



HORNSBY SHIRE COUNCIL

General purpose and special purpose
Financial statements
and associated special schedules

30 June 2019



Hornsby Shire Council

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019



Hornsby Shire Council

GENERAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019



General Purpose Financial Statements

for the year ended 30 June 2019

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General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

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

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

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

About the Councillor/Management Statement

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

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

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

2. The Statement of Comprehensive Income

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

3. The Statement of Financial Position

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

4. The Statement of Changes in Equity

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

5. The Statement of Cash Flows

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

About the Notes to the Financial Statements

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

About the Auditor's Reports

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

In NSW the auditor provides 2 audit reports:

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

Who uses the Financial Statements?

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

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

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

Hornsby Shire Council

General Purpose Financial Statements

for the year ended 30 June 2019

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:

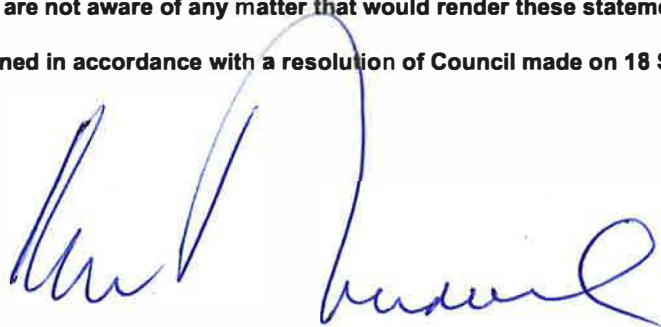
- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

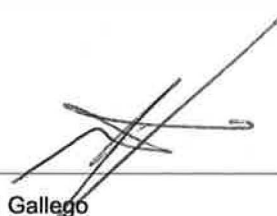
- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

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

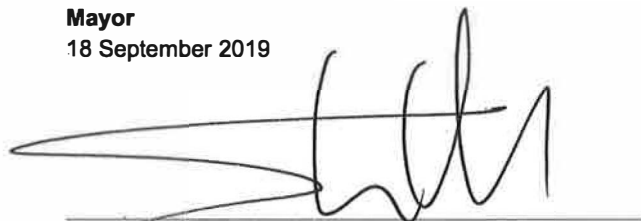
Signed in accordance with a resolution of Council made on 18 September 2019.



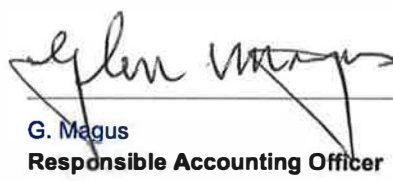
P. Ruddock
Mayor
18 September 2019



V. del Gallego
Councillor
18 September 2019



S. Head
General Manager
18 September 2019



G. Magus
Responsible Accounting Officer
18 September 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
90,066	Rates and annual charges	3a	91,429	89,099
13,916	User charges and fees	3b	15,114	13,958
3,815	Interest and investment revenue	3c	8,261	4,858
6,243	Other revenues	3d	7,405	7,629
11,617	Grants and contributions provided for operating purposes	3e,3f	10,263	10,760
12,943	Grants and contributions provided for capital purposes	3e,3f	28,109	106,006
<u>Other income:</u>				
800	Net gains from the disposal of assets	5	1,027	—
—	Fair value increment on investment properties	10	150	190
139,400	Total income from continuing operations		161,758	232,500
Expenses from continuing operations				
47,939	Employee benefits and on-costs	4a	47,392	43,818
138	Borrowing costs	4b	138	213
47,420	Materials and contracts	4c	46,738	42,710
18,270	Depreciation and amortisation	4d	19,124	17,944
—	Impairment of receivables	7	109	—
12,014	Other expenses	4e	12,507	14,970
—	Net losses from the disposal of assets	5	—	1,035
125,781	Total expenses from continuing operations		126,008	120,690
13,619	Operating result from continuing operations		35,750	111,810
13,619	Net operating result for the year		35,750	111,810
13,619	Net operating result attributable to council		35,750	111,810
676	Net operating result for the year before grants and contributions provided for capital purposes		7,641	5,804

(¹) 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*

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

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		35,750	111,810
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	—	120,944
Recognition of RFS Assets		—	2,332
Impairment (loss) reversal relating to IPP&E	9	—	(800)
Defined benefit plan opening balances brought to account *	13	(2,515)	—
Gain/(loss) on defined benefit plan re-measurements	13	(957)	—
Total items which will not be reclassified subsequently to the operating result		(3,472)	122,476
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		110	—
Total items which will be reclassified subsequently to the operating result when specific conditions are met		110	—
Total other comprehensive income for the year		(3,362)	122,476
Total comprehensive income for the year		32,388	234,286

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. The opening net defined benefit liability at 1 July 2018 was considered immaterial and was therefore accounted for prospectively. Full disclosures are included within the Accounting Policy section of Note 13.

(1) 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*

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

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	19,668	146,506
Investments	6(b)	118,766	100,118
Receivables	7	8,162	6,211
Inventories	8a	177	190
Other	8b	64	625
Total current assets		146,837	253,650
Non-current assets			
Investments	6(b)	142,610	26,500
Receivables	7	305	245
Infrastructure, property, plant and equipment	9	1,594,741	1,586,769
Investment property	10a	25,435	25,285
Intangible assets	11	1,429	1,556
Total non-current assets		1,764,520	1,640,355
TOTAL ASSETS		1,911,357	1,894,005
LIABILITIES			
Current liabilities			
Payables	12	8,260	9,035
Income received in advance	12	1,062	1,161
Borrowings	12	864	856
Provisions	13	15,040	32,183
Total current liabilities		25,226	43,235
Non-current liabilities			
Borrowings	12	597	1,461
Provisions	13	4,120	283
Total non-current liabilities		4,717	1,744
TOTAL LIABILITIES		29,943	44,979
Net assets		1,881,414	1,849,026
EQUITY			
Accumulated surplus	14a	1,243,981	1,211,181
Revaluation reserves	14a	637,323	637,845
Other reserves	14a	110	—
Council equity interest		1,881,414	1,849,026
Total equity		1,881,414	1,849,026

(1) 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*

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 2019

	Notes	2019				2018			
		Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity	Accumulated surplus	IPP&E revaluation reserve	Financial assets at FVOCI	Total equity
\$ '000									
Opening balance		1,211,181	637,845	–	1,849,026	1,098,962	515,778	–	1,614,740
Net operating result for the year		35,750	–	–	35,750	111,810	–	–	111,810
Other comprehensive income									
– Gain (loss) on revaluation of IPP&E	9	–	–	–	–	–	120,944	–	120,944
– Impairment (loss) relating to IPP&E	9	–	–	–	–	–	(800)	–	(800)
– Recognition of RFS assets		–	–	–	–	–	2,332	–	2,332
– Defined benefit opening balances brought to account		(2,515)	–	–	(2,515)	–	–	–	–
– Defined benefit plan re-measurements for the year		(957)	–	–	(957)	–	–	–	–
– Financial assets at fair value through other comprehensive gain/(loss)		–	–	110	110	–	–	–	–
Other comprehensive income		(3,472)	–	110	(3,362)	–	122,476	–	122,476
Total comprehensive income		32,278	–	110	32,388	111,810	122,476	–	234,286
Transfers between equity items		522	(522)	–	–	409	(409)	–	–
Equity – balance at end of the reporting period		1,243,981	637,323	110	1,881,414	1,211,181	637,845	–	1,849,026

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

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

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
	<u>Receipts</u>			
88,522	Rates and annual charges		91,273	88,447
13,849	User charges and fees		15,492	14,134
1,853	Investment and interest revenue received		6,551	5,006
16,386	Grants and contributions		24,196	118,699
–	Bonds, deposits and retention amounts received		159	223
7,122	Other		14,063	14,896
	<u>Payments</u>			
(50,854)	Employee benefits and on-costs		(46,518)	(43,894)
(42,095)	Materials and contracts		(51,988)	(47,372)
(139)	Borrowing costs		(138)	(214)
–	Bonds, deposits and retention amounts refunded		(189)	–
(13,409)	Other		(22,502)	(27,097)
21,235	Net cash provided (or used in) operating activities	15b	30,399	122,828
Cash flows from investing activities				
	<u>Receipts</u>			
–	Sale of investment securities		353,728	178,456
818	Sale of infrastructure, property, plant and equipment		2,969	777
	<u>Payments</u>			
–	Purchase of investment securities		(487,660)	(160,575)
(21,116)	Purchase of infrastructure, property, plant and equipment		(25,418)	(26,889)
(20,298)	Net cash provided (or used in) investing activities		(156,381)	(8,231)
Cash flows from financing activities				
	<u>Payments</u>			
(856)	Repayment of borrowings and advances		(856)	(1,080)
(856)	Net cash flow provided (used in) financing activities		(856)	(1,080)
81	Net increase/(decrease) in cash and cash equivalents		(126,838)	113,517
146,506	Plus: cash and cash equivalents – beginning of year	15a	146,506	30,657
146,587	Cash and cash equivalents – end of the year	15a	19,668	144,174
Additional Information:				
107,000	plus: Investments on hand – end of year	6(b)	261,376	126,618
253,587	Total cash, cash equivalents and investments		281,044	270,792

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 2019

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 18 September 2019. Council has the power to amend and reissue these 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.

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

- Income statement
- Statement of cash flows
- Note 19 - Material budget variations

(a) New and amended standards adopted by Council

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 14.

(b) 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.

(c) 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 – refer Note 10
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (iv) employee benefit provisions – refer Note 13

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 7.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

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.

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.

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

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

AASB 16 Leases

AASB 16 will result (for the year ending 30 June 2020 and beyond) in almost all operating leases being recognised on the balance sheet by Council with the distinction between operating and finance leases removed.

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1 July 2019).

AASB 16 will affect Council's accounting for existing operating lease agreements that are in place as at 30 June 2019.

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$1,287,000 - refer Note 16.

Of these commitments \$835,000 relate to short-term leases and low value leases.

Both these lease types and amounts will continue to be accounted for as they currently are (being expensed on a straight-line basis within the Income Statement).

For the remaining operating lease commitments of \$452,000, Council anticipates it will recognise lease liabilities (on its balance sheet) of \$409,000 (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) and also recognise complimentary right-of-use assets (on its balance sheet) totaling \$409,000 on 1 July 2019.

Additionally, AASB 16 has broadened the definition of a lease to include Contracts where specific conditions are met:

"A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration"

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Therefore Council staff have reviewed all contracts in Council's publically available Contracts Register to assess whether any meet the specific requirements within AASB 16.

Of all of the contracts reviewed, Council's Waste Collection Contract meets the requirements and will be accounted for as a lease under AASB 16 from 1 July 2019.

At the end of this reporting period, Council has non-cancellable commitments of approximately \$21 million on the Waste Collection Contract. Council anticipates it will recognise a further lease liability (on its balance sheet) of approximately \$20 million (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) and will also recognise a \$20 million right-of-use asset (on its balance sheet) on 1 July 2019.

From a financial position standpoint, as a result of recognising the above entries there will be no material change to Council's net assets as the lease liabilities and right-of-use assets offset.

Council also expects no significant changes to cash flows or to the net operating result as the expected interest and amortisation expenses from 1 July 2019 under AASB 16 are substantially equal to the existing annual contract and lease repayment expenses.

Council's activities as a lessor are not material and hence Council does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

AASB 15 Revenue from Contracts with Customers and associated amending standards.

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element.

Councils have assessed each revenue stream against the new standard, and Council staff have reviewed all significant grant agreements.

The changes in revenue recognition requirements in AASB15 are expected to only cause immaterial changes to the timing and amount of revenue recorded in the financial statements. However additional disclosure will be required.

The impact of AASB15 is expected to be immaterial as only one grant agreement with annual operating income of approximately \$600,000 will need to be deferred as a liability (on the balance sheet) until performance obligations are met.

AASB 1058 Income of NFP Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives.

Upon initial recognition of the asset, this standard requires council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument, or
- (e) a provision.

