

# Newcastle City Council

GENERAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2014

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# Newcastle City Council

## General Purpose Financial Statements for the financial year ended 30 June 2014

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### Overview

(i) These financial statements are General Purpose Financial Statements and cover the consolidated operations for Newcastle City Council.

(ii) Newcastle City Council is a body politic of NSW, Australia - being constituted as a Local Government area by proclamation and is duly empowered by the Local Government Act (LGA) 1993 of NSW.

Council's Statutory Charter is detailed in Paragraph 8 of the LGA and includes giving Council;

- the ability to provide goods, services & facilities, and to carry out activities appropriate to the current & future needs of the local community and of the wider public,
- the responsibility for administering regulatory requirements under the LGA and
- a role in the management, improvement and development of the resources in the area.

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

(iii) All figures presented in these financial statements are presented in Australian Currency.

(iv) These financial statements were authorised for issue by the Council on 28 October 2014. Council has the power to amend and reissue these financial statements.

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## Newcastle City Council

### General Purpose Financial Statements for the financial year ended 30 June 2014

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

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

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

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

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

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

**Signed in accordance with a resolution of Council made on 23 September 2014.**

Councillor B Luke (Deputy)  
**MAYOR**

Councillor  
**COUNCILLOR**

Ken Gouldthorp  
**GENERAL MANAGER**

Glen Cousins  
**RESPONSIBLE ACCOUNTING OFFICER**

## Newcastle City Council

## Income Statement

for the financial year ended 30 June 2014

Budget 2014	\$ '000	Notes	Actual 2014	Actual 2013
<b>Income from Continuing Operations</b>				
<b>Revenue:</b>				
123,045	Rates & Annual Charges	3a	124,781	117,956
46,947	User Charges & Fees	3b	62,926	54,218
6,858	Interest & Investment Revenue	3c	10,117	10,890
12,393	Other Revenues	3d	11,462	10,810
16,390	Grants & Contributions provided for Operating Purposes	3e,f	14,305	23,632
6,715	Grants & Contributions provided for Capital Purposes	3e,f	18,000	9,721
<b>Other Income:</b>				
800	Net gains from the disposal of assets	5	235	-
	Net Share of interests in Joint Ventures & Associated Entities using the equity method	19	-	-
<b>213,148</b>	<b>Total Income from Continuing Operations</b>		<b>241,826</b>	<b>227,227</b>
<b>Expenses from Continuing Operations</b>				
88,978	Employee Benefits & On-Costs	4a	87,229	94,688
4,220	Borrowing Costs	4b	4,450	4,137
50,378	Materials & Contracts	4c	42,051	40,653
55,609	Depreciation & Amortisation	4d	43,873	46,585
	Impairment	4d	1,898	1,341
36,362	Other Expenses	4e	43,571	37,511
	Interest & Investment Losses	3c	-	-
	Net Losses from the Disposal of Assets	5	-	5,996
	Net Share of interests in Joint Ventures & Associated Entities using the equity method	19	-	-
<b>235,547</b>	<b>Total Expenses from Continuing Operations</b>		<b>223,072</b>	<b>230,911</b>
<b>(22,399)</b>	<b>Operating Result from Continuing Operations</b>		<b>18,754</b>	<b>(3,684)</b>
<b>Discontinued Operations</b>				
	Net Profit/(Loss) from Discontinued Operations	24	-	-
<b>(22,399)</b>	<b>Net Operating Result for the Year</b>		<b>18,754</b>	<b>(3,684)</b>
<b>(22,399)</b>	<b>Net Operating Result attributable to Council</b>		<b>18,754</b>	<b>(3,684)</b>
<b>Net Operating Result for the year before Grants and Contributions provided for Capital Purposes</b>				
<b>(29,114)</b>			<b>754</b>	<b>(13,405)</b>

<sup>1</sup> Original Budget as approved by Council - refer Note 16. Original budget excludes consolidated Airport net operating result of \$2.2m

## Newcastle City Council

Statement of Comprehensive Income  
for the financial year ended 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
<b>Net Operating Result for the year</b> (as per Income statement)		<b>18,754</b>	<b>(3,684)</b>
<b>Other Comprehensive Income:</b>			
Amounts which will not be reclassified subsequently to the Operating Result			
Nil			
Gain (loss) on revaluation of I,PP&E	20b (ii)	20,288	(15,111)
Impairment (loss) reversal relating to I,PP&E	20b (ii)	(2,905)	(41)
Other Movements	20b (ii)	31	-
<b>Total Items which will not be reclassified subsequently to the Operating Result</b>		<b>17,414</b>	<b>(15,152)</b>
<b>Total Other Comprehensive Income for the year</b>		<b>17,414</b>	<b>(15,152)</b>
<b>Total Comprehensive Income for the Year</b>		<b>36,168</b>	<b>(18,836)</b>
<b>Total Comprehensive Income attributable to Council</b>		<b>36,168</b>	<b>(18,836)</b>
<b>Total Comprehensive Income attributable to Non-controlling Interests</b>		<b>-</b>	<b>-</b>

## Newcastle City Council

Statement of Financial Position  
as at 30 June 2014

\$ '000	Notes	Actual 2014	Actual 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Cash Equivalents	6a	44,032	21,828
Investments	6b	65,591	86,439
Receivables	7	15,135	15,872
Inventories	8	690	855
Other	8	315	3,010
Non-current assets classified as "held for sale"	21	13,430	7,635
<b>Total Current Assets</b>		<b>139,193</b>	<b>135,639</b>
<b>Non-Current Assets</b>			
Investments	6b	132,681	114,480
Receivables	7	1,300	1,265
Infrastructure, Property, Plant & Equipment	9	1,289,624	1,284,704
Investments accounted for using the equity method	19	267	216
Investment Property	14	13,350	11,715
Intangible Assets	23	1,372	287
Other	8	11	15
<b>Total Non-Current Assets</b>		<b>1,438,605</b>	<b>1,412,682</b>
<b>TOTAL ASSETS</b>		<b>1,577,798</b>	<b>1,548,321</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	10	24,165	24,418
Borrowings	10	2,825	4,168
Provisions	10	35,140	40,096
<b>Total Current Liabilities</b>		<b>62,130</b>	<b>68,682</b>
<b>Non-Current Liabilities</b>			
Borrowings	10	64,541	64,368
Provisions	10	6,966	7,233
<b>Total Non-Current Liabilities</b>		<b>71,507</b>	<b>71,601</b>
<b>TOTAL LIABILITIES</b>		<b>133,637</b>	<b>140,283</b>
<b>Net Assets</b>		<b>1,444,161</b>	<b>1,408,038</b>
<b>EQUITY</b>			
Retained Earnings	20	1,150,927	1,130,675
Revaluation Reserves	20	293,234	277,363
Council Equity Interest		1,444,161	1,408,038
Non-controlling Interests		-	-
<b>Total Equity</b>		<b>1,444,161</b>	<b>1,408,038</b>

## Newcastle City Council

Statement of Changes in Equity  
for the financial year ended 30 June 2014

\$ '000	Notes	Retained Earnings	Reserves (Refer 20b)	Council Interest	Non-controlling Interest	Total Equity
<b>2014</b>						
<b>Opening Balance</b> (as per Last Year's Audited Accounts)		1,130,675	277,363	<b>1,408,038</b>	-	<b>1,408,038</b>
<b>Revised Opening Balance</b> (as at 1/7/13)		<b>1,130,675</b>	<b>277,363</b>	<b>1,408,038</b>	-	<b>1,408,038</b>
<b>c. Net Operating Result for the Year</b>		<b>18,754</b>		<b>18,754</b>	-	<b>18,754</b>
<b>d. Other Comprehensive Income</b>						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)		20,288	<b>20,288</b>		<b>20,288</b>
- Impairment (loss) reversal relating to I,PP&E	20b (ii)		(2,905)	<b>(2,905)</b>		<b>(2,905)</b>
- Other Movements	20a	31		<b>31</b>		<b>31</b>
<b>Other Comprehensive Income</b>		<b>31</b>	<b>17,383</b>	<b>17,414</b>	-	<b>17,414</b>
<b>Total Comprehensive Income</b> (c&d)		<b>18,785</b>	<b>17,383</b>	<b>36,168</b>	-	<b>36,168</b>
<b>e. Distributions to/(Contributions from) Non-controlling Interests</b>		(45)		<b>(45)</b>	-	<b>(45)</b>
<b>f. Transfers between Equity</b>		1,512	(1,512)	-		-
<b>Equity - Balance at end of the reporting period</b>		<b>1,150,927</b>	<b>293,234</b>	<b>1,444,161</b>	-	<b>1,444,161</b>
<b>2013</b>						
<b>Opening Balance</b> (as per Last Year's Audited Accounts)		1,085,451	302,166	<b>1,387,617</b>	-	<b>1,387,617</b>
<b>a. Correction of Prior Period Errors</b>	20 (c)	39,257	-	<b>39,257</b>	-	<b>39,257</b>
<b>Revised Opening Balance</b> (as at 1/7/12)		<b>1,124,708</b>	<b>302,166</b>	<b>1,426,874</b>	-	<b>1,426,874</b>
<b>c. Net Operating Result for the Year</b>		(3,684)	-	<b>(3,684)</b>	-	<b>(3,684)</b>
<b>d. Other Comprehensive Income</b>						
- Revaluations : IPP&E Asset Revaluation Rsve	20b (ii)	-	(15,111)	<b>(15,111)</b>	-	<b>(15,111)</b>
- Impairment (loss) reversal relating to I,PP&E	20b (ii)	-	(41)	<b>(41)</b>	-	<b>(41)</b>
<b>Other Comprehensive Income</b>		-	<b>(15,152)</b>	<b>(15,152)</b>	-	<b>(15,152)</b>
<b>Total Comprehensive Income</b> (c&d)		<b>(3,684)</b>	<b>(15,152)</b>	<b>(18,836)</b>	-	<b>(18,836)</b>
<b>f. Transfers between Equity</b>		9,651	(9,651)	-	-	-
<b>Equity - Balance at end of the reporting period</b>		<b>1,130,675</b>	<b>277,363</b>	<b>1,408,038</b>	-	<b>1,408,038</b>

## Newcastle City Council

## Statement of Cash Flows

for the financial year ended 30 June 2014

Budget 2014	\$ '000	Notes	Actual 2014	Actual 2013
<b>Cash Flows from Operating Activities</b>				
<u>Receipts:</u>				
123,045	Rates & Annual Charges		124,968	118,000
46,947	User Charges & Fees		69,649	58,283
6,858	Investment & Interest Revenue Received		9,902	11,638
23,105	Grants & Contributions		18,167	33,526
-	Bonds, Deposits & Retention amounts received		40	388
12,393	Other		10,020	10,804
<u>Payments:</u>				
(88,978)	Employee Benefits & On-Costs		(89,593)	(94,935)
(50,378)	Materials & Contracts		(47,713)	(41,066)
(4,220)	Borrowing Costs		(4,356)	(3,954)
-	Bonds, Deposits & Retention amounts refunded		(218)	(34)
(36,362)	Other		(45,621)	(41,199)
<b>32,410</b>	<b>Net Cash provided (or used in) Operating Activities</b>	11b	<b>45,245</b>	<b>51,451</b>
<b>Cash Flows from Investing Activities</b>				
<u>Receipts:</u>				
149,563	Sale of Investment Securities		147,817	91,749
800	Sale of Infrastructure, Property, Plant & Equipment		8,275	17,408
<u>Payments:</u>				
(140,446)	Purchase of Investment Securities		(143,863)	(152,270)
-	Purchase of Investment Property		-	-
(45,361)	Purchase of Infrastructure, Property, Plant & Equipment		(32,895)	(46,164)
	Other Investing Activity Payments		(1,205)	(287)
<b>(35,444)</b>	<b>Net Cash provided (or used in) Investing Activities</b>		<b>(21,871)</b>	<b>(89,564)</b>
<b>Cash Flows from Financing Activities</b>				
<u>Receipts:</u>				
-	Proceeds from Borrowings & Advances		6,276	11,308
<u>Payments:</u>				
(3,183)	Repayment of Borrowings & Advances		(7,085)	(2,886)
	Repayment of Finance Lease Liabilities		(361)	(390)
<b>(3,183)</b>	<b>Net Cash Flow provided (used in) Financing Activities</b>		<b>(1,170)</b>	<b>8,032</b>
<b>(6,217)</b>	<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>22,204</b>	<b>(30,081)</b>
21,828	plus: <b>Cash &amp; Cash Equivalents - beginning of year</b>	11a	21,828	51,909
<b>15,611</b>	<b>Cash &amp; Cash Equivalents - end of the year</b>	11a	<b>44,032</b>	<b>21,828</b>
Additional Information:				
	plus: <b>Investments on hand - end of year</b>	6b	198,272	200,919
	<b>Total Cash, Cash Equivalents &amp; Investments</b>		<b>242,304</b>	<b>222,747</b>

Please refer to Note 11 for information on the following:

- Non Cash Financing & Investing Activities.
- Financing Arrangements.
- Net cash flow disclosures relating to any Discontinued Operations



# Newcastle City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

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# Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted by Council in the preparation of these consolidated financial statements are set out below in order to assist in its general understanding.

#### (a) Basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, the Local Government Act (1993) & Regulation, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not-for-profit entity for the purpose of preparing the financial statements.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### Critical Accounting Estimates

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 entity and that are believed to be reasonable under the circumstances.

#### Critical accounting estimates and assumptions

The Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

- (i) Estimated fair values of investment properties
- (ii) Estimated fair values of infrastructure, property, plant and equipment
- (iii) Estimated tip remediation provisions
- (iv) Provision for self insurance claims

#### (b) Revenue recognition

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

Revenue is measured at the fair value of the consideration received or receivable. Revenue is measured on major income categories as follows:

#### **Rates, Annual Charges, Grants and Contributions**

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenues when the Council obtains control over the assets comprising these receipts. 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.

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.

Control over granted assets is normally obtained upon their receipt (or acquittal) or upon earlier notification that a grant has been secured, and is valued at their fair value at the date of transfer.

Revenue from contributions is recognised when the Council obtains control of the contribution or the right to receive it, it is probable that the economic benefits comprising the contribution will flow to the Council and the amount of the contribution can be measured reliably.

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 undischarged at balance date, the unused grant or contribution is disclosed in Note 3(g). The note also discloses the amount of unused grant or contribution from prior years that was expended on Council's operations during the current year.

# Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 1. Summary of Significant Accounting Policies

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 balance date.

#### **User Charges and Fees**

User charges, fees and other income (including parking fees and fines) are recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever first occurs.

#### **Sale of Infrastructure, Property, Plant and Equipment**

The profit or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer.

#### **Interest and Rents**

Interest and rents are recognised as revenue on a proportional basis when the payment is due, the value of the payment is notified, or the payment is received, whichever first occurs.

#### **Other Revenues**

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

### **(c) Principles of Consolidation**

#### **(i) The Consolidated Fund**

In accordance with the provisions of Section 409(1) of the LGA 1993, 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. The Consolidated Fund and other entities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

#### **(ii) The Trust Fund**

In accordance with the provisions of Section 411 of the Local Government Act 1993 (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 statements.

Trust monies and property held by Council but not subject to the control of Council, have been excluded from these statements. A separate

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

#### **(iii) Joint Ventures**

##### ***Jointly Controlled Assets***

The proportionate interests in the assets, liabilities and expenses of a Joint Venture Activity have been incorporated throughout the financial statements under the appropriate headings. Details of the Joint Venture are set out in Note 19. Council has accounted for its Interest in Newcastle Airport under proportionate consolidation method whilst Hunter Council's has been accounted for under the equity method. This has resulted in the comparative Balance Sheet for 30 June 2013 being restated to correctly reflect the interest in Hunter Council's which was previously accounted under the proportionate consolidation method.

### **(d) Leases**

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

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.

Lease income from operating leases where Council is a lessor is recognised in income on a straight-line basis over the lease term.

# Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 1. Summary of Significant Accounting Policies

#### (e) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets. Cost is measured as the fair value of the assets given, plus costs directly attributable to the acquisition.

#### (f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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.

Where an asset is not held principally for cash generating purposes and would be replaced if the Council was deprived of it then depreciated replacement cost is used as value in use, otherwise value in use is estimated by using a discounted cash flow model.

#### (g) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes 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.

#### (h) Receivables

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.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be

uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

#### (i) Inventories

##### (i) 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. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw material. 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.

##### (ii) 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

# Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 1. Summary of Significant Accounting Policies

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.

#### **(j) Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset 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, 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 is recognised at the date of de-recognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position.

#### **(k) Investments and other financial assets**

##### **Classification**

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at

initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

##### **(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

##### **(ii) Loans and receivables**

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

##### **(iii) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. If Council were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

##### **(iv) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

##### **Financial assets – reclassification**

Council may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets



# Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 1. Summary of Significant Accounting Policies

other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, Council may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if it has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### **Recognition and de-recognition**

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

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

#### **Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial

assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when Council's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security (note Council's obligations under Section 625 of the Local Government Act and S212 of the LG (General) Regulation 2005). The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial instruments is determined are disclosed in note 1(l).

#### **Impairment**

Council assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

If there is evidence of impairment for any of Council's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective

# Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

### Note 1. Summary of Significant Accounting Policies

interest rate. The loss is recognised in the income statement.

#### **Investment Policy**

Council has an approved investment policy complying with Section 625 of the Local Government Act and S212 of the LG (General) Regulation 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an investment policy that complies with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments the Council holds are no longer prescribed, however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

#### **(I) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Council for similar financial instruments.

#### **(m) Infrastructure, property, plant and equipment (IPPE)**

Council's assets have been progressively revalued to fair value in accordance with a staged implementation advised by the Division of Local Government. At reporting date the following classes of IPPE were stated at their fair value:

- Operational land (External Valuation)
- Buildings – Specialised/Non Specialised (External Valuation)
- Plant and equipment (as approximated by depreciated historical cost)
- Road assets – roads, bridges and footpaths (Internal Valuation)
- Drainage assets – (Internal Valuation)
- Bulk earthworks – (Internal Valuation)
- Community land – (Internal Valuation)
- Land Improvements (as approximated by Internal Valuation)
- Other structures (as approximated by Internal Valuation)
- Other assets (as approximated by depreciated historical cost/External Valuation)
- Newcastle Airport (as approximated by depreciated historical cost)

Council assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, Council determines the asset's fair value and revalues the asset to that amount. Full revaluations are undertaken for all assets on a 5 year cycle. Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss relating to that asset class, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the 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

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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:

Office equipment	5-10 years
Computer equipment	3 years
Furniture and fittings	10 years
Drainage	20-100 years
Motor vehicles	4-5 years
Other plant and equipment	5-25 years
Buildings	20-100 <sup>1</sup> years
Sealed roads - surface	30 years
Sealed roads - pavement	120 years
Sealed roads - kerb and gutter	80 years
Footways	50 years
Roadside furniture	20 years
Bridges—substructure, superstructure	50 years
Bridges—handrail, guardrail	25 years
Other structures	5-100 <sup>2</sup> years
Newcastle Airport – Plant & Equipment	5-37 years
Newcastle Airport – Leasehold Improvements	2.5-30 years

<sup>1</sup> 100 year life only applicable to Building Shell on 4 culturally significant buildings.

<sup>2</sup> 100 year life only applicable to Pool Shells.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Land, other than land under roads, is classified as either operational or community in accordance with Part 2 of Chapter 6 of the Local Government Act (1993). This classification is made in Note 9.

#### (n) Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields

and is not occupied by the Council. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by a member of the Australian Property Institute. Changes in fair values are recorded in profit or loss as part of other income.

#### (o) Payables

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

#### (p) 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 draw down occurs. To the extent 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 noncash 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.

#### (q) Borrowing costs



## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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.

##### **(r) 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. Provisions are not recognised for future operating losses.

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.

##### **(s) Employee benefits**

###### ***(i) Short-term obligations***

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be 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.

###### ***(ii) Other long-term employee benefit obligations***

The liability for long service leave and annual leave which is not expected to be 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.

###### ***(iii) 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.

A liability or asset in respect of defined benefit superannuation plans would ordinarily be recognised in the statement of financial position, and measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. However, when this information is not reliably available, Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans (see below).

