

ATTACHMENTS DISTRIBUTED UNDER SEPARATE COVER

**CCL 27/10/2020 – ADOPTION OF THE 2019/20 FINANCIAL
STATEMENTS**

PAGE 5 **ITEM-75** **Attachment A:** City of Newcastle's Financial
Statements

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**CCL 27/10/2020 – ADOPTION OF THE 2019/20 FINANCIAL
STATEMENT**

ITEM-XX **Attachment A:** City of Newcastle's Financial Statements

DISTRIBUTED UNDER SEPARATE COVER



Financial Reports

Newcastle City Council

For the year ended 30 June 2020



City of
Newcastle

Newcastle City Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



General Purpose Financial Statements

for the year ended 30 June 2020

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Overview

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

Newcastle City Council
12 Stewart Avenue
Newcastle West NSW 2302

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

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

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

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

Newcastle City Council

General Purpose Financial Statements

for the year ended 30 June 2020

Statement by Councillors and Management

made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

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

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

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

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

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

Signed in accordance with a resolution of Council made on 25 August 2020.



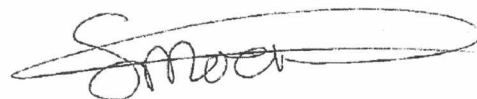
Nuatali Nelmes
Lord Mayor



Councillor



Ken Liddell
Acting Chief Executive Officer



Scott Moore
Responsible Accounting Officer

Income Statement

for the year ended 30 June 2020

Original unaudited budget 2020 \$ '000		Notes	Actual 2020 \$ '000	Actual 2019 \$ '000
Income from continuing operations				
182,809	Rates and annual charges	3a	184,255	171,736
84,092	User charges and fees	3b	74,067	90,144
8,993	Other revenues	3c	10,037	12,981
14,735	Grants and contributions provided for operating purposes	3d,3e	16,860	15,933
13,862	Grants and contributions provided for capital purposes	3d,3e	25,017	31,059
10,210	Interest and investment income	4	7,093	10,962
–	Reversal of revaluation decrements / impairment of IPP&E previously expensed	11a	–	3,475
–	Reversal of impairment losses on receivables	8	–	57
8,382	Rental income	15e	8,992	–
323,083	Total income from continuing operations		326,321	336,347
Expenses from continuing operations				
109,228	Employee benefits and on-costs *	5a	104,882	99,921
4,761	Borrowing costs	5b	4,979	5,169
68,190	Materials and contracts *	5c	73,391	66,868
48,374	Depreciation and amortisation	5d	51,664	44,641
372	Impairment of receivables	8	1,001	–
60,397	Other expenses *	5e	58,273	78,401
5,948	Net losses from the disposal of assets	6	7,904	275
–	Fair value decrement on investment properties	12	2,757	531
–	Net share of interests in joint ventures and associates using the equity method	20	72	95
297,270	Total expenses from continuing operations		304,923	295,901
25,813	Operating result from continuing operations		21,398	40,446
25,813	Net operating result for the year		21,398	40,446
25,813	Net operating result attributable to council		21,398	40,446
11,951	Net operating result for the year before grants and contributions provided for capital purposes		(3,619)	9,387

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

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

(*) Reclassification has occurred on comparative figures for this line item

Statement of Comprehensive Income

for the year ended 30 June 2020

	Notes	2020 \$ '000	2019 \$ '000
Net operating result for the year (as per Income Statement)		21,398	40,446
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	11	(26,968)	66,639
Impairment reversal / (Revaluation decrement) relating to IPP&E	11	(6,272)	(7)
Total items which will not be reclassified subsequently to the operating result		(33,240)	66,632
Total other comprehensive income for the year		(33,240)	66,632
Total comprehensive income for the year		(11,842)	107,078
Total comprehensive income attributable to Council		(11,842)	107,078

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

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

Statement of Financial Position

as at 30 June 2020

	Notes	2020 \$ '000	2019 \$ '000
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	47,996	23,287
Investments	7(b)	68,569	117,417
Receivables	8	26,354	23,478
Inventories	9a	1,101	1,151
Other	9b	7,658	5,509
Total current assets		151,678	170,842
Non-current assets			
Investments	7(b)	236,570	236,285
Receivables	8	1,538	1,483
Infrastructure, property, plant and equipment	11	1,526,625	1,520,309
Investment property	12	16,213	18,970
Intangible Assets	13	5,469	6,099
Right of use assets	15a	38,398	–
Investments accounted for using the equity method	20	898	970
Other	9b	562	549
Total non-current assets		1,826,273	1,784,665
Total assets		1,977,951	1,955,507
LIABILITIES			
Current liabilities			
Payables *	16	34,301	40,345
Income received in advance	16	–	2,708
Contract liabilities	14b	6,467	–
Lease liabilities	15b	3,258	–
Borrowings	16	4,179	3,866
Provisions	17	37,293	49,786
Total current liabilities		85,498	96,705
Non-current liabilities			
Payables	16	3,280	–
Income received in advance	16	–	5,371
Contract liabilities	14b	715	–
Lease liabilities	15b	36,886	–
Borrowings	16	58,543	56,907
Provisions	17	70,501	57,982
Total non-current liabilities		169,925	120,260
Total liabilities		255,423	216,965
Net assets		1,722,528	1,738,542
EQUITY			
Accumulated surplus	18	1,491,804	1,474,478
Revaluation reserves	18	230,724	264,064
Council equity interest		1,722,528	1,738,542
Total equity		1,722,528	1,738,542

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

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

(*) Reclassification has occurred on comparative figures for this line item

Statement of Changes in Equity

for the year ended 30 June 2020

	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus \$ '000	IPP&E revaluation reserve \$ '000	Total equity \$ '000	Accumulated surplus \$ '000	IPP&E revaluation reserve \$ '000	Total equity \$ '000
Opening balance		1,474,478	264,064	1,738,542	1,430,920	200,450	1,631,370
Changes due to AASB 1058 and AASB 15 adoption	18b	(3,062)	–	(3,062)	–	–	–
Changes due to AASB 16 adoption	18b	(1,110)	–	(1,110)	–	–	–
Changes due to AASB 9 adoption		–	–	–	94	–	94
Restated opening balance		1,470,306	264,064	1,734,370	1,431,014	200,450	1,631,464
Net operating result for the year		21,398	–	21,398	40,446	–	40,446
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	11a	–	(26,968)	(26,968)	–	66,639	66,639
– Impairment (loss) reversal relating to IPP&E	11a	–	(6,272)	(6,272)	–	(7)	(7)
Other comprehensive income		–	(33,240)	(33,240)	–	66,632	66,632
Total comprehensive income		21,398	(33,240)	(11,842)	40,446	66,632	107,078
Transfers between equity items		100	(100)	–	3,018	(3,018)	–
Equity – balance at end of the reporting period		1,491,804	230,724	1,722,528	1,474,478	264,064	1,738,542

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

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

Statement of Cash Flows

for the year ended 30 June 2020

Original unaudited budget 2020 \$ '000		Notes	Actual 2020 \$ '000	Actual 2019 \$ '000
Cash flows from operating activities				
<i>Receipts:</i>				
182,809	Rates and annual charges		181,192	171,061
89,948	User charges and fees		76,271	95,905
10,210	Investment and interest revenue received		8,065	10,675
28,804	Grants and contributions		34,444	34,440
–	Bonds, deposits and retention amounts received		468	228
17,889	Other		27,878	18,240
<i>Payments:</i>				
(109,358)	Employee benefits and on-costs		(106,178)	(99,294)
(80,726)	Materials and contracts		(95,218)	(68,894)
(4,761)	Borrowing costs		(4,979)	(5,169)
–	Bonds, deposits and retention amounts refunded		(163)	(90)
(61,673)	Other		(55,394)	(63,885)
73,142	Net cash provided (or used in) operating activities	19b	66,386	93,217
Cash flows from investing activities				
<i>Receipts:</i>				
127,905	Sale of investment securities		133,917	145,880
1,700	Sale of infrastructure, property, plant and equipment		931	20,668
<i>Payments:</i>				
(82,976)	Purchase of investment securities		(85,585)	(189,534)
–	Purchase of investment property		–	(921)
(58,925)	Purchase of infrastructure, property, plant and equipment		(89,975)	(69,225)
–	Purchase of intangible assets		630	(1,770)
(12,296)	Net cash provided (or used in) investing activities		(40,082)	(94,902)
Cash flows from financing activities				
<i>Receipts:</i>				
–	Proceeds from borrowings and advances		5,600	–
<i>Payments:</i>				
(3,488)	Repayment of borrowings and advances		(3,651)	(3,057)
–	Lease liabilities (principal repayments)		(3,544)	–
(3,488)	Net cash flow provided (used in) financing activities		(1,595)	(3,057)
57,358	Net increase/(decrease) in cash and cash equivalents		24,709	(4,742)
23,287	Plus: cash and cash equivalents – beginning of year	19a	23,287	28,029
80,645	Cash and cash equivalents – end of the year	19a	47,996	23,287
305,139	plus: Investments on hand – end of year	7(b)	305,139	353,702
385,784	Total cash, cash equivalents and investments		353,135	376,989

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 25 August 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity. The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

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

- Income Statement
- Statement of Cash Flows
- Note 24 – Material budget variations

(a) Historical cost convention

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

(b) Significant accounting estimates and judgements

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

- Fair values of investment properties – refer Note 12
- Fair values of infrastructure, property, plant and equipment – refer Note 11
- Tip remediation provisions – refer Note 17
- Employee benefit provisions – refer Note 17

Significant judgements in applying the council's accounting policies

- Impairment of receivables

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

Monies and other assets received by Council**(a) The Consolidated Fund**

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

The Consolidated Fund and other entities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

(b) The Trust Fund

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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

Goods and Services Tax (GST)

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

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

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

Volunteer services

Volunteer hours are actual hours contributed to Council by registered Council volunteers. It does not include hours contributed by secondary groups that are Incorporated Associations. Volunteer activity takes place through not-for-profit organisations to benefit the Newcastle community, for no payment to the volunteer and in designated volunteer positions only. Council maintains a register of volunteer hours and can reliably measure the value of the volunteer services to Council.

Volunteer activities are required to satisfy Volunteering Australia's Definition of Volunteering and not conflict with Council's policies and values. Volunteer services received include:

- Library outreach services
- Museum support
- Landcare activities
- Committee members
- Bushcare activities

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published by the Australian Accounting Standards Board that are not mandatory for 30 June 2020 reporting periods. Council's assessment of the impact of the new standards, and interpretations relevant to them, is set out below:

Pronouncement	AASB 1059 Service Concession Arrangements: Grantors AASB 2018–5 Amendments to Australian Accounting Standards - Deferral of AASB 1059 AASB 2019-2 Amendments to Australian Accounting Standards - Implementation of AASB 1059
Nature of change in accounting policy	<p>This standard provides guidance for public sector entities (grantors) who have entered into service concession arrangements with private sector operators.</p> <p>AASB 1059 requires grantors to recognise a service concession asset and, in most cases, a corresponding liability on the balance sheet.</p> <p>A control approach is used to assess the service concession arrangements in place.</p> <p>On initial recognition the asset is measured at current replacement cost based on AASB 13 Fair Value Measurement and existing assets of the grantors are reclassified at the date of transition.</p> <p>After initial recognition, the grantor accounts for the assets under either AASB 116 Property, Plant and Equipment or AASB 138 Intangible Assets.</p> <p>The nature of the consideration given to the operator will affect whether the grantor applies either the 'financial liability' or the 'grant of right' model for the recognition of the liability.</p> <p>AASB 2019-2 makes amendments to the recognition and measurement of the asset and liability where the modified retrospective approach to transition is being used and provides a practical expedient due to the different effective dates of AASB 16 and AASB 1059.</p>
Effective date	Annual reporting periods beginning on or after 1 January 2020 (i.e. year ended 30 June 2021).
Expected impact on council financial statements	Council is yet to undertake a detailed assessment of the impact of AASB 1059. However, based on Council's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2021.

Pronouncement	AASB 2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128. AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.
Nature of change in accounting policy	<p>The amendments address an acknowledged inconsistency between the requirements in AASB 10, and those in AASB 128 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2015-10 has delayed the effective date of this standard. AASB 2017-5 defers the effective date of AASB 2014-10 to 1 January 2022.</p>

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

Effective date	Annual reporting periods beginning on or after 1 January 2022 (i.e. year ended 30 June 2023).
Expected impact on council financial statements	Council has entered into two joint arrangements, Newcastle Airport Partnership, and Greater Newcastle Aerotropolis Partnership. Council is yet to undertake a detailed assessment of the impact of the amendments. However, based on Councils preliminary assessment, the amendments are not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2023.

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2019.

New accounting standards adopted during the year

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2020. The standards which had an impact on reported position, performance or disclosures have been discussed in Note 18.

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Functions or activities *	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Carrying amount of assets	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Integrated and Accessible Transport	29,036	32,259	51,629	52,453	(22,593)	(20,194)	3,579	3,384	701,226	676,255
Protected Environment	65,143	69,769	71,784	86,627	(6,641)	(16,858)	4	–	189,722	223,627
Vibrant, Safe and Active Public Places	14,397	20,307	72,959	68,574	(58,562)	(48,267)	11,275	11,565	349,887	354,758
Inclusive Community	2,531	2,758	6,224	6,147	(3,693)	(3,389)	615	211	81,945	73,627
Liveable Built Environment	6,320	10,317	9,036	6,835	(2,716)	3,482	8,030	5,667	423	482
Smart and Innovative	27,802	24,799	24,985	22,710	2,817	2,089	1,892	1,765	7,693	886
Open and Collaborative Leadership	181,092	176,138	68,306	52,555	112,786	123,583	510	164	647,055	625,872
Total functions and activities	326,321	336,347	304,923	295,901	21,398	40,446	25,905	22,756	1,977,951	1,955,507

(*) Reclassification has occurred on comparative figures for the below line items

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

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

Integrated and Accessible Transport

Transport networks and services will be well connected and convenient. Walking, cycling and public transport will be viable options for the majority of our trips. Council's services that contribute to meeting these community objectives are: Civil Construction and Maintenance; Assets and Projects; Regulatory and Assessment; Community, Strategy and Innovation; Transport and Compliance.

Protected Environment

Our unique environment will be understood, maintained and protected. Council's services that contribute to meeting these community objectives are: Waste Services; Assets and Projects; Information Technology; Civil Construction and Maintenance; Regulatory and Assessment; Community, Strategy and Innovation; Parks and Recreation.

Vibrant, Safe and Active Public Places

A city of great public places and neighbourhoods promoting people's happiness and wellbeing. Council's services that contribute to meeting these community objectives are: Art Gallery; Assets and Projects; Libraries and Learning; Community, Strategy and Innovation; Parks and Recreation; Regulatory and Assessment; Museum; Civic Services; Property and Facilities.

Inclusive Community

A thriving community where diversity is embraced, everyone is valued and has the opportunity to contribute and belong. Council's services that contribute to meeting these community objectives are: Waste Services; Assets and Projects; Information Technology; Parks and Recreation; Property and Facilities; Regulatory and Assessment; Corporate and Community Planning; Libraries and Learning.

Liveable Built Environment

An attractive city that is built around people and reflects our sense of identity. Council's services that contribute to meeting these community objectives are: Waste Services; Assets and Projects; Regulatory and Assessment; Community, Strategy and Innovation; Art Gallery; Museum; Civic Services; Transport and Compliance.

Smart and Innovative

A leader in smart innovations with a prosperous, diverse and resilient economy. Council's services that contribute to meeting these community objectives are: Community, Strategy and Innovation; Art Gallery, Museum, Civic Services, Property and Facilities, Parks and Recreation, Information Technology.

Open and Collaborative Leadership

A strong, local democracy with an actively engaged community and effective partnerships. Council's services that contribute to meeting these community objectives are: Finance; Information Technology; People and Culture; Legal; Customer Service; Libraries and Learning; Major Events and Corporate Affairs; Community, Strategy and Innovation.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations

	2020 \$ '000	2019 \$ '000
(a) Rates and annual charges		
Ordinary rates		
Residential	101,523	93,220
Farmland	22	21
Business	56,482	52,870
Less: pensioner rebates (mandatory)	(2,080)	(2,115)
Rates levied to ratepayers	155,947	143,996
Pensioner rate subsidies received	1,144	1,184
Total ordinary rates	157,091	145,180
Special rates		
Town improvement	83	82
Main street	1,188	1,188
Rates levied to ratepayers	1,271	1,270
Total special rates	1,271	1,270
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	22,815	22,018
Stormwater management services	2,015	1,984
Waste management services (non-domestic)	1,087	1,020
Section 611 charges	196	496
Less: pensioner rebates (mandatory)	(490)	(524)
Annual charges levied	25,623	24,994
Pensioner subsidies received:		
– Domestic waste management	270	292
Total annual charges	25,893	25,286
TOTAL RATES AND ANNUAL CHARGES	184,255	171,736

Council has used 2016 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 Council obtains control over the assets comprising these receipts, which is the beginning of the rating period to which they relate.

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

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

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

2019 accounting policy

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Waste management services (non-domestic)	4,011	3,816
Total specific user charges	4,011	3,816
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building inspection fee	96	275
Dog control / registration fees	135	89
Inspection fees – food shops	370	481
Licence fees	146	207
Private works – section 67	418	146
Regulatory / statutory fees	2,108	3,468
Section 10.7 certificates (EP&A Act)	414	446
Section 603 certificates	303	274
Subdivision fees	331	317
Total fees and charges – statutory/regulatory	4,321	5,703
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Art Gallery	38	56
Cemeteries	136	144
Child care	860	1,032
City Hall	99	319
Civic Theatre	739	1,638
Fort Scratchley	80	162
Library fees	101	185
Local committees	429	557
Merchant service fee	145	148
Newcastle Airport	12,727	17,295
Museum	51	222
Ocean baths / inland pools	84	95
Parking stations / meter fees	6,663	8,002
Parks and garden usage	301	876
Reprographics income	219	308
RMS charges (state roads not controlled by Council)	7,242	6,201
Road restorations	471	300
Stockton Beach Holiday Park	–	3,252
Tipping fees / resource recovery	34,953	39,241
Tourism	97	34
Other	300	558
Total fees and charges – other	65,735	80,625
TOTAL USER CHARGES AND FEES	74,067	90,144

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Accounting policy for user charges and fees

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

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 14 days of the provision of the service or in some cases such as caravan parks, the customer is required to pay on arrival or in advance. There is no material obligation for Council in relation to refunds or returns.

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

2019 accounting policy

User charges and fees are recognised as revenue when the service has been provided, the payment is received, or when the penalty has been applied, whichever occurs first.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(c) Other revenues		
Rental income – investment property (2019 only)	–	1,552
Rental income – other council properties (2019 only)	–	1,734
Fines – parking	3,664	3,969
Fines – other	370	353
Insurance claims recoveries	259	454
Commissions and agency fees	553	660
Sales of inventories	1,550	1,821
Diesel rebate	89	101
Legal fees recovery – rates and charges (extra charges)	95	177
Insurance recovery / bonus	95	–
Insurance proceeds available for capital purposes	1,130	–
Joint library scheme recoveries	359	339
Sponsorships	29	150
Summerhill waste management – electricity generation	642	438
Volunteer services	768	789
Other	434	444
<u>TOTAL OTHER REVENUE</u>	<u>10,037</u>	<u>12,981</u>

Accounting policy for other revenue

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

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

Similarly, where the revenue does not relate to a contract with a customer (i.e deemed out of scope of AASB 15 and AASB 1058), the revenue is recognised as per the applicable accounting standard; at the earlier of when an unconditional right to a receivable arises or the cash is received.

