	(532)	(3,349)	(674)	—
Revaluation	—	—	(20,108)	15,337	74,373
Transfer from WIP	—	11	762	—	160
Closing balance	7,444	3,009	116,358	38,753	167,649
2020					
Opening balance	7,444	3,009	116,358	38,753	167,649
Purchases (GBV)	634	349	1,295	78	1,009
Disposals (WDV)	(54)	(34)	(1,607)	(191)	—
Depreciation and impairment	(434)	(503)	(3,125)	(786)	—
Revaluation	—	—	126	—	—
Transfer from WIP	—	73	464	238	79
Closing balance	7,590	2,894	113,511	38,092	168,737
YE 17/18	7,886	3,368	136,205	21,979	91,946
YE 18/19	7,444	3,009	116,358	38,753	167,649

\$ '000	Footpaths	Stormwater drainage	Other assets
2019			
Opening balance	1,001	24,129	139
Purchases (GBV)	77	482	38
Depreciation and impairment	(14)	(453)	(37)
Transfer from WIP	—	—	—
Closing balance	1,064	24,158	140
2020			
Opening balance	1,064	24,158	140
Purchases (GBV)	18	613	70
Depreciation and impairment	(28)	(439)	(36)
Revaluation	—	2,329	—
Transfer from WIP	—	20	—
Closing balance	1,054	26,681	174
YE 17/18	1,001	24,129	139
YE 18/19	1,064	24,158	140

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

\$ '000	Plant and equipment	Restoration assets	Total
2019			
Opening balance	3,888	1,454	291,995
Purchases (GBV)	349	–	8,549
Disposals (WDV)	(197)	–	(1,454)
Depreciation and impairment	(477)	(97)	(6,130)
Revaluation	–	–	69,602
Transfer from WIP	–	–	933
Closing balance	3,563	1,357	363,495
2020			
Opening balance	3,563	1,357	363,495
Purchases (GBV)	844	–	4,910
Disposals (WDV)	(226)	–	(2,112)
Depreciation and impairment	(494)	(139)	(5,984)
Revaluation	–	4	2,459
Transfer from WIP	–	–	874
Closing balance	3,687	1,222	363,642
YE 17/18	3,888	1,454	291,995
YE 18/19	3,563	1,357	363,495

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

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

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Infrastructure, property, plant and equipment			
Building specialised	7,590	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Other structures	2,894	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Roads	113,511	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Bridges	38,092	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Bulk earthworks	168,737	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Fair Value Measurement (continued)

\$ '000	Fair value (30/6/20)	Valuation technique/s	Unobservable inputs
Footpaths	1,054	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Stormwater drainage	26,681	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Other assets	174	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Plant and equipment	3,687	Cost approach	<ul style="list-style-type: none"> •Gross replacement cost •Asset condition •Remaining useful life •Residual value
Restoration assets	1,222	Cost approach	Environmental legislation, timing of expected cash outflows, asset condition

(4) Highest and best use

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Related party disclosures

(a) Key management personnel

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

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

\$ '000	2020	2019
Compensation:		
Short-term benefits	1,173	962
Post-employment benefits	132	113
Total	1,305	1,075

(b) Other transactions with KMP and their related parties

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

Nature of the transaction	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000					
2020					
Concrete products ¹	330	—		—	—
2019					
Concrete products ¹	202	—		—	—

(1) Council purchased concrete and associated products during the year from two companies that had close family members of Dungog Shire Council's KMP as key owners. Amounts were billed based on normal rates for such supplies and were due and payable under normal payment terms following Council's procurement processes.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Events occurring after the reporting date

Council is aware of the following 'non-adjusting event' that merits disclosure:

At the Ordinary Meeting of 24 June 2020, Council resolved to delegate authority to the Mayor and General Manager to negotiate the resolution of the outstanding costs claim of the Martin's Creek Quarry legal proceedings.

Costs negotiation was finalised by the Mayor and General Manager on 1 July 2020. On 10 July 2020, the Mayor and General Manager then formally agreed in writing to settle the matter of costs at \$750,000.

