



HORNSBY SHIRE COUNCIL

General purpose and special purpose
Financial statements
and associated special schedules

30 June 2020



Hornsby Shire Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2020



Hornsby Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



General Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
1. Statement by Councillors & Management	3
2. Primary Financial Statements:	
Income Statement	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
3. Notes to the Financial Statements	9
4. Independent Auditor's Reports:	
On the Financial Statements (Sect 417 [2])	80
On the Financial Statements (Sect 417 [3])	81

Hornsby Shire Council

General Purpose Financial Statements

for the year ended 30 June 2020

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

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

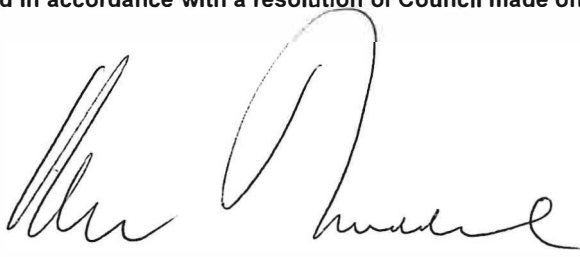
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

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

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

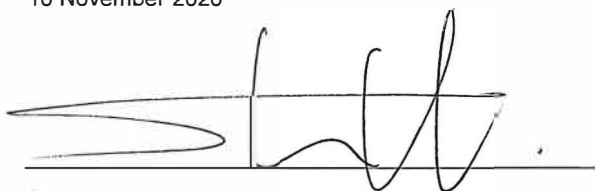
Signed in accordance with a resolution of Council made on 14 October 2020.



P. Ruddock
Mayor
10 November 2020



M. Hutchence
Deputy Mayor
10 November 2020



S. Head
General Manager
10 November 2020



D. Chell
Responsible Accounting Officer
10 November 2020

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Income from continuing operations				
95,977	Rates and annual charges	3a	97,155	91,429
14,290	User charges and fees	3b	12,115	15,114
6,460	Other revenues	3c	3,872	7,405
11,687	Grants and contributions provided for operating purposes	3d,3e	11,301	10,263
14,733	Grants and contributions provided for capital purposes	3d,3e	7,580	28,109
7,938	Interest and investment income	4	6,016	8,261
1,000	Net gains from the disposal of assets	6	–	1,027
–	Fair value increment on investment properties	11	–	150
–	Reversal of impairment losses on receivables	8	109	–
–	Rental income from leases (2020 onward)	14e	2,680	–
152,085	Total income from continuing operations		140,828	161,758
Expenses from continuing operations				
49,618	Employee benefits and on-costs	5a	46,378	47,392
81	Borrowing costs	5b	100	138
51,053	Materials and contracts	5c	47,729	46,738
19,352	Depreciation and amortisation	5d	19,668	19,124
–	Impairment of receivables	8	–	109
12,843	Other expenses	5e	12,221	12,507
–	Net losses from the disposal of assets	6	2,602	–
132,947	Total expenses from continuing operations		128,698	126,008
19,138	Operating result from continuing operations		12,130	35,750
19,138	Net operating result for the year		12,130	35,750
19,138	Net operating result attributable to council		12,130	35,750
4,405	Net operating result for the year before grants and contributions provided for capital purposes		4,550	7,641

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

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

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		12,130	35,750
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Impairment (loss) reversal / (Revaluation decrement) relating to IPP&E	10	(1,571)	–
Defined benefit plan opening balances brought to account *	16	–	(2,515)
Gain/(loss) on defined benefit plan re-measurements	16	17	(957)
Total items which will not be reclassified subsequently to the operating result		(1,554)	(3,472)
Amounts which will be reclassified subsequently to the operating result when specific conditions are met			
Gain/(loss) on revaluation of financial assets at fair value through other comprehensive income		82	110
Total items which will be reclassified subsequently to the operating result when specific conditions are met		82	110
Total other comprehensive income for the year		(1,472)	(3,362)
Total comprehensive income for the year		10,658	32,388

The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

(*) Council brought its historic defined benefit pension plan to account within the year ended 30 June 2019. The opening net defined benefit liability at 1 July 2018 was considered immaterial and was therefore accounted for prospectively.

Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	50,674	19,668
Investments	7(b)	104,313	118,766
Receivables	8	5,922	8,162
Inventories	9a	168	177
Other	9b	215	64
Total current assets		161,292	146,837
Non-current assets			
Investments	7(b)	136,392	142,610
Receivables	8	1,733	305
Infrastructure, property, plant and equipment	10	1,597,665	1,594,741
Investment property	11	25,435	25,435
Intangible Assets	12	1,303	1,429
Right of use assets	14a	190	—
Total non-current assets		1,762,718	1,764,520
Total assets		1,924,010	1,911,357
LIABILITIES			
Current liabilities			
Payables	15	9,340	8,260
Income received in advance	15	—	1,062
Contract liabilities	13	1,519	—
Lease liabilities	14b	139	—
Borrowings	15	366	864
Provisions	16	15,080	15,040
Total current liabilities		26,444	25,226
Non-current liabilities			
Contract liabilities	13	598	—
Lease liabilities	14b	51	—
Borrowings	15	499	597
Provisions	16	5,457	4,120
Total non-current liabilities		6,605	4,717
Total liabilities		33,049	29,943
Net assets		1,890,961	1,881,414
EQUITY			
Accumulated surplus	17	1,256,222	1,243,981
Revaluation reserves	17	634,547	637,323
Other reserves	17	192	110
Council equity interest		1,890,961	1,881,414
Total equity		1,890,961	1,881,414

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

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

Statement of Changes in Equity

for the year ended 30 June 2020

\$ '000	Notes	as at 30/06/20				as at 30/06/19			
		Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity	Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity
Opening balance		1,243,981	637,323	110	1,881,414	1,211,181	637,845	–	1,849,026
Changes due to AASB 1058 and AASB 15 adoption	17	(1,111)	–	–	(1,111)	–	–	–	–
Restated opening balance		1,242,870	637,323	110	1,880,303	1,211,181	637,845	–	1,849,026
Net operating result for the year		12,130	–	–	12,130	35,750	–	–	35,750
Restated net operating result for the period		12,130	–	–	12,130	35,750	–	–	35,750
Other comprehensive income									
– Impairment (loss) relating to IPP&E	10	–	(1,571)	–	(1,571)	–	–	–	–
– Defined benefit opening balances brought to account		–	–	–	–	(2,515)	–	–	(2,515)
– Defined benefit plan re-measurements for the year		17	–	–	17	(957)	–	–	(957)
– Financial assets at fair value through other comprehensive gain/(loss)		–	–	82	82	–	–	110	110
Total comprehensive income		12,147	(1,571)	82	10,658	32,278	–	110	32,388
Transfers between equity items		1,205	(1,205)	–	–	522	(522)	–	–
Equity – balance at end of the reporting period		1,256,222	634,547	192	1,890,961	1,243,981	637,323	110	1,881,414

The Council did not restate comparatives when initially applying AASB 9 in the year ended 30 June 2019. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020	\$ '000	Notes	Actual 2020	Actual 2019
Cash flows from operating activities				
Receipts:				
90,992	Rates and annual charges		96,490	91,273
14,250	User charges and fees		13,269	15,492
2,449	Investment and interest revenue received		7,178	6,551
16,277	Grants and contributions		19,672	24,196
–	Bonds, deposits and retention amounts received		–	159
7,155	Other		15,715	14,063
Payments:				
(50,943)	Employee benefits and on-costs		(46,491)	(46,518)
(43,077)	Materials and contracts		(54,589)	(51,988)
(82)	Borrowing costs		(100)	(138)
–	Bonds, deposits and retention amounts refunded		(114)	(189)
(14,350)	Other		(13,505)	(22,502)
22,671	Net cash provided (or used in) operating activities	18b	37,525	30,399
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		104,300	353,728
842	Sale of infrastructure, property, plant and equipment		637	2,969
Payments:				
–	Purchase of investment securities		(83,674)	(487,660)
(26,213)	Purchase of infrastructure, property, plant and equipment		(26,967)	(25,418)
(25,371)	Net cash provided (or used in) investing activities		(5,704)	(156,381)
Cash flows from financing activities				
Payments:				
(619)	Repayment of borrowings and advances		(596)	(856)
–	Lease liabilities (principal repayments)		(219)	–
(619)	Net cash flow provided (used in) financing activities		(815)	(856)
(3,319)	Net increase/(decrease) in cash and cash equivalents		31,006	(126,838)
19,668	Plus: cash and cash equivalents – beginning of year	18a	19,668	146,506
16,349	Cash and cash equivalents – end of the year	18a	50,674	19,668
107,000	plus: Investments on hand – end of year	7(b)	240,705	261,376
123,349	Total cash, cash equivalents and investments		291,379	281,044

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Contents of the Notes accompanying the General Purpose Financial Statements

Note	Details	Page
1	Basis of preparation	10
2(a)	Council functions/activities – financial information	13
2(b)	Council functions/activities – component descriptions	14
3	Revenue from continuing operations	14
4	Interest and investment income	21
5	Expenses from continuing operations	21
6	Gain or loss from disposal of assets	25
7(a)	Cash and cash equivalents	26
7(b)	Investments	26
7(c)	Restricted cash, cash equivalents and investments	27
8	Receivables	28
9	Inventories and other assets	30
10	Infrastructure, property, plant and equipment	32
11	Investment properties	35
12	Intangible assets	36
13	Contract assets and liabilities	37
14	Leases	38
15	Payables and borrowings	41
16	Provisions	43
17	Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	53
18	Statement of cash flow information	58
19	Commitments	59
20	Contingencies	60
21	Financial risk management	63
22	Material budget variations	66
23	Fair Value Measurement	68
24	Related party disclosures	73
25	Events occurring after the reporting date	74
26	Statement of developer contributions	75
27(a)	Statement of performance measures – consolidated results	77
	Additional Council disclosures (unaudited)	
27(b)	Statement of performance measures – consolidated results (graphs)	78

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

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

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

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

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

Council is a not for-profit entity.

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

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

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

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

Council has made a judgement about the impairment of a number of its receivables as detailed in Note 8.

Monies and other assets received by Council

(a) The Consolidated Fund

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

(b) The Trust Fund

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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

The following Trust monies and properties are held by Council but not considered to be under the control of Council and therefore are excluded from these financial statements:

- Security deposits and bonds
- Funds held in Trust pending the resolution of claims

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

Goods and Services Tax (GST)

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

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

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

Volunteer services

Council has received 10,517 hours of volunteer services during the year ended 30 June 2020 in association with bushcare activities, assistance at Council's nursery and during community planting days. The approximate value of these services based on external contractor rates would be \$484K, dependent upon the following factors;

- Whether Council would have been required to purchase all of the services provided by volunteers and;
- Whether the same number of hours worked by volunteers would have been worked by external contractors to complete the same amount of work.

Given the level of judgement in applying the above factors, and given the approximate value of services is immaterial, Council has elected not to bring volunteer services to account within the Financial Statements.

New accounting standards and interpretations issued not yet effective

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

Council has not applied any pronouncements in these financial statements before 1 July 2019.

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

AASB 1059 Service Concession Arrangements: Grantors

This standard provides guidance for public sector entities (grantors) who have entered into service concession arrangements with private sector operators. Council currently has no such agreements, therefore the impact of the new standard is immaterial.

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

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

AASB 1059 requires grantors to recognise a service concession asset and, in most cases, a corresponding liability on the balance sheet. Council is not currently a grantor, therefore the impact of the new standard is immaterial.

New accounting standards adopted during the year

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 17.

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Functions or activities										
General Managers Division	433	347	8,211	8,381	(7,778)	(8,034)	396	346	–	–
Corporate Support	5,139	19,712	30,585	29,030	(25,446)	(9,318)	(472)	3	388,886	379,579
Infrastructure & Major Projects	9,584	16,301	22,462	35,347	(12,878)	(19,046)	2,520	3,537	1,433,174	1,432,430
Community & Environment	36,344	33,536	54,340	42,162	(17,996)	(8,626)	2,292	2,286	101,096	98,479
Planning	12,928	16,390	13,100	11,088	(172)	5,302	1,252	750	854	869
General Purpose Income	76,400	75,472	–	–	76,400	75,472	4,829	4,355	–	–
Total functions and activities	140,828	161,758	128,698	126,008	12,130	35,750	10,817	11,277	1,924,010	1,911,357

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

General Managers Division

Costs relating to the General Manager, risk and internal audit and strategy and place.

Corporate Support

Revenue and costs relating to administration, finance, human resources, information technology, property management, fleet management, records management and customer service.

Infrastructure & Major Projects

Revenue and costs relating to roads, bridges, footpaths, stormwater management, emergency services, engineering services, swimming centres and sports facilities.

Community & Environment

Revenue and costs relating to parks & landscape, bushland care and restoration, water catchment remediation, community services, waste management, aged and disabled services, youth services and libraries.

Planning

Revenue and costs relating to town planning, development assessments, Section 7.11 Development Contributions, subdivisions, companion animals management and compliance and certification services.

Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
(a) Rates and annual charges			
Ordinary rates			
Residential	1058 (1)	58,829	56,940
Farmland	1058 (1)	602	589
Business	1058 (1)	6,845	6,695
Less: pensioner rebates		(921)	(974)
Major shopping centre	1058 (1)	1,178	1,136
Rates levied to ratepayers		66,533	64,386
Pensioner rate subsidies received	1058 (1)	509	545
Total ordinary rates		67,042	64,931
Special rates			
Catchment remediation rate	1058 (1)	2,869	2,794
Less: pensioner rebates (mandatory)		(39)	(42)
Rates levied to ratepayers		2,830	2,752
Pensioner rate subsidies received:			
– Other	1058 (1)	22	23
Total special rates		2,852	2,775
Annual charges			
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)			
Domestic waste management services	1058 (1)	27,346	23,791
Section 611 charges	1058 (1)	82	87
Less: pensioner rebates		(373)	(354)

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
Annual charges levied		27,055	23,524
Pensioner subsidies received:			
– Domestic waste management	1058 (1)	206	199
Total annual charges		27,261	23,723
TOTAL RATES AND ANNUAL CHARGES		97,155	91,429

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

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

Council has used 2020 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and charges

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

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

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

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

2019 accounting policy

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

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

(b) User charges and fees**Specific user charges**

(per s.502 - specific 'actual use' charges)

Waste management services (non-domestic)	15 (1)	1,991	1,856
Sullage	15 (1)	33	17
Other		1	2
Total specific user charges		2,025	1,875

Other user charges and fees**(i) Fees and charges – statutory and regulatory functions (per s.608)**

Inspection services	15 (1)	492	695
Planning and building regulation	15 (1)	2,589	3,136
Registration fees	1058 (1)	87	95
Regulatory fees	15 (1)	197	–
Total fees and charges – statutory/regulatory		3,365	3,926

(ii) Fees and charges – other (incl. general user charges (per s.608))

Community centres	15 (1)	489	696
Restoration charges	1058 (1)	1,394	2,054
Swimming centres - term fees	15 (2)	2,617	3,402

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
Swimming centres - single admission fees	15 (1)	686	872
Indoor sports centre stadium	15 (1)	480	669
Library fees and charges	15 (1)	82	102
Park and oval hire fees	15 (2)	816	1,118
Tennis/netball hire fees	15 (2)	—	216
Other		161	184
Total fees and charges – other		6,725	9,313
TOTAL USER CHARGES AND FEES		12,115	15,114

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

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

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

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

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

Accounting policy for user charges and fees

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

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

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

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

2019 accounting policy

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

\$ '000	AASB	2020	2019
(c) Other revenues			
Rental income – investment property (2019 only)		—	899
Rental income – other council properties (2019 only)		—	2,208
Ex gratia rates	1058 (1)	6	6
Fines – parking	1058 (1)	1,867	1,750
Legal fees recovery – rates and charges (extra charges)	1058 (1)	140	254
Legal fees recovery – other	1058 (1)	1	6
Commissions and agency fees		5	6
Recycling income (non-domestic)		46	78
Sales – general		478	564
Legal fees recovery – planning		200	42
Bushfire fund income		28	23
Car park management		38	114
Florence mall income		61	72
Home modification		140	156
Income from road closure		132	—
Insurance claim recoveries, rebates and incentives		291	339
Prosecutions and infringements		324	681