2019 accounting policy

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	Operating 2020 \$ '000	Operating 2019 \$ '000	Capital 2020 \$ '000	Capital 2019 \$ '000
(d) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	6,311	6,046	–	–
Payment in advance - future year allocation				
Financial assistance	6,664	6,188	–	–
Total general purpose	12,975	12,234	–	–
Specific purpose (tied)				
Child care	369	–	–	–
Community services	15	3	87	–
LIRS subsidy	180	220	–	–
Recreation and culture	762	520	1,336	6,089
Newcastle Airport	–	–	7,169	–
Street lighting	617	592	–	–
Transport (other roads and bridges funding)	83	–	1,458	2,638
Waste	132	198	150	–
Other	492	182	80	80
Total specific purpose	2,650	1,715	10,280	8,807
Total grants	15,625	13,949	10,280	8,807
Grant revenue is attributable to:				
– Commonwealth funding	13,193	12,248	2,371	5,015
– State funding	2,432	1,701	7,909	3,792
	15,625	13,949	10,280	8,807

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	Operating 2020 \$ '000	Operating 2019 \$ '000	Capital 2020 \$ '000	Capital 2019 \$ '000
Notes				
(e) Contributions				
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):				
Cash contributions				
S 7.11 – contributions towards amenities/services	–	–	1,611	684
S 7.12 – fixed development consent levies	–	–	2,492	5,796
Total developer contributions – cash	–	–	4,103	6,480
Total developer contributions	–	–	4,103	6,480
27				
Other contributions:				
Cash contributions				
Art Gallery donations	40	48	2	24
Beach bathing / pools	–	1	36	–
Civic Theatre and City Hall	14	67	–	–
Community facilities	–	2	174	770
Economic development	29	31	–	–
Employees corporate fitness / entitlements	164	636	–	–
Library	2	5	–	–
Mainstreet programs	–	–	579	–
Museum	49	8	–	–
Newcastle airport	–	–	3,172	–
Parks and gardens	115	8	243	–
RMS contributions (regional roads, block grant)	119	119	–	–
Roads and drainage	461	1,026	1,030	1,018
Other	242	33	200	–
Total other contributions – cash	1,235	1,984	5,436	1,812
Non-cash contributions				
Art Gallery	–	–	978	889
Community land	–	–	1,608	6,849
Library	–	–	38	40
Museum	–	–	11	31
Roads and drainage	–	–	2,061	6,151
Other	–	–	502	–
Total other contributions – non-cash	–	–	5,198	13,960
Total other contributions	1,235	1,984	10,634	15,772
Total contributions	1,235	1,984	14,737	22,252
TOTAL GRANTS AND CONTRIBUTIONS	16,860	15,933	25,017	31,059

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Accounting policy for grants and contributions

Accounting policy from 1 July 2019

Grant income under AASB 15

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

The performance obligations are varied based on the agreement but include:

- Targets for digitalisation and specified image types for Library grant
- Specific recycling and Waste strategies
- Additional educator and specified number of hours of employment

Payment terms vary depending on the terms of the grant; cash is received upfront for some grants and on the achievement of certain payment milestones for others.

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

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

Capital grants

Capital grants received for the acquisition or construction of an item of IPP&E where the agreement is enforceable and Council retains control of the asset are recognised as revenue as, and when, the obligation to construct or purchase is completed.

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

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

Contributions

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

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

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

Accounting policy prior to 1 July 2019

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
(f) Unspent grants and contributions – external restrictions		
Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.		
Operating grants		
Unexpended at the close of the previous reporting period	625	231
Reclassification as operating from capital	292	431
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	121
Add: operating grants received for the provision of goods and services in a future period	443	–
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(158)
Less: operating grants received in a previous reporting period now spent and recognised as income	(583)	–
Unexpended and held as externally restricted assets (operating grants)	777	625

Details of the nature and period of the unspent operating grants are as follows:

Nature	Within 12 months	Greater than 12 months	Total
	\$ '000	\$ '000	
		-	
Recreation & Culture	213	-	213
Waste Management	481	-	481
Transport	83	-	83
Total	777	-	777

Capital grants

Unexpended at the close of the previous reporting period	3,897	6,607
Reclassification from capital as operating	(292)	(431)
Add: capital grants recognised as income in the current period but not yet spent (2019 only)	–	691
Add: capital grants received for the provision of goods and services in a future period	51	–
Less: capital grants received in a previous reporting period now spent and recognised as income	(2,855)	–
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(2,970)
Unexpended and held as externally restricted assets (capital grants)	801	3,897

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	2020 \$ '000	2019 \$ '000
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Details of the nature and period of the unspent capital grants are as follows:

Nature	Within 12 months \$ '000	Greater than 12 months \$ '000	Total \$ '000
Recreation & Culture	40	-	40
Waste Management	750	-	750
Transport	11	-	11
Total	801	-	801

Contributions

Unexpended at the close of the previous reporting period	29,420	24,389
Add: contributions recognised as income in the current period but not yet spent	4,438	7,044
Add: contributions received for the provision of goods and services in a future period	-	-
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate (2019 only)	-	-
Less: contributions recognised in a previous reporting period now spent	(3,849)	(2,013)
Unexpended and held as externally restricted assets (contributions)	30,009	29,420

Details of the nature and period of the unspent contributions are as follows:

Nature	Within 12 months \$ '000	Greater than 12 months \$ '000	Total \$ '000
Developer Contributions	9,568	19,920	29,488
Museum/Civic Services	100	-	100
Roads & Drainage	287	-	287
RMS Contributions	93	-	93
Parks & Gardens	41	-	41
Total	10,089	19,920	30,009

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

	AASB 15 2020 \$ '000	AASB 1058 2020 \$ '000
(g) Disaggregation of material revenue streams		
The following shows the revenue recognition pattern for the material revenue streams of Council. ¹		
Revenue recognition at a point in time		
Rates and annual charges	–	184,255
User charges and fees *	8,094	961
Waste disposal fees	34,953	–
State road maintenance	7,242	–
Parking station/meters	5,807	–
Fines	–	4,034
Other revenue	2,896	1,263
Newcastle Airport	7,165	3,890
Contribution provided for capital purpose - Airport	–	3,173
Financial assistance grants	–	12,975
Developer contributions	–	4,103
Grants and non-developer contributions provided for operating purposes	51	3,654
Grants and non-developer contributions provided for capital purposes	–	9,005
	<u>66,208</u>	<u>227,313</u>
Revenue recognised over time		
User charges and fees *	287	–
Waste collection	3,997	–
Other revenue	359	–
Newcastle Airport	1,672	–
Grants provided for capital purpose - Airport	–	7,169
Grants and non-developer contributions provided for operating purposes	179	–
Grants and non-developer contributions provided for capital purposes	–	1,567
	<u>6,494</u>	<u>8,736</u>

(*) Excludes material user charges and fees that are disclosed separately

(1) Out of scope revenue streams total \$1.48m

Notes to the Financial Statements

for the year ended 30 June 2020

Note 4. Interest and investment income

	2020 \$ '000	2019 \$ '000
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	232	178
– Cash and investments	7,110	10,435
Fair value adjustments		
– Movements in investments at fair value through profit and loss	(204)	405
Amortisation of premiums and discounts		
– Debt securities at amortised cost / held to maturity investments	(45)	(56)
Finance income on the net investment in the lease	–	–
<u>Total Interest and investment income</u>	<u>7,093</u>	<u>10,962</u>

Accounting policy for interest and investment revenue

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

	2020	2019
	\$ '000	Restated \$ '000
(a) Employee benefits and on-costs *		
Salaries and wages	81,046	74,797
Employee termination costs	809	2,227
Employee leave entitlements (ELE)	13,847	14,212
Superannuation	10,041	9,490
Workers' compensation insurance	2,649	2,854
Fringe benefit tax (FBT)	618	599
Other *	7	9
Total employee costs	109,017	104,188
Less: capitalised costs	(4,135)	(4,267)
<u>TOTAL EMPLOYEE COSTS EXPENSED</u>	<u>104,882</u>	<u>99,921</u>

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 22 for more information.

(*) Reclassification has occurred on comparative figures for this line item

	2020	2019
Notes	\$ '000	\$ '000
(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on leases	1,360	–
Interest on loans	3,564	3,748
Total interest bearing liability costs	4,924	3,748
Less: capitalised costs	–	(242)
Total interest bearing liability costs expensed	4,924	3,506
(ii) Other borrowing costs		
Discount adjustments relating to movements in provisions (other than ELE)		
– Remediation liabilities	17 55	1,663
Total other borrowing costs	55	1,663
<u>TOTAL BORROWING COSTS EXPENSED</u>	<u>4,979</u>	<u>5,169</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

Accounting policy for borrowing costs

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

	2020	2019
	\$ '000	Restated \$ '000
(c) Materials and contracts *		
Raw materials and consumables *	25,899	24,351
Contractor and consultancy costs *	45,161	40,230
Auditors remuneration	274	302
Legal expenses:		
- Other	1,061	600
Expenses from short-term leases (2020 only)	179	–
Expenses from leases of low value assets (2020 only)	10	–
Variable lease expense relating to usage (2020 only)	447	–
Operating leases expense (2019 only):		
– Other *	–	955
Other *	360	430
Total materials and contracts	<u>73,391</u>	<u>66,868</u>
TOTAL MATERIALS AND CONTRACTS	<u>73,391</u>	<u>66,868</u>

Accounting policy for materials and contracts

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

Operating leases (2019 only)

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

Auditor remuneration

During the year, the following fees were incurred for services provided Council's auditor:

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

Audit and review of financial statements	149	137
Total fees paid or payable to the NSW Auditor-General	<u>149</u>	<u>137</u>

Other services: Other firms**(i) Audit and other assurance services**

Other audit and assurance services	125	165
Total fees paid or payable to other firms	<u>125</u>	<u>165</u>

(*) Reclassification has occurred on comparative figures for this line item

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

		2020	2019
	Notes	\$ '000	Restated \$ '000
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Property, plant and equipment		6,931	6,472
Infrastructure		34,730	32,177
Intangibles - software	13	1,039	1,257
Intangibles - Newcastle Airport	13	84	68
Newcastle Airport		2,168	1,966
Right of use assets	15	4,180	–
Other assets		2,665	2,900
Less: capitalised depreciation		(133)	(199)
Total depreciation and amortisation costs		51,664	44,641
Impairment / revaluation decrement of IPP&E			
Operational land		2,296	–
Community land		1,856	–
Infrastructure		1,502	7
Crown land		618	–
Plant and equipment		–	3
Office equipment		–	70
Amounts taken through revaluation reserve		(6,272)	(7)
Total IPP&E impairment / revaluation decrement costs		-	73
Total depreciation, amortisation and impairment for intangibles and IPPE		51,664	44,714

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

Depreciation and amortisation is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in note 11 for IPPE assets, note 13 for intangible assets and note 15 for right of use assets.

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

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are no longer required to be tested for impairment under AASB 136. This is because these assets are assessed 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 2020

Note 5. 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.

	2020	2019
	\$ '000	Restated \$ '000
(e) Other expenses *		
Cost of sales	640	681
Bank charges	580	652
Councillor expenses – mayoral fee	98	96
Councillor expenses – councillors' fees	417	406
Councillor expenses (incl. mayor) – other (excluding fees above)	119	107
Insurance	3,124	2,930
Street lighting	2,719	4,056
Electricity	1,703	1,853
Telephone and communications	1,159	1,108
Training and travel *	992	869
Donations, contributions and assistance to other organisations (Section 356)	2,755	1,862
Contributions/levies to other levels of government		
– Emergency services levy (includes FRNSW, SES, and RFS levies)	3,353	3,047
– NSW government waste levy	28,948	32,667
Newcastle Airport	6,399	6,545
Rehabilitation and restoration expenses	1,697	17,782
S355 local committee working expenses	426	427
Volunteer services	768	789
Water	1,267	1,293
Write-down of inventories held for sale or distribution	–	20
Other	1,109	1,211
<u>TOTAL OTHER EXPENSES</u>	<u>58,273</u>	<u>78,401</u>

Accounting policy for other expenses

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

(*) Reclassification has occurred on comparative figures for this line item

Notes to the Financial Statements

for the year ended 30 June 2020

Note 6. Gain or loss from disposal of assets

	Notes	2020 \$ '000	2019 \$ '000
Property, plant and equipment – PPE (excl. investment property)	11		
Proceeds from disposal – property, plant and equipment		931	18,018
Less: carrying amount of property, plant and equipment sold/written off		(2,346)	(17,630)
Net gain/(loss) on disposal		(1,415)	388
Infrastructure	11		
Proceeds from disposal – infrastructure		–	–
Less: carrying amount of infrastructure assets sold/written off		(6,507)	(3,284)
Net gain/(loss) on disposal		(6,507)	(3,284)
Investments	7(b)		
Proceeds from disposal – investments		6,012	–
Less: carrying amount of investments sold		(5,994)	–
Net gain/(loss) on disposal		18	–
Non-current assets classified as ‘held for sale’	10		
Proceeds from disposal – non-current assets ‘held for sale’		–	2,650
Less: carrying amount of ‘held for sale’ assets sold/written off		–	(29)
Net gain/(loss) on disposal		–	2,621
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(7,904)	(275)

Accounting policy for disposal of assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(a). Cash and cash equivalents

	2020 \$ '000	2019 \$ '000
Cash and cash equivalents		
Cash at bank and on hand	41,909	19,192
Deposits at call	6,087	4,095
Total cash and cash equivalents	47,996	23,287

Accounting policy for cash and cash equivalents

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

Note 7(b). Investments

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Investments				
Financial assets at fair value through the profit and loss - held for trading	–	22,202	–	10,405
Debt securities at amortised cost	68,569	214,368	117,417	225,880
Total Investments	68,569	236,570	117,417	236,285
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	116,565	236,570	140,704	236,285
Financial assets at fair value through the profit and loss				
Managed funds	–	22,202	–	10,405
Total	–	22,202	–	10,405
Debt securities at amortised cost				
Term deposits – fixed rate	19,807	18,000	54,887	29,000
Term deposits – floating rate	8,500	37,000	8,000	36,500
Floating rate notes	38,262	119,012	46,496	143,294
Bonds	2,000	40,356	8,034	17,086
Total	68,569	214,368	117,417	225,880

Accounting policy for investments

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

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

Financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

Classification

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

- amortised cost
- fair value through profit and loss (FVTPL)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost are measured at fair value through profit or loss.

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Council's financial assets measured at fair value through profit or loss comprise investments in managed funds in the Statement of Financial Position.

Notes to the Financial Statements

for the year ended 30 June 2020

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

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Total cash, cash equivalents and investments	116,565	236,570	140,704	236,285
attributable to:				
External restrictions	28,489	26,008	23,639	33,922
Internal restrictions *	79,078	196,954	75,935	189,479
Unrestricted *	8,998	13,608	41,130	12,884
	<u>116,565</u>	<u>236,570</u>	<u>140,704</u>	<u>236,285</u>

	2020 \$ '000	2019 \$ '000
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended grants – general fund (2020 only)	1,240	–
Security bonds, deposits and retentions	1,861	1,556
External restrictions – included in liabilities	<u>3,101</u>	<u>1,556</u>

External restrictions – other

Developer contributions – general	29,488	28,626
Specific purpose unexpended grants (recognised as revenue) – general fund	338	4,523
Domestic waste management	11,771	12,975
Art Gallery – bequests and donations	1,610	1,636
Special rates - business districts	1,163	1,343
Rawson crown land reserve	3,302	2,912
Building better cities	3,202	3,195
Contributions to specific works programs	522	795
External restrictions – other	<u>51,396</u>	<u>56,005</u>

Total external restrictions

	<u>54,497</u>	<u>57,561</u>
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Internal restrictions *

Employees leave entitlements *	11,563	13,245
Works program - new and upgrade	26,456	29,134
Works program - priority projects (2012 SRV)	9,546	4,241
Works program - infrastructure backlog	136,754	111,430
Works program - specific projects	20,080	23,338
Newcastle airport	11,874	14,752
Self insurance claims	–	5,260
Section 355 committees and childcare	355	1,020
Superannuation - defined benefits	1,255	2,509
Waste management - remediation provision *	52,786	51,614
Works carried forward	5,128	8,871
Community facilities fund	235	–
Total internal restrictions	<u>276,032</u>	<u>265,414</u>

TOTAL RESTRICTIONS

	<u>330,529</u>	<u>322,975</u>
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(*) Reclassification has occurred on comparative figures for this line item

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

Note 8. Receivables

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Purpose				
Rates and annual charges	7,261	606	4,113	626
Interest and extra charges ¹	304	141	292	142
User charges and fees	15,724	–	13,922	–
Accrued revenues				
– Interest on investments	964	–	1,698	–
Government grants and subsidies	13	–	34	–
Net GST receivable	1,620	–	1,890	–
Infringement Processing Bureau – NSW state govt.	1,547	851	1,752	808
Total	27,433	1,598	23,701	1,576
Less: provision of impairment				
User charges and fees	(989)	–	(101)	–
Infringement Processing Bureau – NSW state govt.	(90)	(60)	(122)	(93)
Total provision for impairment – receivables	(1,079)	(60)	(223)	(93)
TOTAL NET RECEIVABLES	26,354	1,538	23,478	1,483

(1) Interest was charged on overdue rates and charges at 7.50% (2019: 7.50%). Generally all other receivables are non-interest bearing.

Externally restricted receivables

Domestic waste management	978	101	675	109
Stormwater management	89	11	61	11
Other				
– Special rates	65	–	19	–
– Environmental levy	–	1	1	2
Total external restrictions	1,132	113	756	122
Unrestricted receivables	25,222	1,425	22,722	1,361
TOTAL NET RECEIVABLES	26,354	1,538	23,478	1,483

2020
\$ '000

Movement in provision for impairment of receivables

Opening impairment allowance calculated under AASB 9	316
Impairment loss recognised	1,207
Movement through provision	(382)
Unused amounts reversed	(1)
Balance at the end of the year	1,140

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

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

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

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

Council uses the presentation that a financial asset is in default when the other party is unlikely to pay its credit obligations to Council in full, without recourse by the Council to actions such as realising security (if any is held).

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

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised. Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period. Council has considered the environmental impacts of COVID-19 on its receivables, however with the significant government support measures and Council initiatives being undertaken, CN has determined that no further adjustments are required.

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.

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

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

Rates and annual charges outstanding are secured against the property.

Newcastle City Council

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

Note 9. Inventories and other assets

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
(a) Inventories				
(i) Inventories at cost				
Stores and materials	1,101	–	1,151	–
<u>TOTAL INVENTORIES</u>	<u>1,101</u>	<u>–</u>	<u>1,151</u>	<u>–</u>
(b) Other assets				
Prepayments	2,398	562	5,509	549
Security Deposits	5,260	–	–	–
<u>TOTAL OTHER ASSETS</u>	<u>7,658</u>	<u>562</u>	<u>5,509</u>	<u>549</u>

Accounting policy for inventories and other assets**Stores and materials**

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 10. Non-current assets classified as held for sale

Details of assets and disposal groups

Council has no parcels of land or buildings classified as held for sale.