If the transaction is a transfer of a financial asset to enable council to acquire or construct a recognisable non-financial asset to be controlled by council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable council to acquire or construct a recognisable non-financial asset to be controlled by council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

The specific impacts of AASB1058 for Council are expected to be immaterial. Council staff have reviewed all grant agreements against the standard and none will need to be deferred as liabilities (on the balance sheet). Volunteer services are also inconsequential to warrant recognition.

AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities

This Standard provides a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below market terms and conditions, principally to enable the entity to further its objectives (for example, concessionary or 'peppercorn' leases).

The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases

As per a NSW Office of Local Government recommendation, Council has elected to measure right-of-use assets (under a concessionary or peppercorn lease) at cost. The standard requires additional disclosures be provided in relation to below market-value leases measured at cost.

Council holds a number of 'peppercorn' leases as a lessor and will review disclosure requirements for the year ending 30 June 2020. From a financial position standpoint there will be no impact to the annual Financial Statements.

AASB 2018-4 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors

This standard provides guidance for public sector entities that issue licences and primarily amends AASB 15 to add requirements and authoritative implementation guidance for application by not-for-profit public sector licensors to transactions involving the issue of licences. The amendments to AASB 16 clarify that licences that are, in substance, leases or contain leases, except licences of intellectual property, fall within the scope of AASB 16.

The amendment is not expected to have a significant impact on Council's Financial Statements.

AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement (AASB 119)

This standard amends AASB 119 to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs.

The standard also clarifies that, when a plan event occurs, an entity recognises the past service costs or a gain or loss on settlement separately from its assessment of the asset ceiling.

The amendment is not expected to have a significant impact on Council's Financial Statements.

Notes to the Financial Statements

for the year ended 30 June 2019

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		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
General Managers Division	347	40	8,381	1,531	(8,034)	(1,491)	346	–	–	–
Corporate Support	19,712	89,641	29,030	30,410	(9,318)	59,231	3	90,009	379,579	401,046
Infrastructure & Recreation	16,301	20,050	35,347	37,137	(19,046)	(17,087)	3,537	8,881	1,432,430	1,408,009
Environment & Human Services	33,536	33,567	42,162	42,536	(8,626)	(8,969)	2,286	2,268	98,479	84,156
Planning	16,390	18,828	11,088	9,076	5,302	9,752	750	–	869	794
General Purpose Income	75,472	70,374	–	–	75,472	70,374	4,355	4,432	–	–
Total functions and activities	161,758	232,500	126,008	120,690	35,750	111,810	11,277	105,590	1,911,357	1,894,005

Notes to the Financial Statements

for the year ended 30 June 2019

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.

Corporate Support

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

Infrastructure & Recreation

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

Environment & Human Services

Revenue and costs relating to 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. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	56,940	55,344
Farmland	589	573
Business	6,695	6,452
Major shopping centre	1,136	969
Less: pensioner rebates	(974)	(1,106)
Rates levied to ratepayers	64,386	62,232
Pensioner rate subsidies received	545	574
Total ordinary rates	64,931	62,806
Special rates		
Catchment remediation rate	2,794	2,730
Less: pensioner rebates	(42)	(48)
Rates levied to ratepayers	2,752	2,682
Pensioner rate subsidies received:		
– Catchment remediation rate	23	25
Total special rates	2,775	2,707
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	23,791	23,699
Section 611 charges	87	86
Less: pensioner rebates	(354)	(414)

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
Annual charges levied	23,524	23,371
Pensioner subsidies received:		
– Domestic waste management	199	215
Total annual charges	23,723	23,586
<u>TOTAL RATES AND ANNUAL CHARGES</u>	<u>91,429</u>	<u>89,099</u>

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

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

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.

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	2019	2018
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Waste management services (non-domestic)	1,856	1,793
Other	2	–
Sullage	17	17
Total specific user charges	1,875	1,810
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Inspection services	695	618
Planning and building regulation	3,136	3,347
Registration fees	95	160
Total fees and charges – statutory/regulatory	3,926	4,125
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Community centres	696	718
Restoration charges	2,054	954
Swimming centres	4,274	4,128
Indoor sports centre stadium – admission fees	669	632
Library fees and charges	102	109
Park and oval hire fees	1,118	1,113
Tennis/netball hire fees	216	196
Other	184	173
Total fees and charges – other	9,313	8,023
<u>TOTAL USER CHARGES AND FEES</u>	<u>15,114</u>	<u>13,958</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

Accounting policy for user charges and fees

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

(c) Interest and investment revenue (including losses)**Interest on financial assets measured at amortised cost**

– Overdue rates and annual charges (incl. special purpose rates)	108	128
– Cash and investments	7,437	4,730

Fair value adjustments

– Movements in investments at fair value through profit and loss	716	–
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<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>8,261</u>	<u>4,858</u>
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Interest revenue is attributable to:**Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	108	128
General Council cash and investments	5,861	2,789

Restricted investments/funds – external:

Development contributions		
– Section 7.11	2,251	1,800
Catchments remediation	41	141

Total interest and investment revenue	8,261	4,858
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Accounting policy for interest and investment revenue

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

\$ '000	Notes	2019	2018
(d) Other revenues			
Rental income – investment property	10	899	855
Rental income – other council properties		2,208	2,113
Ex gratia rates		6	15
Fines – parking		1,750	2,105
Legal fees recovery – rates and charges (extra charges)		254	112
Legal fees recovery – other		6	–
Commissions and agency fees		6	7
Diesel rebate		–	88
Recycling income (non-domestic)		78	305
Sales – general		564	565
Legal fees recovery – planning		42	18
Bushfire fund income		23	1
Car park management		114	152
Compensation for drainage easement		–	100
Florence mall income		72	80
Home modification		156	148
Income from road closure		–	6
Insurance claim recoveries, rebates and incentives		339	178
Prosecutions and infringements		681	309
Provision of services to neighbouring council		–	278
Street furniture advertising		41	29

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2019	2018
Vehicular crossing income		8	18
Other		158	147
TOTAL OTHER REVENUE		7,405	7,629

Accounting policy for other revenue

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.

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

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

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

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	1,446	1,548	–	–
Financial assistance – local roads component	692	762	–	–
Payment in advance - future year allocation				
Financial assistance – general component	1,558	1,597	–	–
Financial assistance – local roads component	659	746	–	–
Total general purpose	4,355	4,653	–	–
Specific purpose				
Bushfire and emergency services	87	2,675	432	–
Community care	21	(33)	–	–
Economic development	750	–	–	–
Employment and training programs	4	9	–	–
Environmental programs	45	–	–	–
Library	349	370	72	–
Street lighting	346	671	–	–
Transport (roads to recovery)	514	–	–	100
Transport (other roads and bridges funding)	1,010	535	600	5,188
Aged and disabled	869	626	–	–
Bushland	645	183	1	–
Parks and gardens	93	–	801	40
Waste and recycling	195	164	–	19
Stronger Communities funding – Hornsby Quarry	–	–	–	50,000
Stronger Communities funding – Westleigh	–	–	–	40,000
Other	10	106	78	284
Total specific purpose	4,938	5,306	1,984	95,631
Total grants	9,293	9,959	1,984	95,631

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
Grant revenue is attributable to:				
– Commonwealth funding	6,083	4,822	679	1,463
– State funding	3,210	5,137	1,305	94,168
	<u>9,293</u>	<u>9,959</u>	<u>1,984</u>	<u>95,631</u>

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
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(f) Contributions

Developer contributions:
(s7.4 & s7.11 - EP&A Act, s64 of the LGA):**Cash contributions**

S 7.11 – contributions towards amenities/services *

	–	–	22,311	10,287
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Total developer contributions – cash	<u>–</u>	<u>–</u>	<u>22,311</u>	<u>10,287</u>
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Total developer contributions	23	<u>–</u>	<u>–</u>	<u>22,311</u>	<u>10,287</u>
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Other contributions:**Cash contributions**

Bushfire services	482	–	–	–
Dedications – subdivisions (other than by s7.11)	–	–	–	82
Employee vehicle contributions	467	462	–	–
Environment	20	99	–	–
Heritage/cultural	–	–	12	–
Occupational health and safety incentive	–	203	–	–
Roads and bridges	1	3	174	6
Other	–	34	273	–
Total other contributions – cash	<u>970</u>	<u>801</u>	<u>459</u>	<u>88</u>

Non-cash contributions

Dedications	–	–	3,355	–
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Total other contributions – non-cash	<u>–</u>	<u>–</u>	<u>3,355</u>	<u>–</u>
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Total other contributions	<u>970</u>	<u>801</u>	<u>3,814</u>	<u>88</u>
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Total contributions	<u>970</u>	<u>801</u>	<u>26,125</u>	<u>10,375</u>
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TOTAL GRANTS AND CONTRIBUTIONS	<u>10,263</u>	<u>10,760</u>	<u>28,109</u>	<u>106,006</u>
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Accounting policy for grants and contributions

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

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

(*) *\$10,942K of income from S7.11 contributions was recognised during the year following the release of a provision for disputed amounts from the boundary adjustment with the City of Parramatta Council.

\$ '000	2019	2018
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(g) Unspent grants and contributions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:

Operating grants

Unexpended at the close of the previous reporting period	3,534	3,799
Add: operating grants recognised in the current period but not yet spent	3,056	2,519
Less: operating grants recognised in a previous reporting period now spent	(2,891)	(2,784)
Unexpended and held as restricted assets (operating grants)	3,699	3,534

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	1,717	899
Add: capital grants recognised in the current period but not yet spent	6	958
Less: capital grants recognised in a previous reporting period now spent	(911)	(140)
Unexpended and held as restricted assets (capital grants)	812	1,717

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	75,454	70,510
Add: contributions recognised in the current period but not yet spent	13,620	15,009
Less: contributions recognised in a previous reporting period now spent	(10,209)	(10,065)
Unexpended and held as restricted assets (contributions)	78,865	75,454

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.

Note 4. Expenses from continuing operations

\$ '000	2019	2018
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(a) Employee benefits and on-costs

Salaries and wages	40,888	39,162
Travel expenses	26	38
Employee leave entitlements (ELE)	1,950	482
Superannuation	4,514	4,524

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
Superannuation – defined benefit plans *	180	–
Workers' compensation insurance	433	465
Fringe benefit tax (FBT)	80	121
Training costs (other than salaries and wages)	420	390
Other	471	421
Total employee costs	48,962	45,603
Less: capitalised costs	(1,570)	(1,785)
TOTAL EMPLOYEE COSTS EXPENSED	47,392	43,818
Number of 'full-time equivalent' employees (FTE) at year end	499	472

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 Superannuation Scheme, which has been recognised for the first time in the year ended 30 June 2019. Bringing the scheme to account has resulted in a \$2,515K non cash expense within Other Comprehensive Income.

(*) Council brought its historic defined benefit pension plan to account within the year. Full disclosures are included within the Accounting Policy section of Note 13.