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	2020	2019
Street furniture advertising		33	41
Vehicular crossing income		10	8
Other		72	158
TOTAL OTHER REVENUES		3,872	7,405

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

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

Accounting policy for other revenue

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

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

2019 accounting policy:

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

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

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Grants					
General purpose (untied)					
Current year allocation					
Financial assistance – general component	1058 (1)	1,586	1,446	–	–
Financial assistance – local roads component	1058 (1)	757	692	–	–
Payment in advance - future year allocation					
Financial assistance – general component	1058 (1)	1,682	1,558	–	–
Financial assistance – local roads component	1058 (1)	802	659	–	–
Total general purpose		4,827	4,355	–	–

Specific purpose

Bushfire and emergency services		5	87	–	432
Community care		31	21	–	–
Community centres		–	–	11	–
Economic development	1058 (1)	1,250	750	–	–
Employment and training programs		–	4	–	–
Environmental programs		207	45	–	–
Library subsidy	1058 (1)	425	349	–	–
Library specific purpose capital grants	1058 (2)	–	–	–	72
Noxious weeds		20	–	–	–
Recreation and culture		–	–	65	–
Street lighting		396	346	–	–
Transport (roads to recovery)	1058 (1)	872	514	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
Transport (other roads and bridges funding)	1058 (1)	848	1,010	564	600
Aged and disabled	15 (2)	659	869	—	—
Bushland		253	645	—	1
Parks and gardens		15	93	—	801
Waste and recycling		186	195	—	—
Other		172	10	11	78
Total specific purpose		5,339	4,938	651	1,984
Total grants		10,166	9,293	651	1,984
Grant revenue is attributable to:					
– Commonwealth funding		6,460	6,083	22	679
– State funding		3,706	3,210	629	1,305
		10,166	9,293	651	1,984

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

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

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

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

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

\$ '000	Notes	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(e) Contributions						
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 7.11 – contributions towards amenities/services			—	—	5,978	22,311
Total developer contributions – cash			—	—	5,978	22,311
Total developer contributions	26		—	—	5,978	22,311
Other contributions:						
Cash contributions						
Bushfire services		1058 (1)	524	482	—	—
Employee vehicle contributions		15 (1)	492	467	—	—
Roads and bridges			1	1	359	174
Environment			81	20	—	—
Heritage/cultural			—	—	—	12
Parks and gardens			27	—	9	—
Other			10	—	245	273
Non-cash contributions						
Dedications			—	—	338	3,355
Total other contributions			1,135	970	951	3,814
Total contributions			1,135	970	6,929	26,125
TOTAL GRANTS AND CONTRIBUTIONS			11,301	10,263	7,580	28,109

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

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

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

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

Accounting policy for grants and contributions

Accounting policy from 1 July 2019

Grant income under AASB 15

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

The performance obligations are varied based on the agreement and payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

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

Where control is transferred over time, generally the input method (e.g. expenses incurred) is deemed to be the most appropriate methods to reflect the transfer of benefit.

Grant income

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

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

Capital grants

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

For construction projects this is only where the grant agreement contains a detailed specification and a refund clause. In these instances revenue is recognised as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin.

For grant agreements where these conditions do not exist revenue is recognised when funds are received by Council.

Contributions

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

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

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

Accounting policy prior to 1 July 2019

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

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

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

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

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

(f) Unspent grants and contributions – external restrictions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.

Operating grants

Unexpended at the close of the previous reporting period	3,699	3,534
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	3,056
Add: operating grants received for the provision of goods and services in a future period	5,825	–
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(2,891)
Less: operating grants received in a previous reporting period now spent and recognised as income	(3,562)	–
Unexpended and held as externally restricted assets (operating grants)	5,962	3,699

Operating grants for specific purposes are held as restricted assets until expenditure that meets the requirements of the grant agreement is incurred. Council holds numerous Operating Grants across each major function of the organisation.

Capital grants

Unexpended at the close of the previous reporting period	812	1,717
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	6
Add: capital grants received for the provision of goods and services in a future period	602	–
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(911)
Less: capital grants received in a previous reporting period now spent and recognised as income	(926)	–
Unexpended and held as externally restricted assets (capital grants)	488	812

Capital grants for specific purposes are held as restricted assets until capital expenditure that meets the requirements of the grant agreement is incurred. The majority of capital grants are for the construction of infrastructure assets.

Contributions

Unexpended at the close of the previous reporting period	78,865	75,454
Add: contributions recognised as income in the current period but not yet spent	7,654	13,620
Less: contributions recognised in a previous reporting period now spent	(3,480)	(10,209)
Unexpended and held as externally restricted assets (contributions)	83,039	78,865

Developer contributions may only be expended for the purposes for which the contributions were required as specified in Council's current Development Contributions Plan. Contributions are restricted until eligible expenditure is incurred.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4. Interest and investment income

Note 4. Interest and investment income

\$ '000	2020	2019
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	116	108
– Cash and investments	5,945	7,437
Fair value adjustments		
– Movements in investments at fair value through profit and loss	(45)	716
Total Interest and investment income	6,016	8,261

Accounting policy for interest and investment revenue

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

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	42,591	40,888
Travel expenses (2019 only)	–	26
Employee leave entitlements (ELE)	812	1,950
Superannuation	4,710	4,514
Superannuation – defined benefit plans *	59	180
Workers' compensation insurance	475	433
Fringe benefit tax (FBT)	111	80
Training costs ((other than salaries and wages) 2019 only)	–	420
Other	369	471
Total employee costs	49,127	48,962
Less: capitalised costs	(2,749)	(1,570)
TOTAL EMPLOYEE COSTS EXPENSED	46,378	47,392

Number of 'full-time equivalent' employees (FTE) at year end	458	499
--	-----	-----

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in two defined benefit plans under the Local Government Superannuation Scheme and the NSW Public Sector Superannuation Scheme. Sufficient information to account for the Local Government Superannuation Scheme as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans. Sufficient information is available to account for the historic NSW Public Sector

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

Superannuation Scheme, which is accounted for in line with AASB 119. Full disclosure in line with this standard is included within the Provisions Note.

(*) Council brought its historic defined benefit pension plan to account within the year. Full disclosures are included within the Accounting Policy section of Note 16.

\$ '000	2020	2019
(b) Borrowing costs		
Interest on leases accounted for under AASB 16	27	—
Interest on loans	73	138
TOTAL BORROWING COSTS EXPENSED	100	138

Accounting policy for borrowing costs

Borrowing costs are expensed. None specifically relate to the construction of qualifying assets for capitalisation.

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	2,185	2,572
– Animal pound service	10	9
– Building maintenance	1,309	1,405
– Bush regeneration	345	1,112
– Community centres	97	175
– Computer support	2,779	2,563
– Consultants	3,970	2,900
– Contractor and agency fees	877	1,533
– Contracts – bushfire hazard reduction and mitigation	94	94
– Contracts – electrical	565	489
– Contracts – environmental protection	21	88
– Contracts – grass cutting	445	528
– Contracts – plumbing	810	527
– Contracts – property management	112	98
– Contracts – RFS equipment maintenance	96	146
– Contracts – tree work	2,010	971
– Drainage maintenance	649	502
– External plant and equipment hire	409	315
– Footpath maintenance	203	134
– Foreshore facilities	508	265
– Garbage collection, tipping and recycling	22,839	21,536
– Home modification service	148	146
– Litter control	68	65
– Maintenance of parks	561	735
– Mechanical services	675	473
– Property cleaning	523	540
– Road maintenance	2,489	3,534
– Stormwater asset maintenance	566	713
Auditors remuneration ²	114	119
Events management	103	120
Legal expenses:		
– Legal expenses: planning and development	588	965

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
– Legal expenses: other	469	633
Expenses from leases of low value assets (2020 only)	245	–
Operating leases expense (2019 only):		
– Operating lease rentals: minimum lease payments - computers ¹	–	443
Other	847	290
TOTAL MATERIALS AND CONTRACTS	47,729	46,738

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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

1. Auditor remuneration

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

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

Audit and review of financial statements

	114	119
Total Auditor remuneration	114	119

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

(d) Depreciation, amortisation and impairment of non-financial assets**Depreciation and amortisation**

Plant and equipment		1,359	1,296
Office equipment		168	263
Furniture and fittings		55	58
Land improvements (depreciable)		1,674	1,638
Infrastructure:	10		
– Buildings – non-specialised		1,718	1,658
– Buildings – specialised		1,809	1,773
– Other structures		1,138	1,133
– Roads		5,672	5,535
– Bridges		297	297
– Footpaths		437	416
– Stormwater drainage		3,588	3,562
– Water supply network		4	4
– Swimming pools		487	497
Right of use assets	14	219	–
Other assets:			
– Catchment remediation assets		327	313
– Library books		590	554
Intangible assets	12	126	127
Total depreciation and amortisation costs		19,668	19,124

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
Impairment / revaluation decrement of IPP&E			
Infrastructure:	10		
– Swimming pools		1,571	–
Amounts taken through revaluation reserve	10	(1,571)	–
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	–
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR NON-FINANCIAL ASSETS</u>		<u>19,668</u>	<u>19,124</u>

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included within the Infrastructure Property Plant & Equipment Note and Intangible Assets Note.

Impairment of non-financial assets

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

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

Galston Aquatic Centre has been impaired during the year ended 30 June 2020. Structural inspections have identified significant defects and the roof requires replacement that will involve reconstruction of the building. A development application has been approved for the works and funding allocated within Council's 2020/21 Annual Budget. There is capacity within the revaluation reserve to offset the impairment expense.

\$ '000	2020	2019
(e) Other expenses		
Advertising	311	332
Travel expenses (from 2020)	19	–
Training costs ((other than salaries and wages) from 2020)	326	–
Bank charges	1	–
Bank charges and cash collection expenses	309	326
Catering	195	212
Contributions/levies to other levels of government		
– Department of planning levy	281	275
– Emergency services levy (includes FRNSW, SES, and RFS levies)	211	208
– NSW fire brigade levy	1,662	1,617

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
– NSW rural fire service levy	709	620
– NSW state revenue infringement processing fees	194	167
Councillor expenses – mayoral fee	69	58
Councillor expenses – councillors' fees	258	261
Councillors' expenses (incl. mayor) – other (excluding fees above)	26	38
Donations, contributions and assistance to other organisations (Section 356)	30	48
Electricity and heating	1,213	1,379
Insurance	1,192	1,192
Licences and registration	322	310
Postage	258	255
Printing and stationery	458	452
Property managers fees	35	10
Street lighting	2,351	3,005
Subscriptions and publications	402	430
Subscriptions to local government publications	3	65
Telephone and communications	284	303
Valuation fees	247	270
Water and sewerage	599	454
Other	256	220
TOTAL OTHER EXPENSES	12,221	12,507

Accounting policy for other expenses

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

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Property (excl. investment property)			
Less: carrying amount of property assets sold/written off		(1,509)	(260)
Net gain/(loss) on disposal		(1,509)	(260)
Plant and equipment	10		
Proceeds from disposal – plant and equipment		637	1,019
Less: carrying amount of plant and equipment assets sold/written off		(460)	(664)
Net gain/(loss) on disposal		177	355
Infrastructure	10		
Proceeds from disposal – infrastructure		–	1,950
Less: carrying amount of infrastructure assets sold/written off		(1,270)	(1,018)
Net gain/(loss) on disposal		(1,270)	932
Investments	7(b)		
Proceeds from disposal/redemptions/maturities – investments		104,300	353,618
Less: carrying amount of investments sold/redeemed/matured		(104,300)	(353,618)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(2,602)	1,027

Notes to the Financial Statements

for the year ended 30 June 2020

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

Accounting policy for disposal of assets

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

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

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	4,095	1,692
Cash-equivalent assets		
– Deposits at call	34,582	16,287
– Managed funds	11,997	1,689
Total cash and cash equivalents	50,674	19,668

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Investments				
Debt Securities at amortised cost	83,642	105,000	103,050	117,000
Financial assets at fair value through other comprehensive income	–	31,392	–	25,610
Financial assets at fair value through profit and loss	20,671	–	15,716	–
Total Investments	104,313	136,392	118,766	142,610
Debt securities at amortised cost				
Long term deposits	83,642	105,000	103,050	117,000
Total	83,642	105,000	103,050	117,000
Financial assets at fair value through profit and loss				
Managed funds (medium term)	20,671	–	15,716	–
Total	20,671	–	15,716	–
Financial assets at fair value through other comprehensive income				
Floating rate notes	–	31,392	–	25,610
Total	–	31,392	–	25,610
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	154,987	136,392	138,434	142,610

Accounting policy for investments

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

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

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

Financial assets

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Fair value through other comprehensive income – Floating Rate Notes

Council holds a number of Floating Rate Notes under a Held to Collect and Sell business model. Collecting contractual cash flows and generating profit on sale of financial assets are integral to achieving this business model.

In line with AASB 9 these investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to accumulated surplus and is not reclassified to profit or loss.

Interest earned is recognised in the Profit and Loss statement.

Financial assets through profit or loss - Managed Funds

In line with Council's Investment Strategy a small portion of Council's Investment Portfolio that is not required for the next five years is held in Medium Term Managed Funds with NSW Treasury Corporation.

In line with AASB 9 the Medium Term Managed Funds are classified as measured at fair value through profit and loss as cash flows associated with this type of investment are not solely generated from principal and interest but include some exposure to changes in equity prices.

Net gains or losses are recognised in profit or loss.

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

\$ '000	2020	2020	2019	2019
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	154,987	136,392	138,434	142,610

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
attributable to:				
External restrictions	56,765	136,392	43,339	142,610
Internal restrictions	79,741	–	84,938	–
Unrestricted	18,481	–	10,157	–
	<u>154,987</u>	<u>136,392</u>	<u>138,434</u>	<u>142,610</u>

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

Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	1,030	–
---	-------	---

External restrictions – included in liabilities	<u>1,030</u>	<u>–</u>
--	--------------	----------

External restrictions – other

Developer contributions – general	83,039	78,865
RMS contributions	3,740	3,494
Specific purpose unexpended grants (recognised as revenue) – general fund	5,420	4,511
Storey park redevelopment	–	388
Stronger Communities Funding – Hornsby Quarry	47,690	49,307
Stronger Communities Funding – Westleigh	39,757	39,794
Domestic waste management	9,891	5,497
Other	2,590	4,093

External restrictions – other	<u>192,127</u>	<u>185,949</u>
--------------------------------------	----------------	----------------

Total external restrictions	<u>193,157</u>	<u>185,949</u>
------------------------------------	----------------	----------------

Internal restrictions

Employees leave entitlements	14,891	13,097
Asset maintenance and renewal	3,821	1,372
Buildings – Wallarobba	499	499
Civil works – SRV	438	1,067
Community centres	719	4,737
Council strategic capital projects	49,662	49,901
Hornsby quarry – North Connex	192	1,606
LED street light upgrade	1,501	954
Proceeds from asset sales (179 Beecroft Road)	2,511	2,511
S7.11 contributions gap	1,506	6,806
Other	4,001	2,388

Total internal restrictions	<u>79,741</u>	<u>84,938</u>
------------------------------------	---------------	---------------

TOTAL RESTRICTIONS	<u>272,898</u>	<u>270,887</u>
---------------------------	----------------	----------------

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
---------	-----------------	---------------------	-----------------	---------------------

Purpose

Rates and annual charges	1,798	337	1,205	305
--------------------------	-------	-----	-------	-----

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Interest and extra charges	161	–	184	–
User charges and fees	146	–	235	–
Accrued revenues				
– Interest on investments	1,332	–	2,344	–
– Other income accruals	–	–	1,097	–
Net investment in finance lease	–	–	–	–
Government grants and subsidies	82	–	738	–
Net GST receivable	1,063	–	1,343	–
Biobanking - management payments receivable	751	1,396	–	–
Facility hire	7	–	225	–
Fines and penalties	19	–	80	–
Licencing	62	–	80	–
Property rentals	288	–	171	–
Restorations	211	–	432	–
Sullage	15	–	15	–
Workers compensation claims	3	–	3	–
Other debtors	62	–	207	–
Total	6,000	1,733	8,359	305
Less: provision of impairment				
Other debtors	(78)	–	(197)	–
Total provision for impairment – receivables	(78)	–	(197)	–
TOTAL NET RECEIVABLES	5,922	1,733	8,162	305

Accounting policy for receivables

Recognition and measurement

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

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

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

Biobanking - management payments receivable

Council brought receivable and provision balances in respect of Biobanking Stewardship Agreements to account within the year ended 30 June 2020. The amounts recognised were immaterial and have been accounted for prospectively.

