

# OUR FINANCIAL YEAR



# Lake Macquarie City Council

GENERAL PURPOSE FINANCIAL STATEMENTS

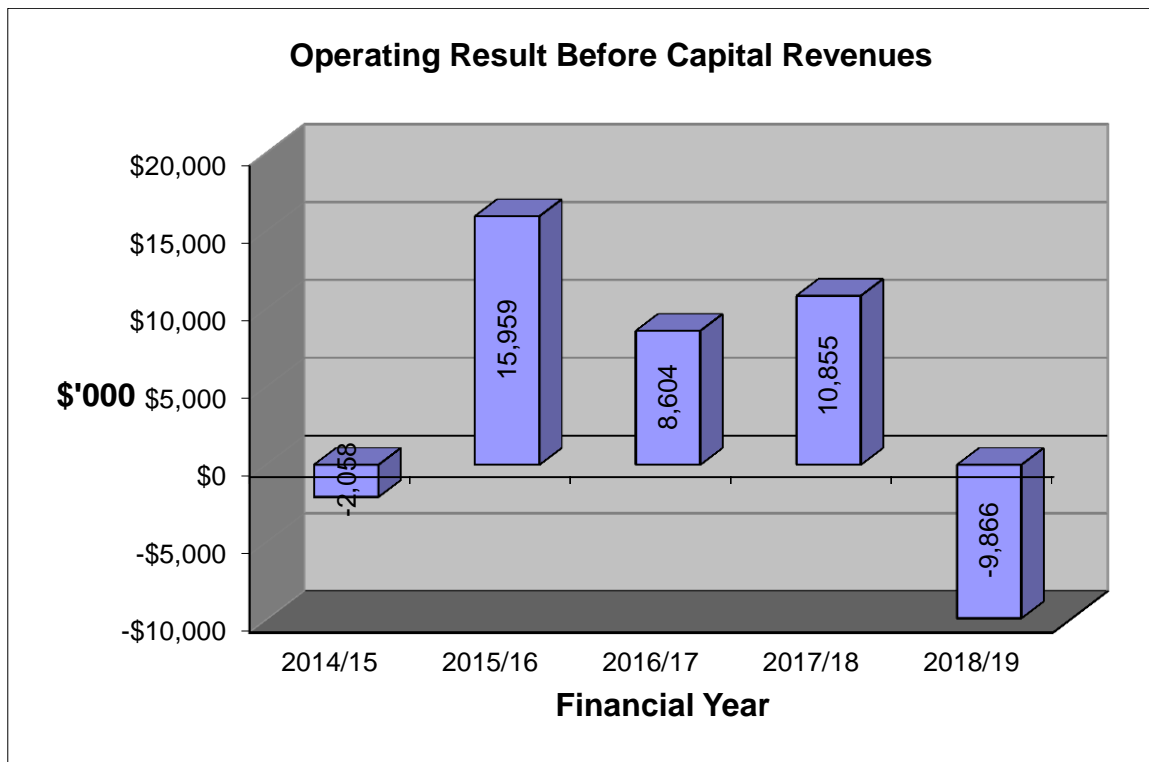
for the year ended 30 June 2019

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## FINANCIAL HIGHLIGHTS

	2018/2019	2017/2018
Operating Result Before Capital Revenues	(\$9.866m)	\$10.855m
Operating Result After Capital Revenues	\$24,964m	\$75.065m
Total Equity	\$2.630bn	\$2.631bn
Total Cash and Investments	\$245.244m	\$214.271m
Loan Borrowings Outstanding	\$126.922m	\$82.129m
Operating Performance Ratio	-0.27%	5.56%
Own Source Operating Revenue Ratio	75.85%	68.32%
Unrestricted Current Ratio	4.9	2.75
Debt Service Cover Ratio	6.51	8.52
Rates and Annual Charges Outstanding Percentage	3.7%	4.09%
Cash Expense Cover Ratio (months)	8.2	8.74



The trend of Council's operating result before capital revenues over the past five years is shown in the graph above.

Council has reported an operating loss before capital revenue of \$9.866m. This reflects the impact of change in the loss on disposal of assets (\$5.6m), increase in amortisation of discounts & premiums for remediation liabilities (\$1.4m), change in the fair value adjustment of investment properties (\$902k) and increased operating costs.

This result includes \$8.3m of financial assistance grant for the 2019/2020 financial year paid in advance, while the 2017/2018 year recognised \$8.2m of the 2018/2019 financial assistance grant in advance.

*Note: These notes do not form part of the General Purpose or Special Purpose Financial Reports and have not been audited.*

## **Operating Result v Available Funds**

Council's operating result does not take into consideration those revenues that are restricted. Council is required by both external bodies and internal policies to ensure that some particular sources of revenue are restricted for specific purposes. Therefore, although some operations of Council could contribute to a positive operating result, the cash associated with these sources of revenue is restricted and is not available for general use by Council. Some examples of where there is an impact on the income statement but where Council is restricted in the use of the funds are:

- Capital dedications of land and infrastructure assets – these are shown as capital revenues in the financial statements but are not cash.
- Section 7.11 (previously s94) contributions and investment income earned on these contributions are shown as revenues in the income statement but are restricted for specific purposes and are not available for general use by Council.
- Grants and contributions received, (operating and capital revenues) – most grants and contributions are received for specific purposes and are required to be transferred to a specific restricted asset until the funds are used. Council is required to recognise the grants as revenue when they are received and not when they are used. The impact that this can have on the operating result is that the revenue may be disclosed for a particular project within one financial year but the expenditure may be incurred and disclosed in a subsequent financial year. This has the effect of distorting the operating result, as there is no application of the 'matching principle', where revenue and expenses which relate to one another are reported in the same accounting period. New accounting standards to apply from 1 July 2019 will address this anomaly in certain circumstances.
- Holiday park operational income generated on Crown land must be transferred to a restricted asset and can only to be used for the operational and capital costs associated with Crown land.
- Domestic waste revenues – any surplus or deficit from the domestic waste activity must be transferred to a restricted asset. These funds may then only be used to fund domestic waste activities in future years.

All of the above factors can contribute to an operating surplus but due to restrictions on the use of those revenues, this cash is not available for the general operations of Council.

## **Significant Impacts on the Financial Statements**

The operating result before capital revenues decreased by \$20.7m from the 2017/2018 financial year and the operating result including capital revenues decreased by \$50.1m. The movements in these results were due to a number of factors which are outlined below:

- Rates and annual charges increased by \$7.1m due primarily to the special rate variation.
- Capital grants and contributions decreased by \$29.4m, mainly due to a reduction in the amount recognised for dedications of land and works in lieu of cash from \$37.6m in 2017/2018 to \$14.8m in 2018/2019.

*Note: These notes do not form part of the General Purpose or Special Purpose Financial Reports and have not been audited.*

- Revaluation of investment properties resulted in a decrease as a decrement to fair value of \$396k was recognised in 2018/2019, whereas an increment of \$506k was recognised in 2017/2018.
- Employee costs increased by \$2.4m which is attributable to an increase in salaries and wages and corresponding employee entitlements, driven by the annual increase in accordance with the current Enterprise Agreement.
- Depreciation and amortisation costs increased by \$4.2m primarily due to the increase in dedicated infrastructure assets (\$33m) during the 2017/18 financial year.
- Materials and contracts increased from 2017/2018 by \$16.3m due to higher raw materials and external contract costs. This was mainly due to an increase in recycling contractor fees in response to the China National Sword Policy (\$3.7m), reclassification of internal burdening and corresponding recovery to employee costs (\$3.0m), Lighting the Way project reclassified from capital to operating (\$800k), carried forward projects from the previous financial year (\$3.1m) and increased operational activity.
- Borrowing costs increased by \$1.3m as a result of an increase in the amortisation of discounts and premiums relating to remediation assets \$2.2m offset by the impact of delaying the drawdown of borrowings relating to the 2017/2018 year until June 2019.
- The net loss from the disposal of assets increased by \$5.6m. The loss primarily relates to disposal of roads and buildings prior to the end of their useful life and sale of land at Charlestown.

## **Performance Indicators**

### ***Unrestricted Current Ratio***

Council's unrestricted current ratio increased from 2.75 in 2017/2018 to 4.9 in 2018/2019. The benchmark as provided by the Office of Local Government is greater than 1.5.

### ***Rates Outstanding Ratio***

Council's rates outstanding ratio decreased from 4.09% in 2017/2018 to 3.7% in 2018/2019. Guidelines provided by the Office of Local Government show that the Office's accepted benchmarks for outstanding rates are less than 5% for urban and coastal councils and less than 10% for rural councils.

### ***Operating Performance Ratio***

Council's operating performance ratio decreased from 5.56% in 2017/2018 to -0.27% in 2018/2019. The benchmark as provided by the Office of Local Government is greater than 0%. Fluctuations in operating results each year impact this ratio. These fluctuations can be brought about as a result of changes to items whose amounts are not consistent or lineal from year to year. Such items include amortisation of discounts and premiums relating to remediation liabilities and operating grants and operating contributions.

### ***Own Source Operating Revenue Ratio***

Council's own source operating revenue ratio increased from 68.32% in

*Note: These notes do not form part of the General Purpose or Special Purpose Financial Reports and have not been audited.*



2017/2018 to 75.85% in 2018/2019. The benchmark as provided by the Office of Local Government is greater than 60%.

### ***Debt Service Cover Ratio***

Council's debt service cover ratio decreased from 8.52 in 2017/2018 to 6.51 in 2018/2019. This movement reflected the reduced operating result and increased borrowing costs due to amortisation of discounts and premiums on remediation assets. The benchmark as provided by the Office of Local Government is greater than 2.