(b) Borrowing costs

(i) Interest bearing liability costs

Interest on loans	138	213
TOTAL BORROWING COSTS EXPENSED	138	213

Accounting policy for borrowing costs

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

\$ '000	2019	2018
Raw materials and consumables	2,572	3,012
– Animal pound service	9	6
– Building maintenance	1,405	1,172
– Bush regeneration	1,112	867
– Community centres	175	144
– Computer support	2,563	2,464

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
– Consultants	2,900	1,762
– Contractor and agency fees	1,533	1,238
– Contracts – bushfire hazard reduction and mitigation	94	131
– Contracts – electrical	489	578
– Contracts – environmental protection	88	23
– Contracts – grass cutting	528	553
– Contracts – plumbing	527	486
– Contracts – property management	98	190
– Contracts – RFS equipment maintenance	146	86
– Contracts – tree work	971	571
– Drainage maintenance	502	441
– Election expense	–	685
– External plant and equipment hire	315	276
– Footpath maintenance	134	223
– Foreshore facilities	265	91
– Garbage collection, tipping and recycling	21,536	19,411
– Home modification service	146	126
– Litter control	65	622
– Maintenance of parks	735	988
– Mechanical services	473	462
– Property cleaning	540	463
– Road maintenance	3,534	3,181
– Stormwater asset maintenance	713	710
Auditors remuneration ²	119	125
Legal expenses:		
– Legal expenses: planning and development	965	299
– Legal expenses: other	633	685
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	443	291
Events management	120	113
Other	290	235
Total materials and contracts	46,738	42,710
TOTAL MATERIALS AND CONTRACTS	46,738	42,710

Accounting policy for operating leases

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

1. Operating lease payments are attributable to:

Computers	443	291
	443	291

2. Auditor remuneration

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

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

Audit and review of financial statements	119	125
Total Auditor remuneration	119	125

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		1,296	1,096
Office equipment		263	256
Furniture and fittings		58	69
Land improvements (depreciable)		1,638	1,551
Infrastructure:			
– Buildings – non-specialised		1,658	1,978
– Buildings – specialised		1,773	1,550
– Other structures		1,133	1,037
– Roads		5,535	5,032
– Bridges		297	290
– Footpaths		416	341
– Stormwater drainage		3,562	3,310
– Water supply network		4	4
– Swimming pools		497	525
Other assets:			
– Catchment remediation assets		313	293
– Library books		554	485
Intangible assets	11	127	127
Total gross depreciation and amortisation costs		19,124	17,944
Total depreciation and amortisation costs		19,124	17,944
Impairment / revaluation decrement of IPP&E			
Infrastructure:			
– Buildings – specialised		–	800
Amounts taken through revaluation reserve		–	(800)
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	–
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E		19,124	17,944

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets and Note 11 for intangible assets.

Impairment of non-financial assets

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

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

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

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

\$ '000	2019	2018
(e) Other expenses		
Advertising	332	368
Bad and doubtful debts	–	(25)
Bank charges and cash collection expenses	326	408
Catering	212	188
Contributions/levies to other levels of government		
– Department of planning levy	275	268
– Emergency services levy (includes FRNSW, SES, and RFS levies)	208	264
– NSW fire brigade levy	1,617	1,520
– NSW rural fire service levy	620	639
– NSW state revenue infringement processing fees	167	227
Councillor expenses – mayoral fee	58	65
Councillor expenses – councillors' fees	261	240
Councillors' expenses (incl. mayor) – other (excluding fees above)	38	31
Donations, contributions and assistance to other organisations (Section 356)	48	40
Electricity and heating	1,379	1,193
Insurance	1,192	1,236
Licences and registration	310	315
Postage	255	263
Printing and stationery	452	478
Property managers fees	10	31
Street lighting	3,005	2,430
Subscriptions and publications	430	355
Subscriptions to local government publications	65	61
Telephone and communications	303	297
Valuation fees	270	265
Water and sewerage	454	850
Contribution to PCYC (Waitara Park)	–	2,867
Other	220	96
Total other expenses	12,507	14,970
TOTAL OTHER EXPENSES	12,507	14,970

Accounting policy for other expenses

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

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Less: carrying amount of property assets sold/written off		(260)	(479)
Net gain/(loss) on disposal		(260)	(479)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
Plant and equipment	9		
Proceeds from disposal – plant and equipment		1,019	777
Less: carrying amount of plant and equipment assets sold/written off		(664)	(485)
Net gain/(loss) on disposal		355	292
Infrastructure	9		
Proceeds from disposal – infrastructure		1,950	–
Less: carrying amount of infrastructure assets sold/written off		(1,018)	(848)
Net gain/(loss) on disposal		932	(848)
Investments	6(b)		
Proceeds from disposal/redemptions/maturities – investments		353,618	178,456
Less: carrying amount of investments sold/redeemed/matured		(353,618)	(178,456)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		1,027	(1,035)

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 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	1,692	93,297
Cash-equivalent assets		
– Deposits at call	16,287	30,644
– Managed funds	1,689	22,565
Total cash and cash equivalents	19,668	146,506

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 6(b). Investments

	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
Debt Securities at amortised cost/loans and receivables (2018)	103,050	117,000	100,118	26,500
Financial assets at fair value through other comprehensive income	–	25,610	–	–
Financial assets at fair value through profit and loss	15,716	–	–	–

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total Investments	118,766	142,610	100,118	26,500
Debt securities at amortised cost/loans and receivables (2018)				
Long term deposits	103,050	117,000	100,118	26,500
Total	103,050	117,000	100,118	26,500
Financial assets at fair value through profit and loss *				
Managed funds (medium term)	15,716	–	–	–
Total	15,716	–	–	–
Financial assets at fair value through other comprehensive income				
Floating rate notes **	–	25,610	–	–
Total	–	25,610	–	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	138,434	142,610	246,624	26,500

(*) In 2018, Council held no investments that were classified as fair value through profit and loss (FVPL). All investments designated as FVPL were entered into during the year ended 30 June 2019 following a revision to Council's Investment Strategy.

(**) In 2018, Council held no investments that were classified as available for sale. All investments designated as financial assets as at fair value through other comprehensive income were entered into during the year ended 30 June 2019 following a revision to Council's Investment Strategy.

Accounting policy for investments

Accounting policy under AASB 9 – applicable from 1 July 2018

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

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.

Accounting policy under AASB 139 – applicable for 2018 comparatives only**Classification**

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (Note 8) and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

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

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Note 6(c). Restricted cash, cash equivalents and investments – details

\$ '000	2019	2019	2018	2018
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	138,434	142,610	246,624	26,500
attributable to:				
External restrictions	43,339	142,610	161,510	26,500
Internal restrictions	84,938	–	75,821	–
Unrestricted	10,157	–	9,293	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

	138,434	142,610	246,624	26,500
\$ '000			2019	2018
Details of restrictions				
External restrictions – other				
Developer contributions – general			78,865	75,454
RMS contributions			3,494	3,221
Specific purpose unexpended grants			4,511	5,251
Domestic waste management			5,497	7,378
Storey park redevelopment			388	2,867
Stronger Communities Funding – Hornsby Quarry			49,307	50,000
Stronger Communities Funding – Westleigh			39,794	40,000
Other			4,093	3,839
External restrictions – other			185,949	188,010
Total external restrictions			185,949	188,010
Internal restrictions				
Employees leave entitlements			13,097	10,677
Asset maintenance and renewal			1,148	1,848
Buildings – Wallarobba			499	499
Civil works – SRV			1,067	570
Community centres			4,737	1,888
Council strategic capital projects			49,901	18,120
Hornsby aquatic centre			224	50
Hornsby quarry – North Connex			1,606	3,106
Hornsby quarry remediation			–	29,062
LED street light upgrade			954	829
Proceeds from asset sales (179 Beecroft Road)			2,511	2,285
S7.11 contributions gap			6,806	5,606
Other			2,388	1,281
Total internal restrictions			84,938	75,821
TOTAL RESTRICTIONS			270,887	263,831

Note 7. Receivables

	2019	2019	2018	2018
\$ '000	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	1,205	305	1,262	245
Interest and extra charges	184	–	139	–
User charges and fees	235	–	170	–
Accrued revenues				
– Interest on investments	2,344	–	1,395	–
– Other income accruals	1,097	–	408	–
Government grants and subsidies	738	–	638	–
Net GST receivable	1,343	–	945	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Facility hire	225	—	142	—
Fines and penalties	80	—	64	—
Licencing	80	—	68	—
Property rentals	171	—	395	—
Restorations	432	—	228	—
Sullage	15	—	15	—
Workers compensation claims	3	—	—	—
Other debtors	207	—	442	—
Total	8,359	305	6,311	245
Less: provision of impairment				
Other debtors	(197)	—	(100)	—
Total provision for impairment – receivables	(197)	—	(100)	—
TOTAL NET RECEIVABLES	8,162	305	6,211	245

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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) 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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

- 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.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Rates and annual charges outstanding are secured against the property.

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Stores and materials	177	–	190	–
Total inventories at cost	177	–	190	–
<u>TOTAL INVENTORIES</u>	<u>177</u>	<u>–</u>	<u>190</u>	<u>–</u>
(b) Other assets				
Prepaid expenses	64	–	625	–
<u>TOTAL OTHER ASSETS</u>	<u>64</u>	<u>–</u>	<u>625</u>	<u>–</u>

Accounting policy for inventories and other assets**Inventory held for distribution**

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018				Asset movements during the reporting period					as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Dedications / Donations	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	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:												
– Catchment remediation assets	15,125	(1,620)	13,505	–	–	–	(313)	1,116	–	16,241	(1,933)	14,308
– Library books	2,610	(1,155)	1,455	–	627	–	(554)	–	–	3,237	(1,709)	1,528
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 2019

Note 9. Infrastructure, property, plant and equipment (continued)

	as at 30/6/2017					Asset movements during the reporting period							as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ⁽¹⁾	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss recognised in equity (ARR)	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	15,262	–	15,262	13,409	8,481	–	–	–	(17,173)	–	–	–	19,979	–	19,979
Plant and equipment	15,545	(10,760)	4,785	–	4,247	(485)	(1,096)	–	–	–	–	–	19,586	(12,135)	7,451
Office equipment	2,569	(1,823)	746	–	120	–	(256)	–	67	–	–	–	2,756	(2,079)	677
Furniture and fittings	1,750	(1,380)	370	–	–	–	(69)	–	36	–	–	–	1,787	(1,450)	337
Land:															
– Operational land	101,204	–	101,204	–	–	–	–	–	–	841	–	47,372	149,417	–	149,417
– Community land	349,125	–	349,125	–	82	–	–	–	–	(841)	–	–	348,366	–	348,366
Land improvements – depreciable	69,806	(36,945)	32,861	–	–	–	(1,551)	–	4,827	178	–	–	74,814	(38,499)	36,315
Infrastructure:															
– Buildings – non-specialised	81,311	(33,780)	47,531	–	–	(131)	(1,978)	–	471	–	–	9,268	91,115	(35,954)	55,161
– Buildings – specialised	75,045	(32,554)	42,491	–	–	(347)	(1,550)	(800)	2,095	(1,955)	–	6,821	80,683	(33,928)	46,755
– Other structures	22,148	(8,005)	14,143	–	–	–	(1,037)	–	2,005	1,955	–	–	27,122	(10,056)	17,066
– Roads	349,962	(51,599)	298,363	–	–	(484)	(5,032)	–	3,252	(178)	–	24,539	378,903	(58,443)	320,460
– Bridges	18,351	(2,404)	15,947	–	–	–	(290)	–	1,356	–	(1,933)	–	17,103	(2,023)	15,080
– Footpaths	33,801	(13,990)	19,811	–	–	(46)	(341)	–	586	–	–	4,036	41,443	(17,397)	24,046
– Bulk earthworks (non-depreciable)	77,772	–	77,772	–	–	–	–	–	–	–	–	1,687	79,459	–	79,459
– Stormwater drainage	495,489	(101,680)	393,809	–	–	(318)	(3,310)	–	2,155	–	–	31,535	532,515	(108,644)	423,871
– Water supply network	–	–	–	–	–	–	(4)	–	–	–	–	–	128	(94)	34
– Swimming pools	33,423	(2,965)	30,458	–	–	–	(525)	–	70	–	(2,668)	–	30,613	(3,278)	27,335
– Other infrastructure	128	(90)	38	–	–	–	–	–	–	–	–	–	–	–	–
Other assets:															
– Library books	14,551	(1,293)	13,258	–	–	–	(485)	–	253	–	–	–	2,610	(1,155)	1,455
– Catchment remediation assets	2,515	(1,125)	1,390	–	550	–	(293)	–	–	–	–	287	15,125	(1,620)	13,505
Total Infrastructure, property, plant and equipment	1,759,757	(300,393)	1,459,364	13,409	13,480	(1,811)	(17,817)	(800)	–	–	(4,601)	125,545	1,913,524	(326,755)	1,586,769

(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 2019

Note 9. 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 2019

Note 9. Infrastructure, property, plant and equipment (continued)

Crown reserves

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

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

Rural Fire Service assets

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

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

Note 10. Investment property

\$ '000	2019	2018
(a) Investment property at fair value		
Investment property on hand	25,435	25,285
Reconciliation of annual movement:		
Opening balance	25,285	25,095
– Net gain/(loss) from fair value adjustments	150	190
CLOSING BALANCE – INVESTMENT PROPERTY	25,435	25,285

(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 2019 revaluations were based on independent assessments made by Scott Fullarton Valuations Pty Ltd.