Council's Biobanking Stewardship Agreements (BSA) state that when certain conditions are met, the Biodiversity Conservation Trust (BCT) commences yearly payments to Council as the landowner to cover the cost of management works specified in the BSA. In the first year, the amount is paid in advance and subsequent payments are only made when the BCT is satisfied that yearly management works as specified in the BSA have been performed satisfactorily. Accordingly, Council recognises a receivable from BCT representing the net present value of expected annual payments, which typically includes annual payments for 20 years after the date of the first payment. Refer to the Provisions note for a corresponding liability representing Council's obligation to undertake future management land works.

Impairment

Impairment of financial assets measured at amortised cost is calculated by comparing a list of debts considered doubtful based on knowledge of the specific circumstances attributable to each balance in comparison to Council's expected credit loss (ECL)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

model. The higher of the two calculations is set as the provision for doubtful accounts, noting that the difference between the two is significantly immaterial.

Council's ECL model is calculated using the likelihood of a debt being written off based on the last 5 years of history at 30 June 2019. This model shows that historically 1.12% of debts that are outstanding at year end are written off. Certain debts are excluded from this calculation as they are recoverable by nature:

- Rates and Interest and Extra Charges
- Interest and Investment Revenue
- GST Receivable
- Government Grants and Subsidies

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, with all debts greater than \$1,000 being referred to Council for approval.

On occasion, receivables written off during the reporting period are still subject to enforcement activity.

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

Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	168	—	177	—
Total inventories at cost	168	—	177	—
TOTAL INVENTORIES	168	—	177	—

(b) Other assets

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Prepaid expenses	215	–	64	–
<u>TOTAL OTHER ASSETS</u>	<u>215</u>	<u>–</u>	<u>64</u>	<u>–</u>

Accounting policy for inventories and other assets

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

An asset is recognised for prepaid expenses to represent the portion of the expense incurred during the year that relates to future years.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 10. Infrastructure, property, plant and equipment

	as at 30/06/19			Asset movements during the reporting period								as at 30/06/20		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in equity)	WIP transfers	Adjustments and transfers	Dedications / Donations	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	13,576	–	13,576	15,986	8,310	–	–	–	(24,742)	–	–	13,130	–	13,130
Plant and equipment	19,491	(12,276)	7,215	–	1,591	(460)	(1,359)	–	–	–	–	19,977	(12,990)	6,987
Office equipment	2,764	(2,342)	422	–	17	–	(168)	–	–	2	–	2,781	(2,508)	273
Furniture and fittings	1,712	(1,432)	280	–	12	–	(55)	–	–	(1)	–	1,724	(1,488)	236
Land:														
– Operational land	149,417	–	149,417	–	–	–	–	–	–	320	–	149,737	–	149,737
– Community land	349,373	–	349,373	–	332	(1,509)	–	–	–	(320)	338	348,214	–	348,214
Land improvements	87,535	(40,137)	47,398	–	–	–	(1,674)	–	9,207	100	–	96,840	(41,809)	55,031
Infrastructure:														
– Buildings – non-specialised	91,168	(37,613)	53,555	–	–	–	(1,718)	–	4,017	–	–	95,185	(39,330)	55,855
– Buildings – specialised	83,992	(34,192)	49,800	–	–	–	(1,809)	–	51	–	–	84,044	(36,001)	48,043
– Other structures	28,103	(11,098)	17,005	–	–	(53)	(1,138)	–	38	118	–	28,026	(12,056)	15,970
– Roads	384,787	(63,667)	321,120	–	–	(950)	(5,672)	–	6,985	(219)	–	389,929	(68,665)	321,264
– Bridges	17,103	(2,319)	14,784	–	–	–	(297)	–	9	–	–	17,112	(2,616)	14,496
– Footpaths	42,600	(17,804)	24,796	–	–	(27)	(437)	–	1,805	–	–	44,358	(18,221)	26,137
– Bulk earthworks (non-depreciable)	79,459	–	79,459	–	–	–	–	–	–	–	–	79,459	–	79,459
– Stormwater drainage	535,923	(112,086)	423,837	–	–	(240)	(3,588)	–	1,929	–	–	537,535	(115,596)	421,939
– Water supply network	128	(98)	30	–	–	–	(4)	–	13	–	–	141	(102)	39
– Swimming pools	30,613	(3,775)	26,838	–	–	–	(487)	(1,571)	23	–	–	26,820	(2,017)	24,803
Other assets:														
– Catchment remediation assets	16,241	(1,933)	14,308	–	–	–	(327)	–	665	–	–	16,906	(2,260)	14,646
– Library books	3,237	(1,709)	1,528	–	468	–	(590)	–	–	–	–	3,480	(2,074)	1,406
Total Infrastructure, property, plant and equipment	1,937,222	(342,481)	1,594,741	15,986	10,730	(3,239)	(19,323)	(1,571)	–	–	338	1,955,398	(357,733)	1,597,665

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	as at 30/06/18			Asset movements during the reporting period						as at 30/06/19		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Other movements (details....)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	19,979	–	19,979	15,564	7,635	–	–	(29,602)	–	13,576	–	13,576
Plant and equipment	19,586	(12,135)	7,451	–	1,723	(663)	(1,296)	–	–	19,491	(12,276)	7,215
Office equipment	2,756	(2,079)	677	–	8	–	(263)	–	–	2,764	(2,342)	422
Furniture and fittings	1,787	(1,450)	337	–	–	–	(58)	–	–	1,712	(1,432)	280
Land:												
– Operational land	149,417	–	149,417	–	–	–	–	–	–	149,417	–	149,417
– Community land	348,366	–	348,366	–	–	–	–	–	1,008	349,373	–	349,373
Land improvements – depreciable	74,814	(38,499)	36,315	–	–	–	(1,638)	12,289	432	87,535	(40,137)	47,398
Infrastructure:												
– Buildings – non-specialised	91,115	(35,954)	55,161	–	–	–	(1,658)	53	–	91,168	(37,613)	53,555
– Buildings – specialised	80,683	(33,928)	46,755	–	–	(260)	(1,773)	3,164	1,915	83,992	(34,192)	49,800
– Other structures	27,122	(10,056)	17,066	–	–	(11)	(1,133)	1,083	–	28,103	(11,098)	17,005
– Roads	378,903	(58,443)	320,460	–	–	(529)	(5,535)	6,723	–	384,787	(63,667)	321,120
– Bridges	17,103	(2,023)	15,080	–	–	–	(297)	–	–	17,103	(2,319)	14,784
– Footpaths	41,443	(17,397)	24,046	–	–	(12)	(416)	1,179	–	42,600	(17,804)	24,796
– Bulk earthworks (non-depreciable)	79,459	–	79,459	–	–	–	–	–	–	79,459	–	79,459
– Stormwater drainage	532,515	(108,644)	423,871	–	–	(466)	(3,562)	3,995	–	535,923	(112,086)	423,837
– Water supply network	128	(94)	34	–	–	–	(4)	–	–	128	(98)	30
– Swimming pools	30,613	(3,278)	27,335	–	–	–	(497)	–	–	30,613	(3,775)	26,838
Other assets:												
– Library books	2,610	(1,155)	1,455	–	627	–	(554)	–	–	3,237	(1,709)	1,528
– Catchment remediation assets	15,125	(1,620)	13,505	–	–	–	(313)	1,116	–	16,241	(1,933)	14,308
Total Infrastructure, property, plant and equipment	1,913,524	(326,755)	1,586,769	15,564	9,993	(1,941)	(18,997)	–	3,355	1,937,222	(342,481)	1,594,741

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

Notes to the Financial Statements

for the year ended 30 June 2020

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

Plant and Equipment	Years	Other Structures	Years
Office equipment	10	Pontoons, wharves & seawalls	10 to 80
Furniture & fittings	10	Park shelters	10 to 50
Vehicles	7		
All other plant & equipment	7 to 25	Stormwater Assets	
		Drainage components (pits, pipes, etc...)	150
Library Books	5	Catchment remediation assets	50
All	5		
		Buildings	
Softwares & Licences (Note 11)		Structure	35 to 125
Software	5 to 15	Roof	80 to 100
Licences (1 year +)	Expiry of licence	Internal finishes, fire & security	50 to 80
		Electrical, mechanical & transportation	25
Transportation Assets		Land Improvements	
Sealed roads: Surface	30	Playground & sports equipment	10 to 50
Sealed roads: Base course	100	Picnic furniture	10 to 20
Sealed roads: Sub-base	non-depreciable	Service equipment	10 to 80
Unsealed roads	5	Landscaping ("hard" elements)	10 to 80
Bridges	30 to 80	Trees & gardening	non-depreciable
Traffic facilities	20 to 100	Turf	non-depreciable
Kerb, gutter & footpaths (concrete)	100	Sports fields (natural/non-artificial)	non-depreciable
Bulk earthworks	non-depreciable		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Income Statement.

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. Council has no land under roads acquired after 1 July 2008.

Notes to the Financial Statements

for the year ended 30 June 2020

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

Crown reserves

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

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

Rural Fire Service assets

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

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

Note 11. Investment properties

\$ '000	2020	2019
Owned investment property		
Investment property on hand at fair value	25,435	25,435
Total owned investment property	25,435	25,435

(a) Reconciliation – owned investment property

Reconciliation of annual movement:

Opening balance	25,435	25,285
– Net gain/(loss) from fair value adjustments	–	150
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	25,435	25,435

(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 2020 revaluations were based on independent assessments made by Scott Fullarton Valuations Pty Ltd.

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

(c) Leasing arrangements – Council as lessor (2019 only)

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

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	–	835
Later than 1 year but less than 5 years	–	3,096
Later than 5 years	–	3,959
Total minimum lease payments receivable	–	7,890

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Investment properties (continued)

\$ '000	2020	2019
(d) Investment property income and expenditure – summary		
(2019 only)		
Rental income from investment property:		
– Minimum lease payments	–	852
– Other income	–	47
Direct operating expenses on investment property:		
– that generated rental income	–	(47)
Net revenue contribution from investment property	–	852
plus:		
Fair value movement for year	–	150
Total income attributable to investment property	–	1,002

Accounting policy for investment property

Investment property, principally comprising freehold buildings on operational land, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as a separate line item.

Properties that are under construction for future use as investment properties are regarded as investment property. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Note 12. Intangible assets

Intangible assets are as follows:

\$ '000	2020	2019
Software		
Opening values at 1 July		
Gross book value	1,770	1,770
Accumulated amortisation	(341)	(214)
Net book value – opening balance	1,429	1,556
Movements for the year		
– Amortisation charges	(126)	(127)
Closing values at 30 June		
Gross book value	1,770	1,770
Accumulated amortisation	(467)	(341)
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE	1,303	1,429

Accounting policy for intangible assets**Software**

Costs incurred in developing 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Intangible assets (continued)

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over the expected life of the software (2 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.

Note 13. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	480	—
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	508	42
Total grants received in advance		988	42
User fees and charges received in advance:			
Upfront fees – leisure centre	(iii)	38	—
Upfront fees - Planning and building regulation		493	556
Total user fees and charges received in advance		531	556
TOTAL CONTRACT LIABILITIES		1,519	598

Notes

(i) Council has received funding to remediate a library. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion, and the grant agreement contains a detailed specification. Revenue will be recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. Revenue is expected to be recognised in the next 12 months.

(ii) Council has received funding to install aged care and disability equipment in the homes of residents. The contract liability relates to income received prior to the revenue recognition criteria in AASB 15 being satisfied as not all of the aged care and disability equipment specified in the grant agreement has been installed at 30 June. This performance obligation is ongoing and revenue will be recognised as equipment is installed.

(iii) Council has received upfront fees for term membership to aquatic and leisure centres. This income is recorded over the term of the membership under AASB 15 and therefore the funds received are recorded as a contract liability on receipt and recognised as revenue over the expected membership life.

Council has also received upfront income for planning and regulation services including development assessment services. Under AASB 15 there is an enforceable agreement whereby Council must provide this service or return fees, and a performance obligation exists to complete each assessment. Income is recognised when the assessment is completed, which satisfies the performance obligation.

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

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

Operating grants (received prior to performance obligation being satisfied)	444
---	-----

User Fees and Charges received in advance:

Notes to the Financial Statements

for the year ended 30 June 2020

Note 13. Contract assets and liabilities (continued)

\$ '000	2020
Upfront fees – leisure centre	–
Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period	444

Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

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

There are no material instances where promised good or service to the customer before the customer pays consideration or before the payment is due.

Note 14. Leases

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

(i) Council as a lessee

Council has leases over a range of assets including IT Equipment and Vehicles. Information relating to the leases in place and associated balances and transactions is provided below.

Vehicles

One of Council's major contracts satisfies the requirements of AASB 16 as the contract is for the provision of services through specific vehicles that are directed for Councils use that cannot be used for other purposes.

All payments under this lease are variable, therefore a right of use asset and lease liability are not recognised in line with AASB 16. Instead Council discloses the *variable lease payments based on usage not included in the measurement of lease liabilities* within the Income Statement section of this note and within the Statement of Cash Flows, *Total cash outflow for leases*.

Office and IT equipment

Leases for office and IT equipment are generally for low value assets, except for significant items such as photocopiers and servers. The leases are for between three and five years with no renewal options and all payments are fixed.

There are no extension options within the leases.

\$ '000	IT Equipment	Total
Opening balance at 30 June 2019	–	–
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	409	409
Depreciation charge	(219)	(219)

continued on next page ...

Page 38 of 81

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	IT Equipment	Total
<u>Balance at 30 June 2020</u>	<u>190</u>	<u>190</u>

\$ '000	2020 Current	2020 Non-current
(b) Lease liabilities		
Lease liabilities	139	51
<u>TOTAL LEASE LIABILITIES</u>	<u>139</u>	<u>51</u>

(i) The maturity analysis

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

\$ '000	< 1 year	1 – 5 years	> 5 years	Total	Total per Statement of Financial Position
Cash flows	94	152	–	246	190

(ii) Lease liabilities relating to restricted assets

There are no restricted assets (external or internal) applicable to the above lease liabilities

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

(c) Income Statement

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

Interest on lease liabilities	27
Variable lease payments based on usage not included in the measurement of lease liabilities	11,868
Depreciation of right of use assets	219
Expenses relating to low-value leases	245
	<u>12,359</u>

(d) Statement of Cash Flows

Total cash outflow for leases	12,359
	<u>12,359</u>

Accounting policy

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

Accounting policies under AASB 16 – applicable from 1 July 2019

At inception of a contract, Council assesses whether a lease exists; whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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

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

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

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

(ii) Council as a lessor**(e) Operating leases**

Council leases out a number of properties.

Properties that are based on operational land and that are leased at market rental amounts are classified as investment properties.