The Local Government Superannuation Scheme – Pool B (the Scheme) is a defined benefit plan that has been deemed to be a “multi-employer fund” for purposes of AASB119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all employers.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

expense for the year ending 30 June 2014 was \$3,450,170.. The last valuation of the Scheme was performed by Mr Martin Stevenson BSc, FIA, FIAA on 21 February 2013 and covers the period ended 30 June 2014. However the position is monitored annually and the Actuary has estimated that as at 30 June 2014 a deficit still exists. Effective from 1 July 2014, employers are required to contribute additional contributions to assist in extinguishing this deficit. The annual amount of additional contributions payable until the deficit is extinguished is \$1,540,358. The additional contributions remitted during the year is included in the total employer contributions set out in the beginning of this paragraph.

The share of this deficit that can be broadly attributed to Council was estimated to be in the order of \$6,161,432 as at 30 June 2014.

The Local Government Superannuation Scheme has advised member councils that, as a result of the global financial crisis, it has a significant deficiency of assets over liabilities. As a result, they have asked for significant increases in contributions to recover that deficiency. Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has, however, disclosed a contingent liability in note 18 to reflect the possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

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.

##### **(t) Rounding of amounts**

Unless otherwise indicated, amounts in the financial statements have been rounded off to the nearest thousand dollars.

##### **(u) Land under roads**

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

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment. Council recognises land under roads acquired at its cost, where the cost represents fair value. Any land under roads acquired at no or nominal value should be measured at its fair value.

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

##### **(v) Provisions for close down and restoration and for environmental clean up costs – Tips**

###### **(i) 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, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of tip 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.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a borrowing cost.

Other movements in the provisions for close down and restoration costs, including those resulting from

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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.

##### **(ii) 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 statement of financial position 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 statement of financial position 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 unwind 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.

##### **(w) Allocation between current and non-current assets and liabilities**

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the ensuing 12 months, being the Council's operational cycle. In the case of liabilities where Council does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the

liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months.

##### **(x) New accounting standards and interpretations**

During the current year, the following relevant standards became mandatory for Council and have been adopted:

- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits

AASB 13 Fair Value Measurement has not affected the assets or liabilities which are to be measured at fair value, however it provides detailed guidance on how to measure fair value in accordance with the accounting standards.

It introduces the concept of highest and best use for non-financial assets and has caused the Council to review their valuation methodology.

The level of disclosures regarding fair value have increased significantly and have been included in the financial statements at Note 25.

AASB 119 Employee Benefits introduced revised definitions for short-term employee benefits.

Whilst the Council has reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period, there has been no effect on the amounts disclosed as leave liabilities since Council's existing valuation policy was to discount annual leave payable more than 12 months after the end of the reporting period to present values.

##### **(y) Self insurance**

Council has determined to self-insure for Workers' Compensation. A provision for self-insurance has been made to recognise outstanding claims the amount of which is detailed in Note 10. Council also maintains cash and investments to meet expected future claims and these are detailed in Note 6(c).

##### **(z) Intangible assets**

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 1. Summary of Significant Accounting Policies

### ***IT development and software***

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line bases over periods generally ranging from 3 to 10 years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where Council has an intention and ability to use the asset.

### **(aa) Crown reserves**

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

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

Representations from both State and Local Government are being sought to develop a consistent accounting treatment for Crown Reserves across both tiers of government.

### **(bb) Rural Fire Service assets**

Under section 119 of the Rural Fire Services Act 1997, "all fire fighting 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 fire fighting equipment has been purchased or constructed". Until such time as discussions on this matter have concluded and the legislation changed, Council will not recognise rural fire service assets including land, buildings, plant and vehicles.

### **(cc) 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 which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### **(dd) Comparative information**

Where the presentation or classification of items in the financial report have been amended, comparative amounts have been reclassified.

### **(ee) Disclaimer**

Nothing contained within these statements may be taken to be an admission of any liability to any person under any circumstance.

### **(ff) Income Tax and Capital Gains**

Under section 741 Exemption from taxes of the Local Government Act 1993, Councils are exempt from Income Tax and Capital Gains.

### **(gg) Newcastle Airport**

Council is involved in a joint venture with Port Stephens Council for the operation of civil aviation facilities at Newcastle Airport. The legal structure of the entity controlling the assets and operations of the Airport is now structured as a partnership. The Partners are Newcastle City Council (NCC) and Port Stephens Council (PSC). Under this structure NCC and PSC hold the rights to their share of the assets and their share of the obligations in the partnership. As defined in AASB 131 – Interests in Joint Ventures, joint control is the contractually agreed sharing of control over an economic activity and exists only

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Summary of Significant Accounting Policies

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when the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Before the restructure each Council had joint control through their 50% share of Newcastle Airport Limited (NAL). After the restructure this ownership ultimately remains the same and Council now owns new holding companies Newcastle Airport Partnership Company 1 (NAPC1) and Newcastle Airport Partnership Company 2 (NAPC2). Council has elected to continue to apply the proportionate consolidation method allowed in AASB 131. Therefore there is no change in the accounting for NCC or PSC's share of the joint operation by each Council as the impact of recognising the direct interests in the assets, liabilities, revenue and expenses of the joint operation is effectively the same as recognising their share under the proportionate consolidation method currently in place.

Notes to the Financial Statements  
for the financial year ended 30 June 2014

Note 2(a). Council Functions / Activities - Financial Information

Functions/Activities	Income, Expenses and Assets have been directly attributed to the following Functions / Activities. Details of these Functions/Activities are provided in Note 2(b).												
	Income from Continuing Operations			Expenses from Continuing Operations			Operating Result from Continuing Operations			Grants included in Income from Continuing Operations		Total Assets held (Current & Non-current)	
	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Original Budget	Actual	Actual	Actual	Actual	Actual	Actual
	2014	2014	2013	2014	2014	2013	2014	2014	2013	2014	2013	2014	2013
Executive Management	-		-	2,681	1,980	2,039	(2,681)	(1,980)	(2,039)		-	6	50
Corporate Services	6,923	30,094	23,890	31,767	38,944	40,431	(24,844)	(8,850)	(16,541)	782	58	141,746	112,203
Infrastructure	42,739	43,389	33,449	146,862	137,531	135,542	(104,123)	(94,142)	(102,093)	1,198	3,315	972,561	1,010,003
Planning & Regulatory	21,195	28,038	30,424	48,063	39,560	47,262	(26,868)	(11,522)	(16,838)	1,272	1,080	205,053	182,739
Governance	111	122	307	6,057	5,057	5,637	(5,946)	(4,935)	(5,330)	-	-	26	
<b>Total Functions &amp; Activities</b>	<b>70,968</b>	<b>101,643</b>	<b>88,070</b>	<b>235,430</b>	<b>223,072</b>	<b>230,911</b>	<b>(164,462)</b>	<b>(121,429)</b>	<b>(142,841)</b>	<b>3,252</b>	<b>4,453</b>	<b>1,319,392</b>	<b>1,304,995</b>
Share of gains/(losses) in Associates Joint Ventures (using the Equity Method)		-	-		-	-	-	-	-		-	267	216
General Purpose Income <sup>1</sup>	141,381	140,183	139,157			-	141,381	140,183	139,157	7,441	14,059		-
<b>Operating Result from Continuing Operations</b>	<b>212,349</b>	<b>241,826</b>	<b>227,227</b>	<b>235,430</b>	<b>223,072</b>	<b>230,911</b>	<b>(23,081)</b>	<b>18,754</b>	<b>(3,684)</b>	<b>10,693</b>	<b>18,512</b>	<b>1,319,659</b>	<b>1,305,211</b>

1. Includes: Rates & Annual Charges (incl. Ex-Gratia), Untied General Purpose Grants & Unrestricted Interest & Investment Income.



## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### 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:**

##### **EXECUTIVE MANAGEMENT**

Lord Mayor / Council; General Manager's Office; Internal Audit (exclusive of Governance below)

##### **CORPORATE SERVICES**

Finance; Information Technology; Human Resources; Commercial Property; Customer Service

##### **INFRASTRUCTURE**

Infrastructure Planning; Civil Works; Projects & Contracts; Facilities & Recreation; Waste Management

##### **PLANNING & REGULATORY**

Development and Building; Strategic Planning; Regulatory Services; Cultural Facilities; Libraries

##### **GOVERNANCE**

Costs relating to the Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of council and policy making committees, area representation and public disclosure and compliance.

# Newcastle City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 3. Income from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Rates &amp; Annual Charges</b>			
<b>Ordinary Rates</b>			
Residential		61,663	59,230
Farmland		34	31
Business		39,466	36,408
<b>Total Ordinary Rates</b>		<b>101,163</b>	<b>95,669</b>
<b>Special Rates</b>			
Town Improvement		72	71
Main Street		1,089	1,056
<b>Total Special Rates</b>		<b>1,161</b>	<b>1,127</b>
<b>Annual Charges</b> (pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic Waste Management Services		19,407	18,276
Stormwater Management Services		1,975	1,972
Waste Management Services (non-domestic)		963	798
Section 611 Charges		112	114
<b>Total Annual Charges</b>		<b>22,457</b>	<b>21,160</b>
<b>TOTAL RATES &amp; ANNUAL CHARGES</b>		<b>124,781</b>	<b>117,956</b>

Council has used 2012 year valuations provided by the NSW Valuer General in calculating its rates.



# Newcastle City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(b) User Charges &amp; Fees</b>			
<b>Specific User Charges</b> (per s.502 - Specific "actual use" charges)			
Waste Management Services (non-domestic)		2,456	2,002
<b>Total User Charges</b>		<b>2,456</b>	<b>2,002</b>
<b>Other User Charges &amp; Fees</b>			
<b>(i) Fees &amp; Charges - Statutory &amp; Regulatory Functions</b> (per s.608)			
Building Inspection Fee		415	355
Dog Control / Registration Fees		131	128
Inspection Fees - Food Shops		416	345
Licence Fees		204	284
Private Works - Section 67		338	420
Regulatory/ Statutory Fees		2,565	1,892
Section 603 Certificates		295	257
Subdivision Fees		655	533
<b>Total Fees &amp; Charges - Statutory/Regulatory</b>		<b>5,019</b>	<b>4,214</b>
<b>(ii) Fees &amp; Charges - Other (incl. General User Charges)</b> (per s.608)			
Art Gallery		191	169
Child Care		1,110	1,415
City Hall		630	563
Civic Theatre		2,256	1,973
Fort Scratchley		297	280
Golf Courses		372	357
Library Fees		267	277
Local Committees		307	427
Merchant Service Fee		104	104
Newcastle Airport		11,179	10,949
Ocean Baths / Inland Pools		1,073	1,095
Park / Gardens Rents		652	744
Parking Stations / Meter Fees		5,973	6,370
Professional Services		21	23
Regional Museum		273	150
Reprographics Income		141	128
RMS (formerly RTA) Charges (State Roads not controlled by Council)		5,096	3,996
Road Restorations		112	31
Stockton Caravan Park		2,037	2,021
Tourism		53	49
Tipping Fees / Resource Recovery		22,326	15,883
Other		981	998
<b>Total Fees &amp; Charges - Other</b>		<b>55,451</b>	<b>48,002</b>
<b>TOTAL USER CHARGES &amp; FEES</b>		<b>62,926</b>	<b>54,218</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 3. Income from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Interest &amp; Investment Revenue (incl. losses)</b>			
<b>Interest &amp; Dividends</b>			
- Interest on Overdue Rates & Annual Charges (incl. Special Purpose Rates)		292	336
<b>Amortisation of Premiums &amp; Discounts</b>			
- "Held to Maturity" Investments		(64)	(122)
<b><u>TOTAL INTEREST &amp; INVESTMENT REVENUE</u></b>		<b><u>10,117</u></b>	<b><u>10,890</u></b>
<b>Interest Revenue is attributable to:</b>			
<b>Unrestricted Investments/Financial Assets:</b>			
Overdue Rates & Annual Charges (General Fund)		292	336
General Council Cash & Investments		9,825	10,554
<b><u>Total Interest &amp; Investment Revenue Recognised</u></b>		<b><u>10,117</u></b>	<b><u>10,890</u></b>
<b>(d) Other Revenues</b>			
Fair Value Adjustments - Investment Properties	14	1,635	-
Rental Income - Investment Properties	14	1,276	1,246
Rental Income - Other Council Properties		1,508	1,281
Fines - Parking		3,771	3,891
Fines - Other		196	363
Legal Fees Recovery - Rates & Charges (Extra Charges)		814	371
Commissions & Agency Fees		103	95
Insurance Claim Recoveries		158	147
Insurance Recovery / Bonus		214	301
Investment Recoupment		1,371	2,905
Summerhill Waste Management - Electricity Generation		415	200
Other		1	10
<b><u>TOTAL OTHER REVENUE</u></b>		<b><u>11,462</u></b>	<b><u>10,810</u></b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 3. Income from Continuing Operations (continued)

\$ '000		2014 Operating	2013 Operating	2014 Capital	2013 Capital
<b>(e) Grants</b>					
<b>General Purpose (Untied)</b>					
Financial Assistance	<sup>1</sup>	6,217	6,030	-	-
Financial Assistance - In Advance	<sup>1</sup>	-	6,773	-	-
Pensioners' Rates Subsidies - General Component		1,224	1,256	-	-
<b>Total General Purpose</b>		<b>7,441</b>	<b>14,059</b>	<b>-</b>	<b>-</b>

<sup>1</sup> The Financial Assistance Grant for 13/14 reflects a one off reduction due to the fact that this grant is no longer being paid in advance by up to 50% as has occurred in previous years - it does not represent a loss of income but is instead a timing difference.

**Specific Purpose**

## Pensioners' Rates Subsidies:

- Domestic Waste Management		405	399	-	-
Community Services		1,338	2,600	898	-
Recreation & Culture		448	635	335	961
Street Lighting		438	438	-	-
Transport (Other Roads & Bridges Funding)		165	228	1,364	1,612
Other		458	153	-	5
<b>Total Specific Purpose</b>		<b>3,252</b>	<b>4,453</b>	<b>2,597</b>	<b>2,578</b>
<b>Total Grants</b>		<b>10,693</b>	<b>18,512</b>	<b>2,597</b>	<b>2,578</b>

**Grant Revenue is attributable to:**

- Commonwealth Funding		6,583	14,923	1,657	1,053
- State Funding		4,110	3,589	940	1,525
- Other Funding		-	-	-	-
		<b>10,693</b>	<b>18,512</b>	<b>2,597</b>	<b>2,578</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 3. Income from Continuing Operations (continued)

\$ '000	2014 Operating	2013 Operating	2014 Capital	2013 Capital
<b>(f) Contributions</b>				
<b>Developer Contributions:</b>				
<b>(s93 &amp; s94 - EP&amp;A Act, s64 of the LGA):</b>				
S 94 - Contributions towards amenities/services	991	1,177	-	1,593
S 94A - Fixed Development Consent Levies	-	-	513	1,336
<b>Total Developer Contributions</b> 17	<b>991</b>	<b>1,177</b>	<b>513</b>	<b>2,929</b>
<b>Other Contributions:</b>				
Art Gallery Donations	12	35	1,477	1,536
Beach Bathing / Pools	-	4	-	-
Civic and Community Events	2	37	-	-
Community Facilities	52	1,018	2	-
Economic Development	-	77	-	-
Employees Corporate Fitness / Entitlements	804	914	-	-
Library	23	-	75	204
Mainstreet Programs	-	(1)	-	-
Other Councils - Joint Works/Services	-	321	-	-
Parks and Gardens	42	79	37	13
Paving	-	-	50	-
Regional Museum	6	24	-	4
Roads & Drainage	-	1	12,926	2,399
RMS Contributions (Regional Roads, Block Grant)	1,494	1,434	-	24
Other	186	-	323	34
<b>Total Other Contributions</b>	<b>2,621</b>	<b>3,943</b>	<b>14,890</b>	<b>4,214</b>
<b>Total Contributions</b>	<b>3,612</b>	<b>5,120</b>	<b>15,403</b>	<b>7,143</b>
<b>TOTAL GRANTS &amp; CONTRIBUTIONS</b>	<b>14,305</b>	<b>23,632</b>	<b>18,000</b>	<b>9,721</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 3. Income from Continuing Operations (continued)

	Actual 2014	Actual 2013
<b>\$ '000</b>		
<b>(g) Restrictions relating to Grants and Contributions</b>		
<b>Certain grants &amp; contributions are obtained by Council on condition that they be spent in a specified manner:</b>		
Unexpended at the Close of the Previous Reporting Period	24,624	26,444
<b>add:</b> Grants & contributions recognised in the current period but not yet spent:	2,760	10,084
<b>less:</b> Grants & contributions recognised in a previous reporting period now spent:	(9,019)	(11,904)
<b>Net Increase (Decrease) in Restricted Assets during the Period</b>	<b>(6,259)</b>	<b>(1,820)</b>
<b>Unexpended and held as Restricted Assets</b>	<b>18,365</b>	<b>24,624</b>
<b>Comprising:</b>		
- Specific Purpose Unexpended Grants & Contributions	5,699	9,393
- Developer Contributions	12,666	15,231
	<b>18,365</b>	<b>24,624</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 4. Expenses from Continuing Operations

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Employee Benefits &amp; On-Costs</b>			
Salaries and Wages		65,228	69,614
Employee Termination Costs (where material - other than vested leave paid)		827	3,200
Travelling		66	72
Employee Leave Entitlements (ELE)		12,023	13,779
Superannuation		8,851	9,097
Occupational Health and Safety		922	912
Workers' Compensation Insurance		1,738	467
Fringe Benefit Tax (FBT)		582	626
Training Costs (other than Salaries & Wages)		489	674
Other		844	780
<b>Total Employee Costs</b>		<b>91,570</b>	<b>99,221</b>
less: Capitalised Costs		(4,341)	(4,533)
<b>TOTAL EMPLOYEE COSTS EXPENSED</b>		<b>87,229</b>	<b>94,688</b>
Number of "Equivalent Full Time" Employees at year end		<b>870</b>	<b>960</b>
<b>(b) Borrowing Costs</b>			
<b>(i) Interest Bearing Liability Costs</b>			
Interest on Loans		4,324	3,962
Charges on Hire Purchases		10	13
<b>Total Interest Bearing Liability Costs Expensed</b>		<b>4,334</b>	<b>3,975</b>
<b>(ii) Other Borrowing Costs</b>			
- Remediation Liabilities	24	116	162
<b>Total Other Borrowing Costs</b>		<b>116</b>	<b>162</b>
<b>TOTAL BORROWING COSTS EXPENSED</b>		<b>4,450</b>	<b>4,137</b>

# Newcastle City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Materials &amp; Contracts</b>			
Raw Materials & Consumables		28,331	23,551
Contractor & Consultancy Costs		10,729	14,147
Auditors Remuneration <sup>(1)</sup>		169	120
Legal Expenses:			
- Legal Expenses: Planning & Development		109	114
- Legal Expenses: Other		739	778
Other		1,974	1,943
<b>Total Materials &amp; Contracts</b>		<b>42,051</b>	<b>40,653</b>
less: Capitalised Costs		-	-
<b><u>TOTAL MATERIALS &amp; CONTRACTS</u></b>		<b><u>42,051</u></b>	<b><u>40,653</u></b>
<b>1. Auditor Remuneration</b>			
During the year, the following fees were incurred for services provided by the Council's Auditor (& the Auditors of other Consolidated Entities):			
<b>(i) Audit and Other Assurance Services</b>			
- Audit & review of financial statements: Council's Auditor		86	104
- Audit of regulatory returns		3	2
<b>Remuneration for audit and other assurance services</b>		<b>89</b>	<b>106</b>
<b>(ii) Taxation Services</b>			
- Tax compliance services		11	7
<b>Remuneration for taxation services</b>		<b>11</b>	<b>7</b>
<b>(iii) Other Services</b>			
- Remuneration advice		-	-
- Benchmarking advice		-	-
- Accounting Advice		69	7
<b>Remuneration for other services</b>		<b>69</b>	<b>7</b>
<b>Total Remuneration</b>		<b>169</b>	<b>120</b>

## Newcastle City Council

# Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Impairment Costs		Depreciation/Amortisation	
		Actual 2014	Actual 2013	Actual 2014	Actual 2013
Capital WIP		1,558	-	-	-
Plant and Equipment		-	-	5,850	5,860
Office Equipment		-	-	863	964
Furniture & Fittings		-	-	222	237
Operational Land		2,473	-	-	-
Land Improvements (depreciable)		-	-	2,508	2,686
Buildings - Specialised		772	663	6,066	7,938
Other Structures		-	30	3,258	3,966
Infrastructure:					
- Roads		-	-	19,040	18,805
- Stormwater Drainage		-	-	3,514	3,657
Other Assets					
- Heritage Collections		-	-	32	13
- Library Books		-	-	1,027	1,185
- Other		-	-	2	2
Waste Management Asset		-	-	105	105
Newcastle Airport		-	-	1,561	1,504
Intangible Assets	23	-	689	120	-
<b>Total Depreciation &amp; Impairment Costs</b>		<b>4,803</b>	<b>1,382</b>	<b>44,168</b>	<b>46,922</b>
less: Capitalised Costs		-	-	(295)	(337)
less: Impairments (to)/from ARR [Equity]	9a	(2,905)	(41)	-	-
<b>TOTAL DEPRECIATION &amp; IMPAIRMENT COSTS EXPENSED</b>		<b>1,898</b>	<b>1,341</b>	<b>43,873</b>	<b>46,585</b>