Council has since received the costs amount for this matter.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								
Roads	385	—	—	1	—	—	386	—
Traffic facilities	7	—	—	—	—	—	7	—
Open space	5,500	25	—	8	—	—	5,533	—
Community facilities	137	—	—	—	—	—	137	—
Other	239	239	—	1	—	—	479	—
Bushfire	52	—	—	—	—	—	52	—
S7.11 contributions – under a plan	6,320	264	—	10	—	—	6,594	—
Total S7.11 and S7.12 revenue under plans	6,320	264	—	10	—	—	6,594	—
S7.11 not under plans	11	30	—	—	—	—	41	—
Total contributions	6,331	294	—	10	—	—	6,635	—

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Statement of developer contributions (continued)

	as at 30/06/19						as at 30/06/20	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
S7.11 Contributions – under a plan								
CONTRIBUTION PLAN NUMBER 2								
Roads	11	–	–	–	–	–	11	–
Traffic facilities	7	–	–	–	–	–	7	–
Open space	18	–	–	–	–	–	18	–
Community facilities	32	–	–	–	–	–	32	–
Bushfire	22	–	–	–	–	–	22	–
Total	90	–	–	–	–	–	90	–
CONTRIBUTION PLAN NUMBER 3								
Roads	374	–	–	1	–	–	375	–
Open space	31	–	–	–	–	–	31	–
Community facilities	105	–	–	–	–	–	105	–
Bushfire	30	–	–	–	–	–	30	–
Other	2	–	–	–	–	–	2	–
Total	542	–	–	1	–	–	543	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Statement of developer contributions (continued)

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
\$ '000	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
CONTRIBUTION PLAN NUMBER 4								
Other	194	1	—	1	—	—	196	—
Sports fields	1,712	5	—	3	—	—	1,720	—
Parklands	83	1	—	—	—	—	84	—
Swimming pools	445	1	—	1	—	—	447	—
Indoor sports	463	1	—	1	—	—	465	—
Local community centre	164	—	—	—	—	—	164	—
District community centre	112	—	—	—	—	—	112	—
Youth venue	86	—	—	—	—	—	86	—
Arts and crafts centre	24	—	—	—	—	—	24	—
Aged facilities	80	—	—	—	—	—	80	—
Library	248	1	—	—	—	—	249	—
Pre school	303	1	—	—	—	—	304	—
Rural sub-arterial roads	284	3	—	—	—	—	287	—
Rural local roads	397	7	—	1	—	—	405	—
Traffic management	35	—	—	—	—	—	35	—
Bikeways facilities	93	—	—	—	—	—	93	—
Fire service	477	3	—	1	—	—	481	—
Section 94 administration	242	1	—	—	—	—	243	—
Unsealed roads and bridges	9	—	—	—	—	—	9	—
Total	5,451	25	—	8	—	—	5,484	—
CONTRIBUTION PLAN NUMBER 5								
Roads	186	187	—	1	—	—	374	—
Open space	48	48	—	—	—	—	96	—
Other	3	4	—	—	—	—	7	—
Total	237	239	—	1	—	—	477	—

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Statement of developer contributions (continued)

	as at 30/06/19	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/06/20	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								

S7.11 Contributions – not under a plan

S7.11 CONTRIBUTIONS – NOT UNDER A PLAN

Roads	2	30	–	–	–	–	32	–
Open space	9	–	–	–	–	–	9	–
Total	11	30	–	–	–	–	41	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods 20192018		Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(2,243)	(13.55)%	(19.60)%	(21.84)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	16,552				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	11,835	47.93%	47.82%	42.28%	>60.00%
Total continuing operating revenue ¹	24,690				
3. Unrestricted current ratio					
Current assets less all external restrictions	15,639	6.52x	4.83x	8.39x	>1.50x
Current liabilities less specific purpose liabilities	2,397				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	4,166	8.33x	11.47x	12.02x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	500				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	545	6.19%	5.86%	6.13%	<10.00%
Rates, annual and extra charges collectible	8,807				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	15,803	14.29 mths	18.09 mths	10.19 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	1,105				

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

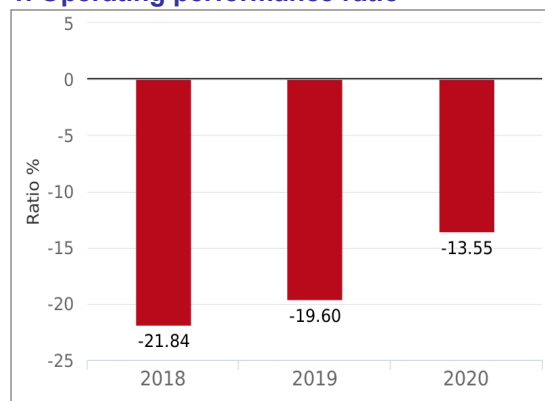
(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements on investment properties, net loss on disposal of assets and net loss on share of interests in joint ventures and associates using the equity method

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26(b). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2019/20 result

2019/20 ratio (13.55)%

Council's operational performance improved due to positive impact of SRV rate increases and revenue received from sale of shares in Southern Phone Company.