(c) Contractual obligations at reporting date**(d) Leasing arrangements – Council as lessor**

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	773
Later than 1 year but less than 5 years	3,096	3,238
Later than 5 years	3,959	4,913
Total minimum lease payments receivable	7,890	8,924

(e) Investment property income and expenditure – summary

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Investment property (continued)

\$ '000	2019	2018
Rental income from investment property:		
– Minimum lease payments	852	778
– Other income	47	77
Direct operating expenses on investment property:		
– that generated rental income	(47)	(77)
Net revenue contribution from investment property	852	778
plus:		
Fair value movement for year	150	190
Total income attributable to investment property	1,002	968

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as 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 11. Intangible assets

\$ '000	2019	2018
Intangible assets are as follows:		
Opening values at 1 July		
Gross book value	1,770	1,770
Accumulated amortisation	(214)	(87)
Net book value – opening balance	1,556	1,683
Movements for the year		
– Amortisation charges	(127)	(127)
Closing values at 30 June		
Gross book value	1,770	1,770
Accumulated amortisation	(341)	(214)
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE	1,429	1,556

The net book value of intangible assets represents:

– Software	1,429	1,556
	1,429	1,556

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.

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Intangible assets (continued)

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 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	5,623	–	3,932	–
Accrued expenses:				
– Borrowings	2	–	2	–
– Salaries and wages	876	–	818	–
– Other expenditure accruals	1,073	–	3,579	–
Security bonds, deposits and retentions	664	–	694	–
Employee costs	5	–	5	–
Other	17	–	5	–
Total payables	8,260	–	9,035	–
Income received in advance				
Payments received in advance	1,062	–	1,161	–
Total income received in advance	1,062	–	1,161	–
Borrowings				
Loans – secured ¹	864	597	856	1,461
Total borrowings	864	597	856	1,461
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>10,186</u>	<u>597</u>	<u>11,052</u>	<u>1,461</u>

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

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Domestic waste management	1,426	–	1,727	–
Total payables and borrowings relating to restricted assets	1,426	–	1,727	–
Total payables and borrowings relating to unrestricted assets	8,760	597	9,325	1,461
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>10,186</u>	<u>597</u>	<u>11,052</u>	<u>1,461</u>

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

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019	2018
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The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.

Total payables and borrowings	—	—
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(c) Changes in liabilities arising from financing activities

	as at 30/6/2018					as at 30/6/2019
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	2,317	(856)	—	—	—	1,461
TOTAL	2,317	(856)	—	—	—	1,461

	as at 30/6/2017					as at 30/6/2018
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	3,397	(1,080)	—	—	—	2,317
TOTAL	3,397	(1,080)	—	—	—	2,317

\$ '000	2019	2018
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(d) Financing arrangements

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

Bank overdraft facilities ¹	3,000	2,000
Credit cards/purchase cards	27	17
Total financing arrangements	3,027	2,017

Drawn facilities as at balance date:

– Credit cards/purchase cards	15	13
Total drawn financing arrangements	15	13

Undrawn facilities as at balance date:

– Bank overdraft facilities	3,000	2,000
– Credit cards/purchase cards	12	4
Total undrawn financing arrangements	3,012	2,004

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

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 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	3,888	–	3,754	–
Sick leave	335	–	355	–
Long service leave	10,599	730	10,045	283
Gratuities	101	–	183	–
Net liability - defined benefit plan *	–	3,390	–	–
Other leave	117	–	117	–
Sub-total – aggregate employee benefits	15,040	4,120	14,454	283
Other provisions				
Boundary adjustment – disputed amounts	–	–	17,729	–
Sub-total – other provisions	–	–	17,729	–
TOTAL PROVISIONS	15,040	4,120	32,183	283

(*) Council brought its historic defined benefit pension plan to account within the year. Full disclosures are included within the Accounting Policy section of Note 13.

(a) Provisions relating to restricted assets**Externally restricted assets**

Boundary adjustment – transfer of reserves	–	–	17,729	–
Provisions relating to externally restricted assets	–	–	17,729	–

Internally restricted assets

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Employee leave entitlements	13,097	–	10,677	–
Provisions relating to internally restricted assets	13,097	–	10,677	–
Total provisions relating to restricted assets	13,097	–	28,406	–
Total provisions relating to unrestricted assets	1,943	4,120	3,777	283
<u>TOTAL PROVISIONS</u>	<u>15,040</u>	<u>4,120</u>	<u>32,183</u>	<u>283</u>

\$ '000	2019	2018
---------	------	------

(b) 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	11,031	10,172
	<u>11,031</u>	<u>10,172</u>

(c) Description of and movements in provisions

\$ '000	Other provisions	
	Boundary adjustment	Total
2019		
At beginning of year	17,729	17,729
Changes to provision:		
– Payments to neighbouring Council	(6,800)	(6,800)
Unused amounts reversed	(10,929)	(10,929)
Total other provisions at end of period	–	–
2018		
At beginning of year	24,947	24,947
– Amounts payable to neighbouring Council	12,387	12,387
– Amounts receivable from neighbouring Council	(419)	(419)
– Payments to neighbouring Council	(19,186)	(19,186)
Total other provisions at end of period	17,729	17,729

Nature and purpose of non-employee benefit provisions**Boundary adjustment - disputed amounts**

On 12 May 2016 a boundary adjustment between Hornsby and the City of Parramatta Council was announced by the NSW Government and all assets south of the M2 motorway were transferred to the City of Parramatta.

Provisions for the transfer of reserves to the City of Parramatta were recognised whilst negotiations were ongoing. Resolution and final settlement was agreed in the year ended 30 June 2019 with a final payment to the city of Parramatta and the remaining provision released.

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

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 2019

Note 13. 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 2019

Note 13. 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	38	23	2,454	2,515
Current service cost	10	15	92	117

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued) - Employee Defined Benefits

Net interest on the net defined benefit liability / (asset)	1	-	62	63
Actual return on fund assets less interest income	(17)	(5)	(122)	(144)
Actuarial (gains) / losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains) / losses arising from changes in financial assumptions	9	2	953	964
Actuarial (gains) / losses arising from liability experience	12	(11)	136	136
Adjustment for effect of asset ceiling	0	0	0	0
Employer contributions	(12)	(9)	(241)	(262)
Net defined benefit liability / (asset) at end of year	41	15	3,334	3,390

(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	304	159	1,888	2,351
Interest income	6	3	52	61
Actual return on fund assets less interest income	17	5	122	144
Employer contributions	11	10	241	262
Contributions by participants	5	-	20	25
Benefits paid	-	(138)	(120)	(258)
Taxes, premiums and expenses paid	(2)	-	(34)	(36)
Fair value of the Fund assets at end of the year	341	39	2,169	2,549

(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	342	182	4,342	4,866
Current service cost	10	15	92	117
Interest cost	7	4	113	124
Contributions by participants	5	-	20	25
Actuarial (gains) / losses arising from changes in demographic assumptions	-	-	-	-
Actuarial (gains) / losses arising from changes in financial assumptions	9	2	95	964
Actuarial (gains) / losses arising from liability experience	12	(11)	136	137
Benefits paid	-	(138)	(120)	(258)
Taxes, premiums and expenses paid	(2)	-	(34)	(36)
Present value of defined benefit obligations at end of the year	383	54	5,502	5,939

(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 2019

Note 13. 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 2019	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Short term securities	4,042	2,136	1,907	-
Australian fixed interest	2,295	5	2,290	-
International fixed interest	1,968	7	1,952	9
Australian equities	8,369	7,818	548	3
International equities	11,388	8,795	2,592	-
Property	3,588	699	717	2,173
Alternatives	10,558	327	5,758	4,472
Total	42,208	19,787	15,764	6,657

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

Asset Category	30 June 2019
Short term securities	9.6%
Australian fixed interest	5.4%
International fixed interest	4.7%
Australian equities	19.8%
International equities	27.0%
Property	8.5%
Alternatives	25.0%
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 2019 include \$99.5 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 \$316 million (30 June 2018: \$280 million).

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. 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 \$331 million (30 June 2018: \$287 million).

(m) Significant actuarial assumptions at 30 June 2019

Assumption	
Discount rate	1.32%
Salary increase rate (excluding promotional increases)	3.2%
Rate of CPI increase	1.75% for 2018/19 and 2019/20, 2.00% for 2020/21; 2.25% for 2021/22 and 2022/23; 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 2018 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 2018.

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 -1.0% discount rate	Scenario B -1.0% discount rate
Discount rate	As above	As above – 1.0% pa	As above +1.0% pa
Rate of CPI increase	As above	As above	As above
Salary inflation rate	As above	As above	As above
Defined benefit obligation (\$'000)	5,939	6,971	5,119

	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)	5,939	6,420	5,505

	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)	5,939	5,942	5,935

	Base Case	Scenario G Lower Mortality*	Scenario H Higher Mortality*
Defined benefit obligation (\$'000)	5,939	6,057	5,872

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued) - Employee Defined Benefits

* Assumes the short-term pensioner mortality improvement factors for years 2019-2023 also apply for years after 2023

** Assumes the long-term pensioner mortality improvement factors for years post 2023 also apply for years 2019 to 2023

(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 2019 financial position of the Fund calculated in accordance with AASB 1056 Superannuation Entities:

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Accrued benefits*	336	44	2,363	2,743
Net market value of fund assets	(342)	(38)	(2,169)	(2,549)
Net (surplus) / deficit	(6)	6	194	194

*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 2019 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	7.4%
Expected rate of return on Fund assets backing other liabilities	6.4%
Expected salary increase rate (excluding promotional salary increases)	3.2%
Expected rate of CPI increase	2.2%

t) Expected contributions for 2020	SASS \$'000 Financial Year to 30 June 2020	SANCS \$'000 Financial Year to 30 June 2020	SSS \$'000 Financial Year to 30 June 2020	Total \$'000 Financial Year to 30 June 2020
Expected employer contributions	11	10	241	262

Hornsby Shire Council

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued) - Employee Defined Benefits

(u) Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 12.7 years.

v) Profit and loss impact	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Current service cost	10	15	92	117
Net interest	1	1	61	63
Past service cost	-	-	-	-
(Gains)/Loss on settlement	-	-	-	-
Profit or loss component of the Defined Benefit Cost	11	16	153	180

w) Other comprehensive income	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Actual (gains)/losses on liabilities	20	(9)	1,090	1,101
Actual return on Fund assets less interest income	(17)	(5)	(122)	(144)
Change in the effect of the asset ceiling	-	-	-	-
Total remeasurement in Other Comprehensive Income	3	(14)	968	957

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. 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, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

The Council has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2017. As part of the adoption of AASB 9, the Council adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.
- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

The key changes to Council's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except Council has not restated any amounts relating to classification and measurement requirements, including impairment, which have been applied from 1 July 2018.

Classification of financial assets

The financial assets of Council have been reclassified into one of the following categories on adoption of AASB 9, based primarily on the business model in which a financial asset is managed and its contractual cash flow characteristics are:

- measured at amortised cost
- fair value through profit or loss
- fair value through other comprehensive income

Measurement of equity instruments

All equity instruments of the Council are measured at fair value under AASB 9 and were new following a revision to Council's Investment Strategy in the year ended 30 June 2019. Therefore there were no prior year balances accounted for under AASB 139.

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost as disclosed further in Note 7.

Transition adjustments

The impact on adoption of AASB 9 is disclosed within Note 6(b) and Note 7.

(c) Changes in accounting estimates

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**Nature and effect of changes in accounting estimates on 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 13. All detailed disclosures as required by AASB 119 are also available in Note 13.