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

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

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

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

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 11. Infrastructure, property, plant and equipment

	as at 30/06/19			Asset movements during the reporting period						as at 30/06/20		
	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000	Renewals \$ '000	New assets \$ '000	Carrying value of disposals \$ '000	Depreciation \$ '000	Transfers \$ '000	Revaluation increments/ (decrements) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000
Capital WIP	57,317	(1,558)	55,759	4,920	30,799	(1,178)	–	(39,623)	–	52,235	(1,558)	50,677
Plant and equipment	46,173	(26,126)	20,047	6,802	948	(736)	(5,948)	937	–	51,545	(29,495)	22,050
Office equipment	3,125	(1,789)	1,336	–	193	(999)	(499)	2,492	–	3,760	(1,237)	2,523
Furniture and fittings	2,039	(1,112)	927	–	7,353	(11)	(402)	789	–	10,166	(1,510)	8,656
Land:												
– Operational	113,044	–	113,044	–	3,284	(212)	–	–	(2,296)	116,116	(2,296)	113,820
– Community	75,682	–	75,682	–	324	–	–	–	(1,856)	76,006	(1,856)	74,150
– Crown	34,521	–	34,521	–	–	–	–	–	(618)	34,521	(618)	33,903
– Under roads (post 30/6/08)	9,395	–	9,395	–	502	–	–	–	–	9,897	–	9,897
– Depreciable land improvements	3,463	(2,465)	998	–	193	–	(82)	–	–	3,656	(2,547)	1,109
Infrastructure:												
– Buildings	354,753	(165,291)	189,462	92	1,150	(193)	(8,611)	1,557	(1,502)	354,656	(172,701)	181,955
– Other structures	72,974	(43,845)	29,129	543	2,157	(279)	(3,566)	22,526	–	97,847	(47,337)	50,510
– Roads	619,987	(291,010)	328,977	2,794	2,250	(1,538)	(11,272)	3,863	11,896	690,961	(353,991)	336,970
– Bridges	37,187	(13,297)	23,890	1,772	–	(1,697)	(392)	156	1,567	53,586	(28,290)	25,296
– Footpaths	214,002	(98,971)	115,031	450	788	(560)	(4,603)	1,173	(21,800)	175,631	(85,152)	90,479
– Bulk earthworks (non-depreciable)	170,441	(157)	170,284	–	–	(10)	–	–	23,995	194,269	–	194,269
– Stormwater drainage	247,037	(81,597)	165,440	752	1,589	(574)	(2,961)	2,913	(51,463)	268,582	(152,886)	115,696
– Swimming pools	25,234	(15,888)	9,346	–	25	–	(367)	–	–	25,259	(16,255)	9,004
– Other open space/recreational assets	34,353	(17,961)	16,392	554	630	(49)	(1,419)	149	–	35,353	(19,096)	16,257
– Other infrastructure	79,941	(40,415)	39,526	905	69	(623)	(1,539)	2,874	–	81,700	(40,488)	41,212
Other assets:												
– Heritage collections	60,819	–	60,819	–	1,083	–	–	–	8,837	70,739	–	70,739
– Library books	15,158	(9,256)	5,902	–	664	(162)	(766)	–	–	14,976	(9,338)	5,638
– Other	20	(20)	–	–	–	–	–	–	–	20	(20)	–
Waste Management Asset	33,560	(9,919)	23,641	–	1,042	–	(1,899)	–	–	34,602	(11,818)	22,784
Newcastle Airport	48,762	(18,001)	30,761	–	20,470	(32)	(2,168)	–	–	68,353	(19,322)	49,031
Total Infrastructure, property, plant and equipment	2,358,987	(838,678)	1,520,309	19,584	75,513	(8,853)	(46,494)	(194)	(33,240)	2,524,436	(997,811)	1,526,625

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

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

	as at 30/06/18			Asset movements during the reporting period						as at 30/06/19		
	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000	Renewals \$ '000	New assets \$ '000	Carrying value of disposals \$ '000	Depreciation \$ '000	Transfers \$ '000	Revaluation increments/ (decrements) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation and impairment \$ '000	Net carrying amount \$ '000
Capital WIP	37,614	(1,558)	36,056	9,648	25,895	(291)	–	(15,549)	–	57,317	(1,558)	55,759
Plant and equipment	43,440	(22,827)	20,613	3,744	661	(165)	(5,791)	988	(3)	46,173	(26,126)	20,047
Office equipment	2,529	(1,298)	1,231	7	589	–	(421)	–	(70)	3,125	(1,789)	1,336
Furniture and fittings	1,939	(929)	1,010	58	42	–	(183)	–	–	2,039	(1,112)	927
Land:												
– Operational	116,372	–	116,372	–	283	(3,099)	–	(680)	168	113,044	–	113,044
– Community	60,832	–	60,832	–	6,702	–	–	–	8,148	75,682	–	75,682
– Crown	31,646	–	31,646	–	–	–	–	–	2,875	34,521	–	34,521
– Under roads (post 30/6/08)	5,055	–	5,055	–	1,448	–	–	–	2,892	9,395	–	9,395
– Depreciable land improvements	3,309	(2,448)	861	69	154	(30)	(77)	21	–	3,463	(2,465)	998
Infrastructure:												
– Buildings	355,797	(161,888)	193,909	3,765	6,342	(14,251)	(8,653)	8,335	15	354,753	(165,291)	189,462
– Other structures	73,703	(43,880)	29,823	534	766	(138)	(2,497)	641	–	72,974	(43,845)	29,129
– Roads	567,823	(260,512)	307,311	2,617	5,714	(1,378)	(10,489)	1,487	23,715	619,987	(291,010)	328,977
– Bridges	37,134	(12,924)	24,210	49	12	(17)	(384)	20	–	37,187	(13,297)	23,890
– Footpaths	195,560	(87,642)	107,918	1,074	1,554	(499)	(4,228)	975	8,237	214,002	(98,971)	115,031
– Bulk earthworks (non-depreciable)	157,558	(157)	157,401	–	–	(49)	–	3	12,929	170,441	(157)	170,284
– Stormwater drainage	228,114	(73,846)	154,268	793	1,312	(244)	(2,704)	815	11,200	247,037	(81,597)	165,440
– Swimming pools	25,234	(15,521)	9,713	–	–	–	(367)	–	–	25,234	(15,888)	9,346
– Other open space/recreational assets	30,604	(16,859)	13,745	149	1,930	(105)	(1,309)	1,982	–	34,353	(17,961)	16,392
– Other infrastructure	80,768	(39,775)	40,993	533	49	(533)	(1,546)	30	–	79,941	(40,415)	39,526
Other assets:												
– Heritage collections	59,439	–	59,439	–	1,030	–	–	350	–	60,819	–	60,819
– Library books	15,939	(9,771)	6,168	–	762	(98)	(930)	–	–	15,158	(9,256)	5,902
– Other	20	(20)	–	–	–	–	–	–	–	20	(20)	–
Waste Management Asset	30,339	(7,949)	22,390	–	3,221	–	(1,970)	–	–	33,560	(9,919)	23,641
Newcastle Airport	46,068	(16,123)	29,945	–	2,799	(17)	(1,966)	–	–	48,762	(18,001)	30,761
Total Infrastructure, property, plant and equipment	2,206,836	(775,927)	1,430,909	23,040	61,265	(20,914)	(43,515)	(582)	70,106	2,358,987	(838,678)	1,520,309

Notes to the Financial Statements

for the year ended 30 June 2020

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

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that they are 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 is acquired by Council at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

Land, bulk earthworks and heritage assets are 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:

	Years		Years
Office equipment	3 to 5	Sealed roads: surface	19 to 80
Furniture and fittings	2 to 25	Sealed roads: pavement	120
Computer equipment	3 to 5	Sealed roads: kerb and gutter	80
Motor vehicles	4 to 5	Unsealed roads: surface	30
Other plant and equipment	3 to 50	Bridge: substructure, superstructure	75 to 100
Library books	3 to 100	Bridge: handrail, guardrail	50 to 100
Buildings ¹	20 to 100	Footways	30 to 50
Other structures ²	5 to 200	Other open space/recreational assets	7 to 60
Drainage	20 to 100	Other infrastructure	15 to 100
Swimming pools	50 to 100	Newcastle airport - plant & equipment	2 to 100
Roadside furniture	20	Newcastle airport - leasehold	3 to 33

¹ 100 year life is only applicable to building shell on 4 culturally significant buildings.

² 200 year life is only applicable to one leading light tower.

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

Land under roads

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

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

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

Crown reserves

Crown reserves under Council's care and control are recognised as assets of Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated. Where the Crown reserves are under a lease arrangement they are accounted for under AASB 16 Leases, refer to Note 15.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties

	2020 \$ '000	2019 \$ '000
Owned investment property		
Investment property on hand at fair value	16,213	18,970
Total owned investment property	16,213	18,970

(a) Reconciliation – owned investment property

Reconciliation of annual movement:

Opening balance	18,970	18,580
– Net gain/(loss) from fair value adjustments	(2,757)	(531)
– Other movements	–	921
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	16,213	18,970

(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 arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The 2020 revaluations for two of Council's investment properties were based on independent assessments made by Baker & Magin Valuers.

(c) Contractual obligations at reporting date (2019 only)

Refer to Note 21 for disclosures relating to any capital and service obligations that have been contracted.

	2020 \$ '000	2019 \$ '000
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(d) Leasing arrangements – Council as lessor (2019 only)

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

Future minimum lease payments receivable under non-cancellable investment property operating leases not recognised in the financial statements are receivable as follows:

Within 1 year	–	1,404
Later than 1 year but less than 5 years	–	5,520
Later than 5 years	–	9,404
Total minimum lease payments receivable	–	16,328

Notes to the Financial Statements

for the year ended 30 June 2020

Note 12. Investment properties (continued)

	2020 \$ '000	2019 \$ '000
(e) Investment property income and expenditure – summary (2019 only)		
Rental income from investment property:		
Rental Income	–	1,552
Direct operating expenses on investment property:		
– that generated rental income	–	(232)
– that did not generate rental income	–	(190)
Net revenue contribution from investment property	–	1,130
plus:		
Fair value movement for year	–	(531)
Total income attributable to investment property	–	599

Accounting policy for investment property

Investment property, principally comprising freehold buildings and land, is held for long-term rental yields and is not occupied by Council. Changes in fair values are recorded in the Income Statement as part of other income.

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.

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

Note 13. Intangible assets

	2020	2019
	\$ '000	Restated \$ '000
Software *		
Opening values at 1 July		
Gross book value	8,787	8,453
Accumulated amortisation	(4,283)	(3,027)
Net book value – opening balance	4,504	5,426
Movements for the year		
– Purchases	201	177
– Development costs	125	158
– Amortisation charges	(1,039)	(1,257)
Closing values at 30 June		
Gross book value	9,113	8,787
Accumulated amortisation	(5,322)	(4,283)
Total Software – net book value	3,791	4,504
Newcastle Airport *		
Opening values at 1 July		
Gross book value	1,697	262
Accumulated amortisation	(102)	(34)
Net book value – opening balance	1,595	228
Movements for the year		
– Purchases	166	1,435
– Amortisation charges	(84)	(68)
Closing values at 30 June		
Gross book value	1,864	1,697
Accumulated amortisation	(186)	(102)
Total Newcastle Airport – net book value	1,678	1,595
TOTAL INTANGIBLE ASSETS – NET BOOK VALUE	5,469	6,099

(*) Reclassification has occurred on comparative figures for these line items

Accounting policy for intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to sixty years. Software 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Contract assets and liabilities

(a) Contract assets

Council has not identified any contract assets at balance date.

	Notes	2020 Current \$ '000	2020 Non-current \$ '000
(b) Contract liabilities			
Grants and contributions received in advance:			
Unexpended capital grants (to construct Council controlled assets)	(i)	750	–
Unexpended operating grants (received prior to performance obligation being satisfied)	(ii)	175	315
Total grants received in advance		925	315
Other income received in advance:			
Deposits received in advance of services provided	(iii)	3,042	379
Funds received prior to performance obligations (AASB 15)	(ii)	2,500	21
Total other income received in advance		5,542	400
Total contract liabilities		6,467	715

Notes

(i) Council has received funding for the construction of an organics recycling facility. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

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

(iii) Deposits received in advance are recorded as a contract liability upon receipt and recognised as revenue when the service has been provided.

	2020 \$ '000
Revenue recognised (during the financial year) from opening contract liability balances	
Grants and contributions received in advance:	
Capital grants (to construct Council controlled assets)	791
Operating grants (received prior to performance obligation being satisfied)	289
Other income received in advance:	
Deposits received in advance of services provided	506
Funds received prior to performance obligations (AASB 15)	1,939
Total Revenue recognised during the financial year that was included in the contract liability balance at the beginning of the period	3,525

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Contract assets and liabilities (continued)

Significant changes in contract assets and liabilities

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

Accounting policy for contract assets and liabilities

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

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

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

	2020 Current \$ '000	2020 Non-current \$ '000
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(c) Contract cost assets**Total Contract cost assets**

—	—
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Accounting policy for contract cost assets

Council recognises assets relating to the costs incurred to fulfil a contract that are directly related to the contract provided they will be recovered through performance of the contract.

Costs to fulfill a contract

Where costs are incurred to fulfil a contract, they are accounted for under the relevant accounting standard (if appropriate), otherwise if the costs relate directly to a contract, the costs generate or enhance resources of Council that will be used to satisfy performance obligations in the future and the costs are expected to be recovered then they are capitalised as contract costs assets and released to the income statement on a systematic basis consistent with the transfer to the customer of the goods or services to which the asset relates.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases

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

(i) Council as a lessee

Council has leases over a range of assets including land and buildings, plant and machinery, storage and waste collection. Information relating to the leases in place and associated balances and transactions is provided below.

Terms and conditions of leases**Land & Buildings**

Council leases two buildings, one for their corporate offices in Newcastle and another for administration offices at Summerhill Waste Management Centre. The leases are between 5 and 15 years, with options of renewal. The leases contain annual pricing mechanisms based on either fixed increases or CPI movements at each anniversary of the lease inception. The renewal options are reasonably certain to be exercised at Council's discretion.

Plant & Equipment

Council leases items of plant and equipment with a lease term of 3 years, with some having options of renewal. The lease payments are fixed during the lease term. The renewal options are reasonably certain to be exercised at Council's discretion.

Waste

Council has a lease for recycling services; the lease being for a period of ten years with a one year option of renewal. The renewal option is to be exercised at Council's discretion and has not been included in the lease calculations. The lease contains an annual pricing mechanism based on fixed increases at each anniversary of the lease inception. The lease includes variable payments based on usage.

Storage

Council had a lease for storage facilities; the lease was for a period of 3 years with options of renewal. This lease was terminated on 30 November 2019.

Newcastle Airport

Newcastle Airport is lessee under a Head Lease with the Commonwealth for the land on which it operates. The lease period ends on 31 December 2075, with 3 x 10 year option periods thereafter. The lease payments include a fixed lease component and an amount equal to 4% of adjusted revenue. The leased asset and liability recognised in the year ended 30 June 2020 reflect the minimum value of future lease payments for the fixed component of the future lease payments in accordance with AASB 16.

Extension options

Council includes options in the building leases to provide flexibility and certainty to Council operations and reduce costs of moving premises; and the extension options are at Council's discretion.

At commencement date and each subsequent reporting date, Council assesses where it is reasonably certain that the extension options will be exercised.

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases (continued)

	Plant and Machinery \$ '000	Land and Buildings \$ '000	Waste \$ '000	Storage \$ '000	Newcastle Airport \$ '000	Total \$ '000
(a) Right of use assets						
Opening balance at 30 June 2019	583	–	–	96	–	679
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	1,342	32,963	6,755	414	342	41,816
Additions to right-of-use assets	–	–	–	–	–	–
Adjustments to right-of-use assets due to re-measurement of lease liability	–	–	440	(404)	–	36
Depreciation charge	(631)	(1,685)	(1,707)	(106)	(4)	(4,133)
Impairment of right-of-use assets	–	–	–	–	–	–
<u>RIGHT OF USE ASSETS</u>	1,294	31,278	5,488	–	338	38,398

	2020 Current \$ '000	2020 Non-current \$ '000
Lease liabilities	3,258	36,886
<u>TOTAL LEASE LIABILITIES</u>	3,258	36,886

(i) Maturity analysis

The maturity analysis of lease liabilities is based on contractual undiscounted cash flows and therefore the amounts will not be the same as the recognised lease liability in the statement of financial position:

	< 1 year \$ '000	1 – 5 years \$ '000	> 5 years \$ '000	Total \$ '000	Total per Statement of Financial Position \$ '000
Cash flows	4,623	17,462	31,123	53,208	40,144
				2020 Current \$ '000	2020 Non-current \$ '000
Total lease liabilities relating to unrestricted assets				3,258	36,886
<u>Total lease liabilities</u>				3,258	36,886

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases (continued)

	2020 \$ '000
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(c) Income Statement

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

Interest on lease liabilities	1,360
Variable lease payments based on usage not included in the measurement of lease liabilities	446
Depreciation of right of use assets	4,180
Impairment of right of use assets	–
Expenses relating to short-term leases	179
Expenses relating to low-value leases	10
	6,175

(d) Statement of Cash Flows

Total cash outflow for leases	4,955
	4,955

Leases at significantly below market value – concessionary / peppercorn leases

Council has multiple leases at significantly below market for land and buildings which are used for:

- Storage for the excess equipment for events
- Storage for Museum collection

The leases are around 2 years and require payments of a maximum amount of \$1,000 per year. The use of the right-to-use asset is restricted by the lessors to specified community services which Council must provide, these services are detailed in the leases.

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

Accounting policy**Accounting policies under AASB 16 – applicable from 1 July 2019**

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases (continued)

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

Exceptions to lease accounting

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

Leases at significantly below market value / concessionary leases

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

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

Refer to Note 5c and Note 16.

(ii) Council as a lessor

(e) Operating leases

Council leases out a number of properties and plant and equipment to community groups; these leases have been classified as operating leases for financial reporting purposes.

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

	2020 \$ '000
(i) Operating lease income	
Investment properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	1,483
Other lease income	
Stockton Beach Holiday Park hire	2,662
Other Council property	1,579
Facility hire	1,468
Equipment hire	76
Leaseback fees - council vehicles	335
Newcastle Airport	1,357
Other	32
Total income relating to operating leases	8,992
(ii) Operating lease expenses	
Investment properties	
Direct operating expenses that generated rental income	(235)
Direct operating expenses that did not generate rental income	(335)
Other leased assets	
Other	(766)
Total expenses relating to operating leases	(1,336)
(iii) Repairs and maintenance: investment property	
Contractual obligations for future repairs and maintenance	-
Other	-
Total repairs and maintenance: investment property	-

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Leases (continued)

	2020 \$ '000
(iv) Maturity analysis of contractual lease income	
Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:	
< 1 year	7,366
1–2 years	5,084
2–3 years	4,526
3–4 years	2,621
4–5 years	1,230
> 5 years	10,194
Total undiscounted contractual lease income receivable	31,021

Accounting policy

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

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

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

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

Newcastle City Council

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

Note 16. Payables and borrowings

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Payables				
Government departments and agencies	189	–	179	–
Prepaid rates *	1,962	–	1,901	–
Goods and services	21,992	–	30,197	–
Accrued expenses:				
– Salaries and wages	3,924	–	2,985	–
– Newcastle Airport accruals	3,920	3,280	3,072	–
– Other expenditure accruals	453	–	455	–
Security bonds, deposits and retentions	1,861	–	1,556	–
Total payables	34,301	3,280	40,345	–
Income received in advance (2019 only)				
Payments received in advance *	–	–	2,708	5,371
Total income received in advance	–	–	2,708	5,371
Borrowings				
Loans – secured	4,179	46,693	3,866	50,657
Loans – Newcastle Airport	–	11,850	–	6,250
Total borrowings	4,179	58,543	3,866	56,907
TOTAL PAYABLES AND BORROWINGS	38,480	61,823	46,919	62,278

(*) Reclassification has occurred on comparative figures for this line item

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Payables and borrowings (continued)

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

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

Total payables and borrowings	–	–
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(b) Changes in liabilities arising from financing activities

	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Acquisition due to change in accounting policy \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	54,523	(3,651)	–	–	–	–	50,872
Loans - Newcastle Airport	6,250	5,600	–	–	–	–	11,850
TOTAL	60,773	1,949	–	–	–	–	62,722

	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance \$ '000	Cash flows \$ '000	Acquisition \$ '000	Fair value changes \$ '000	Other non-cash movement \$ '000	Closing balance \$ '000
Loans – secured	57,580	(3,057)	–	–	–	54,523
Loans - Newcastle Airport	6,250	–	–	–	–	6,250
TOTAL	63,830	(3,057)	–	–	–	60,773

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Payables and borrowings (continued)

	2020 \$ '000	2019 \$ '000
(c) Financing arrangements		
Total financing facilities available at reporting date:		
– Intraday facility	3,000	3,000
– Credit cards/purchase cards	350	350
– Loans - secured	50,872	54,523
– Loans - Newcastle Airport	25,000	25,000
Total financing arrangements	79,222	82,873
Drawn facilities at reporting date:		
– Credit cards/purchase cards	18	31
– Loans - secured	50,872	54,523
– Loans - Newcastle Airport	11,850	6,250
Total drawn financing arrangements	62,740	60,804
Undrawn facilities at reporting date:		
– Intraday facility	3,000	3,000
– Credit cards/purchase cards	332	319
– Loans - secured	–	–
– Loans - Newcastle Airport	13,150	18,750
Total undrawn financing arrangements	16,482	22,069

Additional financing arrangements information

Breaches and defaults

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

Security over loans

Security provided by Council is by way of a deemed charge over Council's rates income.