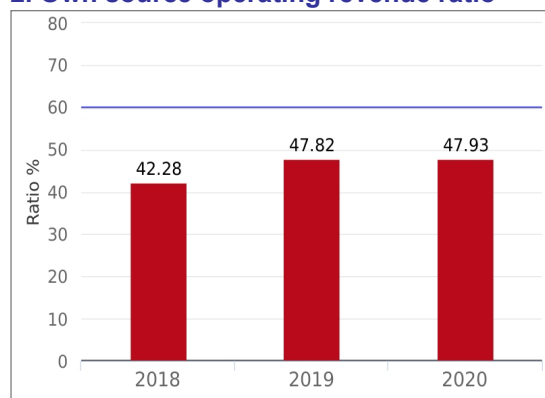
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

Commentary on 2019/20 result

2019/20 ratio 47.93%

Council's own source revenue performance improved due to impact of SRV rate increases and revenue received from sale of shares in Southern Phone Company.

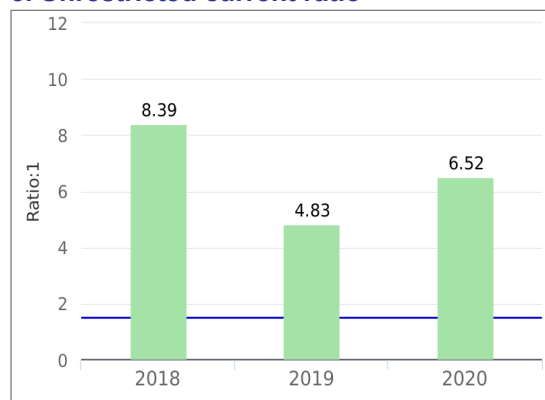
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

Commentary on 2019/20 result

2019/20 ratio 6.52x

Council's performance remains well above the benchmark with more than sufficient unrestricted funds to satisfy its short term obligations.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

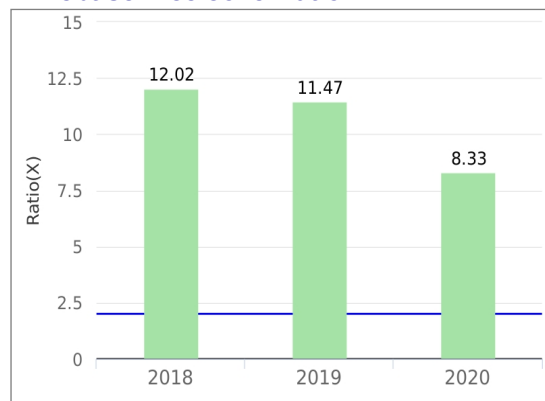
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26(b). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2019/20 result

2019/20 ratio 8.33x

Council maintains more than sufficient cash to service its debt obligations. The decrease in the ratio is due to increased borrowing costs arising from new borrowings in 2018/19.

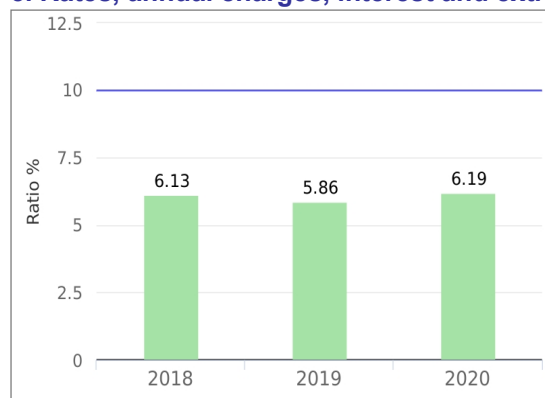
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2019/20 result

2019/20 ratio 6.19%

Slight increase outstanding rates and charges as Council curtailed debt recovery action due to impact of Covid-19 pandemic.