# Newcastle City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 4. Expenses from Continuing Operations (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(e) Other Expenses</b>			
Other Expenses for the year include the following:			
Bad & Doubtful Debts		572	480
Bank Charges		512	479
- Emergency Services Levy (includes FRNSW, SES, and RFS Levies)		2,818	2,751
- NSW Government Waste Levy		19,140	13,367
Councillor Expenses - Mayoral Fee		73	71
Councillor Expenses - Councillors' Fees		324	317
Councillors' Expenses (incl. Mayor) - Other (excluding fees above)		66	79
Donations, Contributions & Assistance to other organisations (Section 356)		347	245
Election Expenses		-	561
Electricity		2,199	2,371
Insurance		3,571	3,629
Newcastle Airport		4,209	4,086
Revaluation Decrements (Fair Valuation of Investment Properties)	14	-	1,420
S355 Local Committee Working Expenses		688	735
Street Lighting		3,805	3,609
Telephone & Communications		1,245	1,337
Water		1,158	1,029
Other		2,844	945
<b>Total Other Expenses</b>		<b>43,571</b>	<b>37,511</b>
less: Capitalised Costs		-	-
<b><u>TOTAL OTHER EXPENSES</u></b>		<b><u>43,571</u></b>	<b><u>37,511</u></b>

## Newcastle City Council

# Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 5. Gains or Losses from the Disposal of Assets

\$ '000	Notes	Actual 2014	Actual 2013
<b>Property, Plant &amp; Equipment - PPE</b> (excl. Investment Property)			
Proceeds from Disposal - Plant & Equipment		4,693	1,375
less: Carrying Amount of P&E Assets Sold / Written Off		(4,152)	(6,948)
<b>Net Gain/(Loss) on Disposal</b>		<b>541</b>	<b>(5,573)</b>
<b>Infrastructure</b>			
Proceeds from Disposal - Infrastructure		-	-
less: Carrying Amount of Infrastructure Assets Sold / Written Off		(1,538)	(2,399)
<b>Net Gain/(Loss) on Disposal</b>		<b>(1,538)</b>	<b>(2,399)</b>
<b>Non Current Assets Classified as "Held for Sale"</b>			
Proceeds from Disposal - Non Current Assets "Held for Sale"		3,582	16,033
less: Carrying Amount of 'Held for Sale' Assets Sold / Written Off		(2,350)	(14,057)
<b>Net Gain/(Loss) on Disposal</b>		<b>1,232</b>	<b>1,976</b>
<b>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</b>		<b>235</b>	<b>(5,996)</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 6a. - Cash Assets and Note 6b. - Investments

		2014	2014	2013	2013
\$ '000	Notes	Actual Current	Actual Non Current	Actual Current	Actual Non Current
Cash & Cash Equivalents (Note 6a)					
Cash on Hand and at Bank		22,532	-	14,828	-
Cash-Equivalent Assets <sup>1</sup>					
- Deposits at Call		21,500	-	7,000	-
<b>Total Cash &amp; Cash Equivalents</b>		<b>44,032</b>	<b>-</b>	<b>21,828</b>	<b>-</b>
Investments (Note 6b)					
- Term Deposits - Fixed Rate		44,279	18,500	65,444	20,000
- Term Deposits - Floating Rate		6,000	28,500	6,000	20,000
- Floating Rate Notes		10,508	67,551	10,002	54,751
- Bonds		4,804	18,130	4,993	19,729
<b>Total Investments</b>		<b>65,591</b>	<b>132,681</b>	<b>86,439</b>	<b>114,480</b>
<b>TOTAL CASH ASSETS, CASH EQUIVALENTS &amp; INVESTMENTS</b>		<b>109,623</b>	<b>132,681</b>	<b>108,267</b>	<b>114,480</b>

<sup>1</sup> Those Investments where time to maturity (from date of purchase) is < 3 mths.

**Note 6(b-i)****Reconciliation of Investments  
classified as "Held to Maturity"**

Nil

Balance at the Beginning of the Year	86,439	114,480	42,508	89,743
Amortisation of Premiums & Discounts	(24)	(40)	(77)	(45)
Additions	103,281	40,582	100,000	52,270
Disposals (sales & redemptions)	(146,446)		(83,480)	-
Transfers between Current/Non Current	22,341	(22,341)	27,488	(27,488)
<b>Balance at End of Year</b>	<b>65,591</b>	<b>132,681</b>	<b>86,439</b>	<b>114,480</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 6c. Restricted Cash, Cash Equivalents &amp; Investments - Details

	2014 Actual Current	2014 Actual Non Current	2013 Actual Current	2013 Actual Non Current
\$ '000				
<b>Total Cash, Cash Equivalents and Investments</b>	<b>109,623</b>	<b>132,681</b>	<b>108,267</b>	<b>114,480</b>
<b>attributable to:</b>				
External Restrictions (refer below)	22,365	10,074	18,107	21,967
Internal Restrictions (refer below)	59,117	122,607	71,528	92,513
Unrestricted	28,141	-	18,632	-
	<b>109,623</b>	<b>132,681</b>	<b>108,267</b>	<b>114,480</b>

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
-----------------	--------------------	------------------------------	--------------------------------	--------------------

## Details of Restrictions

## External Restrictions - Included in Liabilities

Self Insurance Claims (A)	9,421	871	(218)	10,074
<b>External Restrictions - Included in Liabilities</b>	<b>9,421</b>	<b>871</b>	<b>(218)</b>	<b>10,074</b>

## External Restrictions - Other

Developer Contributions - General (B)	15,231	1,873	(4,438)	12,666
Specific Purpose Unexpended Grants (C)	9,133	1,461	(7,304)	3,290
Domestic Waste Management (D)	2,964	2,410	(2,964)	2,410
Stormwater Management (D)	3,325	2,231	(1,557)	3,999
<b>External Restrictions - Other</b>	<b>30,653</b>	<b>7,975</b>	<b>(16,263)</b>	<b>22,365</b>
<b>Total External Restrictions</b>	<b>40,074</b>	<b>8,846</b>	<b>(16,481)</b>	<b>32,439</b>

## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 6c. Restricted Cash, Cash Equivalents & Investments - Details (continued)

2014 \$ '000	Opening Balance	Transfers to Restrictions	Transfers from Restrictions	Closing Balance
<b>Internal Restrictions</b>				
Plant & Vehicle Replacement	22,009	7,915	(5,038)	24,886
Asset Preservation	35,439	11,975	(16,267)	31,147
Employees Leave Entitlement	9,626	10,760	(2,026)	18,360
Deposits, Retentions & Bonds	1,172		(150)	1,022
Acquisition of Land and Property Enhancement	60,648	17,162	(7,204)	70,606
Contribution to Specific Works Programs	15,576	8,129	(5,105)	18,600
Newcastle Airport	8,595	1,171		9,766
Unexpended Loans	10,976		(3,639)	7,337
<b>Total Internal Restrictions</b>	<b>164,041</b>	<b>57,112</b>	<b>(39,429)</b>	<b>181,724</b>
<b>TOTAL RESTRICTIONS</b>	<b>204,115</b>	<b>65,958</b>	<b>(55,910)</b>	<b>214,163</b>

- A Self Insurance liability resulting from reported claims or incurred claims not yet reported.
- B Development contributions which are not yet expended for the provision of services and amenities in accordance with contributions plans (refer Note 17).
- C Grants which are not yet expended for the purposes for which the grants were obtained. (refer Note 1)
- D Domestic Waste Management (DWM) & other Special Rates/Levies/Charges are externally restricted assets and must be applied for the purposes for which they were raised.

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 7. Receivables

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Purpose</b>					
Rates & Annual Charges		4,816	671	4,972	702
Interest & Extra Charges		584	126	594	132
User Charges & Fees		6,941	-	7,441	-
- Interest on Investments		1,947	-	1,652	-
Government Grants & Subsidies		24	-	32	-
Infringement Processing Bureau - NSW State Govt.		356	565	757	493
Net GST Receivable		837	-	678	-
<b>Total</b>		<b>15,505</b>	<b>1,362</b>	<b>16,126</b>	<b>1,327</b>
<b>less: Provision for Impairment</b>					
Rates & Annual Charges		(79)	-	(58)	-
Interest & Extra Charges		(24)	-	(16)	-
User Charges & Fees		(228)	-	(85)	-
Infringement Processing Bureau - NSW State Govt.		(39)	(62)	(95)	(62)
<b>Total Provision for Impairment - Receivables</b>		<b>(370)</b>	<b>(62)</b>	<b>(254)</b>	<b>(62)</b>
<b><u>TOTAL NET RECEIVABLES</u></b>		<b><u>15,135</u></b>	<b><u>1,300</u></b>	<b><u>15,872</u></b>	<b><u>1,265</u></b>
<b>Externally Restricted Receivables</b>					
Domestic Waste Management		941		964	-
Stormwater Management		112		128	-
Other					
- Special Rates		44		66	-
<b>Total External Restrictions</b>		<b>1,097</b>	<b>-</b>	<b>1,158</b>	<b>-</b>
<b>Unrestricted Receivables</b>		<b>14,038</b>	<b>1,300</b>	<b>14,714</b>	<b>1,265</b>
<b>TOTAL NET RECEIVABLES</b>		<b>15,135</b>	<b>1,300</b>	<b>15,872</b>	<b>1,265</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 8. Inventories &amp; Other Assets

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Inventories</b>					
Stores & Materials		690	-	855	-
<b>Total Inventories</b>		<b>690</b>	<b>-</b>	<b>855</b>	<b>-</b>
<b>Other Assets</b>					
Prepayments		315	11	3,010	15
<b>Total Other Assets</b>		<b>315</b>	<b>11</b>	<b>3,010</b>	<b>15</b>
<b>TOTAL INVENTORIES / OTHER ASSETS</b>		<b>1,005</b>	<b>11</b>	<b>3,865</b>	<b>15</b>

Notes to the Financial Statements  
for the financial year ended 30 June 2014

Note 9a. Infrastructure, Property, Plant & Equipment

\$ '000	as at 30/6/2013					Asset Movements during the Reporting Period									as at 30/6/2014				
	At	At	Accumulated		Carrying	Asset Additions	WDV of Asset Disposals	Depreciation Expense	Impairment Loss (recognised in P/L)	Impairment Loss (recognised in Equity)	WIP Transfers	Adjustments & Transfers	Tfrs from/(to) "Held for Sale" category	Revaluation Increments to Equity (ARR)	At	At	Accumulated		Carrying
	Cost	Fair Value	Dep'n	Impairment	Value										Cost	Fair Value	Dep'n	Impairment	Value
Capital Work in Progress	6,123	-	-	-	6,123	10,061	(24)		(1,558)		(3,317)				12,843	-	-	1,558	11,285
Plant & Equipment	-	52,414	26,810	-	25,604	3,596	(1,038)	(5,850)	-		666	126			-	52,902	29,798	-	23,104
Office Equipment	-	12,908	11,269	-	1,639	1,204	(258)	(863)	-		55				-	13,242	11,465	-	1,777
Furniture & Fittings	-	7,681	6,332	-	1,349	217	(206)	(222)	-						-	7,619	6,481	-	1,138
<b>Land:</b>																			
- Operational Land	-	97,154	-	-	97,154	965	(1,970)			(2,473)			(7,347)		-	88,801	-	2,473	86,328
- Community Land	-	116,256	-	-	116,256	444	(17)								-	116,683	-	-	116,683
- Land under Roads (post 30/6/08)	-	13,845	-	-	13,845	9,505						(903)		20,288	-	42,736	-	-	42,736
Land Improvements - depreciable	-	92,241	66,306	-	25,935	1,009		(2,508)	-		830	1,217			-	95,335	68,851	-	26,484
Buildings - Non Specialised	-	11,137	-	-	11,137	508	(255)	-	-				(800)		-	10,590	-	-	10,590
Buildings - Specialised	-	250,508	95,544	178	154,786	1,960	(349)	(6,066)	(340)	(432)	940	31			-	252,290	100,959	801	150,530
Other Structures	-	72,688	45,437	45	27,206	1,715	(35)	(3,258)	-		490				-	74,785	48,652	15	26,118
<b>Infrastructure:</b>																			
- Roads	-	1,156,288	555,738	-	600,550	11,753	(1,487)	(19,040)	-		412	(145,062)			-	882,209	435,083	-	447,126
- Bridges	-	-	-	-	-			-	-			36,817			-	73,422	36,605	-	36,817
- Footpaths	-	-	-	-	-			-	-			107,027			-	207,915	100,888	-	107,027
- Bulk Earthworks (non-depreciable)	-	-	-	-	-			-	-						-	-	-	-	-
- Stormwater Drainage	-	167,858	71,341	-	96,517	1,070	(51)	(3,514)	-		(77)	(126)			-	169,919	76,100	-	93,819
<b>Other Assets:</b>																			
- Heritage Collections	-	76,789	808	-	75,981	1,605		(32)	-						-	78,394	840	-	77,554
- Library Books	-	20,321	14,597	-	5,724	923		(1,027)	-						-	21,244	15,625	-	5,619
- Other	-	62	32	-	30			(2)	-						-	62	35	-	27
Waste Management Asset	-	2,782	1,736	-	1,046			(105)	-						-	2,782	1,841	-	941
Newcastle Airport	-	32,176	8,354	-	23,822	1,661		(1,561)	-			(2)			-	33,759	9,840	-	23,920
<b>TOTAL INFRASTRUCTURE, PROPERTY, PLANT &amp; EQUIP.</b>	<b>6,123</b>	<b>2,183,108</b>	<b>904,304</b>	<b>223</b>	<b>1,284,704</b>	<b>48,196</b>	<b>(5,690)</b>	<b>(44,048)</b>	<b>(1,898)</b>	<b>(2,905)</b>	<b>-</b>	<b>(875)</b>	<b>(8,147)</b>	<b>20,288</b>	<b>12,843</b>	<b>2,224,692</b>	<b>943,063</b>	<b>4,848</b>	<b>1,289,624</b>

Additions to Buildings & Infrastructure Assets are made up of Asset Renewals (\$9.88m) and New Assets (\$9.15m).  
Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Refer to Note 25 - Fair Value Measurement for information regarding the fair value of other Infrastructure, Property, Plant & Equipment.



## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 10a. Payables, Borrowings &amp; Provisions

\$ '000	Notes	2014		2013	
		Current	Non Current	Current	Non Current
<b>Payables</b>					
Goods & Services - operating expenditure		15,390	-	16,494	-
Payments Received In Advance		3,018	-	2,058	
Accrued Expenses:					
- Salaries & Wages		2,623	-	1,873	-
- Newcastle Airport Accruals		1,769	-	2,426	-
- Other Expenditure Accruals		343	-	367	-
Security Bonds, Deposits & Retentions		1,022	-	1,200	-
<b>Total Payables</b>		<b>24,165</b>	<b>-</b>	<b>24,418</b>	<b>-</b>
<b>Borrowings</b>					
Loans - Secured <sup>1</sup>		2,497	63,692	3,735	63,191
Government Advances		98	781	98	878
Hire Purchase Liabilities		230	68	335	299
<b>Total Borrowings</b>		<b>2,825</b>	<b>64,541</b>	<b>4,168</b>	<b>64,368</b>
<b>Provisions</b>					
Nil					
Employee Benefits;					
Annual Leave		8,676	-	8,954	-
Sick Leave		8,232	-	9,531	-
Long Service Leave		16,724	688	17,778	691
Sub Total - Aggregate Employee Benefits		<b>33,632</b>	<b>688</b>	<b>36,263</b>	<b>691</b>
Self Insurance - Workers Compensation		750	2,920	850	3,300
Asset Remediation/Restoration (Future Works) <sup>24</sup>		-	3,358	-	3,242
Other		758	-	2,983	-
<b>Total Provisions</b>		<b>35,140</b>	<b>6,966</b>	<b>40,096</b>	<b>7,233</b>
<b>Total Payables, Borrowings &amp; Provisions</b>		<b>62,130</b>	<b>71,507</b>	<b>68,682</b>	<b>71,601</b>

## (i) Liabilities relating to Restricted Assets

	2014		2013	
	Current	Non Current	Current	Non Current
<b>Externally Restricted Assets</b>				
Domestic Waste Management	2,607	904	2,129	782
Self Insurance	750	2,920	850	3,300
<b>Liabilities relating to externally restricted assets</b>	<b>3,357</b>	<b>3,824</b>	<b>2,979</b>	<b>4,082</b>
<b>Total Liabilities relating to restricted assets</b>	<b>3,357</b>	<b>3,824</b>	<b>2,979</b>	<b>4,082</b>
<b>Total Liabilities relating to Unrestricted Assets</b>	<b>58,773</b>	<b>67,683</b>	<b>65,703</b>	<b>67,519</b>
<b>TOTAL PAYABLES, BORROWINGS &amp; PROVISIONS</b>	<b>62,130</b>	<b>71,507</b>	<b>68,682</b>	<b>71,601</b>

<sup>1</sup>. Loans are secured over the General Rating Income of Council

Disclosures on Liability Interest Rate Risk Exposures, Fair Value Disclosures &amp; Security can be found in Note 15.

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 10a. Payables, Borrowings &amp; Provisions (continued)

	Actual 2014	Actual 2013
\$ '000		

## (ii) Current Liabilities not anticipated to be settled within the next 12 months

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

Provisions - Employees Benefits	22,811	25,885
	<b>22,811</b>	<b>25,885</b>

## Note 10b. Description of and movements in Provisions

Nil

Class of Provision	2013	2014			Closing Balance as at 30/6/14
	Opening Balance as at 1/7/13	Additional Provisions	Decrease due to Payments	Remeasurement effects due to Discounting	
Self Insurance	4,150	710	(1,050)	30	3,670
Asset Remediation	3,242			116	3,358
<b>TOTAL</b>	<b>7,392</b>	<b>710</b>	<b>(1,050)</b>	<b>146</b>	<b>7,028</b>

- Employees Leave Entitlements & On-Costs represents those benefits accrued and payable and an estimate of those that will become payable in the future as a result of past service.
- Self Insurance Provisions represent both (i) Claims Incurred but Not reported and (ii) Claims Reported & Estimated as a result of Council's being a self insurer up to certain levels of Excess.
- Asset Remediation, Reinstatement & Restoration Provisions represent the Present Value estimate of future costs Council will incur in order to remove, restore & remediate assets &/or activities as a result of past operations.

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 11. Statement of Cash Flows - Additional Information

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Reconciliation of Cash Assets</b>			
Total Cash & Cash Equivalent Assets	6a	44,032	21,828
<b>BALANCE as per the STATEMENT of CASH FLOWS</b>		<b>44,032</b>	<b>21,828</b>
<b>(b) Reconciliation of Net Operating Result to Cash provided from Operating Activities</b>			
<b>Net Operating Result from Income Statement</b>		<b>18,754</b>	<b>(3,684)</b>
Adjust for non cash items:			
Depreciation & Amortisation		43,873	46,585
Net Losses/(Gains) on Disposal of Assets		(235)	5,996
Non Cash Capital Grants and Contributions		(14,193)	(5,521)
Impairment Losses Recognition - I,PP&E		1,898	1,341
Losses/(Gains) recognised on Fair Value Re-measurements through the P&L:			
- Investments classified as "At Fair Value" or "Held for Trading"		(1,371)	(2,905)
- Investment Properties		(1,635)	1,420
Amortisation of Premiums, Discounts & Prior Period Fair Valuations			
- "Held to Maturity" Financial Assets		64	122
<b>+/- Movement in Operating Assets and Liabilities &amp; Other Cash Items:</b>			
Decrease/(Increase) in Receivables		586	9,956
Increase/(Decrease) in Provision for Doubtful Debts		116	(2,159)
Decrease/(Increase) in Inventories		165	(20)
Decrease/(Increase) in Other Assets		2,699	(2,385)
Increase/(Decrease) in Payables		(231)	200
Increase/(Decrease) in accrued Interest Payable		(22)	21
Increase/(Decrease) in Employee Leave Entitlements		(2,634)	1,681
Increase/(Decrease) in Other Provisions		(2,589)	803
<b>NET CASH PROVIDED FROM/(USED IN) OPERATING ACTIVITIES from the STATEMENT of CASH FLOWS</b>		<b>45,245</b>	<b>51,451</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 11. Statement of Cash Flows - Additional Information (continued)

\$ '000	Notes	Actual 2014	Actual 2013
(c) Non-Cash Investing & Financing Activities			
Other Dedications		(14,193)	(5,521)
<b>Total Non-Cash Investing &amp; Financing Activities</b>		<b>(14,193)</b>	<b>(5,521)</b>
(d) Financing Arrangements			
(i) Unrestricted access was available at balance date to the following lines of credit:			
Credit Cards / Purchase Cards		350	350
<b>Total Financing Arrangements</b>		<b>350</b>	<b>350</b>
Amounts utilised as at Balance Date:			
- Credit Cards / Purchase Cards		350	350
<b>Total Financing Arrangements Utilised</b>		<b>350</b>	<b>350</b>

1. The Bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.  
Interest rates on overdrafts are Interest Rates on Loans & Other Payables are disclosed in Note 15.