Bank overdrafts

Council has an intraday overdraft facility on its main operating account which is utilised on occasion.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Payables and borrowings (continued)

Accounting policy for payables and borrowings

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

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

Payables

These amounts represent liabilities for goods and services provided to 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.

Loan covenants

Under the terms of a major borrowing facility, Council is required to comply with the following financial covenant:

- The debt ratio does not exceed 40%

Council has complied with this covenant throughout the reporting period. As at 30 June 2020 the debt ratio was 18%.

Finance leases (2019 only)

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions

	2020 Current \$ '000	2020 Non-current \$ '000	2019 Current \$ '000	2019 Non-current \$ '000
Provisions				
Employee benefits				
Annual leave	9,718	–	8,636	–
Sick leave	6,282	–	7,228	–
Long service leave	19,130	912	20,248	675
Termination benefits	647	–	2,023	–
Other	11	–	–	–
Sub-total – employee benefits	35,788	912	38,135	675
Other provisions				
Asset remediation	565	65,829	10,691	53,457
Self insurance – workers compensation	940	3,760	960	3,850
Sub-total – other provisions	1,505	69,589	11,651	57,307
TOTAL PROVISIONS	37,293	70,501	49,786	57,982

	2020 \$ '000	2019 \$ '000
Current provisions not expected to be settled within the next 12 months	24,225	24,890

(a) Description of and movements in non-employee benefit provisions

	Other provisions		
	Asset remediation \$ '000	Self insurance \$ '000	Total \$ '000
2020			
At beginning of year	64,148	4,810	68,958
Changes to provision:			
– Revised costs	285	1,610	1,895
– Revised discount rate	2,455	40	2,495
Amounts used (payments)	(549)	(1,760)	(2,309)
Unwinding of discount	55	–	55
Total other provisions at end of year	66,394	4,700	71,094
2019			
At beginning of year	41,602	4,200	45,802
– Revised costs	16,157	1,610	17,767
– Revised discount rate	4,726	130	4,856
Amounts used (payments)	–	(1,130)	(1,130)
Unwinding of discount	1,663	–	1,663
Total other provisions at end of year	64,148	4,810	68,958

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions (continued)

Nature and purpose of non-employee benefit provisions

Asset remediation

The provision for asset remediation represents the present value of the future estimated costs Council will incur to remove, restore and remediate sites as a result of past and/or current operations.

Self insurance

Self insurance provisions represent both (i) claims incurred but not reported and (ii) claims reported and estimated as a result of Council being a self insurer up to certain levels of excess.

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

Liabilities for salaries and wages (including annual leave and termination benefits expected to be wholly settled within 12 months of the reporting date within which the services are rendered) are measured at the amounts expected to be paid when the liabilities are settled. The liabilities for annual leave and termination benefits are recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

Liabilities for long service leave, accumulating sick leave and annual leave which are not expected to be wholly settled within 12 months of the reporting date are recognised in the provision for employee benefits and are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

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 reporting date on Commonwealth 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 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 Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

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

Restoration

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

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Provisions (continued)

the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Rehabilitation

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

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

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

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

Self insurance

Council has decided to self insure for workers compensation. A provision for self insurance has been made to recognise outstanding claims. Council also maintains cash security with the State Insurance Regulatory Authority (SIRA) to meet expected future claims; refer to Note 9.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment (IPPE) revaluation reserve is used to record increments and decrements in the revaluation of infrastructure, property, plant and equipment.

(b) Changes in accounting policies due to adoption of new accounting standards

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

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

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

AASB 15 and AASB 1058

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

Council has not adopted the completed contract expedient and therefore has not excluded revenue which was fully recognised in previous years in accordance with the former accounting standards and pronouncements.

Revenue recognition from contracts with customers

Prior to the adoption of AASB15, Council recognised revenue upon receipt. Under AASB 15, contracts are assessed to identify enforceable rights and obligations and specific performance obligations. This change has resulted in the establishment of contract liabilities where the customer has paid upfront fees but the performance obligations are not yet satisfied. Council has contract liabilities for unapproved development applications, specific purpose grants, tree planting and Kilgour Prize entry fees.

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

Revenue is recognised as and when each performance obligation is satisfied by transferring control of a promised good or service to the customer. AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. Council has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue will be recognised when Council has delivered the performance obligation instead of over the term of the contract.

Licences

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

Prepaid rates

Under AASB 1058, prepaid rates are recognised as a financial liability until the beginning of the rating period.

Grants – operating

Under AASB 1004, most grant income was recognised as revenue on receipt. Under AASB 15, where an agreement is enforceable and contains sufficiently specific performance obligations, the revenue is either recognised over time as the work is performed, or recognised at the point in time that the control of the services passes to the customer. Where a performance obligation has not been satisfied, a contract liability has been recognised.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors (continued)**Grants – capital**

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

Rental income

As a result of the implementation of AASB 16 *Leases*, rental income falls under the definition of a lease. Consequently, user fees for venue/facility hire, event bookings, permanent parking rentals, caravan park fees and rental income from investment properties and other Council properties are now disclosed under Leases.

Changes in presentation

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

For example:

- Additional line items for contract liabilities have been created
- Movement of balances between income and contract liabilities
- Income received in advance has been reclassified from within the Payables and borrowings note to the Contract assets and liabilities note
- Rental income has been reclassified from within the revenue notes to the Leases note

\$ '000	Balance at 1 July 2019
Opening contract balances at 1 July 2019	
Contract assets	
– Under AASB 15	–
– Under AASB 1058	–
Total Contract assets	<u>–</u>
Contract liabilities	
– Under AASB 15	1,368
– Under AASB 1058	1,694
Total Contract liabilities	<u>3,062</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors (continued)

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

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

Statement of Financial Position as at 30 June 2020

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific- ation	Remeasur- ement	Carrying amount under previous revenue standards	Notes
Current assets					
Cash and cash equivalents	47,996	–	–	47,996	
Investments	68,569	–	–	68,569	
Receivables	26,354	–	–	26,354	
Inventories	1,101	–	–	1,101	
Other	7,658	–	–	7,658	
Total current assets	151,678	–	–	151,678	
Current liabilities					
Payables	34,301	–	–	34,301	
Income received in advance	–	3,649	–	3,649	(i)
Contract liabilities	6,467	(3,649)	(2,818)	–	(i)
Lease liabilities	3,258	–	–	3,258	
Borrowings	4,179	–	–	4,179	
Provisions	37,293	–	–	37,293	
Total current liabilities	85,498	–	(2,818)	82,680	
Non-current assets					
Investments	236,570	–	–	236,570	
Receivables	1,538	–	–	1,538	
Infrastructure, property, plant and equipment	1,526,625	–	–	1,526,625	
Investment property	16,213	–	–	16,213	
Intangible assets	5,469	–	–	5,469	
Right of use assets	38,398	–	–	38,398	
Investments accounted for using equity method	898	–	–	898	
Other	562	–	–	562	
Total non-current assets	1,826,273	–	–	1,826,273	
Non-current liabilities					
Payables	3,280	–	–	3,280	
Income received in advance	–	400	–	400	(i)
Contract liabilities	715	(400)	(315)	–	(i)
Lease liabilities	36,886	–	–	36,886	
Borrowings	58,543	–	–	58,543	
Provisions	70,501	–	–	70,501	
Total Non-current liabilities	169,925	–	(315)	169,610	
Net assets	1,722,528	–	3,133	1,725,661	

continued on next page ...

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors (continued)

\$ '000	Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058	Reclassific-ation	Remeasur-ement	Carrying amount under previous revenue standards	Notes
Equity					
Accumulated surplus	1,491,804	–	3,133	1,494,937	
Revaluation reserves	230,724	–	–	230,724	
Council equity interest	1,722,528	–	3,133	1,725,661	
Total equity	1,722,528	–	3,133	1,725,661	

(i) Transfer of part of the contract liability to income received in advance and elimination of funds to construct an asset to be controlled by Council and other funds under AASB 15 which have been received prior to the satisfaction of performance obligations.

Income Statement for the year ended 30 June 2020

\$ '000	Income Statement and comprehensive income under AASB 15 and AASB 1058	Reclassific-ation	Remeasur-ement	Income Statement and comprehensive income under previous revenue standards	Notes
<u>Income from continuing operations</u>					
Rates and annual charges	184,255	–	11	184,266	(i)
User charges and fees	74,067	5,595	1,882	81,544	(i), (ii)
Other revenues	10,037	3,062	–	13,099	(ii)
Grants and contributions provided for operating purposes	16,860	335	490	17,685	(i), (ii)
Grants and contributions provided for capital purposes	25,017	–	750	25,767	(i)
Interest and investment income	7,093	–	–	7,093	
Rental income	8,992	(8,992)	–	–	
Total Income from continuing operations	326,321	–	3,133	329,454	
Total Expenses from continuing operations	304,923	–	–	304,923	
Total Operating result from continuing operations	21,398	–	3,133	24,531	
Net operating result for the year	21,398	–	3,133	24,531	
Total comprehensive income	(11,842)	–	3,133	(8,709)	

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

(ii) Transfer of rental income to other revenues as a result of unwinding the combined impact of adopting the new standards. Under AASB 16 Leases, rental income falls under the definition of a lease.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors (continued)

Financial statement impact of adoption of AASB 15 and AASB 1058

Statement of Financial Position as at 1 July 2019

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Contract assets	–	–	–
Total assets	1,955,507	–	1,955,507
Contract liabilities	–	3,062	3,062
Total liabilities	216,965	3,062	220,027
Accumulated surplus	1,474,478	(3,062)	1,471,416
Total equity	1,738,542	(3,062)	1,735,480

AASB 16

Council as a lessee

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

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

Practical expedients used on transition

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

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

Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$42.49m and \$43.60m respectively at 1 July 2019.

The weighted average lessee's incremental borrowing rate applied to lease liabilities from 1 July 2019 was 3.54%.

\$ '000	Balance at 1 July 2019
Operating lease commitments at 30 June 2019 per Council financial statements	765

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Accumulated surplus, revaluation reserves, changes in accounting policies, accounting estimates and errors (continued)

\$ '000	Balance at 1 July 2019
Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases	
Operating lease commitments at 30 June 2019 per Council financial statements	765
Add:	
Contracts not accounted for as operating lease commitments last year	30,844
Extension options reasonably certain to be exercised not included in the commitments note	12,083
Less:	
Short-term leases included in commitments note	(62)
Other	(26)
Lease liabilities recognised at 1 July 2019	<u>43,604</u>

Council as a lessor

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16.

Statement of Financial Position as at 1 July 2019

\$ '000	Original Balance 1 July, 2019	Impact Increase/ (decrease)	Restated Balance 1 July, 2019
Rights-of-use assets	–	42,494	42,494
Total assets	<u>1,955,507</u>	<u>42,494</u>	<u>1,998,001</u>
Leases	–	43,604	43,604
Total liabilities	<u>216,965</u>	<u>43,604</u>	<u>260,569</u>
Accumulated surplus	1,474,478	(1,110)	1,473,368
Total equity	<u>1,738,542</u>	<u>(1,110)</u>	<u>1,737,432</u>

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Statement of cash flow information

	Notes	2020 \$ '000	2019 \$ '000
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	47,996	23,287
Balance as per the Statement of Cash Flows		47,996	23,287
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		21,398	40,446
Adjust for non-cash items:			
Depreciation and amortisation		51,664	44,641
Net losses/(gains) on disposal of assets		7,904	275
Non-cash capital grants and contributions		(5,918)	(13,959)
Adoption of AASB 15/1058		(3,062)	–
Reversal of prior year IPP&E revaluation decrements / impairment previously costed direct to the P&L		–	(3,475)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investments classified as 'at fair value' or 'held for trading'		204	(405)
– Investment property		2,757	531
Amortisation of premiums, discounts and prior period fair valuations			
– Financial assets at amortised cost / held to maturity (2019)		45	56
Share of net (profits)/losses of associates/joint ventures using the equity method		72	95
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(3,754)	(1,631)
Increase/(decrease) in provision for impairment of receivables		823	(258)
Decrease/(increase) in inventories		50	43
Decrease/(increase) in other current assets		(2,162)	(2,567)
Increase/(decrease) in payables		(8,205)	3,418
Increase/(decrease) in other accrued expenses payable		937	(96)
Increase/(decrease) in other liabilities		(3,575)	152
Increase/(decrease) in contract liabilities		7,182	–
Increase/(decrease) in provision for employee benefits		(2,110)	2,795
Increase/(decrease) in other provisions		2,136	23,156
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		66,386	93,217
(c) Non-cash investing and financing activities			
Other dedications		5,918	13,959
Total non-cash investing and financing activities		5,918	13,959

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Interests in other entities

	Council's share of net income		Council's share of net assets	
	2020 \$ '000	2019 \$ '000	2020 \$ '000	2019 \$ '000
Associates	(72)	(95)	898	970
Total	(72)	(95)	898	970

(a) Joint arrangements

Joint operations

Principal activity	Place of business	Interest in ownership		Interest in voting	
		2020 %	2019 %	2020 %	2019 %

(a) Council is involved in the following joint operations (JO's)

Name of joint operation:

Newcastle Airport Partnership	Civil aviation facilities	Williamtown	50%	50%	50%	50%
Greater Newcastle Aerotropolis Partnership	Civil aviation facilities	Williamtown	50%	50%	50%	50%

Council has entered into two joint arrangements; Newcastle Airport Partnership, and Greater Newcastle Aerotropolis Partnership. Both entities have a principal place of business of Williamtown, NSW. Under these arrangements, the partners hold rights to their share of assets and liabilities of the entities, and their unanimous consent is required for decisions regarding the relevant activities of the entities. Council has therefore classified these arrangements as joint operations and has included its interests in the assets, liabilities, revenue and expenses of the partnerships in the appropriate line items of the Balance Sheet and Income Statement respectively.

Accounting policy for joint arrangements

Council has determined that it has joint operations.

Joint operations

In relation to its joint operations, where Council has the rights to the individual assets and obligations arising from the arrangement, Council has recognised:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

These figures are incorporated into the relevant line item in the primary statements.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Interests in other entities (continued)

(b) Associates

The following information is provided for associates that are individually material to the Council. Included are the amounts as per the individual associates' financial statements, adjusted for fair-value adjustments at acquisition date and differences in accounting policies, rather than the Council's share.

(a) Net carrying amounts – Council's share

	Nature of relationship	Measurement method	2020 \$ '000	2019 \$ '000
Strategic Services Australia Limited	Associate	Equity	898	971
Total carrying amounts – material associates			898	971

(b) Details

	Principal activity	Place of business
Strategic Services Australia Limited	Local Government Efficiency Initiative	Thornton, NSW

(c) Relevant interests and fair values

	Quoted fair value		Interest in outputs		Interest in ownership		Proportion of voting power	
	2020 \$ '000	2019 \$ '000	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Strategic Services Australia Limited	898	971	19%	19%	19%	19%	15%	15%

Although Council has less than 20% share of voting rights in SSA, Council has determined it has significant influence through its board representation on SSA.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Interests in other entities (continued)

(d) Summarised financial information for associates

	Strategic Services Australia Limited	
	2020 \$ '000	2019 \$ '000
Statement of financial position		
Current assets		
Cash and cash equivalents	5,101	5,311
Other current assets	1,446	1,605
Non-current assets	310	329
Current liabilities		
Payables	570	636
Other current liabilities	1,668	1,605
Non-current liabilities		
Non-current financial liabilities (excluding trade and other payables and provisions)	11	20
Net assets	4,608	4,984
Reconciliation of the carrying amount		
Opening net assets (1 July)	4,984	5,469
Profit/(loss) for the period	(376)	(485)
Closing net assets	4,608	4,984
Council's share of net assets (%)	19%	19%
Council's share of net assets (\$)	898	971
Statement of comprehensive income		
Income	5,632	5,662
Expenses	(6,008)	(6,147)
Profit/(loss) from continuing operations	(376)	(485)
Profit/(loss) for period	(376)	(485)
Total comprehensive income	(376)	(485)
Share of income – Council (%)	19%	19%
Profit/(loss) – Council (\$)	(73)	(95)
Total comprehensive income – Council (\$)	(73)	(95)

Accounting policy for associates

Interests in associates are accounted for using the equity method in accordance with AASB128 *Investments in Associates and Joint Ventures*. Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Commitments

	2020 \$ '000	2019 \$ '000
(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	1,279	3,184
Plant and equipment	198	11,227
Open Spaces	5,258	2,691
Other	1,408	15,647
Land improvements	16,596	–
Total commitments	24,739	32,749
These expenditures are payable as follows:		
Within the next year	18,160	31,837
Later than one year and not later than 5 years	6,579	912
Total payable	24,739	32,749
Sources for funding of capital commitments:		
Unrestricted general funds	24,739	32,749
Total sources of funding	24,739	32,749

Details of capital commitments

Building commitments include conservation of the Northern & Western Façade of Newcastle City Hall which will take place over the next 12 months.

Plant and Equipment commitments include acquisition of a new truck with elevated work platform which will be acquired during the next 12 months.

Open Space commitments include the construction works to Upgrade No 1 Sportsground.

Land Improvements include the Bathers Way, South Newcastle stage 1 renewal project and Stage 1 works for the Newcastle Airport Hunter Defence Aerospace Zone.

Other commitments include construction of Cell 9 at Summerhill Waste Management Facility, and stormwater maintenance.

	2020 \$ '000	2019 \$ '000
(b) Non-cancellable operating lease commitments (2019 only)		
a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable as follows:		
Within the next year	–	682
Later than one year and not later than 5 years	–	83
Total non-cancellable operating lease commitments	–	765

Refer to Note 15 for information relating to leases for 2020.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies

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

LIABILITIES NOT RECOGNISED**1. Defined benefit superannuation contribution plans**

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for the purposes of AASB 119 Employee Benefits for the following reasons:

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

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

Description of the funding arrangements

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

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

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

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

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

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

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

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

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

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

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies (continued)

The amount of Council employer contributions to the defined benefit section of the Scheme and recognised as an expense for the year ending 30 June 2020 was \$2,155,976. The last formal valuation of the Fund was undertaken by the Fund Actuary, Richard Boyfield FIAA as at 30 June 2019.

The amount of past service contributions included in the total employer contribution advised above is \$1,254,883. Council's expected employer contributions to the plan (including past service contributions) for the next annual reporting period is \$2,062,743.

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

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

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

The share of this deficit that is broadly attributed to Council is 3.15% as at 30 June 2020.

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

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.

2. Self Insurance - Workers Compensation

Council is a self insurer for workers compensation. A provision for outstanding claims, based on actuarial assessment, has been recognised in Note 17.

Under the Workers Compensation Act 1987 self insurers and specialised insurers are required to provide financial security to meet their outstanding workers compensation claim liabilities. Security may take the form of cash, securities, bank guarantees and bonds. As at 30 June 2020, \$5.26 million was invested by State Insurance Regulatory Authority (SIRA) in relation to Council's security requirement as a self insurer. An asset has been recognised in Note 9 of Council's accounts for the value of this security deposit. Subsequent to 30 June, the security requirement has decreased to \$4.72 million. Council intends to continue to provide cash security in place of a bank guarantee.