### ***Cash Expense Cover Ratio***

Council's cash expense cover ratio changed from 8.74 months in 2017/2018 to 8.2 months in 2018/2019. The benchmark as provided by the Office of Local Government is greater than 3 months.

### **Future Financial Impacts**

There are a number of issues that are anticipated in the future that could have an impact on the future financial results. These are:

- Fair value – Council is required to revalue each class of Infrastructure, Property, Plant and Equipment assets every 5 years (as a minimum). This will continue to impact on Council's annual depreciation expense and total asset values.
- Development of a Community Strategic Plan and Long Term Financial Plan – The Community Strategic Plan 2017-2027 represents the partnership between Council and the people of Lake Macquarie. It presents the main priorities of the community and sets out the long-term strategies developed to respond to these priorities. In support of this plan, Council has adopted a long-term financial plan, which represents a financial blueprint for the Council and the community that ensures the cost-effective delivery of works and services, and the appropriate maintenance and renewal of our significant asset base, within the framework of present and future financial sustainability. Council is in consultation with the community for Lifestyle 2050, Council's future guiding land use, transport and green space strategy for the city.
- Infrastructure gap – This is the gap between the amount required to be spent on infrastructure to maintain it at a satisfactory standard and the amount actually spent on infrastructure. Like most councils, Council continues to be challenged in efforts to address the infrastructure gap, with a large asset base and constrained resources. Council continues to strive for 80% cash funding of its annual depreciation expense in order to fund the replacement of assets when required. Through Council's strategic approach to asset management, appropriate levels of renewal funding have been provided, supplemented by the Special Rate Variation. This has led to a progressive reduction in the infrastructure gap over recent years.
- Council's seven year special rate variation (SRV) concluded in 2018/2019. The SRV assisted Council in delivering financial sustainability, ensuring levels of service were maintained to the community. It also enabled Council to manage its substantial and ageing asset base and partially assisted in addressing the current infrastructure backlog. Council will continue to build on its position through strong financial management and continuous improvement. The challenge for Council in the future will be to deliver the expected services and capital works to the community with restricted rates revenue increases.

*Note: These notes do not form part of the General Purpose or Special Purpose Financial Reports and have not been audited.*

# Lake Macquarie City Council

## General Purpose Financial Statements

for the year ended 30 June 2019

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# Lake Macquarie City Council

## General Purpose Financial Statements

for the year ended 30 June 2019

### Understanding Council's Financial Statements

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#### Introduction

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

#### What you will find in the Statements

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

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

#### About the Councillor/Management Statement

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

#### About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

##### 1. The Income Statement

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

##### 2. The Statement of Comprehensive Income

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

##### 3. The Statement of Financial Position

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

##### 4. The Statement of Changes in Equity

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

##### 5. The Statement of Cash Flows

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

#### About the Notes to the Financial Statements

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

#### About the Auditor's Reports

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

In NSW the auditor provides two audit reports:

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

#### Who uses the Financial Statements?

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

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

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



# Lake Macquarie City Council

## General Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

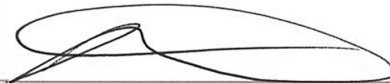
- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

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

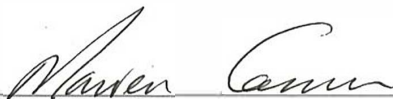
Signed in accordance with a resolution of Council made on 28 October 2019.



Cr Kay Fraser  
**Mayor**  
28 October 2019



Cr Nick Jones  
**Deputy Mayor**  
28 October 2019



Morven Cameron  
**Chief Executive Officer**  
28 October 2019



Dwight Graham  
**Responsible Accounting Officer**  
28 October 2019

# Lake Macquarie City Council

## Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019 \$ '000		Notes	Actual 2019 \$ '000	Actual 2018 <sup>1</sup> \$ '000
<b>Income from continuing operations</b>				
<b>Revenue:</b>				
169,297	Rates and annual charges	3a	169,198	162,097
17,205	User charges and fees	3b	18,459	18,625
7,354	Interest and investment revenue	3c	7,907	7,441
12,709	Other revenues	3d	13,603	13,442
27,580	Grants and contributions provided for operating purposes	3e,3f	31,761	29,259
37,964	Grants and contributions provided for capital purposes	3e,3f	34,830	64,210
<b>Other income:</b>				
–	Fair value increment on investment properties	11	–	506
–	Net share of interests in joint ventures and associates using the equity method	17	–	587
272,109	<b>Total income from continuing operations</b>		275,758	296,167
<b>Expenses from continuing operations</b>				
99,079	Employee benefits and on-costs	4a	92,291	89,903
7,585	Borrowing costs	4b	7,326	6,028
38,866	Materials and contracts	4c	59,654	43,344
55,475	Depreciation, amortisation and impairment of intangible assets and IPPE	4d	58,639	54,425
29,803	Other expenses	4e	23,660	24,328
–	Net losses from the disposal of assets	5	8,632	3,074
–	Fair value decrement on investment properties	11	396	–
–	Depreciation, amortisation and impairment of intangible assets and IPPE	4d	100	–
–	Net share of interests in joint ventures and associates using the equity method	17	96	–
230,808	<b>Total expenses from continuing operations</b>		250,794	221,102
41,301	<b>Operating result from continuing operations</b>		24,964	75,065
41,301	<b>Net operating result for the year</b>		24,964	75,065
41,301	Net operating result attributable to council		24,964	75,065
3,337	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		(9,866)	10,855

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

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

# Lake Macquarie City Council

## Statement of Comprehensive Income

for the year ended 30 June 2019

	Notes	2019 \$ '000	2018 <sup>1</sup> \$ '000
<b>Net operating result for the year (as per Income Statement)</b>		<b>24,964</b>	<b>75,065</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10	2,939	50,250
Changes in accounting estimates		(28,837)	–
Other movements		(68)	–
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>(25,966)</b>	<b>50,250</b>
<b>Total other comprehensive income for the year</b>		<b>(25,966)</b>	<b>50,250</b>
<b>Total comprehensive income for the year</b>		<b>(1,002)</b>	<b>125,315</b>
Total comprehensive income attributable to Council		(1,002)	125,315

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

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

# Lake Macquarie City Council

## Statement of Financial Position

as at 30 June 2019

	Notes	2019 \$ '000	2018 <sup>1</sup> \$ '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalent assets	6(a)	21,035	36,389
Investments	6(b)	158,172	112,278
Receivables	7	16,032	13,641
Inventories	8a	1,975	1,832
Other	8b	557	461
Current assets classified as 'held for sale'	9i	–	7,084
<b>Total current assets</b>		<u>197,771</u>	<u>171,685</u>
<b>Non-current assets</b>			
Investments	6(b)	66,037	65,603
Receivables	7	1,603	1,940
Inventories	8a	3,275	2,637
Infrastructure, property, plant and equipment	10	2,574,937	2,520,750
Investment property	11a	40,882	41,215
Intangible assets	12	7,753	5,326
Investments accounted for using the equity method	17	975	1,071
Other	8b	461	725
<b>Total non-current assets</b>		<u>2,695,923</u>	<u>2,639,267</u>
<b>Total assets</b>		<u>2,893,694</u>	<u>2,810,952</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	13	18,822	11,409
Income received in advance	13	–	55
Borrowings	13	4,681	2,708
Provisions	14	94,476	64,397
<b>Total current liabilities</b>		<u>117,979</u>	<u>78,569</u>
<b>Non-current liabilities</b>			
Borrowings	13	122,241	79,422
Provisions	14	23,565	22,050
<b>Total non-current liabilities</b>		<u>145,806</u>	<u>101,472</u>
<b>Total liabilities</b>		<u>263,785</u>	<u>180,041</u>
<b>Net assets</b>		<u>2,629,909</u>	<u>2,630,911</u>
<b>EQUITY</b>			
Accumulated surplus	15a	1,308,898	1,312,839
Revaluation reserves	15a	1,321,011	1,318,072
<b>Council equity interest</b>		<u>2,629,909</u>	<u>2,630,911</u>
<b>Total equity</b>		<u>2,629,909</u>	<u>2,630,911</u>

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

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

# Lake Macquarie City Council

## Statement of Changes in Equity for the year ended 30 June 2019

	2019			2018		
	Accumulated surplus \$ '000	IPP&E revaluation reserve \$ '000	Total equity \$ '000	Accumulated surplus \$ '000	IPP&E revaluation reserve \$ '000	Total equity \$ '000
Opening balance	1,312,839	1,318,072	2,630,911	1,237,774	1,267,822	2,505,596
Net operating result for the year	24,964	–	24,964	75,065	–	75,065
<b>Other comprehensive income</b>						
– Gain (loss) on revaluation of IPP&E	–	2,939	2,939	–	50,250	50,250
– Other movements	(28,905)	–	(28,905)	–	–	–
<b>Other comprehensive income</b>	<b>(28,905)</b>	<b>2,939</b>	<b>(25,966)</b>	<b>–</b>	<b>50,250</b>	<b>50,250</b>
<b>Total comprehensive income</b>	<b>(3,941)</b>	<b>2,939</b>	<b>(1,002)</b>	<b>75,065</b>	<b>50,250</b>	<b>125,315</b>
<b>Closing balance</b>	<b>1,308,898</b>	<b>1,321,011</b>	<b>2,629,909</b>	<b>1,312,839</b>	<b>1,318,072</b>	<b>2,630,911</b>