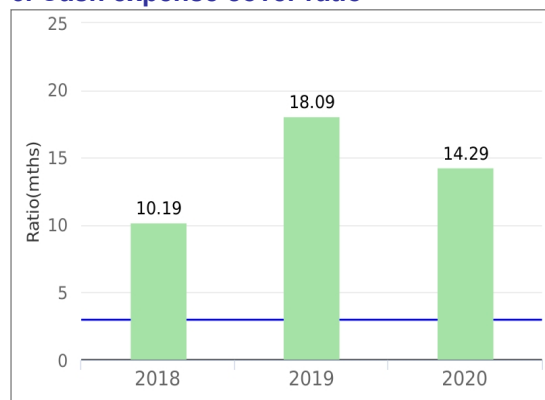
Benchmark: — < 10.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2019/20 result

2019/20 ratio 14.29 mths

Council is able to pay its immediate expenses without additional cashflow for a period of 15 months.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Council information and contact details

Principal place of business:

198 Dowling Street
Dungog NSW 2420

Contact details

Mailing Address:

PO Box 95
Dungog NSW 2420

Opening hours:

8:45am - 4:30pm
Monday to Friday

Telephone: 02 4995 7777

Facsimile: 02 4995 7750

Internet: www.dungog.nsw.gov.au

Email: shirecouncil@dungog.nsw.gov.au

Officers

General Manager

Gareth Curtis

Elected members

Mayor

John Connors

Responsible Accounting Officer

Shaun Chandler

Auditors

Auditor General NSW

Other information

ABN: 62 610 350 256

General Purpose Financial Statements
for the year ended 30 June 2020



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Dungog Shire Council

To the Councillors of Dungog Shire Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Special 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/ar4.pdf. The description forms part of my auditor's report.

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 21 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



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

29 January 2021
SYDNEY

Dungog Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



Special Schedules
for the year ended 30 June 2020

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Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
Notional general income calculation ¹			
Last year notional general income yield	a	6,546	5,671
Plus or minus adjustments ²	b	60	22
Notional general income	$c = a + b$	6,606	5,693
Permissible income calculation			
Special variation percentage ³	d	15.00%	15.00%
Plus special variation amount	$h = d \times (c + g)$	991	854
Sub-total	$k = (c + g + h + i + j)$	7,597	6,547
Plus (or minus) last year's carry forward total	l	1	—
Sub-total	$n = (l + m)$	1	—
Total permissible income	$o = k + n$	7,598	6,547
Less notional general income yield	p	7,598	6,546
Catch-up or (excess) result	$q = o - p$	—	—
Carry forward to next year ⁶	$t = q + r + s$	—	—

Notes

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

Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2019/20 Required maintenance ^a	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	1	2	3	4	5
Buildings	Buildings	2,497	9,284	550	206	7,630	32,701	5.0%	3.0%	63.0%	22.0%	7.0%
	Sub-total	2,497	9,284	550	206	7,590	32,701	5.0%	3.0%	63.0%	22.0%	7.0%
Other structures	Other structures	103	361	—	—	926	1,245	14.0%	22.0%	35.0%	21.0%	8.0%
	Sub-total	103	361	—	—	926	1,245	14.0%	22.0%	35.0%	21.0%	8.0%
Roads	Sealed roads	21,214	45,705	1,620	1,401	106,193	177,345	36.0%	28.0%	10.0%	7.0%	19.0%
	Unsealed roads	129	737	130	390	8,653	13,933	0.0%	8.0%	87.0%	5.0%	0.0%
	Bridges	2,491	8,807	360	140	38,544	65,881	15.0%	13.0%	58.0%	10.0%	4.0%
	Footpaths	—	—	10	62	1,055	1,348	0.0%	93.0%	7.0%	0.0%	0.0%
	Bulk earthworks	—	—	—	—	168,756	168,756	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	23,834	55,249	2,120	1,993	321,394	427,263	56.8%	14.2%	16.0%	4.6%	8.5%
Stormwater drainage	Stormwater drainage	523	2,867	150	—	—	36,829	36.0%	40.0%	16.0%	8.0%	0.0%
	Sub-total	523	2,867	150	—	26,681	36,829	36.0%	40.0%	16.0%	8.0%	0.0%
Open space / recreational assets	Swimming pools	250	1,428	110	17	(254)	2,380	0.0%	40.0%	0.0%	60.0%	0.0%
	Other	682	3,899	500	377	2,222	6,499	0.0%	40.0%	0.0%	60.0%	0.0%
	Sub-total	932	5,327	610	394	1,968	8,879	0.0%	40.0%	0.0%	60.0%	0.0%
TOTAL - ALL ASSETS		27,889	73,088	3,430	2,593	358,559	506,917	50.8%	15.8%	18.8%	7.0%	7.6%

