

Armidale Regional Council

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2020

Unleash the Opportunities



Armidale Regional Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

Unleash the Opportunities



General Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
1. Understanding Council's Financial Statements	3
2. Statement by Councillors & Management	4
3. Primary Financial Statements:	
Income Statement	5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
4. Notes to the Financial Statements	10
5. Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	93

Overview

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

135 Rusden Street
Armidale NSW 2350

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

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

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

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

General Purpose Financial Statements

for the year ended 30 June 2020

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2020.

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

Armidale Regional Council

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
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

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

Signed in accordance with a resolution of Council made on 22 December 2020.



Ian Tiley
Mayor
22 December 2020



Debra O'Brien
Deputy Mayor
22 December 2020



John Rayner
Acting General Manager
22 December 2020



Kelly Stidworthy
Responsible Accounting Officer
22 December 2020

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
32,939	Rates and annual charges	3a	33,409	32,256
20,084	User charges and fees	3b	18,091	21,334
3,005	Other revenues	3c	2,786	3,162
11,216	Grants and contributions provided for operating purposes	3d,3e	16,979	14,691
13,650	Grants and contributions provided for capital purposes	3d,3e	23,025	16,230
2,106	Interest and investment income	4	1,376	1,973
632	Rental income	13e	872	–
83,632	Total income from continuing operations		96,538	89,646
Expenses from continuing operations				
25,332	Employee benefits and on-costs	5a	23,750	24,385
1,469	Borrowing costs	5b	2,000	1,654
14,792	Materials and contracts	5c	21,274	18,750
16,484	Depreciation and amortisation	5d	17,594	18,198
9,865	Other expenses	5e	8,231	9,632
–	Net losses from the disposal of assets	6	1,454	1,102
–	Revaluation decrement / impairment of IPP&E	5d	2,099	608
67,942	Total expenses from continuing operations		76,402	74,329
15,690	Net operating result from continuing operations		20,136	15,317
Loss on boundary adjustment				
–	Loss on boundary adjustment	23	(42,966)	–
15,690	Net result for the year		(22,830)	15,317
15,690	Net result attributable to council		(22,830)	15,317
2,040	Net operating result for the year before grants and contributions provided for capital purposes		(2,889)	(913)

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)		(22,830)	15,317
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	11(a)	7,314	6,082
Total items which will not be reclassified subsequently to the operating result		7,314	6,082
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Other movements		(32)	–
Total items which will be reclassified subsequently to the operating result when specific conditions are met		(32)	–
Total other comprehensive income for the year		7,282	6,082
Total comprehensive income for the year		(15,548)	21,399
Total comprehensive income attributable to Council		(15,548)	21,399

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)	20,856	11,040
Investments	7(b)	51,295	58,236
Receivables	8	9,175	12,357
Inventories	9a	1,027	846
Contract assets	12a	3,073	–
Non-Current assets classified as 'held for sale'	10	1,359	921
Other	9b	606	171
Total current assets		<u>87,391</u>	<u>83,571</u>
Non-current assets			
Receivables	8	312	327
Infrastructure, property, plant and equipment	11(a)	857,376	859,990
Right of use assets	13a	279	–
Total non-current assets		<u>857,967</u>	<u>860,317</u>
Total assets		<u>945,358</u>	<u>943,888</u>
LIABILITIES			
Current liabilities			
Payables	14	8,437	7,431
Income received in advance	14	–	505
Contract liabilities	12b	7,245	–
Lease liabilities	13b	26	–
Borrowings	14	2,831	2,962
Provisions	15	7,329	7,434
Total current liabilities		<u>25,868</u>	<u>18,332</u>
Non-current liabilities			
Lease liabilities	13b	253	–
Borrowings	14	20,946	23,801
Provisions	15	23,987	4,563
Total non-current liabilities		<u>45,186</u>	<u>28,364</u>
Total liabilities		<u>71,054</u>	<u>46,696</u>
Net assets		<u>874,304</u>	<u>897,192</u>
EQUITY			
Accumulated surplus	16	843,221	873,423
Revaluation reserves	16	31,083	23,769
Council equity interest		<u>874,304</u>	<u>897,192</u>
Total equity		<u>874,304</u>	<u>897,192</u>

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

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

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		873,423	23,769	897,192	858,106	17,687	875,793
Changes due to AASB 1058 and AASB 15 adoption	16	(7,340)	–	(7,340)	–	–	–
Changes due to AASB 16 adoption	16	–	–	–	–	–	–
Restated opening balance		866,083	23,769	889,852	858,106	17,687	875,793
Net operating result for the year		(22,830)	–	(22,830)	15,317	–	15,317
Restated net operating result for the period		(22,830)	–	(22,830)	15,317	–	15,317
Other comprehensive income							
– Other movement		(32)	–	(32)	–	–	–
– Gain (loss) on revaluation of IPP&E	11(a)	–	7,314	7,314	–	6,082	6,082
Other comprehensive income		(32)	7,314	7,282	–	6,082	6,082
Total comprehensive income		(22,862)	7,314	(15,548)	15,317	6,082	21,399
Equity – balance at end of the reporting period		843,221	31,083	874,304	873,423	23,769	897,192

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				
<i>Receipts:</i>				
32,939	Rates and annual charges		33,429	32,487
20,084	User charges and fees		19,397	21,529
2,106	Investment and interest revenue received		1,944	1,763
24,866	Grants and contributions		31,469	34,096
–	Bonds, deposits and retention amounts received		40	–
3,637	Other		4,991	6,972
<i>Payments:</i>				
(25,332)	Employee benefits and on-costs		(23,001)	(24,478)
(14,792)	Materials and contracts		(25,338)	(21,150)
(1,469)	Borrowing costs		(1,456)	(1,676)
–	Bonds, deposits and retention amounts refunded		–	(2,088)
(9,864)	Other		(9,455)	(13,770)
32,175	Net cash provided (or used in) operating activities	17b	32,020	33,685
Cash flows from investing activities				
<i>Receipts:</i>				
1,333	Sale of investment securities		79,000	60,000
3,643	Sale of infrastructure, property, plant and equipment		2,870	2,792
–	Deferred debtors receipts		15	39
<i>Payments:</i>				
–	Purchase of investment securities		(72,059)	(70,116)
(38,025)	Purchase of infrastructure, property, plant and equipment		(29,044)	(29,637)
(33,049)	Net cash provided (or used in) investing activities		(19,218)	(36,922)
Cash flows from financing activities				
<i>Payments:</i>				
(2,952)	Repayment of borrowings and advances		(2,986)	(2,967)
(2,952)	Net cash flow provided (used in) financing activities		(2,986)	(2,967)
(3,826)	Net increase/(decrease) in cash and cash equivalents		9,816	(6,204)
10,390	Plus: cash and cash equivalents – beginning of year	17a	11,040	17,244
–	less: Lost Cash resulting from boundary adjustment		–	–
6,564	Cash and cash equivalents – end of the year	17a	20,856	11,040
40,461	plus: Investments on hand – end of year	7(b)	51,295	58,236
47,025	Total cash, cash equivalents and investments		72,151	69,276

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

Contents of the Notes accompanying the General Purpose Financial Statements

Note	Details	Page
1	Basis of preparation	11
2(a)	Council functions/activities – financial information	15
2(b)	Council functions/activities – component descriptions	16
3	Revenue from continuing operations	17
4	Interest and investment income	25
5	Expenses from continuing operations	26
6	Gain or loss from disposal of assets	31
7(a)	Cash and cash equivalents	32
7(b)	Investments	32
7(c)	Restricted cash, cash equivalents and investments	33
8	Receivables	34
9	Inventories and other assets	36
10	Non-current assets classified as held for sale	37
11(a)	Infrastructure, property, plant and equipment	38
11(b)	Infrastructure, property, plant and equipment – current year impairments	41
12	Contract assets and liabilities	42
13	Leases	44
14	Payables and borrowings	48
15	Provisions	51
16	Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	55
17	Statement of cash flow information	62
18	Interests in other entities	63
19	Commitments	65
20	Contingencies	66
21	Financial risk management	70
22	Material budget variations	74
23	Boundary adjustment	76
24	Fair Value Measurement	77
25	Related party disclosures	83
26	Events occurring after the reporting date	83
27	Statement of developer contributions	84
28	Result by fund	86
29(a)	Statement of performance measures – consolidated results	88
29(b)	Statement of performance measures – by fund	89
 Additional Council disclosures (unaudited)		
29(c)	Statement of performance measures – consolidated results (graphs)	90
30	Council information and contact details	92

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 22 December 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

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

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

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

Council is a not for-profit entity.

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

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

- Income statement
- Statement of cash flows
- Note 22 - Material budget variations

and are clearly marked.

Where relevant, comparative information has been reclassified to align with current year treatment.

COVID-19

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Council operations, in particular the airport, have experienced a significant downturn in revenue due to COVID-19. The assets associated with these operations are not considered to be impaired as they are valued at depreciated replacement cost and not linked to valuation methods dependent on cash flows or income. Council is not aware of any post balance sheet date events which would result in separate disclosures or adjustments to the 30 June 2020 financial results. Hence, 30 June 2020 financial statements were prepared on a going concern basis.

(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.

(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 with the next financial year include:

- (i) estimated fair values of infrastructure, property, plant and equipment - refer Note 11;

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

- (ii) estimated tip remediation provisions - refer Note 15; and
- (iii) employee benefit provisions - refer Note 15.

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:

- General purpose operations
- Water service
- Sewerage service

(b) The Trust Fund

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

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

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

Goods and Services Tax (GST)

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

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

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

Volunteer services

Council acknowledges the important contribution that volunteers make in the provision of some of Council's community services. Volunteer services are not formally costed or recorded in the financial records, as the quantum of volunteer services is not considered to represent a material part of Council's service delivery nor impact on results.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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

AASB 1059 Service Concession Arrangements: Grantors

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

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

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

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

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

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

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

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

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

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

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

AASB2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

AASB2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128

AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

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

These amendments will only impact Council where there has been a sale or contribution of assets between Council and any Joint Venture or Associate. Council is not currently involved in any Joint Venture operation with any parties.

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

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

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

New accounting standards adopted during the year

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

- AASB 16 Leases
- AASB 15 Revenue from contracts with customers and associated amending standards.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

- AASB 1058 Income of Not-for-profit entities

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 16.

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										
Growth, Prosperity, and Economic Development	60,012	52,759	46,032	46,748	13,980	6,011	17,436	17,957	–	–
People and Community	3,959	5,688	12,439	13,744	(8,480)	(8,056)	2,085	3,936	113,522	106,644
Leadership for the Region	21,584	25,607	9,155	4,026	12,429	21,581	2,157	4,332	86,534	81,898
Environment and Infrastructure	10,983	5,592	8,776	9,811	2,207	(4,219)	5,466	1,029	745,302	755,346
Total functions and activities	96,538	89,646	76,402	74,329	20,136	15,317	27,144	27,254	945,358	943,888

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:

Growth, Prosperity, and Economic Development

Includes tourism, economic development, private works and industrial development promotion.

People and Community

Includes public halls and community facilities, parks, gardens and recreation facilities, swimming pools, community development and support including aboriginal services, youth services, aged and disabled services. Also includes libraries, museums and other cultural facilities as well as bush fire and emergency services.

Leadership for the Region

Includes Civic governance and executive, finance and human resources services, risk management and occupational health and safety, ranger services, fleet and depot services and customer services.

Environment and Infrastructure

Includes urban and rural sealed and unsealed roads, bridges, footpaths, kerb and gutter, parking areas, airports, water and sewerage operations, cemeteries, footpaths and cycleways, street lighting, waste management and catchment management. Also includes development control, strategic planning, environmental management and animal control.

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)	10,895	10,782
Farmland	1058 (1)	4,771	4,793
Mining	1058 (1)	64	65
Business	1058 (1)	2,579	2,540
Less: pensioner rebates (mandatory)	1058 (1)	(328)	(367)
Rates levied to ratepayers		17,981	17,813
Pensioner rate subsidies received	1058 (1)	145	175
Total ordinary rates		18,126	17,988
Annual charges			
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>			
Domestic waste management services	1058 (1)	4,289	3,897
Water supply services	1058 (1)	2,335	2,327
Sewerage services	1058 (1)	5,837	5,435
Drainage	1058 (1)	466	463
Waste management services (non-domestic)	1058 (1)	2,568	2,396
Less: pensioner rebates (Council policy)	1058 (1)	(420)	(448)
Annual charges levied		15,075	14,070
Pensioner subsidies received:			
– Water	1058 (1)	78	72
– Sewerage	1058 (1)	81	68
– Domestic waste management	1058 (1)	49	58
Total annual charges		15,283	14,268
TOTAL RATES AND ANNUAL CHARGES		33,409	32,256

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)			
Water supply services	15 (1)	5,268	9,197
Sewerage services	15 (1)	98	77
Drainage services	15 (1)	60	65
Waste management services (non-domestic)	15 (1)	2,983	2,854
Other	15 (1)	41	143
Total specific user charges		8,450	12,336
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Inspection services	15 (1)	132	116
Planning and building regulation	15 (1)	241	201
Private works – section 67	15 (1)	587	300
Regulatory/ statutory fees	15 (1)	93	40
Registration fees	15 (1)	86	76
Regulatory fees	15 (1)	177	149
Section 10.7 certificates (EP&A Act)	15 (1)	70	76
Section 603 certificates	15 (1)	73	85
Total fees and charges – statutory/regulatory		1,459	1,043
(ii) Fees and charges – other (incl. general user charges (per s.608))			
Aerodrome	15 (1)	1,542	1,789
Aged care	15 (1)	2	3
Cemeteries	15 (1)	227	227
Child care	15 (1)	531	538
Leaseback fees – Council vehicles	15 (1)	103	110
Quarry revenues	15 (1)	381	586
RMS (formerly RTA) charges (state roads not controlled by Council)	15 (2)	5,134	4,037
Saleyards	15 (1)	–	6
Sundry sales	15 (1)	–	191
Swimming centres	15 (1)	198	227
Other	15 (1)	64	241
Total fees and charges – other		8,182	7,955
TOTAL USER CHARGES AND FEES		18,091	21,334

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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)		23	841
Fines – parking	1058 (1)	344	166
Legal fees recovery – rates and charges (extra charges)	15 (1)	64	91
Commissions and agency fees	15 (1)	34	8
Insurance claims recoveries	1058 (1)	154	28
Sales – general	15 (1)	134	34
Rental income – Kolora aged care		–	21
Items for resale	15 (1)	389	236
Sales – cattle	15 (1)	776	655
Rebates	15 (1)	619	555
Other	15 (1)	249	527
<u>TOTAL OTHER REVENUE</u>		<u>2,786</u>	<u>3,162</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 a 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 a result of Council issuing infringement notices and these are followed up and collected by the Infringement Processing Bureau. Due to the limited information available on status, value and duration of outstanding notices, Council is unable to reliably determine the value of income, so income from parking fees and fines is recognised as revenue on receipt.