3. 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 June this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies (continued)

4. Developer Contributions

Council receives Section 7.11 contributions and 7.12 levies on various developments across the Council area through the required contribution plans. As part of these plans, Council has received funds for which it will be required to expend the monies in accordance with those plans.

These plans also indicate proposed future expenditure to be undertaken by Council, which will be funded in future years by making levies and receiving funds, or where a shortfall exists, by the use of Council's general funds.

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

5. Other Contingent Liabilities**(i) Legal Proceedings**

Council has been named as the defendant in a number of proceedings by parties seeking compensation. Due to the considerable uncertainty in legal proceedings and the need to maintain legal professional privilege, the liability cannot be accurately determined at this time and as such has not been brought to account in the financial statements. While no determination can be made as to the outcome of any particular matter, Council considers that there are meritorious defences available in those matters currently the subject of litigation. Any liability, including any legal costs, which may arise, should not have a material adverse effect on the Council's consolidated financial position.

(ii) Waratah Gas Works

In June 2016, Council received advice from the New South Wales Environment Protection Authority (EPA) that a gas works may have operated on land bounded by High Road, Turton Road and Georgetown Road in Waratah NSW. The site was not listed in Council's contaminated land records or in the list of known gas works sites maintained by the EPA. A subsequent review of external historical sources confirmed that Waratah Municipal Council (WMC) operated a gas works in Waratah in the late 19th and early 20th century. The site was subsequently subdivided and now includes a number of privately owned residential lots as well as a number of public footpaths and roadways.

Legal responsibility is yet to be determined and no definitive position has been provided by the EPA. As such, Council is still in discussions with the EPA regarding this matter and no obligation has been reflected in the financial statements.

(iii) COVID-19

The 2020 COVID-19 global health crisis has had a unique and challenging effect on Council's operations which can be evidenced through our financial statements.

In March 2020 Council endorsed a COVID-19 Community and Economic Resilience package to assist Newcastle through a period of unprecedented social and economic disruption caused by the spread of COVID-19. In particular this package publicised Council's payment plan options and waived interest on outstanding rates until December 2020 leading to a higher than normal level of outstanding collections for the financial year. Additionally a number of facilities, services and events were significantly affected during the period of pandemic restrictions which resulted in reduced revenues across multiple streams.

The uncertainty surrounding the extent and impact of COVID-19 on the operations and revenue streams of Council into the future is difficult to reliably quantify. As such, possible future liabilities arising from COVID-19 have not been reflected in the financial statements.

ASSETS NOT RECOGNISED**1. Lehman Brothers Australia**

Council is a contingent creditor to the liquidation of Lehman Brothers Australia. Whilst proceedings are ongoing, further delays outside the control of Council have occurred and as such an outcome is unlikely this calendar year. Due to the considerable uncertainty in legal proceedings and the confidentiality surrounding the liquidation, the value and timing of the final distribution cannot be reliably determined. As such, Council has not recognised an asset in the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Contingencies (continued)

2. Infringement Notices/Fines

Fines and penalty income, as a result of Council issuing infringement notices are followed up and collected by Revenue NSW.

Council's revenue recognition policy for such income is to account for it as revenue when the penalty is applied, to the extent of the impairment provision (determined on an expected credit loss basis).

Accordingly, at year end, there is a potential asset due to Council recognising an impairment provision in excess of collectible fine and penalty income.

3. Other Contingent Assets

Council is pursuing its legal rights to income in relation to outstanding payments for services provided. Due to the considerable uncertainty in legal proceedings and the need to maintain legal professional privilege, the asset was not quantifiable at balance date and as such has not been brought to account in the financial statements. Whilst no determination can be made as to the outcome of this matter, Council considers that there is merit in the proceedings.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk.

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

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

The fair value of cash and cash equivalents, receivables, payables, borrowings and investments at fair value through profit and loss approximates the carrying amount.

For those financial assets where the total values don't approximate the carrying value, a comparison of the carrying amounts and fair values is presented below.

	Carrying value 2020 \$ '000	Carrying value 2019 \$ '000	Fair value 2020 \$ '000	Fair value 2019 \$ '000
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Financial assets

Measured at amortised cost

Investments

– 'Financial assets at amortised cost'	282,937	343,297	285,322	345,263
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Council's objective is to maximise its return on cash and investments while maintaining an adequate level of liquidity and preserving capital. Council's Finance area manages the cash and investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with the *Local Government Act 1993* and Ministerial Investment Order 625. This policy is regularly reviewed by Council 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 their 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.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of capital or income in nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments in accordance with the established risk management framework within the Council's Investment and Borrowing Policy.

Council also seeks advice from independent advisors, where deemed appropriate, before placing any funds in cash equivalents and investments.

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management (continued)

(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.

	Increase of values/rates		Decrease of values/rates	
	Profit \$ '000	Equity \$ '000	Profit \$ '000	Equity \$ '000
2020				
Possible impact of a 10% movement in market values *	2,220	2,220	(2,220)	(2,220)
Possible impact of a 1% movement in interest rates	2,726	2,726	(2,726)	(2,726)
2019				
Possible impact of a 10% movement in market values *	1,041	1,041	(1,041)	(1,041)
Possible impact of a 1% movement in interest rates	3,205	3,205	(3,205)	(3,205)

(*) For 2018/19, this item was calculated at 13%. Restatement has occurred on comparative figures

(b) Credit risk

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

The major risk associated with these receivables is credit risk i.e. the risk that debts due and payable to Council may not be repaid in full. Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

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

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance. Council makes suitable provision for doubtful receivables as required.

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

Credit risk profile

Receivables – rates and annual charges

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

	Not yet overdue \$ '000	< 1 year overdue \$ '000	1 - 2 years overdue \$ '000	2 - 5 years overdue \$ '000	> 5 years overdue \$ '000	Total \$ '000
2020						
Gross carrying amount	128	5,631	676	806	626	7,867
2019						
Gross carrying amount	91	2,786	550	712	600	4,739

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management (continued)

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. The expected credit losses incorporate forward-looking information. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2020 is determined as follows:

	Not yet overdue \$ '000	0 - 30 days overdue \$ '000	31 - 60 days overdue \$ '000	61 - 90 days overdue \$ '000	> 90 days overdue \$ '000	Total \$ '000
2020						
Gross carrying amount	6,694	7,651	1,050	357	3,792	19,544
Expected loss rate (%)	0.00%	5.97%	0.30%	1.65%	17.77%	5.83%
ECL provision	–	457	3	6	674	1,140
2019						
Gross carrying amount	6,755	7,719	1,846	321	2,008	18,649
Expected loss rate (%)	0.00%	0.92%	0.41%	0.88%	11.61%	1.69%
ECL provision	–	71	8	3	233	315

(*) Reclassification has occurred on comparative figures for this line item

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Financial risk management (continued)

(c) Liquidity risk

Payables, lease liabilities and borrowings are 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, 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 service unit regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

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

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

	Weighted average interest rate %	Subject to no maturity \$ '000	payable in: ≤ 1 Year \$ '000	1 - 5 Years \$ '000	> 5 Years \$ '000	Total cash outflows \$ '000	Actual carrying values \$ '000
2020							
Trade/other payables	0.00%	1,861	32,440	1,700	1,580	37,581	35,619
Loans and advances	4.67%	–	7,087	49,933	37,354	94,374	62,722
Total financial liabilities		1,861	39,527	51,633	38,934	131,955	98,341
2019							
Trade/other payables	0.00%	1,556	36,888	–	–	38,444	38,444
Loans and advances	5.92%	–	13,659	26,463	43,451	83,573	60,773
Total financial liabilities		1,556	50,547	26,463	43,451	122,017	99,217

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Material budget variations

Council's original financial budget for 19/20 was adopted by Council on 25/06/2019 and is unaudited.

While the Income Statement included in these 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 variation between actuals versus budget that invariably occur throughout the year.

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

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

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

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----		
REVENUES					
Rates and annual charges	182,809	184,255	1,446	1%	F
User charges and fees	84,092	74,067	(10,025)	(12)%	U
Tipping fees at Council's waste management facility were unfavourable due to constraints on the construction of a new containment cell, leading to decreased space and commercial sales. Diminished commercial demand for ASB soils, as well as a decrease in general waste revenue also contributed.					
Newcastle Airport revenue is below budget, driven mainly by a reclassification of rental income upon adoption of new accounting standards, with COVID-19 also having an impact.					
Additionally, on-street parking revenue is lower than budgeted, driven mainly by the impact of COVID-19.					
Other revenues	8,993	10,037	1,044	12%	F
The favourable result to budget was driven by unbudgeted revenue from insurance claims, volunteer services and solar farm electricity generation. These amounts are partially offset by a decrease of container deposit scheme revenue compared to budget, as well as a decrease in civic services revenue compared to budget due to loss of food and beverage sales, catering and commission from COVID-19 restrictions.					
Operating grants and contributions	14,735	16,860	2,125	14%	F
The general component of the Financial Assistance Grant was \$1.1m higher than budgeted. Additionally, \$500k in unforeseen works program operating grants were received.					
Capital grants and contributions	13,862	25,017	11,155	80%	F
The favourable result was largely driven by unbudgeted grants received by Newcastle Airport as a result of the implementation of new accounting standards.					
Interest and investment revenue	10,210	7,093	(3,117)	(31)%	U
Lower than budgeted revenue for interest and investment revenue was due to volatility in global investment markets arising from the COVID-19 pandemic.					
Reversal of revaluation decrements / impairment of IPP&E previously expensed	-	-	-	∞	F
Reversal of impairment losses on receivables	-	-	-	∞	F
Rental income	8,382	8,992	610	7%	F

Notes to the Financial Statements

for the year ended 30 June 2020

Note 24. Material budget variations

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
EXPENSES				
Employee benefits and on-costs	109,228	104,882	4,346	4% F
Borrowing costs	4,761	4,979	(218)	(5)% U
Materials and contracts	68,190	73,391	(5,201)	(8)% U
Depreciation and amortisation	48,374	51,664	(3,290)	(7)% U
Impairment of receivables	372	1,001	(629)	(169)% U
The unfavourable result was driven by movement in doubtful debts, as well as unbudgeted impairment of receivables from Newcastle Airport.				
Other expenses	60,397	58,273	2,124	4% F
Net losses from disposal of assets	5,948	7,904	(1,956)	(33)% U
The unfavourable result to budget was driven by the writeoff of existing assets due to the replacement of IT hardware, along with an expected gain on sale from fleet disposals was not being realised.				
Fair value decrement on investment property	-	2,757	(2,757)	∞ U
Council does not budget for this item.				
Joint ventures and associates – net losses	-	72	(72)	∞ U
Council does not budget for this item.				
STATEMENT OF CASH FLOWS				
Cash flows from operating activities	73,142	66,386	(6,756)	(9)% U
Cash flows from investing activities	(12,296)	(40,082)	(27,786)	226% U
The unfavourable result was driven by an increase in spend on materials and contracts related to property, plant and equipment.				
Cash flows from financing activities	(3,488)	(1,595)	1,893	(54)% F
The favourable result was driven by an unbudgeted advance in borrowings attributable to Newcastle Airport, which was partially offset by lease liability movements due to the first time adoption of new accounting standards.				

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement

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

- infrastructure, property plant and equipment
- investment property
- financial assets

During the reporting period no assets were measured on a non-recurring basis.

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

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

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

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

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

The table below shows the assigned level for each asset and liability held at fair value by Council:

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

2020	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Financial assets						
Investments						
At fair value through profit or loss	7(b)	30/06/20	–	22,202	–	22,202
Total financial assets			–	22,202	–	22,202
Investment property						
Commercial office and retail	12	30/06/20	–	5,088	11,125	16,213
Total investment property			–	5,088	11,125	16,213
Infrastructure, property, plant and equipment						
	11					
Plant and equipment		30/06/20	–	–	22,050	22,050
Office equipment		30/06/20	–	–	2,523	2,523
Furniture and fittings		30/06/20	–	–	8,656	8,656
Operational land		30/06/18	–	–	113,820	113,820
Community land		30/06/19	–	–	74,150	74,150
Crown land		30/06/19	–	–	33,903	33,903
Land under roads		30/06/19	–	–	9,897	9,897
Depreciable land improvements		30/06/16	–	–	1,109	1,109
Buildings – non-specialised		30/06/18	–	–	2,934	2,934
Buildings – specialised		30/06/18	–	–	179,021	179,021
Other structures		30/06/16	–	–	50,510	50,510
Roads		30/06/20	–	–	336,970	336,970
Bridges		30/06/20	–	–	25,296	25,296
Footpaths		30/06/20	–	–	90,479	90,479
Bulk earthworks (non depreciable)		30/06/20	–	–	194,269	194,269
Stormwater drainage		30/06/20	–	–	115,696	115,696
Swimming pools		30/06/16	–	–	9,004	9,004
Other open space/rec assets		30/06/16	–	–	16,257	16,257
Other Infrastructure		30/06/16	–	–	41,212	41,212

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

Note 25. Fair Value Measurement (continued)

2020	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Heritage collections		30/06/20	–	–	70,739	70,739
Library books		30/06/16	–	–	5,638	5,638
Waste management asset		30/06/20	–	–	22,784	22,784
Newcastle airport		30/06/20	–	–	49,031	49,031
Total infrastructure, property, plant and equipment			–	–	1,475,948	1,475,948
Non-current assets classified as 'held for sale'						
Land and buildings	10	30/06/19	–	–	–	–
Total NCA's classified as 'held for sale'			–	–	–	–

2019	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Financial assets						
Investments						
At fair value through profit or loss	7(b)	30/06/19	–	10,405	–	10,405
Total financial assets			–	10,405	–	10,405
Investment property						
Commercial office and retail	12	30/06/19	–	–	18,970	18,970
Total investment property			–	–	18,970	18,970
Infrastructure, property, plant and equipment						
Plant and equipment		30/06/18	–	–	20,047	20,047
Office equipment		30/06/18	–	–	1,336	1,336
Furniture and fittings		30/06/18	–	–	927	927
Operational land		30/06/18	–	–	113,044	113,044
Community land		30/06/19	–	–	75,682	75,682
Crown land		30/06/19	–	–	34,521	34,521
Land under roads		30/06/19	–	–	9,395	9,395
Depreciable land improvements		30/06/16	–	–	998	998
Buildings – non-specialised		30/06/18	–	–	3,517	3,517
Buildings – specialised		30/06/18	–	–	185,945	185,945
Other structures		30/06/16	–	–	29,129	29,129
Roads		30/06/19	–	–	328,977	328,977
Bridges		30/06/15	–	–	23,890	23,890
Footpaths		30/06/19	–	–	115,031	115,031
Bulk earthworks (non depreciable)		30/06/19	–	–	170,284	170,284
Stormwater drainage		30/06/19	–	–	165,440	165,440
Swimming pools		30/06/16	–	–	9,346	9,346
Other open space/rec assets		30/06/16	–	–	16,392	16,392
Other Infrastructure		30/06/16	–	–	39,526	39,526
Heritage collections		30/06/16	–	–	60,819	60,819
Library books		30/06/16	–	–	5,902	5,902
Waste management asset		01/07/16	–	–	23,641	23,641
Newcastle airport		30/06/15	–	–	30,761	30,761
Total infrastructure, property, plant and equipment			–	–	1,464,550	1,464,550

Newcastle City Council

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

Note 25. Fair Value Measurement (continued)

2019	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Non-current assets classified as 'held for sale'						
Land and buildings	10	30/06/18	–	–	–	–
Total NCA's classified as 'held for sale'			–	–	–	–

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

(2) Transfers between between levels in the fair value hierarchy

Council's policy for determining transfers between fair value heirarchies is at the end of the reporting period.

At 30 June 2020, two investment properties were valued using the agreed prices in contracts for sale, representing a transfer from level 3 to level 2 in the fair value hierarchy. The remainder of the investment property portfolio continues to be valued using level 3 inputs. Refer to Note 25 (3) Investment property for further information.

There were no other transfers between levels in the fair value hierarchy during the year.

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

Where Council is unable to derive fair valuations using quoted market prices of identical assets; 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:

Financial assets

This asset class comprises funds invested into TCorp's Individually Managed Long Term Growth Fund.

The valuation applied to this fund is based on readily available and observable summary statements prepared and provided by the fund arranger, however, no active market exists for the fund as it is only accessible to government agencies.

Council's financial asset holding consists of an identifiable number of units held in the fund unit trust.

Investment property

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

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

Typically, Council obtains independent valuations for its investment property portfolio on an annual basis and, at the end of each reporting period, the financial statements reflect the most up-to-date valuation. A full revaluation is performed every 3 years and a desktop valuation every other year.

At 30 June 2020, two Council investment properties were valued based on agreed prices as per contracts for sale. Given the agreed price for the properties is an observable input, it is deemed that the valuation for these two properties meets the definition of level 2 in the fair value hierarchy.

Council obtained independent full revaluations to determine the fair value for all remaining investment properties at 30 June 2020, which are included in level 3 of the fair value hierarchy. The key unobservable input is the price per metre.

The independent valuations are performed by qualified valuers who have experience in the location of the properties. These valuations were performed by Baker & Magin Valuers, Director A D Magin, AAPI, Certified Practising Valuer (Business), Member No. 68018. Council reviews the valuation report and discusses significant movements with the valuers.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Infrastructure, property, plant and equipment (IPP&E)**Plant & Equipment, Office Equipment, Furniture & Fittings and Other assets**

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

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

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

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

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

Operational Land

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

Council's operational land is valued using market valuations with a comprehensive valuation completed and revalued every five years. However, at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full valuation was performed by Scott Fullarton Valuations Pty Ltd, Scott Fullarton FAPI CPP, Certified Practising Valuer, API Membership No. 67557, at 30 June 2018.

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

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

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

Community and Crown Land

Council's 'Community and Crown' land (including owned by Council, the Crown and various other Government Agencies that are managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access (such as a trust deed, dedication under section 7.11 of the *Environment Planning and Assessment Act 1979*). This gives rise to the restrictions in the Act, intended to preserve the qualities of the land.

Community and Crown Land:

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

Valuations of all Council's Community Land and Council managed land were based on the Unimproved Capital Values (UCV) provided by the Valuer-General which are not considered to be observable market evidence, therefore have been classified as Level 3.

Full revaluations of community and crown land are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed as at 30 June 2019 by applying Valuer-General land values.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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

Land Under Roads

Land Under Roads (LUR) is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council has elected not to recognise LUR acquired before 1 July 2008, in accordance with AASB 1051 Land Under Roads.

LUR acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment. Council recognised this asset for the first time in financial year 2008/09. LUR was valued in accordance with the Australian Accounting Standard AASB 116 Property, Plant and Equipment, and the Code of Accounting Practice and Financial Reporting.

A full revaluation of LUR values was performed at 30 June 2019 using a valuation of Council's total LUR at the average unit rate of land and applying discounting factors which reflect the restrictions placed on such assets. This asset class is classified as Level 3 in the fair value hierarchy as significant inputs used in this methodology are unobservable.

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

Depreciable Land Improvements

The land improvements asset class consists of sports field drainage, landscaping, turf, irrigation and other small land improvements. These assets may be located in parks, reserves and sporting fields.

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

Full revaluations of Land Improvements - Depreciable occur at least every 5 years, the last being performed in 2016. This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Buildings – Non-Specialised and Specialised

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

Council's buildings are revalued every five years with the most recent full valuation undertaken as at 30 June 2018. Valuations were performed by external valuers Scott Fullarton Valuations Pty Ltd, GHD and Knight Frank Newcastle. At each reporting period carrying amount of assets is assessed against fair value for any material differences.

Non-Specialised Buildings

The market sale approach to the valuation of assets comprises reference to market evidence of the sale of the identical and or similar assets. The valuation aspects are generally, but not limited to, the location, size, condition, style and utility of the asset. Since most of these inputs require judgement and are unobservable, the asset class has been classified as Level 3.