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
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(a) Reconciliation of cash assets

Total cash and cash equivalent assets	6(a)	19,668	146,506
Balance as per the Statement of Cash Flows		19,668	146,506

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

Net operating result from Income Statement		35,750	111,810
Adjust for non-cash items:			
Release of provision - boundary adjustment		(10,929)	—
Depreciation and amortisation		19,124	17,944
Net losses/(gains) on disposal of assets		(1,027)	1,035
Non-cash capital grants and contributions		(3,355)	—
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		(716)	—
– investment property		(150)	(190)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(2,108)	959
Increase/(decrease) in provision for impairment of receivables		97	(41)
Decrease/(increase) in inventories		13	(21)
Decrease/(increase) in other current assets		561	(625)
Increase/(decrease) in payables		1,691	(916)
Increase/(decrease) in accrued interest payable		—	(1)
Increase/(decrease) in other accrued expenses payable		(2,586)	(123)
Increase/(decrease) in other liabilities		(117)	198
Increase/(decrease) in provision for employee benefits		951	17
Increase/(decrease) in other provisions		(6,800)	(7,218)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		30,399	122,828

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Statement of cash flows - additional information (continued)

\$ '000	2019	2018
(c) Non-cash investing and financing activities		
Other dedications	3,355	—
Total non-cash investing and financing activities	3,355	—

Note 16. Commitments

\$ '000	2019	2018
---------	------	------

(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)	90	36
Buildings (specialised - libraries & community centres)	2,771	—
Foreshore facilities	73	16
Hornsby Quarry	1,767	3,217
Infrastructure – roads, bridges and footpaths	115	1,228
Land improvements	1,072	1,111
Plant and equipment	413	—
Recreational facilities	14	403
Stormwater drainage	35	104
Total commitments	6,350	6,115

These expenditures are payable as follows:

Within the next year	6,350	6,115
Total payable	6,350	6,115

Sources for funding of capital commitments:

Unrestricted general funds	1,168	434
Externally restricted reserves	1,225	4,016
Internally restricted reserves	3,957	1,665
Total sources of funding	6,350	6,115

Details of capital commitments

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

(b) Operating lease commitments (non-cancellable)

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

Within the next year	468	318
Later than one year and not later than 5 years	819	589
Total non-cancellable operating lease commitments	1,287	907

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Commitments (continued)

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 17. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council accounts for defined benefit obligations from the closed NSW public sector superannuation schemes under AASB 119 as disclosed in Note 13.

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.

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 2018 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. 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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

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 2019 was \$1,280,019.. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,798.7	
Past Service Liabilities	1,784.2	100.8%
Vested Benefits	1,792.0	100.4%

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

- Based on a Past Service Liabilities methodology, the share of the surplus that can be attributed to Council is 1.74%

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

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

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

* Plus promotional increases

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

(ii) Statewide Limited

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

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

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

(iii) StateCover Limited

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

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.

2. 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 has also commenced in the year ended 30 June 2019 and there are no known 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.

(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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

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 18. 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 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	19,668	146,506	19,668	146,506
Receivables	8,467	6,456	8,467	6,456
Investments				
– 'Loans and receivables'	220,050	126,618	220,050	126,618
Fair value through other comprehensive income				
Investments				
– 'Financial assets at fair value through other comprehensive income' / 'available for sale financial assets' (2018)	25,610	–	25,610	–
Fair value through profit and loss				
Investments				
FVPL/Held for trading (2018)	15,716	–	15,716	–
Total financial assets	289,511	279,580	289,511	279,580
Financial liabilities				
Payables	8,260	9,035	8,261	9,035
Loans/advances	1,461	2,317	1,461	2,317
Total financial liabilities	9,721	11,352	9,722	11,352

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

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
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)
2018				
Possible impact of a 10% movement in market values	2,529	2,529	(2,529)	(2,529)
Possible impact of a 1% movement in interest rates	2,731	2,731	(2,731)	(2,731)

(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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

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
2019						
Gross carrying amount	–	1,064	135	156	155	1,510
2018						
Gross carrying amount	–	1,009	156	189	153	1,507

Receivables - non-rates and annual charges

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

The loss allowance provision as at 30 June 2019 is calculated following the methodology disclosed in Note 7.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
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%
2018						
Gross carrying amount	2,828	1,498	275	168	280	5,049

(c) Liquidity risk

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

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

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

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

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

The amounts disclosed in the table are the undiscounted contracted cash flows 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
2019							
Trade/other payables	0.00%	664	7,596	–	–	8,260	8,260

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
Loans and advances	6.56%	–	700	942	–	1,642	1,461
Total financial liabilities		664	8,296	942	–	9,902	9,721
2018							
Trade/other payables	0.00%	694	8,341	–	–	9,035	9,035
Loans and advances	6.88%	–	994	1,642	–	2,636	2,317
Total financial liabilities		694	9,335	1,642	–	11,671	11,352

Loan agreement breaches

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

Note 19. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 13 June 2018 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	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	90,066	91,429	1,363	2% F
User charges and fees	13,916	15,114	1,198	9% F
Interest and investment revenue	3,815	8,261	4,446	117% F
Council received \$90M from the NSW State Government as compensation for the loss of the area south of the M2 motorway to the City of Parramatta Council in June 2018. These funds have been invested resulting in Interest and investment revenue greater than the amount in the original budget that was set before the funds were received.				
Other revenues	6,243	7,405	1,162	19% F
Other revenue was greater than budget as Council received one off workers compensation insurance rebates during the year following a continually low number of claims. Additionally, income from Compliance and Certification services was greater than budgeted due to the receipt of one off charges for abandoned trolley impoundment.				
Operating grants and contributions	11,617	10,263	(1,354)	(12)% U
Income is less than budgeted due to Operating Grants included within Council's Corporate Support Division budget that were not received. The income was fully offset by expenditure within the original budget such that there was no adverse effect.				

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
Capital grants and contributions	12,943	28,109	15,166	117% F
Income from Capital Grants and Contributions was greater than budgeted due to two non cash balances:				
- \$10.9M of \$7.11 income held as a provision to the City of Parramatta Council was released following formal finalisation of negotiations between the two Councils (refer Note 13).				
- \$3.4M of asset dedications were received during the year. The most significant of which for the new community facility at Cheltenham Oval that was handed to Council from the NSW State Government upon completion.				
Net gains from disposal of assets	800	1,027	227	28% F
Council sold a segment of unused road within the year that was not included in the original budget. A plan to dispose of the asset was agreed during the year and the original budget was revised to include the sale during the March 2019 quarterly review.				
Fair value increment on investment property	–	150	150	∞ F
EXPENSES				
Employee benefits and on-costs	47,939	47,392	547	1% F
Borrowing costs	138	138	–	0% F
Materials and contracts	47,420	46,738	682	1% F
Depreciation and amortisation	18,270	19,124	(854)	(5)% U
Impairment of receivables	–	109	(109)	∞ U
Other expenses	12,014	12,507	(493)	(4)% U
Net losses from disposal of assets	–	–	–	∞ F

STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	21,235	30,399	9,164	43% F
Net cash from operating activities was greater than budget as \$10.9m of funds included within provisions in the prior year as payable to the City of Parramatta were retained by Council upon resolution of negotiations.				
Net cash provided from (used in) investing activities	(20,298)	(156,381)	(136,083)	670% U
Net cash used in investing differs to the budget as Council does not budget for the purchase and sale of investment securities during the year.				
Net cash provided from (used in) financing activities	(856)	(856)	–	0% F

Note 20. 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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

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

		Fair value measurement hierarchy				
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
2019	Notes					
Recurring fair value measurements						
Financial assets						
Investments	6(b)					
– '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	10	30/06/19	–	25,435	–	25,435
Total investment property			–	25,435	–	25,435
Infrastructure, property, plant and equipment						
Operational land	9	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
		Fair value measurement hierarchy				
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
2018	Notes					
Recurring fair value measurements						
Investment property						
Investment property portfolio	10	30/06/18	–	25,285	–	25,285
Total investment property			–	25,285	–	25,285
Infrastructure, property, plant and equipment						
Operational land	9	31/05/18	–	149,417	–	149,417
Community land		30/04/16	–	–	348,366	348,366
Buildings (specialised and non-specialised)		31/05/18	–	–	101,916	101,916

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

2018	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Roads, bridges, footpaths and bulk earthworks		30/06/18	—	—	439,045	439,045
Stormwater drainage		30/06/18	—	—	423,871	423,871
Swimming pools		31/05/18	—	—	27,335	27,335
Catchment remediation assets		30/06/18	—	—	13,505	13,505
Total infrastructure, property, plant and equipment			—	149,417	1,354,038	1,503,455

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

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 Limited to determine the fair value of Investment Properties, which were last remeasured at 30 June 2019.

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)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

Council also engages Scott Fullerton Valuations Pty Limited 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) 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.

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:

	2019(\$'000)	2018(\$'000)
Balance at 1 July	1,354,038	1,289,845
Purchases	-	632
Carrying value of assets sold/disposed	-1,267	-1,326
Depreciation	-14,051	-13,319
Impairment Loss	-	-800
WIP Transfers	16,230	9,985
Dedications	2,923	-
Revaluation Decrements	-	-4,601
Revaluation Increments	-	78,173
Other Movements	-3	-4551
Balance at 30 June	1,357,870	1,354,038

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

(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 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 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 2019 is \$7,680k.

Notes to the Financial Statements
for the year ended 30 June 2019

Note 21. Related Party Transactions

(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	2019	2018
Compensation:		
Short-term Benefits		
Salaries and other short-term benefits	2,147	1,897
Post-employment Benefits		
Superannuation – Senior Staff	206	146
Other Long-term Benefits		
Long service leave entitlements	65	42
Termination Benefits		
Redundancy/lump-sum payments	403	–
Total	2,821	2,085

Notes to the Financial Statements for the year ended 30 June 2019

Note 21. Related Party Transactions (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 \$ '000	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
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.	—	—
Rent Subsidy to Hornsby Art Society (HAS) ¹	3,000	—	Council resolution to subsidise rent based on provision of volunteer labour by HAS.	—	—
Volunteer labour provided to Council by 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.	—	—
2018					
Lease of Wallarobba Arts & Cultural Centre - Hornsby Art Society (HAS) ¹	—	—		—	—
Rent Subsidy to Hornsby Art Society (HAS) ¹	—	—		—	—
Volunteer labour provided to Council by Hornsby Art Society (HAS) ¹	—	—		—	—

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

Note 22. Events occurring after the reporting date

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

Note 23. Statement of developer contributions

continued on next page ...

Notes to the Financial Statements for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

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 30/6/2018		Contributions received during the year		Interest earned in year	Expenditure during year	as at 30/6/2019	
	Opening Balance	Cash					Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								
Roads	4,512	563		149	(3)		5,221	–
Open space	39,463	7,201		1,105	(8,944)		38,825	–
Community facilities	25,017	1,841		789	(268)		27,379	–
Plan administration	458	28		14	–		500	–
Transfer to Old Plan	–	–		–	–		–	–
S7.11 contributions – under a plan	69,450	9,633		2,057	(9,215)		71,925	–
S7.12 levies – under a plan	6,004	1,735		195	(994)		6,940	–
Total S7.11 and S7.12 revenue under plans	75,454	11,368		2,252	(10,209)		78,865	–
Total contributions	75,454	11,368		2,252	(10,209)		78,865	–

S7.11 Contributions – under a plan

CONTRIBUTION PLAN NUMBER 1 (2012 to 2021)

Roads	4,512	563	149	(3)	5,221	–
Open space	39,463	7,201	1,105	(8,944)	38,825	–
Community facilities	25,017	1,841	789	(268)	27,379	–

continued on next page ...