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

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

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

Notes to the Financial Statements

for the year ended 30 June 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)	2,118	2,127	–	–
Financial assistance – local roads component	1058 (1)	1,226	1,221	–	–
Payment in advance - future year allocation					
Financial assistance – general component	1058 (1)	2,243	2,205	–	–
Financial assistance – local roads component	1058 (1)	1,302	1,267	–	–
Total general purpose		6,889	6,820	–	–
Specific purpose					
Water supplies	1058 (2)	1,484	–	2,712	9,700
Aged care		106	223	–	–
Bushfire and emergency services	1058 (2)	40	–	24	8
Child care		137	–	–	–
Community care	1058 (2)	6	153	31	10
Economic development	1058 (2)	–	118	–	–
Employment and training programs	1058 (2)	5	–	–	–
Environmental programs	1058 (2)	11	–	–	–
Heritage and cultural	1058 (2)	9	–	–	–
Library	1058 (2)	142	102	–	–
LIRS subsidy	1058 (2)	67	79	–	–
NSW rural fire services	1058 (2)	1,135	345	6	1,036
Recreation and culture	1058 (2)	557	723	405	602
Street lighting	1058 (2)	85	84	–	–
Transport (roads to recovery)	1058 (1)	2,145	3,364	–	–
Transport (other roads and bridges funding)	1058 (2)	3	898	1,018	2,613
Airport	1058 (2)	–	–	5,945	–
Waste Management	1058 (2)	–	–	75	128
Other	1058 (2)	2,649	38	1,458	210
Total specific purpose		8,581	6,127	11,674	14,307
Total grants		15,470	12,947	11,674	14,307
Grant revenue is attributable to:					
– Commonwealth funding		9,153	10,749	1,026	1,487
– State funding		3,945	2,187	9,190	12,820
– Other funding		2,372	–	1,458	–
- Other funding		–	11	–	–
		15,470	12,947	11,674	14,307

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)	–	–	182	219
S 7.12 – fixed development consent levies		1058 (1)	–	–	315	209
S 64 – water supply contributions		1058 (1)	–	–	352	364
S 64 – sewerage service contributions		1058 (1)	–	–	179	340
Total developer contributions – cash			–	–	1,028	1,132
Total developer contributions	27		–	–	1,028	1,132
Other contributions:						
Cash contributions						
Bushfire services		15 (1)	234	209	6	–
Community services		15 (1)	60	59	–	–
Other councils – joint works/services		15 (1)	71	31	–	–
Recreation and culture		15 (1)	25	138	–	–
Roads and bridges		15 (1)	–	18	40	507
RMS contributions (regional roads, block grant)		1058 (1)	960	1,262	184	155
Sewerage (excl. section 64 contributions)		15 (1)	–	–	515	–
Tourism		15 (1)	23	17	–	–
Other		15 (1)	136	10	–	129
Total other contributions – cash			1,509	1,744	745	791
Non-cash contributions						
NSW State Government - Crown Land		1058 (1)	–	–	8,152	–
NSW State Government - RFS Assets		1058 (1)	–	–	1,426	–
Total other contributions – non-cash			–	–	9,578	–
Total other contributions			1,509	1,744	10,323	791
Total contributions			1,509	1,744	11,351	1,923
TOTAL GRANTS AND CONTRIBUTIONS			16,979	14,691	23,025	16,230

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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 [provide details of performance obligations within AASB 15 grants e.g. events, vaccinations]. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

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

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

Grant income

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

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

Capital grants

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

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

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

Contributions

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	5,116	9,243
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	1,708	686
Add: operating grants received for the provision of goods and services in a future period	–	–
Less: operating grants now spent	(1,681)	(4,813)
Less: operating grants received in a previous reporting period now spent and recognised as income	–	–
Unexpended and held as externally restricted assets (operating grants)	5,143	5,116

Unexpended Operating Grants are grant monies received in relation to Council's Specific Purpose Operating projects and where those grant monies are not fully expended at year end. Several of Council's Specific Purpose Operating projects include transport and NSW Rural Fire Service related projects.

Capital grants

Unexpended at the close of the previous reporting period	1,881	115
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	2,131	1,881
Add: capital grants received for the provision of goods and services in a future period	–	–
Less: capital grants now spent	(1,185)	(115)
Less: capital grants received in a previous reporting period now spent and recognised as income	–	–
Unexpended and held as externally restricted assets (capital grants)	2,827	1,881

Unexpended Capital Grants are grant monies received in relation to Council's Specific Purpose Capital projects and where those grant monies are not fully expended at year end. Several of Council's Specific Purpose Capital projects include water supply and transport related projects.

Contributions

Unexpended at the close of the previous reporting period	6,301	4,771
Add: contributions recognised as income in the current period but not yet spent	1,265	6,262
Add: contributions received for the provision of goods and services in a future period	–	–
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate (2019 only)	–	–
Less: contributions now spent	(661)	(4,732)
Unexpended and held as externally restricted assets (contributions)	6,905	6,301

Unexpended Contributions are contribution monies received in relation to certain of Council's Operating and Capital projects and where those contribution monies are not fully expended at year end. Several of Council's Operating and Capital projects involving unexpended contributions include water supply and sewer headworks projects.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4. Interest and investment income

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)	107	109
– Cash and investments	1,262	1,849
– Deferred debtors	7	15
Finance income on the net investment in the lease	–	–
Total Interest and investment income	1,376	1,973
Interest revenue is attributable to:		
Unrestricted investments/financial assets:		
Overdue rates and annual charges (general fund)	82	70
General Council cash and investments	219	609
Restricted investments/funds – external:		
Development contributions		
– Section 7.11, Section 7.12	122	130
Water fund operations	586	739
Sewerage fund operations	352	399
Other externally restricted assets	15	26
Total interest and investment revenue	1,376	1,973

Accounting policy for interest and investment revenue

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	18,333	18,445
Employee termination costs	949	654
Travel expenses	83	159
Employee leave entitlements (ELE)	3,618	3,904
Superannuation	2,241	2,381
Workers' compensation insurance	472	398
Fringe benefit tax (FBT)	23	(1)
Payroll tax	144	147
Training costs (other than salaries and wages)	170	222
Protective clothing	82	86
Other	20	37
Total employee costs	26,135	26,432
Less: capitalised costs	(2,385)	(2,047)
TOTAL EMPLOYEE COSTS EXPENSED	23,750	24,385
Number of 'full-time equivalent' employees (FTE) at year end	272	277

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 20 for more information.

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

Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on leases	13	1	–
Interest on loans		1,445	1,613
Total interest bearing liability costs		<u>1,446</u>	<u>1,613</u>
Total interest bearing liability costs expensed		<u>1,446</u>	<u>1,613</u>
(ii) Other borrowing costs			
Amortisation of discount of tip remediation liabilities	15	554	41
Total other borrowing costs		<u>554</u>	<u>41</u>
TOTAL BORROWING COSTS EXPENSED		<u>2,000</u>	<u>1,654</u>

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed 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	14,349	18,388
Contractor and consultancy costs	30,237	27,220
Auditors remuneration ²	113	103
Legal expenses:		
– Legal expenses: planning and development	36	21
– Legal expenses: debt recovery	35	158
– Legal expenses: other	653	320
Expenses from leases of low value assets (2020 only)	165	–
Operating leases expense (2019 only):		
– Operating lease rentals: minimum lease payments ¹	–	160
Total materials and contracts	45,588	46,370
Less: capitalised costs	(24,314)	(27,620)
TOTAL MATERIALS AND CONTRACTS	21,274	18,750

1. Operating lease payments are attributable to:

Office equipment & other items	–	160
	–	160

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	100	96
Remuneration for audit and other assurance services	100	96

Total Auditor-General remuneration

	100	96
--	-----	----

Non NSW Auditor-General audit firms

(i) Audit and other assurance services

Other Assurance services including acquittal audits	13	7
Remuneration for audit and other assurance services	13	7

Total remuneration of non NSW Auditor-General audit firms

	13	7
--	----	---

Total Auditor remuneration

	113	103
--	-----	-----

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.

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		1,965	1,798
Office equipment		183	299
Infrastructure:	11(a)		
– Buildings		2,149	2,476
– Other structures		142	136
– Roads		4,392	4,750
– Bridges		775	778
– Footpaths		262	277
– Stormwater drainage		630	668
– Water supply network		3,163	3,130
– Sewerage network		2,082	2,122
– Airport infrastructure		370	354
Other assets:			
– Heritage collections		9	10
– Other		853	835
Reinstatement, rehabilitation and restoration assets:			
– Landfill and quarry assets	11(a)	619	565
Total gross depreciation and amortisation costs		<u>17,594</u>	<u>18,198</u>
Total depreciation and amortisation costs		<u>17,594</u>	<u>18,198</u>
Impairment / revaluation decrement of IPP&E			
Infrastructure:			
– Buildings (relates to write-down of building assets to recoverable amount in preparation for sale)	11(a)	–	608
– Roads	11(a)	215	–
– Capital work in progress	11(a)	730	–
– Bulk earthworks (non-depreciable)	11(a)	948	–
Non-current assets held for sale	10i	206	–
Total gross IPP&E impairment / revaluation decrement costs / (reversals)		<u>2,099</u>	<u>608</u>
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		<u>2,099</u>	<u>608</u>
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS</u>		<u>19,693</u>	<u>18,806</u>

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 11 for IPPE assets and Note 13 for right of use assets.

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

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are no longer required to be tested for impairment under AASB 136. This is because these assets are assessed

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that do 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.

\$ '000	2020	2019
(e) Other expenses		
Advertising	64	103
Training costs (other than salaries and wages)	–	–
Travel expenses	–	–
Bad and doubtful debts	72	448
Bank charges	121	122
Computer software charges	568	827
Contributions/levies to other levels of government	1,436	990
Councillor expenses – mayoral fee	42	43
Councillor expenses – councillors' fees	212	216
Councillors' expenses (incl. mayor) – other (excluding fees above)	122	3
Donations, contributions and assistance to other organisations (Section 356)	416	781
Electricity and heating	1,016	981
Insurance	1,018	1,077
Items for resale	398	537
Postage	183	214
Printing and stationery	113	230
Promotion and publicity	213	287
Street lighting	454	417
Subscriptions and publications	186	170
Telephone and communications	460	452
Valuation fees	98	103
Security	90	125
Licences	178	500
Other	771	1,006
Total other expenses	8,231	9,632
TOTAL OTHER EXPENSES	8,231	9,632

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Operational Land & Building assets			
Proceeds from disposal – property		2,052	1,507
Less: carrying amount of property assets sold/written off		(1,147)	(750)
Net gain/(loss) on disposal		905	757
Plant and equipment assets			
	11(a)		
Proceeds from disposal – plant and equipment		818	1,285
Less: carrying amount of plant and equipment assets sold/written off		(504)	(595)
Net gain/(loss) on disposal		314	690
Infrastructure assets			
	11(a)		
Proceeds of disposal of Infrastructure assets		–	–
Less: carrying amount of infrastructure assets sold/written off		(2,673)	(2,488)
Net gain/(loss) on disposal		(2,673)	(2,488)
Real estate assets held for sale			
	9		
Proceeds from disposal - Real estate assets held for sale		–	–
Less: balance written off - assessed as non-recoverable		–	(61)
Net gain/(loss) on disposal		–	(61)
Investment assets			
	7(b)		
Proceeds from disposal/redemptions/maturities – investments		79,000	60,000
Less: carrying amount of investments sold/redeemed/matured		(79,000)	(60,000)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,454)	(1,102)

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	20,856	11,040
Total cash and cash equivalents	<u>20,856</u>	<u>11,040</u>

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Investments				
b. 'Financial assets at amortised cost'	51,295	–	58,236	–
Total Investments	<u>51,295</u>	<u>–</u>	<u>58,236</u>	<u>–</u>
<u>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</u>	<u>72,151</u>	<u>–</u>	<u>69,276</u>	<u>–</u>
Financial assets at amortised cost				
Medium term deposits	51,295	–	58,236	–
Total	<u>51,295</u>	<u>–</u>	<u>58,236</u>	<u>–</u>

Accounting policy for investments

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

On initial recognition, all financial instruments are measured at fair value plus transaction costs.

Financial assets

All recognised financial assets are subsequently measured in their entirety at amortised cost.

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

Council's financial assets measured at amortised cost comprise trade and other receivables, term deposits and cash and cash equivalents in the Statement of Financial Position, Term Deposits (with maturities of less than 365 days) and the NSW Government T-Corp Investment Management Cash Fund (which is considered to have a short - medium term investment horizon).

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

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.