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

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

# Lake Macquarie City Council

## Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019 \$ '000		Notes	Actual 2019 \$ '000	Actual 2018 \$ '000
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
169,297	Rates and annual charges		168,409	162,099
17,205	User charges and fees		21,207	20,294
7,354	Investment and interest revenue received		9,040	6,804
27,580	Grants and contributions		51,264	60,619
–	Bonds, deposits and retention amounts received		1,126	245
12,709	Other		23,161	19,198
<b>Payments</b>				
(99,067)	Employee benefits and on-costs		(90,862)	(88,646)
(38,879)	Materials and contracts		(72,534)	(52,447)
(7,585)	Borrowing costs		(4,957)	(4,253)
–	Bonds, deposits and retention amounts refunded		(537)	(1,105)
(27,731)	Other		(19,507)	(35,632)
<b>60,883</b>	<b>Net cash provided (or used in) operating activities</b>	16b	<b>85,810</b>	<b>87,176</b>
<b>Cash flows from investing activities</b>				
<b>Receipts</b>				
–	Sale of investment securities		223,304	238,257
6,085	Sale of infrastructure, property, plant and equipment		8,812	4,422
23,278	Other investing activity receipts		–	–
<b>Payments</b>				
–	Purchase of investment securities		(269,632)	(199,027)
–	Purchase of investment property		(63)	–
(105,222)	Purchase of infrastructure, property, plant and equipment		(103,980)	(117,197)
–	Purchase of real estate assets		(718)	–
–	Purchase of intangible assets		(3,679)	–
<b>(75,859)</b>	<b>Net cash provided (or used in) investing activities</b>		<b>(145,956)</b>	<b>(73,545)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts</b>				
34,093	Proceeds from borrowings and advances		47,499	–
<b>Payments</b>				
(4,171)	Repayment of borrowings and advances		(2,707)	(2,569)
<b>29,922</b>	<b>Net cash flow provided (used in) financing activities</b>		<b>44,792</b>	<b>(2,569)</b>
<b>14,946</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(15,354)</b>	<b>11,062</b>
200,143	Plus: cash and cash equivalents – beginning of year	16a	36,389	25,327
<b>215,089</b>	<b>Cash and cash equivalents – end of the year</b>	16a	<b>21,035</b>	<b>36,389</b>
Additional Information:				
–	plus: Investments on hand – end of year	6(b)	224,209	177,881
<b>215,089</b>	<b>Total cash, cash equivalents and investments</b>		<b>245,244</b>	<b>214,270</b>

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



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation

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These financial statements were authorised for issue by Council on 28 October 2019. Council has the power to amend and reissue these financial statements.

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

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

#### (a) New and amended standards adopted by Council

The following new standards were adopted during the year. There was no material impact on reported financial position, performance or cash flows of the entity although some additional disclosures have arisen:

AASB 9 Financial Instruments and Associated Amending Standards  
AASB 2018 - 1 Amendments to Australian Accounting Standards - Annual Improvements Cycle 2015 - 2017 Cycle  
AASB 2017 - 7 Amendments to Australian Accounting Standard - Long-term Interests in Associates and Joint Ventures

Note 15 provides further information on these items.

#### (b) Historical cost convention

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

#### (c) Significant accounting estimates and judgements

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

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

#### Critical accounting estimates and assumptions

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

- (i) Estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- (ii) Estimated fair values of investment properties – refer Note 11
- (iii) Estimated provision for asset remediation (tips, quarries and sanitary depots) – refer Note 14
- (iv) Estimated provision for self-insurance claims – refer Note 14
- (v) Employee benefit provisions – refer Note 14

#### Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables  
Council has made a significant judgement about the impairment of a number of its receivables - refer Note 7.
- (ii) Interests in other entities  
Council has used significant judgement about the relationship that it has with external entities to establish treatment and disclosure of these relationships – refer Note 17.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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#### 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 Council's Consolidated Fund unless it is required to be held in Council's Trust Fund. The consolidated fund and other entities through which Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The Consolidated Fund consists of General Purpose Operations only.

##### (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 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.

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

A separate statement of monies held in these Trust Funds 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.

#### New accounting standards and interpretations issued not yet effective

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

Council's assessment of the impact of these new standards and interpretations is set out below:

##### **AASB 2014-10 Sale or contribution of Assets between an Investor and its Associate or Joint Venture AASB 2017-5 defers the effective date of AASB 2014-10 to 1 January 2022**

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.  
*AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*

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.

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.

The effective date is annual reporting periods beginning on or after 1 January 2022.

There is no known impact on Council's financial position at this time.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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#### **AASB 16 Leases**

AASB 16 will result in most of the operating leases of an entity being brought onto the statement of financial position. There are limited exceptions relating to short-term leases and low-value assets which may remain off the balance sheet.

The calculation of the lease liability will take into account appropriate discount rates, assumptions about the lease term, and increases in lease payments.

A corresponding right to use assets will be recognised, which will be amortised over the term of the lease.

Rent expense will no longer be shown. The profit and loss impact of the leases will be through amortisation and interest charges.

The effective date is annual reporting periods beginning on or after 1 January 2019.

Council will need to review each of the leases in place, particularly where Council is a lessee to determine the impact of AASB 16.

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$1,497k- refer Note 18.

Short-term leases and low value leases of \$1,040k included in this amount will continue to be accounted for as they currently are (being expensed on a straight-line basis within the Income Statement).

For the remaining operating lease commitments of \$459k, Council anticipates it will recognise lease liabilities (on its balance sheet) and also recognise complimentary right-of-use assets (on its balance sheet) on 1 July 2019.

In addition to this, Council currently has a number of other operating leases not previously reported in Note 18 which are likely to be brought to account. Whilst the impact of this has not yet been fully determined, it will result in a non-current right of use asset and recognition of a lease liability which will be separated into a current and non-current component.

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

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

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

Councils should assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. Assessment of the financial impact on of the changes is in progress.

#### **AASB 1058 Income of NFP Entities**

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in *AASB 1004 Contributions*. The timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity.

AASB 1058 applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives. In cases where the council enters into other transactions, the council recognises and measures the asset at fair value in accordance with the applicable Australian Accounting Standard (e.g. *AASB 116 Property, Plant and Equipment*).

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 1. Basis of preparation (continued)

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

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

If the transaction is a transfer of a financial asset to enable Council to acquire or construct a recognisable non-financial asset to be controlled by Council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised.

Council will recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

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

The effective date is annual reporting periods beginning on or after 1 January 2019.

Council will need to assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

All revenue streams, including grant agreements, are currently being reviewed to determine the impact of AASB 1058. Prepaid rates received prior to the beginning of a rating period will be recognised as a financial liability until the commencement of the rating period.

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

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

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

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

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2018.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Functions or activities	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Unique Landscape	17,087	17,082	45,388	37,636	(28,301)	(20,554)	780	110	11,237	10,916
Lifestyle and Wellbeing	56,322	58,847	79,315	75,544	(22,993)	(16,697)	7,621	3,712	795,250	772,510
Mobility and Accessibility	19,041	41,695	64,466	57,262	(45,425)	(15,567)	3,897	1,447	1,808,357	1,756,650
Diverse Economy	29	23	2,002	2,267	(1,973)	(2,244)	–	–	16,144	15,682
Connected Communities	4,093	3,639	21,836	22,504	(17,743)	(18,865)	2,205	2,040	23,224	22,560
Creativity	945	467	2,345	1,994	(1,400)	(1,527)	733	–	6,833	6,638
Shared Decision-Making	9	–	3,530	2,944	(3,521)	(2,944)	–	–	–	–
Corporate	1,950	6,488	17,362	8,892	(15,412)	(2,404)	1,785	1,720	101,306	98,409
Property	11,512	9,938	10,875	7,029	637	2,909	–	–	118,034	114,659
Civilake	4,129	5,833	3,579	5,030	550	803	–	–	13,309	12,928
Shares of gains or losses in joint ventures and associates using the equity method	–	587	96	–	(96)	587	–	–	–	–
General purpose income	160,641	151,568	–	–	160,641	151,568	16,252	22,753	–	–
<b>Total functions and activities</b>	<b>275,758</b>	<b>296,167</b>	<b>250,794</b>	<b>221,102</b>	<b>24,964</b>	<b>75,065</b>	<b>33,273</b>	<b>31,782</b>	<b>2,893,694</b>	<b>2,810,952</b>



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

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

#### **Unique Landscape**

Waste strategic planning, tree and bushland preservation and management, sustainability governance, ecosystem enhancement, noxious weed control, overgrown land control, management of lake, foreshore, and natural areas, Landcare, development assessment and compliance and integrated planning administration.

#### **Lifestyle and Wellbeing**

Waste planning and education, domestic waste collection, Awaba waste management facility, bulk waste collection service, provision and servicing of parks and commercial property bins.

Effluent services, maintenance of pedestrian areas, ranger activities, cleaning of public amenities, environment and public health compliance, food premise compliance and essential services legislative compliance.

Community development and facilities, community planning, Lake Macquarie Family Day Care, public cemeteries, developer contribution administration, management of sport and recreation facilities, Hunter Region Sports Centre, parks liaison, recreation and land planning, development and operations of leisure services.

Beach and lifeguard services, Lake Macquarie City Games, swim centres and cultural activities.

#### **Mobility and Accessibility**

Asset management administration and policy development.

Roads – Infrastructure planning, land acquisitions for roads construction, construction of new roads, sealing gravel roads, kerb and gutter construction, resurfacing program, roads reconstruction and rehabilitation works, city wide road, bridges and car park maintenance.

Drainage – Infrastructure planning, construct/improve urban drainage, minor drainage improvements, land acquisition for drainage, customer and technical services, project management.