## (ii) Secured Loan Liabilities

Loans are secured by a mortgage over future years Rate Revenue only.

## (e) Bank Guarantees

Council provides bank guarantees to the value of \$4.17 million to secure its self insurance license for Workers Compensation. The guarantee is provided to WorkCover NSW.

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 12. Commitments for Expenditure

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Capital Commitments (exclusive of GST)</b>			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
<b>Property, Plant &amp; Equipment</b>			
Buildings		8,521	918
Plant & Equipment		2,063	331
Other		1,409	1,008
<b>Total Commitments</b>		<b>11,993</b>	<b>2,257</b>
<b>These expenditures are payable as follows:</b>			
Within the next year		11,993	2,257
<b>Total Payable</b>		<b>11,993</b>	<b>2,257</b>
<b>Sources for Funding of Capital Commitments:</b>			
Unrestricted General Funds		11,993	2,257
<b>Total Sources of Funding</b>		<b>11,993</b>	<b>2,257</b>

**Details of Capital Commitments**

E.g. \$8.5million will be spent on Buildings such as Bathers Way project and Clock Tower Conservation  
E.g. \$2 million will be spent on Plant and Equipment such as Parking Meter Upgrades and Councils Fleet  
E.g. \$1.4 million will be spent on Other which primarily relates to Landscape works and Rehabilitation

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 12. Commitments for Expenditure (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(b) Finance Lease Commitments</b>			
<b>(i) Commitments under Finance Leases at the Reporting Date are payable as follows:</b>			
Within the next year		244	367
Later than one year and not later than 5 years		70	315
<b>Total Minimum Lease Payments</b>		<b>314</b>	<b>682</b>
less: Future Finance Charges		(16)	(48)
<b>Amount Recognised as a Liability</b>		<b>298</b>	<b>634</b>
<b>(ii) Finance Lease Liability Recognised represent;</b>			
Current Liabilities		230	335
Non-Current Liabilities		68	299
<b>Total Finance Lease Liabilities Disclosed</b>		<b>298</b>	<b>634</b>

**Additional Details**

Finance leases are attributable to the Newcastle Airport Operations with lease terms ranging from 1 years to 3 years.

**(c) Operating Lease Commitments (Non Cancellable)****a. Commitments under Non Cancellable Operating Leases at the Reporting date, but not recognised as Liabilities are payable:**

Within the next year	1,559	1,626
Later than one year and not later than 5 years	1,200	2,759
<b>Total Non Cancellable Operating Lease Commitments</b>	<b>2,759</b>	<b>4,385</b>

**b. Non Cancellable Operating Leases include the following assets:**

1. Office Equipment with lease terms ranging from 5 - 6 years in length
2. Heavy Plant Items with lease terms of 3 years. Specific terms and conditions of the lease state that the provider is to maintain the plant and where the provider causes plant to be inoperable no payment is due for inoperable period
3. Other Plant & Equipment Items with lease terms of 2 years. Specific terms and conditions of the lease state that the provider is to maintain the plant and where less than a specified number of plant items are operable at any one time a financial penalty is prescribed

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 13 Statement of Performance Measurement - Indicators (Consolidated)

\$ '000	Amounts 2014	Indicator 2014	2013	2012
<b>Local Government Industry Indicators - Consolidated</b>				
<b>1. Operating Performance Ratio</b>				
Total continuing operating revenue <sup>(1)</sup>				
(excl. Capital Grants & Contributions) - Operating Expenses	<u>(1,116)</u>	-0.50%	-2.75%	-6.29%
Total continuing operating revenue <sup>(1)</sup>	<u>221,956</u>			
(excl. Capital Grants & Contributions)				
<b>2. Own Source Operating Revenue Ratio</b>				
Total continuing operating revenue <sup>(1)</sup>				
(less ALL Grants & Contributions)	<u>207,651</u>	86.54%	85.32%	81.19%
Total continuing operating revenue <sup>(1)</sup>	<u>239,956</u>			
<b>3. Unrestricted Current Ratio</b>				
Current Assets less all External Restrictions <sup>(2)</sup>	<u>115,731</u>	3.22 : 1	2.92 : 1	3.19 : 1
Current Liabilities less Specific Purpose Liabilities <sup>(3)</sup>	<u>35,962</u>			
<b>4. Debt Service Cover Ratio</b>				
Operating Result <sup>(1)</sup> before capital excluding interest and depreciation / impairment / amortisation (EBITDA)	<u>49,105</u>	4.13	6.22	5.58
Principal Repayments (from the Statement of Cash Flows)	<u>11,896</u>			
+ Borrowing Interest Costs (from the Income Statement)				
<b>5. Rates, Annual Charges, Interest &amp; Extra Charges Outstanding Percentage</b>				
Rates, Annual and Extra Charges Outstanding	<u>6,094</u>	4.61%	5.05%	5.92%
Rates, Annual and Extra Charges Collectible	<u>132,213</u>			
<b>6. Cash Expense Cover Ratio</b>				
Current Year's Cash and Cash Equivalents including All Term Deposits	<u>141,311</u>	8.70	8.67	6.13
Payments from cash flow of operating and financing activities	<u>16,246</u>			

## Notes

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

<sup>(2)</sup> Refer Notes 6-8 inclusive.

Also excludes any Real Estate & Land for resale not expected to be sold in the next 12 months

<sup>(3)</sup> Refer to Note 10(a).

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 14. Investment Properties

\$ '000	Notes	Actual 2014	Actual 2013
(a) Investment Properties at Fair value			
<u>Investment Properties on Hand</u>		<u>13,350</u>	<u>11,715</u>
<b>Reconciliation of Annual Movement:</b>			
Opening Balance		11,715	13,135
- Net Gain/(Loss) from Fair Value Adjustments		1,635	(1,420)
<b>CLOSING BALANCE - INVESTMENT PROPERTIES</b>		<b>13,350</b>	<b>11,715</b>

## (b) Valuation Basis

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

The 2014 revaluations were based on Independent Assessments made by:  
[Baker & Magin Valuers - Associate members of the Australian Property Institute](#)

## (c) Contractual Obligations at Reporting Date

Refer to Note 12 for disclosures relating to any Capital and Service obligations that have been contracted.

## (d) Leasing Arrangements

Details of leased Investment Properties are as follows;  
Future Minimum Lease Payments receivable under non-cancellable  
Investment Property Operating Leases not recognised in the  
Financial Statements are receivable as follows:

Within 1 year	954	989
Later than 1 year but less than 5 years	3,749	3,493
Later than 5 years	11,366	12,350
<b>Total Minimum Lease Payments Receivable</b>	<b>16,069</b>	<b>16,832</b>

## (e) Investment Property Income &amp; Expenditure - summary

<b>Rental Income from Investment Properties:</b>		
- Minimum Lease Payments	1,276	1,246
<b>Direct Operating Expenses on Investment Properties:</b>		
- that generated rental income	(488)	(218)
<b>Net Revenue Contribution from Investment Properties</b>	<b>788</b>	<b>1,028</b>
plus:		
<b>Fair Value Movement for year</b>	<b>1,635</b>	<b>(1,420)</b>
<b>Total Income attributable to Investment Properties</b>	<b>2,423</b>	<b>(392)</b>

Refer to Note 25- Fair Value Measurement for information regarding the fair value of investment properties held.



## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 15. Financial Risk Management

\$ '000

## Risk Management

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

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

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

Financial risk management is carried out by Council's Finance Section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's Financial Assets & Financial Liabilities recognised in the financial statements is presented below.

	Carrying Value		Fair Value	
	2014	2013	2014	2013
<b>Financial Assets</b>				
Cash and Cash Equivalents	44,032	21,828	44,032	21,874
Investments				
- "Held for Trading"	-	-	-	-
- "Held to Maturity"	198,272	200,919	199,897	202,573
Receivables	16,435	17,137	16,435	17,137
<b>Total Financial Assets</b>	<b>258,739</b>	<b>239,884</b>	<b>260,364</b>	<b>241,584</b>
<b>Financial Liabilities</b>				
Payables	21,147	24,392	21,147	24,392
Loans / Advances	67,068	67,902	67,068	68,959
Lease Liabilities	298	634	298	634
<b>Total Financial Liabilities</b>	<b>88,513</b>	<b>92,928</b>	<b>88,513</b>	<b>93,985</b>

Fair Value is determined as follows:

- **Cash & Cash Equivalents, Receivables, Payables** - are estimated to be the carrying value which approximates mkt value.
- **Borrowings & Held to Maturity Investments** - are based upon estimated future cash flows discounted by the current market interest rates applicable to assets & liabilities with similar risk profiles, unless quoted market prices are available.
- Financial Assets classified (i) "**at fair value through profit & 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.

Refer to Note 25 - Fair Value Measurement for information regarding the fair value of financial assets & liabilities

## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 15. Financial Risk Management (continued)

\$ '000

##### (a) Cash & Cash Equivalents, Financial assets 'at fair value through the profit & Loss' "Available-for-sale" financial assets & "Held-to-maturity" Investments

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

Council's Finance area manages the Cash & Investments portfolio with the assistance of independent advisors.

Council has an Investment Policy which complies with the Local Government Act & Minister's Investment Order. 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.

The risks associated with the investments held are:

- **Price Risk** - the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest Rate Risk** - the risk that movements in interest rates could affect returns and income.
- **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 Amicus Advisory Pty Ltd (independent advisers) in relation to its investments placements, Independent advice is recommended as part of the Division of Local Government Best Practice Guidelines

The following represents a summary of the sensitivity of Council's Income Statement and Accumulated Surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

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

	Increase of Values/Rates		Decrease of Values/Rates	
	Profit	Equity	Profit	Equity
<b>2014</b>				
Possible impact of a 1% movement in Interest Rates	1,351	1,351	(1,351)	(1,351)
<b>2013</b>				
Possible impact of a 1% movement in Interest Rates	1,056	1,056	(1,056)	(1,056)

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 15. Financial Risk Management (continued)

\$ '000

## (b) Receivables

Council's major receivables comprise (i) Rates & Annual charges and (ii) User Charges & Fees.

The major risk associated with these receivables is credit risk - the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

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 & annual charges at higher than market rates which further encourages the payment of debt.

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.

A profile of Council's receivables credit risk at balance date follows:

	2014 Rates & Annual Charges	2014 Other Receivables	2013 Rates & Annual Charges	2013 Other Receivables
<b>(i) Ageing of Receivables - %</b>				
Current (not yet overdue)	0%	18%	0%	26%
Overdue	100%	82%	100%	74%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>(ii) Ageing of Receivables - value</b>				
Current (not yet overdue)		2,041		3,022
Past due by up to 30 days	2,109	2,333	2,181	3,454
Past due between 31 and 180 days	510	6,855	527	5,209
Past due above 180 days	2,868	151	2,966	95
	<b>5,487</b>	<b>11,380</b>	<b>5,674</b>	<b>11,780</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 15. Financial Risk Management (continued)

\$ '000

## (c) Payables &amp; Borrowings

Payables & 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 & overdraft facilities utilised as required.

The contractual undiscounted cash outflows (i.e.. principal and interest) of Council's Payables & Borrowings are set out in the maturity table below:

\$ '000	Subject to no maturity	≤ 1 Year	1-2 Yrs	payable in:				Total Cash Outflows	Actual Carrying Values
				2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs		
<b>2014</b>									
Trade/Other Payables	1,022	20,125						21,147	21,147
Loans & Advances	-	6,802	6,529	12,609	6,235	6,230	66,524	104,929	67,068
Lease Liabilities	-	244	61	9	-	-	-	314	298
<b>Total Financial Liabilities</b>	<b>1,022</b>	<b>27,171</b>	<b>6,590</b>	<b>12,618</b>	<b>6,235</b>	<b>6,230</b>	<b>66,524</b>	<b>126,390</b>	<b>88,513</b>
<b>2013</b>									
Trade/Other Payables	1,200	21,160	-	-	-	-	-	22,360	22,360
Loans & Advances	-	8,172	7,358	7,169	7,051	7,092	73,358	110,200	67,902
Lease Liabilities	-	367	244	61	9	-	-	681	634
<b>Total Financial Liabilities</b>	<b>1,200</b>	<b>29,699</b>	<b>7,602</b>	<b>7,230</b>	<b>7,060</b>	<b>7,092</b>	<b>73,358</b>	<b>133,241</b>	<b>90,896</b>

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

The following interest rates were applicable to Council's Borrowings at balance date:

	2014		2013	
	Carrying Value	Average Interest Rate	Carrying Value	Average Interest Rate
Bank Overdraft	-		-	
Trade/Other Payables	21,147		22,360	
Loans & Advances - Fixed Interest Rate	67,068	6.4%	63,191	6.5%
Loans & Advances - Variable Interest Rate			4,711	5.3%
Lease Liabilities	298	7.2%	634	7.3%
	<b>88,513</b>		<b>90,896</b>	

# Newcastle City Council

## Notes to the Financial Statements for the financial year ended 30 June 2014

### Note 16. Material Budget Variations

\$ '000

Council's Original Financial Budget for 13/14 was adopted by the Council on 18 June 2013.

While the Income Statement included in this General Purpose Financial Report must disclose the Original Budget adopted by Council, the Local Government Act 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.

**Note that for Variations\* of Budget to Actual :**

Material Variations represent those variances that amount to **10%** or more of the original budgeted figure.

**F** = Favourable Budget Variation, **U** = Unfavourable Budget Variation

\$ '000	2014 Budget	2014 Actual	2014 ----- Variance* -----	
<b>REVENUES</b>				
<b>User Charges &amp; Fees</b>	<b>46,947</b>	<b>62,926</b>	<b>15,979</b>	<b>34% F</b>
Summerhill Waste Management Facility user charges and fees increased due to an increase in income, improved tonnages and securing new contracts. Additionally income from Newcastle Airport has been included which was not budgeted for.				
<b>Interest &amp; Investment Revenue</b>	<b>6,858</b>	<b>10,117</b>	<b>3,259</b>	<b>48% F</b>
Council's Investment portfolio continued to exceed budgeted returns. Contributing factors include: operating cash flow surplus exceeding budget; capital expenditure less than budgeted; and conservatively forecast portfolio holdings, interest rates, and investment product margins.				
<b>Operating Grants &amp; Contributions</b>	<b>16,390</b>	<b>14,305</b>	<b>(2,085)</b>	<b>(13%) U</b>
The negative budget variance is driven by the change in the Financial Assistance Grant payment cycle (in 2012/13 an additional 6 months payments was received therefore reducing the amounts paid in 2013/14) this has been offset by additional unbudgeted grants and contributions received for example S94 contributions, Office of Environment and Heritage for Coastal works etc.				
<b>Capital Grants &amp; Contributions</b>	<b>6,715</b>	<b>18,000</b>	<b>11,285</b>	<b>168% F</b>
Inclusion of unbudgeted subdivision donations.				
<b>Net Gains from Disposal of Assets</b>	<b>800</b>	<b>235</b>	<b>(565)</b>	<b>(71%) U</b>
Council budgets for sale of fleet items only. However Council has disposed of numerous other assets in other asset classes which have suffered loss on sales which have offset the gain on sales for fleet assets.				

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 16. Material Budget Variations (continued)

\$ '000	2014 Budget	2014 Actual	2014 ----- Variance* -----	
<b>EXPENSES</b>				
<b>Materials &amp; Contracts</b>	<b>50,378</b>	<b>42,051</b>	<b>8,327</b>	17% <b>F</b>
Planned capital expenditures were delayed resulting in the monies being available for investment.				
<b>Depreciation &amp; Amortisation</b>	<b>55,609</b>	<b>43,873</b>	<b>11,736</b>	21% <b>F</b>
Infrastructure depreciation was overstated in the 2011/2012 financial statements due to a system error. The adopted budgets for 2012/2013 and 2013/2014 both reflected this error. This error was identified and corrected in September 2013 and the 2012/2013 financial statements adjusted accordingly.				
<b>Impairment Expenses</b>	<b>-</b>	<b>1,898</b>	<b>(1,898)</b>	0% <b>U</b>
Impairment expense was not budgeted for as it arose from an unforeseen circumstance - the impact of which was from the discontinuation of the Art Gallery Project was unknown at the time of setting the budget.				
<b>Other Expenses</b>	<b>36,362</b>	<b>43,571</b>	<b>(7,209)</b>	(20%) <b>U</b>
Additional budget variations are attributable to the NSW State Government Waste Levy and Waste Disposal.				

# Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 17. Statement of Developer Contributions

\$ '000

Council recovers contributions, raises levies & enters into planning agreements on development works that are subject to a development consent issued by Council. All contributions must be spent/utilised for the specific purpose they were levied and any interest applicable to unspent funds must be attributed to remaining funds.

The following tables detail the receipt, interest and use of the above contributions & levies and the value of all remaining funds which are "restricted" in their future use.

### SUMMARY OF CONTRIBUTIONS & LEVIES

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Traffic Facilities	350	174	-	12	-	-	536	574	(7,783)	(6,673)	-
Parking	-	-	-	-	-	-	-	-	-	-	-
Open Space	2,624	503	-	75	-	-	3,202	2,494	(10,573)	(4,877)	-
Community Facilities	2,151	189	-	60	-	-	2,400	730	(2,268)	862	-
Other - Bikeways	23	-	-	1	-	-	24	-	-	24	-
Other - Studies	148	-	-	4	-	-	152	-	-	152	-
S94 Management	21	33	-	-	(34)	-	20	112	-	132	-
BGH Place Management	(159)	23	-	-	-	-	(136)	74	-	(62)	-
Regional Open Space	48	10	-	1	-	-	59	33	-	92	-
Section 94A Plan	10,025	573	-	215	(4,404)	-	6,409	-	(28,855)	(22,446)	-
<b>S94 Contributions - under a Plan</b>	<b>15,231</b>	<b>1,505</b>	<b>-</b>	<b>368</b>	<b>(4,438)</b>	<b>-</b>	<b>12,666</b>	<b>4,017</b>	<b>(49,479)</b>	<b>(32,796)</b>	<b>-</b>
<b>Total Contributions</b>	<b>15,231</b>	<b>1,505</b>	<b>-</b>	<b>368</b>	<b>(4,438)</b>	<b>-</b>	<b>12,666</b>	<b>4,017</b>	<b>(49,479)</b>	<b>(32,796)</b>	<b>-</b>

Notes to the Financial Statements  
for the financial year ended 30 June 2014

Note 17. Statement of Developer Contributions (continued)

\$ '000

S94 CONTRIBUTIONS - UNDER A PLAN

Section 94 Contributions Plan No. 4

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Traffic Facilities (Blue Gum Hills)	350	174		12			536	574	(7,783)	(6,673)	
<b>Total</b>	<b>350</b>	<b>174</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>536</b>	<b>574</b>	<b>(7,783)</b>	<b>(6,673)</b>	<b>-</b>

Section 94 Contributions Plan No. 1 - 2005 BGH

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Open Space	2,624	503		75			3,202	2,494	(10,573)	(4,877)	
Community Facilities	2,151	189		60			2,400	730	(2,268)	862	
Other - Bikeways	23			1			24			24	
Other - Studies	148			4			152			152	
S94 Management	21	33			(34)		20	112		132	
BGH Place Management	(159)	23					(136)	74		(62)	
Regional Open Space	48	10		1			59	33		92	
<b>Total</b>	<b>4,856</b>	<b>758</b>	<b>-</b>	<b>141</b>	<b>(34)</b>	<b>-</b>	<b>5,721</b>	<b>3,443</b>	<b>(12,841)</b>	<b>(3,677)</b>	<b>-</b>



Notes to the Financial Statements  
for the financial year ended 30 June 2014

Note 17. Statement of Developer Contributions (continued)

\$ '000

SECTION 94A Plan

PURPOSE	Opening Balance	Contributions received during the Year		Interest earned in Year	Expenditure during Year	Internal Borrowing (to)/from	Held as Restricted Asset	Projections			Cumulative Internal Borrowings due/(payable)
		Cash	Non Cash					Future income	Exp still outstanding	Over or (under) Funding	
Section 94A Plan	10,025	573		215	(4,404)		6,409		(28,855)	(22,446)	
<b>Total</b>	<b>10,025</b>	<b>573</b>	<b>-</b>	<b>215</b>	<b>(4,404)</b>	<b>-</b>	<b>6,409</b>	<b>-</b>	<b>(28,855)</b>	<b>(22,446)</b>	<b>-</b>

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 18. Contingencies & Other Assets/Liabilities Not Recognised

\$ '000

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

### LIABILITIES NOT RECOGNISED:

#### 1. Guarantees

##### (i) Defined Benefit Superannuation Contribution Plans

The Local Government Superannuation Scheme Pool B (the scheme) is a defined benefit plan that has been deemed to be a "multi-employer fund" for purposes of AASB 119. Sufficient information under AASB119 is not available to account for the Scheme as a defined benefit plan, because the assets to the Scheme are pooled together for all employers. The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2014 was \$3,450,170.