Properties that are based on community land and/or are leased at subsidised amounts, such as to community groups are classified as Property, Plant and Equipment.

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

\$ '000	2020
(i) Operating lease income	
Investment properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	818
Other lease income	
Properties classified as IPPE	1,862
Total income relating to operating leases	2,680

(ii) Operating lease expenses

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	2020
Investment properties	
Direct operating expenses that generated rental income	30
Other leased assets	
Other	101
Total expenses relating to operating leases	131

(iii) Repairs and maintenance: investment property

Contractual obligations for future repairs and maintenance	—
Total repairs and maintenance: investment property	—

(iv) Maturity analysis of contractual lease income

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

< 1 year	2,523
1–2 years	1,970
2–3 years	1,564
3–4 years	1,427
4–5 years	1,413
> 5 years	73,079
Total undiscounted contractual lease income receivable	81,976

Accounting policy

Council is a lessor, and all leases are classified as operating or at the inception date. No leases are classified as finance leases as none contain terms that would transfer risks and rewards incidental to ownership of the asset to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

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

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

Note 15. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Prepaid rates	493	—	—	—
Goods and services – operating expenditure	6,539	—	5,623	—
Accrued expenses:				
– Salaries and wages	1,203	—	876	—
– Other expenditure accruals	515	—	1,073	—
Security bonds, deposits and retentions	552	—	666	—
Employee costs	2	—	5	—
Other	36	—	17	—
Total payables	9,340	—	8,260	—

Income received in advance (2019 only)

Payments received in advance	—	—	1,062	—
------------------------------	---	---	-------	---

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Total income received in advance	–	–	1,062	–
Borrowings				
Loans – secured ¹	366	499	864	597
Total borrowings	366	499	864	597
<u>TOTAL PAYABLES AND BORROWINGS</u>	9,706	499	10,186	597

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

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 21.

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

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

(b) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	1,461	(596)	–	–	–	–	865
Lease liabilities	–	–	–	–	190	–	190
TOTAL	1,461	(596)	–	–	190	–	1,055

\$ '000	as at 30/06/18		Non-cash changes				as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement		Closing balance
Loans – secured	2,317	(856)	–	–	–		1,461
TOTAL	2,317	(856)	–	–	–		1,461

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

(c) Financing arrangements

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

Bank overdraft facilities ¹	3,000	3,000
Credit cards/purchase cards	31	27
Total financing arrangements	3,031	3,027

Drawn facilities as at balance date:

– Credit cards/purchase cards	10	15
Total drawn financing arrangements	10	15

Undrawn facilities as at balance date:

– Bank overdraft facilities	3,000	3,000
-----------------------------	-------	-------

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

\$ '000	2020	2019
– Credit cards/purchase cards	21	12
Total undrawn financing arrangements	3,021	3,012

Additional financing arrangements information

Breaches and defaults

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

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

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

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

Note 16. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions				
Employee benefits				
Annual leave	3,855	–	3,888	–
Sick leave	232	–	335	–
Long service leave	10,493	891	10,599	730
Gratuities	–	–	101	–
Net liability - defined benefit plan	–	3,170	–	3,390
Other leave	62	–	117	–
Sub-total – aggregate employee benefits	14,642	4,061	15,040	4,120
Other provisions				
Provision for land payable	332	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Biobanking liability - management actions	106	1,396	—	—
Sub-total – other provisions	438	1,396	—	—
<u>TOTAL PROVISIONS</u>	<u>15,080</u>	<u>5,457</u>	<u>15,040</u>	<u>4,120</u>

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

(a) Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	10,686	11,031
	<u>10,686</u>	<u>11,031</u>

(b) Description of and movements in provisions

\$ '000	Other provisions		Total
	Provision for land payable	Biobanking liability - management actions	
2020			
Additional provisions	332	1,502	1,834
Total other provisions at end of year	332	1,502	1,834

Nature and purpose of non-employee benefit provisions**Biobanking liability - management actions**

Council brought provision and receivable balances associated with Biobanking Stewardship Agreements to account within the year ended 30 June 2020. The balances are immaterial and have been accounted for prospectively.

A biobanking liability is recognised based on the expected future cost of fulfilling environmental obligations to maintain the biodiversity of land in accordance with Council's Biobanking Stewardship Agreements (BSA) and AASB 137 *Provisions, Contingent Liabilities & Contingent Assets*.

The terms of BSA's stipulate that when 80% of the fund deposit is reached (which represents the sale of 80% of the biodiversity credits within each BSA), Council's obligation to undertake land management works commences. This liability for future management works is recognised by Council based on the present value of undertaking management actions as specified in the BSA, typically over a 20 year period. A corresponding asset within the Receivables note has also been recognised to represent payments from the Biodiversity Conservation Trust (BCT) to fund management actions.

Accounting policy for provisions

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

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

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued) - Employee Defined Benefits

(a) Defined benefit superannuation plans

Defined benefit superannuation plans provide defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position and is measured as the present value of defined benefit obligation at the reporting date less the fair value of the superannuation fund assets at that date and less any unrecognised past service costs.

The calculation of defined benefit obligations is performed annually by a qualified actuary, considering any applicable minimum funding requirements. When determining the liability, consideration is given to future salary and wage levels, experience of employee departures and periods of service. Prepaid contributions are recognised as an asset to the extent that cash refund/reduction in future payments is available. When the calculation results in a potential asset, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The qualified actuary determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. Council recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The liability is disclosed as non-current as this best reflects when the liability is likely to be settled.

(b) Nature of the benefits provided by the Fund

The SAS Trustee Corporation (STC) Pooled Fund (the Fund) holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. All the schemes are closed to new members.

(c) Description of the regulatory framework

The schemes in the Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-Contributory Superannuation Scheme Act 1987, and their associated regulations.

The schemes in the Fund are exempt public sector superannuation schemes under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued) - Employee Defined Benefits

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Fund will conform to the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members, and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Fund is performed every three years. The last actuarial investigation was performed at 30 June 2018 and is available on the Fund's website.

(d) Description of other entities' responsibilities for the governance of the Fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of Fund beneficiaries. The Trustee has the following roles:

- Administration of the Fund and payment to the beneficiaries from Fund assets when required in accordance with the Fund rules;
- Management and investment of the Fund assets; and
- Compliance with other applicable regulations

(e) Description of risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – The risk that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

(f) Description of significant events

There were no fund amendments, curtailments or settlements during the year.

(g) Reconciliation of the net defined benefit liability / (asset)	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Net defined benefit liability / (asset) at start of year	41	15	3,334	3,390
Current service cost	12	4	0	16

Hornsby Shire Council

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

Note 16. Provisions (continued) - Employee Defined Benefits

Net interest on the net defined benefit liability / (asset)	1	-	42	43
Actual return on fund assets less interest income	(3)	-	(18)	(21)
Actuarial (gains) / losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains) / losses arising from changes in financial assumptions	2	1	48	51
Actuarial (gains) / losses arising from liability experience	7	(2)	(52)	47
Adjustment for effect of asset ceiling	0	0	0	0
Employer contributions	(11)	(10)	(241)	(262)
Net defined benefit liability / (asset) at end of year	49	7	3,114	3,170

(h) Reconciliation of the fair value of Fund assets	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Fair value of the Fund assets at beginning of the year	341	39	2,169	2,549
Interest income	4	-	29	33
Actual return on fund assets less interest income	3	-	18	21
Employer contributions	11	11	240	262
Contributions by participants	6	-	-	6
Benefits paid	2	-	(179)	(177)
Taxes, premiums and expenses paid	(2)	(1)	(26)	(29)
Fair value of the Fund assets at end of the year	365	49	2251	2665

(i) Reconciliation of the defined benefit obligation	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligations at beginning of the year	382	54	5,502	5,938
Current service cost	13	3	-	16
Interest cost	4	1	71	76
Contributions by participants	6	-	-	6
Actuarial (gains) / losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains) / losses arising from changes in financial assumptions	3	1	48	52
Actuarial (gains) / losses arising from liability experience	7	(2)	(52)	(47)
Benefits paid	2	-	(179)	(177)
Taxes, premiums and expenses paid	(2)	(1)	(26)	(29)
Present value of defined benefit obligations at end of the year	415	56	5,364	5,835

(j) Reconciliation of the effect of the asset ceiling

There are no adjustments for the effect of the asset ceiling.

(k) Fair value of the Fund assets

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued) - Employee Defined Benefits

All the Fund assets are invested by STC at arm's length through independent fund managers. Assets are not separately invested for each entity, and it is not possible or appropriate to disaggregate and attribute Fund assets to individual entities. **As such, the disclosures below relate to total assets of the Pooled Fund.**

Asset Category at 30 June 2020	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Short term securities	4,096	1,889	2,207	-
Australian fixed interest	1,066	-	1,066	-
International fixed interest	1,910	31	1,879	-
Australian equities	7,294	6,902	392	-
International equities	11,950	11,487	463	-
Property	3,353	645	16	2,691
Alternatives	10,523	23	4,337	6,162
Total	40,192	20,977	10,360	8,853

The percentage invested in each asset class at the reporting date is:

Asset Category	30 June 2020
Short term securities	10.2%
Australian fixed interest	2.7%
International fixed interest	4.8%
Australian equities	18.1%
International equities	29.7%
Property	8.3%
Alternatives	26.2%
Total	100.0%

Level 1 – quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 – inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 – inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cash-flow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such, managers make limited use of derivatives.

(I) Fair value of entity's own financial instruments

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2020 include \$36.9 million in NSW Government bonds.

Of the direct properties owned by the Fund:

– SAS Trustee Corporation occupies part of a property 100% owned by the Fund with a fair value of \$340 million (30 June 2019: \$316 million).

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued) - Employee Defined Benefits

– Health Administration Corporation occupies part of a property 50% owned by the Fund with a fair value (100% interest) of \$343 million (30 June 2019: \$331 million).

(m) Significant actuarial assumptions at 30 June 2020

Assumption	
Discount rate	0.87%
Salary increase rate (excluding promotional increases)	3.2%
Rate of CPI increase	1.00% for 2019/20, 0.25% for 2020/21; 1.50% for 2021/22; 1.25% for 2022/23; 1.75% for 2023/24; 2.00% for 2024/25 and 2025/26; 2.25% pa to 2029/30; 2.50% pa thereafter.
Pensioner mortality	The pensioner mortality assumptions as per the 2018 actuarial investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation available from the Trustee's website. The report shows the pension mortality rates for each age.

(n) Sensitivity analysis

The entity's total defined benefit obligation as at 30 June 2020 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision that is calculated based on the asset level at 30 June 2020.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base Case	Scenario A -0.5% discount rate	Scenario B +0.5% discount rate
Discount rate	As above	As above -0.5% pa	As above +0.5% pa
Rate of CPI increase	As above	As above	As above
Salary inflation rate	As above	As above	As above
Defined benefit obligation (\$'000)	5,835	6,308	5,413

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	As above	As above	As above
Rate of CPI increase	As above	As above +0.5% pa	As above -0.5% pa
Salary inflation rate	As above	As above	As above
Defined benefit obligation (\$'000)	5,835	6,304	5,412

	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	As above	As above	As above
Rate of CPI increase	As above	As above	As above
Salary inflation rate	As above	As above +0.5% pa	As above -0.5% pa
Defined benefit obligation (\$'000)	5,835	5,960	5,766

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued) - Employee Defined Benefits

	Base Case	Scenario G Lower Mortality*	Scenario H Higher Mortality*
Defined benefit obligation (\$'000)	5,835	5,960	5,766

* Assumes the short-term pensioner mortality improvement factors for years 2020-2023 also apply for years after 2023

** Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2020 to 2023

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

(o) Asset-liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cash flows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

(p) Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review. Contribution rates are set after discussions between the employer, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

(q) Surplus / deficit

The following is a summary of the 30 June 2020 financial position of the Fund calculated in accordance with AASB 1056 Superannuation Entities:

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Accrued benefits*	367	48	2,370	2,785
Net market value of fund assets	(365)	(49)	(2,251)	(2,665)
Net (surplus) / deficit	2	(1)	119	120

*There is no allowance for a contribution tax provision with the accrued benefits figure for AASB 1056. Allowance for contributions tax is made when setting the contribution rates.

(r) Contribution recommendations

There are no recommended contribution rates for Council for the current year.

(s) Economic assumptions

The economic assumptions adopted for the 30 June 2020 AASB 1056 Accounting Standard "Superannuation Entities" are (these assumptions are consistent with the assumptions to be used for the 2018 actuarial investigations of the Pooled Fund):

Weighted average assumptions	
Expected rate of return on Fund assets backing current pension liabilities	7.0%
Expected rate of return on Fund assets backing other liabilities	6.0%
Expected salary increase rate (excluding promotional salary increases)	3.2%
Expected rate of CPI increase	2.0%

Hornsby Shire Council

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

Note 16. Provisions (continued) - Employee Defined Benefits

t) Expected contributions for 2021	SASS \$'000 Financial Year to 30 June 2021	SANCS \$'000 Financial Year to 30 June 2021	SSS \$'000 Financial Year to 30 June 2021	Total \$'000 Financial Year to 30 June 2021
Expected employer contributions	11	10	241	262

(u) Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13 years.

v) Profit and loss impact	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	12	4	-	16
Net interest	1	-	42	43
Past service cost	-	-	-	-
(Gains)/Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	13	4	42	59

w) Other comprehensive income	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Actual (gains)/losses on liabilities	9	(1)	(4)	4
Actual return on Fund assets less interest income	(3)	-	(18)	(21)
Change in the effect of the asset ceiling	-	-	-	-
Total remeasurement in Other Comprehensive Income	6	(1)	(22)	(17)

Notes to the Financial Statements

for the year ended 30 June 2020

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

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

Financial asset (through other comprehensive income) reserve

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

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

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

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

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

(ii) AASB 15 and AASB 1058

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

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

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

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

Principal v agent

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

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

Licences

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

Prepaid rates

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

Grants – operating

Under AASB 1004, most grant income was recognised as revenue on receipt. Under AASB 15, where an agreement is

Notes to the Financial Statements

for the year ended 30 June 2020

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

enforceable and contains sufficiently specific performance obligations, the revenue is either recognised over time as the work is performed, or recognised at the point in time that the control of the services passes to the customer.

Grants – capital

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

Changes in presentation

In addition to the above changes in accounting policies, the Council has also amended the presentation of certain items to align them with the requirements of AASB 15 and AASB 1058 in line with the Local Government Code of Accounting.

\$ '000	Balance at 1 July 2019
Opening contract balances at 1 July 2019	
Contract liabilities	
– Under AASB 15	1,039
– Under AASB 1058	72
Total Contract liabilities	1,111

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

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

Statement of Financial Position

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards	Notes
Current assets					
Cash and cash equivalents	50,674	–	–	50,674	
Investments	104,313	–	–	104,313	
Receivables	5,922	–	–	5,922	
Inventories	168	–	–	168	
Other	215	–	–	215	
Total current assets	161,292	–	–	161,292	
Current liabilities					
Payables	9,340	–	38	9,378	
Contract liabilities	1,519	–	(1,519)	–	
Lease liabilities	139	–	–	139	
Borrowings	366	–	–	366	
Provisions	15,080	–	–	15,080	
Total current liabilities	26,444	–	(1,481)	24,963	
Non-current assets					

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassification	Remeasurement	Carrying amount under previous revenue standards	Notes
Investments	136,392	—	—	136,392	
Receivables	1,733	—	—	1,733	
Infrastructure, property, plant and equipment	1,597,665	—	—	1,597,665	
Investment property	25,435	—	—	25,435	
Intangible assets	1,303	—	—	1,303	
Right of use assets	190	—	—	190	
Total non-current assets	1,762,718	—	—	1,762,718	
Non-current liabilities					
Contract liabilities	598	—	(598)	—	
Lease liabilities	51	—	—	51	
Borrowings	499	—	—	499	
Provisions	5,457	—	—	5,457	
Total Non-current liabilities	6,605	—	(598)	6,007	
Net assets	1,890,961	—	2,079	1,893,040	
Equity					
Accumulated surplus	1,256,222	—	2,079	1,258,301	
Revaluation reserves	634,547	—	—	634,547	
Other reserves	192	—	—	192	
Council equity interest	1,890,961	—	2,079	1,893,040	
Total equity	1,890,961	—	2,079	1,893,040	

Council has adopted a new accounting policy for revenue items in line with AASB 15 and 1058. Each affected item is detailed within Note 13, Contract asset and liabilities.