Traffic and Transportation – Street lighting/charges, street signs, road line marking, traffic facilities, cycleway construction/improvements, footpath improvements.

#### **Diverse Economy**

Economic and employment development, tourism including marketing, planning and promotion.

#### **Connected Communities**

Environmental security, sustainability engagement, sustainable living, fire protection services, state emergency services.

Social and community planning, including children's services, aboriginal services, aged and disabled services, family day care service, community halls, multi-purpose centres, youth and neighbourhood centres.

Library Services – Library administration, children's and extension services, acquisition services, information services, regional branch libraries.

#### **Creativity**

Art gallery and cultural services administration.

#### **Shared Decision-Making**

Elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy making committees, area representation and public disclosure and compliance, together with related administration costs.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

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#### **Corporate**

Administrative services, advertising, purchasing, stores, printing and stationery, insurance, risk management, records management, administration building cleaning and maintenance, treasury functions, rates, cash collections, debt collection, personnel and industrial relations, payroll, staff training and development, work health and safety, workers compensation, legal services, information technology, public relations, grants and sponsorship, mechanical services, plant new and replacement, Council's Works Depot operations/services.

#### **Property**

Management of residential, industrial and commercial properties held in Council's ownership, leases to community groups, bowling clubs etc.. Holiday parks, administration and management of outdoor dining agreements, development of Council owned industrial, retail / commercial and residential land, sale of scattered lots, acquisition and disposal of investment properties and reclassification of Council owned land.

#### **CiviLake**

CiviLake construction, external contractual works, quarry rehabilitation and establishment, CiviLake maintenance.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations

	2019 \$ '000	2018 \$ '000
<b>(a) Rates and annual charges</b>		
<b>Ordinary rates</b>		
Residential	111,712	105,825
Farmland	74	72
Mining	986	914
Business	18,529	17,790
<b>Rates levied to ratepayers</b>	<b>131,301</b>	<b>124,601</b>
<b>Total ordinary rates</b>	<b>131,301</b>	<b>124,601</b>
<b>Annual charges</b>		
<small>(pursuant to s.496, s.496A, s.496B, s.501 &amp; s.611)</small>		
Domestic waste management services	34,504	34,567
Waste management services (non-domestic)	2,245	1,958
Section 611 charges	124	4
Domestic waste – sanitary / sullage services	1,024	967
<b>Annual charges levied</b>	<b>37,897</b>	<b>37,496</b>
<b>Total annual charges</b>	<b>37,897</b>	<b>37,496</b>
<b>Total rates and annual charges</b>	<b>169,198</b>	<b>162,097</b>

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 the Council obtains control over the assets comprising these receipts.

Compulsory Pensioner Rebates under Section 575 of the Local Government Act 1993 (NSW) issued this financial year totalled \$4,277k and of this, \$2,287k was reimbursed by the State Government in the form of a rebate. These rebates are not included in the actual Rates and Annual Charges above.

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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

	2019 \$ '000	2018 \$ '000
<b>(b) User charges and fees</b>		
<b>Specific user charges</b>		
<small>(per s.502 - specific 'actual use' charges)</small>		
Domestic waste management services	259	190
Waste management services (non-domestic)	–	85
Sullage	306	281
<b>Total specific user charges</b>	<b>565</b>	<b>556</b>
<b>Other user charges and fees</b>		
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>		
Inspection services	212	–
Private works – section 67	–	7
Section 10.7 certificates (EP&A Act)	429	511
Section 603 certificates	303	383
Animal enforcement	214	225
Building assessment and compliance	883	1,450
Development assessment	1,948	2,346
Health inspection	537	503
Subdivision assessment	624	843
Tipping	2,448	2,012
<b>Total fees and charges – statutory/regulatory</b>	<b>7,598</b>	<b>8,280</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>		
Caravan parks	6,287	6,040
Restoration charges	190	–
Swimming centres	1,915	1,757
Community facilities	1,099	1,575
Other	805	417
<b>Total fees and charges – other</b>	<b>10,296</b>	<b>9,789</b>
<b>Total user charges and fees</b>	<b>18,459</b>	<b>18,625</b>

#### Accounting policy for user charges and fees

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

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

	2019	2018
	\$ '000	\$ '000
<b>(c) Interest and investment revenue (including losses)</b>		
<b>Interest on financial assets measured at amortised cost</b>		
– Overdue rates and annual charges (incl. special purpose rates)	310	296
– Cash and investments	5,057	4,935
– Interest on section 7.11 contributions	2,545	1,834
<b>Amortisation of premiums and discounts</b>		
– Amortisation of discounts and premiums	(5)	376
<b>Total interest and investment revenue</b>	<b>7,907</b>	<b>7,441</b>

#### Accounting policy for interest and investment revenue

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

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

	Notes	2019 \$ '000	2018 \$ '000
<b>(d) Other revenues</b>			
Rental income – investment property	11	3,089	2,833
Rental income – other council properties		1,865	1,808
Legal fees recovery		200	193
Insurance claims		319	313
Recycling income (non-domestic)		210	–
Fines – parking, animal and littering		1,293	772
Canteen sales		284	270
Sale of publications		–	7
Other		1,394	474
Sale of merchandise		29	41
Sundry sales and services		356	366
Commissions received		29	23
External works		4,535	6,342
<b>Total other revenue</b>		<b>13,603</b>	<b>13,442</b>

#### Accounting policy for other revenue

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

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

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

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

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



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

	Operating 2019 \$ '000	Operating 2018 \$ '000	Capital 2019 \$ '000	Capital 2018 \$ '000
<b>(e) Grants</b>				
<b>General purpose (untied)</b>				
<b>Current year allocation</b>				
Financial assistance – equalisation component	6,591	6,679	–	–
Financial assistance – local roads component	1,388	1,340	–	–
<b>Payment in advance - future year allocation <sup>1</sup></b>				
Financial assistance grant received in advance – equalisation component	6,834	6,857	–	–
Financial assistance grant received in advance – local roads component	1,440	1,390	–	–
<b>Other</b>				
Pensioners' rates subsidies – general component	1,781	1,720	–	–
<b>Total general purpose</b>	<b>18,034</b>	<b>17,986</b>	<b>–</b>	<b>–</b>
<b>Specific purpose</b>				
Pensioners' rates subsidies:				
– Domestic waste management	554	567	–	–
Bushfire and emergency services	1,100	865	19	579
Economic development	–	10	–	–
Community facilities and services	3,619	3,378	1,243	470
Environmental	1,504	576	399	225
Heritage	36	106	–	30
Library and arts	625	650	567	1,063
Other	80	–	26	–
Recreation	215	8	844	154
Waterways	–	–	716	1,164
Transport (3x3, flood works, roads to recovery)	1,057	1,266	2,635	2,685
<b>Total specific purpose</b>	<b>8,790</b>	<b>7,426</b>	<b>6,449</b>	<b>6,370</b>
<b>Total grants</b>	<b>26,824</b>	<b>25,412</b>	<b>6,449</b>	<b>6,370</b>
<b>Grant revenue is attributable to:</b>				
– Commonwealth funding	19,563	21,659	1,630	2,504
– State funding	4,798	1,264	4,818	3,866
– Other funding	2,463	2,489	1	–
	<b>26,824</b>	<b>25,412</b>	<b>6,449</b>	<b>6,370</b>

(1) The 18/19 Financial Assistance Grant received in advance related to the 19/20 allocation. This amount was not expended in the current financial year and has been restricted in Note 6(c).

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

	Operating 2019 \$ '000	Operating 2018 \$ '000	Capital 2019 \$ '000	Capital 2018 \$ '000
Notes				
<b>(f) Contributions</b>				
<b>Developer contributions: (s7.4 &amp; s7.11 - EP&amp;A Act, s64 of the LGA):</b>				
<b>Cash contributions</b>				
S 7.4 – contributions using planning agreements	–	–	1	408
S 7.11 – contributions towards amenities/services	422	481	12,685	17,002
<b>Total developer contributions – cash</b>	<b>422</b>	<b>481</b>	<b>12,686</b>	<b>17,410</b>
<b>Non-cash contributions</b>				
Dedications of land in lieu of cash contributions	–	–	9	1,663
<b>Total developer contributions non-cash</b>	<b>–</b>	<b>–</b>	<b>9</b>	<b>1,663</b>
<b>Total developer contributions</b>	<b>422</b>	<b>481</b>	<b>12,695</b>	<b>19,073</b>
	25			
<b>Other contributions:</b>				
<b>Cash contributions</b>				
Bushfire services	3	1	–	–
Community services	129	–	–	–
Drainage	–	–	350	–
Kerb and gutter	–	–	160	11
Recreation and culture	23	68	30	–
Roads and bridges	271	–	289	–
RMS contributions (regional roads, block grant)	1,111	64	–	420
Other	295	456	6	375
Natural disaster relief funding	599	1,054	–	–
Roads	–	274	–	332
Environmental	392	482	–	–
Community facilities	–	35	26	–
Administration	1,370	932	–	–
Economic development	41	–	–	–
<b>Total other contributions – cash</b>	<b>4,234</b>	<b>3,366</b>	<b>861</b>	<b>1,138</b>
<b>Non-cash contributions</b>				
Dedications	281	–	14,825	–
Dedications of land and works in lieu of cash contributions	–	–	–	37,629
<b>Total other contributions – non-cash</b>	<b>281</b>	<b>–</b>	<b>14,825</b>	<b>37,629</b>
<b>Total other contributions</b>	<b>4,515</b>	<b>3,366</b>	<b>15,686</b>	<b>38,767</b>
<b>Total contributions</b>	<b>4,937</b>	<b>3,847</b>	<b>28,381</b>	<b>57,840</b>
<b>Total grants and contributions</b>	<b>31,761</b>	<b>29,259</b>	<b>34,830</b>	<b>64,210</b>

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

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#### **Accounting policy for grants and contributions**

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

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 above.