The last valuation of the scheme was performed by Mr Martin Stevenson BSc, FIA, FIAA on 21 February 2013 and covers the period ended 30 June 2014.

Effective from 1 July 2009, employers are required to contribute additional contributions to assist in extinguishing this deficit. The share of this deficit that can be broadly attributed to the employer was estimated to be in the order of \$6,161,432 as at 30 June 2014.

##### (ii) Workers Compensation

Council provides bank guarantees to the value of \$4.17 million to secure its self insurance license for Workers Compensation. The guarantee is provided to WorkCover NSW.

##### (iii) 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 fund depending on its past performance. Council's share of the Net Assets or Liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the Fund Years. The future realisation and finalisation of claims incurred but not reported to 30 June this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

#### 2. Other Liabilities

##### (iii) S94 Plans

Council levies Section 94/94A Contributions upon various development across the Council area through the required Contributions Plans. As part of these Plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

As well, these Plans indicate proposed future expenditure to be undertaken by Council, which will be funded by making levies and receipting funds in future years or where a shortfall exists by the use of Council's General Funds.

These future expenses do not yet qualify as liabilities as of the reporting date, but represent Council's intention to spend funds in the manner and timing set out in those Plans.

#### 3. Other Contingent Liabilities

Council has been named the defendant in a number of proceedings for parties who seek compensation for property, personal injury and employment related matters. The amount of this liability cannot be accurately determined at this time and as such has not been brought to account in the financial statements. Further details have not been disclosed as it would be prejudicial to Council.

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 19. Controlled Entities, Associated Entities &amp; Interests in Joint Ventures

\$ '000

## Joint Venture Operations

## (a) Council is involved in the following Joint Venture Operations (JVO)

Name of Operation	Principal Activity	Councils Interests in Outputs of JVO's
Newcastle Airport Limited	Civil Aviation Facilities	50%
Hunter Councils Limited	Local Government Efficiency Initiative	19.49%

## (b1) Council Assets employed in Newcastle Airport Limited

## Council's share of assets &amp; liabilities employed in the Operations

## Current Assets:

	2014	2013
Cash & Cash Equivalents	9,766	8,595
Receivables	1,321	1,726
Inventories		-
Other Assets	70	80

## Non-Current Assets

Property, Plant & Equipment	23,920	23,822
Other Assets	11	15

## Total Assets - Council Owned

35,088	34,238
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## Current Liabilities

- Payables	(2,234)	(3,436)
- Borrowings	(230)	(1,291)
- Provisions	(273)	(204)

## Non Current Liabilities

- Borrowings	(6,318)	(4,055)
- Provisions	(77)	(59)

## Total Net Assets Employed - Council &amp; Jointly Owned

25,956	25,193
--------	--------

## (c1) Share of Joint Venture Operations Expenditure Commitments

2014	2013
------	------

## Capital Commitments

Payable Not Later than 1 Year	6,099	228
Payable Later than 1 Year but not later than 5 Years		-
Payable Later than 5 Years		-
<b>Total Capital Commitments</b>	<b>6,099</b>	<b>228</b>

## Finance Lease Commitments

Payable Not Later than 1 Year	244	367
Payable Later than 1 Year but not later than 5 Years	70	314
Payable Later than 5 Years		-
<b>Total Operating Expenditure Commitments</b>	<b>314</b>	<b>681</b>

## (d1) Contingent Liabilities of Joint Venture Operations

2014	2013
------	------

Share of Contingent Liabilities incurred jointly with other Participants	100%	100%
Share of Contingent Liabilities for which Council is severally liable	100%	100%

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 19. Controlled Entities, Associated Entities &amp; Interests in Joint Ventures

\$ '000

## Joint Venture Operations (continued)

	2014	2013
<b>(b2) Council Assets employed in Hunter Councils Limited</b>		
<b>Council's share of assets &amp; liabilities employed in the Operations</b>		
<b>Current Assets:</b>		
Cash & Cash Equivalents	54	32
Receivables	36	34
Inventories	2	2
Other Assets		
<b>Non-Current Assets</b>		
Property, Plant & Equipment	874	654
Other Assets		-
<b>Total Assets - Council Owned</b>	<b>966</b>	<b>722</b>
<b>Current Liabilities</b>		
- Payables	(23)	(20)
- Borrowings	(63)	(12)
- Provisions	(14)	(35)
- Other Liabilities	(14)	(13)
<b>Non Current Liabilities</b>		
- Borrowings	(583)	(425)
- Provisions	(2)	(1)
<b>Total Net Assets Employed - Council &amp; Jointly Owned</b>	<b>267</b>	<b>216</b>
<b>(c2) Share of Joint Venture Operations Expenditure Commitments</b>	<b>2014</b>	<b>2013</b>
<b>Capital Commitments</b>		
Payable Not Later than 1 Year	30	-
Payable Later than 1 Year but not later than 5 Years		-
Payable Later than 5 Years		-
<b>Total Capital Commitments</b>	<b>30</b>	<b>-</b>
<b>Operating Expenditure Commitments</b>		
Payable Not Later than 1 Year		-
Payable Later than 1 Year but not later than 5 Years		-
Payable Later than 5 Years		-
<b>Total Operating Expenditure Commitments</b>	<b>-</b>	<b>-</b>
<b>(d2) Contingent Liabilities of Joint Venture Operations</b>	<b>2014</b>	<b>2013</b>
Share of Contingent Liabilities incurred jointly with other Participants	100	100%
Share of Contingent Liabilities for which Council is severally liable	100	100%

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 20. Equity - Retained Earnings and Revaluation Reserves

\$ '000	Notes	Actual 2014	Actual 2013
<b>(a) Retained Earnings</b>			
<b>Movements in Retained Earnings were as follows:</b>			
Balance at beginning of Year (from previous years audited accounts)		1,130,675	1,085,451
a. Correction of Prior Period Errors	20 (c)	-	39,257
b. Changes in Accounting Policies (prior period effects)		-	-
c. Other Comprehensive Income (excl. direct to Reserves transactions)		-	-
d. Net Operating Result for the Year		18,754	(3,684)
e. Distributions to/(Contributions from) Non-controlling Interests		(45)	-
f. Transfers between Equity		1,512	9,651
g. Other Changes (disclosure required)		31	-
<b>Balance at End of the Reporting Period</b>		<b>1,150,927</b>	<b>1,130,675</b>

**(b) Reserves****(i) Reserves are represented by:**

- Infrastructure, Property, Plant & Equipment Revaluation Reserve	293,234	277,363
<b>Total</b>	<b>293,234</b>	<b>277,363</b>

**(ii) Reconciliation of movements in Reserves:****Infrastructure, Property, Plant & Equipment Revaluation Reserve**

- Opening Balance	277,363	302,166
- Revaluations for the year	9(a) 20,288	(15,111)
- (Impairment of revalued assets) / Impairment reversals	9(a) (2,905)	(41)
- Transfer to Retained Earnings for Asset disposals	(1,512)	(9,651)
<b>- Balance at End of Year</b>	<b>293,234</b>	<b>277,363</b>

**TOTAL VALUE OF RESERVES**

<b>293,234</b>	<b>277,363</b>
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**(iii) Nature & Purpose of Reserves****Infrastructure, Property, Plant & Equipment Revaluation Reserve**

- The Infrastructure, Property, Plant & Equipment Revaluation Reserve is used to record increments/decrements of Non Current Asset values due to their revaluation.

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 20. Equity - Retained Earnings and Revaluation Reserves (continued)

\$ '000	Notes	Actual 2014	Actual 2013
<b>(c) Correction of Error/s relating to a Previous Reporting Period</b>			
Overstated depreciation			39,398
Buildings not previously recognised			3,459
Buildings not in existence			(943)
Operational Land not previously recognised			2,285
Operational Land not in existence			(4,942)
 <b>In accordance with AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors, the above Prior Period Errors have been recognised retrospectively.</b>			
<b>These amounted to the following Equity Adjustments:</b>			
- Adjustments to Opening Equity - 1/7/12			39,257
(relating to adjustments for the 30/6/12 reporting year end and prior periods)			
- Adjustments to Closing Equity - 30/6/13			-
(relating to adjustments for the 30/6/13 year end)			
<b>Total Prior Period Adjustments - Prior Period Errors</b>		<b>-</b>	<b>39,257</b>

## Newcastle City Council

# Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 21. "Held for Sale" Non Current Assets & Disposal Groups

\$ '000	2014		2013	
	Current	Non Current	Current	Non Current
(i) Non Current Assets & Disposal Group Assets				
<b>Non Current Assets "Held for Sale"</b>				
Land & Buildings	13,430	-	7,635	-
<b>Total Non Current Assets "Held for Sale"</b>	<b>13,430</b>	<b>-</b>	<b>7,635</b>	<b>-</b>
<b><u>TOTAL NON CURRENT ASSETS</u></b>				
<b><u>CLASSIFIED AS "HELD FOR SALE"</u></b>	<b><u>13,430</u></b>	<b><u>-</u></b>	<b><u>7,635</u></b>	<b><u>-</u></b>

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 22. Events occurring after the Reporting Date

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\$ '000

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Events that occur between the end of the reporting period (ending 30 June 2014) and the date when the financial statements are "authorised for issue" have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the applicable "authorised for issue" date relating to these General Purpose Financial Statements.

Accordingly, the "authorised for issue" date is 28/10/14.

Events that occur after the Reporting Period represent one of two types:

##### **(i) Events that provide evidence of conditions that existed at the Reporting Period**

Council has lodged a claim as part of the Claims Resolution Process (CRP) as a contingent creditor of the bankrupt Lehman Australia estate with the liquidators PPB Advisory (PPB). On the 16 May 2013 Council engaged specialist legal firm Johnson Winter & Slattery to manage Council's CRP as a contingent creditor of the bankrupt Lehman Australia estate with the liquidators PPB Advisory (PPB). The Claim was executed on 17 April 2014 and lodged with PPB on 12 May 2014. On the 5 August 2014 Ashurst (PPB's lawyers) made an offer to Council and on the 26 August Council made a counter offer back to Ashurst (PPB's lawyers). Negotiations are still ongoing to agree the terms of this counter offer and claimable amount and at 30 June 2014 Council has not recognised anything in the financial statements in relation to potential settlement of this matter.

##### **(ii) Events that provide evidence of conditions that arose after the Reporting Period**

Council is aware of the following "non-adjusting events" that merit disclosure;

The carbon tax repeal legislation received Royal Assent on 17 July 2014 and the bills as part of that package are law from 1 July 2014. As at 30 June 2014, Council still had a present obligation to meet carbon tax liabilities and therefore no adjusting event has occurred.

On the 22nd July 2014 Council awarded the tender to Lane 4 for the operational management of Council's inland swimming centres at Lambton, Mayfield and Wallsend for the coming 5 years and Stockton for 3 years. The financial effect of the above event, in terms of termination benefits, has not been brought to account at 30 June 2014 but is estimated at \$422,759.



## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 23. Intangible Assets

\$ '000	Actual 2014	Actual 2013
Intangible Assets represent identifiable non-monetary asset without physical substance.		
Intangible Assets are as follows;		
<b>Opening Values:</b>		
Gross Book Value (1/7)	287	689
<b>Net Book Value - Opening Balance</b>	<b>287</b>	<b>689</b>
<b>Movements for the year</b>		
- Purchases	557	134
- Development Costs	648	153
- Amortisation charges	(120)	-
- Impairment charges	-	(689)
- Gross Book Value written off	(689)	-
- Accumulated Impairment charges written off	689	-
<b>Closing Values:</b>		
Gross Book Value (30/6)	1,492	287
Accumulated Amortisation (30/6)	(120)	-
Accumulated Impairment (30/6)	-	-
<b><u>TOTAL INTANGIBLE ASSETS - NET BOOK VALUE</u></b> <sup>1</sup>	<b><u>1,372</u></b>	<b><u>287</u></b>

<sup>1</sup>. The Net Book Value of Intangible Assets represent:

- Software	1,372	287
	<b><u>1,372</u></b>	<b><u>287</u></b>

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 24. Reinstatement, Rehabilitation &amp; Restoration Liabilities

\$ '000

Council has legal/public obligations to make restore, rehabilitate and reinstate the following assets/operations:

Asset/Operation	Estimated year of restoration	NPV of Provision	
		2014	2013
Summerhill Waste Management Centre	2023	3,358	3,242
Balance at End of the Reporting Period	10(a)	<u>3,358</u>	<u>3,242</u>

Under AASB 116 - Property, Plant & Equipment, where the use of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset.

An equivalent liability must be recognised under AASB 137 - Provisions, Contingent Liabilities and Contingent Assets.

The provision has been calculated by determining the present value of the future expenditures expected to be incurred. The discount rate used is the risk free borrowing rate applicable to Council.

**Reconciliation of movement in Provision for year:**

Balance at beginning of year	3,242	3,080
Amortisation of discount (expensed to borrowing costs)	116	162
<b>Total - Reinstatement, rehabilitation and restoration provision</b>	<b><u>3,358</u></b>	<b><u>3,242</u></b>

**Amount of Expected Reimbursements**

Of the above Provisions for Reinstatement, Rehabilitation and Restoration works, those applicable to Garbage Services & Waste Management are able to be funded through future charges incorporated within Council's Annual Domestic Waste Management Charge.

## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

\$ '000

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

- Infrastructure, Property, Plant and Equipment
- Investment Property

During the reporting period, Council has also fair value measured the following assets on a non-recurring basis:

- Non Current Assets classified as "Held for Sale"

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).

The following table presents all assets and liabilities that have been measured & recognised at fair values:

		Fair Value Measurement Hierarchy			
2014		Level 1	Level 2	Level 3	Total
	Date	Quoted	Significant	Significant	
	of latest	prices in	observable	unobservable	
	Valuation	active mkts	inputs	inputs	
Recurring Fair Value Measurements					
Investment Properties					
Commercial Office and Retail	30/06/2014			13,350	13,350
Total Investment Properties		-	-	13,350	13,350

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 25. Fair Value Measurement (continued)

\$ '000

**Infrastructure, Property, Plant & Equipment**

Plant & Equipment	30/06/2013	23,104	23,104
Office Equipment	30/06/2013	1,777	1,777
Furniture & Fittings	30/06/2013	1,138	1,138
Operational Land	30/06/2013	86,328	86,328
Community Land	30/06/2011	116,683	116,683
Land Under Roads	30/06/2014	42,736	42,736
Land Improvements - depreciable	30/06/2011	26,484	26,484
Buildings - Non Specialised	30/06/2013	10,590	10,590
Buildings - Specialised	30/06/2013	150,530	150,530
Other Structures	30/06/2013	26,118	26,118
Roads	30/06/2011	447,126	447,126
Bridges	30/06/2011	36,817	36,817
Footpaths	30/06/2011	107,027	107,027
Stormwater Drainage	30/06/2010	93,819	93,819
Heritage Collections	30/06/2011	77,554	77,554
Library Books	30/06/2011	5,619	5,619
Other Assets	30/06/2011	27	27
Waste Management Asset	30/06/2014	941	941
Newcastle Airport	30/06/2014	23,920	23,920
<b>Total Infrastructure, Property, Plant &amp; Equipme</b>		<b>-</b>	<b>-</b>
		<b>1,278,339</b>	<b>1,278,339</b>

**Non-recurring Fair Value Measurements****Non Current Assets classified as "Held for Sale"**

Land and Buildings	30/06/2014	13,430	13,430
<b>Total NCA's classified as "Held for Sale"</b>		<b>-</b>	<b>-</b>
		<b>13,430</b>	<b>13,430</b>

## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

##### Valuation techniques used to derive Level 2 and Level 3 Fair Values

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

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

##### Investment Properties

Council obtains independent valuations of its investment property annually. A full revaluation is done every 3 years with a desktop valuation every other year. This ensures at the end of each reporting period the financial statements reflect the most up-to-date valuation.

The best evidence of Fair Value is the current price in an active market for similar assets. The following information is used where necessary;

- Current prices in an active market for different types of properties or similar properties in a less active market;
- Discounted cash flow projections based on managements best estimates of future rental income and expenditure;

All investment property valuations are included in level 3 of the hierarchy. The key unobservable input is the price per square metre.

The fair value of the investment properties are determined by an independent, qualified valuer updated on an annual basis who has experience in the location of the properties. The Council reviews the valuation report and discusses significant movements with the valuer. As at 30 June 2014 the valuation of the investment property was performed by Baker & Magin Valuers, Director A D Magin, AAPI, Certified Practicing Valuer (Business), Registered No. 2568.

There has been no change to the valuation process during the reporting period.

##### Infrastructure, Property, Plant & Equipment

##### Plant & Equipment, Office Equipment and Furniture & Fittings

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

- Plant and Equipment      Motor vehicles, trucks, tractors, ride-on mowers, street sweepers, compactors and earthmoving equipment
- Office Equipment          Computer equipment, projectors, refrigerators, cameras and photocopiers.

The key unobservable inputs to the valuation are internal factors surrounding the remaining useful life, pattern of consumption, asset condition and residual value. Where items are of a material value, Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking into account the unobservable inputs mentioned.

## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

---

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Operational Land**

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is based on market value. .

Council's operational land is valued using market valuations with a comprehensive valuation completed and revalued every five years. The last valuation was undertaken at 30 June 2013 and was performed by Knight Frank Valuers Lauren Payne, AAPI, Certified Practising Valuer.

Council's operational land is reviewed for impairment and any material changes in value after identifying all elements that would be taken into account by buyers and sellers in setting the price, including but not limited to zoning, topography, location, size, shape, access, exposure to traffic and businesses. The condition of the asset and its future cash flows are also considered when determining the fair value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Community Land**

Council's "Community" land (including owned by Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under section 94 of the Environment Planning and Assessment Act 1979). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land.

Community Land:

- Cannot be sold
- Cannot be leased, licensed, or any other estate granted over the land for more than 21 years and;
- Must have a plan of management for it.

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

There has been no change to the valuation process during the reporting period.

##### **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.

## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

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Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 – Property, Plant and Equipment and Council recognised this asset for the first time in financial year 2008/09. The Land under Roads was valued in accordance with the Australian Accounting Standard AASB 116 Property, Plant and Equipment, the Code of Accounting Practice and Financial Reporting June 2014, and completed by Council's Manager Rates.

Values were determined using the adjacent site method derived from the Code of Accounting Practice and Financial Reporting. This asset class is classified as Level 3 asset as significant inputs used in the adjacent site valuation methodology are unobservable.

There has been no change to the valuation process during the reporting period.

##### **Land Improvements - Depreciable**

The land improvements asset class consists of retaining walls, sea walls, landscaping, sporting facilities, boat ramps, turf, irrigation and other small land improvements. These assets may be located on parks, reserves and sporting fields.

'Land Improvements' were valued in-house using the cost approach by experienced Council engineers and asset management staff. The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Buildings – Non Specialised and Specialised**

Non-specialised buildings include commercial and general purpose buildings for which there is a secondary market. While specialised buildings are buildings designed for a specific limited purpose. Such buildings would include specialised buildings to house specialised infrastructure or plant and some heritage properties.