Contract liability balances have been remeasured for income received during the year ended 30 June 2020 that has been deferred under the new standards. Contract liability and equity balances have been remeasured for income received during the year ended 30 June 2019 that is deferred at 30 June 2020.

Income Statement

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	97,155	—	—	97,155	
User charges and fees	12,115	—	496	12,611	
Other revenues	3,872	—	—	3,872	

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassification	Remeasurement	Income Statement and comprehensive income under previous revenue standards	Notes
Grants and contributions provided for operating purposes	11,301	—	63	11,364	
Grants and contributions provided for capital purposes	7,580	—	409	7,989	
Interest and investment income	6,016	—	—	6,016	
Reversal of impairment losses on receivables	109	—	—	109	
Rental income	2,680	—	—	2,680	
Total Income from continuing operations	140,828	—	968	141,796	
<u>Expenses from continuing operations</u>					
Employee benefits and on-costs	46,378	—	—	46,378	
Borrowing costs	100	—	—	100	
Materials and contracts	47,729	—	—	47,729	
Depreciation and amortisation	19,668	—	—	19,668	
Other expenses	12,221	—	—	12,221	
Net losses from the disposal of assets	2,602	—	—	2,602	
Total Expenses from continuing operations	128,698	—	—	128,698	
Total Operating result from continuing operations	12,130	—	968	13,098	
Net operating result for the year	12,130	—	968	13,098	
Total comprehensive income	10,658	—	—	10,658	

Council has adopted a new accounting policy for revenue items in line with AASB 15 and 1058. Each affected item is detailed within Note 13, Contract asset and liabilities.

Revenue balances have been remeasured for income received during the year ended 30 June 2020 that has been deferred under the new standards.

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract liabilities	—	1,111	1,111
Total liabilities	—	1,111	1,111
Accumulated surplus	1,243,981	(1,111)	1,242,870
Total equity	—	(1,111)	(1,111)

Notes to the Financial Statements

for the year ended 30 June 2020

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

(iii) AASB 16 Leases

Council as a lessee

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

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

Practical expedients used on transition

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

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

Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$452K at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 6.17%.

\$ '000	Balance at 1 July 2019
Operating lease commitments at 30 June 2019 per Council financial statements	1,287

Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases

Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019	1,124
Less:	
Leases for low-value assets included in commitments note	(715)
Lease liabilities recognised at 1 July 2019	409

Council as a lessor

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

Statement of Financial Position

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
---------	-------------------------------------	-----------------------------------	-------------------------------------

Notes to the Financial Statements

for the year ended 30 June 2020

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

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Rights-of-use assets	–	452	452
Total assets	1,911,357	452	1,911,809
Payables – accrued interest on leases (30/6/2019)	–	–	–
Leases	–	452	452
Total liabilities	29,943	452	30,395
Accumulated surplus	–	–	–
Total equity	1,881,414	–	1,881,414

(c) Changes in accounting estimates**Nature and effect of changes in accounting estimates on current year**

There were no changes to accounting estimates during the current year.

During the year ended 30 June 2019 Council brought its historic defined benefit pension scheme to account under AASB 119.

A provision of \$2,515K at 1 July 2018 was recognised prospectively in Other Comprehensive Income representing the opening present value of the defined benefit obligation.

The present value of the defined benefit obligation was remeasured by a qualified actuary at 30 June 2019 resulting in a \$957K loss on remeasurement for the year, also accounted for through Other Comprehensive Income. A further \$180K expense comprising net interest and the net current service cost has been recognised within Employee benefits and on costs. These costs were previously accounted for under superannuation expenses within Employee benefits and on costs but are now separately disclosed. Each of these expenses will be accounted for in the same manner in future years.

All balances have been calculated by a qualified actuary as detailed further in Note 16. All detailed disclosures as required by AASB 119 are also available in Note 16.

Note 18. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	50,674	19,668
Balance as per the Statement of Cash Flows		50,674	19,668

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

Net operating result from Income Statement	12,130	35,750
Adjust for non-cash items:		
Depreciation and amortisation	19,668	19,124
Net losses/(gains) on disposal of assets	2,602	(1,027)
Non-cash capital grants and contributions	(338)	(3,355)
Adoption of AASB 15/1058	(1,012)	–
Release of provision - boundary adjustment	–	(10,929)
Losses/(gains) recognised on fair value re-measurements through the P&L:		

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Statement of cash flow information (continued)

\$ '000	2020	2019
– Investments classified as 'at fair value' or 'held for trading'	45	(716)
– Investment property	–	(150)
+/- Movement in operating assets and liabilities and other cash items:		
Decrease/(increase) in receivables	1,263	(2,108)
Increase/(decrease) in provision for impairment of receivables	(119)	97
Decrease/(increase) in inventories	9	13
Decrease/(increase) in other current assets	(151)	561
Increase/(decrease) in payables	916	1,691
Increase/(decrease) in other accrued expenses payable	(315)	(2,586)
Increase/(decrease) in other liabilities	(667)	(117)
Increase/(decrease) in contract liabilities	2,117	–
Increase/(decrease) in provision for employee benefits	(457)	951
Increase/(decrease) in other provisions	1,834	(6,800)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows	37,525	30,399

(c) Non-cash investing and financing activities

Other dedications	338	3,355
Total non-cash investing and financing activities	338	3,355

Note 19. Commitments

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

(a) Capital commitments (exclusive of GST)

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

Property, plant and equipment

Buildings (non specialised)	21	90
Buildings (specialised - libraries & community centres)	199	2,771
Foreshore facilities	185	73
Hornsby Quarry	126	1,767
Infrastructure – Roads & Drainage	240	150
Land improvements	157	1,072
Plant and equipment	189	413
Recreational facilities	–	14
Westleigh Park	75	–
Total commitments	1,192	6,350

These expenditures are payable as follows:

Within the next year	1,192	6,350
Total payable	1,192	6,350

Sources for funding of capital commitments:

Unrestricted general funds	351	1,168
Externally restricted reserves	751	1,225
Internally restricted reserves	90	3,957

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Commitments (continued)

Total sources of funding	1,192	6,350
---------------------------------	--------------	--------------

Details of capital commitments

All committed amounts are associated with the routine renewal and/or upgrade of existing Council assets.

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

(b) Non-cancellable operating lease commitments (2019 only)

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

Within the next year	–	468
Later than one year and not later than 5 years	–	819
Total non-cancellable operating lease commitments	–	1,287

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

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

Assets leased and lease terms

Computer equipment under a Master Lease Agreement with Macquarie Bank. Contingent rentals may be payable depending on the condition of items or usage during the lease term.

Conditions relating to finance and operating leases:

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

Note 20. Contingencies

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

LIABILITIES NOT RECOGNISED**(i) Defined benefit plans**

Council accounts for defined benefit obligations from the closed NSW public sector superannuation schemes under AASB 119 as disclosed in Note 16.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

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

Description of the funding arrangements.

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

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

Division B	1.9 times employee contributions
Division C	2.5% salaries
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2019 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These additional lump sum contributions are used to maintain the adequacy of the funding position for the accrued liabilities.

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

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

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

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

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2020 was \$1,134,279. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA as at 30 June 2019.

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

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

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

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

(iv) Other guarantees

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

Other liabilities

Landfill Remediation

Council does not currently operate any tips or sites with close down, restoration or environmental obligations that would give rise to a provision in the Financial Statements.

A review of historic landfill sites commenced in the year ended 30 June 2019. The review has not yet identified any significant environmental obligations that would give rise to a provision in the Financial Statements.

Hornsby Quarry

The filling of the Quarry void has been completed using spoil from the North Connex site managed by the NSW State Government.

Council is not legally obliged to remediate the site, therefore a provision for future costs has not been recognised in line with AASB 137. Instead, expenditure is recognised in Capital Works In Progress as it is incurred and will be capitalised once works have been completed.

(i) Third party claims

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

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

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

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

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

ASSETS NOT RECOGNISED**(i) Land under roads**

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

(ii) Infringement notices/fines

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

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

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

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

Note 21. Financial risk management

Risk management

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

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

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

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

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

\$ '000	Carrying value 2020	Carrying value 2019	Fair value 2020	Fair value 2019
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	50,674	19,668	50,674	19,668
Receivables	7,655	8,467	7,655	8,467
Investments				
– 'Loans and receivables'	188,642	220,050	188,642	220,050
Fair value through other comprehensive income				
Investments				

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

\$ '000	Carrying value 2020	Carrying value 2019	Fair value 2020	Fair value 2019
– 'Financial assets at fair value through other comprehensive income'	31,392	25,610	31,392	25,610
Fair value through profit and loss				
Investments				
FVPL	20,671	15,716	20,671	15,716
Total financial assets	299,034	289,511	299,034	289,511
Financial liabilities				
Payables	9,340	8,260	9,340	8,261
Loans/advances	865	1,461	865	1,461
Lease liabilities	190	–	190	–
Total financial liabilities	10,395	9,721	10,395	9,722

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

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

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

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these 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.

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2020				
Possible impact of a 10% movement in market values	4,611	4,611	(4,611)	(2,544)
Possible impact of a 1% movement in interest rates	2,707	2,707	(2,707)	(2,914)
2019				
Possible impact of a 10% movement in market values	2,544	2,544	(2,544)	(2,544)
Possible impact of a 1% movement in interest rates	2,810	2,810	(2,810)	(2,810)

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

(b) Credit risk

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

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

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

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

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

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

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2020						
Gross carrying amount	–	1,648	172	160	155	2,135
2019						
Gross carrying amount	–	1,064	135	156	155	1,510

Receivables - non-rates and annual charges

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

The loss allowance provision is determined by the methodology disclosed in Note 7. The expected credit losses incorporates forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2020						
Gross carrying amount	4,875	487	55	16	165	5,598
Amount provided (%)	0.04%	0.51%	2.34%	7.19%	43.94%	1.42%
2019						
Gross carrying amount	5,785	620	483	83	183	7,154
Amount provided (%)	0.21%	3.13%	3.47%	24.99%	69.92%	2.75%

(c) Liquidity risk

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

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

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

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2020							
Trade/other payables	0.00%	552	8,294	–	–	8,846	8,847
Loans and advances	6.17%	–	390	532	–	922	865
Total financial liabilities		552	8,684	532	–	9,768	9,712
2019							
Trade/other payables	0.00%	666	7,596	–	–	8,262	8,260
Loans and advances	6.56%	–	700	942	–	1,642	1,461
Total financial liabilities		666	8,296	942	–	9,904	9,721

Loan agreement breaches

Detail here any breaches to loan agreements which have occurred during the reporting year.

Note 22. Material budget variations

Council's original financial budget for 19/20 was adopted by the Council on 12 June 2019 and is unaudited.

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

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
Rates and annual charges	95,977	97,155	1,178	1% F
User charges and fees	14,290	12,115	(2,175)	(15)% U

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
Revenue from User Charges and Fees is less than the Original Budget because of income lost from the closure of facilities due to the COVID-19 pandemic. The Budget was revised to reflect this income loss at the March 2019/20 Quarterly Budget Review.				
Other revenues	6,460	3,872	(2,588)	(40)% U
Other Revenue is less than the Original Budget because of income lost from the closure of facilities due to the COVID-19 pandemic. The Budget was revised to reflect this income loss at the March 2019/20 Quarterly Budget Review.				
Operating grants and contributions	11,687	11,301	(386)	(3)% U
Capital grants and contributions	14,733	7,580	(7,153)	(49)% U
Revenue from Capital grants and contributions is less than the Original Budget because grant funding was not approved for two transport projects with a combined value of \$4M that were originally included in Council's Operational Plan. It was noted within the Operational Plan that these projects were contingent upon funding being approved. Revenue from Development Contributions was also less than in the Original Budget following a gradual slow down in development activity within the Shire.				
Interest and investment revenue	7,938	6,016	(1,922)	(24)% U
Interest and investment revenue is less than the Original Budget because the base rate set by the Reserve Bank of Australia was 1.5% when the Original Budget was created, but was reduced to 0.25% following a series of rate cuts throughout the year. The Original Budget was revised downwards after the first three of these rate cuts at the September 2019/20 Quarterly Budget Review. However, further cuts were made by the Reserve Bank in response to the COVID-19 pandemic later in the year.				
Net gains from disposal of assets	1,000	–	(1,000)	100% U
The Original Budget is a measure of Council's cash flow and therefore does not include the written down value of assets that is deducted from sale proceeds to reach the Net Gain/Loss on Disposal of Assets that is disclosed within the Financial Statements. This year Council has recognised a \$2.6M loss on disposal of assets from the renewal of infrastructure assets throughout the year, for which no consideration is received.				
Fair value increment on investment property	–	–	–	∞ F
Reversal of impairment losses on receivables	–	109	109	∞ F
Rental income	–	2,680	2,680	∞ F
EXPENSES				
Employee benefits and on-costs	49,618	46,378	3,240	7% F
Borrowing costs	81	100	(19)	(23)% U
Borrowing costs are greater than the Original Budget because of the introduction of AASB 16 Leases during the year and the non cash interest expense from the unwinding of discounting for operating leases that are now accounted for in the Statement of Financial Position. This amount is additional to borrowing costs on Council's loans, which is budgeted for and the actual expense for this component of borrowing costs is equal to the Original Budget.				
Materials and contracts	51,053	47,729	3,324	7% F
Depreciation and amortisation	19,352	19,668	(316)	(2)% U
Impairment of receivables	–	–	–	∞ F
Other expenses	12,843	12,221	622	5% F
Net losses from disposal of assets	–	2,602	(2,602)	∞ U
Council has disposed of a number of infrastructure assets within the year that have been renewed in line with asset management plan requirements. No consideration is received for these assets and the loss is a result of disposing the non cash remaining written down value from Council's Fixed Asset Register. This is not included within the Original Budget as				

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations (continued)

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----
---------	----------------	----------------	------------------------------

the Original Budget is a measure of Council's cash flow.

STATEMENT OF CASH FLOWS

Cash flows from operating activities	22,671	37,525	14,854	66%	F
---	---------------	---------------	---------------	------------	----------

Cash flows from operating activities are greater than in the current version of Council's Long Term Financial Plan (LTFP) because domestic waste annual charges have increased to cover the cost of new contractual price increases that will come into effect next year. A number of grants were also received for which funds will be spent in future years.

Cash flows from investing activities	(25,371)	(5,704)	19,667	(78)%	F
---	-----------------	----------------	---------------	--------------	----------

Net cash from investing differs to the budget as Council does not budget for the purchase and sale of investment securities as the classification of investments as cash or an investment is only known when an investment is selected, which is based on the returns available at the time.