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

Specialised Buildings

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Other Structures

In determining the current cost of a specialised asset, reference is made to the cost of replacing the assets service potential and in doing so the Modern Engineering Equivalent Replacement Asset (MEERA) is adopted. This asset class comprises of Council's outdoor shelters, memorials, monuments, floodlighting systems, Summerhill disposal cells, fencing and other smaller structures.

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

Full revaluations of other structures are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. This asset class is categorised as Level 3 as some of the above-mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

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

Roads

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

This asset class comprises the following road components – surface, pavement, kerb & gutter and roadside Furniture.

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

Full revaluations of road assets are performed at least every 5 years, however, at each reporting period the carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed at 30 June 2020 using the methodology outlined above.

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

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

Bridges

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

Bridges were valued in house by experienced Council engineering staff, with condition data collected in house and unit rates provided by independent external consultant Vasey Consulting. This asset class is componentised into significant parts, comprising of the Bridge Substructure, Superstructure and Handrail/Guardrail, each with differing useful lives.

The replacement cost for each bridge component has been supplied by Vasey Consulting based on unit rate calculations. In order to calculate condition based depreciation and fair value, other input estimates like the useful life, condition ratings, residual value and pattern of consumption have been used. These inputs require significant professional judgement, therefore this asset class has been categorised as Level 3.

Full revaluations of bridges are performed at least every 5 years, however, at each reporting period the carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed at 30 June 2020 using the methodology outlined above.

Footpaths

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Replacement costs (unit rates) and useful lives of Council's footpaths were determined using technical knowledge. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted significantly on the final determination of fair value.

Full revaluations of footpath assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally as at 30 June 2020.

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

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

Bulk earthworks (non-depreciable)

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

The cost approach estimated the replacement cost for each asset taking into account a range of factors. Input estimates such as the replacement costs (based on unit rates) required significant professional judgement which impacted significantly on the final determination of fair value.

Full revaluations of bulk earthworks assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally as at 30 June 2020.

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

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

Stormwater Drainage

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

Council's drainage assets comprise pits, pipes, culverts, stormwater quality improvement devices, headwalls, open channels - civil, constructed water courses and tidal gates used to collect, store and remove stormwater.

The cost approach estimated the replacement cost for each asset with differing useful lives and taking into account a range of factors. Inputs such as estimates of the pattern of consumption, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value. Additionally due to limitations in the historical records of very long lived underground assets there is uncertainty regarding the actual design, specifications and dimensions of some assets.

Full revaluations of stormwater drainage assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences. The most recent full revaluation was performed internally as at 30 June 2020.

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

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

Swimming Pools

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

This asset class comprises Council's outdoor swimming pools and ocean bath shells.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Full revaluations of swimming pool assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences.

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

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

Other Open Space/Recreational Assets

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

This asset class comprises Council's outdoor skate facilities, sporting facilities, playgrounds and other smaller recreational assets.

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

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

Full revaluations of open space/recreational assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences.

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

Other Infrastructure

The other infrastructure asset class consists of ground level car parks, retaining walls, sea walls, boat ramps and other infrastructure assets. These assets may be located on parks, reserves and sporting fields.

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

Full revaluations of other infrastructure assets are performed at least every 5 years, however at each reporting period carrying amount of assets is assessed against fair value for any material differences.

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

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

Heritage Collections

Assets within this class comprise of Art Gallery and Museum collections. Market Value is used to determine the fair value of the Art Gallery and Museum Collections at least every 5 years.

Due to the specialised nature of the heritage collections, Council engaged two independent valuers for the Art Gallery collection and an independent valuer for the Museum collection. These independent qualified valuers provided market valuations for the collections representing fair value at the end of the reporting period.

The most recent full revaluation of the Heritage collections was at 30 June 2020; with the valuation of the Art Gallery collection performed by Annette Larkin Fine Art and Daniel McOwan, while the valuation of the Museum collection was performed by Ravenswick.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Library Books

This asset category comprises of assets such as media, fiction, non fiction, rare/research books and local studies. Library Books are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

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

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

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

Waste Management Asset

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

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

An evaluation of costs for the landfill closure and post closure management was prepared by Summerhill's senior management during 2015. Council reviews and updates the cost model annually, which ensures the waste management asset reflects fair value at the end of each reporting period. The key unobservable inputs are the discount rate, cost escalation rate, actual timing of costs and future environmental management requirements.

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

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

Newcastle Airport

Council participates in two joint operations with Port Stephens Council for the operation of civil aviation facilities at Newcastle Airport. Under this structure, the partners hold the rights to their share of the assets and obligations of the partnership.

This asset category comprises of property, plant, equipment and infrastructure assets. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items.

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

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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

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

Notes	Investment property \$ '000	Plant and equipment \$ '000	Office equipment \$ '000	Furniture and fittings \$ '000	Operational Land \$ '000
2019					
Opening balance	18,580	20,613	1,231	1,010	116,372
Transfers from/(to) another asset class	921	988	–	–	(680)
Purchases (GBV)	–	4,405	596	100	283
Disposals (WDV)	–	(165)	–	–	(3,099)
Depreciation and impairment	–	(5,794)	(491)	(183)	–
FV gains – Income Statement ¹	(531)	–	–	–	–
Revaluation increment (decrement)	–	–	–	–	168
Closing balance	18,970	20,047	1,336	927	113,044
2020					
Opening balance	18,970	20,047	1,336	927	113,044
Transfers from/(to) level 2 FV hierarchy	(5,088)	–	–	–	–
Transfers from/(to) another asset class	–	937	2,492	789	–
Purchases (GBV)	–	7,750	193	7,353	3,284
Disposals (WDV)	–	(736)	(999)	(11)	(212)
Depreciation and impairment	–	(5,948)	(499)	(402)	–
FV gains – Income Statement ¹	(2,757)	–	–	–	–
Revaluation increment (decrement)	–	–	–	–	(2,296)
Closing balance	11,125	22,050	2,523	8,656	113,820

(1) FV gains recognised in the Income Statement relating to assets still on hand at year end total

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

	Community Land \$ '000	Land under Roads \$ '000	Depreciable land improvements \$ '000	Buildings non-specialised \$ '000	Buildings specialised \$ '000
2019					
Opening balance	60,832	5,055	861	11,545	182,364
Transfers from/(to) another asset class	–	–	21	–	8,335
Purchases (GBV)	6,702	1,448	223	39	10,067
Disposals (WDV)	–	–	(30)	(7,921)	(6,329)
Depreciation and impairment	–	–	(77)	(146)	(8,522)
Revaluation increment (decrement)	4,600	2,892	–	–	30
Reversal of revaluation decrement in Income Statement	3,548	–	–	–	–
Closing balance	75,682	9,395	998	3,517	185,945
2020					
Opening balance	75,682	9,395	998	3,517	185,945
Transfers from/(to) another asset class	–	–	–	–	1,557
Purchases (GBV)	324	502	193	–	1,242
Disposals (WDV)	–	–	–	–	(193)
Depreciation and impairment	–	–	(82)	(56)	(8,555)
Revaluation increment (decrement)	(1,856)	–	–	(310)	(1,192)
Closing balance	74,150	9,897	1,109	3,151	178,804

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

	Other structures \$ '000	Roads \$ '000	Bridges \$ '000	Footpaths \$ '000	Bulk earthworks (non-deprecia- ble) \$ '000
2019					
Opening balance	29,823	307,311	24,210	107,918	157,401
Transfers from/(to) another asset class	641	1,487	20	975	3
Purchases (GBV)	1,300	8,331	61	2,628	–
Disposals (WDV)	(138)	(1,378)	(17)	(499)	(49)
Depreciation and impairment	(2,497)	(10,481)	(384)	(4,228)	–
Revaluation increment (decrement)	–	23,707	–	8,237	12,929
Closing balance	29,129	328,977	23,890	115,031	170,284
2020					
Opening balance	29,129	328,977	23,890	115,031	170,284
Transfers from/(to) another asset class	22,526	3,863	156	1,173	–
Purchases (GBV)	2,700	5,044	1,772	1,238	–
Disposals (WDV)	(279)	(1,538)	(1,697)	(560)	(10)
Depreciation and impairment	(3,566)	(11,272)	(392)	(4,603)	–
Revaluation increment (decrement)	–	11,896	1,567	(21,800)	23,995
Closing balance	50,510	336,970	25,296	90,479	194,269

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

	Stormwater drainage \$ '000	Swimming pools \$ '000	Other open space/recreati onal assets \$ '000	Other infrastructure \$ '000	Heritage collections \$ '000
2019					
Opening balance	154,268	9,713	13,745	40,993	59,439
Transfers from/(to) another asset class	815	–	1,982	30	350
Purchases (GBV)	2,106	–	2,079	582	1,030
Disposals (WDV)	(244)	–	(105)	(533)	–
Depreciation and impairment	(2,705)	(367)	(1,309)	(1,546)	–
Revaluation increment (decrement)	11,200	–	–	–	–
Closing balance	165,440	9,346	16,392	39,526	60,819
2020					
Opening balance	165,440	9,346	16,392	39,526	60,819
Transfers from/(to) another asset class	2,913	–	149	2,874	–
Purchases (GBV)	2,341	25	1,184	974	1,083
Disposals (WDV)	(574)	–	(49)	(623)	–
Depreciation and impairment	(2,961)	(367)	(1,419)	(1,539)	–
Revaluation increment (decrement)	(51,463)	–	–	–	8,837
Closing balance	115,696	9,004	16,257	41,212	70,739

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

Note 25. Fair Value Measurement (continued)

	Notes	Library books \$ '000	Waste management asset \$ '000	Newcastle airport \$ '000	Crown land \$ '000	Total \$ '000
2019						
Opening balance		6,168	22,390	29,945	31,646	1,413,433
Transfers from/(to) another asset class		–	–	–	–	15,888
Purchases (GBV)		762	–	2,799	–	45,541
Disposals (WDV)		(98)	–	(17)	–	(20,622)
Depreciation and impairment		(930)	(1,970)	(1,966)	–	(43,596)
FV gains – Income Statement ¹		–	–	–	–	(531)
Revaluation increment (decrement)		–	–	–	2,875	66,638
Reversal of revaluation decrement in Income Statement		–	–	–	–	3,548
Other movement		–	3,221	–	–	3,221
Closing balance		5,902	23,641	30,761	34,521	1,483,520
2020						
Opening balance		5,902	23,641	30,761	34,521	1,483,520
Transfers from/(to) level 2 FV hierarchy	25 2	–	–	–	–	(5,088)
Transfers from/(to) another asset class		–	–	–	–	39,429
Purchases (GBV)		664	–	20,470	–	58,336
Disposals (WDV)		(162)	–	(32)	–	(7,675)
Depreciation and impairment		(766)	(1,899)	(2,168)	–	(46,494)
FV gains – Income Statement ¹		–	–	–	–	(2,757)
Revaluation increment (decrement)		–	–	–	(618)	(33,240)
Other movement		–	1,042	–	–	1,042
Closing balance		5,638	22,784	49,031	33,903	1,487,073

(1) FV gains recognised in the Income Statement relating to assets still on hand at year end total

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

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

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

Investment Properties

Class	Fair value (30/6/20) \$'000	Valuation technique/s	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to Fair Value
Investment Properties	11,125	Market Value	<ul style="list-style-type: none"> Estimated Rental Value (rate per square metre) Rental Yield Capitalisation rates of similar properties 	<ul style="list-style-type: none"> \$ per sqm 5% - 9% 7% - 8% 	Significant changes in the market value, estimated rental yield and recent sales prices of similar properties would result in significant changes to Fair Value measurement.

IPP&E

Class	Fair value (30/6/20) \$'000	Valuation technique/s	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to Fair Value
Plant & Equipment	22,050	Cost Approach	<ul style="list-style-type: none"> Current Replacement Cost of Modern Equivalent asset Remaining Useful Life 	<ul style="list-style-type: none"> Varies significantly from asset to asset 0 to 50 years 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Office Equipment	2,523	Cost Approach	<ul style="list-style-type: none"> Current Replacement Cost of Modern Equivalent asset Remaining Useful Life 	<ul style="list-style-type: none"> Varies significantly from asset to asset 0 to 5 years 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Furniture & Fittings	8,656	Cost Approach	<ul style="list-style-type: none"> Current Replacement Cost of Modern Equivalent asset Remaining Useful Life 	<ul style="list-style-type: none"> Varies significantly from asset to asset 0 to 25 years 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Operational Land	113,820	Market Value	<ul style="list-style-type: none"> Total Value of land 	<ul style="list-style-type: none"> Unit Rates (\$ per sq metre) variable dependent on site 	Significant changes in the rate per square metre would result in significant changes to Fair Value measurement.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Class	Fair value (30/6/20) \$'000	Valuation technique/s	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to Fair Value
Community Land	74,150	Valuer General (VG) Valuation	<ul style="list-style-type: none"> Average Unit Rate based on VG Valuations 	<ul style="list-style-type: none"> VG Assessment 	Significant changes in the unimproved capital value would result in significant changes to Fair Value measurement.
Crown Land	33,903	Valuer General (VG) Valuation	<ul style="list-style-type: none"> Average Unit Rate based on VG Valuations 	<ul style="list-style-type: none"> VG Assessment 	Significant changes in the unimproved capital value would result in significant changes to Fair Value measurement.
Land Under Roads	9,897	Discounted average land value approach	<ul style="list-style-type: none"> Average Unit Rate based on total land valuation Discounting factors 	<ul style="list-style-type: none"> Unit Rate (\$ per square metre) based on total land within area of control 65% adjustment factor for Englobo value and 25% for access rights (cumulative discount of 90%) 	Significant changes in the unimproved capital value would result in significant changes to Fair Value measurement.
Depreciable Land Improvements	1,109	Cost Approach	<ul style="list-style-type: none"> Current Replacement Cost of Modern Equivalent asset Remaining Useful Life Asset Condition 	<ul style="list-style-type: none"> Varies significantly from asset to asset 0 to 50 years Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Buildings – Non Specialised	2,934	Market Value	<ul style="list-style-type: none"> Market Value Asset Condition 	<ul style="list-style-type: none"> Varies significantly from asset to asset Very poor to excellent 	Significant changes in the market value, asset condition and recent sales prices of similar properties would result in significant changes in Fair Value measurement.
Buildings – Specialised	179,021	Cost Approach	<ul style="list-style-type: none"> Current Replacement Cost of Modern Equivalent asset Remaining Useful Life Asset Condition 	<ul style="list-style-type: none"> Varies significantly from asset to asset 0 to 100 years Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Other Structures	50,510	Cost Approach	<ul style="list-style-type: none"> Current Replacement Cost of Modern Equivalent asset Remaining Useful Life Asset Condition 	<ul style="list-style-type: none"> Varies significantly from asset to asset 0 to 200 years Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Class	Fair value (30/6/20) \$'000	Valuation technique/s	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to Fair Value
Roads	336,970	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 120 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to Fair Value measurement.
Bridges	25,296	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to Fair Value measurement.
Footpaths	90,479	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 50 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to Fair Value measurement.
Bulk earthworks (non depreciable)	194,269	Cost Approach	<ul style="list-style-type: none"> • Average Unit Rate 	<ul style="list-style-type: none"> • Unit Rates (\$ per cubic metre) 	Significant changes to the average unit rate would result in significant changes to Fair Value Measurement.
Stormwater Drainage	115,696	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition or pattern of consumption affecting the remaining useful life would result in significant changes to Fair Value measurement.
Swimming Pools	9,004	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Other Open Space/ Recreational Assets	16,257	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 60 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.

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for the year ended 30 June 2020

Note 25. Fair Value Measurement (continued)

Class	Fair value (30/6/20) \$'000	Valuation technique/s	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to Fair Value
Other Infrastructure	41,212	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Heritage Collections	70,739	Market Value	<ul style="list-style-type: none"> • Market Value • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • Very poor to excellent 	Significant changes in the market value, and asset condition would result in significant changes to Fair Value measurement.
Library Books	5,638	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life • Asset Condition 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 100 years • Very poor to excellent 	Significant changes in the gross replacement value, asset condition, pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.
Waste Management Asset	22,784	Cost Approach	<ul style="list-style-type: none"> • Discount Rate • Cost escalation rate 	<ul style="list-style-type: none"> • 0.41% • 1% 	Significant changes in the discount rate and cost escalation rate would result in significant changes to Fair Value measurement.
Newcastle Airport	49,031	Cost Approach	<ul style="list-style-type: none"> • Current Replacement Cost of Modern Equivalent asset • Remaining Useful Life 	<ul style="list-style-type: none"> • Varies significantly from asset to asset • 0 to 100 years 	Significant changes in the gross replacement value, asset condition, and pattern of consumption affecting the remaining useful life or residual value would result in significant changes to Fair Value measurement.

c. The valuation process for level 3 fair value measurements

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

(5) Highest and best use

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. Related party disclosures

(a) Key management personnel

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

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

	2020 \$ '000	2019 \$ '000
Compensation:		
Short-term benefits	5,739	5,139
Post-employment benefits	450	375
Termination benefits	–	14
Total	6,189	5,528

(b) Other transactions with KMP and their related parties

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

Nature of the transaction	Value of transactions during year \$ '000	Outstanding balances (incl. loans and commitments) \$ '000	Terms and conditions	Provisions for impairment of receivables outstanding \$ '000	Expense recognised for impairment of receivables \$ '000
2020					
Employee expenses relating to close family members ^(*)	215	–	Council Staff Award	–	–
2019					
Employee expenses relating to close family members ^(*)	148	–	Council Staff Award	–	–

(*) Comparative figures have been updated for this line item.

(1) Close family members of Council's KMP are employed by Newcastle City Council under the current Council award on an arm's length basis. There were 3 close family members of KMP employed by Council during 2020 (2019: 3).

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/06/19			as at 30/06/20				
	Opening Balance \$ '000	Contributions received during the year		Interest earned in year \$ '000	Expenditure during year \$ '000	Internal borrowing (to)/from \$ '000	Held as restricted asset \$ '000	Cumulative internal borrowings due/(payable) \$ '000
		Cash \$ '000	Non-cash \$ '000					
Traffic and transport	981	113	–	7	(113)	–	988	–
Social infrastructure	11,225	1,275	–	86	–	–	12,586	–
Community facilities	1,202	223	–	8	(254)	–	1,179	–
S7.11 contributions – under a plan	13,408	1,611	–	101	(367)	–	14,753	–
S7.12 levies – under a plan	15,188	2,492	–	100	(3,045)	–	14,735	–
Total S7.11 and S7.12 revenue under plans	28,596	4,103	–	201	(3,412)	–	29,488	–
S7.4 planning agreements	30	–	–	–	(30)	–	–	–
Total contributions	28,626	4,103	–	201	(3,442)	–	29,488	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Statement of developer contributions (continued)

	as at 30/06/19			as at 30/06/20				
	Opening Balance \$ '000	Contributions received during the year Cash \$ '000	Non-cash \$ '000	Interest earned in year \$ '000	Expenditure during year \$ '000	Internal borrowing (to)/from \$ '000	Held as restricted asset \$ '000	Cumulative internal borrowings due/(payable) \$ '000
S7.11 Contributions – under a plan								
Contribution plan – Western Corridor								
Traffic and transport	981	113	–	7	(113)	–	988	–
Social infrastructure	11,225	1,275	–	86	–	–	12,586	–
Total	12,206	1,388	–	93	(113)	–	13,574	–
Contribution plan – Fern Bay cross boundary								
Open space and recreation	1,202	223	–	8	(254)	–	1,179	–
Total	1,202	223	–	8	(254)	–	1,179	–
S7.12 Levies – under a plan								
Contribution plan 2009 - section 94A development								
Other	15,188	2,492	–	100	(3,045)	–	14,735	–
Total	15,188	2,492	–	100	(3,045)	–	14,735	–
S7.4 planning agreements								
S7.4 planning agreements								
Other	30	–	–	–	(30)	–	–	–
Total	30	–	–	–	(30)	–	–	–

Newcastle City Council

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior period 2019 Restated	Benchmark
1. Operating performance ratio *				
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	7,189	2.39%	2.11%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	300,378			
2. Own source operating revenue ratio *				
Total continuing operating revenue excluding all grants and contributions ¹	283,518	86.83%	85.86%	>60.00%
Total continuing operating revenue ¹	326,525			
3. Unrestricted current ratio				
Current assets less all external restrictions	122,057	2.09x	2.08x	>1.50x
Current liabilities less specific purpose liabilities	58,487			
4. Debt service cover ratio				
Operating result before capital excluding interest and depreciation/impairment/amortisation ^{1,2}	63,832	5.24x	6.83x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	12,174			
5. Rates and annual charges outstanding percentage *				
Rates and annual charges outstanding	8,312	4.38%	2.93%	<10.00%
Rates and annual charges collectible	189,755			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	131,303	5.85 mths	7.57 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	22,427			

(*) Reclassification has occurred on comparative figures for this line item

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

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



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial statements
Newcastle City Council

To the Councillors of Newcastle City Council

Opinion

I have audited the accompanying financial statements of Newcastle City Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information. The financial statements include the consolidated financial statements of the Council and the entities it controlled at the year's end or from time to time during the year.