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

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

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

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 3. Income from continuing operations (continued)

	2019 \$ '000	2018 \$ '000
<b>(g) Unspent grants and contributions</b>		
<b>Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:</b>		
<b>Operating grants</b>		
Operating grants recognised in the current period but not yet spent	811	1,551
Operating grants received for the provision of goods and services in a future period	8,273	8,246
Operating grants recognised in a previous reporting period now spent	(8,778)	(956)
<b>Capital grants</b>		
Capital grants recognised in the current period but not yet spent	796	1,390
Capital grants recognised in a previous reporting period now spent	(822)	(1,898)
<b>Contributions</b>		
Contributions recognised in the current period but not yet spent	14,491	16,728
Contributions recognised in a previous reporting period now spent	(5,995)	(29,673)

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations

	2019 \$ '000	2018 \$ '000
<b>(a) Employee benefits and on-costs</b>		
Salaries and wages	80,046	72,622
Employee termination costs	1,021	–
Travel expenses	494	426
Employee leave entitlements (ELE)	16,710	16,519
Superannuation	11,819	11,100
Workers' compensation insurance	2,149	2,416
Fringe benefit tax (FBT)	348	359
Training costs (other than salaries and wages)	808	833
Other contractual payments	685	656
Other	818	110
<b>Total employee costs</b>	<b>114,898</b>	<b>105,041</b>
Less: capitalised costs	(22,607)	(15,138)
<b>Total employee cost expensed</b>	<b>92,291</b>	<b>89,903</b>

#### 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. 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 18 for more information.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations (continued)

	Notes	2019 \$ '000	2018 \$ '000
<b>(b) Borrowing costs</b>			
<b>(i) Interest bearing liability costs</b>			
Interest on loans		5,041	5,141
<b>Total interest bearing liability costs expensed</b>		<b>5,041</b>	<b>5,141</b>
<b>(ii) Other borrowing costs</b>			
Amortisation of discounts and premiums:			
– Remediation liabilities	14	2,285	887
<b>Total borrowing costs expensed</b>		<b>7,326</b>	<b>6,028</b>

#### 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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations (continued)

	2019 \$ '000	2018 \$ '000
<b>(c) Materials and contracts</b>		
Raw materials and consumables	33,526	21,580
Contractor costs		
– Kerbside recycling	6,766	3,949
– Greenwaste collection and processing	6,787	3,840
– Council online system	886	1,631
– Effluent removal	1,183	1,208
– Caravan park managers	1,156	973
– Cleaning	610	533
– Other	48	750
Consultancy costs		
– Development assessment	61	79
– Planning	195	287
– Asset management planning	19	24
– Environmental	53	216
– Design services	4	14
– Other consultants	559	767
Auditors remuneration <sup>1</sup>	110	87
<b>Legal expenses:</b>		
– Legal expenses: planning and development	717	517
– Legal expenses: other	254	356
<b>Operating leases:</b>		
– Buildings	–	34
– Computers	774	746
– Others	159	146
Family day care	3,287	2,995
Caravan park rental commission	313	330
RSPCA payments	201	184
Vehicle registrations	402	408
Water charges	1,584	1,590
Other	–	100
<b>Total materials and contracts</b>	<b>59,654</b>	<b>43,344</b>

#### Accounting policy for operating leases

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

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations (continued)

	2019 \$ '000	2018 \$ '000
<b>1. Auditor remuneration</b>		
During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms		
<b>Auditors of the Council - NSW Auditor-General:</b>		
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	89	87
<b>Total Auditor-General remuneration</b>	<b>89</b>	<b>87</b>
<b>Non NSW Auditor-General audit firms</b>		
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	–	–
Other audit and assurance services	21	–
<b>Total remuneration of non NSW Auditor-General audit firms</b>	<b>21</b>	<b>–</b>
<b>Total Auditor remuneration</b>	<b>110</b>	<b>87</b>



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations (continued)

	Notes	2019 \$ '000	2018 \$ '000
<b>(d) Depreciation, amortisation and impairment of intangible assets and IPPE</b>			
<b>Depreciation and amortisation</b>			
Plant and equipment		5,599	5,571
Office equipment		636	896
Furniture and fittings		465	540
Land improvements (depreciable)		2,397	2,091
<b>Infrastructure:</b>			
– Buildings		5,701	4,548
– Other structures		1,719	1,603
– Roads, bridges, footpaths, other road assets		20,610	29,800
– Bridges		640	–
– Footpaths		1,216	–
– Other road assets		7,827	–
– Stormwater drainage		6,380	5,669
– Swimming pools		366	332
– Other open space/recreational assets		1,754	1,569
– Other infrastructure		584	534
<b>Other assets:</b>			
– Library books		439	449
<b>Reinstatement, rehabilitation and restoration assets:</b>			
– Other remediation assets	10, 14	1,054	–
Intangible assets	12	1,252	823
<b>Total depreciation and amortisation costs</b>		<b>58,639</b>	<b>54,425</b>
<b>Impairment / revaluation decrement of IPPE</b>			
Plant and equipment		3	–
<b>Infrastructure:</b>			
– Swimming pools		97	–
<b>Total depreciation, amortisation and impairment/revaluation for intangibles and IPPE</b>		<b>58,739</b>	<b>54,425</b>

### Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPPE

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations (continued)

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#### **Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 10 for IPPE assets and Note 12 for intangible assets.

#### **Impairment of non-financial assets**

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 are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held principally for cash generating purposes and would be replaced if Council was deprived of it, depreciated replacement cost is used as value in use. Otherwise, value in use is estimated by using a discounted cash flow model.

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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 4. Expenses from continuing operations (continued)

	2019 \$ '000	2018 \$ '000
<b>(e) Other expenses</b>		
Advertising	683	556
Bad and doubtful debts	16	10
Bank charges	474	461
Contributions/levies to other levels of government		
– Contributions to state government – EPA	6,012	7,464
– Emergency services levy (includes FRNSW, SES, and RFS levies)	275	334
– Contributions to state government – BFB and State Fire brigades	3,549	3,292
Councillor expenses – mayoral fee	118	113
Councillor expenses – councillors' fees	371	363
Councillors' expenses (incl. mayor) – other (excluding fees above)	191	172
Donations, contributions and assistance to other organisations (Section 356)	1,070	1,204
Electricity and heating	1,458	1,122
Insurance	2,449	2,386
Postal charges	681	486
Street lighting	3,533	3,704
Subscriptions, memberships and publications	761	625
Telephone and communications	988	774
Valuation fees	566	458
Other	465	804
<b>Total other expenses</b>	<b>23,660</b>	<b>24,328</b>

#### Accounting policy for other expenses

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

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

	Notes	2019 \$ '000	2018 \$ '000
<b>Infrastructure, Property, Plant and Equipment</b>	10		
Proceeds from disposal – Infrastructure, property, plant and equipment		1,809	2,715
Less: carrying amount of Infrastructure, property, plant and equipment assets sold/written off		(9,478)	(6,601)
<b>Net gain/(loss) on disposal</b>		<u>(7,669)</u>	<u>(3,886)</u>
<b>Investments</b>	6(b)		
Proceeds from disposal/redemptions/maturities – investments		223,304	–
Less: carrying amount of investments sold/redeemed/matured		(223,304)	–
<b>Net gain/(loss) on disposal</b>		<u>–</u>	<u>–</u>
<b>Non-current assets classified as ‘held for sale’</b>	9		
Proceeds from disposal – non-current assets ‘held for sale’		7,003	1,708
Less: carrying amount of ‘held for sale’ assets sold/written off		(7,966)	(896)
<b>Net gain/(loss) on disposal</b>		<u>(963)</u>	<u>812</u>
<b>Net gain (or loss) from disposal of assets</b>		<u>(8,632)</u>	<u>(3,074)</u>

The loss on disposal of \$8,632k includes amounts totalling \$3,792k relating to roads and \$1,822k relating to buildings which have been written off before the end of their useful lives.

#### 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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 6(a). Cash and cash equivalent assets

	2019	2018
	\$ '000	\$ '000
<b>Cash and cash equivalents</b>		
Cash on hand and at bank	5,035	22,389
Cash-equivalent assets		
– Short-term deposits	16,000	14,000
<b>Total cash and cash equivalents</b>	<u>21,035</u>	<u>36,389</u>

#### Accounting policy for cash and cash equivalents

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

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 6(b). Investments

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>Investments</b>				
Financial assets at amortised cost / held to maturity (2018)	158,172	66,037	112,278	65,603
<b>Total Investments</b>	<b>158,172</b>	<b>66,037</b>	<b>112,278</b>	<b>65,603</b>
<b>Financial assets at amortised cost / held to maturity (2018)</b>				
Managed funds	34,672	–	–	–
Long term deposits	102,500	7,000	95,027	3,000
Floating Rate Notes	21,000	54,209	17,251	60,000
Mortgage backed securities	–	2,579	–	2,603
Other long term financial assets	–	2,249	–	–
<b>Total</b>	<b>158,172</b>	<b>66,037</b>	<b>112,278</b>	<b>65,603</b>

#### Investment policy

Council has an approved investment policy complying with Section 625 of the Local Government Act 1993 (NSW) and S212 of the LG (General) Regulations 2005. Investments are placed and managed in accordance with that policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains an Investment Policy that complies with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds. Council amended its Policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments Council holds are no longer prescribed, however they have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council.