Cash flows from financing activities	(619)	(815)	(196)	32%	U
---	--------------	--------------	--------------	------------	----------

Note 23. Fair Value Measurement

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

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

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

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

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

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

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

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

2020	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv-able inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Financial assets at fair value through profit and loss’	30/06/20	20,671	–	–	20,671
– ‘Financial assets at fair value through other comprehensive income’	30/06/20	31,392	–	–	31,392
Total financial assets		52,063	–	–	52,063

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

2020	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Investment property					
Investment property portfolio	30/06/20	–	25,435	–	25,435
Total investment property		–	25,435	–	25,435
Infrastructure, property, plant and equipment					
Operational land	31/05/18	–	149,737	–	149,737
Community land	30/04/16	–	–	347,882	347,882
Buildings (specialised and non-specialised)	31/05/18	–	–	103,898	103,898
Roads, bridges, footpaths and bulk earthworks	30/06/18	–	–	441,357	441,357
Stormwater drainage	30/06/18	–	–	421,939	421,939
Swimming pools	31/05/18	–	–	24,803	24,803
Catchment remediation assets	30/06/18	–	–	14,646	14,646
Total infrastructure, property, plant and equipment		–	149,737	1,354,525	1,504,262

2019	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Financial assets					
Investments					
– ‘Financial assets at fair value through profit and loss’	30/06/19	15,716	–	–	15,716
– ‘Financial assets at fair value through other comprehensive income’	30/06/19	25,610	–	–	25,610
Total financial assets		41,326	–	–	41,326
Investment property					
Investment property portfolio	30/06/19	–	25,435	–	25,435
Total investment property		–	25,435	–	25,435
Infrastructure, property, plant and equipment					
Operational land	31/05/18	–	149,417	–	149,417
Community land	30/04/16	–	–	349,373	349,373
Buildings (specialised and non-specialised)	31/05/18	–	–	103,355	103,355
Roads, bridges, footpaths and bulk earthworks	30/06/18	–	–	440,159	440,159
Stormwater drainage	30/06/18	–	–	423,837	423,837
Swimming pools	31/05/18	–	–	26,838	26,838
Catchment remediation assets	30/06/18	–	–	14,308	14,308
Total infrastructure, property, plant and equipment		–	149,417	1,357,870	1,507,287

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

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

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

Council's non-current assets are continually remeasured to fair value (over a minimum of a 5 year period) in accordance with the valuation policy as mandated by the Office of Local Government.

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

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

Investment property

Council engages an independent, qualified expert, Scott Fullerton Valuations Pty Ltd to determine the fair value of Investment Properties, which were last remeasured at 30 June 2020.

In measuring fair value, Scott Fullerton took into account the characteristics of each property and whether market participants would take those characteristics into account when pricing, assuming that market participants would act in their best economic interest.

A direct comparison approach was adopted where recent information was available whereby a unit rate per square metre was calculated using the following observable inputs:

- Price per square metre
- Direct comparison to sales evidence
- Zoning
- Location
- Land area and configuration
- Planning controls

Where recent sales data was not available a capitalised income approach was used whereby a yield was applied to the property's income to assess its value. This approach also included the following inputs:

- Rental income
- Rent reviews
- Capitalisation rate

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

Buildings (Specialised and Non-Specialised)

Council also engages Scott Fullerton Valuations Pty Ltd to determine the fair value of buildings, which were last remeasured at 31 May 2018.

In line with AASB 13 fair value is calculated using depreciated replacement cost methodology. Gross replacement cost is calculated from the summation of the current replacement unit cost of the individual components of each building. Accumulated depreciation is calculated from the condition of each component, which is used to determine the amount of economic benefit consumed. Gross replacement cost less accumulated depreciation equates to fair value.

The current replacement unit cost rates of each component are a key unobservable input (level 3) in the calculation. These rates are benchmarked to the construction cost of similar properties to ensure they are appropriate.

Land (Operational and Community)

Council engages an independent, qualified expert (also Scott Fullerton Valuations Pty Ltd) to determine the fair value of operational land. Fair value is calculated with reference to current prices in an active market for similar properties and used to calculate square metre unit rates. Where such information is not available the price of different properties in active markets or price of similar properties in less active markets, adjusted to reflect differences are used. Consideration is paid to the inherent features of each property such as usability, fire and flood risk with adjustments made if appropriate.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

The valuation of community land is performed internally as there is no active market. Fair value is determined from square metre unit rates supplied by the Valuer General, which are used for rating purposes.

Community and operational land were last remeasured to fair value at 30 April 2016 and 31 May 2018, respectively.

Square meter unit rates are a key unobservable input in each the calculations.

Infrastructure assets

Valuations for infrastructure assets are performed internally as there is no active market for assets of this nature. Current replacement cost is calculated from the summation of the current replacement unit cost of the individual components of each asset. The cost of each component is determined from the unit rate, usually in square metres multiplied by the dimensions of the component of the asset. All infrastructure assets are subject to ongoing condition assessment. Accumulated depreciation is calculated from the condition of each asset, which is used to determine the amount of economic benefit consumed. Gross replacement cost less accumulated depreciation equates to fair value.

Square meter unit rates are a key unobservable input in the calculation.

Infrastructure asset revaluations were last completed at 30 June 2018.

All Other Asset Classes

Historic cost is deemed to represent fair value for all other asset classes.

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

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

	2020 (\$'000)	2019 (\$'000)
Balance at 1 July	1,357,870	1,354,038
Purchases	-	-
Carrying value of assets sold/disposed	(2,726)	(1,267)
Depreciation	(14,335)	(14,051)
Impairment loss	(1,571)	-
WIP transfers	15,484	16,230
Dedications	338	2,923
Revaluation decrements	-	-
Revaluation increments	-	-
Adjustments and transfers	(539)	-
Other movements	3	(3)
Balance at 30 June	1,354,524	1,357,870

(5) Highest and best use

Community based assets

Council undertakes a number of services with a strong focus of providing community benefits to its constituents. These services are based meeting essential community needs and are not of a nature that would be provided in a commercially competitive environment.

Land under the asset class Community Land comprises Crown land under Council's care and control as well as Council-owned land that has been classified as community land under the provisions of the Local Government Act 1993. Furthermore, Council has a number of buildings that are applied in delivering community services. The restrictions on the land and the

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

community use of the buildings in delivering community based services is considered to be the 'highest and best use' of those assets to Councils.

Investment Properties

Scott Fullarton Valuations Pty Ltd have identified four investment properties within Council's portfolio which have a highest and best as a redevelopment site, and are therefore under-developed. The Fair Value of these properties at 30 June 2020 is \$7,680k.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Related party disclosures

(a) Key management personnel

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

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

\$ '000	2020	2019
Compensation:		
Short-term Benefits		
Salaries and other short-term benefits	2,161	2,147
Post-employment Benefits		
Superannuation – Senior Staff	164	206
Other Long-term Benefits		
Long service leave entitlements	62	65
Termination Benefits		
Redundancy/lump-sum payments	–	403
Total	2,387	2,821

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Related party disclosures (continued)

(b) Other transactions with KMP and their related parties

Ordinary Citizen Transactions

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

Nature of the transaction	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000					
2020					
Lease of Wallarobba Arts & Cultural Centre - Hornsby Art Society (HAS) ¹	5,000	–	HAS leases space from Council as a not-for-profit community organisation. Council resolution to subsidise rent based on provision of volunteer labour by HAS.	–	–
Rent Subsidy to Hornsby Art Society (HAS) ¹	3,000	–	Volunteer labour provided by HAS for the Remagine and Hornsby Art Prize events in accordance with Council resolution.	–	–
Volunteer labour provided to Council by Hornsby Art Society (HAS) ¹	3,000	–		–	–
2019					
Lease of Wallarobba Arts & Cultural Centre - Hornsby Art Society (HAS) ¹	5,000	–	HAS leases space from Council as a not-for-profit community organisation. Council resolution to subsidise rent based on provision of volunteer labour by HAS.	–	–
Rent Subsidy to Hornsby Art Society (HAS) ¹	3,000	–	Volunteer labour provided by HAS for the Remagine and Hornsby Art Prize events in accordance with Council resolution.	–	–
Volunteer labour provided to Council by Hornsby Art Society (HAS) ¹	3,000	–		–	–

(1) Councillor McIntosh is the President of the Hornsby Art Society Inc. (HAS)

Note 25. Events occurring after the reporting date

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Events occurring after the reporting date (continued)

Asbestos was uncovered during building works at Council's Administration Centre in October 2020. Initial testing by hygienists has indicated that the amount of any asbestos particles in the air are within risk levels. However, for safety the building has been closed to staff and the public with a temporary customer service set up elsewhere on Council premises. Significant remediation of the building is required and an estimate of cost is not yet available.

Council is unaware of no other potentially material or significant 'non-adjusting events' that should be disclosed.

Note 26. Statement of developer contributions

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

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

The difference between Income from developer contributions in Note 3(f) and Contributions received during the year is the release of a provision for contributions payable to the City of Parramatta as a result of the boundary adjustment recognised within Income. This amount was retained within the prior year Statement of Developer Contributions whilst provided for and is included within the opening balance at 1 July 2018.

Summary of contributions and levies

	as at 30/06/19	Contributions received during the year	Interest earned in year	Expenditure during year	as at 30/06/20	Cumulative internal borrowings due/(payable)
\$ '000	Opening Balance	Cash			Held as restricted asset	
Roads	5,221	371	91	(1,086)	4,597	—
Open space	38,825	3,027	845	(1,083)	41,614	—
Community facilities	27,557	1,195	586	(90)	29,248	—
Plan administration	500	12	11	—	523	—
Transfer to Old Plan	—	—	—	—	—	—
S7.11 contributions – under a plan	72,103	4,605	1,533	(2,259)	75,982	—
S7.12 levies – under a plan	6,762	1,373	143	(1,221)	7,057	—
Total S7.11 and S7.12 revenue under plans	78,865	5,978	1,676	(3,480)	83,039	—

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Statement of developer contributions (continued)

Total contributions	78,865	5,978	1,676	(3,480)	83,039	–
---------------------	--------	-------	-------	---------	--------	---

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

S7.11 Contributions – under a plan

CONTRIBUTION PLAN NUMBER 1 (2012 to 2021)

Roads	5,221	371	91	(1,086)	4,597	–
Open space	38,825	3,027	845	(1,083)	41,614	–
Community facilities	27,557	1,195	586	(90)	29,248	–
Plan administration	500	12	11	–	523	–
Total	72,103	4,605	1,533	(2,259)	75,982	–

S7.12 Levies – under a plan

2012 - 2021

Other	6,762	1,373	143	(1,221)	7,057	–
Total	6,762	1,373	143	(1,221)	7,057	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	7,088	5.32%	4.45%	5.26%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	133,184				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	121,883	86.59%	76.00%	49.39%	>60.00%
Total continuing operating revenue ¹	140,764				
3. Unrestricted current ratio					
Current assets less all external restrictions	103,715	7.02x	8.01x	6.69x	>1.50x
Current liabilities less specific purpose liabilities	14,770				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	26,856	29.35x	25.27x	19.18x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	915				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	2,296	2.32%	1.81%	1.82%	<5.00%
Rates, annual and extra charges collectible	99,105				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	239,316	24.84 mths	23.54 mths	27.39 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	9,634				

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

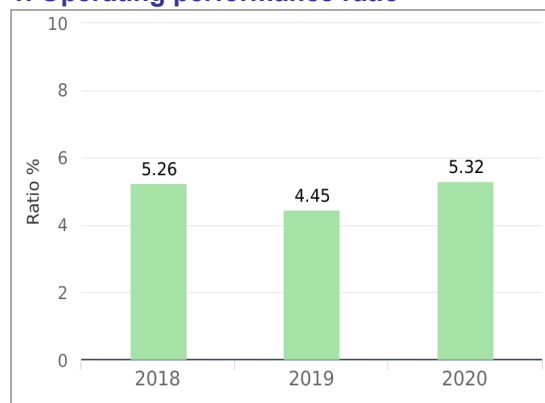
(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements on investment properties, net loss on disposal of assets and net loss on share of interests in joint ventures and associates using the equity method

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27(b). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2019/20 result

2019/20 ratio 5.32%

Council's operating performance is in line with prior years' despite a material reduction in income from user charges and fees and other revenue in the fourth quarter as a result of the COVID-19 pandemic. This is because of expenditure reductions made to the revised budget at the March 2019/20 quarterly review that offset income that was lost.

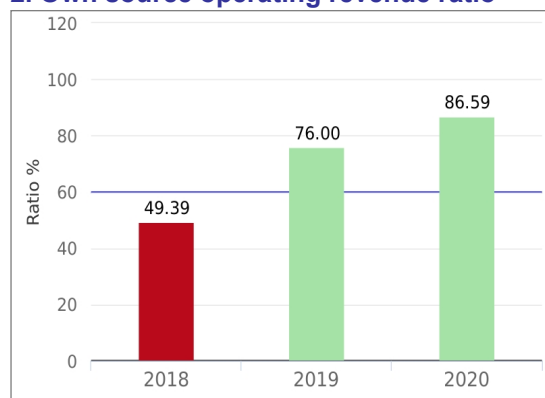
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2019/20 result

2019/20 ratio 86.59%

The ratio has improved because income from capital grants and contributions has decreased from \$28.1M (30 June 2019) to \$7.6M (30 June 2020), largely because of a reduction in \$7.11 contributions following a gradual slow down in development activity. Council also received a non cash dedication of \$3.3M in the prior year for assets dedicated from the NSW State Government at Cheltenham Oval.

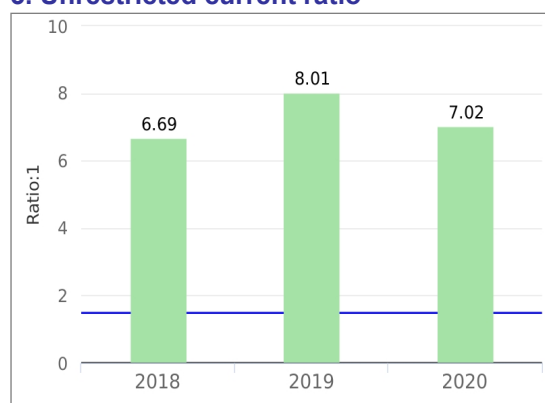
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2019/20 result

2019/20 ratio 7.02x

The ratio has reduced because Council's payable and provision balances have increased. This is because of the implementation of AASB 16 Leases, AASB 1058 Income for Not for Profit Entities and AASB 15 Revenue from Contracts with Customers that have seen contract liability and lease liability balances recognised for the first time. A provision to recognise Council's obligation to undertake land management actions at biobanking sites has also been recognised.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

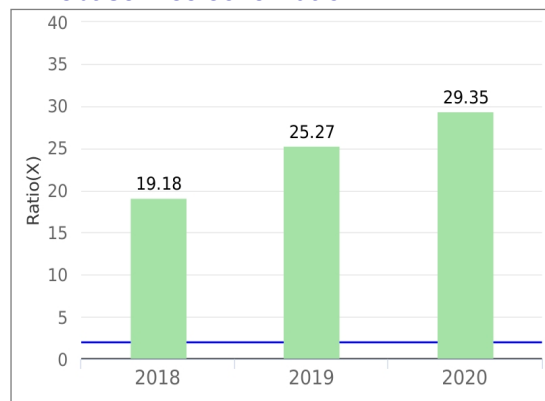
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27(b). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 29.35x

The ratio continues to improve as no new loans have been entered into and Council's level of outstanding debt is now below \$1M, which will continue to fall as repayments are made in line with repayment schedules.

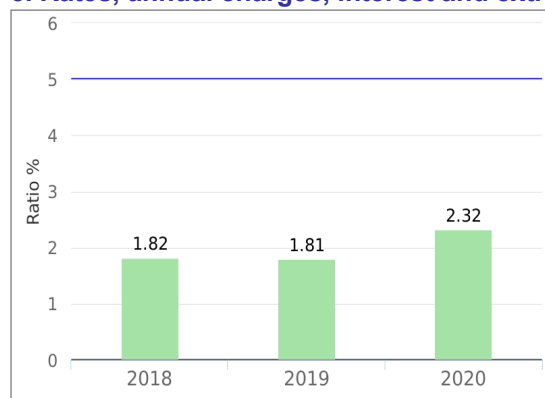
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2019/20 result

2019/20 ratio 2.32%

The ratio has increased slightly from the prior year because of hardship relief offered to COVID-19 affected residents during the year. However, the ratio remains well below the benchmark and is expected to be one of the best results within NSW.