Notes to the Financial Statements
for the year ended 30 June 2019

Note 23. Statement of developer contributions (continued)

	as at 30/6/2018		Contributions received during the year		as at 30/6/2019	
\$ '000	Opening Balance	Cash	Interest earned in year	Expenditure during year	Held as restricted asset	Cumulative internal borrowings due/(payable)
Plan administration	458	28	14	–	500	–
Total	69,450	9,633	2,057	(9,215)	71,925	–
S7.12 Levies – under a plan						
2012 - 2021						
Other	6,004	1,735	195	(994)	6,940	–
Total	6,004	1,735	195	(994)	6,940	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	5,748	4.36%	5.26%	6.86%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	131,756				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	120,726	75.52%	49.39%	79.32%	>60.00%
Total continuing operating revenue ¹	159,865				
3. Unrestricted current ratio					
Current assets less all external restrictions	102,271	8.01x	6.69x	3.95x	>1.50x
Current liabilities less specific purpose liabilities	12,769				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	25,010	25.16x	19.18x	10.74x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	994				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	1,694	1.83%	1.82%	1.91%	<5.00%
Rates, annual and extra charges collectible	92,670				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	239,718	23.54 mths	27.39 mths	20.70 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	10,183				

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

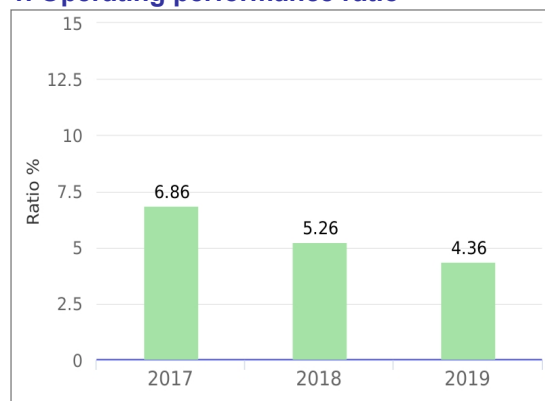
(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(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 2018/19 result

2018/19 ratio 4.36%

Council's Operating Performance has declined since 2016 when the area south of the M2 motorway was transferred to the City of Parramatta by the NSW State Government.

The 2019 ratio has declined since 2018 despite Council's Net Operating Result on the face of the Income Statement being higher as net gains on the disposal of assets and fair value gains on Council's managed growth funds (Investments, Note 6b) are excluded from the ratio.

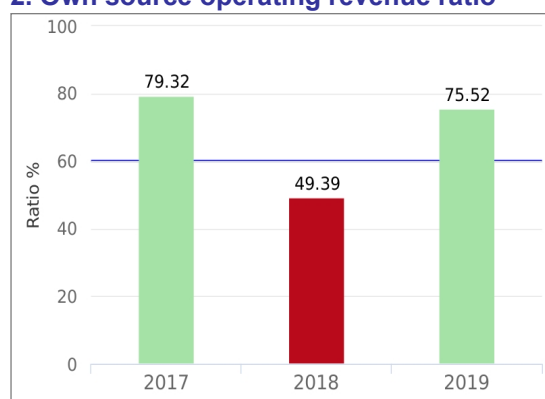
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

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 2018/19 result

2018/19 ratio 75.52%

The 2019 ratio has returned to a level consistent with the normal course of Council operations.

The 2018 ratio was affected by a payment of \$90M from the NSW State Government for Stronger Communities funding to be used for the revitalisation of Hornsby Quarry and Westleigh (the former Sydney Water Board site).

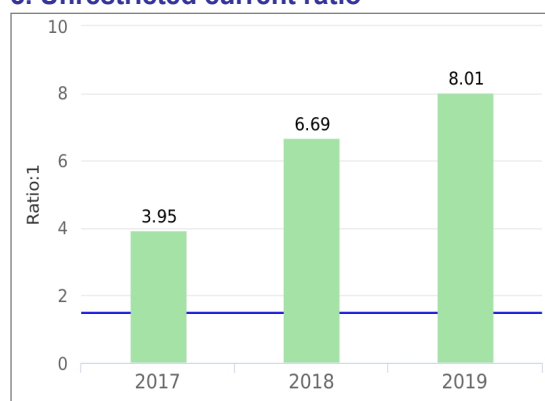
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

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 2018/19 result

2018/19 ratio 8.01x

Council's unrestricted current ratio has increased slightly as the timing of receivables owing at year end (refer Note 7) has increased current assets by \$1.95M.

The amount of unrestricted cash on hand at year end has also increased marginally by \$864K from \$9.30M (2018) to \$10.16M at 30 June 2019.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

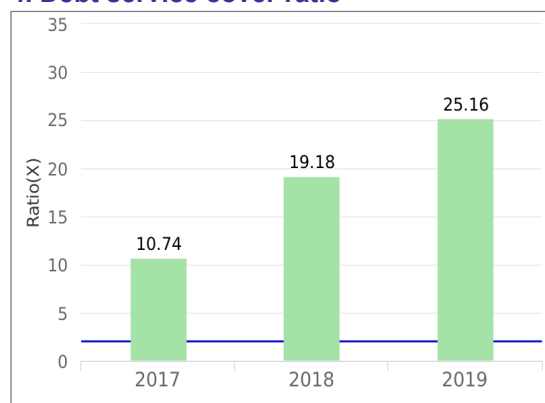
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(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 2018/19 result

2018/19 ratio 25.16x

The Debt service cover ratio continues to improve as no new loans have been taken since 2013 and the total level of outstanding debt at 30 June 2019 is only \$1.46M.

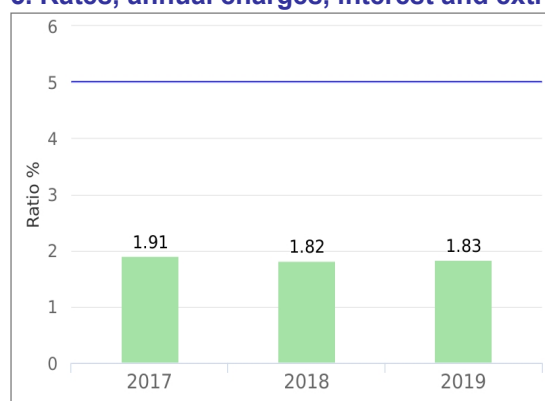
Benchmark: — > 2.00x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

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 2018/19 result

2018/19 ratio 1.83%

The ratio continues to be well below the benchmark and a leader in the sector as Council consistently strives for best practice in debt collection.

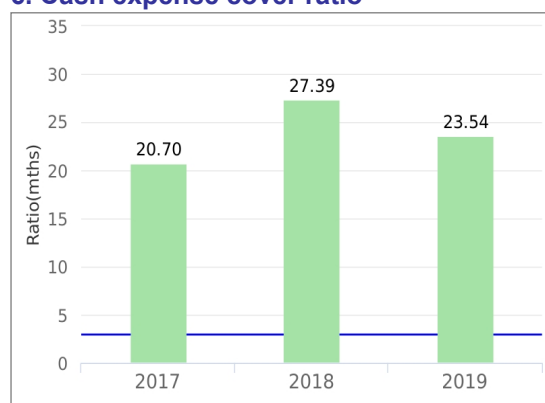
Benchmark: — < 5.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

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 2018/19 result

2018/19 ratio 23.54 mths

The ratio has decreased during the year as it includes cash and term deposits, but excludes managed funds and floating rate notes. During the year Council has diversified into managed funds and floating rate notes following a revision to the Investment Strategy.

Council holds a total cash and investment portfolio of \$281M at 30 June 2019, which is larger than at 30 June 2018 (\$273M).

Benchmark: — > 3.00mths

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

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 the Hornsby Shire Council

Opinion

I have audited the accompanying financial statements of Hornsby Shire Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

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 presented, 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 2019, 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' (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 2019 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 except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

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.

My opinion does not 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 19 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 Services

Delegate of the Auditor-General for New South Wales

15 October 2019
SYDNEY



Mayor
Hornsby Shire Council
Administration Centre
296 Peats Ferry Road
HORNSBY NSW 2077

Contact: Karen Taylor
Phone no: 02 9275 7311
Our ref: D1923690/1741

15 October 2019

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2019
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 2019 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 2019 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

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	91.4	89.1	↑ 2.6
Grants and contributions revenue	38.3	116.8	↓ 67.2
Operating result for the year	35.8	111.8	↓ 68.0
Net operating result before capital grants and contributions	7.6	5.8	↑ 31.0

Rates and annual charges revenue (\$91.4 million) increased by \$2.3 million (2.6 per cent) in 2018–19. This was mainly due to rate peg increases for ordinary rates.

Grants and contributions revenue (\$38.3 million) decreased by \$78.5 million (67.2 per cent) in 2018–19 as 2017–18 included \$90.0million in Stronger Communities funding.

Council's operating result (\$35.8 million including the effect of depreciation and amortisation expense of \$19.1 million) was \$76.0 million lower than the 2017–18 result. This was mainly due to the prior year including one-off grants for stronger communities, offset by increases in other revenue streams.

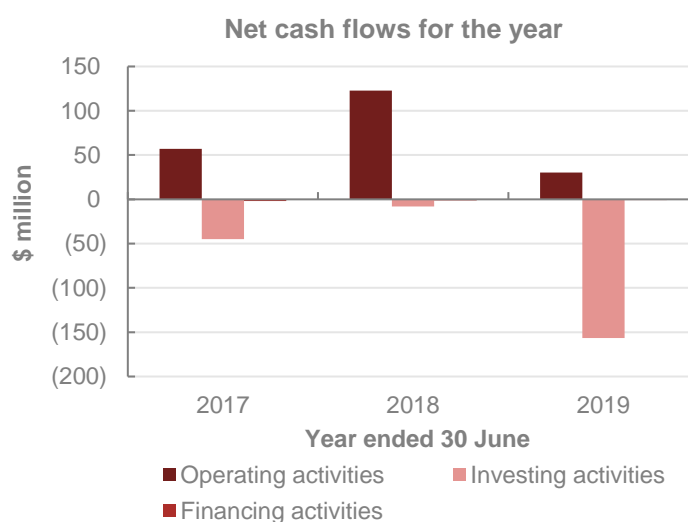
The net operating result before capital grants and contributions (\$7.6 million), which removes the effect of stronger communities funding, shows an improvement from the 2017–18 result. This was due to the following one off items compared to the prior year:

- \$1.2 million in additional user charges and fees from restoration income associated with the National Broadband Network roll out
- \$2 million increase from net gains on disposal of assets.

STATEMENT OF CASH FLOWS

The increase in cash used in investing activities is due to Council moving from short term to medium and longer term financial instruments in the current year.

Cash flows from operating activities were inflated last year by the \$90 million one-off grants for stronger communities.



FINANCIAL POSITION

Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	185.9	188.0	Externally restricted balances include stronger communities funding, developer contributions and domestic waste management charges.
Internal restrictions	84.9	75.8	
Unrestricted	10.2	9.3	
Cash and investments	281.0	273.1	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.

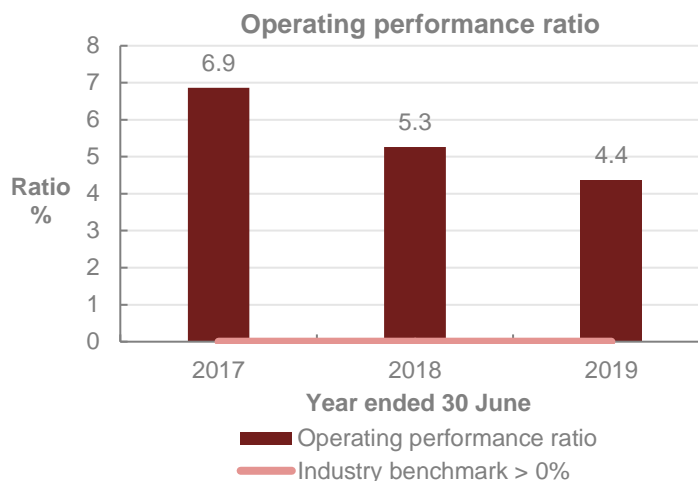
PERFORMANCE

The definition of each ratio analysed below are included in Note 23 (a) of the Council's audited general purpose financial statements.

Operating performance ratio

Council continues to exceed the benchmark. However, operating performance has dropped since the 2016 boundary adjustment reduced Council's revenue.