##### **Non Specialised Buildings**

The market sale approach to the valuation of assets comprises reference to market evidence of the sale of the identical and or similar assets. The valuation aspects are generally, but not limited to, the location, size, condition, style and utility of the asset.

Replacement cost, asset condition, remaining useful life and building components are some of the inputs used in fair value determination. Since most of these inputs require judgement and are unobservable, the asset class has been classified as Level 3.

There has been no change to the valuation process during the reporting period.

##### **Specialised Buildings**

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

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This approach estimates the replacement cost for each building by componentising the building (for complex structures) into significant parts with different useful life and taking in to account a range of factors such as the remaining useful life of the asset, condition, pattern of consumption and residual value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Other Structures**

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This asset class comprises of Council's outdoor swimming pools, skate facilities, memorials, monuments, floodlighting systems, fencing, and play grounds and other smaller structures.

The cost approach has been utilised whereby the replacement cost was estimated for each asset by taking into account a range of factors and by componentising its significant parts where applicable. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Roads**

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This asset class comprises the following Road components – Surface, Pavement, Kerb & Gutter, Excavation and Roadside Furniture.

The cost approach was utilised to value roads by componentising the assets into significant parts and then rolling up these component values to provide an overall road valuation (for each road segment) within Council's Asset System. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, residual value, asset condition and useful life requiring significant professional judgement which impacted significantly on the final determination of fair value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Bridges**

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

Bridges were valued in house by experienced Council Engineering staff. This asset class is componentised into significant parts, comprising of the Bridge Substructure, Superstructure and Handrail/Guardrail, each with differing useful lives.



## Newcastle City Council

### Notes to the Financial Statements for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

---

In order to apply fair valuation and condition based depreciation, the replacement cost has been determined for each component with unit rates supplied by Council's in-house estimator. Other input estimates like the useful life, condition ratings (1 – 5 rating), residual value and pattern of consumption have been used in the valuation of these assets and require significant professional judgement, therefore this asset class has been categorised as Level 3.

There has been no change to the valuation process during the reporting period.

##### **Footpaths**

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

This asset class comprises the following Road components – Footpaths.

Replacement costs (unit rates) and useful lives of Councils footpaths were determined using technical knowledge as part of the Roads Revaluation in 2010/2011. Some of the other significant inputs considered in the valuation of these assets are remaining useful life, pattern of consumption, dimensions, components and residual value.

The condition rating of each asset was assessed.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Drainage Infrastructure**

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted.

Council's Drainage Assets comprise pits, pipes, culverts, and water quality devices used to collect, store and remove stormwater.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. The Level of componentisation adopted by Council is in accordance with OLG Circular 09-09 and the Institute of Public Works Engineers Australia's International Infrastructure Management Manual (IIMM).

Inputs such as estimates of the pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Heritage Collections**

Assets within this class comprise of Art Gallery and Museum collections. The carrying amount of the Museum assets is assumed to approximate fair value due to the nature of the items, whilst market value is used to determine the fair value of the Art Gallery Collection on a 5 year cycle.

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

---

Where items are of a material value, Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption and estimated remaining useful life.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Library Books**

This asset category comprises of assets such as Media, Fiction, Non Fiction, Rare/Research Books and Local Studies. Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

Where items are of a material value, Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking account of the pattern of consumption, estimated remaining useful life and the residual value.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Other Assets**

This asset category comprises of specific Council assets such as the Council Crest, the Lord Mayors Robes and the Chain of Office. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

The key unobservable inputs to the valuation are internal factors surrounding the remaining useful life, pattern of consumption, asset condition and residual value. Where items are of a material value, Council reviews the value of these assets against quoted prices for the gross current replacement cost of similar assets and by taking into account the unobservable inputs mentioned.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Tip Remediation**

The Summerhill Waste Management Centre encompasses a landfilling operation as well as a wide range of waste disposal services, resource recovery services, recycled and reclaimed products, and waste management educational activities. It has been recognised that there will be significant costs associated with the closure and post closure management of the landfill site.

Closure of the landfill will involve a wide range of activities including preparation of a Landfill Closure and Management Plan, final capping of the landfill waste and site re-vegetation, revision of the surface water management system and leachate management infrastructure to suit post-closure operation, decommissioning and removing infrastructure and equipment that will not be required post-closure, and fencing sensitive infrastructure.

## Newcastle City Council

### Notes to the Financial Statements

for the financial year ended 30 June 2014

#### Note 25. Fair Value Measurement

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An Evaluation of Costs for the Landfill Closure and Post Closure Management was prepared by Summerhill's Senior Management during 2013. The key unobservable inputs are the discount rate, cost escalation rate, actual timing of costs and future environmental management requirements.

This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

##### **Newcastle Airport**

Council is involved in a joint venture with Port Stephens Council for the operation of civil aviation facilities at Newcastle Airport. The legal structure of the entity controlling the assets and operations of the Airport is now structured as a partnership. The Partners are Newcastle City Council (NCC) and Port Stephens Council (PSC). Under this structure NCC and PSC hold the rights to their share of the assets and their share of the obligations in the partnership.

This asset category comprises of Property, Plant, Equipment and Infrastructure assets. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

The key unobservable inputs to the valuation are internal factors surrounding the remaining useful life, pattern of consumption, asset condition and residual value. This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

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##### **Non Current Assets classified as "Held for Sale"**

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

An impairment loss is recognised for any initial or subsequent write-down of the asset 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, 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 is recognised at the date of de-recognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from the other assets in the statement of financial position. This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

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## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 25. Fair Value Measurement (continued)

\$ '000

## Fair value measurements using significant unobservable inputs (Level 3)

The following tables present the changes in Level 3 Fair Value Asset Classes.

	Investment Property	Plant & Equipment	Office Equipment	Furniture and Fittings	Total
Adoption of AASB 13	11,715	25,604	1,639	1,349	40,307
Transfers from/(to) another asset class	-	792	55	-	847
Purchases (GBV)	-	3,596	1,204	217	5,017
Disposals (WDV)	-	(1,038)	(258)	(206)	(1,502)
Depreciation & Impairment	-	(5,850)	(863)	(222)	(6,935)
FV Gains - Income Statement <sup>1</sup>	1,635	-	-	-	1,635
Other movement rounding	-	-	-	-	-
<b>Closing Balance - 30/6/14</b>	<b>13,350</b>	<b>23,104</b>	<b>1,777</b>	<b>1,138</b>	<b>39,369</b>

<sup>1</sup> FV Gains recognised in the Income Statement relating to assets still on hand at year end total:

YE 12/13	(1,420)	-	-	-	(1,420)
YE 13/14	1,635	-	-	-	1,635

	Operational Land	Community Land	Land Under Roads	Land Improvements Depreciable	Total
Adoption of AASB 13	97,154	116,256	13,845	25,935	253,190
Transfers from/(to) another asset class	(7,347)	-	(903)	2,047	(6,203)
Purchases (GBV)	965	444	9,505	1,009	11,923
Disposals (WDV)	(1,970)	(17)	-	-	(1,987)
Depreciation & Impairment	(2,473)	-	-	(2,508)	(4,981)
FV Gains - Other Comprehensive Income	-	-	20,288	-	20,288
Other movement rounding	(1)	-	1	1	1
<b>Closing Balance - 30/6/14</b>	<b>86,328</b>	<b>116,683</b>	<b>42,736</b>	<b>26,484</b>	<b>272,231</b>

	Buildings Non Specialised	Buildings Specialised	Other Structures	Roads	Total
Adoption of AASB 13	11,137	154,786	27,206	600,550	793,679
Transfers from/(to) another asset class	(800)	971	490	(144,650)	(143,989)
Purchases (GBV)	508	1,960	1,715	11,753	15,936
Disposals (WDV)	(255)	(349)	(35)	(1,487)	(2,126)
Depreciation & Impairment	-	(6,838)	(3,258)	(19,040)	(29,136)
Other movement rounding	-	-	-	-	-
<b>Closing Balance - 30/6/14</b>	<b>10,590</b>	<b>150,530</b>	<b>26,118</b>	<b>447,126</b>	<b>634,364</b>

## Newcastle City Council

## Notes to the Financial Statements

for the financial year ended 30 June 2014

## Note 25. Fair Value Measurement (continued)

\$ '000

## Fair value measurements using significant unobservable inputs (Level 3) (continued)

The following tables present the changes in Level 3 Fair Value Asset Classes. (continued)

	Bridges	Footpaths	Stormwater Drainage	Heritage Collections	Total
Adoption of AASB 13	-	-	96,517	75,981	172,498
Transfers from/(to) another asset class	36,817	107,027	(203)	-	143,641
Purchases (GBV)	-	-	1,070	1,605	2,675
Disposals (WDV)	-	-	(51)	-	(51)
Depreciation & Impairment	-	-	(3,514)	(32)	(3,546)
Other movement rounding	-	-	-	-	-
<b>Closing Balance - 30/6/14</b>	<b>36,817</b>	<b>107,027</b>	<b>93,819</b>	<b>77,554</b>	<b>315,217</b>

	Library Books	Other Assets	Waste Mngt Asset	Newcastle Airport	Total
Adoption of AASB 13	5,724	30	1,046	23,822	30,622
Purchases (GBV)	923	-	-	1,661	2,584
Disposals (WDV)	-	-	-	(2)	(2)
Depreciation & Impairment	(1,027)	(2)	(105)	(1,561)	(2,695)
Other movement rounding	(1)	(1)	-	-	(2)
<b>Closing Balance - 30/6/14</b>	<b>5,619</b>	<b>27</b>	<b>941</b>	<b>23,920</b>	<b>30,507</b>

## Newcastle City Council

Notes to the Financial Statements  
for the financial year ended 30 June 2014

## Note 25. Fair Value Measurement

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

The following table summarises the quantitative information relating to the significant unobservable inputs used in deriving the various Level 3 Asset Class fair values.

**Investment Properties**

<b>Class</b>	<b>Fair Value</b> (30/6/14) \$'000	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range of Inputs</b> (incl probable)	<b>Relationship of unobservable inputs to Fair Value</b>
Investment Properties	13,350	Market Value	<ul style="list-style-type: none"> <li>Estimated Rental Value (rate per square metre)</li> <li>Rental Yield</li> <li>Capitalisation rates of similar properties</li> </ul>	<ul style="list-style-type: none"> <li>\$ per sqm</li> <li>5% - 7%</li> <li>5% - 10%</li> </ul>	Significant changes in the market value, estimated rental yield and recent sales prices of similar properties would result in significant changes to Fair Value measurement.

**I, PP&E**

<b>Class</b>	<b>Fair Value</b> (30/6/14) \$'000	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range of Inputs</b> (incl probable)	<b>Relationship of unobservable inputs to Fair Value</b>
Plant & Equipment	23,104	Cost Approach	<ul style="list-style-type: none"> <li>Gross Replacement Cost</li> <li>Remaining Useful Life</li> </ul>	<ul style="list-style-type: none"> <li>Varies significantly from asset to asset</li> <li>1 to 25 years</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Office Equipment	1,777	Cost Approach	<ul style="list-style-type: none"> <li>Gross Replacement Cost</li> <li>Remaining Useful Life</li> </ul>	<ul style="list-style-type: none"> <li>Varies significantly from asset to asset</li> <li>1 to 10 years</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Furniture & Fittings	1,138	Cost Approach	<ul style="list-style-type: none"> <li>Gross Replacement Cost</li> <li>Remaining Useful Life</li> </ul>	<ul style="list-style-type: none"> <li>Varies significantly from asset to asset</li> <li>1 to 10 years</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Operational Land	86,328	Market Value	<ul style="list-style-type: none"> <li>Total Value of land</li> </ul>	<ul style="list-style-type: none"> <li>Unit Rates (\$ per sq metre) variable dependent on site</li> </ul>	Significant changes in the rate per square metre would result in significant changes to Fair Value measurement.

## Newcastle City Council

Community Land	116,683	Valuer General (VG) Valuation or Adjacent Site VG Valuation	<ul style="list-style-type: none"> <li>• Average Unit Rate based on VG Valuations</li> </ul>	<ul style="list-style-type: none"> <li>• VG Assessment</li> </ul>	Significant changes in the unimproved capital value would result in significant changes to Fair Value measurement.
Land Under Roads	42,736	Adjacent site valuation	<ul style="list-style-type: none"> <li>• Average Unit Rate based on Adjacent site valuation</li> </ul>	<ul style="list-style-type: none"> <li>• Unit Rates (\$ per square metre) based on adjacent site.</li> </ul>	Significant changes in the unimproved capital value would result in significant changes to Fair Value measurement.
Land Improvements – Depreciable	26,484	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 80 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Buildings – Non Specialised	10,590	Market Value	<ul style="list-style-type: none"> <li>• Market Value</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the market value, asset condition and recent sales prices of similar properties would result in significant changes to Fair Value measurement..
Buildings – Specialised	150,530	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 100 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Other Structures	26,118	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 80 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Roads	447,126	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 120 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Bridges	36,817	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 50 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.

## Newcastle City Council

Footpaths	107,027	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 50 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Stormwater Drainage	93,819	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 100 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Heritage Collections	77,554	Market Value/Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life (Museum Collection assets only)</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 100 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the market value (Art Collection) or gross replacement value (Museum collection), asset condition, pattern of consumption (Museum collection) effecting the remaining useful life (Museum collection) or residual value would result in significant changes to Fair Value measurement.
Library Books	5,619	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 100 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Other Assets	27	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> <li>• Asset Condition</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 80 years</li> <li>• Very poor to excellent</li> </ul>	Significant changes in the gross replacement value, asset condition, pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Waste Management Asset	941	Cost Approach	<ul style="list-style-type: none"> <li>• Discount Rate</li> <li>• Cost escalation rate</li> </ul>	<ul style="list-style-type: none"> <li>• 2.95%</li> <li>• 3%</li> </ul>	Significant changes in the discount rate and cost escalation rate would result in significant changes to Fair Value measurement.
Newcastle Airport	23,920	Cost Approach	<ul style="list-style-type: none"> <li>• Gross Replacement Cost</li> <li>• Remaining Useful Life</li> </ul>	<ul style="list-style-type: none"> <li>• Varies significantly from asset to asset</li> <li>• 1 to 100 years</li> </ul>	Significant changes in the gross replacement value, asset condition, and pattern of consumption effecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.



## Newcastle City Council

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### **The Valuation Process for Level 3 Fair Value Measurements**

The valuation process has been detailed in the accompanying notes for all asset classes within Level 3.

#### **Highest and best use**

All of Council's non financial assets are considered to being utilised for their highest and best use for provision of Council services specific to Council operations.

## **Council of The City of Newcastle**

### **Independent auditor's report to the Council – s417(2) Report on the general purpose financial statements**

#### ***Report on the financial statements***

We have audited the accompanying financial statements of Council of The City of Newcastle (the Council), which comprises the statement of financial position as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Statement by Councillors and Management in the approved form as required by Section 413(2) of the Local Government Act 1993.

#### ***Councillor's responsibility for the financial report***

The Councillors of the Council are responsible for the preparation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) 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.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Councillors, as well as evaluating the overall presentation of the financial statements.

Our audit responsibility does not extend to the Original Budget Figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in notes 2(a) and 16 and the Projections disclosed in note 17 to the financial statements, nor the attached Special Schedules, and accordingly, we express no opinion on them.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Auditor's opinion*

In our opinion:

- (a) 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); and
- (b) the financial statements:
  - (i) have been presented, in all material respects, in accordance with the requirements of this Division
  - (ii) are consistent with the Council's accounting records;
  - (iii) present fairly, in all material aspects, the Council's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards
- (c) all information relevant to the conduct of the audit has been obtained; and
- (d) there are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*CMara*

Caroline Mara  
Partner

Newcastle  
20 October 2014



The Deputy Mayor  
Councillor B Luke  
Newcastle City Council  
PO Box 489  
NEWCASTLE NSW 2300

20 October 2014

Dear Councillor Luke

### **Report on the conduct of the audit for year ended 30 June 2014 – Section 417(3)**

We have completed our audit of the financial reports of Newcastle City Council for the year ended 30 June 2014 in accordance with Section 415 of the Local Government Act, 1993.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial reports are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial reports and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material aspects, the financial reports are presented fairly in accordance with Australian Accounting Standards as well as the statutory requirements so as to present a view which is consistent with our understanding of the Council's financial position, the results of its operations and cash flows.

This report should be read in conjunction with our audit opinion on the general purpose financial statements provided under Section 417(2) of the Local Government Act, 1993.

### **Other reporting matters**

Our report below includes a number of comments regarding Council's financial position and results.

### **Operating result**

Council's operating result increased from a \$3,684 deficit in the previous year to a \$18,754k surplus in the current year. The result before capital grants and contributions was a surplus of \$754k compared with a deficit of \$13,405k in the previous year.

### **Cash and Investments position**

Council's overall cash and investments position increased from \$222,747k to \$242,304k during the period under review. The following table highlights the composition of cash:

	<b>June 2014</b>	<b>June 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Externally restricted	32,439	40,074
Internally restricted	181,724	164,041
Unrestricted	28,141	18,632
<b>Total</b>	<b>\$242,304</b>	<b>\$222,747</b>

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### Working Capital

At 30 June 2014, Council's working capital (current assets less current liabilities) stood at \$77,063k compared to \$66,957 at 30 June 2013. The total current assets that Council is expected to realise in the coming year exceeded the total current liabilities that will need to be met by this amount. This is referred to as the current asset ratio and is a measure of the liquidity of Council. The unrestricted current ratio, another measure of liquidity is also provided below. Council's cash balance has increased while the current investments balance has decreased. Prima facie, this places Council in a sound financial position however, it must be remembered that this balance includes items which are restricted in their use as per Note 6(c) of the financial statements.

### Performance Indicators

The financial reports disclose a number of useful indicators in Note 13. The majority of these ratios are being reported for the first time in the 30 June 2014 financial report. The measures are detailed below:

	June 2014	June 2013	Benchmark
Operating performance ratio	-0.50%	-2.75%	>0%
Own source revenue ratio	86.54%	85.32%	>60%
Unrestricted current ratio	3.22	2.92	>1.5
Debt service cover ratio	4.13	6.22	>2
Rates, annual charges, interest and extra charges outstanding ratio	4.61%	5.05%	<5%
Cash expense cover ratio	8.70	8.67	>3

The operating performance ratio is -0.50% which means Council's operating expenditure is greater than operating revenue.

The own source revenue ratio is 86.54% and shows that the degree of reliance on external funding sources such as operating grants and contributions is higher than the expected benchmark.

The unrestricted Current Ratio is 3.22 and remains well above the accepted benchmark.

The debt service cover ratio has decreased to 4.13. This ratio measures the availability of operating cash to service debt including interest, principal and lease payments.

The rates, annual charges, interest and extra charges outstanding ratio has decreased to 4.61% of collectibles and now below the industry benchmark.

The cash expense cover ratio is a liquidity ratio indicating the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

The above indicators show that Council's financial position is relatively stable compared to the prior year.



**General**

The books of accounts and records inspected by us have been kept in a reasonable manner.

We thank the General Manager and his staff for the cooperation and courtesy extended to us during the course of the audit.

Yours faithfully

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Car@*

Caroline Mara  
Partner

Newcastle  
20 October 2014

# Newcastle City Council

SPECIAL SCHEDULES

for the year ended 30 June 2014

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# Newcastle City Council

## Special Schedules

for the financial year ended 30 June 2014

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<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 9).

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#### Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
  - the NSW Grants Commission
  - the Australian Bureau of Statistics (ABS),
  - the NSW Office of Water (NOW), and
  - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
  - the allocation of Financial Assistance Grants,
  - the incorporation of Local Government financial figures in national statistics,
  - the monitoring of loan approvals,
  - the allocation of borrowing rights, and
  - the monitoring of the financial activities of specific services.