#### Accounting policy for investments

##### Accounting policy under AASB 9 – applicable from 1 July 2018

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

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

#### Financial assets

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

#### Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

#### Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 6(b). Investments (continued)

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

#### **Fair value through other comprehensive income – equity instruments**

Council has a number of strategic investments in entities over which they do not have significant influence nor control. Council has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

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

Other net gains and losses excluding dividends are recognised in Other Comprehensive Income Statement.

#### **Financial assets through profit or loss**

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above 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 FRNs and NCDs in the Statement of Financial Position.

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

#### **Classification**

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

#### **(b) Held to maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

#### **(c) Available for sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

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

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

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

#### **Impairment of financial assets**

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

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of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**Impairment of available for sale investments**

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
Total cash, cash equivalents and investments	179,207	66,037	148,667	65,603
<b>Attributable to:</b>				
External restrictions	48,268	66,037	33,006	65,603
Internal restrictions	124,033	–	115,661	–
Unrestricted	6,906	–	–	–
	179,207	66,037	148,667	65,603

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

	2019 \$ '000	2018 \$ '000
<b>External restrictions – other</b>		
Caravan parks reserve	4,316	3,576
Crown reserve	50	122
Domestic waste management <sup>C</sup>	14,914	16,672
DWM land infrastructure <sup>C</sup>	4,102	3,516
DWM site rehabilitation <sup>C</sup>	8,675	7,722
Waste and sustainability improvement	4	24
Developer contributions – general <sup>A</sup>	71,933	59,485
Specific purpose unexpended grants <sup>B</sup>	4,168	3,905
Sundry Contributions	2,492	3,450
Trust - Restricted Asset	2,228	–
Contractor Retentions	89	137
RID Squad	803	–
Section 90	531	–
<b>Total external restrictions</b>	<b>114,305</b>	<b>98,609</b>
<b>Internal restrictions</b>		
Employees leave entitlements	–	1,000
Sustainability environmental levy Wangi	3	54
Point Lakeside Holiday park Elections	1,142	874
Roads and drainage	752	545
Community facilities	21	34
Replacement of assets	1,461	1,396
Open space acquisition	34,675	26,166
Strategic property reserve	4,392	4,486
Unexpended loan funds	18,491	18,753
External works surplus	4,671	–
Quarry and contamination reserve	–	960
Matching funds Sec 7.11	2,010	3,331
Grant matching funds	8,314	8,256
Cemeteries improvement	4,769	4,722
General fund carried forward works	1,177	1,101
Community land	14,299	14,470
IT replacement	17,955	17,069
Employee resources	2,758	4,582
Charlestown open space endowment fund	–	655
Cardiff town park endowment fund	3,482	3,325
Insurance proceeds	2,609	2,552
Bulk materials recycling	861	784
Water and energy reduction strategies	–	55
<b>Total internal restrictions</b>	<b>191</b>	<b>491</b>
<b>Total restrictions</b>	<b>238,338</b>	<b>214,270</b>

(A) Development contributions which are not yet expended for the provisions of services and amenities in accordance with contributions plans (also includes those not under contribution plans).

(B) Grants which are not yet expended for the purposes for which they were obtained, (see Note 1).

(C) Domestic Waste Management (DWM) funds, which are externally restricted assets, must be applied for the purposes for which they were raised.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 7. Receivables

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>Purpose</b>				
Rates and annual charges	4,742	1,410	3,815	1,548
Interest and extra charges	157	193	195	387
User charges and fees	887	34	402	9
Contributions to works	427	–	537	–
Accrued revenues				
– Interest on investments	1,309	–	2,210	–
– Other income accruals	396	–	–	–
Fines	140	–	146	–
Government grants and subsidies	2,354	–	2,113	29
Insurance proceeds	–	–	10	–
Net GST receivable	3,287	–	–	–
RMS	1,585	–	1,166	–
External works	57	–	972	–
GST	–	–	1,786	–
Other debtors	694	9	291	10
<b>Total</b>	<b>16,035</b>	<b>1,646</b>	<b>13,643</b>	<b>1,983</b>
<b>Less: provision of impairment</b>				
Other debtors	(3)	(43)	(2)	(43)
<b>Total net receivables</b>	<b>16,032</b>	<b>1,603</b>	<b>13,641</b>	<b>1,940</b>
<b>Externally restricted receivables</b>				
<b>Domestic waste management</b>	1,018	–	1,181	–
<b>Total external restrictions</b>	1,018	–	1,181	–
<b>Unrestricted receivables</b>	<b>15,014</b>	<b>1,603</b>	<b>12,460</b>	<b>1,940</b>
<b>Total net receivables</b>	<b>16,032</b>	<b>1,603</b>	<b>13,641</b>	<b>1,940</b>

### Accounting policy for receivables

#### Recognition and measurement

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

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

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

#### Impairment

#### Accounting policy under AASB 9 applicable from 1 July 2018

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

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

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 7. Receivables (continued)

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

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

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

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

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

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

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

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

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

Rates and annual charges outstanding are secured against the property.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 8. Inventories and other assets

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
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#### (a) Inventories

##### (i) At cost

Real estate for resale	1,171	3,275	1,091	2,637
Stores and materials	794	–	729	–
Trading stock – pools	10	–	12	–
<b>Total inventories</b>	<b>1,975</b>	<b>3,275</b>	<b>1,832</b>	<b>2,637</b>

#### (b) Other assets

Prepayments	557	461	461	725
<b>Total other assets</b>	<b>557</b>	<b>461</b>	<b>461</b>	<b>725</b>

#### Externally restricted assets

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
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##### Domestic waste management

Stores and materials	103	–	94	–
<b>Total externally restricted assets</b>	<b>103</b>	<b>–</b>	<b>94</b>	<b>–</b>

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
--	----------------------------	--------------------------------	----------------------------	--------------------------------

<b>Total externally restricted assets</b>	<b>103</b>	<b>–</b>	<b>94</b>	<b>–</b>
<b>Total internally restricted assets</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total unrestricted assets</b>	<b>2,429</b>	<b>3,736</b>	<b>2,199</b>	<b>3,362</b>
<b>Total inventories and other assets</b>	<b>2,532</b>	<b>3,736</b>	<b>2,293</b>	<b>3,362</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 8. Inventories and other assets (continued)

#### (i) Other disclosures

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>(a) Details for real estate development</b>				
Residential	1,171	1,085	1,091	447
Industrial/commercial	–	1,740	–	1,740
Other properties	–	450	–	450
<b>Total real estate for resale</b>	<b>1,171</b>	<b>3,275</b>	<b>1,091</b>	<b>2,637</b>
<b>Represented by:</b>				
Acquisition costs	1,171	1,979	1,091	1,340
Development costs	–	1,296	–	1,297
<b>Total real estate for resale</b>	<b>1,171</b>	<b>3,275</b>	<b>1,091</b>	<b>2,637</b>
<b>Movements:</b>				
Real estate assets at beginning of the year	1,091	2,637	–	–
– Purchases and other costs	80	638	1,091	2,637
<b>Total real estate for resale</b>	<b>1,171</b>	<b>3,275</b>	<b>1,091</b>	<b>2,637</b>

#### Accounting policy for inventories and other assets

##### Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. 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.

##### Inventory held for distribution

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

##### Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 9. Non-current assets classified as held for sale

#### (i) Non-current assets and disposal group assets

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>Non-current assets 'held for sale'</b>				
Land	–	–	7,084	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>7,084</b>	<b>–</b>

#### (ii) Details of assets and disposal groups

Council had two parcels of land which it disposed of during the 2018/2019 financial year. The disposal resulted in a loss on sale of \$963k. Refer to Note 5 - Gain (or Loss) from the Disposal of Assets.

#### 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 deferred tax assets; 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 are not depreciated or amortised while they are classified as held for sale and are presented separately from the other assets in the statement of financial position.