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

\$ '000	2020		2019	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	72,151	–	69,276	–
attributable to:				
External restrictions	59,991	–	59,772	–
Internal restrictions	10,020	–	7,654	–
Unrestricted	2,140	–	1,850	–
	72,151	–	69,276	–

\$ '000	2020	2019
---------	------	------

Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	7,245	–
Specific purpose unexpended loans – general	2,700	3,408
NIRW grant from EPA	1,087	947

External restrictions – included in liabilities

	11,032	4,355
--	---------------	--------------

External restrictions – other

Developer contributions – general	2,749	2,387
Developer contributions – water fund	2,277	1,885
Developer contributions – sewer fund	1,740	1,530
RMS contributions	76	17
Specific purpose unexpended grants (recognised as revenue) – general fund	725	6,997
Water supplies	22,317	26,185
Sewerage services	16,183	13,927
Domestic waste management	1,362	607
Trust Fund	1,467	1,431
Other Contributions	63	451

External restrictions – other

	48,959	55,417
--	---------------	---------------

Total external restrictions

	59,991	59,772
--	---------------	---------------

Internal restrictions

Plant and vehicle replacement	885	–
Infrastructure replacement	3,317	–
Employees leave entitlement	4,053	3,194
Carry over works	1,136	2,368
Other	629	2,092

Total internal restrictions

	10,020	7,654
--	---------------	--------------

TOTAL RESTRICTIONS

	70,011	67,426
--	---------------	---------------

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	2,006	–	1,752	–
Interest and extra charges	186	–	368	–
User charges and fees	1,327	–	2,282	–
Private works	3,508	–	2,266	–
Accrued revenues				
– Interest on investments	366	–	752	–
Deferred debtors	–	312	–	327
Government grants and subsidies	85	–	4,300	–
Net GST receivable	651	–	975	–
Other debtors	1,438	–	111	–
Total	9,567	312	12,806	327
Less: provision of impairment				
Rates and annual charges	(156)	–	(223)	–
User charges and fees	(236)	–	(226)	–
Total provision for impairment – receivables	(392)	–	(449)	–
TOTAL NET RECEIVABLES	9,175	312	12,357	327

\$ '000	2020	2019
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	449	280
Less Debts written off during the year	(73)	(240)
Add additional provision for impairment in the current year	16	409
Balance at the end of the year	392	449

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when receivables are over 3 years past due, whichever occurs first.

None of the receivables that have been written off are not subject to enforcement activity.

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

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				
Stores and materials	539	–	537	–
Trading stock	488	–	309	–
Total inventories at cost	1,027	–	846	–
<u>TOTAL INVENTORIES</u>	<u>1,027</u>	<u>–</u>	<u>846</u>	<u>–</u>
(b) Other assets				
Prepayments	606	–	171	–
<u>TOTAL OTHER ASSETS</u>	<u>606</u>	<u>–</u>	<u>171</u>	<u>–</u>

(i) Other disclosures

\$ '000	Notes	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(Valued at the lower of cost and net realisable value)					
Movements:					
Real estate assets at beginning of the year		–	–	61	–
– Write off of non-recoverable opening balance	6	–	–	(61)	–
Total real estate for resale		–	–	–	–

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. Non-current assets classified as held for sale

(i) Non-current assets 'held for sale'

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Land	464	–	–	–
Buildings - Former Kolora Aged Care facility site & buildings	895	–	921	–
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>	1,359	–	921	–

(ii) Details of assets and disposal groups

The property formerly used as the Kolora Aged Care facility in Guyra has been sold with settlement effected in August 2020. At 30 June 2020, the carrying value of the property has been written down to its recoverable amount, indicated by the contract price, less disposal costs. Land parcels are being marketed for sale and are held at cost, as representative of lower of cost or net market value.

(iii) Reconciliation of non-current assets 'held for sale'

\$ '000	2020 Assets 'held for sale'	2019 Assets 'held for sale'
Opening balance	921	–
Add Land Parcels transferred from Operational Land category	644	1,529
Less Impairment of Old Kolora Property	(206)	(608)
Balance still unsold after 12 months:	1,359	921

Accounting policy for non-current assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as assets arising from employee benefits; financial assets; and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11(a). Infrastructure, property, plant and equipment

	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	Impairment loss / revaluation decrements (recognised in P/L)	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	26,106	–	26,106	–	23,832	–	–	(730)	(27,467)	–	–	–	21,741	–	21,741
Plant and equipment	19,790	(9,598)	10,192	2,279	1,427	(504)	(1,965)	–	–	–	–	–	24,074	(12,645)	11,429
Office equipment	5,236	(4,891)	345	29	–	–	(183)	–	–	–	–	–	5,235	(5,044)	191
Land:															
– Operational land	21,312	–	21,312	–	–	(695)	–	–	–	(644)	–	4,989	24,962	–	24,962
– Community land	19,882	–	19,882	–	8,152	(460)	–	–	–	–	(59)	–	27,516	–	27,516
– Land under roads (post 30/6/08)	721	–	721	–	–	(64)	–	–	–	–	–	–	657	–	657
Infrastructure:															
– Buildings	120,498	(55,334)	65,164	50	136	(1,652)	(2,149)	–	211	–	–	–	118,483	(56,723)	61,760
– Other structures	10,410	(3,971)	6,439	132	14	(20)	(142)	–	185	–	–	–	10,878	(4,270)	6,608
– Roads	245,337	(68,395)	176,942	1,962	29	(21,383)	(4,392)	(215)	1,652	–	–	–	221,299	(66,703)	154,596
– Bridges	64,734	(22,440)	42,294	313	–	(2,906)	(775)	–	732	–	–	–	60,538	(20,881)	39,657
– Footpaths	14,703	(6,785)	7,918	18	48	(375)	(262)	–	–	–	–	–	14,219	(6,872)	7,347
– Bulk earthworks (non-depreciable)	152,653	–	152,653	–	–	(9,605)	–	(948)	–	–	–	–	142,100	–	142,100
– Stormwater drainage	62,456	(13,441)	49,015	202	–	(3,042)	(630)	–	1,361	–	–	–	60,393	(13,487)	46,906
– Water supply network	230,050	(76,337)	153,713	–	–	(1,782)	(3,163)	–	13,056	–	–	1,443	241,378	(78,110)	163,268
– Sewerage network	141,667	(37,855)	103,812	–	–	(4,731)	(2,082)	–	–	–	–	941	136,138	(38,197)	97,941
– Airport infrastructure	9,334	(1,987)	7,347	–	–	–	(370)	–	–	–	–	–	9,545	(2,568)	6,977
Other assets:															
– Heritage collections	130	(70)	60	–	–	–	(9)	–	–	–	–	–	130	(78)	52
– Artworks	112	–	112	–	–	–	–	–	–	–	–	–	112	–	112
– Other	19,685	(4,775)	14,910	–	–	(72)	(853)	–	10,270	–	–	–	30,174	(5,919)	24,255
Reinstatement, rehabilitation and restoration assets (refer Note 17):															
– Landfill & quarry assets	3,984	(2,931)	1,053	–	–	–	(619)	–	–	18,867	–	–	23,343	(4,042)	19,301
Total Infrastructure, property, plant and equipment	1,168,800	(308,810)	859,990	4,985	33,638	(47,291)	(17,594)	(1,893)	–	18,223	(59)	7,373	1,172,915	(315,539)	857,376

(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 11(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	Impairment loss / revaluation decrements (recognised in P/L)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	9,084	–	9,084	–	18,653	(75)	–	–	(1,556)	–	–	26,106	–	26,106
Plant and equipment	19,535	(8,962)	10,573	2,012	–	(595)	(1,798)	–	–	–	–	19,790	(9,598)	10,192
Office equipment	5,258	(4,614)	644	–	–	–	(299)	–	–	–	–	5,236	(4,891)	345
Land:														
– Operational land	21,815	–	21,815	–	–	(503)	–	–	–	–	–	21,312	–	21,312
– Community land	19,913	–	19,913	–	–	(31)	–	–	–	–	–	19,882	–	19,882
– Land under roads (post 30/6/08)	–	–	–	–	–	–	–	–	–	–	721	721	–	721
Infrastructure:														
– Buildings	123,983	(55,588)	68,395	–	948	(316)	(2,476)	(608)	142	(921)	–	120,498	(55,334)	65,164
– Other structures	10,345	(3,835)	6,510	–	234	(173)	(136)	–	4	–	–	10,410	(3,971)	6,439
– Roads	242,609	(63,645)	178,964	3,328	343	(961)	(4,750)	–	18	–	–	245,337	(68,395)	176,942
– Bridges	63,925	(22,420)	41,505	1,583	–	(423)	(778)	–	407	–	–	64,734	(22,440)	42,294
– Footpaths	14,538	(6,508)	8,030	–	24	–	(277)	–	141	–	–	14,703	(6,785)	7,918
– Bulk earthworks (non-depreciable)	152,653	–	152,653	–	–	–	–	–	–	–	–	152,653	–	152,653
– Stormwater drainage	62,414	(12,773)	49,641	53	–	(11)	(668)	–	–	–	–	62,456	(13,441)	49,015
– Water supply network	224,247	(71,702)	152,545	1,217	–	(383)	(3,130)	–	261	–	3,203	230,050	(76,337)	153,713
– Sewerage network	137,747	(34,998)	102,749	1,089	–	(99)	(2,122)	–	37	–	2,158	141,667	(37,855)	103,812
– Airport infrastructure	8,999	(1,633)	7,366	–	–	(211)	(354)	–	546	–	–	9,334	(1,987)	7,347
Other assets:														
– Heritage collections	130	(60)	70	–	–	–	(10)	–	–	–	–	130	(70)	60
– Other	19,584	(3,940)	15,644	–	153	(52)	(835)	–	–	–	–	19,685	(4,775)	14,910
– Artworks	112	–	112	–	–	–	–	–	–	–	–	112	–	112
Reinstatement, rehabilitation and restoration assets (refer Note 17):														
– Tip assets	2,703	(2,525)	178	–	–	–	(565)	–	–	1,439	–	3,984	(2,931)	1,053
Total Infrastructure, property, plant and equipment	1,139,594	(293,203)	846,391	9,282	20,355	(3,833)	(18,198)	(608)	–	518	6,082	1,168,800	(308,810)	859,990

(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 11(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.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (DoI) – Water.

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 at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

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

Plant and equipment	Years	Other equipment	Years
Office equipment	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk earthworks	Infinite
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Unsealed roads	20
Bridge: concrete	100	Other open space/recreational assets	20
Bridge: other	50	Other infrastructure	20
Road pavements	60		
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 11(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.

Where the Crown reserves are under a lease arrangement they are accounted for under AASB 16 Leases, refer to Note 13.

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".

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

For the year ended 30 June 2020, Council has changed its accounting policy in relation to the recognition of RFS Fleet assets.

Council has recognised the contribution of RFS Fleet assets to its Balance Sheet with a corresponding entry as a capital contribution.

Note 11(b). Infrastructure, property, plant and equipment – current year impairments

Council has recognised impairment losses on certain Infrastructure, Property, Plant and Equipment during the reporting period, as disclosed in Note 5 (d).

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

Note 12. Contract assets and liabilities

\$ '000		2020 Current	2020 Non-current
(a) Contract assets			
Contract Asset (AASB 15)		441	–
Accrued Income (AASB 1058)		2,632	–
Total Contract assets		3,073	–

\$ '000	Notes	2020 Current	2020 Non-current
(b) Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	2,828	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	4,354	–
Unexpended operating contributions (received prior to performance obligation being satisfied)	(ii)	63	–
Total grants received in advance		7,245	–
Total contract liabilities		7,245	–

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 and AASB 1058 being satisfied since the performance obligations are ongoing.

\$ '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)	1,681
Operating grants (received prior to performance obligation being satisfied)	98
Capital contributions (to construct Council controlled assets)	1,105
Operating contributions (received prior to performance obligation being satisfied)	378
Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period	3,262

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Contract assets and liabilities (continued)

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 13. 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 a range of assets including land and buildings, and some office equipment. Information relating to the leases in place and associated balances and transactions is provided below.

Terms and conditions of leases

Buildings

Council leases land and buildings as part of access arrangements and for the provision of services. The leases are generally between 2 to 99 years and some include a renewal option to allow Council to renew the lease.

The leases contain an annual pricing mechanism based on either fixed increases or CPI movements at each anniversary of the lease inception.

Office and IT equipment

Leases for office and IT equipment are generally for low value assets, except for significant items such as photocopiers. The current photocopier lease which expired at 30 June 2020, has been extended for 12 months and is pending renewal. Payments are fixed with a variable component based upon usage.

\$ '000	Plant & Equipment	Ready to use	Various Property, Plant & Equipment	Total
Opening balance at 30 June 2019	-	-	-	-
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	-	-	313	313
Other movement	-	-	(34)	(34)
<u>RIGHT OF USE ASSETS</u>	<u>-</u>	<u>-</u>	<u>279</u>	<u>279</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Leases (continued)

\$ '000	2020 Current	2020 Non-current
(b) Lease liabilities		
Lease liabilities	26	253
<u>TOTAL LEASE LIABILITIES</u>	<u>26</u>	<u>253</u>

(i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	27	87	746	860	279

\$ '000	2020 Current	2020 Non-current
(ii) Lease liabilities relating to restricted assets		
Total lease liabilities relating to unrestricted assets	26	253
<u>Total lease liabilities</u>	<u>26</u>	<u>253</u>

\$ '000	2020
---------	------

(c) Income Statement

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

Interest on lease liabilities	1
Expenses relating to low-value leases	165
	<u>166</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Leases (continued)

\$ '000	2020
(d) Statement of Cash Flows	
Total cash outflow for leases	27
	<u>27</u>

Leases at significantly below market value – concessionary / peppercorn leases

Council has a number of leases at significantly below market for land and buildings which are used for:

- community services
- historical purposes

The leases are generally between 3 and 5 years and require payments of a maximum amount of \$1,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services and other purposes which Council either facilitates or provides, these services are detailed in the leases.

Council does not believe that any of the leases in place are individually material from a statement of financial position or performance perspective.