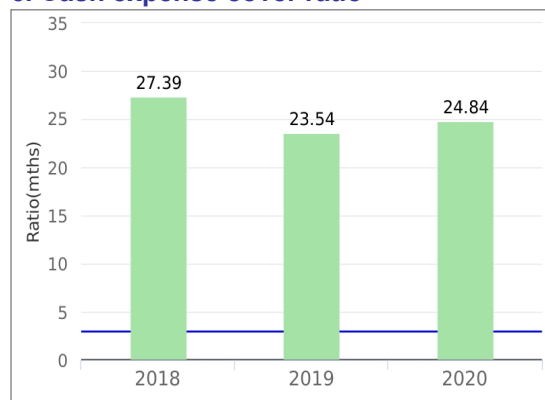
Benchmark: — < 5.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2019/20 result

2019/20 ratio 24.84 mths

The ratio is in line with the prior year and continues to be well above the benchmark indicating that Council's cash flow is in a strong position.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Hornsby Shire Council

To the Councillors of Hornsby Shire Council

Opinion

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

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 22 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Karen Taylor
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

10 November 2020
SYDNEY



Mayor
Hornsby Shire Council
PO Box 37
HORNSBY NSW 2077

Contact: Karen Taylor
Phone no: 02 9275 7311
Our ref: D2025933/1741

10 November 2020

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2020
Hornsby Shire Council**

I have audited the general purpose financial statements (GPFS) of the Hornsby Shire Council (the Council) for the year ended 30 June 2020 as required by section 415 of the *Local Government Act 1993* (the Act).

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

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

INCOME STATEMENT

Operating result

	2020	2019	Variance
	\$m	\$m	%
Rates and annual charges revenue	97.2	91.4	6.3
Grants and contributions revenue	18.9	38.4	50.8
Operating result from continuing operations	12.1	35.8	66.2
Net operating result before capital grants and contributions	4.6	7.6	39.5

Rates and annual charges revenue (\$97.2 million) increased by \$5.8 million (6.3 per cent) in 2019–20. This was mainly due to rate peg of 2.7 per cent and higher annual charges for domestic waste management.

Grants and contributions revenue (\$18.9 million) decreased by \$19.5 million (50.8 per cent) in 2019–20 as 2018–19 included \$10.9 million from the release of a provision for the boundary adjustment with the City of Parramatta Council.

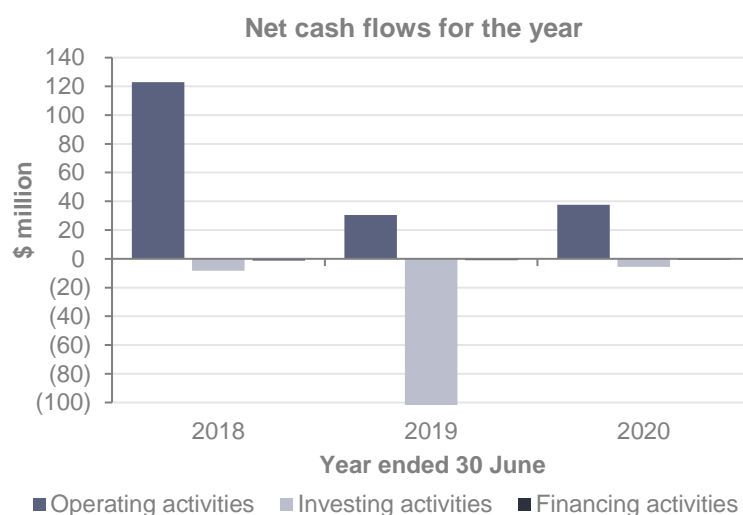
The Council's operating result from continuing operations (\$12.1 million including depreciation and amortisation expense of \$19.7 million) was \$23.7 million lower than the 2018–19 result. This was mainly due to the prior year including one-off \$10.9 million from the release of a provision and COVID-19 leading to lower user charges, fees and other revenues.

The net operating result before capital grants and contributions (\$4.6 million) was \$3.0 million lower than the 2018–19 result.

STATEMENT OF CASH FLOWS

Cash balances have increased from \$19.7 million to \$50.7 million at 30 June 2020. Net cash used in investing and financing activities reduced in the current year.

The last year cash flows from investing activities were due to Council moving from short term to medium and longer term financial instruments.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	193.2	185.9	Externally restricted balances include stronger communities funding, developer contributions and domestic waste management charges.
Internal restrictions	79.7	84.9	
Unrestricted	18.5	10.2	
Cash and investments	291.4	281.0	Balances are internally restricted due to Council policy or decisions for forward plans including strategic capital projects.
			Unrestricted balances provide liquidity for day-to-day operations.

PERFORMANCE

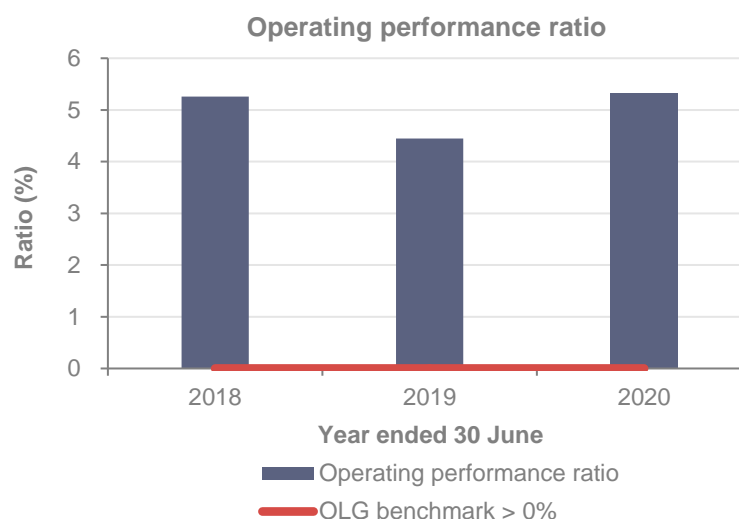
Performance measures

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

Operating performance ratio

Council continues to exceed the OLG benchmark for the current reporting period. This was despite the drop in user charges and fees due to COVID-19.

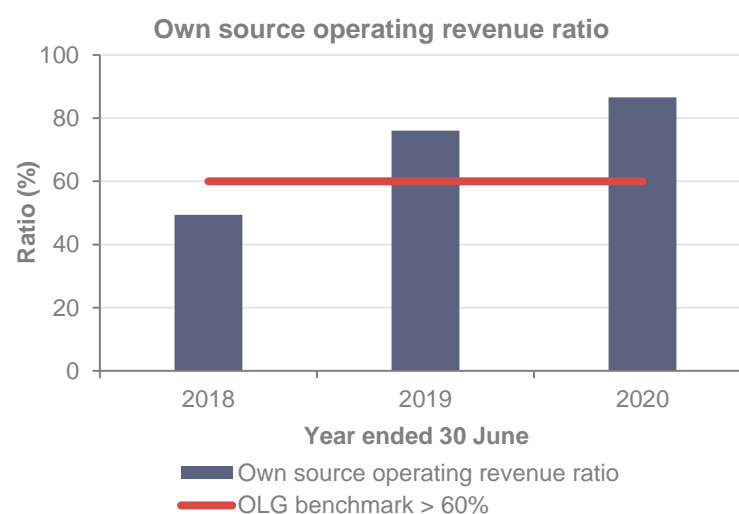
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.



Own source operating revenue ratio

Council exceeded the OLG benchmark for the current reporting period.

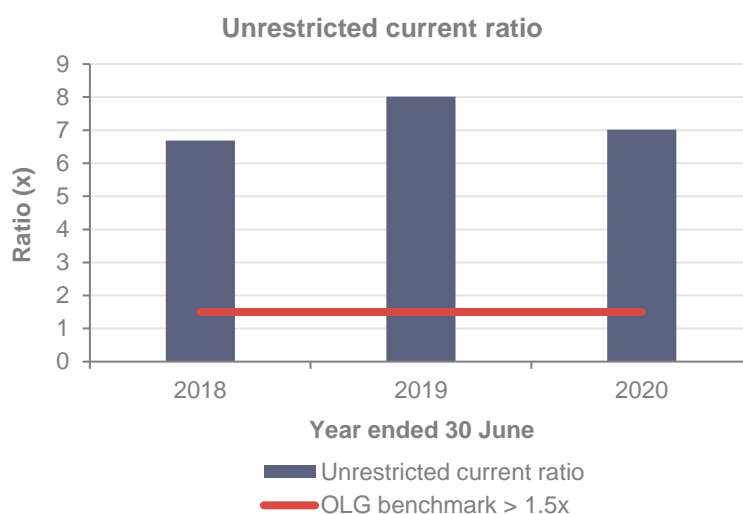
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to exceed the OLG benchmark for the current reporting period.

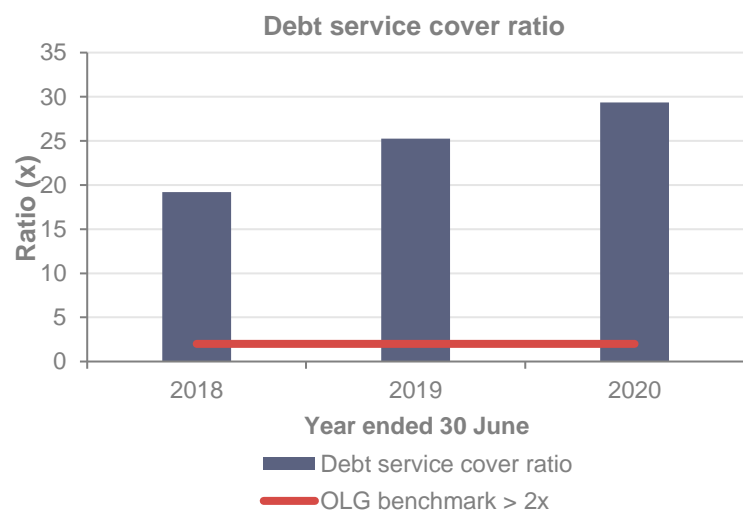
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council continues to exceed the OLG benchmark for the current reporting period. This reflects Council's low level of debt.

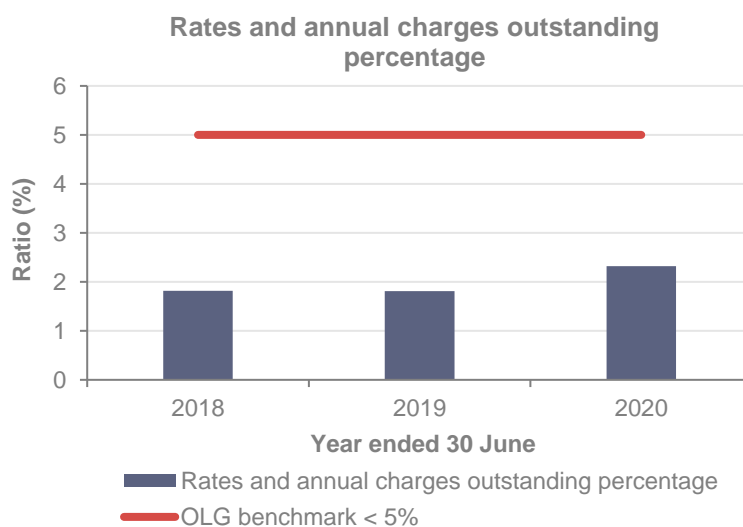
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding percentage

Council continues to exceed the OLG benchmark for the current reporting period.

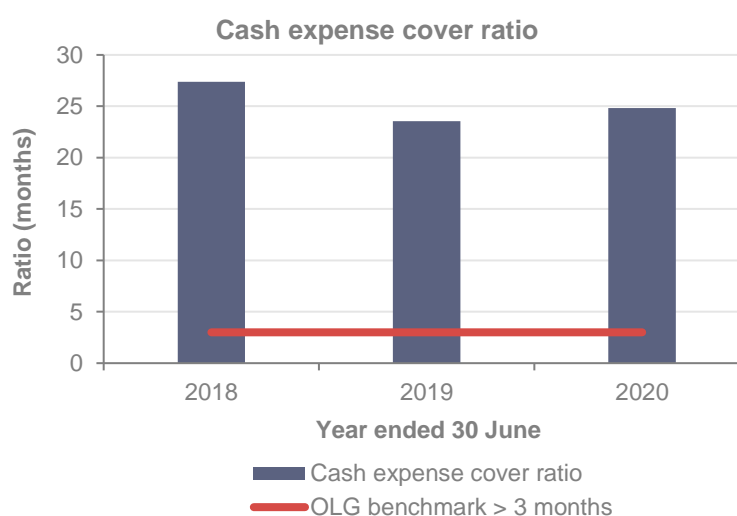
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metro councils.



Cash expense cover ratio

Council continues to exceed the OLG benchmark for the current reporting period.

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



Infrastructure, property, plant and equipment renewals

Council spent \$16.0 million of capital works commenced in 2019–20, along with \$10.7 million spent on new assets. This was similar to the prior year.

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$1.1 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

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

AASB 16 'Leases'

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

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

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

The Council recognised right-of-use assets of \$0.4 million and lease liabilities of \$0.4 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 14.

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Karen Taylor
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

Hornsby Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



Special Purpose Financial Statements

for the year ended 30 June 2020

Contents	Page
Statement by Councillors & Management	3
Special Purpose Financial Statements	
Income Statement – Aquatic Centres & Sports Stadium	4
Income Statement – Commercial Waste	5
Income Statement – Development Applications	6
Income Statement – Property Services	7
Statement of Financial Position – Aquatic Centres & Sports Stadium	8
Statement of Financial Position – Commercial Waste	9
Statement of Financial Position – Development Applications	10
Statement of Financial Position – Property Services	11
Note 1 – Significant Accounting Policies	12
Auditor's Report on Special Purpose Financial Statements	15

Background

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

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

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

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

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

Hornsby Shire Council

Special Purpose Financial Statements

for the year ended 30 June 2020

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

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

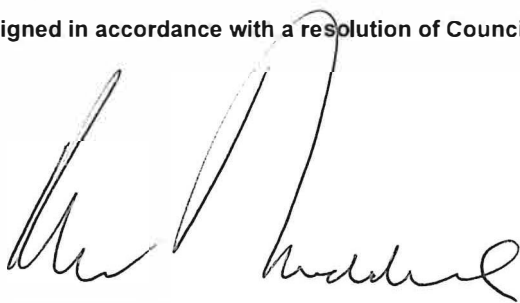
- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government Code of Accounting Practice and Financial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

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

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

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

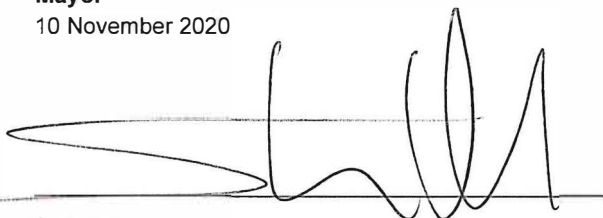
Signed in accordance with a resolution of Council made on 14 October 2020.