# Lake Macquarie City Council

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

### Note 10. Infrastructure, property, plant and equipment

	as at 30/6/2018			Asset movements during the reporting period							as at 30/6/2019		
	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000	Additions renewals <sup>1</sup> \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	Impairment loss / revaluation decrements (recognised in P/L) \$ '000	Adjustments and transfers \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000
Capital work in progress	57,940	–	57,940	17,234	5,919	–	–	–	–	–	81,093	–	81,093
Plant and equipment	63,153	(31,648)	31,505	4,933	2,052	(1,353)	(5,599)	(3)	23	–	64,813	(33,256)	31,557
Office equipment	7,189	(5,854)	1,335	89	93	–	(636)	–	(23)	–	7,113	(6,256)	857
Furniture and fittings	6,162	(4,013)	2,149	29	10	–	(465)	–	–	–	6,198	(4,475)	1,723
<b>Land:</b>													
– Crown land	–	–	–	–	–	(171)	–	–	45,754	650	46,233	–	46,233
– Operational land	167,880	–	167,880	–	1,115	(357)	–	–	713	–	169,351	–	169,351
– Community land	174,303	–	174,303	13	3,779	–	–	–	(47,316)	–	130,780	–	130,780
– Land under roads (post 30/6/08)	16,712	–	16,712	–	1,020	–	–	–	–	913	18,645	–	18,645
Land improvements – non-depreciable <sup>2</sup>	11,635	(2,666)	8,969	46	992	–	–	–	–	–	12,673	(2,666)	10,007
Land improvements – depreciable	111,421	(41,106)	70,315	694	3,798	(214)	(2,397)	–	(254)	–	114,970	(43,028)	71,942
<b>Infrastructure:</b>													
– Buildings	285,826	(92,844)	192,982	4,589	8,147	(1,822)	(5,701)	–	–	1,207	298,349	(98,947)	199,402
– Other structures	43,480	(21,561)	21,919	645	2,403	(389)	(1,719)	–	–	114	46,516	(23,543)	22,973
– Roads	1,080,555	(374,689)	705,866	22,681	5,295	(3,792)	(20,610)	–	254	–	1,099,382	(389,689)	709,693
– Bridges	68,938	(22,309)	46,629	–	–	–	(640)	–	–	–	68,938	(22,949)	45,989
– Footpaths	73,578	(21,721)	51,857	1,169	2,100	(176)	(1,216)	–	–	–	76,602	(22,869)	53,733
– Other road assets	603,477	(222,131)	381,346	2,359	2,256	(317)	(7,827)	–	–	–	607,581	(229,764)	377,817
– Bulk earthworks (non-depreciable)	212,594	–	212,594	–	900	–	–	–	–	–	213,494	–	213,494
– Stormwater drainage	493,121	(179,430)	313,691	3,425	9,240	(170)	(6,380)	–	–	–	505,474	(185,667)	319,807
– Swimming pools	9,945	(2,581)	7,364	192	–	(66)	(366)	(97)	–	(15)	10,050	(3,037)	7,013
– Other open space/recreational assets	43,780	(20,092)	23,688	1,433	6,020	(77)	(1,754)	–	–	70	50,925	(21,544)	29,381
– Other infrastructure	27,164	(13,820)	13,344	493	3,138	(286)	(584)	–	–	–	29,958	(13,854)	16,104
<b>Other assets:</b>													
– Library books	6,825	(5,379)	1,446	548	–	(134)	(439)	–	–	–	7,028	(5,607)	1,421
– Remediation asset	–	–	–	–	–	–	–	–	–	–	–	–	–
– Artworks	2,167	–	2,167	–	58	–	–	–	–	–	2,225	–	2,225
– Other remediation assets	25,161	(10,412)	14,749	–	–	–	(1,054)	–	–	–	25,162	(11,465)	13,697
<b>Totals 3</b>	<b>3,593,006</b>	<b>(1,072,256)</b>	<b>2,520,750</b>	<b>60,572</b>	<b>58,335</b>	<b>(9,324)</b>	<b>(57,387)</b>	<b>(100)</b>	<b>(849)</b>	<b>2,939</b>	<b>3,693,553</b>	<b>(1,118,616)</b>	<b>2,574,937</b>

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



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

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- (2) Non-depreciable land improvements mainly comprise landscaping assets previously classified within depreciable land improvements. The accumulated depreciation on these assets reflects the depreciation charged against the asset up to the point of re-classification to the non-depreciable asset class.
- (3) Total renewals and new assets include capital WIP acquisitions for the year less transfers from WIP through the capitalisation process.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

	as at 30/6/2017			Asset movements during the reporting period						as at 30/6/2018		
	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000	Additions renewals <sup>1</sup> \$ '000	Additions new assets \$ '000	Carrying value of disposals \$ '000	Depreciation expense \$ '000	Adjustments and transfers \$ '000	Revaluation increments to equity (ARR) \$ '000	Gross carrying amount \$ '000	Accumulated depreciation \$ '000	Net carrying amount \$ '000
Capital work in progress	34,345	–	34,345	(3,109)	26,704	–	–	–	–	57,940	–	57,940
Plant and equipment	62,332	(31,944)	30,388	8,117	635	(2,168)	(5,571)	104	–	63,153	(31,648)	31,505
Office equipment	8,067	(5,979)	2,088	91	59	(6)	(896)	–	–	7,189	(5,854)	1,335
Furniture and fittings	9,021	(6,664)	2,357	409	59	(24)	(540)	(111)	–	6,162	(4,013)	2,149
<b>Land:</b>												
– Operational land	126,179	–	126,179	33	3,766	–	–	(4,798)	42,700	167,880	–	167,880
– Community land	169,582	–	169,582	17	1,919	(1,110)	–	(3,511)	7,406	174,303	–	174,303
– Land under roads (post 30/6/08)	13,409	–	13,409	–	3,303	–	–	–	–	16,712	–	16,712
Land improvements – non-depreciable	10,552	(2,666)	7,886	718	365	–	–	–	–	11,635	(2,666)	8,969
Land improvements – depreciable	106,475	(39,233)	67,242	1,928	3,535	(329)	(2,091)	30	–	111,421	(41,106)	70,315
<b>Infrastructure:</b>												
– Buildings	243,068	(49,567)	193,501	2,406	3,375	(1,660)	(4,548)	(236)	144	285,826	(92,844)	192,982
– Other structures	41,148	(20,378)	20,770	1,451	1,534	(399)	(1,603)	166	–	43,480	(21,561)	21,919
– Roads	1,039,899	(354,786)	685,113	23,056	17,558	(7)	(29,800)	–	–	1,080,555	(374,689)	705,866
– Bridges	68,898	(21,645)	47,253	40	–	–	–	–	–	68,938	(22,309)	46,629
– Footpaths	66,190	(20,445)	45,745	2,200	5,563	(256)	–	–	–	73,578	(21,721)	51,857
– Other road assets	593,775	(214,256)	379,519	3,997	5,739	(23)	–	–	–	603,477	(222,131)	381,346
– Bulk earthworks (non-depreciable)	206,693	–	206,693	2,350	3,551	–	–	–	–	212,594	–	212,594
– Stormwater drainage	474,790	(173,767)	301,023	2,641	15,706	(10)	(5,669)	–	–	493,121	(179,430)	313,691
– Swimming pools	8,383	(2,300)	6,083	1,688	–	(74)	(332)	–	–	9,945	(2,581)	7,364
– Other open space/recreational assets	37,880	(18,990)	18,890	3,765	2,707	(154)	(1,569)	48	–	43,780	(20,092)	23,688
– Other infrastructure	25,841	(13,492)	12,349	631	900	(2)	(534)	–	–	27,164	(13,820)	13,344
<b>Other assets:</b>												
– Library books	6,903	(5,468)	1,435	565	–	(106)	(449)	–	–	6,825	(5,379)	1,446
– Remediation asset	20,965	(10,412)	10,553	–	–	–	–	4,196	–	–	–	–
– Artworks	1,949	–	1,949	–	218	–	–	–	–	2,167	–	2,167
– Other remediation assets	–	–	–	–	–	–	–	–	–	25,161	(10,412)	14,749
<b>Totals</b>	<b>3,376,344</b>	<b>(991,992)</b>	<b>2,384,352</b>	<b>52,994</b>	<b>97,196</b>	<b>(6,328)</b>	<b>(53,602)</b>	<b>(4,112)</b>	<b>50,250</b>	<b>3,593,006</b>	<b>(1,072,256)</b>	<b>2,520,750</b>

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

## Notes to the Financial Statements

for the year ended 30 June 2019

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

#### Accounting policy for infrastructure, property, plant and equipment

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

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognised in profit or loss relating to that asset class, the increase is first recognised in profit or loss. Decreases that reverse previous increases of 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.

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

	Years		Years
Earthmoving plant	5 – 15	Wharves and Jetties	30 - 50
Tractors/mowing plant	3 – 8	Sealed road structure	25 – 88
Garbage trucks	6	Unsealed road structure	62
Other heavy vehicles	6 – 15	Kerb & gutter	102
Light vehicles	3 – 10	Foot paving & cycle ways	52
Other engineering plant & equipment	2 – 100	Road furniture & structures	20 - 60
Office equipment	3 – 5	Bridges	62 - 118
Furniture & fittings	3 – 20	Drainage assets	50 - 100
Land improvements	20 – 100	Heritage assets	100
Buildings	15 – 100	Digital library collection	3
Other infrastructure	15 – 100	Library books	6
Other open space / recreational assets	10 – 100	Corporate Software	3 - 10
Other structures	10 – 50	Remediation asset	14
Swimming Pools	10 – 50		

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

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

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

#### 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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

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

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Land under roads has been recognised for land acquired before 1 July 2008 where a roadway has been constructed on the land after 1 July 2008.

Council values land under roads acquired after 1 July 2008 based on the valuation of road segments at the average unit value of properties adjoining the relevant road segment, with the average unit values being derived from Valuer General valuations. A discount factor is applied to these amounts to reflect the restrictions placed on land under roads.

#### **Crown reserves**

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

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

#### **Rural Fire Service assets**

Under Section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed". Until such time as discussions on this matter have concluded and the legislation changed, Council will recognise Rural Fire Service assets including land, buildings, plant and vehicles.