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

Infrastructure asset condition assessment 'key'

1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	Prior periods 20192018		Benchmark
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	3,325	61.03%	171.34%	104.67%	>=100.00%
Depreciation, amortisation and impairment	5,448				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	27,889	7.78%	6.35%	7.95%	<2.00%
Net carrying amount of infrastructure assets	358,559				
Asset maintenance ratio					
Actual asset maintenance	2,593	75.60%	71.19%	74.75%	>100.00%
Required asset maintenance	3,430				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	73,088	14.42%	16.84%	19.07%	
Gross replacement cost	506,917				

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

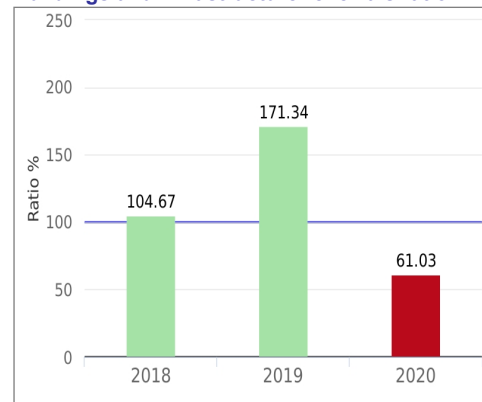
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

Commentary on result

19/20 ratio 61.03%

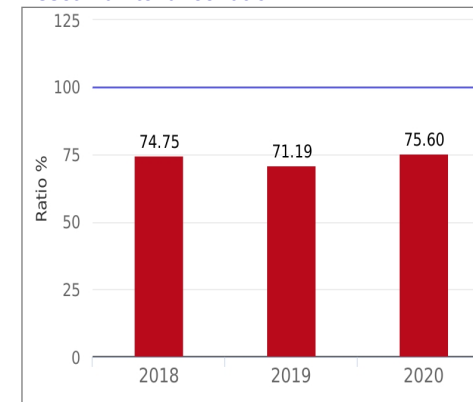
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on result

19/20 ratio 75.60%

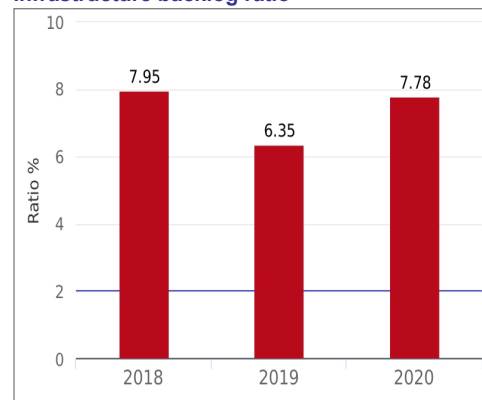
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on result

19/20 ratio 7.78%

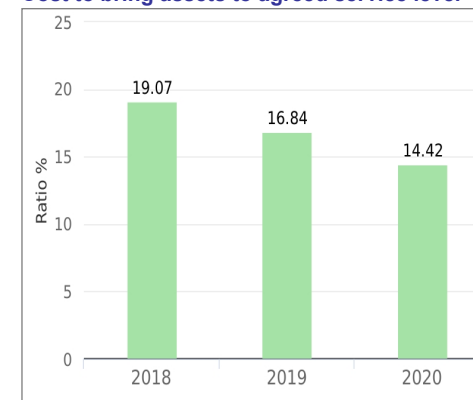
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on result

19/20 ratio 14.42%



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Dungog Shire Council

To the Councillors of Dungog Shire Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Dungog Shire Council (the Council) for the year ending 30 June 2021.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

A handwritten signature in black ink, appearing to read 'Furqan' followed by a stylized flourish.

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

29 January 2021
SYDNEY