In my opinion:

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

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar3.pdf. The description forms part of my auditor's report.

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

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 24 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



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

20 October 2020
SYDNEY



Cr Nuatali Nelmes
 Lord Mayor
 Newcastle City Council
 PO Box 489
 NEWCASTLE NSW 2300

Contact: Furqan Yousuf
 Phone no: 02 9275 7470
 Our ref: D2023035/1770

20 October 2020

Dear Lord Mayor Nelmes

Report on the Conduct of the Audit for the year ended 30 June 2020 Newcastle City Council

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

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

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

INCOME STATEMENT

Operating result

	2020 \$m	2019 \$m	Variance %
Rates and annual charges revenue	184.3	171.7	↑ 7.3
Grants and contributions revenue	41.9	47.0	↓ 10.9
Operating result from continuing operations	21.4	40.4	↓ 47.0
Net operating result before capital grants and contributions	(3.6)	9.4	↓ 138.3

Rates and annual charges revenue increased by \$12.6 million (7.3 per cent) to (\$184.3 million) in 2019–20, mainly as a result of Council’s approved special rate variation of 8.0 per cent for 2019–20.

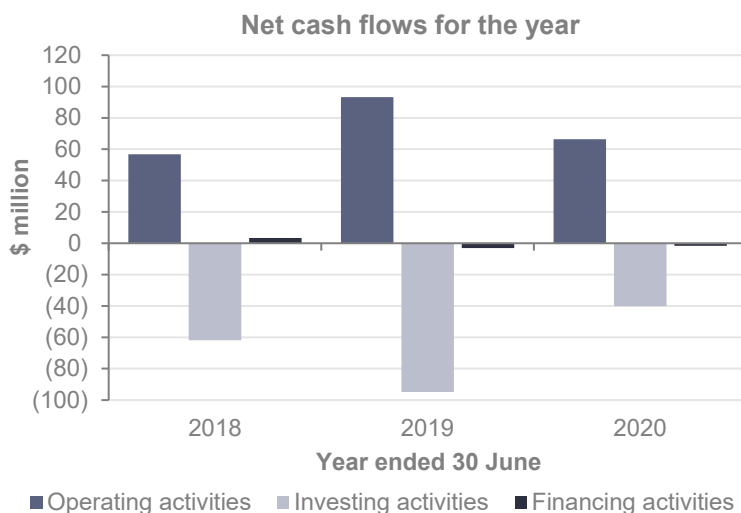
Grants and contributions revenue decreased by \$5.1 million (10.9 per cent) to \$41.9 million in 2019–20. This movement was mainly attributable to decrease in cash developer contributions by \$2.4 million and non-cash developer contributions by \$8.8 million. The overall decrease was partially offset by Council’s share of other contributions in the Newcastle Airport Partnership of \$3.2 million.

Council’s net operating result for the year was a surplus of \$21.4 million, which was \$19.0 million lower than the 2018–19 net operating result. This was mainly due to COVID-19 leading to lower user charges, fees, interest and other revenues, while costs increased by 3.0 per cent.

Council’s net operating result before capital grants and contributions was a deficit of \$3.6 million, which was \$13.0 million lower than the 2018–19 net operating result before capital grants and contributions. The movement is mainly attributable to the decrease of \$19.0 million in the net operating result, offset by a decrease of \$6.0 million in the capital grants and contributions, as explained above.

STATEMENT OF CASH FLOWS

- The Council’s cash and cash equivalents was \$48.0 million (\$23.3 million for the year ended 30 June 2019). There was a net increase in cash and cash equivalents of \$24.7 million at 30 June 2020.
- Net cash inflows from the operating activities decreased by \$26.8 million mainly due to decrease in user charges and fees received during the year.
- Net cash outflows from investing activities decreased by \$54.8 million mainly due to the decrease in purchase of investments securities slightly offset by the decrease in sale of investment securities.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	54.5	57.6	<ul style="list-style-type: none"> Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have decreased by \$3.1 million primarily due to a decrease in specific purpose unexpended grants. Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The increase in the internal restrictions of \$10.6 million is mainly due to increase in infrastructure backlog related to stormwater works program. Unrestricted cash balance of \$22.6 million at 30 June 2020 is available to provide liquidity for day-to-day operations of the Council.
Internal restrictions	276.0	265.4	
Unrestricted	22.6	54.0	
Cash and investments	353.1	377.0	

Debt

The Council has \$62.7 million of borrowings as at 30 June 2020 (2019: \$60.8 million).

The Council has an accumulated drawdown facility limit of \$79.2 million as at 30 June 2020 (2019: \$82.9 million) of which \$16.5 million remained unutilised at the year-end.

PERFORMANCE

Performance measures

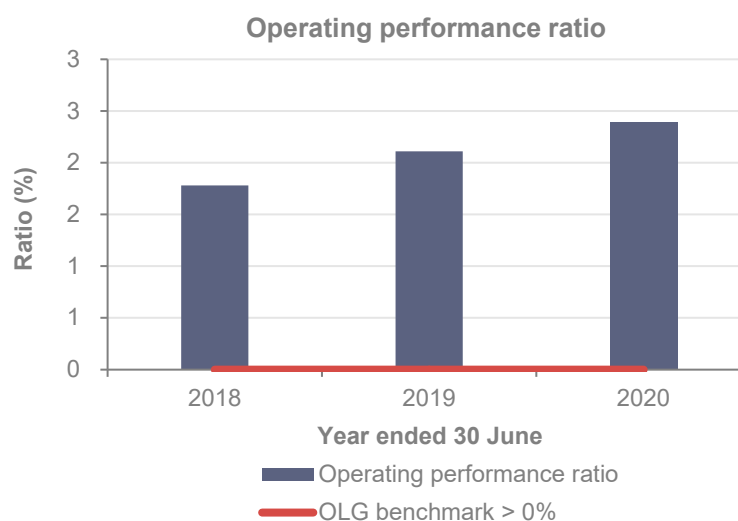
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

Operating performance ratio

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

The Council's operating performance ratio of 2.39 per cent is above the industry benchmark of zero per cent.

The 2018-19 ratio was restated from 2.13 per cent to 2.11 per cent, based on the revised OLG guidelines.



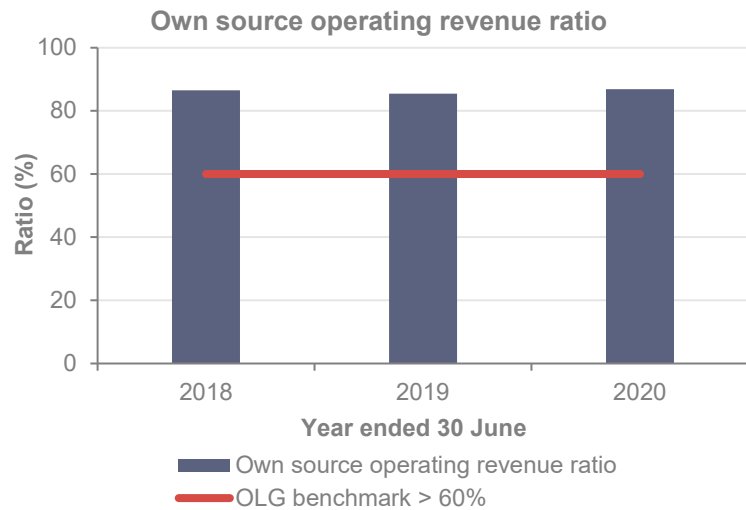
Own source operating revenue ratio

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.

The Council's own source operating revenue ratio of 86.83 per cent is above the industry benchmark of 60 per cent. This indicates that the Council has a diversified source of income and does not have an overly strong reliance on operating grants and contributions.

The Council's own source operating revenue ratio has remained steady over the past three years.

The 2018-19 ratio was restated from 85.42 per cent to 85.86 per cent, based on the revised OLG guidelines.

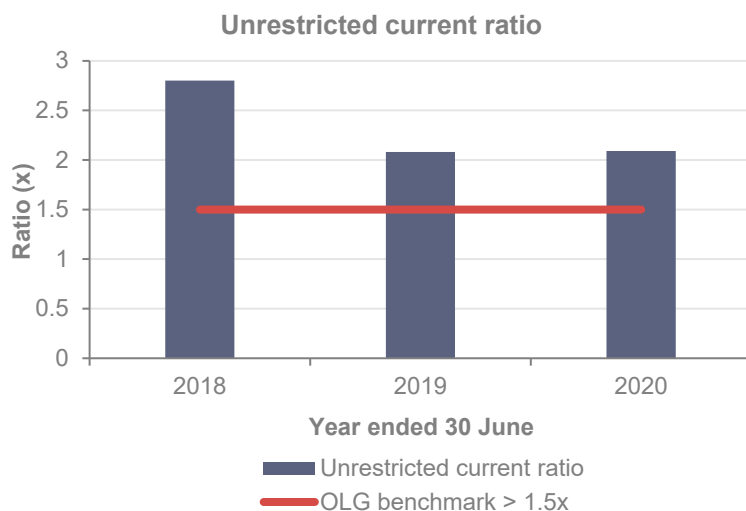


Unrestricted current ratio

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.

The Council's liquidity ratio of 2.09 is above the industry benchmark minimum of greater than 1.5 times. This indicates that the Council has sufficient liquidity to meet its current liabilities as they fall due.

The Council's unrestricted current ratio has remained steady over the past two years.

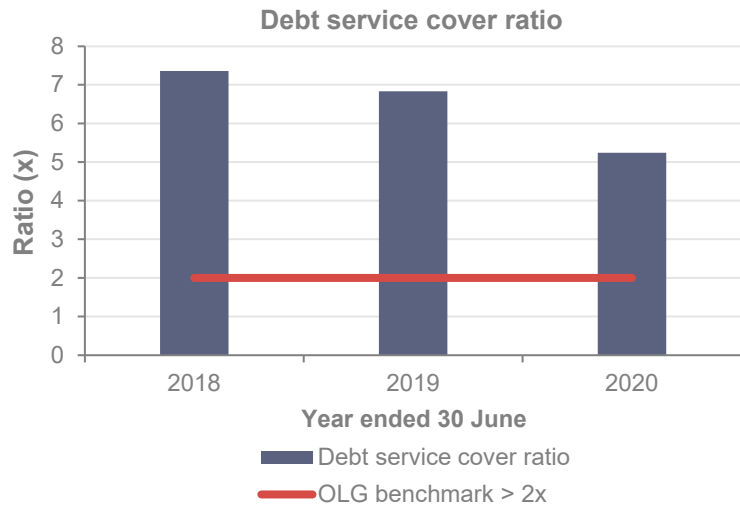


Debt service cover ratio

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.

The Council's debt service cover ratio of 5.24 times is above the industry benchmark of greater than 2 times.

The Council's debt service cover ratio has decreased from the prior year mainly due to the decline in net operating result in 2019-20.

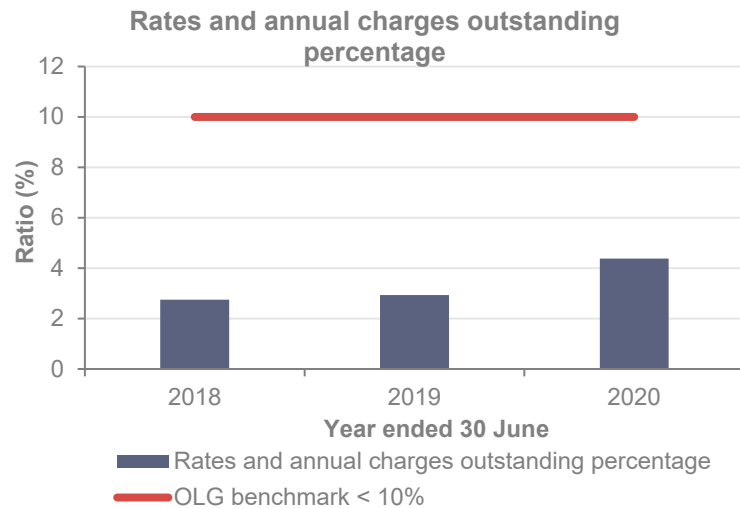


Rates and annual charges outstanding percentage

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.

The Council's rates and annual charges outstanding percentage of 4.38 per cent is within the benchmark of less than 10 per cent for regional councils. This indicates that the collection procedures of the Council operated effectively to collect more than 90 per cent of the rates and annual charges revenue within the receivable due dates.

The 2018-19 ratio was restated from 2.95 per cent to 2.93 per cent, based on the revised OLG guidelines.

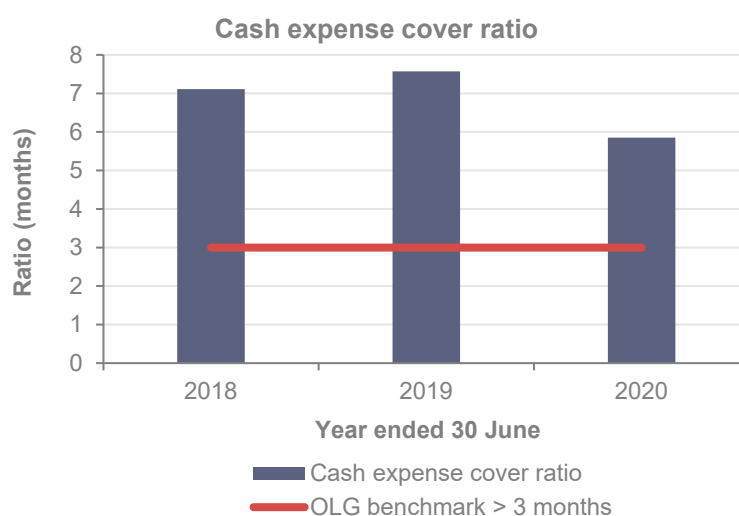


Cash expense cover ratio

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.

The Council's cash expense cover ratio was 5.85 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 5.85 months of operating cash expenditure without additional cash inflows at 30 June 2020.

The cash expense cover ratio decreased compared with prior year due to decrease in user charges and fees received during the year.



Infrastructure, property, plant and equipment renewals

The Council has renewed \$14.7 million of assets in 2019-20 financial year, compared to \$13.4 million of assets in the prior year.

OTHER MATTERS

Impact of new accounting standards

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

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

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

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

The Council recognised a \$3.1 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the new Revenue Standards in Note 18.

AASB 16 'Leases'

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

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

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

The Council recognised right-of-use assets of \$42.5 million and lease liabilities of \$43.6 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 18.

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.



Furqan Yousuf

Delegate of the Auditor-General for New South Wales

cc: Mr Jeremy Bath, Chief Executive Officer
 Mr Stephen Coates, Chair of Audit, Risk and Improvement Committee
 Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment

Newcastle City Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



Newcastle City Council

Special Purpose Financial Statements

for the year ended 30 June 2020

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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).

Newcastle City Council

Special Purpose Financial Statements

for the year ended 30 June 2020

Statement by Councillors and Management

made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

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

- the NSW Government Policy Statement, *'Application of National Competition Policy to Local Government'*,
- the Division of Local Government Guidelines, *'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality'*,
- the Local Government *Code of Accounting Practice and Financial Reporting*, and
- 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,
- accord with Council's accounting and other records; and
- present overhead reallocation charges to the 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 25 August 2020.



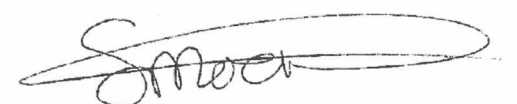
Nuatali Nelmes
Lord Mayor



Councillor



Ken Liddell
Acting Chief Executive Officer



Scott Moore
Responsible Accounting Officer

Newcastle City Council

Income Statement – Waste Management Collection Service

for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
Access charges	13,895	13,836
User charges	4,011	3,854
Other income	23	108
Total income from continuing operations	17,929	17,798
Expenses from continuing operations		
Employee benefits and on-costs	3,514	3,666
Borrowing costs	345	–
Materials and contracts	6,095	8,933
Depreciation, amortisation and impairment	1,909	221
Calculated taxation equivalents	143	153
Other expenses	978	645
Total expenses from continuing operations	12,984	13,618
Surplus (deficit) from all operations before tax	4,945	4,180
Less: corporate taxation equivalent (27.5%)	(1,360)	(1,150)
SURPLUS (DEFICIT) AFTER TAX	3,585	3,030
Opening accumulated surplus	3,683	4,699
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	143	153
– Corporate taxation equivalent	1,360	1,150
Add:		
– Subsidy paid/(contribution) to operations	(1,853)	(5,349)
Closing accumulated surplus	6,918	3,683
Return on capital %	67.6%	89.9%

Newcastle City Council

Income Statement – Waste Management Disposal Service

for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
Access charges	8,557	9,201
User charges	38,300	43,908
Grants and contributions provided for non-capital purposes	89	98
Other income	433	508
Total income from continuing operations	47,379	53,715
Expenses from continuing operations		
Employee benefits and on-costs	3,183	2,668
Borrowing costs	60	–
Materials and contracts	4,063	4,931
Depreciation, amortisation and impairment	4,392	3,311
Calculated taxation equivalents	163	138
Other expenses	29,806	33,399
Total expenses from continuing operations	41,667	44,447
Surplus (deficit) from all operations before tax	5,712	9,268
Less: corporate taxation equivalent (30%)	(1,571)	(2,781)
SURPLUS (DEFICIT) AFTER TAX	4,141	6,487
Opening accumulated surplus	41,503	37,893
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	163	138
– Corporate taxation equivalent	1,571	2,781
Add:		
– Subsidy paid/(contribution) to operations	8,043	(5,796)
Closing accumulated surplus	55,421	41,503
Return on capital %	10.6%	19.2%

Newcastle City Council

Income Statement – Civic Theatre and Playhouse

for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
User charges	739	1,638
Grants and contributions provided for non-capital purposes	6	47
Other income	1,074	1,258
Rental Income	622	–
Total income from continuing operations	2,441	2,943
Expenses from continuing operations		
Employee benefits and on-costs	2,620	2,591
Materials and contracts	595	669
Depreciation, amortisation and impairment	1,038	1,034
Calculated taxation equivalents	110	108
Other expenses	1,280	1,296
Total expenses from continuing operations	5,643	5,698
Surplus (deficit) from all operations before tax	(3,202)	(2,755)
Less: corporate taxation equivalent (27.5%)	–	–
SURPLUS (DEFICIT) AFTER TAX	(3,202)	(2,755)
Opening accumulated surplus	9,342	9,582
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	110	108
Add:		
– Subsidy paid/(contribution) to operations	1,355	2,408
Closing accumulated surplus	7,605	9,343
Return on capital %	(14.6)%	(12.1)%

Newcastle City Council

Income Statement – City Hall

for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
User charges	99	319
Grants and contributions provided for non-capital purposes	14	20
Rental Income	111	–
Other income	705	798
Total income from continuing operations	929	1,137
Expenses from continuing operations		
Employee benefits and on-costs	893	948
Materials and contracts	662	659
Depreciation, amortisation and impairment	1,222	1,221
Calculated taxation equivalents	134	69
Other expenses	591	568
Total expenses from continuing operations	3,502	3,465
Surplus (deficit) from all operations before tax	(2,573)	(2,328)
Less: corporate taxation equivalent (27.5%)	–	–
SURPLUS (DEFICIT) AFTER TAX	(2,573)	(2,328)
Opening accumulated surplus	22,807	20,301
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	134	69
Add:		
– Subsidy paid/(contribution) to operations	1,283	4,764
Closing accumulated surplus	21,651	22,806
Return on capital %	(8.3)%	(7.2)%

Newcastle City Council

Income Statement – Off Street Parking Stations

for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
User charges	733	907
Rental Income	24	–
Total income from continuing operations	757	907
Expenses from continuing operations		
Employee benefits and on-costs	77	77
Materials and contracts	88	86
Depreciation, amortisation and impairment	2	13
Calculated taxation equivalents	122	55
Other expenses	69	81
Total expenses from continuing operations	358	312
Surplus (deficit) from all operations before tax	399	595
Less: corporate taxation equivalent (27.5%)	(110)	(164)
SURPLUS (DEFICIT) AFTER TAX	289	431
Opening accumulated surplus	2,084	2,062
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	122	55
– Corporate taxation equivalent	110	164
Add:		
– Subsidy paid/(contribution) to operations	(4,673)	(628)
Closing accumulated surplus	(2,068)	2,084
Return on capital %	8.1%	12.0%

Newcastle City Council

Income Statement – Commercial Properties

for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
Grants and contributions provided for capital purposes	–	921
Rental Income	1,450	–
Other income	–	1,552
Total income from continuing operations	1,450	2,473
Expenses from continuing operations		
Fair value decrement on investment property	2,757	531
Employee benefits and on-costs	27	23
Materials and contracts	346	208
Depreciation, amortisation and impairment	20	–
Calculated taxation equivalents	210	156
Other expenses	251	225
Total expenses from continuing operations	3,611	1,143
Surplus (deficit) from all operations before tax	(2,161)	1,330
Less: corporate taxation equivalent (27.5%)	–	(366)
SURPLUS (DEFICIT) AFTER TAX	(2,161)	964
Opening accumulated surplus	18,653	18,185
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	210	156
– Corporate taxation equivalent	–	366
Add:		
– Subsidy paid/(contribution) to operations	(588)	(1,018)
Closing accumulated surplus	16,114	18,653
Return on capital % ¹	(13.3)%	7.0%

(1) For the purpose of calculating return on capital, the fair value of investment properties as at 30 June has been utilised rather than the written down value of IPPE.