Accounting policy

Accounting policies under AASB 16 – applicable from 1 July 2019

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

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

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

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

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

Refer to Note 5c and Note 14.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Leases (continued)

(ii) Council as a lessor

(e) Operating leases

\$ '000	2020
(i) Operating lease income	
Other lease income	
Council owned property	872
Total income relating to operating leases	872

(iv) Maturity analysis of contractual lease income

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

< 1 year	695
1–2 years	631
2–3 years	567
3–4 years	155
4–5 years	125
> 5 years	748
Total undiscounted contractual lease income receivable	2,921

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 14. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Goods and services – operating expenditure	1,987	–	2,920	–
Accrued expenses:				
– Borrowings	120	–	130	–
– Salaries and wages	851	–	–	–
– Other expenditure accruals	1,863	–	1,307	–
Security bonds, deposits and retentions	40	–	–	–
NIRW grant from EPA	1,087	–	947	–
Trust	1,453	–	1,432	–
Prepaid rates	1,036	–	695	–
Total payables	8,437	–	7,431	–
Income received in advance (2019 only)				
Payments received in advance	–	–	505	–
Total income received in advance	–	–	505	–
Borrowings				
Loans – secured ¹	2,831	20,946	2,962	23,801
Total borrowings	2,831	20,946	2,962	23,801
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>11,268</u>	<u>20,946</u>	<u>10,898</u>	<u>23,801</u>

(1) Loans are secured over the general rating income of Council.
Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 19.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Payables and borrowings (continued)

\$ '000	2020	2019
---------	------	------

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

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

Other liabilities: Unspent loan	–	1,451
Total payables and borrowings	–	1,451

(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	26,763	(2,986)	–	–	–	–	23,777
TOTAL	26,763	(2,986)	–	–	–	–	23,777

\$ '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	29,730	(2,967)	–	–	–	26,763
TOTAL	29,730	(2,967)	–	–	–	26,763

\$ '000	2020	2019
---------	------	------

(c) Financing arrangements

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

Bank overdraft facilities ¹	1,000	1,000
Credit cards/purchase cards	210	210
Total financing arrangements	1,210	1,210

Drawn facilities as at balance date:

– Credit cards/purchase cards	34	–
Total drawn financing arrangements	34	–

Undrawn facilities as at balance date:

– Bank overdraft facilities	1,000	1,000
– Credit cards/purchase cards	176	210
Total undrawn financing arrangements	1,176	1,210

Additional financing arrangements information

Breaches and defaults

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

Security over loans

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Payables and borrowings (continued)

Land, buildings and other property held by Council, along with the general rating income of Council is provided as security for loans.

Unused limits and facilities

Council has access to an unused overdraft with a limit of \$1,000,000.

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

Accounting policy for payables and borrowings

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

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

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.

Finance leases (2019 only)

Council is not party to any finance leasing arrangements.

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

Note 15. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions				
Employee benefits				
Annual leave	2,247	–	2,159	–
Long service leave	4,910	383	5,120	380
Other leave – Accrued leave	172	–	155	–
Sub-total – aggregate employee benefits	<u>7,329</u>	<u>383</u>	<u>7,434</u>	<u>380</u>
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	23,604	–	4,183
Sub-total – asset remediation/restoration	<u>–</u>	<u>23,604</u>	<u>–</u>	<u>4,183</u>
<u>TOTAL PROVISIONS</u>	<u>7,329</u>	<u>23,987</u>	<u>7,434</u>	<u>4,563</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Provisions (continued)

\$ '000	2020	2019
---------	------	------

(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	4,774	4,521
	4,774	4,521

(b) Description of and movements in provisions

\$ '000	ELE provisions			Total
	Annual leave	Long service leave	Other employee benefits	
2020				
At beginning of year	2,159	5,500	155	7,814
Leave Taken	(1,609)	(350)	(1,659)	(3,618)
Leave Accrued	1,697	143	1,676	3,516
Total ELE provisions at end of year	2,247	5,293	172	7,712
2019				
At beginning of year	2,223	5,510	174	7,907
Leave Taken	(1,524)	(795)	(1,678)	(3,997)
Leave Accrued	1,460	786	1,658	3,904
Total ELE provisions at end of year	2,159	5,501	154	7,814

\$ '000	Other provisions	
	Asset remediation	Total
2020		
At beginning of year	4,183	4,183
Changes to provision:		
– Revised discount rate	214	214
Additional provisions	19,761	19,761
Unwinding of discount	(554)	(554)
Total other provisions at end of year	23,604	23,604
2019		
At beginning of year	2,703	2,703
Unwinding of discount	41	41
Additional Provision	1,439	1,439
Total other provisions at end of year	4,183	4,183

Nature and purpose of non-employee benefit provisions

Landfill and Quarry remediation

Council has a legal and public obligation to make, restore, rehabilitate and reinstate council landfill sites and quarries in-line with relevant licencing agreements.

During the 2019/20 Financial year, Council made a significant adjustment to the provision to restore, rehabilitate and restate Council's main landfill site.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Provisions (continued)

Council engaged an external consultant to visit Council's three (3) landfill sites (Long Swamp Road, Guyra and Waterfall Way Regional Landfill). The consultant provided updated rehabilitation costs for all three landfill sites and a rehabilitation model for Council to use to value the Rehabilitation provision in accordance with required Accounting Standards. The comprehensive model resulted in an increase in the Landfill Rehabilitation Provision from \$3.8 million at 30 June 2019 to \$22.4 million at 30 June 2020. At 30 June 2019, an internal review was completed by Council staff based upon using the phytocap rehabilitation method for the Long Swamp Road Landfill only. During 2020, degradation of the capping at the Guyra Landfill site was identified so further rehabilitation is required. The Waterfall Way Regional Landfill site was licensed by the EPA to accept landfill from 1 July 2020, so this is a new addition to the Landfill Rehabilitation Provision.

Council notes that the phytocap method of rehabilitation is only in testing phase with a limited number of councils in NSW.

The EPA have not yet provided approval for Council to use phytocap technology so a full capping methodology has been applied in valuing the Landfill Rehabilitation Provision at 30 June 2020.

Council performed an annual internal review of the Quarry Rehabilitation Provision and determined an additional \$1.0 million is required to rehabilitate the quarry sites, to provide a total Quarry Rehabilitation Provision of \$1.2m at 30 June 2020.

Any changes to these provisions will be reflected in future Financial Statements.

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 15. 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 – landfills 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. 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.

Refer to the Statement of Changes in Equity for the rollforward of the Accumulated Surplus and Revaluation Reserve from 2019 to 2020 and comparatives for the prior year.

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

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

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

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

(i) AASB 15 and AASB 1058

Changes in accounting policies due to adoption of AASB 15 and AASB 1058

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

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.

Licences

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

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000	Balance at 1 July 2019
Opening contract balances at 1 July 2019	
Contract liabilities	
– Under AASB 15	138
– Under AASB 1058	<u>7,202</u>
Total Contract liabilities	<u><u>7,340</u></u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards	Notes
Current assets					
Cash and cash equivalents	20,856	-	-	20,856	
Investments	51,295	-	-	51,295	
Receivables	9,175	3,073	-	12,248	
Inventories	1,027	-	-	1,027	
Contract assets	3,073	(3,073)	-	-	
Other	606	-	-	606	
Non-Current assets classified as 'held for sale'	1,359	-	-	1,359	
Total current assets	87,391	-	-	87,391	
Current liabilities					
Payables	8,437	-	-	8,437	
Contract liabilities	7,245	-	(7,245)	-	
Lease liabilities	26	-	-	26	
Borrowings	2,831	-	-	2,831	
Provisions	7,329	-	-	7,329	
Total current liabilities	25,868	-	(7,245)	18,623	
Non-current assets					
Receivables	312	-	-	312	
Infrastructure, property, plant and equipment	857,376	-	-	857,376	
Right of use assets	279	-	-	279	
Total non-current assets	857,967	-	-	857,967	
Non-current liabilities					
Lease liabilities	253	-	-	253	
Borrowings	20,946	-	-	20,946	
Provisions	23,987	-	-	23,987	
Total Non-current liabilities	45,186	-	-	45,186	
Net assets	874,304	-	7,245	881,549	
Equity					
Accumulated surplus	843,221	-	7,245	850,466	
Revaluation reserves	31,083	-	-	31,083	
Council equity interest	874,304	-	7,245	881,549	
Total equity	874,304	-	7,245	881,549	

In compliance with AASB 1058, a Contract Liability of \$7,245,000 is recorded to recognise unexpended grant funds and contributions as at 30 June 2020. A Contract Asset of \$3,072,000 is recorded at 30 June 2020.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Applying the previous accounting standard AASB 1004, the Contract Liability of \$7,245,000 would be nil and the Accumulated Surplus would increase by \$7,245,000.

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	33,409	–	–	33,409	
User charges and fees	18,091	–	–	18,091	
Other revenues	2,786	–	–	2,786	
Grants and contributions provided for operating purposes	16,979	–	–	16,979	
Grants and contributions provided for capital purposes	23,025	–	7,245	30,270	
Interest and investment income	1,376	–	–	1,376	
Rental income	872	–	–	872	
Total Income from continuing operations	96,538	–	7,245	103,783	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	23,750	–	–	23,750	
Borrowing costs	2,000	–	–	2,000	
Materials and contracts	21,274	–	–	21,274	
Depreciation and amortisation	17,594	–	–	17,594	
Other expenses	8,231	–	–	8,231	
Net losses from the disposal of assets	1,454	–	–	1,454	
Revaluation decrement / impairment of IPP&E	2,099	–	–	2,099	
Total Expenses from continuing operations	76,402	–	–	76,402	
Total Operating result from continuing operations	20,136	–	7,245	27,381	
Loss on Boundary Adjustment	(42,966)	–	–	(42,966)	
Net operating result for the year	(22,830)	–	7,245	(15,585)	
Total comprehensive income	(15,548)	–	–	(15,548)	

In compliance with new accounting standards AASB 1058 and AASB 15, a Contract Liability of \$7,245,000 is recorded to recognise unexpended grant funds and contributions as at 30 June 2020. A Contract Asset of \$3,072,000 is recorded at 30 June 2020.

Applying the previous accounting standard AASB 1004, the Contract Liability of \$7,245,000 would be nil and the Accumulated Surplus would increase by \$7,245,000.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract assets	–	2,166	2,166
Receivable	12,357	(2,166)	10,191
Total assets	943,888	–	943,888
Contract liabilities	–	7,340	7,340
Total liabilities	46,696	7,340	54,036
Accumulated surplus	873,423	(7,340)	866,083
Revaluation reserves	23,769	–	23,769
Total equity	897,192	(7,340)	889,852

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

(iii) AASB 16 Leases

Council as a lessee

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

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

Practical expedients used on transition

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

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

Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$313,000 at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

The weighted average lessee’s incremental borrowing rate applied to lease liabilities at 1 July 2019 was 5.71%.

\$ '000	Balance at 1 July 2019
Operating lease commitments at 30 June 2019 per Council financial statements	1,030

Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases

Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019	445
Less:	
Short-term leases included in commitments note	(132)
Lease liabilities recognised at 1 July 2019	<u>313</u>

Council as a lessor

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16 except for sub-leases, which have now been classified in relation to the right-of-use asset under the head lease rather than the underlying asset.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Rights-of-use assets	–	313	313
Total assets	943,888	313	944,201
Leases	–	313	313
Total liabilities	46,696	313	47,009
Accumulated surplus	–	–	–
Total equity	897,192	–	897,192

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. 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)	20,856	11,040
Balance as per the Statement of Cash Flows		20,856	11,040
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		(22,830)	15,317
Adjust for non-cash items:			
Depreciation and amortisation		17,594	18,198
Net losses/(gains) on disposal of assets		1,454	1,102
Adoption of AASB 15/1058		(7,340)	–
Other movement		(32)	–
Loss on Boundary Adjustment		42,966	–
Crown Land devolved by NSW State Government to Council		(8,152)	–
RFS Fleet assets contributed to Council		(1,427)	–
Increase in Rehabilitation Provision		(19,761)	–
Non-cash adjustment to Landfill asset		891	–
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Revaluation decrements / impairments of IPP&E direct to P&L		2,099	608
Unwinding of discount rates on reinstatement provisions		(340)	41
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		3,239	227
Increase/(decrease) in provision for impairment of receivables		(57)	169
Decrease/(increase) in inventories		(181)	209
Decrease/(increase) in other current assets		(435)	81
Decrease/(increase) in contract assets		(3,073)	–
Increase/(decrease) in payables		(933)	(686)
Increase/(decrease) in accrued interest payable		(10)	(22)
Increase/(decrease) in other accrued expenses payable		1,407	546
Increase/(decrease) in other liabilities		37	(2,011)
Increase/(decrease) in contract liabilities		7,245	–
Increase/(decrease) in provision for employee benefits		(102)	(93)
Increase/(decrease) in other provisions		19,761	(1)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		32,020	33,685

(c) Non-cash investing and financing activities

The following non-cash investing activities occurred during the year:

1. Council was devolved Crown Land parcels from the NSW State Government. As at 1 July 2019, the NSW Valuer General value assigned to the parcels is \$8,152,000. Council has recognised these parcels of land in the Community Land asset class in Note 11. A corresponding credit as a Capital contribution is recognised in Note 3(e).

2. Council recognised Rural Fire Service (RFS) fleet assets during 2020 based upon capital funding contributions made by the Rural Fire Service. The Cost of the fleet assets recognised at 1 July 2019 is \$4,115,000 less accumulated depreciation of \$2,688,000, giving a written down value of \$1,427,000.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Interests in other entities

Unconsolidated structured entities

Council did not consolidate the following structured entities:

\$ '000	2020	2019
---------	------	------

1. New England Weeds Authority

New England Weeds Authority (NEWA), is the registered trading name of The New England Tablelands Noxious Plants County Council. NEWA is a single purpose Council which is a Local Control Authority for priority and invasive weeds under the NSW Biosecurity Act, 2015. The present area of operation of NEWA is the local government areas of Armidale Regional, Walcha, Uralla Shire, and Glen Innes Severn (under a Memorandum of Understanding). These Councils are located in the Northern Tablelands region of New South Wales.