## Newcastle City Council

# Special Schedule No. 1 - Net Cost of Services

for the financial year ended 30 June 2014

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
<b>Governance</b>	<b>4,410</b>	-	-	<b>(4,410)</b>
<b>Administration</b>	<b>29,032</b>	<b>4,269</b>	-	<b>(24,763)</b>
<b>Public Order and Safety</b>				
Fire Service Levy, Fire Protection, Emergency Services	2,938	6	-	<b>(2,932)</b>
Beach Control	3,098	-	-	<b>(3,098)</b>
Enforcement of Local Govt. Regulations	1,486	437	-	<b>(1,049)</b>
Animal Control	694	141	-	<b>(553)</b>
Other	892	155	-	<b>(737)</b>
<b>Total Public Order &amp; Safety</b>	<b>9,108</b>	<b>739</b>	-	<b>(8,369)</b>
<b>Health</b>	<b>313</b>	<b>82</b>	-	<b>(231)</b>
<b>Environment</b>				
Noxious Plants and Insect/Vermin Control	439	49	-	<b>(390)</b>
Other Environmental Protection	5,428	799	-	<b>(4,629)</b>
Solid Waste Management	36,754	26,345	11	<b>(10,398)</b>
Street Cleaning	2,648	-	-	<b>(2,648)</b>
Stormwater Management	5,112	-	-	<b>(5,112)</b>
<b>Total Environment</b>	<b>50,381</b>	<b>27,193</b>	<b>11</b>	<b>(23,177)</b>
<b>Community Services and Education</b>				
Administration & Education	575	56	-	<b>(519)</b>
Aged Persons and Disabled	471	113	-	<b>(358)</b>
Children's Services	2,228	1,333	-	<b>(895)</b>
<b>Total Community Services &amp; Education</b>	<b>3,274</b>	<b>1,502</b>	-	<b>(1,772)</b>
<b>Housing and Community Amenities</b>				
Public Cemeteries	87	124	-	<b>37</b>
Public Conveniences	521	-	-	<b>(521)</b>
Street Lighting	3,817	457	-	<b>(3,360)</b>
Town Planning	3,835	1,354	872	<b>(1,609)</b>
Other Community Amenities	134	140	239	<b>245</b>
<b>Total Housing and Community Amenities</b>	<b>8,394</b>	<b>2,075</b>	<b>1,111</b>	<b>(5,208)</b>

## Newcastle City Council

# Special Schedule No. 1 - Net Cost of Services (continued)

for the financial year ended 30 June 2014

\$'000

Function or Activity	Expenses from Continuing Operations	Income from continuing operations		Net Cost of Services
		Non Capital	Capital	
<b>Recreation and Culture</b>				
Public Libraries	8,425	671	91	(7,663)
Museums	3,237	640	-	(2,597)
Art Galleries	3,804	225	1,477	(2,102)
Community Centres and Halls	3,020	792	-	(2,228)
Other Cultural Services	5,501	2,194	291	(3,016)
Sporting Grounds and Venues	3,441	613	-	(2,828)
Swimming Pools	4,118	1,075	-	(3,043)
Parks & Gardens (Lakes)	16,064	465	-	(15,599)
Other Sport and Recreation	657	372	-	(285)
<b>Total Recreation and Culture</b>	<b>48,267</b>	<b>7,047</b>	<b>1,859</b>	<b>(39,361)</b>
<b>Fuel &amp; Energy</b>	-	-	-	-
<b>Agriculture</b>	-	-	-	-
<b>Mining, Manufacturing and Construction</b>				
Building Control	5,651	3,192	594	(1,865)
<b>Total Mining, Manufacturing and Const.</b>	<b>5,651</b>	<b>3,192</b>	<b>594</b>	<b>(1,865)</b>
<b>Transport and Communication</b>				
Urban Roads (UR) - Local	28,818	580	14,425	(13,813)
Urban Roads - Regional	6,474	6,359	-	(115)
Bridges on UR - Local	1,537	-	-	(1,537)
Parking Areas	3,848	9,554	-	5,706
Footpaths	7,924	-	-	(7,924)
Aerodromes	9,236	11,502	-	2,266
Other Transport & Communication	181	78	-	(103)
<b>Total Transport and Communication</b>	<b>58,018</b>	<b>28,073</b>	<b>14,425</b>	<b>(15,520)</b>
<b>Economic Affairs</b>				
Camping Areas & Caravan Parks	1,317	2,731	-	1,414
Other Economic Affairs	4,907	6,740	-	1,833
<b>Total Economic Affairs</b>	<b>6,224</b>	<b>9,471</b>	-	<b>3,247</b>
<b>Totals – Functions</b>	<b>223,072</b>	<b>83,643</b>	<b>18,000</b>	<b>(121,429)</b>
<b>General Purpose Revenues <sup>(2)</sup></b>		<b>140,183</b>		<b>140,183</b>
<b>Share of interests - joint ventures &amp; associates using the equity method</b>	-	-		-
<b>NET OPERATING RESULT <sup>(1)</sup></b>	<b>223,072</b>	<b>223,826</b>	<b>18,000</b>	<b>18,754</b>

(1) As reported in the Income Statement

(2) Includes: Rates &amp; Annual Charges (incl. Ex Gratia, excl. Water &amp; Sewer), Non Capital General Purpose Grants, Interest on Investments (excl. Ext. Restricted Assets) &amp; Interest on overdue Rates &amp; Annual Charges

Special Schedule No. 2(a) - Statement of Long Term Debt (all purpose)

for the financial year ended 30 June 2014

\$'000

Classification of Debt	Principal outstanding at beginning of the year			New Loans raised during the year	Debt redemption during the year		Transfers to Sinking Funds	Interest applicable for Year	Principal outstanding at the end of the year		
	Current	Non Current	Total		From Revenue	Sinking Funds			Current	Non Current	Total
<b>Loans (by Source)</b>											
Other State Government	98	878	<b>976</b>		97			44	98	781	<b>879</b>
Financial Institutions	2,779	59,435	<b>62,214</b>		2,276			4,055	2,497	57,441	<b>59,938</b>
Joint Venture - PSC	956	3,756	<b>4,712</b>	6,250	4,711			224		6,251	<b>6,251</b>
<b>Total Loans</b>	<b>3,833</b>	<b>64,069</b>	<b>67,902</b>	<b>6,250</b>	<b>7,084</b>	-	-	<b>4,323</b>	<b>2,595</b>	<b>64,473</b>	<b>67,068</b>
<b>Other Long Term Debt</b>											
Hire Purchase Agreements	335	299	<b>634</b>	26	361			10	230	69	<b>299</b>
<b>Total Long Term Debt</b>	<b>335</b>	<b>299</b>	<b>634</b>	<b>26</b>	<b>361</b>	-	-	<b>10</b>	<b>230</b>	<b>69</b>	<b>299</b>
<b>Total Debt</b>	<b>4,168</b>	<b>64,368</b>	<b>68,536</b>	<b>6,276</b>	<b>7,445</b>	-	-	<b>4,333</b>	<b>2,825</b>	<b>64,542</b>	<b>67,367</b>

Notes: Excludes (i) Internal Loans & (ii) Principal Inflows/Outflows relating to Loan Re-Financing.

This Schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

Special Schedule No. 7 - Report on Infrastructure Assets  
as at 30 June 2014

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard <sup>(1)</sup>	Required Annual Maintenance <sup>(2)</sup>	Actual Maintenance 2013/14 <sup>(3)</sup>	Required Annual Renewal <sup>(5)</sup>	Actual Renewal 2013/14 <sup>(6)</sup>	Written Down Value (WDV) <sup>(4)</sup>	Assets in Condition as a % of WDV <sup>(4), (5)</sup>				
								1	2	3	4	5
Buildings & Structures ( a )	Council Offices / Administration Centres	1,799		751		485	8,589	0%	77%	23%	0%	0%
	Council Works Depot			229		334	10,678	3%	96%	1%	0%	0%
	Council Public Halls			228		-	2,755	9%	29%	61%	1%	0%
	Libraries			119		633	17,286	89%	10%	0%	0%	0%
	Cultural Facilities	24,290		93		1,191	51,822	15%	85%	0%	0%	0%
	Other Non - Specialised Buildings			-		11	10,590	23%	57%	18%	2%	0%
	Other Specialised Buildings	7,500		215		1,578	59,400	23%	57%	18%	2%	0%
	Other Structures	10,465		1,547		3,016	26,118	10%	53%	19%	18%	0%
	<b>sub total</b>	<b>44,054</b>	<b>4,931</b>	<b>3,182</b>	<b>3,934</b>	<b>7,248</b>	<b>187,238</b>	<b>23%</b>	<b>63%</b>	<b>11%</b>	<b>3%</b>	<b>0%</b>
Land Improvements ( b )	Retaining Walls	656	385	55			-					
	Seawalls	-	151				-					
	River Walls	1,161	-		161	256	-					
	<b>sub total</b>	<b>1,817</b>	<b>536</b>	<b>55</b>	<b>161</b>	<b>256</b>	<b>26,484</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
Roads & Bridges ( c )	Sealed Roads Surface	8,450	2,600	2,105		2,419	64,286	43%	44%	12%	0%	0%
	Sealed Roads Structure	3,904	3,000	2,769		1,119	131,112	28%	55%	17%	1%	0%
	Unsealed Roads	-	-	-		-	-					
	Bridges	993	40	10		179	36,818	4%	77%	17%	2%	0%
	Footpaths	1,245	1,350	1,144		1,057	107,027	23%	63%	14%	0%	0%
	Cycle ways	-	-	-		-	-					
	Kerb and Gutter	563	700	499		1,008	193,947	8%	71%	20%	1%	0%
	Other Road Assets - Roadside Furniture	1,929	200	145		671	9,390	23%	39%	38%	0%	0%
	Other - Excavation						48,391		100%			
	<b>sub total</b>	<b>17,084</b>	<b>7,890</b>	<b>6,672</b>	<b>8,900</b>	<b>6,453</b>	<b>590,971</b>	<b>18%</b>	<b>65%</b>	<b>16%</b>	<b>1%</b>	<b>0%</b>

Special Schedule No. 7 - Condition of Public Works (continued)  
as at 30 June 2014

\$'000

Asset Class	Asset Category	Estimated cost to bring up to a satisfactory standard <sup>(1)</sup>	Required Annual Maintenance <sup>(2)</sup>	Actual Maintenance 2013/14 <sup>(3)</sup>	Required Annual Renewal <sup>(5)</sup>	Actual Renewal 2013/14 <sup>(6)</sup>	Written Down Value (WDV) <sup>(4)</sup>	Assets in Condition as a % of WDV <sup>(4), (7)</sup>				
								1	2	3	4	5
Stormwater Drainage ( d )	Stormwater Conduits (Pipes & Culverts)	14,712		127		849	67,909	58%	6%	10%	15%	12%
	Inlet and Junction Pits (All Pits)	2,339		252		158	24,848	52%	11%	30%	6%	1%
	Stormwater Quality Devices	236		82		119	1,062	100%				
	<b>sub total</b>	<b>17,287</b>	<b>-</b>	<b>461</b>	<b>2,656</b>	<b>1,126</b>	<b>93,819</b>	<b>57%</b>	<b>7%</b>	<b>15%</b>	<b>13%</b>	<b>9%</b>
Other Infrastructure Assets ( e )												
	Creeks	7,881	100	278	689	746	-					
	Trees	2,315	1,274	1,818	922	1,049	-					
	<b>sub total</b>	<b>10,196</b>	<b>1,374</b>	<b>2,096</b>	<b>1,611</b>	<b>1,795</b>	<b>-</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
	<b>TOTAL - ALL ASSETS</b>	<b>90,438</b>	<b>14,731</b>	<b>12,466</b>	<b>17,262</b>	<b>16,878</b>	<b>898,512</b>	<b>23%</b>	<b>57%</b>	<b>14%</b>	<b>2%</b>	<b>1%</b>

Notes:

- (1). Satisfactory is defined as "satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate".  
The estimated cost to bring assets to a satisfactory standard is the amount of money that is required to be spent on an asset to ensure that it is in a satisfactory standard.  
This estimated cost should not include any planned enhancements (ie.to heighten, intensify or improve the facilities).
- (2). Required Annual Maintenance is "what should be spent to maintain assets in a satisfactory standard.
- (3). Actual Maintenance is what has been spent in the current year to maintain the assets.  
Actual Maintenance may be higher or lower than the required annual maintenance due to the timing of when the maintenance actually occurs.
- (4). Written Down Value is in accordance with Note 9 of Council's General Purpose Financial Statements
- (5). Required Annual Renewal is "what should be spent to renew assets in a satisfactory standard.
- (6). Actual Renewal is what has been spent in the current year to renew the assets.

(7). **Infrastructure Asset Condition Assessment "Key"**

1	<b>Excellent</b>	No work required (normal maintenance)
2	<b>Good</b>	Only minor maintenance work required
3	<b>Average</b>	Maintenance work required
4	<b>Poor</b>	Renewal required
5	<b>Very Poor</b>	Urgent renewal/upgrading required

- (a). The renewal for the Buildings and Structures is based on lifecycle costs where as the maintenance program is based on a 3 year average. The building estimated cost to bring up to a satisfactory standard has decreased primarily due to the removal of Off Street Carparks that have now been sold, renewal work on City Hall and Newcastle Ocean Baths, demolition of the Old Fred Ash Building, Civic Arcade and Civic Hotel.
  - (b). Council does not currently hold condition data across the land improvement categories. The introduction of an enterprise planning tool over the next 2 years will have a significant impact on this data being available.
  - (c). The renewal for the Roads is based on one year projections where as the maintenance program is based on a 10 year average.
  - (d). The renewal for the Stormwater Drainage is based on one year projections where as the maintenance program is based on a 5 year average.
  - (e). For Accounting purposes Council does not recognise book values for Natural Assets eg Creeks and Trees. Inclusion of this asset class for 2013/2014 contributes \$10.196million to the estimated cost to bring up to a satisfactory standard.
- Currently the required annual renewal is based upon the present condition of the asset class data set held in the asset management system. As detailed in the Strategic Asset Management Plans there will be a higher degree or required renewal in future years that is not reflected in the short term view presented above.

## Newcastle City Council

# Special Schedule No. 7 - Report on Infrastructure Assets (continued)

for the financial year ended 30 June 2014

\$ '000	Amounts 2014	Indicator 2014	Prior Period 2013
Infrastructure Asset Performance Indicators Consolidated			
1. Building and Infrastructure Renewals Ratio			
Asset Renewals (Building and Infrastructure) <sup>(1)</sup>	14,827	50%	31%
Depreciation, Amortisation & Impairment	29,392		
2. Infrastructure Backlog Ratio			
Estimated Cost <sup>(2)</sup> to bring Assets to a Satisfactory Condition	80,242	9%	11%
Total value <sup>(3)</sup> of Infrastructure, Building, Other Structures & depreciable Land Improvement Assets	898,512		
3. Asset Maintenance Ratio			
Actual Asset Maintenance <sup>(4)</sup>	12,466	85%	50%
Required Asset Maintenance <sup>(4)</sup>	14,731		
4. Capital Expenditure Ratio			
Annual Capital Expenditure	42,506	97%	79%
Annual Depreciation	43,873		

## Notes

<sup>(1)</sup> Asset Renewals represent the replacement &/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. Asset Renewals include building and infrastructure assets only.

<sup>(2)</sup> Estimated cost has been adjusted for Creeks and Trees as these do not carry book value in the accounts.

<sup>(3)</sup> Written down value

<sup>(4)</sup> Asset Maintenance Ratio for 2013 includes both maintenance and renewal.

## Newcastle City Council

## Special Schedule No. 8 - Financial Projections

as at 30 June 2014

<b>\$'000</b>	<b>Actual<sup>(1)</sup> 13/14</b>	<b>Forecast<sup>(3)</sup> 14/15</b>	<b>Forecast<sup>(3)</sup> 15/16</b>	<b>Forecast<sup>(3)</sup> 16/17</b>	<b>Forecast<sup>(3)</sup> 17/18</b>
<b>(i) OPERATING BUDGET</b>					
Income from continuing operations	223,826	215,969	225,789	235,713	241,606
Expenses from continuing operations	223,072	227,840	235,305	242,330	248,388
<b>Operating Result from Continuing Operations</b>	<b>754</b>	<b>(11,871)</b>	<b>(9,516)</b>	<b>(6,617)</b>	<b>(6,782)</b>
<b>(ii) CAPITAL BUDGET</b>					
New Capital Works <sup>(2)</sup>	16,531	30,484	29,462	27,603	28,293
Replacement/Refurbishment of Existing Assets	18,629	24,505	20,500	25,000	25,000
<b>Total Capital Budget</b>	<b>35,160</b>	<b>54,989</b>	<b>49,962</b>	<b>52,603</b>	<b>53,293</b>
<b>Funded by:</b>					
– Loans	2,619	-	-	-	-
– Asset sales	26,192	7,171	4,710	13,395	900
– Reserves	800	41,138	38,572	32,528	45,713
– Grants/Contributions	5,549	6,680	6,680	6,680	6,680
	<b>35,160</b>	<b>54,989</b>	<b>49,962</b>	<b>52,603</b>	<b>53,293</b>

**Notes:**

(1\*) From 13/14 Income Statement excluding (\$18 million) Grants and Contributions for Capital purposes. Actual results for 2013/14 also include one off items such as Fair Value Investment Property Adjustments, Investment Recoupment and Profits from Sale of Assets

(2\*) New Capital Works are major non-recurrent projects, e.g. Coastal Revitalisation.

(3\*) Financial projections are be in accordance with Council's Integrated Planning and Reporting framework.

## Newcastle City Council

# Special Schedule No. 9 - Permissible Income Calculation

for the financial year ended 30 June 2015

\$'000		Calculation 2013/14	Calculation 2014/15
<b>Notional General Income Calculation <sup>(1)</sup></b>			
Last Year Notional General Income Yield	a	103,685	103,685
Plus or minus Adjustments <sup>(2)</sup>	b	(3,392)	837
<b>Notional General Income</b>	c	<b>100,293</b>	<b>104,522</b>
<b>Permissible Income Calculation</b>			
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%
or Rate peg percentage	e	3.40%	2.30%
or Crown land adjustment incl. rate peg percentage	f	0.00%	3.05%
less expiring Special variation amount	g	-	-
plus Special variation amount	h = c x d	-	-
or plus Rate peg amount	i = c x e	3,410	-
or plus Crown land adjustment and rate peg amount	j = c x f	-	3,188
<b>sub-total</b>	k = (c+g+h+i+j)	<b>103,703</b>	<b>107,710</b>
plus (or minus) last year's Carry Forward Total	l	4	18
less Valuation Objections claimed in the previous year	m	-	-
<b>sub-total</b>	n = (l + m)	<b>4</b>	<b>18</b>
<b>Total Permissible income</b>	o = k + n	<b>103,707</b>	<b>107,728</b>
less Notional General Income Yield	p	103,685	107,902
<b>Catch-up or (excess) result</b>	q = o - p	<b>22</b>	<b>(174)</b>
plus Income lost due to valuation objections claimed <sup>(4)</sup>	r	-	176
less Unused catch-up <sup>(5)</sup>	s	(4)	-
<b>Carry forward to next year</b>	t = q + r - s	<b>18</b>	<b>2</b>

**Notes**

- <sup>1</sup> 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.
- <sup>2</sup> 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.
- <sup>3</sup> The Special Variation Percentage is inclusive of the Rate Peg percentage and where applicable crown land adjustment.
- <sup>4</sup> Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- <sup>5</sup> Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.





## **The Newcastle City Council**

### **Independent auditor's report Report on the Special Schedule No. 9**

#### **Report on the Special Schedule No. 9**

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule No. 9) of the Newcastle City Council ("the Council") for the year ended 30 June 2014.

#### **Responsibility of Council for Special Schedule No. 9**

The Council is responsible for the preparation and fair presentation of Special Schedule No. 9 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 22. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule No. 9 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on Special Schedule No. 9 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule No. 9 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule No. 9. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule No. 9, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule No. 9.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule No. 9 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Liability limited by a scheme approved under Professional Standards Legislation.

***Independence***

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

***Audit Opinion***

In our opinion, Special Schedule No. 9 of the Newcastle City Council for the year ended 30 June 2014 is properly drawn up in all material respects in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

***Restriction on distribution***

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the council and the Division of Local Government.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Cmara*

Caroline Mara  
Partner

Newcastle  
20 October 2014

# Newcastle City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS  
for the year ended 30 June 2014

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# Newcastle City Council

## Special Purpose Financial Statements

for the financial year ended 30 June 2014

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### Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Division 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 & 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 over \$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 & debt guarantee fees (where the business benefits from councils borrowing position by comparison with commercial rates).
-

## Newcastle City Council

### Special Purpose Financial Statements for the financial year ended 30 June 2014

### 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 & Costing for Council Businesses - A Guide to Competitive Neutrality".
- The Local Government Code of Accounting Practice and Financial Reporting.
- The NSW Office of Water (Department of Environment, Climate Change and Water) Guidelines - "Best Practice Management of Water and Sewerage".