Newcastle City Council

Income Statement – Stockton Beach Holiday Park

for the year ended 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
Income from continuing operations		
User charges	–	3,252
Other income	–	5
Rental Income	2,667	–
Total income from continuing operations	2,667	3,257
Expenses from continuing operations		
Employee benefits and on-costs	12	33
Borrowing costs	41	49
Materials and contracts	959	1,085
Depreciation, amortisation and impairment	204	194
Calculated taxation equivalents	122	63
Debt guarantee fee	22	25
Other expenses	290	349
Total expenses from continuing operations	1,650	1,798
Surplus (deficit) from all operations before tax	1,017	1,459
Less: corporate taxation equivalent (27.5%)	(280)	(401)
SURPLUS (DEFICIT) AFTER TAX	737	1,058
Opening accumulated surplus	10,395	9,529
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	122	63
– Debt guarantee fees	22	25
– Corporate taxation equivalent	280	401
Add:		
– Subsidy paid/(contribution) to operations	(755)	(681)
Closing accumulated surplus	10,801	10,395
Return on capital %	12.1%	16.9%

Newcastle City Council

Income Statement – Digital Print Services

for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
User charges	336	458
Other income	3	–
Total income from continuing operations	339	458
Expenses from continuing operations		
Employee benefits and on-costs	389	229
Materials and contracts	226	243
Depreciation, amortisation and impairment	5	7
Other expenses	56	71
Total expenses from continuing operations	676	550
Surplus (deficit) from all operations before tax	(337)	(92)
Less: corporate taxation equivalent (27.5%)	–	–
SURPLUS (DEFICIT) AFTER TAX	(337)	(92)
Opening accumulated surplus	(166)	(163)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
Add:		
– Subsidy paid/(contribution) to operations	364	88
Closing accumulated surplus	(139)	(167)
Return on capital %	(1,382.7)%	(317.2)%

Newcastle City Council

Income Statement – Beresfield Childcare Centre

for the year ended 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
Income from continuing operations		
User charges	860	1,032
Grants and contributions provided for non-capital purposes	370	–
Total income from continuing operations	1,230	1,032
Expenses from continuing operations		
Employee benefits and on-costs	950	1,021
Materials and contracts	82	84
Depreciation, amortisation and impairment	–	48
Calculated taxation equivalents	3	9
Other expenses	271	190
Total expenses from continuing operations	1,306	1,352
Surplus (deficit) from all operations before tax	(76)	(320)
Less: corporate taxation equivalent (27.5%)	–	–
SURPLUS (DEFICIT) AFTER TAX	(76)	(320)
Opening accumulated surplus	1,196	1,222
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	3	9
Add:		
– Subsidy paid/(contribution) to operations	(26)	285
Closing accumulated surplus	1,097	1,196
Return on capital %	(5.9)%	(23.5)%

Newcastle City Council

Statement of Financial Position – Waste Management Collection Service

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Receivables	596	474
Total current assets	596	474
Non-current assets		
Right of use assets	5,488	–
Infrastructure, property, plant and equipment	7,822	4,648
Total non-current assets	13,310	4,648
TOTAL ASSETS	13,906	5,122
LIABILITIES		
Current liabilities		
Contract liabilities	5	–
Lease liabilities	1,365	–
Payables	5	217
Provisions	858	1,206
Total current liabilities	2,233	1,423
Non-current liabilities		
Lease liabilities	4,723	–
Provisions	33	16
Total non-current liabilities	4,756	16
TOTAL LIABILITIES	6,989	1,439
NET ASSETS	6,917	3,683
EQUITY		
Accumulated surplus	6,917	3,683
TOTAL EQUITY	6,917	3,683

Newcastle City Council

Statement of Financial Position – Waste Management Disposal Service

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Investments	36,352	35,310
Receivables	4,938	4,562
Total current assets	41,290	39,872
Non-current assets		
Right of use assets	1,366	–
Infrastructure, property, plant and equipment	54,394	48,147
Total non-current assets	55,760	48,147
TOTAL ASSETS	97,050	88,019
LIABILITIES		
Current liabilities		
Lease liabilities	645	–
Payables	2,969	6,432
Provisions	934	859
Total current liabilities	4,548	7,291
Non-current liabilities		
Lease liabilities	705	–
Provisions	36,376	35,327
Total non-current liabilities	37,081	35,327
TOTAL LIABILITIES	41,629	42,618
NET ASSETS	55,421	45,401
EQUITY		
Accumulated surplus	55,421	41,503
Revaluation reserves	–	3,898
TOTAL EQUITY	55,421	45,401

Newcastle City Council

Statement of Financial Position – Civic Theatre and Playhouse

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Receivables	86	145
Inventories	31	27
Total current assets	117	172
Non-current assets		
Infrastructure, property, plant and equipment	22,006	22,853
Total non-current assets	22,006	22,853
TOTAL ASSETS	22,123	23,025
LIABILITIES		
Current liabilities		
Contract liabilities	2,460	–
Payables	7	50
Income received in advance	–	1,512
Provisions	301	269
Total current liabilities	2,768	1,831
Non-current liabilities		
Provisions	26	13
Total non-current liabilities	26	13
TOTAL LIABILITIES	2,794	1,844
NET ASSETS	19,329	21,181
EQUITY		
Accumulated surplus	7,605	9,343
Revaluation reserves	11,724	11,838
TOTAL EQUITY	19,329	21,181

Newcastle City Council

Statement of Financial Position – City Hall

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Non-current assets		
Infrastructure, property, plant and equipment	30,971	32,165
Total non-current assets	30,971	32,165
TOTAL ASSETS	30,971	32,165
LIABILITIES		
Current liabilities		
Contract liabilities	180	–
Payables	1	177
Provisions	238	285
Total current liabilities	419	462
Non-current liabilities		
Provisions	7	3
Total non-current liabilities	7	3
TOTAL LIABILITIES	426	465
NET ASSETS	30,545	31,700
EQUITY		
Accumulated surplus	21,651	22,806
Revaluation reserves	8,894	8,894
TOTAL EQUITY	30,545	31,700

Newcastle City Council

Statement of Financial Position – Off Street Parking Stations

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Current assets		
Receivables	2	–
Total current assets	2	–
Non-current assets		
Infrastructure, property, plant and equipment	4,937	4,939
Total non-current assets	4,937	4,939
TOTAL ASSETS	4,939	4,939
LIABILITIES		
Current liabilities		
Payables	18	–
Provisions	24	27
Total current liabilities	42	27
Non-current liabilities		
Provisions	2	1
Total non-current liabilities	2	1
TOTAL LIABILITIES	44	28
NET ASSETS	4,895	4,911
EQUITY		
Accumulated surplus	2,068	2,084
Revaluation reserves	2,827	2,827
TOTAL EQUITY	4,895	4,911

Newcastle City Council

Statement of Financial Position – Commercial Properties

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Current assets		
Receivables	316	133
Total current assets	316	133
Non-current assets		
Investment property	16,213	18,970
Total non-current assets	16,213	18,970
TOTAL ASSETS	16,529	19,103
LIABILITIES		
Current liabilities		
Contract liabilities	31	–
Payables	2	31
Provisions	3	9
Total current liabilities	36	40
Non-current liabilities		
Contract liabilities	379	–
Payables	–	410
Total non-current liabilities	379	410
TOTAL LIABILITIES	415	450
NET ASSETS	16,114	18,653
EQUITY		
Accumulated surplus	16,114	18,653
TOTAL EQUITY	16,114	18,653

Newcastle City Council

Statement of Financial Position – Stockton Beach Holiday Park

as at 30 June 2020

	2020 Category 1 \$ '000	2019 Category 1 \$ '000
ASSETS		
Current assets		
Cash and cash equivalents	3,302	2,912
Receivables	179	–
Total current assets	3,481	2,912
Non-current assets		
Infrastructure, property, plant and equipment	8,717	8,912
Total non-current assets	8,717	8,912
TOTAL ASSETS	12,198	11,824
LIABILITIES		
Current liabilities		
Interest bearing liabilities	200	200
Provisions	1	12
Total current liabilities	201	212
Non-current liabilities		
Interest bearing liabilities	605	805
Total non-current liabilities	605	805
TOTAL LIABILITIES	806	1,017
NET ASSETS	11,392	10,807
EQUITY		
Accumulated surplus	10,980	10,395
Revaluation reserves	412	412
TOTAL EQUITY	11,392	10,807

Newcastle City Council

Statement of Financial Position – Digital Print Services

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Non-current assets		
Infrastructure, property, plant and equipment	24	29
Total non-current assets	<u>24</u>	<u>29</u>
TOTAL ASSETS	<u>24</u>	<u>29</u>
LIABILITIES		
Current liabilities		
Payables	–	5
Provisions	163	189
Total current liabilities	<u>163</u>	<u>194</u>
Non-current liabilities		
Provisions	–	2
Total non-current liabilities	<u>–</u>	<u>2</u>
TOTAL LIABILITIES	<u>163</u>	<u>196</u>
NET ASSETS	<u>(139)</u>	<u>(167)</u>
EQUITY		
Accumulated surplus	(139)	(167)
TOTAL EQUITY	<u>(139)</u>	<u>(167)</u>

Newcastle City Council

Statement of Financial Position – Beresfield Childcare Centre

as at 30 June 2020

	2020 Category 2 \$ '000	2019 Category 2 \$ '000
ASSETS		
Current assets		
Receivables	52	93
Total current assets	52	93
Non-current assets		
Infrastructure, property, plant and equipment	1,294	1,359
Total non-current assets	1,294	1,359
TOTAL ASSETS	1,346	1,452
LIABILITIES		
Current liabilities		
Payables	1	10
Provisions	95	104
Total current liabilities	96	114
Non-current liabilities		
Provisions	22	11
Total non-current liabilities	22	11
TOTAL LIABILITIES	118	125
NET ASSETS	1,228	1,327
EQUITY		
Accumulated surplus	1,097	1,196
Revaluation reserves	131	131
TOTAL EQUITY	1,228	1,327

Newcastle City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government. The framework for its application is set out in the June 1996 NSW Government Policy statement titled 'Application of National Competition Policy to Local Government'. The *Pricing and Costing for Council Businesses - A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements. These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies and returns 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

(Business activities with gross operating turnover more than \$2 million)

Waste Management Collection Services

Collection of commercial, domestic and other waste

Waste Management Disposal Services

Waste disposal site activities

Stockton Beach Holiday Park

Operation of holiday park

Civic Theatre and Playhouse

Operation of entertainment theatre

Category 2

(Business activities with gross operating turnover less than \$2 million)

City Hall

Provision of conference, reception and entertainment facilities

Off Street Parking Stations

Commercially operated parking stations

Newcastle City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

Commercial Properties

Commercial rental properties

Digital Print Services

Operation of printing services

Beresfield Child Care Centre

Operation of child care centre

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% (or 30.0% for businesses with aggregated turnover greater than \$50 million).
- 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% (or 30.0% for businesses with aggregated turnover greater than \$50 million).

Income tax is only applied where a gain 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% (or 30.0% where aggregated turnover exceeds \$50 million) is the equivalent company tax rate prevalent at reporting date.

Local government rates and charges

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

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that Council business activities face 'true' commercial borrowing costs in line with private sector competitors. In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

Newcastle City Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

Note 1. Significant Accounting Policies (continued)

(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.

Accordingly, 'subsidy paid/(contribution) to operations' (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 rate of return achieved by each business activity is disclosed for each of Council's business activities on their respective Income Statement.

The return on capital is calculated as follows:

$$\frac{\text{Surplus (deficit) from continuing operations before capital amounts + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 0.92% at 30/6/20.

(iv) Dividends

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



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statements
Newcastle City Council

To the Councillors of Newcastle City Council

Opinion

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

The Declared Business Activities of the Council are:

- Waste Management Collection Service
- Waste Management Disposal Service
- Civic Theatre and Playhouse
- City Hall
- Off Street Parking Stations
- Commercial Properties
- Stockton Beach Holiday Park
- Digital Print Services
- Beresfield Childcare Centre.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

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

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



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

20 October 2020
SYDNEY

Newcastle City Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



Newcastle City Council

Special Schedules

for the year ended 30 June 2020

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Newcastle City Council

Permissible income for general rates

	Notes	Calculation 2020/21 \$ '000	Calculation 2019/20 \$ '000
Notional general income calculation ¹			
Last year notional general income yield	a	159,676	147,291
Plus or minus adjustments ²	b	961	812
Notional general income	c = a + b	160,637	148,103
Permissible income calculation			
Special variation percentage ³	d	0.00%	8.00%
Or rate peg percentage	e	2.60%	0.00%
Plus special variation amount	h = d x (c + g)	–	11,848
Or plus rate peg amount	i = e x (c + g)	4,177	–
Sub-total	k = (c + g + h + i + j)	164,814	159,951
Plus (or minus) last year's carry forward total	l	9	9
Less valuation objections claimed in the previous year	m	–	(275)
Sub-total	n = (l + m)	9	(266)
Total permissible income	o = k + n	164,823	159,685
Less notional general income yield	p	164,941	159,676
Catch-up or (excess) result	q = o – p	(118)	10
Plus income lost due to valuation objections claimed ⁴	r	122	–
Less unused catch-up ⁵	s	–	–
Carry forward to next year ⁶	t = q + r + s	4	10

Notes

- (1) The 'notional general income' will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis, which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable, the Crown land adjustment.
- (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.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (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 permissible income from general rates in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Newcastle City Council

To the Councillors of Newcastle City Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

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

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

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

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

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

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

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

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

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.



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

20 October 2020
SYDNEY

Report on Infrastructure Assets

as at 30 June 2020

Asset Class	Asset Category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2019/20 Required maintenance	2019/20 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		(\$'000)	(\$'000)	(\$'000) ^a	(\$'000)	(\$'000)	(\$'000)	1	2	3	4	5
	Buildings	3,764	16,400	7,079	8,060	181,955	354,657	9.7%	54.8%	30.4%	2.8%	2.3%
	Other structures	782	3,870	1,354	728	50,510	97,847	42.5%	12.7%	19.5%	5.4%	19.9%
Roads	Sealed roads	1,834	5,692	10,960	9,647	336,946	690,738	12.0%	57.6%	28.2%	2.0%	0.2%
	Unsealed roads	14	151	4	5	24	223	1.2%	14.4%	16.5%	67.9%	0.0%
	Bridges	225	2,810	45	9	25,296	53,586	12.4%	66.3%	16.1%	5.2%	0.0%
	Footpaths	105	403	1,760	1,874	90,479	175,631	5.4%	76.8%	17.2%	0.5%	0.1%
	Other road assets (including bulk earthworks)	–	–	–	–	194,269	194,269	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	2,178	9,056	12,769	11,535	647,014	1,114,447	26.3%	51.0%	20.9%	1.6%	0.2%
	Stormwater drainage	25,664	60,722	731	800	115,696	268,582	3.2%	45.5%	10.8%	7.2%	33.3%
Open space / recreational assets	Swimming pools	932	3,604	816	1,708	9,004	25,258	24.2%	20.0%	18.9%	2.2%	34.7%
	Other Open Space/ Rec Assets	1,099	2,516	1,040	6,914	16,257	35,353	22.7%	19.3%	41.6%	13.6%	2.8%
	Sub-total	2,031	6,120	1,856	8,622	25,261	60,611	23.4%	19.6%	32.1%	8.8%	16.1%
	Other infrastructure assets	2,533	10,613	593	30	41,212	81,700	25.9%	31.0%	29.8%	5.2%	8.1%
	TOTAL - ALL ASSETS	36,952	106,781	24,382	29,775	1,061,648	1,977,844	20.9%	47.3%	21.9%	3.1%	6.8%

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

Condition	Integrated planning and reporting (IP&R) description
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

Newcastle City Council

Report on Infrastructure Assets (continued)
for the year ended 30 June 2020

	Amounts 2020	Indicator 2020	Indicator 2019	Benchmark
Infrastructure asset performance indicators * consolidated				
1. Buildings and infrastructure renewals ratio				
Asset renewals ⁽²⁾	<u>12,693</u>	36.55%	52.73%	>= 100%
Depreciation, amortisation and impairment	<u>34,730</u>			
2. Buildings and infrastructure renewals ratio ⁽¹⁾				
Asset renewals (excluding WIP) ⁽²⁾	<u>7,862</u>	22.64%	29.56%	>= 100%
Depreciation, amortisation and impairment	<u>34,730</u>			
3. Infrastructure backlog ratio ⁽¹⁾				
Estimated cost to bring assets to a satisfactory standard	<u>36,952</u>	3.48%	11.59%	< 2.00%
Net carrying amount of infrastructure assets	<u>1,061,648</u>			
4. Asset maintenance ratio				
Actual asset maintenance	<u>29,775</u>	122.12%	88.13%	> 100%
Required asset maintenance	<u>24,382</u>			
5. Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed service level set by Council	<u>106,781</u>	5.40%	4.64%	
Gross replacement cost	<u>1,977,844</u>			

Notes

* All asset performance indicators are calculated using the asset 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.

The building and infrastructure renewals ratio as per changes in the Local Government Code of Accounting Practice and Financial Reporting Update no.26 now excludes WIP for asset renewals. To ensure transparency, Council have included both ratios (including WIP and excluding WIP).