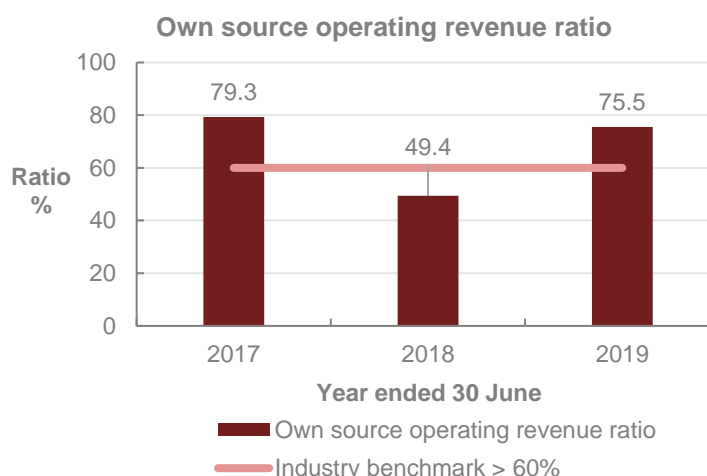
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is greater than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



Own source operating revenue ratio

Council returned to being above the benchmark in the current year. Last year's result was heavily impacted by the stronger communities funding. This demonstrates Council is not overly reliant on grants and contributions.

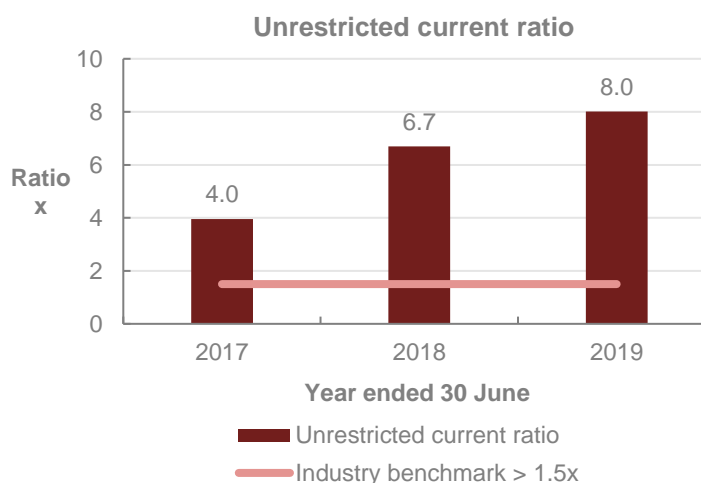
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to exceed the benchmark. Council has invested funds to better align with planned timing of spending of externally restricted funds. This strategy positively impacts this ratio.

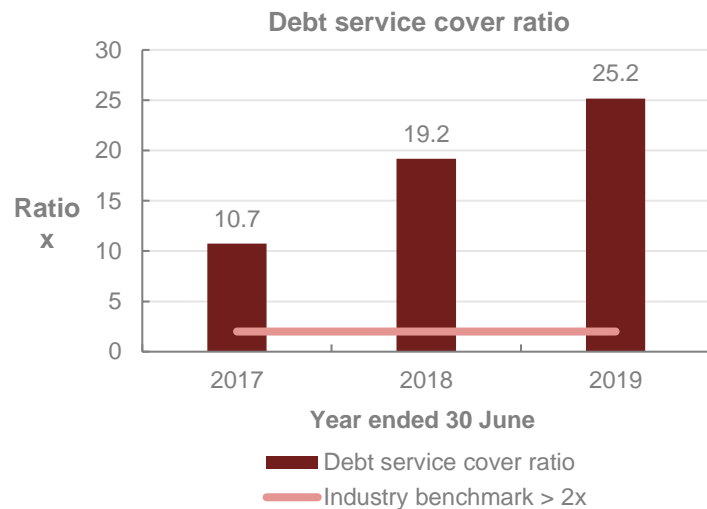
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council has low debt leading to significantly exceeding this benchmark.

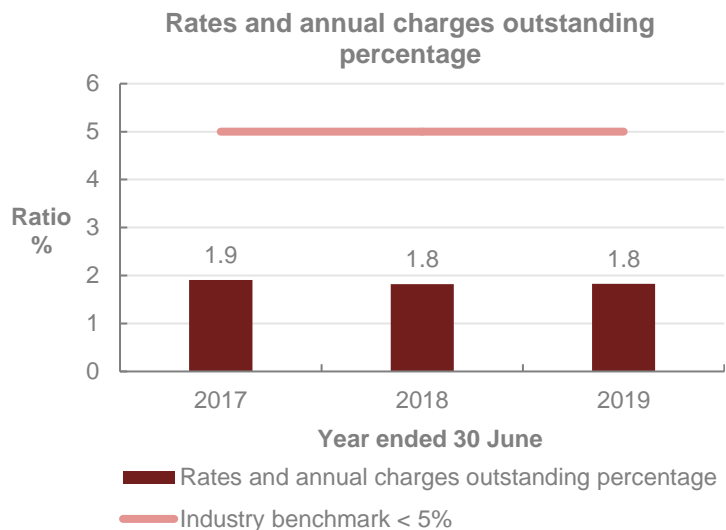
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding percentage

Performance better than benchmark and remains relatively consistent year on year.

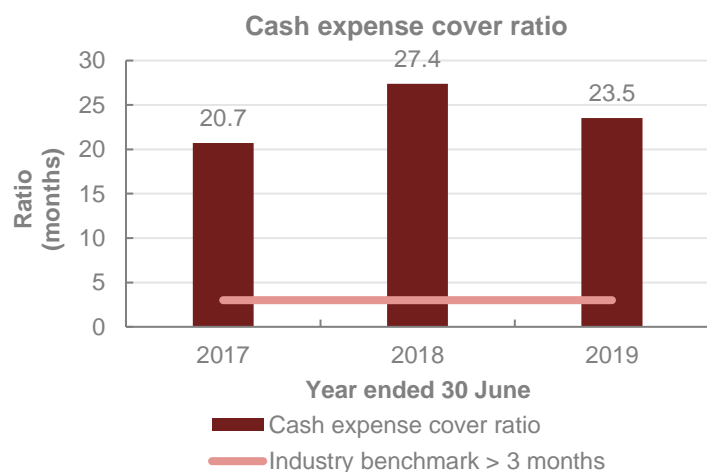
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metro councils.



Cash expense cover ratio

Council continues to exceed the benchmark and has cash and term deposits to meet 23 months of expenses. High grant funding inflated the prior year result.

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's performance is as follows:

- \$15.6 million of capital works commenced in 2018–19, along with \$10.0 million spent on new assets. This is similar to the prior year
- the unaudited infrastructure renewals ratio was 92.9 per cent compared to 95.3 per cent in the prior year (benchmark set by OLG is 100).

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none">• a simplified model for classifying and measuring financial assets• a new method for calculating impairment• a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures due to AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 14.</p>

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 Services

Delegate of the Auditor-General for New South Wales

Hornsby Shire Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019



Special Purpose Financial Statements

for the year ended 30 June 2019

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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 2019

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:

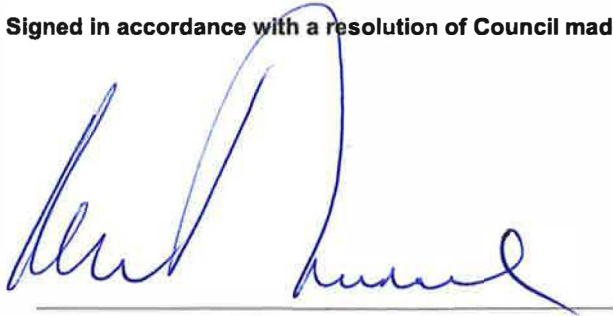
- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government Code of Accounting Practice and Financial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

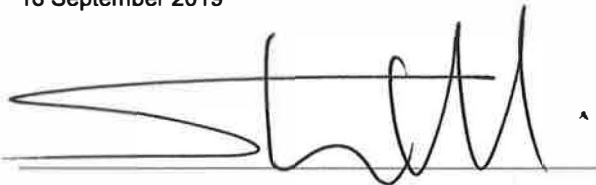
Signed in accordance with a resolution of Council made on 18 September 2019.



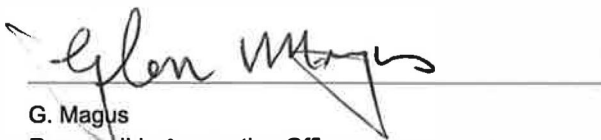
P. Ruddock
Mayor
18 September 2019



V. del Gallego
Councillor
18 September 2019



S. Head
General Manager
18 September 2019



G. Magus
Responsible Accounting Officer
18 September 2019

Income Statement – Aquatic Centres & Sports Stadium

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	4,945	4,763
Other income	523	541
Total income from continuing operations	5,468	5,304
Expenses from continuing operations		
Employee benefits and on-costs	3,753	3,734
Materials and contracts	590	813
Depreciation, amortisation and impairment	919	907
Calculated taxation equivalents	209	216
Other expenses	872	744
Total expenses from continuing operations	6,343	6,414
Surplus (deficit) from continuing operations before capital amounts	(875)	(1,110)
Surplus (deficit) from continuing operations after capital amounts	(875)	(1,110)
Surplus (deficit) from all operations before tax	(875)	(1,110)
SURPLUS (DEFICIT) AFTER TAX	(875)	(1,110)
Plus accumulated surplus	31,244	32,701
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	209	216
Less:		
– Dividend paid	(237)	(709)
– Capital contributions	–	146
Closing accumulated surplus	30,341	31,244
Return on capital %	(2.4)%	(3.0)%
Subsidy from Council	1,359	2,099

Income Statement – Commercial Waste

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
User charges	1,856	1,793
Other income	265	116
Total income from continuing operations	2,121	1,909
Expenses from continuing operations		
Employee benefits and on-costs	73	73
Materials and contracts	1,617	1,423
Other expenses	106	8
Total expenses from continuing operations	1,796	1,504
Surplus (deficit) from continuing operations before capital amounts	325	405
Surplus (deficit) from continuing operations after capital amounts	325	405
Surplus (deficit) from all operations before tax	325	405
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(89)	(111)
SURPLUS (DEFICIT) AFTER TAX	236	294
Plus accumulated surplus	143	263
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	89	111
Less:		
– Dividend paid	(320)	(525)
Closing accumulated surplus	148	143

Income Statement – Development Applications

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Fees	440	495
Profit from the sale of assets	5	–
Total income from continuing operations	445	495
Expenses from continuing operations		
Employee benefits and on-costs	982	936
Depreciation, amortisation and impairment	29	30
Calculated taxation equivalents	7	10
Other expenses	112	113
Total expenses from continuing operations	1,130	1,089
Surplus (deficit) from continuing operations before capital amounts	(685)	(594)
Surplus (deficit) from continuing operations after capital amounts	(685)	(594)
Surplus (deficit) from all operations before tax	(685)	(594)
SURPLUS (DEFICIT) AFTER TAX	(685)	(594)
Plus accumulated surplus	15	80
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	7	10
Add:		
– Subsidy paid/contribution to operations	582	519
– Capital contributions	83	–
Closing accumulated surplus	2	15
Return on capital %	(428.1)%	(337.5)%
Subsidy from Council	687	599

Income Statement – Property Services

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
User charges	732	616
Fees	2	42
Fair value increment on investment property	150	190
Other income	174	83
Total income from continuing operations	1,058	931
Expenses from continuing operations		
Employee benefits and on-costs	4	152
Materials and contracts	407	33
Depreciation, amortisation and impairment	314	294
Loss on sale of assets	–	131
Calculated taxation equivalents	679	679
Total expenses from continuing operations	1,404	1,289
Surplus (deficit) from continuing operations before capital amounts	(346)	(358)
Surplus (deficit) from continuing operations after capital amounts	(346)	(358)
Surplus (deficit) from all operations before tax	(346)	(358)
SURPLUS (DEFICIT) AFTER TAX	(346)	(358)
Plus accumulated surplus	16,593	16,547
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	679	679
Less:		
– Dividend paid	(690)	(275)
Closing accumulated surplus	16,236	16,593
Return on capital %	(1.3)%	(1.4)%
Subsidy from Council	686	1,043

Statement of Financial Position – Aquatic Centres & Sports Stadium

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	50	50
Receivables	79	67
Inventories	22	22
Total current assets	151	139
Non-current assets		
Infrastructure, property, plant and equipment	36,701	37,620
Total non-current assets	36,701	37,620
TOTAL ASSETS	36,852	37,759
LIABILITIES		
Current liabilities		
Provisions	225	229
Total current liabilities	225	229
TOTAL LIABILITIES	225	229
NET ASSETS	36,627	37,530
EQUITY		
Accumulated surplus	30,341	31,244
Revaluation reserves	6,286	6,286
<u>TOTAL EQUITY</u>	<u>36,627</u>	<u>37,530</u>