**To the best of our knowledge and belief, these Financial 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.

**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 23 September 2014.**

Councillor B Luke (Deputy)  
**MAYOR**

Councillor  
**COUNCILLOR**

Ken Gouldthorp  
**GENERAL MANAGER**

Glen Cousins  
**RESPONSIBLE ACCOUNTING OFFICER**

## Newcastle City Council

## Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2014

\$ '000	Waste Management Collection Service		Waste Management Disposal Service	
	Category 1		Category 1	
	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>Income from continuing operations</b>				
Access charges	11,352	11,290	7,830	6,527
User charges	2,955	2,402	25,600	19,341
Profit from the sale of assets	17	277	13	4
<b>Total income from continuing operations</b>	<b>14,324</b>	<b>13,969</b>	<b>33,443</b>	<b>25,872</b>
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs	3,013	2,139	2,089	2,044
Borrowing costs	-	-	116	162
Materials and contracts	6,559	9,595	25,717	20,938
Depreciation and impairment	363	302	1,776	2,464
Loss on sale of assets	-	-	3	-
Calculated taxation equivalents	-	-	42	29
<b>Total expenses from continuing operations</b>	<b>9,935</b>	<b>12,036</b>	<b>29,743</b>	<b>25,637</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>4,389</b>	<b>1,933</b>	<b>3,700</b>	<b>235</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>4,389</b>	<b>1,933</b>	<b>3,700</b>	<b>235</b>
Surplus (deficit) from discontinued operations	-	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>4,389</b>	<b>1,933</b>	<b>3,700</b>	<b>235</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(1,317)	(580)	(1,110)	(71)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>3,072</b>	<b>1,353</b>	<b>2,590</b>	<b>165</b>
<b>plus Opening Retained Profits</b>	<b>3,240</b>	<b>1,307</b>	<b>13,618</b>	<b>13,354</b>
- Taxation equivalent payments	-	-	42	29
- Corporate taxation equivalent	1,317	580	1,110	71
<b>Closing Retained Profits</b>	<b>7,629</b>	<b>3,240</b>	<b>17,360</b>	<b>13,618</b>
<b>Return on Capital %</b>	<b>10450.0%</b>	<b>1223.4%</b>	<b>320.4%</b>	<b>31.5%</b>
<b>Subsidy from Council</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Newcastle City Council

## Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2014

	Civic Theatre & Playhouse		City Hall	
	Category 2		Category 2	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>Income from continuing operations</b>				
User charges	2,021	1,789	848	802
<b>Total income from continuing operations</b>	<b>2,021</b>	<b>1,789</b>	<b>848</b>	<b>802</b>
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs	709	584	796	741
Materials and contracts	1,832	2,157	1,815	1,277
Depreciation and impairment	862	998	900	1,080
Loss on sale of assets	-	-	218	2
Calculated taxation equivalents	15	23	34	33
<b>Total expenses from continuing operations</b>	<b>3,418</b>	<b>3,762</b>	<b>3,763</b>	<b>3,133</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>(1,397)</b>	<b>(1,973)</b>	<b>(2,915)</b>	<b>(2,331)</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>(1,397)</b>	<b>(1,973)</b>	<b>(2,915)</b>	<b>(2,331)</b>
Surplus (deficit) from discontinued operations	-	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>(1,397)</b>	<b>(1,973)</b>	<b>(2,915)</b>	<b>(2,331)</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	-	-	-	-
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(1,397)</b>	<b>(1,973)</b>	<b>(2,915)</b>	<b>(2,331)</b>
plus Opening Retained Profits	(2,841)	(891)	5,677	7,975
- Taxation equivalent payments	15	23	34	33
<b>Closing Retained Profits</b>	<b>(4,223)</b>	<b>(2,841)</b>	<b>2,796</b>	<b>5,677</b>
Return on Capital %	-8.2%	-17.7%	-14.3%	-16.6%
Subsidy from Council	2,003	2,394	3,641	2,862

## Newcastle City Council

## Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2014

	Off Street Parking Stations Category 2		Commercial Properties Category 2	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>Income from continuing operations</b>				
User charges	489	1,048	1,276	1,246
Other income	-	-	1,635	-
<b>Total income from continuing operations</b>	<b>489</b>	<b>1,048</b>	<b>2,911</b>	<b>1,246</b>
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs	219	488	37	33
Materials and contracts	179	473	501	220
Depreciation and impairment	11	421	-	-
Loss on sale of assets	4	5,344	-	-
Calculated taxation equivalents	27	52	52	70
<b>Total expenses from continuing operations</b>	<b>440</b>	<b>6,778</b>	<b>590</b>	<b>323</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>49</b>	<b>(5,730)</b>	<b>2,321</b>	<b>923</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>49</b>	<b>(5,730)</b>	<b>2,321</b>	<b>923</b>
Surplus (deficit) from discontinued operations	-	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>49</b>	<b>(5,730)</b>	<b>2,321</b>	<b>923</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(15)	-	(696)	(277)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>34</b>	<b>(5,730)</b>	<b>1,625</b>	<b>646</b>
<b>plus Opening Retained Profits</b>	<b>6,055</b>	<b>11,733</b>	<b>19,704</b>	<b>18,711</b>
- Taxation equivalent payments	27	52	52	70
- Corporate taxation equivalent	15	-	696	277
<b>Closing Retained Profits</b>	<b>6,131</b>	<b>6,055</b>	<b>22,077</b>	<b>19,704</b>
<b>Return on Capital %</b>	<b>1.6%</b>	<b>-124.8%</b>	<b>n/a</b>	<b>n/a</b>
<b>Subsidy from Council</b>	<b>60</b>	<b>5,903</b>	<b>-</b>	<b>-</b>



## Newcastle City Council

## Income Statement of Council's Other Business Activities

for the financial year ended 30 June 2014

	Stockton Caravan Park Category 1		Beresfield Golf Course Category 2	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>Income from continuing operations</b>				
User charges	2,037	2,021	372	357
<b>Total income from continuing operations</b>	<b>2,037</b>	<b>2,021</b>	<b>372</b>	<b>357</b>
<b>Expenses from continuing operations</b>				
Employee benefits and on-costs	47	91	47	91
Materials and contracts	1,210	1,176	186	137
Depreciation and impairment	186	185	39	12
Loss on sale of assets	174	-	-	-
Calculated taxation equivalents	14	14	-	-
Debt guarantee fee (if applicable)	44	21	-	-
<b>Total expenses from continuing operations</b>	<b>1,675</b>	<b>1,487</b>	<b>272</b>	<b>240</b>
<b>Surplus (deficit) from Continuing Operations before capital amounts</b>	<b>362</b>	<b>534</b>	<b>100</b>	<b>117</b>
Grants and contributions provided for capital purposes	-	-	-	-
<b>Surplus (deficit) from Continuing Operations after capital amounts</b>	<b>362</b>	<b>534</b>	<b>100</b>	<b>117</b>
Surplus (deficit) from discontinued operations	-	-	-	-
<b>Surplus (deficit) from ALL Operations before tax</b>	<b>362</b>	<b>534</b>	<b>100</b>	<b>117</b>
less: Corporate Taxation Equivalent (30%) [based on result before capital]	(109)	(160)	(30)	(35)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>253</b>	<b>374</b>	<b>70</b>	<b>82</b>
<b>plus Opening Retained Profits</b>	<b>2,750</b>	<b>2,181</b>	<b>1,712</b>	<b>1,595</b>
- Taxation equivalent payments	14	14	-	-
- Debt guarantee fees	44	21	-	-
- Corporate taxation equivalent	109	160	30	35
<b>Closing Retained Profits</b>	<b>3,170</b>	<b>2,750</b>	<b>1,812</b>	<b>1,712</b>
<b>Return on Capital %</b>	<b>3.5%</b>	<b>6.4%</b>	<b>4.9%</b>	<b>6.5%</b>
<b>Subsidy from Council</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Newcastle City Council

## Statement of Financial Position - Council's Other Business Activities

as at 30 June 2014

	Waste Management Collection Service		Waste Management Disposal Service	
	Category 1		Category 1	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Receivables *	8,802	4,256	20,208	16,250
Inventories	-	-	-	-
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
<b>Total Current Assets</b>	<b>8,802</b>	<b>4,256</b>	<b>20,208</b>	<b>16,250</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables *	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	42	158	1,191	1,260
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>42</b>	<b>158</b>	<b>1,191</b>	<b>1,260</b>
<b>TOTAL ASSETS</b>	<b>8,844</b>	<b>4,414</b>	<b>21,399</b>	<b>17,510</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Bank Overdraft	-	-	-	-
Payables *	26	5	41	27
Interest bearing liabilities	-	-	-	-
Provisions	1,150	1,146	627	598
<b>Total Current Liabilities</b>	<b>1,176</b>	<b>1,151</b>	<b>668</b>	<b>625</b>
<b>Non-Current Liabilities</b>				
Payables *	-	-	3,358	3,242
Interest bearing liabilities	-	-	-	-
Provisions	39	23	13	25
Other Liabilities	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>39</b>	<b>23</b>	<b>3,371</b>	<b>3,267</b>
<b>TOTAL LIABILITIES</b>	<b>1,215</b>	<b>1,174</b>	<b>4,039</b>	<b>3,892</b>
<b>NET ASSETS</b>	<b>7,629</b>	<b>3,240</b>	<b>17,360</b>	<b>13,618</b>
<b>EQUITY</b>				
Retained earnings	7,629	3,240	17,360	13,618
Revaluation reserves	-	-	-	-
Council equity interest	7,629	3,240	17,360	13,618
Non-controlling equity interest	-	-	-	-
<b>TOTAL EQUITY</b>	<b>7,629</b>	<b>3,240</b>	<b>17,360</b>	<b>13,618</b>

\* This includes notional amounts collected by/paid by Council on behalf of the activity.

## Newcastle City Council

## Statement of Financial Position - Council's Other Business Activities

as at 30 June 2014

	Civic Theatre & Playhouse		City Hall	
	Category 2		Category 2	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Receivables *	55	117	-	-
Inventories	-	-	-	-
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
<b>Total Current Assets</b>	<b>55</b>	<b>117</b>	<b>-</b>	<b>-</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables *	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	17,011	11,159	20,385	14,079
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>17,011</b>	<b>11,159</b>	<b>20,385</b>	<b>14,079</b>
<b>TOTAL ASSETS</b>	<b>17,066</b>	<b>11,276</b>	<b>20,385</b>	<b>14,079</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Bank Overdraft	-	-	-	-
Payables *	18,877	6,738	19,009	8,146
Interest bearing liabilities	-	-	-	-
Provisions	187	159	275	252
<b>Total Current Liabilities</b>	<b>19,064</b>	<b>6,897</b>	<b>19,284</b>	<b>8,398</b>
<b>Non-Current Liabilities</b>				
Payables *	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	5	5	5	4
Other Liabilities	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>
<b>TOTAL LIABILITIES</b>	<b>19,069</b>	<b>6,902</b>	<b>19,289</b>	<b>8,402</b>
<b>NET ASSETS</b>	<b>(2,003)</b>	<b>4,374</b>	<b>1,096</b>	<b>5,677</b>
<b>EQUITY</b>				
Retained earnings	(4,223)	(2,841)	2,796	5,677
Revaluation reserves	2,220	7,215	(1,700)	-
Council equity interest	<b>(2,003)</b>	<b>4,374</b>	<b>1,096</b>	<b>5,677</b>
Non-controlling equity interest	-	-	-	-
<b>TOTAL EQUITY</b>	<b>(2,003)</b>	<b>4,374</b>	<b>1,096</b>	<b>5,677</b>

\* This includes notional amounts collected by/paid by Council on behalf of the activity.

## Newcastle City Council

## Statement of Financial Position - Council's Other Business Activities

as at 30 June 2014

	Off Street Parking Stations		Commercial Properties	
	Category 2		Category 2	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Receivables *	5,625	4,053	9,339	8,000
Inventories	-	-	-	-
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
<b>Total Current Assets</b>	<b>5,625</b>	<b>4,053</b>	<b>9,339</b>	<b>8,000</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables *	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	3,071	4,593	-	-
Investments accounted for using equity method	-	-	13,350	11,715
Investment property	-	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>3,071</b>	<b>4,593</b>	<b>13,350</b>	<b>11,715</b>
<b>TOTAL ASSETS</b>	<b>8,696</b>	<b>8,646</b>	<b>22,689</b>	<b>19,715</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Bank Overdraft	-	-	-	-
Payables *	1	4	602	-
Interest bearing liabilities	-	-	-	-
Provisions	65	88	9	11
<b>Total Current Liabilities</b>	<b>66</b>	<b>92</b>	<b>611</b>	<b>11</b>
<b>Non-Current Liabilities</b>				
Payables *	-	-	-	-
Interest bearing liabilities	-	-	-	-
Provisions	-	-	1	-
Other Liabilities	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>66</b>	<b>92</b>	<b>612</b>	<b>11</b>
<b>NET ASSETS</b>	<b>8,630</b>	<b>8,554</b>	<b>22,077</b>	<b>19,704</b>
<b>EQUITY</b>				
Retained earnings	6,131	6,055	22,077	19,704
Revaluation reserves	2,499	2,499	-	-
Council equity interest	<b>8,630</b>	<b>8,554</b>	<b>22,077</b>	<b>19,704</b>
Non-controlling equity interest	-	-	-	-
<b>TOTAL EQUITY</b>	<b>8,630</b>	<b>8,554</b>	<b>22,077</b>	<b>19,704</b>

\* This includes notional amounts collected by/paid by Council on behalf of the activity.

## Newcastle City Council

## Statement of Financial Position - Council's Other Business Activities

as at 30 June 2014

	Stockton Caravan Park		Beresfield Golf Course	
	Category 1		Category 2	
\$ '000	Actual 2014	Actual 2013	Actual 2014	Actual 2013
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	-	-	-	-
Investments	-	-	-	-
Receivables *	-	-	1,063	1,220
Inventories	-	-	-	-
Other	-	-	-	-
Non-current assets classified as held for sale	-	-	-	-
<b>Total Current Assets</b>	<b>-</b>	<b>-</b>	<b>1,063</b>	<b>1,220</b>
<b>Non-Current Assets</b>				
Investments	-	-	-	-
Receivables *	-	-	-	-
Inventories	-	-	-	-
Infrastructure, property, plant and equipment	10,483	8,332	2,047	1,801
Investments accounted for using equity method	-	-	-	-
Investment property	-	-	-	-
Other	-	-	-	-
<b>Total Non-Current Assets</b>	<b>10,483</b>	<b>8,332</b>	<b>2,047</b>	<b>1,801</b>
<b>TOTAL ASSETS</b>	<b>10,483</b>	<b>8,332</b>	<b>3,110</b>	<b>3,021</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Bank Overdraft	-	-	-	-
Payables *	5,600	3,760	1	1
Interest bearing liabilities	98	98	-	-
Provisions	21	31	21	31
<b>Total Current Liabilities</b>	<b>5,719</b>	<b>3,889</b>	<b>22</b>	<b>32</b>
<b>Non-Current Liabilities</b>				
Payables *	-	-	-	-
Interest bearing liabilities	780	878	-	-
Provisions	-	1	-	1
Other Liabilities	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>780</b>	<b>879</b>	<b>-</b>	<b>1</b>
<b>TOTAL LIABILITIES</b>	<b>6,499</b>	<b>4,768</b>	<b>22</b>	<b>33</b>
<b>NET ASSETS</b>	<b>3,984</b>	<b>3,564</b>	<b>3,088</b>	<b>2,988</b>
<b>EQUITY</b>				
Retained earnings	3,170	2,750	1,812	1,712
Revaluation reserves	814	814	1,276	1,276
Council equity interest	<b>3,984</b>	<b>3,564</b>	<b>3,088</b>	<b>2,988</b>
Non-controlling equity interest	-	-	-	-
<b>TOTAL EQUITY</b>	<b>3,984</b>	<b>3,564</b>	<b>3,088</b>	<b>2,988</b>

\* This includes notional amounts collected by/paid by Council on behalf of the activity.

## Newcastle City Council

### Special Purpose Financial Statements for the financial year ended 30 June 2014

#### Contents of the Notes accompanying the Financial Statements

Note	Details	Page
1	Summary of Significant Accounting Policies	11

## Newcastle City Council

### Notes to the Special Purpose Financial Statements

for the financial year ended 30 June 2014

#### Note 1. Significant Accounting Policies

These financial statements are a Special Purpose Financial Statements (SPFS) prepared for use by Council and the Division of Local Government.

For the purposes of these statements, the Council is not a reporting not-for-profit entity.

The figures presented in these special purpose financial statements, unless otherwise stated, 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) &
- Australian Accounting Interpretations.

The disclosures in these special purpose financial statements have been prepared in accordance with:

- the Local Government Act and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

The statements are also prepared on an accruals basis, based on historic costs and do not take into account changing money values nor current values of non-current assets (except where specifically stated).

Certain taxes and other costs (appropriately described) have been imputed for the purposes of the National Competition Policy.

##### National Competition Policy

Council has adopted the principle of 'competitive neutrality' to 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 Government Policy statement on the "Application of National Competition Policy to Local Government".

The "Pricing & Costing for Council Businesses A Guide to Competitive Neutrality" issued by the Division of Local Government in July 1997 has also been adopted.

The pricing & costing guidelines outline the process for identifying and allocating costs to activities and provide a standard of 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 & 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)

##### a. Waste Management Collection Services

*Collection of commercial, domestic and other waste*

##### b. Waste Management Disposal Services

*Waste disposal site activities*

##### c. Stockton Caravan Park

*Operation of caravan park and swimming centre*

##### Category 2

(where gross operating turnover is less than \$2 million)

##### d. Civic Theatre and Playhouse

*Operation of entertainment theatre*

##### e. City Hall

*Provision of conference, reception and entertainment facilities*

##### f. Off Street Parking Stations

*Commercially operated parking stations*

##### g. Commercial Properties

*Commercial rental properties*

##### h. Beresfield Golf Course

*Operation of golf course and entertainment facilities*

## Newcastle City Council

### Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

#### Note 1. Significant Accounting Policies

##### Monetary Amounts

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

##### (i) Taxation Equivalent Charges

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

However, where Council is exempt from paying taxes which are generally paid by private sector businesses (such as income tax), equivalent tax payments have been applied to all Council nominated business activities and are reflected in these 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 – 30%

Land Tax – The first **\$412,000** of combined land values attracts **0%**. From \$412,001 to \$2,519,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$2,482,000, a premium marginal rate of **2.0%** applies.

Payroll Tax – **5.45%** on the value of taxable salaries and wages in excess of \$750,000.

##### Income Tax

An income tax equivalent has been applied on the profits of each reported Business Activity.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account of 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 30%.

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

Since this taxation equivalent is notional - that is, it is payable to the "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 Council's General Purpose Financial Statements.

The rate applied of 30% is the equivalent company tax rate prevalent as at balance date.

##### Local Government Rates & 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 & 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 the 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.

Subsidies occur where 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.



## Newcastle City Council

### Notes to the Special Purpose Financial Statements for the financial year ended 30 June 2014

#### Note 1. Significant Accounting Policies

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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 the 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 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 Rate of Return on Capital is calculated as follows:

**Operating Result before Capital Income + Interest Expense**

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**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 3.54% at 30/6/14.

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

#### **(iv) Dividends**

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



## **Council of the City of Newcastle**

### **Independent auditor's report**

### **Report on the special purpose financial statements**

#### ***Report on the financial statements***

We have audited the accompanying financial statements, being a special purpose financial statements, of the Council of the City of Newcastle (the Council), which comprises the Statements of Financial Position of Council's Other Business Activities as at 30 June 2014, the Income Statements of Council's Other Business Activities for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Statement by Councillors and Management for Council for the year ended 30 June 2014.

#### ***Councillor's responsibility for the financial statements***

The Councillors of the Council are responsible for the preparation and fair presentation of the financial statements have determined that the basis of preparation described in Note 1 to the financial statements is appropriate to meet the requirements of the Local Government Code of Accounting Practice and Financial Reporting. The Councillor's responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Auditor's opinion*

In our opinion, the financial statements present fairly, in all material respects, the Financial Position of Council's Other Business Activities as of 30 June 2014 and its financial performance for the year then ended in accordance with the requirement of those applicable Accounting Standards detailed in Note 1 to the financial statements, and the Local Government Code of Accounting Practice and Financial Reporting.

***Basis of accounting and restriction on distribution and use***

Without modifying our opinion, we 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 Councillor's financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Council.

[Redacted]  
PricewaterhouseCoopers

[Redacted]  
Caroline Mara  
Partner

Newcastle  
20 October 2014