The County Council's governance is in accordance with the Local Government Act 1993 (LGA 1993) with the County Council first proclaimed in 1947.

NEWA is funded by contributions from its four Constituent Councils, grants and private works. Each Constituent Council has delegated its Noxious weeds control function to NEWA and contributes in accordance with NEWA's proclamation. NEWA's governing body consists of five Councillors elected by each of the Constituent Councils.

NEWA leases property from Council for office accommodation, parking and storage of chemicals under a 5 year lease agreement from 1 July 2015 - 30 June 2020. Council also provides servicing of vehicles owned by NEWA at cost. Management assessed the impact of the NEWA's operations to be insignificant to the financial statements of Council.

Nature of risks relating to the Unconsolidated Structured Entity

NEWA is a separately constituted and proclaimed County Council. The proclamation determined the contribution of each participating Council. These contributions are the total financial support required of each Constituent Council.

Council has no further obligations should NEWA become insolvent. As a proclaimed entity of the State of NSW, any additional funding obligations remain with the State.

Non-contractual financial support provided

Council did not provide any non contractual support to NEWA.

Current intention to provide financial support

Council will continue to provide a contribution to NEWA in accordance with NEWA's proclamation. Council's expected contribution for the 2020/2021 year is approximately \$205,000 including GST (2019: \$220,000 including GST).

2. New England Regional Art Museum (NERAM)

New England Regional Art Museum (NERAM) is a not for profit company limited by guarantee, and a Charitable Trust which has received endorsed deductible gift recipient status. NERAM is an organisation built with a combination of state and local government funding and community contributions. Council does not hold any ownership interest in NERAM.

NERAM's income is derived from several sources, including a 20 year funding agreement with Council (38%), NSW government (5%), with the balance made up from membership fees, art classes, commercial sponsorship and fundraising.

The 20 year funding agreement commenced on 15 April 2009 at \$265,000 per annum plus GST, indexed at Councils rate peg increase at each anniversary date. The funding agreement is due to expire on 14 April 2028. Under the funding agreement, Council also provides 'in kind' support for building maintenance, up to a capped amount of \$10,000 per annum indexed with CPI each year, on the building that NERAM occupies and leases from Council under a separate lease agreement.

Council has assessed the impact of the organisation's operations to be insignificant to the financial statements of Council.

Nature of risks relating to the Unconsolidated Structured Entity

Council provides 38% of funding for NERAM. As a public company limited by guarantee, the organisation is responsible for its own funding, while it may not exist without Council's ongoing support. Council makes 4 quarterly payments to NERAM in accordance with the funding agreement.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Interests in other entities (continued)

\$ '000	2020	2019
The main assets of NERAM are artworks. The nature of the Hinton and Coventry Trust prevent sale and usage of funds to fund operations. The assets and liabilities of NERAM are not considered significant to the financial statements of Council.		
Income received by Council relating to the Structured Entity		
– Rental Income	(11)	(11)
Assets in Council's Statement of Financial Position relating to the Structured Entity	7,061	7,311
Net assets in Council's Statement of Financial Position	7,061	7,311
Difference – net asset/(net exposure) relating to the Structured Entity:	7,061	7,311

Non-contractual financial support provided

Council did not provide any non contractual support to NERAM.

Current intention to provide financial support

Council's current position is to maintain support and contributions in accordance with the 20 year funding agreement which commenced on 15 April 2009 and concludes on 14 April 2028.

Under the funding agreement, the commencement funding amount is \$265,000 per annum plus GST, increased on each anniversary date by what is commonly referred to as the rate pegging percentage for Council. Council's contribution for the 2020/21 year is estimated at \$355,000 plus GST.

Council also provides 'in kind' support to NERAM in terms of a lease of the building and maintenance of the land upon which NERAM is located, capped at a dollar value of \$10,000 per annum indexed to CPI.

3. New England Joint Organisation (NEJO)

The New England Joint Organisation ("NEJO") was established on 11 May 2018 and is a separately constituted entity pursuant to Part 7 (Sections 400O to 400ZH) of the Local Government Act (NSW) 1993, as amended, and the Local Government (General) Regulation 2008.

The principal purpose of the NEJO is to establish strategic regional priorities and to provide regional leadership to the geographical area for which it serves, and to identify and take up opportunities for intergovernmental cooperation on matters relating to the joint organisation area.

The NEJO comprises seven voting member councils: Armidale Regional Council, Glen Innes Severn Council, Inverell Shire Council, Moree Plains Shire Council, Narrabri Shire Council, Tenterfield Shire Council and Uralla Shire Council.

The Board of the NEJO consists of the Mayors of each Member Council, who are entitled to one (1) vote at Meetings, and a non-voting representative of the NSW Government, who is the Regional Director of the Department of Premier and Cabinet.

The Chairperson is to be elected by the voting representatives of the Board from one (1) of the Mayoral representatives. The Chairperson does not have a casting vote.

A decision of the Board is supported by a majority at which a quorum is present.

Armidale Regional Council, as a member of the NEJO, has a one-seventh voting right in respect to the decisions of the Board. Decision making is based on majority votes, so Council does not have control, joint control or significant influence over relevant activities of the organisation.

In accordance with the NEJO's Charter, each member is required to contribute annual fees towards the operation of the organisation. In the 2018/2019 year, the contribution made by Council was \$5,000. In the 2019/2020 year, the contribution made by Council was \$7,900. The contribution by Council for the 2020/2021 financial year has been set at \$28,320 in the NEJO Operational Plan for 2020/2021.

The net operating result for the year ended 30 June 2020 was \$46,486 (2019: \$272,563). Council is not entitled to any share or distribution of the NEJO net operating result.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Commitments

\$ '000	2020	2019
(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		
Plant and equipment	568	1,523
Bridges	1,680	–
Airport Business Park	1,519	–
Playground equipment	643	–
Parks	250	–
Other	288	2,726
Total commitments	4,948	4,249
These expenditures are payable as follows:		
Within the next year	4,948	4,249
Total payable	4,948	4,249
Sources for funding of capital commitments:		
Externally restricted reserves	4,380	2,726
Internally restricted reserves	568	1,523
Total sources of funding	4,948	4,249

Details of capital commitments

For each of the commitments, tenders have been called and orders placed prior to year end, with an expectation of delivery early during the 2019/20 year.

(b) Finance lease commitments (2019 only)

Council is not party to any finance lease arrangements.

(c) 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	–	165
Later than one year and not later than 5 years	–	99
Later than 5 years	–	766
Total non-cancellable operating lease commitments	–	1,030

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

Operating leases exist for:

(1) the provision of all photocopiers throughout all Council offices and facilities; and

Conditions relating to finance and operating leases:

All operating lease agreements are secured only against the leased asset.

No lease agreements impose any financial restrictions on Council regarding future debt.

Refer to Note 13 for information relating to leases for 2020.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. 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 contributes to a Defined Benefit Superannuation Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B ("the Scheme"). The Scheme is a defined benefit superannuation plan that has been deemed to be a 'multi-employer fund' for purposes of AASB 119 Employee Benefits for the following reasons:

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

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

Description of the funding arrangements.

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

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

Division B	1.9 times member contributions for non-180 Point Member; Nil for 181 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 additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2019 for 2 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2019.

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 Scheme for other Council's obligations under the terms and conditions of the multi-employer Scheme

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.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ended 30 June 2020 was \$422,023. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 30 June 2019, and relates to the period ended 30 June 2019.

Council's expected contribution to the Scheme for the next annual reporting period is \$416,605.

The estimated employer reserves in the Scheme for the Pooled Employers at 30 June 2020 is:

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

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of 0.58% or \$452,400 as at 30 June 2020.

Council's share of that deficit 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 any deficiency or gain for any surplus is recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct any future 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. Please note the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Scheme's Actuary, the final end of year review will be completed around November/December 2020.

(ii) Statewide Mutual

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 Mutual depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the Mutual pool and the result of insurance claims within each of the Mutual years.

The future realisation and finalisation of claims incurred but not reported to 30 June 2020 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 Mutual Limited

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

StateCover Mutual Limited is a public 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

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

(iv) Other guarantees

During the 2018/19 year, Council provided a bank guarantee for \$10,000 relating to an easement over an independent party's land. The bank guarantee remains in place as at 30 June 2020.

Since year end, Council has provided a second bank guarantee of \$10,000 relating to another easement over an independent party's land.

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

2. Other liabilities

(i) Third party claims

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

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

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

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

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

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

3. Contingent liabilities

(i) Contingent Remediation Work

During 2019, Council identified two sites where future potential remediation work may be required to comply with environmental requirements.

The two sites are:

- (1) the former Armidale Gas Works site, which may require certain land and waterway rehabilitation work; and
- (2) the Guyra recycling centre and waste transfer station, previously used as the Guyra Landfill, which may require certain rehabilitation work to ensure the long term capping of the site.

In relation to the former Armidale Gas Works site, Council continues to test and monitor the site for contamination and leaching. At this stage, there is no present obligation for Council to incur costs of remediation. Council continues to work with the relevant authorities to monitor the site. Should the ongoing testing and monitoring indicate leaked contamination and leaching, remediation may be required to further rehabilitate the site.

In relation to the Guyra Recycling Centre and Waste Transfer Station (formerly the Guyra Landfill site), during 2020, in consultation with the environmental regulator, Council has determined the site requires remediation work and the costs associated with this work have been recognised as a provision for rehabilitation, as included in Note 15 above.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

ASSETS NOT RECOGNISED

(i) 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 21. Financial risk management

Risk management

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

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

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

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

The fair value of Council's financial assets and financial liabilities approximates their carrying amount.

\$ '000	Carrying value 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	20,856	11,040	20,856	11,040
Receivables	9,487	12,684	9,487	12,684
Investments				
– 'Financial assets at amortised cost'	51,295	58,236	51,295	58,236
Total financial assets	81,638	81,960	81,638	81,960
Financial liabilities				
Payables	8,437	7,431	7,401	6,736
Loans/advances	23,777	26,763	23,777	26,763
Lease liabilities	279	–	279	–
Total financial liabilities	32,493	34,194	31,457	33,499

Fair value is determined as follows:

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

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

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

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

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether the changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

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

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

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

The 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	513	513	(513)	(513)
2019				
Possible impact of a 1% movement in interest rates	582	582	(582)	(582)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. 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.

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

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

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2020						
Gross carrying amount	–	1,411	230	253	112	2,006
2019						
Gross carrying amount	–	1,115	391	246	–	1,752

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	5,601	1,274	246	131	621	7,873
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	38.00%	3.00%
ECL provision	–	–	–	–	236	236
2019						
Gross carrying amount	6,165	2,213	474	1,163	1,366	11,381
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	16.55%	1.99%
ECL provision	–	–	–	–	226	226

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. 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%	40	7,361	–	–	7,401	7,401
Loans and advances	5.71%	–	4,237	19,276	6,900	30,413	23,777
Total financial liabilities		40	11,598	19,276	6,900	37,814	31,178
2019							
Trade/other payables	0.00%	–	6,736	–	–	6,736	6,736
Loans and advances	5.42%	–	4,441	19,051	11,248	34,740	26,763
Total financial liabilities		–	11,177	19,051	11,248	41,476	33,499

Loan agreement breaches

No breaches of any loan agreements occurred during the year.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations

Council's original financial budget for 2019/20 was adopted by the Council on 29 June 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	32,939	33,409	470	1%	F
User charges and fees	20,084	18,091	(1,993)	(10)%	U
Ongoing severe drought conditions had a significant impact on water usage charges and this is the major reason for the unfavourable variance.					
Other revenues	3,005	2,786	(219)	(7)%	U
Operating grants and contributions	11,216	16,979	5,763	51%	F
Favourable result relates to grant funding received for drought relief (\$1.4m) and bushfire and drought stimulus (\$1.5m) that was not in the original budget.					
Capital grants and contributions	13,650	23,025	9,375	69%	F
Favourable variance relates to a combination of: (1) additional capital grants and contributions received during the year not budgeted for and (2) the impact of the new revenue accounting standards were not budgeted for. Grant Revenue recorded in FY2019 (in accordance with the accounting standards applicable for that year) was required to be recognised again in the FY2020 year (in accordance with the new revenue accounting standards).					
Interest and investment revenue	2,106	1,376	(730)	(35)%	U
Unfavourable variance relates to the negative impact from a drop in interest rates from when the budget was originally forecast.					
Rental income	632	872	240	38%	F
The reason for the favourable variance is that the facilities lease income was higher than forecast.					
EXPENSES					
Employee benefits and on-costs	25,332	23,750	1,582	6%	F
Borrowing costs	1,469	2,000	(531)	(36)%	U
Unfavourable variance relates to the recognition of discount amortisation associated with landfill remediation. This was not budgeted for.					
Materials and contracts	14,792	21,274	(6,482)	(44)%	U
Unfavourable variance relates to the additional costs associated with the drought response (\$3.6m), RMCC ordered works exceeded budget by \$2m but were claimed back from RMS, additional expenditure relating to bushfire response and cleanup (\$1.2m) was also incurred, most of which has been claimed under section 44 natural disaster funding arrangements. There were around \$0.9m in operational costs incurred that related to grant expenditure where Council was the auspicing body. This was not included in the original budget.					