Statement of Financial Position – Commercial Waste

as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Receivables	174	170
Total current assets	174	170
TOTAL ASSETS	174	170
LIABILITIES		
Current liabilities		
Provisions	26	27
Total current liabilities	26	27
TOTAL LIABILITIES	26	27
NET ASSETS	148	143
EQUITY		
Accumulated surplus	148	143
<u>TOTAL EQUITY</u>	<u>148</u>	<u>143</u>

Statement of Financial Position – Development Applications

as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Non-current assets		
Infrastructure, property, plant and equipment	160	176
Total non-current assets	160	176
TOTAL ASSETS	160	176
LIABILITIES		
Current liabilities		
Provisions	158	161
Total current liabilities	158	161
TOTAL LIABILITIES	158	161
NET ASSETS	2	15
EQUITY		
Accumulated surplus	2	15
<u>TOTAL EQUITY</u>	<u>2</u>	<u>15</u>

Statement of Financial Position – Property Services

as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Receivables	171	395
Total current assets	171	395
Non-current assets		
Infrastructure, property, plant and equipment	25,777	26,061
Investment property	25,435	25,285
Total non-current assets	51,212	51,346
TOTAL ASSETS	51,383	51,741
LIABILITIES		
Current liabilities		
Provisions	72	73
Total current liabilities	72	73
TOTAL LIABILITIES	72	73
NET ASSETS	51,311	51,668
EQUITY		
Accumulated surplus	16,236	16,593
Revaluation reserves	35,075	35,075
<u>TOTAL EQUITY</u>	<u>51,311</u>	<u>51,668</u>

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

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.

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

Category 2

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

b. Commercial Waste Service

Services provided for the collection of commercial waste and sullage

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 2019

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

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

Income tax

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

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

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

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

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

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

Local government rates and charges

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

(ii) Subsidies

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

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.

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

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 1.32% at 30/6/19.

(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 the 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 Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019, Note 1 Significant accounting policies for the business activities declared by Council, and the Statement by Councillors and Management.

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 2019, and its 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 27 (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' (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 2019 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, unless it is not appropriate to do so.

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.

My opinion does not 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

15 October 2019
SYDNEY

Hornsby Shire Council

SPECIAL SCHEDULES
for the year ended 30 June 2019



Special Schedules
for the year ended 30 June 2019

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Permissible income for general rates

for the year ended 30 June 2019

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	68,151	66,008
Plus or minus adjustments ²	b	452	412
Notional general income	$c = a + b$	68,603	66,420
Permissible income calculation			
Or rate peg percentage	e	2.70%	2.30%
Or plus rate peg amount	$i = e \times (c + g)$	1,852	1,528
Sub-total	$k = (c + g + h + i + j)$	70,455	67,948
Plus (or minus) last year's carry forward total	l	3	1
Less valuation objections claimed in the previous year	m	(205)	—
Sub-total	$n = (l + m)$	(202)	1
Total permissible income	$o = k + n$	70,253	67,949
Less notional general income yield	p	70,266	68,151
Catch-up or (excess) result	$q = o - p$	(13)	(202)
Plus income lost due to valuation objections claimed ⁴	r	15	205
Carry forward to next year ⁶	$t = q + r + s$	2	3

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 2020.

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 27 (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' (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 2019 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 2019'.

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, unless it is not appropriate to do so.

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.

My opinion does not 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 Services

Delegate of the Auditor-General for New South Wales

15 October 2019
SYDNEY

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost					
		to bring assets to satisfactory standard	to bring to the agreed level of service set by Council				1	2	3	4	5	
(a) Report on Infrastructure Assets - Values												
Buildings	Libraries	–	–	131	8,548	15,065	0.0%	0.0%	97.7%	2.3%	0.0%	
	Amenities	713	713	450	13,928	24,961	7.7%	0.0%	91.2%	1.2%	0.0%	
	Commercial/Residential Buildings	89	89	–	11,576	26,461	0.0%	0.0%	86.4%	13.6%	0.0%	
	Rural Fire Service Buildings	–	–	203	11,233	15,823	7.7%	5.7%	86.7%	0.0%	0.0%	
	Indoor Sports Stadium	–	–	52	9,452	11,308	0.0%	0.0%	100.0%	0.0%	0.0%	
	Council Offices /Administration Centres	–	–	252	16,874	27,408	0.0%	0.0%	100.0%	0.0%	0.0%	
	Council Works Depot	–	–	101	4,382	9,770	0.0%	29.3%	69.3%	1.4%	0.0%	
	Council Public Halls	390	390	616	27,363	44,364	4.2%	0.0%	92.7%	0.0%	3.1%	
	Sub-total	1,192	1,192	2,137	103,356	175,160	2.8%	2.1%	91.7%	2.5%	0.9%	
	Other structures	260	260	210	14,787	24,711	20.0%	45.0%	22.0%	7.0%	6.0%	
Other structures	Wharves, Pontoons & Seawalls	600	600	182	2,218	3,506	20.0%	42.0%	13.0%	25.0%	0.0%	
	Sub-total	860	860	420	17,005	28,217	20.0%	44.6%	20.9%	9.2%	5.3%	
Roads	Sealed Road	356	356	3,668	267,515	306,069	39.7%	37.7%	16.1%	5.2%	1.3%	
	Unsealed roads	4	4	42	1,219	3,047	0.4%	0.0%	99.6%	0.0%	0.0%	
	Bridges	34	34	348	14,783	17,103	54.2%	39.5%	6.3%	0.0%	0.0%	
	Footpaths	49	49	502	24,797	42,600	5.8%	9.9%	76.7%	0.0%	7.6%	
	Traffic Facilities	5	5	54	3,940	4,612	11.3%	69.4%	17.1%	0.0%	2.2%	
	Signs	7	7	70	4,533	4,533	0.0%	100.0%	0.0%	0.0%	0.0%	
	Traffic Barrier Fencing	4	4	43	3,101	3,557	38.5%	59.2%	2.4%	0.0%	0.0%	
	Car Parks	2	2	15	929	1,680	26.3%	0.0%	70.9%	0.0%	2.8%	
	Cycle ways	1	1	9	480	754	100.0%	0.0%	0.0%	0.0%	0.0%	
	Kerb and Gutter	71	71	727	39,403	60,324	1.9%	20.1%	77.6%	0.0%	0.4%	
	Sub-total	533	533	5,478	360,700	444,279	31.0%	33.4%	30.4%	3.6%	1.6%	
	Stormwater drainage	Pipes	2,967	2,967	550	336,996	428,784	7.9%	91.3%	0.8%	0.1%	0.0%
		Culverts	172	172	35	22,098	25,618	53.6%	46.0%	0.0%	0.4%	0.0%
Head Walls		15	15	5	2,393	3,019	17.8%	77.1%	2.9%	2.0%	0.1%	
Channels		21	21	4	2,330	3,004	1.5%	94.3%	4.2%	0.0%	0.0%	
Pits		414	414	122	60,021	75,498	23.4%	74.0%	2.2%	0.4%	0.0%	
Sub-total		3,589	3,589	716	423,838	535,923	12.3%	86.6%	0.9%	0.1%	0.1%	

continued on next page ...

Report on Infrastructure Assets - Values (continued)
as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Open space / recreational assets	Aquatic Centres	3,000	3,000	235	333	26,838	30,613	0.0%	0.0%	100.0%	0.0%	0.0%
	Sub-total	3,000	3,000	235	333	26,838	30,613	0.0%	0.0%	100.0%	0.0%	0.0%
	TOTAL - ALL ASSETS	9,174	9,174	8,911	9,056	931,737	1,214,192	17.6%	51.8%	27.8%	1.9%	0.9%

(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 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	13,825	92.94%	95.32%	90.67%	>=100.00%
Depreciation, amortisation and impairment	14,875				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	9,174	0.98%	0.92%	0.87%	<2.00%
Net carrying amount of infrastructure assets	931,737				
Asset maintenance ratio					
Actual asset maintenance	9,056	101.63%	100.47%	94.05%	>100.00%
Required asset maintenance	8,911				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	9,174	0.76%	0.71%	0.68%	
Gross replacement cost	1,214,192				

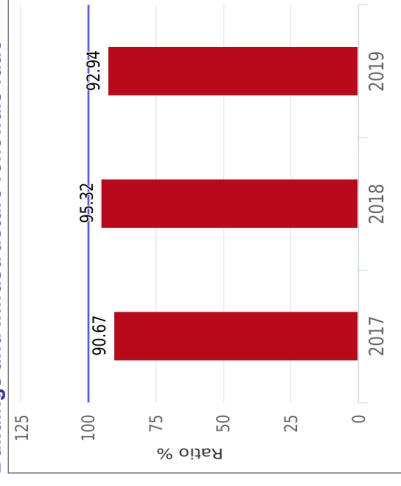
(*) All asset performance indicators are calculated using classes identified in the previous table.

(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 2019

Buildings and infrastructure renewals ratio ¹



Benchmark: — >= 100.00%

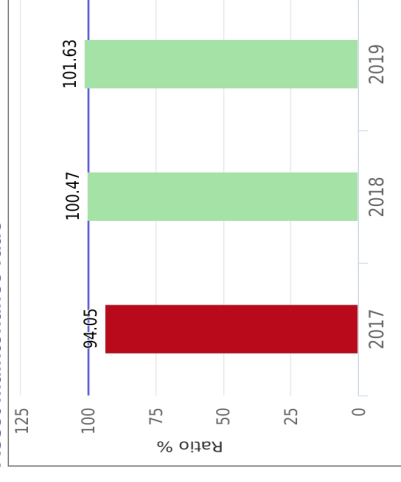
Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Infrastructure renewals ratio	Commentary on result
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.	Depreciation for accounting purposes exceeds cash spent on asset renewals. However, the condition of Council's assets remains consistent over the long term.
18/19 ratio	92.94%

Asset maintenance ratio



Benchmark: — > 100.00%

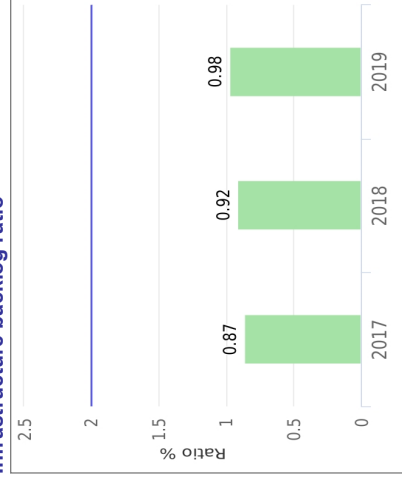
Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Asset maintenance ratio	Commentary on result
Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.	The ratio has steadily improved in recent years in line with the development of asset management plans.
18/19 ratio	101.63%

Infrastructure backlog ratio ¹



Benchmark: — < 2.00%

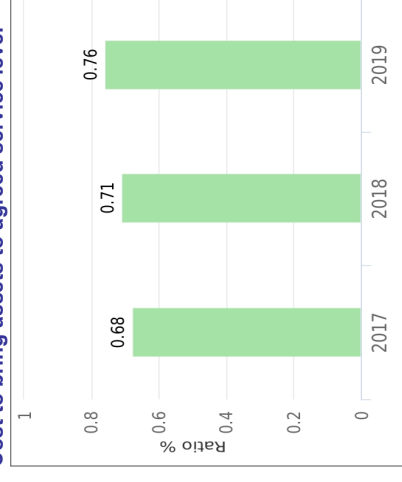
Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Infrastructure backlog ratio	Commentary on result
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.	Council's infrastructure backlog remains consistently below the 2% benchmark as assets are managed by strategic asset management plans with allocated funding to meet requirements.
18/19 ratio	0.98%

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level	Commentary on result
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.	The ratio indicates that Council's assets are maintained at or above agreed service levels.
18/19 ratio	0.76%

(1) Excludes Work In Progress (WIP)