P. Ruddock
Mayor
10 November 2020



M. Hutchence
Deputy Mayor
10 November 2020



S. Head
General Manager
10 November 2020



D. Chell
Responsible Accounting Officer
10 November 2020

Income Statement – Aquatic Centres & Sports Stadium

for the year ended 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
Income from continuing operations		
User charges	3,860	4,945
Other income	406	523
Total income from continuing operations	4,266	5,468
Expenses from continuing operations		
Employee benefits and on-costs	3,012	3,753
Materials and contracts	474	590
Depreciation, amortisation and impairment	861	919
Calculated taxation equivalents	197	209
Other expenses	812	872
Total expenses from continuing operations	5,356	6,343
Surplus (deficit) from continuing operations before capital amounts	(1,090)	(875)
Surplus (deficit) from continuing operations after capital amounts	(1,090)	(875)
Surplus (deficit) from all operations before tax	(1,090)	(875)
SURPLUS (DEFICIT) AFTER TAX	(1,090)	(875)
Plus accumulated surplus	30,341	31,244
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	197	209
– Subsidy paid/contribution to operations	267	–
Less:		
– Dividend paid	–	(237)
Closing accumulated surplus	29,715	30,341
Return on capital %	(3.0)%	(2.4)%
Subsidy from Council	1,406	1,359

Income Statement – Commercial Waste

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
User charges	1,991	1,856
Other income	264	265
Total income from continuing operations	2,255	2,121
Expenses from continuing operations		
Employee benefits and on-costs	75	73
Materials and contracts	1,532	1,617
Other expenses	109	106
Total expenses from continuing operations	1,716	1,796
Surplus (deficit) from continuing operations before capital amounts	539	325
Surplus (deficit) from continuing operations after capital amounts	539	325
Surplus (deficit) from all operations before tax	539	325
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(148)	(89)
SURPLUS (DEFICIT) AFTER TAX	391	236
Plus accumulated surplus	148	143
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	148	89
Less:		
– Dividend paid	(579)	(320)
Closing accumulated surplus	108	148

Income Statement – Development Applications

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
Fees	221	440
Profit from the sale of assets	–	5
Total income from continuing operations	221	445
Expenses from continuing operations		
Employee benefits and on-costs	304	982
Depreciation, amortisation and impairment	13	29
Calculated taxation equivalents	–	7
Other expenses	84	112
Total expenses from continuing operations	401	1,130
Surplus (deficit) from continuing operations before capital amounts	(180)	(685)
Surplus (deficit) from continuing operations after capital amounts	(180)	(685)
Surplus (deficit) from all operations before tax	(180)	(685)
SURPLUS (DEFICIT) AFTER TAX	(180)	(685)
Plus accumulated surplus	2	15
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	7
Add:		
– Subsidy paid/contribution to operations	180	582
– Capital contributions	–	83
Closing accumulated surplus	2	2
Return on capital %	(260.9)%	(428.1)%
Subsidy from Council	181	687

Income Statement – Property Services

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
User charges	1,444	732
Fees	7	2
Fair value increment on investment property	–	150
Other income	174	174
Total income from continuing operations	1,625	1,058
Expenses from continuing operations		
Employee benefits and on-costs	65	4
Materials and contracts	233	361
Depreciation, amortisation and impairment	314	314
Calculated taxation equivalents	624	679
Other expenses	139	46
Total expenses from continuing operations	1,375	1,404
Surplus (deficit) from continuing operations before capital amounts	250	(346)
Surplus (deficit) from continuing operations after capital amounts	250	(346)
Surplus (deficit) from all operations before tax	250	(346)
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(69)	–
SURPLUS (DEFICIT) AFTER TAX	181	(346)
Plus accumulated surplus	16,236	16,593
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	624	679
– Corporate taxation equivalent	69	–
Less:		
– Dividend paid	(1,437)	(690)
Closing accumulated surplus	15,673	16,236
Return on capital %	1.0%	(1.3)%
Subsidy from Council	–	686

Statement of Financial Position – Aquatic Centres & Sports Stadium

as at 30 June 2020

\$ '000	2020 Category 1	2019 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	224	50
Receivables	–	79
Inventories	20	22
Total current assets	244	151
Non-current assets		
Infrastructure, property, plant and equipment	35,961	36,701
Total non-current assets	35,961	36,701
TOTAL ASSETS	36,205	36,852
LIABILITIES		
Current liabilities		
Provisions	204	225
Total current liabilities	204	225
TOTAL LIABILITIES	204	225
NET ASSETS	36,001	36,627
EQUITY		
Accumulated surplus	29,715	30,341
Revaluation reserves	6,286	6,286
<u>TOTAL EQUITY</u>	<u>36,001</u>	<u>36,627</u>

Statement of Financial Position – Commercial Waste

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Receivables	132	174
Total current assets	132	174
TOTAL ASSETS	132	174
LIABILITIES		
Current liabilities		
Provisions	24	26
Total current liabilities	24	26
TOTAL LIABILITIES	24	26
NET ASSETS	108	148
EQUITY		
Accumulated surplus	108	148
<u>TOTAL EQUITY</u>	<u>108</u>	<u>148</u>

Statement of Financial Position – Development Applications

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Receivables	88	—
Total current assets	88	—
Non-current assets		
Infrastructure, property, plant and equipment	69	160
Total non-current assets	69	160
TOTAL ASSETS	157	160
LIABILITIES		
Current liabilities		
Provisions	155	158
Total current liabilities	155	158
TOTAL LIABILITIES	155	158
NET ASSETS	2	2
EQUITY		
Accumulated surplus	2	2
<u>TOTAL EQUITY</u>	<u>2</u>	<u>2</u>

Statement of Financial Position – Property Services

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Receivables	288	171
Total current assets	288	171
Non-current assets		
Infrastructure, property, plant and equipment	25,090	25,777
Investment property	25,435	25,435
Total non-current assets	50,525	51,212
TOTAL ASSETS	50,813	51,383
LIABILITIES		
Current liabilities		
Provisions	65	72
Total current liabilities	65	72
TOTAL LIABILITIES	65	72
NET ASSETS	50,748	51,311
EQUITY		
Accumulated surplus	15,673	16,236
Revaluation reserves	35,075	35,075
<u>TOTAL EQUITY</u>	<u>50,748</u>	<u>51,311</u>

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

Note 1. Significant Accounting Policies

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

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

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

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

a. Aquatic & Sports Centres

Operation of swimming pools, gymnasiums & indoor sports centres

b. Commercial Waste Service

Services provided for the collection of commercial waste and sullage

Category 2

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

c. Development Assessments

Development assessment & inspection services

d. Property Services

Rental of Council properties to 3rd parties for residential & commercial purposes

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

Note 1. Significant Accounting Policies (continued)

Monetary amounts

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

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – **27.5%**

2

Land tax – the first \$734,000 of combined land values attracts **0%**. For the combined land values in excess of \$734,001 up to \$4,488,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$900,000.

Income tax

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

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

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

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

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

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

Local government rates and charges

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

(ii) Subsidies

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

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

Note 1. Significant Accounting Policies (continued)

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Hornsby Shire Council

To the Councillors of Hornsby Shire Council

Opinion

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

The Declared Business Activities of the Council are:

- Aquatic Centres & Sports Stadium
- Commercial Waste
- Development Applications
- Property Services.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

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

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



Karen Taylor
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

10 November 2020
SYDNEY

Hornsby Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



Special Schedules
for the year ended 30 June 2020

Contents	Page
Special Schedules	
Permissible income for general rates	3
Report on Infrastructure Assets - Values	4

Permissible income for general rates

\$ '000	Notes	Calculation 2020/21	Calculation 2019/20
Notional general income calculation ¹			
Last year notional general income yield	a	70,266	68,151
Plus or minus adjustments ²	b	325	452
Notional general income	c = a + b	70,591	68,603
Permissible income calculation			
Or rate peg percentage	e	2.60%	2.70%
Or plus rate peg amount	i = e x (c + g)	1,835	1,852
Sub-total	k = (c + g + h + i + j)	72,426	70,455
Plus (or minus) last year's carry forward total	l	2	3
Less valuation objections claimed in the previous year	m	(15)	(205)
Sub-total	n = (l + m)	(13)	(202)
Total permissible income	o = k + n	72,413	70,253
Less notional general income yield	p	72,419	70,266
Catch-up or (excess) result	q = o - p	(5)	(13)
Plus income lost due to valuation objections claimed ⁴	r	7	15
Carry forward to next year ⁶	t = q + r + s	2	2

Notes

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Hornsby Shire Council

To the Councillors of Hornsby Shire Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

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



Karen Taylor
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

10 November 2020
SYDNEY

Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2019/20 Required maintenance ^a	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Libraries	–	–	42	71	8,086	15,074	0.0%	0.0%	97.7%	2.3%	0.0%
	Amenities	710	710	450	450	13,490	24,997	7.8%	0.0%	90.5%	1.7%	0.0%
	Commercial/Residential Buildings	110	110	130	–	10,974	26,526	0.0%	0.0%	76.2%	20.6%	3.2%
	Rural Fire Service Buildings	–	–	203	203	10,909	15,823	1.0%	10.6%	88.2%	0.2%	0.0%
	Indoor Sports Stadium	–	–	121	121	9,155	11,308	0.0%	0.0%	100.0%	0.0%	0.0%
	Council Offices /Administration Centres	–	–	365	464	16,870	27,408	0.0%	0.0%	87.7%	12.3%	0.0%
	Council Works Depot	–	–	101	161	4,120	9,770	0.0%	29.3%	49.9%	20.8%	0.0%
	Council Public Halls	700	700	345	478	30,294	48,323	12.0%	0.0%	77.1%	8.5%	2.3%
	Sub-total	1,520	1,520	1,757	1,948	103,898	179,229	4.4%	2.5%	83.1%	8.8%	1.1%
Other structures	Other structures	270	270	200	210	13,815	24,521	20.0%	45.0%	22.0%	7.0%	6.0%
	Wharves, Pontoons & Seawalls	618	618	211	436	2,155	3,506	20.0%	42.0%	13.0%	25.0%	0.0%
	Sub-total	888	888	411	646	15,970	28,027	20.0%	44.6%	20.9%	9.3%	5.2%
Roads	Sealed Road	350	350	3,424	3,396	267,723	310,147	39.1%	35.8%	17.9%	5.9%	1.4%
	Unsealed roads	2	2	7	7	558	2,789	17.8%	0.0%	82.3%	0.0%	0.0%
	Bridges	16	16	185	184	14,496	17,112	74.1%	14.1%	11.8%	0.0%	0.0%
	Footpaths	23	23	334	332	26,138	44,359	4.2%	10.0%	78.0%	7.5%	0.2%
	Traffic Facilities	2	2	59	58	4,588	5,363	5.2%	79.0%	13.3%	2.5%	0.0%
	Signs	3	3	58	58	4,533	4,533	66.2%	0.1%	32.8%	0.0%	1.0%
	Traffic Barrier Fencing	2	2	37	37	2,924	3,557	37.0%	61.0%	2.0%	0.0%	0.0%
	Car Parks	2	2	11	11	893	1,680	2.3%	0.0%	94.0%	3.7%	0.0%
	Cycle ways	1	1	6	6	472	754	100.0%	0.0%	0.0%	0.0%	0.0%
	Kerb and Gutter	34	34	503	499	39,354	60,875	0.6%	20.6%	78.4%	0.4%	0.0%
	Sub-total	435	435	4,624	4,588	361,679	451,169	31.5%	30.3%	32.3%	4.9%	1.0%
Stormwater drainage	Pipes	3,079	3,079	949	962	335,366	429,976	13.7%	75.6%	10.6%	0.1%	0.0%
	Culverts	179	179	62	63	21,897	25,579	0.0%	89.4%	10.6%	0.0%	0.0%
	Head Walls	15	15	1	1	270	273	100.0%	0.0%	0.0%	0.0%	0.0%
	Channels	22	22	7	7	2,310	3,004	1.7%	83.3%	15.0%	0.0%	0.0%
	Pits	438	438	176	178	62,096	78,703	33.5%	57.8%	8.5%	0.2%	0.0%
	Sub-total	3,733	3,733	1,195	1,211	421,939	537,535	15.9%	73.6%	10.3%	0.1%	0.0%

Report on Infrastructure Assets - Values (continued)

as at 30 June 2020

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2019/20 Required maintenance ^a	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		\$ '000	\$ '000	\$ '000	\$ '000			1	2	3	4	5
Open space / recreational assets	Aquatic Centres	5,600	5,600	327	345	24,803	26,820	0.0%	0.0%	100.0%	0.0%	0.0%
	Sub-total	5,600	5,600	327	345	24,803	26,820	0.0%	0.0%	100.0%	0.0%	0.0%
	TOTAL - ALL ASSETS	12,176	12,176	8,314	8,738	928,289	1,222,780	19.7%	44.9%	31.3%	3.4%	0.7%

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

Infrastructure asset condition assessment 'key'

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	15,434	92.30%	92.94%	95.32%	>=100.00%
Depreciation, amortisation and impairment	16,721				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	12,176	1.21%	0.98%	0.92%	<2.00%
Net carrying amount of infrastructure assets	1,008,005				
Asset maintenance ratio					
Actual asset maintenance	8,738	105.10%	101.63%	100.47%	>100.00%
Required asset maintenance	8,314				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	12,176	1.00%	0.76%	0.71%	
Gross replacement cost	1,222,780				

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

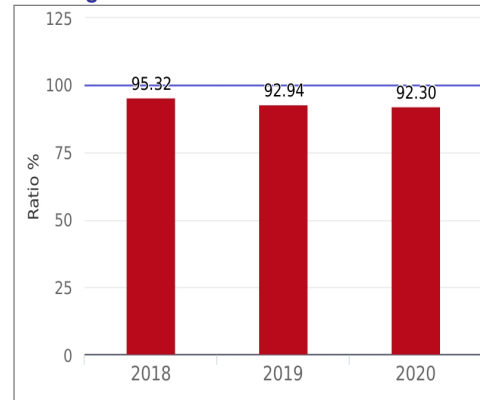
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2020

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

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

Commentary on result

19/20 ratio 92.30%

Depreciation for accounting purposes exceeds cash spent on asset renewals. Nonetheless the condition of Council's infrastructure in general remains consistent with required Levels of Service over the long-term.

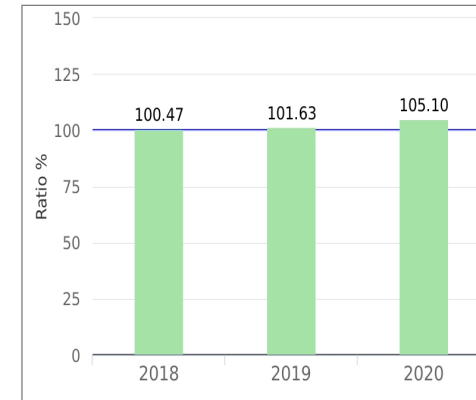
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result

19/20 ratio 105.10%

Council's asset maintenance ratio has continued to improve with increased attention to internal asset monitoring and management practices.

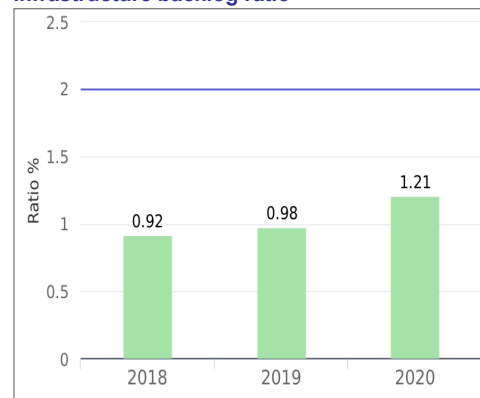
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result

19/20 ratio 1.21%

Council's infrastructure backlog ratio remains consistently well below the 2% benchmark. The increase shown between 2019 and 2020 represents the significant work required at Galston Aquatic Centre.

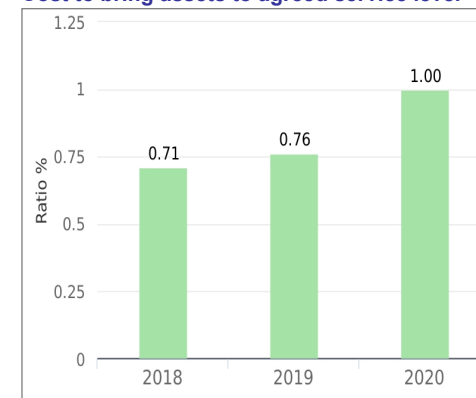
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result

19/20 ratio 1.00%

The cost to bring Council's asset base to agreed service levels remains acceptably low (as a proportion of total asset replacement cost). The increase shown between 2019 and 2020 again reflects the work required to be undertaken at Galston Aquatic Centre.