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
Depreciation and amortisation	16,484	17,594	(1,110)	(7)% U
Unfavourable variance largely relates to increased depreciation on water and sewerage network assets.				
Other expenses	9,865	8,231	1,634	17% F
Around \$1m of the original budget related to fuel and registration expenses for Council fleet. The actual costs have been reported against materials and contracts, which is the predominant reason for the favourable budget variation.				
Net losses from disposal of assets	-	1,454	(1,454)	∞ U
The net result from disposal of assets was not budgeted for.				
Revaluation decrement / impairment of IPP&E	-	2,099	(2,099)	∞ U
The impact of impairment of the Kempsey Road asset due to natural disaster and impairment of the Old Kolora Property due to a lower sales price were not budgeted for.				
Loss on Boundary Adjustment	-	(42,966)	42,966	∞ F
The loss that arose from the Boundary Adjustment (ie transfer of net assets to Inverell Shire Council for nil consideration) was not budgeted for.				
STATEMENT OF CASH FLOWS				
Cash flows from operating activities	32,175	32,020	(155)	0% U
The unfavourable variance relates to a higher level of cashoutflows relating to materials and contracts and other expenses.				
Cash flows from investing activities	(33,049)	(19,218)	13,831	(42)% F
The favourable variance relates to lower cash outflows relating to purchase of PPE. The original budget included a much higher level of capital expenditure than the end of year budget position.				
Cash flows from financing activities	(2,952)	(2,986)	(34)	1% U

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

Note 23. Boundary adjustments

\$ '000

The Local Government (Armidale and Inverell - Alteration of Boundaries) Proclamation 2019 was effective from 1 July 2019. The object of the Proclamation is to alter the boundaries between the local government areas of Armidale Regional Council and Inverell Shire Council, so that the localities known as Tingha, Bassendean, Howell, Stanborough, Bundarra, Georges Creek, New Valley and The Basin (collectively referred to as Tingha) which comprise approximately 800 square kilometres, and which previously lay within the Armidale Regional Council local government area adjacent to that boundary, became part of the Inverell Shire Council local government area.

The transfer of assets from Armidale Regional Council included roads, land and buildings, water and sewer infrastructure assets and some other minor miscellaneous assets. These assets were transferred to Inverell Shire Council on 1 July 2019 for nil consideration.

	Actual 2020
Loss on boundary adjustment	
Assets transferred to Inverell Shire Council	(42,966)
	<u>(42,966)</u>

The written down value of the assets transferred is as follows:

Asset Category	\$'000
Operational Land	351
Community Land	23
LUR	62
Buildings	1,030
Other Structures	19
Roads	19,096
Bridges	2815
Footpaths	355
Bulk Earthworks	9,605
Stormwater drainage	3,028
Water Supply	1,782
Sewerage	4,731
Other	69
Total Assets	42,966

Council believes the carrying amounts are not materially different from their fair values as at the date of transfer.

The fair value of the net assets transferred has been shown as a loss from boundary adjustments in the Income Statement.

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

Note 24. Fair Value Measurement

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

– Infrastructure, property, plant and equipment

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					
Plant and equipment	30/06/20	–	–	11,429	11,429
Office equipment	30/06/20	–	–	191	191
Operational Land	30/06/19	–	24,962	–	24,962
Community Land	30/06/19	–	–	27,516	27,516
Land Under Roads	30/06/19	–	–	657	657
Buildings (specialised and non-specialised)	30/06/18	–	61,760	–	61,760
Other structures	13/05/16	–	–	6,608	6,608
Roads	13/05/16	–	–	154,595	154,595
Bridges	13/05/16	–	–	39,658	39,658
Footpaths	13/05/16	–	–	7,347	7,347
Bulk earthworks (non-depreciable)	13/05/16	–	–	142,100	142,100
Stormwater drainage	13/05/16	–	–	46,906	46,906
Water supply network	30/06/17	–	–	163,268	163,268
Sewerage network	30/06/17	–	–	97,941	97,941
Airport infrastructure	30/06/17	–	–	6,977	6,977
Heritage collections	13/05/16	–	–	52	52
Other	13/05/16	–	–	112	112
Artworks	13/05/16	–	–	24,255	24,255
Tip assets	30/06/20	–	–	19,301	19,301
Total infrastructure, property, plant and equipment		–	86,722	748,913	835,635

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

Note 24. 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					
Plant and equipment	30/6/19	–	–	10,192	10,192
Office equipment	30/6/19	–	–	345	345
Operational Land	30/06/18	–	21,312	–	21,312
Community Land	30/06/18	–	–	19,882	19,882
Land Under Roads	30/06/19	–	–	721	721
Buildings (specialised and non-specialised)	30/06/18	–	65,164	–	65,164
Other structures	13/05/16	–	–	6,439	6,439
Roads	13/05/16	–	–	176,942	176,942
Bridges	13/05/16	–	–	42,294	42,294
Footpaths	13/05/16	–	–	7,918	7,918
Bulk earthworks (non-depreciable)	13/05/16	–	–	152,653	152,653
Stormwater drainage	13/05/16	–	–	49,015	49,015
Water supply network	30/06/17	–	–	153,713	153,713
Sewerage network	30/06/17	–	–	103,812	103,812
Airport infrastructure	30/06/17	–	–	7,347	7,347
Heritage collections	13/05/16	–	–	60	60
Other	13/05/16	–	–	14,910	14,910
Artworks	13/05/16	–	–	112	112
Tip assets	30/06/19	–	–	1,053	1,053
Total infrastructure, property, plant and equipment		–	86,476	747,408	833,884

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

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

Council identifies at the end of the reporting period if any transfers between the different levels of the hierarchies have occurred. During the year, there were no transfers between Level 1 and Level 2 Fair Value hierarchies for recurring fair value measurement.

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

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

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

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

Plant and equipment, and office equipment – Level 3

Valuation Techniques – Depreciated historic cost. The nature and value of plant and equipment and office equipment recognises that depreciated historic cost is a representation of fair value. Observable inputs - Available market data to assess the replacement cost of the asset. Unobservable inputs - Estimates of useful life and residual value.

Operational Land – Level 2

This asset class comprises all of Council’s land classified as Operational Land under the NSW Local Government Act 1993. Valuation Techniques – at 30 June 2020, valuation information was obtained from the NSW Valuer-General and their valuations undertaken at 1 July 2019 for rating purposes. Operational land was previously valued by an external independent valuer at 30 June 2018. Where the valuation information obtained from the NSW Valuer-General indicated an increment or decrement in the value, the increment/decrement was recorded to represent a more current reflection of value. The valuation undertaken by the external independent valuer at 30 June 2018 involved the analysis of sales evidence of other properties within the region and adjustment for differences between key attributes of the properties.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

Observable inputs - Valuation information obtained from the NSW Valuer-General and sales evidence of price per square metre of land.

Community Land and Land under roads – Level 3

Valuations of all of Council's Community Land and Council-managed land were based on either the Unimproved Capital Value (UCV) provided by the NSW Valuer-General or an average unit rate based on the UCV for similar properties where the Valuer-General did not provide a UCV having regard to the highest and best use for this land. As these rates were not considered to be observable market evidence they have been classified as Level 3.

At 30 June 2020, valuation information was obtained from the NSW Valuer-General and their valuations undertaken at 1 July 2019 for rating purposes. Community Land was previously recorded at fair value following the engagement of an external, independent and qualified valuer to determine the fair value of Community Land at 30 June 2018.

Buildings - Level 3

The approach taken with buildings, estimated the replacement cost of each building by componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While all buildings were physically inspected and the unit rates based on square metres could be supported from market evidence (Level 2), other inputs (such as obsolescence) require extensive professional judgement, and impact significantly on the final determination of fair value. In forming valuations of each building, the market to which the asset could be sold in was taken into account and compared back against the cost. Many of the buildings that council owns are specific purpose and valued using current replacement cost approach, and as such, these assets were classified as having been valued using Level 3 valuation inputs.

Buildings were recorded at fair value following the engagement of an external, independent and qualified valuer to determine the fair value of Buildings at 30 June 2018.

Roads, bridges, footpaths, bulk earthworks, stormwater drainage assets – Level 3

Valuation Techniques – Depreciated Replacement Cost.

Due to the specialised nature of Local Government Assets observable market inputs are often unavailable. The cost approach has been adopted for Council Roads and deemed level 3 and were last valued at 13 May 2016. This involves the following process:

- The fair value is a reflection of gross value (replacement cost) less accumulated depreciation.
- Actual construction cost data was used to establish unit rates and applied to the asset's attributes to determine the gross value
- A sample of roads were inspected to arrive at a condition score. This is applied along with the road age to determine the remaining useful life.
- Roads were categorised into appropriate groupings such as Sealed and Unsealed.
- The network was broken into segments linked to defining geographical features
- Assets were disaggregated into significant components which exhibit different patterns of consumption (useful lives) i.e. seal, pavement, subbase, earthworks.

Observable inputs - Construction costs used to assess the replacement cost of the asset. For example Seal cost per m², Pavement construction per m², gravel cost

Unobservable inputs - Estimates of useful life, condition and residual value.

Transport Assets (Roads, Bridges, Footpaths, Bulk Earthworks and Stormwater Drainage) were last revalued by merged councils using internal and credible external valuers at 30 June 2015. In bringing in these assets into the Council, the assets underwent additional desk revaluation with the help of the independent, external valuer at 13 May 2016.

Water supply network and Sewerage network – Level 3

Valuation Techniques – Cost Approach Method.

Due to the specialised nature of Local Government Assets observable market inputs are often unavailable. The cost approach has been adopted for Council Water and Sewer deemed level 3 and was applied as part of 30 June 2017 fair value process. This involves the following process:

- Council engaged independent external valuer, to perform a comprehensive revaluation of its water and sewerage supply network assets
- Council used data published in the NSW Reference Rates Manual as published by the Office of Water, assets's condition assessment and observation and asset useful life for Valuation of Water & Sewerage Assets

Unobservable inputs - Estimates of useful life, condition and residual value.

Water and Sewerage Infrastructure Assets were revalued at 30 June 2017 by an independent, external valuer.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

Landfill/Tip assets – reinstatement, rehabilitation and restoration – Level 3

Valuation Techniques - cost inputs, unit rates, useful life, asset condition, dimensions and specifications.

At the time a landfill site becomes full and the site is required to be closed, there are significant costs associated with the rehabilitation of the site.

During the year ended 30 June 2020, Council engaged an external consultant to provide a Rehabilitation Provision model for all three of Council's landfill sites. The model enabled Council to arrive at a revalued cost of rehabilitation work to be completed on Council's landfill sites. A significant increase in the rehabilitation provision is recorded at 30 June 2020 with a corresponding adjustment required to the value of the Landfill asset.

Heritage collections, artworks and other assets – Level 3

Valuation Technique – Depreciated Cost Approach. The depreciated cost of the asset category is considered a close proxy for fair value.

Due to the specialised nature of Local Government Assets observable market inputs are often unavailable. The depreciated cost approach has been adopted for this asset class and deemed level 3. This involves the following process:

- The fair value is a reflection of gross value less accumulated depreciation. Published project and cost data applied to the asset's attributes is used to determine the gross value (replacement cost)
- Age and asset condition is applied to determine the level of depreciation.
- Major assets were disaggregated into significant components which exhibit different patterns of consumption (useful lives).

Observable inputs - Available market data to assess the replacement cost of the asset.

Unobservable inputs - Estimates of useful life, and condition.

Heritage collections, Artworks and Other Assets were recorded at fair value from merged councils which engaged external, independent valuers to determine the fair value at 13 May 2016.

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

Note 24. Fair Value Measurement (continued)

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

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

\$ '000	Operational land	Community land	Buildings	Infrastructure assets	Other assets	Total
2019						
Opening balance	21,815	19,913	68,395	715,607	11,577	837,307
Transfers from/(to) another asset class	–	–	(779)	1,414	–	635
Purchases (GBV)	–	–	948	8,024	3,452	12,424
Disposals (WDV)	(503)	(31)	(316)	(2,313)	(595)	(3,758)
Depreciation and impairment	–	–	(3,084)	(13,050)	(2,672)	(18,806)
FV gains – other comprehensive income	–	–	–	6,082	–	6,082
Closing balance	21,312	19,882	65,164	715,764	11,762	833,884
2020						
Opening balance	21,312	19,882	65,164	715,764	11,762	833,884
Transfers from/(to) another asset class	(644)	–	211	27,256	–	26,823
Purchases (GBV)	–	8,152	186	2,720	22,603	33,661
Disposals (WDV)	(695)	(460)	(1,652)	(43,980)	(504)	(47,291)
Depreciation and impairment	–	–	(2,149)	(13,832)	(2,776)	(18,757)
FV gains – other comprehensive income	4,989	(58)	–	2,384	–	7,315
Closing balance	24,962	27,516	61,760	690,312	31,085	835,635

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Fair Value Measurement (continued)

(5) Highest and best use

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Related party disclosures

(a) Key management personnel

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

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

\$ '000	2020	2019
Compensation:		
Short-term benefits	1,311	1,104
Post-employment benefits	84	69
Other long-term benefits	36	31
Total	1,431	1,204

(b) Other transactions with KMP and their related parties

Other transactions that occur between KMP and their related parties and Council, as part of Council delivering a public service objective (e.g. access by KMP to use library facilities or Council swimming pools), occur on an arm's length basis, with no additional benefits being provided to KMP over and above those benefits provided to the public.

There are no other disclosures to be made by KMP.

Note 26. Events occurring after the reporting date

Council is not aware of any material or significant 'non-adjusting events' that should be disclosed.

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

Note 27. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19			Interest earned in year	(Expenditure) & Other Adjustments 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								
Drainage	45	–	–	1	–	–	46	–
Roads	786	179	–	17	–	–	982	–
Traffic facilities	18	–	–	–	–	–	18	–
Parking	32	–	–	1	–	–	33	–
Open space	329	–	–	6	–	–	335	–
Community facilities	52	–	–	1	–	–	53	–
Other	8	–	–	–	–	–	8	–
Bushfire	1	–	–	–	–	–	1	–
Street Trees	81	3	–	2	–	–	86	–
S7.11 contributions – under a plan	1,352	182	–	28	–	–	1,562	–
S7.12 levies – under a plan	977	315	–	20	(174)	–	1,138	–
Total S7.11 and S7.12 revenue under plans	2,329	497	–	48	(174)	–	2,700	–
S7.4 planning agreements	54	–	–	1	–	–	55	–
S64 contributions	3,419	531	–	73	(12)	–	4,011	–
Total contributions	5,802	1,028	–	122	(186)	–	6,766	–

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

Note 27. Statement of developer contributions (continued)

\$ '000	as at 30/06/19						as at 30/06/20		
	Opening Balance	Contributions received during the year		Interest earned in year	(Expenditure) & Other Adjustments during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)	
		Cash	Non-cash						
CONTRIBUTION PLAN									
Drainage	45	–	–	1	–	–	46	–	
Roads	786	179	–	17	–	–	982	–	
Traffic facilities	18	–	–	–	–	–	18	–	
Bridges	32	–	–	1	–	–	33	–	
Open space	329	–	–	6	–	–	335	–	
Community facilities	52	–	–	1	–	–	53	–	
Bushfire	1	–	–	–	–	–	1	–	
Street Trees	81	3	–	2	–	–	86	–	
Other	8	–	–	–	–	–	8	–	
Total	1,352	182	–	28	–	–	1,562	–	

S7.12 Levies – under a plan

CONTRIBUTION PLAN								
Other	977	315	–	20	(174)	–	1,138	–
Total	977	315	–	20	(174)	–	1,138	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	25,390	2,252	5,767
User charges and fees	12,526	5,378	187
Interest and investment revenue	438	586	352
Other revenues	1,826	71	889
Grants and contributions provided for operating purposes	15,495	1,484	–
Grants and contributions provided for capital purposes	19,304	3,027	694
Rental income	872	–	–
Total income from continuing operations	75,851	12,798	7,889
Expenses from continuing operations			
Employee benefits and on-costs	20,169	2,293	1,288
Borrowing costs	1,672	328	–
Materials and contracts	11,767	7,403	2,104
Depreciation and amortisation	12,201	3,233	2,160
Other expenses	7,008	598	625
Net losses from the disposal of assets	1,454	–	–
Revaluation decrement /impairment of IPPE	2,099	–	–
Total expenses from continuing operations	56,370	13,855	6,177
Operating result from continuing operations	19,481	(1,057)	1,712
Loss on boundary adjustment			
Loss on boundary adjustment	(36,453)	(1,782)	(4,731)
Net operating result for the year	(16,972)	(2,839)	(3,019)
Net operating result attributable to each council fund	(16,972)	(2,839)	(3,019)
Net operating result for the year before grants and contributions provided for capital purposes	(36,276)	(5,866)	(3,713)

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28. Result by fund (continued)

\$ '000	General ¹ 2020	Water 2020	Sewer 2020
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	20,856	–	–
Investments	8,778	24,594	17,923
Receivables	7,505	1,382	288
Inventories	539	–	488
Contract assets	3,073	–	–
Other	606	–	–
Non-current assets classified as 'held for sale'	1,359	–	–
Total current assets	42,716	25,976	18,699
Non-current assets			
Receivables	312	–	–
Infrastructure, property, plant and equipment	578,410	174,723	104,243
Right of use assets	279	–	–
Total non-current assets	579,001	174,723	104,243
TOTAL ASSETS	621,717	200,699	122,942
LIABILITIES			
Current liabilities			
Payables	8,428	9	–
Income received in advance	(170)	170	–
Contract liabilities	7,245	–	–
Lease liabilities	26	–	–
Borrowings	2,568	263	–
Provisions	7,329	–	–
Total current liabilities	25,426	442	–
Non-current liabilities			
Lease liabilities	253	–	–
Borrowings	16,719	4,227	–
Provisions	23,987	–	–
Total non-current liabilities	40,959	4,227	–
TOTAL LIABILITIES	66,385	4,669	–
Net assets	555,332	196,030	122,942
EQUITY			
Accumulated surplus	538,067	187,638	117,516
Revaluation reserves	17,265	8,392	5,426
Council equity interest	555,332	196,030	122,942
Total equity	555,332	196,030	122,942

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	664	0.90%	1.09%	(8.73)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	73,513				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	56,534	58.56%	65.51%	71.27%	>60.00%
Total continuing operating revenue ¹	96,538				
3. Unrestricted current ratio					
Current assets less all external restrictions	25,059	2.64x	2.40x	1.53x	>1.50x
Current liabilities less specific purpose liabilities	9,482				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	20,258	4.06x	4.47x	2.81x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4,986				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	2,036	5.74%	5.46%	6.86%	<10.00%
Rates, annual and extra charges collectible	35,477				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	72,151	13.91	12.57	13.37	>3.00
Monthly payments from cash flow of operating and financing activities	5,186	mths	mths	mths	mths

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 29(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2020	2019	2020	2019	2020	2019	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	6.60%	(1.02)%	(41.80)%	11.41%	14.15%	(0.86)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	54.12%	66.10%	64.75%	55.10%	91.20%	93.39%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	2.64x	2.40x	∞	74.50x	∞	760.30x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	4.06x	3.53x	(1.11)x	7.59x	158.90x	102.75x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	6.36%	2.87%	3.32%	6.97%	4.24%	15.34%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	6.30	5.34	142.45	61.31	57.61	56.86	>3.00
Payments from cash flow of operating and financing activities	mths	mths	mths	mths	mths	mths	mths

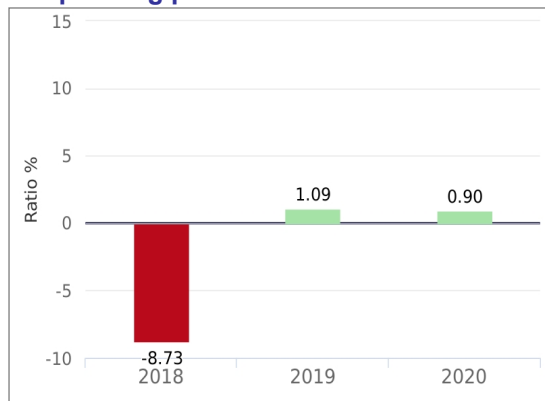
(1) - (2) Refer to Notes at Note 31a above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

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

Note 29(c). 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.

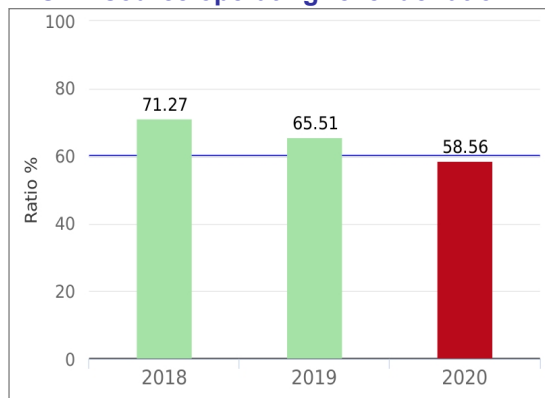
Commentary on 2019/20 result	
2019/20 ratio	0.90%
The 2020 operating result has deteriorated from the previous year predominantly due to the impact of drought on water usage charges and the creation of additional costs. The drought is estimated to have cost Council \$6.3 million in the 2019/20 financial year and this has had a significant negative impact on the level of Council's water reserve. Negative impacts on the operating result were also created by COVID-19 and this is estimated to have cost Council around \$0.7 million in 2019/20.	

Benchmark: — > 0.00%

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

Ratio achieves benchmark (green)
Ratio is outside benchmark (red)

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.

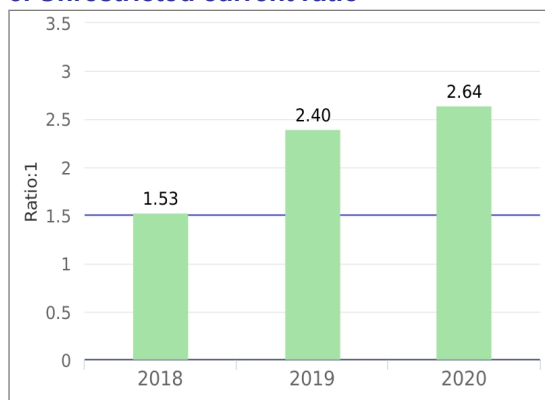
Commentary on 2019/20 result	
2019/20 ratio	58.56%
This ratio is impacted by the level of grants and contributions received and is slightly lower in 2020 than the previous year due to a higher level of capital contributions recognised as revenue. This ratio is also impacted by new accounting standards, which have changed how Council must recognise grant revenues.	

Benchmark: — > 60.00%

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

Ratio achieves benchmark (green)
Ratio is outside benchmark (red)

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	2.64x
This ratio has improved slightly from the previous year. Gradual improvement is as a result of strategies introduced in 2018/19 to improve the operating result and cash position, which occurred to avoid Council falling below the minimum level recommended by the Office of Local Government.	

Benchmark: — > 1.50x

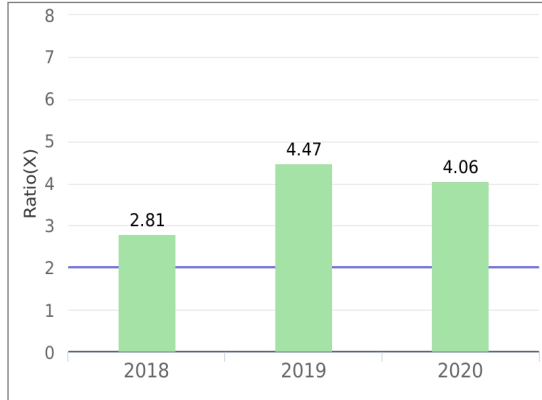
Source of benchmark: Code of Accounting Practice and Financial Reporting #28

Ratio achieves benchmark (green)
Ratio is outside benchmark (red)

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

Note 29(c). 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 4.06x

This ratio has deteriorated from the previous year due to the operating result position worsening.

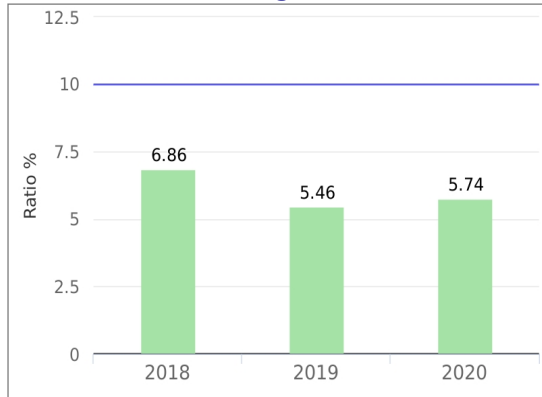
Benchmark: — > 2.00x

Ratio achieves benchmark

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

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 5.74%

This ratio has worsened slightly from the previous year although this is not unexpected with the impact of COVID-19 impacting on ratepayers' ability to pay. In response to COVID-19 Council has also ceased external debt recovery action and has permitted payment deferrals and arrangements to be put in place.

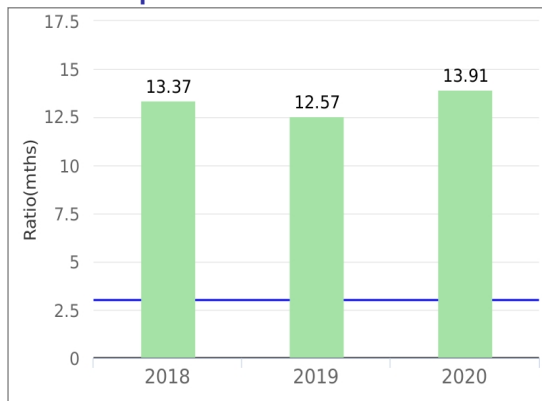
Benchmark: — < 10.00%

Ratio achieves benchmark

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

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 13.91 mths

This ratio has improved from the previous year primarily due to increased cash holdings at year end compared with the prior year end. It reflects the consolidated result including the General, Water and Sewerage funds. Council retains funds in the Water and Sewerage reserves for the purposes of infrastructure replacement, which is important as they are essential community services.

Benchmark: — > 3.00mths

Ratio achieves benchmark

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

Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 30. Council information and contact details

Note 30. Council information and contact details

Principal place of business:

135 Rusden Street
Armidale NSW 2350

Contact details

Mailing Address:

PO Box 75A
Armidale NSW 2350

Telephone: 1300 136 833

Opening hours:

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

Internet: www.armidaleregional.nsw.gov.au

Email: council@armidale.nsw.gov.au

Officers

Acting General Manager

John Rayner

Responsible Accounting Officer

Kelly Stidworthy

Public Officer

Marissa Racomelara

Auditors

Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Elected members

Mayor

Ian Tiley

Councillors

Debra O'Brien (Deputy Mayor)
Andrew Murat
Dorothy Robinson
Jon Galletly
Margaret O'Connor
Peter Bailey

Other information

ABN: 39 642 954 203



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying financial statements of Armidale Regional 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 purpose financial statements and 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 purpose financial statements and 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 22 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.



Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

23 December 2020
SYDNEY

Armidale Regional Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020

Unleash the Opportunities



Special Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
Statement by Councillors & Management	3
Special Purpose Financial Statements	
Income Statement – Water Supply Business Activity	4
Income Statement – Sewerage Business Activity	5
Statement of Financial Position – Water Supply Business Activity	6
Statement of Financial Position – Sewerage Business Activity	7
Note 1 – Significant Accounting Policies	8
Auditor's Report on Special Purpose Financial Statements	11

Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Armidale Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2020

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

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

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

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

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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 22 December 2020.



Ian Tiley
Mayor
22 December 2020



Debra O'Brien
Deputy Mayor
22 December 2020



John Rayner
Acting General Manager
22 December 2020



Kelly Stidworthy
Responsible Accounting Officer
22 December 2020

Income Statement – Water Supply Business Activity
for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	2,252	2,227
User charges	5,296	9,307
Fees	82	13
Interest	586	739
Grants and contributions provided for non-capital purposes	1,484	–
Other income	71	64
Total income from continuing operations	9,771	12,350
Expenses from continuing operations		
Employee benefits and on-costs	2,293	1,968
Borrowing costs	328	334
Materials and contracts	7,403	4,856
Depreciation, amortisation and impairment	3,233	3,201
Loss on sale of assets	–	383
Debt guarantee fee (if applicable)	135	143
Other expenses	598	582
Total expenses from continuing operations	13,990	11,467
Surplus (deficit) from continuing operations before capital amounts	(4,219)	883
Grants and contributions provided for capital purposes	3,027	10,064
Surplus (deficit) from continuing operations after capital amounts	(1,192)	10,947
Loss on boundary adjustment	(1,782)	–
Surplus (deficit) from all operations before tax	(2,974)	10,947
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(243)
SURPLUS (DEFICIT) AFTER TAX	(2,974)	10,704
Plus accumulated surplus	190,477	179,387
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	135	143
– Corporate taxation equivalent	–	243
Closing accumulated surplus	187,638	190,477
Return on capital %	(2.2)%	0.7%
Subsidy from Council	5,429	1,039
Calculation of dividend payable:		
Surplus (deficit) after tax	(2,974)	10,704
Less: capital grants and contributions (excluding developer contributions)	(3,027)	(9,700)
Surplus for dividend calculation purposes	–	1,004
Potential dividend calculated from surplus	–	502

Income Statement – Sewerage Business Activity
for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
Access charges	5,767	5,340
User charges	98	77
Liquid trade waste charges	60	65
Fees	29	25
Interest	352	399
Other income	889	736
Total income from continuing operations	7,195	6,642
Expenses from continuing operations		
Employee benefits and on-costs	1,288	1,400
Borrowing costs	–	3
Materials and contracts	2,104	2,390
Depreciation, amortisation and impairment	2,160	2,208
Loss on sale of assets	–	85
Other expenses	625	698
Total expenses from continuing operations	6,177	6,784
Surplus (deficit) from continuing operations before capital amounts	1,018	(142)
Grants and contributions provided for capital purposes	694	469
Surplus (deficit) from continuing operations after capital amounts	1,712	327
Loss on boundary adjustment	(4,731)	–
Surplus (deficit) from all operations before tax	(3,019)	327
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(280)	–
SURPLUS (DEFICIT) AFTER TAX	(3,299)	327
Plus accumulated surplus	120,535	120,208
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	280	–
Closing accumulated surplus	117,516	120,535
Return on capital %	1.0%	(0.1)%
Subsidy from Council	–	1,565
Calculation of dividend payable:		
Surplus (deficit) after tax	(3,299)	327
Less: capital grants and contributions (excluding developer contributions)	(694)	(129)
Surplus for dividend calculation purposes	–	198
Potential dividend calculated from surplus	–	99

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Investments	24,594	28,305
Receivables	1,382	2,423
Total current assets	25,976	30,728
Non-current assets		
Infrastructure, property, plant and equipment	174,723	170,885
Total non-current assets	174,723	170,885
TOTAL ASSETS	200,699	201,613
LIABILITIES		
Current liabilities		
Payables	9	118
Income received in advance	170	–
Borrowings	263	266
Total current liabilities	442	384
Non-current liabilities		
Borrowings	4,227	4,493
Total non-current liabilities	4,227	4,493
TOTAL LIABILITIES	4,669	4,877
NET ASSETS	196,030	196,736
EQUITY		
Accumulated surplus	187,638	190,477
Revaluation reserves	8,392	6,259
TOTAL EQUITY	196,030	196,736

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Investments	17,923	15,457
Receivables	288	974
Inventories	488	305
Total current assets	18,699	16,736
Non-current assets		
Infrastructure, property, plant and equipment	104,243	108,057
Total non-current assets	104,243	108,057
TOTAL ASSETS	122,942	124,793
LIABILITIES		
Current liabilities		
Borrowings	–	20
Total current liabilities	–	20
Non-current liabilities		
Borrowings	–	3
Total non-current liabilities	–	3
TOTAL LIABILITIES	–	23
NET ASSETS	122,942	124,770
EQUITY		
Accumulated surplus	117,516	120,535
Revaluation reserves	5,426	4,235
TOTAL EQUITY	122,942	124,770

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 2093 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

1. Water Supplies

Comprising the whole of the operations and assets of water supply systems. As the total annual operating revenues are greater than \$2,000,000 is defined as a category 1 "Business Unit".

2. Sewerage Service

Comprising the whole of the operations and assets of the sewer reticulation and treatment system. As the total annual operating revenues are greater than \$2,000,000 is defined as a category 1 "Business Unit".

Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

(i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – 27.5%

Land tax – the first \$692,000 of combined land values attracts 0%. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$850,000.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 27.5% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 0.88% at 30/6/20.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Armidale Regional Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activities declared by Council.

The Declared Business Activities of the Council are:

- Water Supply
- Sewerage.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2020, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 28 (LG Code).

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements 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 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 general purpose financial statements and 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 general purpose financial statements and 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 and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes 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
- 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.



Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

23 December 2020
SYDNEY

Armidale Regional Council

SPECIAL SCHEDULES
for the year ended 30 June 2020

Unleash the Opportunities



Special Schedules

for the year ended 30 June 2020

Contents

Page

Special Schedules

Permissible income for general rates

3

Report on Infrastructure Assets - Values

7

Permissible income for general rates

\$ '000	Notes	2020/21 Armidale Dumaresq Council	2020/21 Guyra Shire Council	2020/21 Armidale Regional Council	2019/20 Armidale Dumaresq Council	2019/20 Guyra Shire Council	2019/20 Armidale Regional Council
Notional general income calculation ¹							
Last year notional general income yield	a	16,156	2,630	18,786	15,695	2,909	18,604
Plus or minus adjustments ²	b	17	4	21	91	(344)	(253)
Notional general income	c = a + b	16,173	2,634	18,807	15,786	2,565	18,351
Permissible income calculation							
Or rate peg percentage	e	2.60%	2.60%		2.70%	2.70%	
Or plus rate peg amount	i = e x (c + g)	420	68	488	426	69	495
Sub-total	k = (c + g + h + i + j)	16,593	2,702	19,295	16,212	2,634	18,846
Plus (or minus) last year's carry forward total	l	57	5	62	19	-	19
Sub-total	n = (l + m)	57	5	62	19	-	19
Total permissible income	o = k + n	16,650	2,707	19,357	16,231	2,634	18,865
Less notional general income yield	p	16,567	2,700	19,267	16,156	2,630	18,786
Catch-up or (excess) result	q = o - p	84	8	92	75	5	80
Carry forward to next year ⁶	t = q + r + s	84	8	92	75	5	80

Notes

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



INDEPENDENT AUDITOR'S REPORT
Special Schedule - Permissible income for general rates
Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Armidale Regional 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, special 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 and the special 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 'CHarper', with a long horizontal stroke extending to the right.

Chris Harper
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

23 December 2020
SYDNEY

Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost		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				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000					
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings	4,765	23,571	2,500	1,783	61,760	118,483	18.0%	12.0%	50.0%	19.0%	1.0%
	Sub-total	4,765	23,571	2,500	1,783	61,760	118,483	18.0%	12.0%	50.0%	19.0%	1.0%
Other structures	Other Structures & Other Infrastructure Assets	884	5,053	4,330	3,799	30,864	41,052	50.0%	36.0%	2.0%	12.0%	0.0%
	Sub-total	884	5,053	4,330	3,799	30,864	41,052	50.0%	36.0%	2.0%	12.0%	0.0%
Roads	Sealed roads	730	2,897	2,300	2,037	115,968	158,031	49.0%	35.0%	15.0%	1.0%	0.0%
	Unsealed roads	1,232	3,684	2,520	2,581	18,077	31,133	46.0%	16.0%	27.0%	7.0%	4.0%
	Bridges	141	805	150	203	39,658	60,538	35.0%	41.0%	23.0%	1.0%	0.0%
	Footpaths	829	2,413	210	59	7,347	14,219	53.0%	20.0%	10.0%	10.0%	7.0%
	Other Road Assets (including Bulk earthworks)	1,775	4,257	470	223	162,650	174,234	90.0%	6.0%	1.0%	1.0%	2.0%
	Sub-total	4,707	14,056	5,650	5,103	343,700	438,155	63.3%	22.5%	11.2%	1.7%	1.3%
Water supply network	Water supply network	1,482	8,048	4,060	3,947	163,268	241,378	10.0%	52.0%	35.0%	3.0%	0.0%
	Sub-total	1,482	8,048	4,060	3,947	163,268	241,378	10.0%	52.0%	35.0%	3.0%	0.0%
Sewerage network	Sewerage network	2,237	12,782	2,230	2,224	97,941	136,138	20.0%	48.0%	23.0%	9.0%	0.0%
	Sub-total	2,237	12,782	2,230	2,224	97,941	136,138	20.0%	48.0%	23.0%	9.0%	0.0%
Stormwater drainage	Stormwater drainage	67	383	570	563	46,906	60,393	55.0%	37.0%	7.0%	1.0%	0.0%
	Sub-total	67	383	570	563	46,906	60,393	55.0%	37.0%	7.0%	1.0%	0.0%
Other infrastructure assets	Airport Infrastructure	-	-	1,210	775	6,977	9,545	92.0%	8.0%	0.0%	0.0%	0.0%
	Sub-total	-	-	1,210	775	6,977	9,545	92.0%	8.0%	0.0%	0.0%	0.0%
TOTAL - ALL ASSETS		14,142	63,893	20,550	18,194	751,416	1,045,144	39.5%	32.7%	21.9%	5.3%	0.7%

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

Infrastructure asset condition assessment 'key'

Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

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	Indicator	Prior periods		Benchmark
	2020	2020	2019	2018	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	2,678	17.81%	45.06%	43.74%	>=100.00%
Depreciation, amortisation and impairment	15,033				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	14,142	1.88%	5.41%	8.24%	<2.00%
Net carrying amount of infrastructure assets	751,416				
Asset maintenance ratio					
Actual asset maintenance	18,194	88.54%	87.00%	96.27%	>100.00%
Required asset maintenance	20,550				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	63,893	6.11%	3.94%	4.19%	
Gross replacement cost	1,045,144				

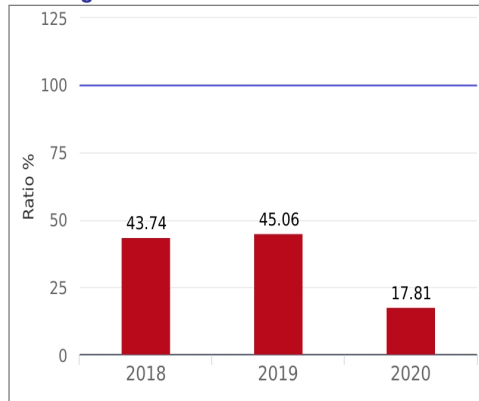
(*) All asset performance indicators are calculated using classes identified in the previous table.

(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



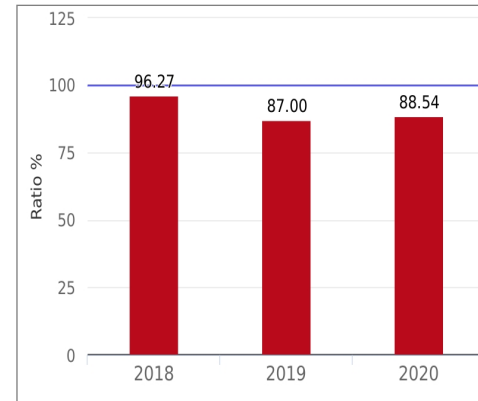
Buildings and infrastructure renewals ratio

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	17.81%

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



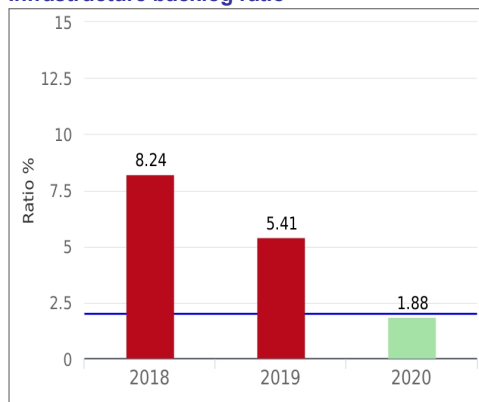
Asset maintenance ratio

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	88.54%

Benchmark: — $> 100.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #28 ■ Ratio is outside benchmark

Infrastructure backlog ratio



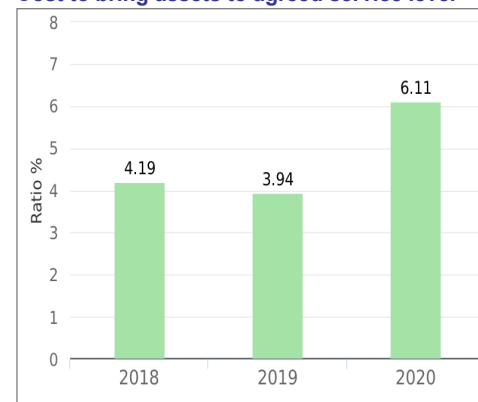
Infrastructure backlog ratio

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

Commentary on result	
19/20 ratio	1.88%

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	6.11%

Report on Infrastructure Assets (continued)
as at 30 June 2020

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2020	2019	2020	2019	2020	2019	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	27.36%	42.88%	0.00%	47.22%	0.00%	53.06%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	2.13%	4.23%	0.91%	10.50%	2.28%	4.16%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	84.31%	87.52%	97.22%	87.51%	99.73%	83.57%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	6.45%	3.11%	3.33%	7.02%	9.39%	3.05%	

(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.