#### **Nature and Purpose of Reserve**

##### *Revaluation Reserve*

The infrastructure, property, plant and equipment revaluation reserve is used to record increments and decrements in the revaluation of non-current assets.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 11. Investment property

	2019 \$ '000	2018 \$ '000
<b>(a) Investment property at fair value</b>		
<b>Opening balance</b>	41,215	40,412
– Acquisitions	–	–
– Capitalised expenditure – this year	63	297
– Classified as ‘held for sale’	–	–
– Disposals during year	–	–
– Net gain/(loss) from fair value adjustments	(396)	506
– Transfers from/(to) inventories and owner-occupied property	–	–
<b>Closing balance at 30 June</b>	<u>40,882</u>	<u>41,215</u>

### (b) Leasing arrangements – Council as lessor

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

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

Within 1 year	2,541	2,617
Later than 1 year but less than 5 years	2,449	4,129
<b>Total minimum lease payments receivable</b>	<u>4,990</u>	<u>6,746</u>

### (c) Investment property income and expenditure – summary

<b>Rental income from investment property:</b>		
– Minimum lease payments	2,733	2,833
<b>Direct operating expenses on investment property:</b>		
– that generated rental income	(749)	(748)
<b>Net revenue contribution from investment property</b>	<u>1,984</u>	<u>2,085</u>
plus:		
<b>Fair value movement for year</b>	(396)	506
<b>Total income attributable to investment property</b>	<u>1,588</u>	<u>2,591</u>

#### Accounting policy for investment property

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

Investment property includes properties that are under construction for future use as investment properties. 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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 12. Intangible assets

	2019 \$ '000	2018 \$ '000
<b>Opening values at 1 July</b>		
Gross book value	18,956	14,161
Accumulated amortisation	(13,630)	(12,807)
<b>Net book value – opening balance</b>	<b>5,326</b>	<b>1,354</b>
<b>Movements for the year</b>		
– Purchases	1,080	160
– Development costs	2,600	4,635
– Amortisation charges	(1,252)	(823)
– Gross book value written off	13,459	–
– Accumulated amortisation charges written off	(13,459)	–
<b>Closing values at 30 June</b>		
Gross book value	9,175	18,956
Accumulated amortisation	(1,422)	(13,630)
<b>Total intangible assets - net book value</b>	<b>7,753</b>	<b>5,326</b>
<b>The net book value of intangible assets represents:</b>		
– Digital library collection	347	360
– Software	7,059	4,966
	<b>7,406</b>	<b>5,326</b>

#### Accounting policy for intangible assets

##### IT development and software

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

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 13. Payables and borrowings

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>Payables</b>				
Goods and services	8,520	–	6,790	–
Borrowings	84	–	–	–
Accrued expenses	4,759	–	63	–
Deposit and retentions	2,419	–	1,923	–
Other	3,040	–	2,633	–
<b>Total payables</b>	<b>18,822</b>	<b>–</b>	<b>11,409</b>	<b>–</b>
<b>Income received in advance</b>				
Payments received in advance	–	–	55	–
<b>Total income received in advance</b>	<b>–</b>	<b>–</b>	<b>55</b>	<b>–</b>
<b>Borrowings</b>				
Loans – secured <sup>1</sup>	4,681	122,241	2,708	79,422
Finance lease liabilities	–	–	–	–
Deferred payment liabilities	–	–	–	–
<b>Total borrowings</b>	<b>4,681</b>	<b>122,241</b>	<b>2,708</b>	<b>79,422</b>
<b>Total payables and borrowings</b>	<b>23,503</b>	<b>122,241</b>	<b>14,172</b>	<b>79,422</b>

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

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

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>(a) Payables and borrowings relating to restricted assets</b>				
<b>Externally restricted assets</b>				
Domestic waste management	3,062	29,584	2,472	15,590
Payables and borrowings relating to externally restricted assets	3,062	29,584	2,472	15,590
<b>Total payables and borrowings relating to restricted assets</b>	<b>3,062</b>	<b>29,584</b>	<b>2,472</b>	<b>15,590</b>
<b>Total payables and borrowings relating to unrestricted assets</b>	<b>20,441</b>	<b>92,657</b>	<b>11,700</b>	<b>63,832</b>
<b>Total payables and borrowings</b>	<b>23,503</b>	<b>122,241</b>	<b>14,172</b>	<b>79,422</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 13. Payables and borrowings (continued)

	2019 \$ '000	2018 \$ '000
<b>(b) Current payables and borrowings not anticipated to be settled within the next twelve months</b>		
	1,354	1,019
<b>Total payables and borrowings</b>	<u>1,354</u>	<u>1,019</u>

### (c) Changes in liabilities arising from financing activities

	as at 30/6/2018					as at 30/6/2019
	Opening Balance \$ '000	Cash flows \$ '000	Non-cash acquisitions \$ '000	Non-cash fair value changes \$ '000	Other non-cash movements \$ '000	Closing balance \$ '000
Loans – secured	82,130	44,792	–	–	–	126,922
Loan – unsecured	–	–	–	–	–	–
Finance lease liabilities	–	–	–	–	–	–
Other	–	–	–	–	–	–
<b>TOTAL</b>	<u>82,130</u>	<u>44,792</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>126,922</u>

	as at 30/6/2017					as at 30/6/2018
	Opening Balance \$ '000	Cash flows \$ '000	Non-cash acquisitions \$ '000	Non-cash fair value changes \$ '000	Other non-cash movements \$ '000	Closing balance \$ '000
Loans – secured	84,698	(2,568)	–	–	–	82,130
<b>TOTAL</b>	<u>84,698</u>	<u>(2,568)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>82,130</u>



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 13. Payables and borrowings (continued)

	2019 \$ '000	2018 \$ '000
<b>(d) Financing arrangements</b>		
<b>The amount of total financing facilities available to council at the report date is:</b>		
Bank overdraft facilities <sup>1</sup>	700	700
Corporate credit cards	1,250	1,000
<b>Total financing arrangements</b>	<b>1,950</b>	<b>1,700</b>
<b>Drawn facilities as at balance date:</b>		
– Bank overdraft facilities	–	–
– Corporate credit cards	121	179
<b>Total drawn financing arrangements</b>	<b>121</b>	<b>179</b>
<b>Undrawn facilities as at balance date:</b>		
– Bank overdraft facilities	700	700
– Credit cards/purchase cards	1,129	821
<b>Total undrawn financing arrangements</b>	<b>1,829</b>	<b>1,521</b>

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

#### Accounting policy for payables and borrowings

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

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

#### Payables

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

#### Borrowings

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

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

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

#### Finance leases

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased 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.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 14. Provisions

	2019 Current \$ '000	2019 Non-current \$ '000	2018 Current \$ '000	2018 Non-current \$ '000
<b>Provisions</b>				
<b>Employee benefits</b>				
Annual leave	9,938	–	9,306	–
Sick leave	7,974	–	7,807	–
Long service leave	20,670	1,195	20,236	1,180
Time in lieu	1,731	–	1,550	–
<b>Asset remediation/restoration:</b>				
Asset remediation/restoration (future works)	53,150	19,335	24,647	17,051
<b>Other provisions</b>				
Self insurance – workers compensation	1,013	3,035	851	3,819
<b>Total provisions</b>	<b>94,476</b>	<b>23,565</b>	<b>64,397</b>	<b>22,050</b>

#### (a) Provisions relating to restricted assets

<b>Externally restricted assets</b>				
Domestic waste management	2,150	40	–	–
<b>Total provisions relating to restricted assets</b>	<b>2,150</b>	<b>40</b>	<b>–</b>	<b>–</b>
<b>Total provisions relating to unrestricted assets</b>	<b>92,326</b>	<b>23,525</b>	<b>64,397</b>	<b>22,050</b>
<b>Total provisions</b>	<b>94,476</b>	<b>23,565</b>	<b>64,397</b>	<b>22,050</b>

	2019 \$ '000	2018 \$ '000
<b>(b) Current provisions not anticipated to be settled within the next twelve months</b>		
	81,132	50,568
	<b>81,132</b>	<b>50,568</b>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Provisions (continued)

(c) Description of and movements in provisions

	Other provisions		Total \$ '000
	Self insurance \$ '000	Asset remediation \$ '000	
<b>2019</b>			
At beginning of year	4,670	41,698	46,368
<b>Changes to provision:</b>			
– Revised costs	(622)	28,836	28,214
Amounts used (payments)	–	(334)	(334)
Unwinding of discount	–	2,285	2,285
Total other provisions at end of period	4,048	72,485	76,533
<b>2018</b>			
At beginning of year	3,997	36,686	40,683
– Revised costs	673	4,196	4,869
Amounts used (payments)	–	(71)	(71)
Unwinding of discount	–	887	887
Total other provisions at end of period	4,670	41,698	46,368

Nature and purpose of non-employee benefit provisions

**Self-insurance**

The provision for self-insurance represents future estimated payments required to settle outstanding workers compensation claims as a result of Council's practice to self-insure for workers compensation. It includes amounts for claims incurred but not reported, future developments on reported claims and re-opening of closed claims.

The calculation of the provision involves estimates and assumptions including the following:

- The calculation assumes that the adopted actuarial model is the correct predictor of claims experience
- It is assumed that the nature and extent of past claims are reasonable predictors of future claims behaviour. Past data, apparent trends and claims experience in general can change however and place uncertainty over the provision.
- It is assumed that the employment structure of Council remains stable in future years.
- Monetary amounts in past workers compensation claims were indexed to bring them to "standardised" values as at 30 June 2019, i.e. effects of past inflation are stripped away from actual money values.
- Workers compensation claims payments projected into the future by the adopted actuarial model will be in "standardised" values as at 30 June 2019.
- The future accrual of claims liabilities is based on an assumed risk premium rate applied to future wages exposure.
- General economic factors may be subject to change such as expected bond yields.

**Asset remediation**

The provision for asset remediation represents the present value of the future estimated costs Council will incur in the close down and restoration of sites requiring remediation as a result of past and/or current activity.

**Accounting policy for provisions**

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

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

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

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 14. Provisions (continued)

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#### **Employee benefits**

##### **Short-term obligations**

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

##### **Other long-term employee benefit obligations**

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

##### **On-costs**

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

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

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

##### **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.

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

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.

#### **Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries**

##### **Restoration**

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

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 14. Provisions (continued)

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#### **Rehabilitation**

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

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

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

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

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

Close-down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

During the 2018/2019 financial year, a change in accounting estimates relating to remediation costs for quarries and legacy landfill sites occurred based on the most current information available to Council. This resulted in a significant increase in the remediation provision of \$28.8m as detailed in Note 14a.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

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#### (a) Nature and purpose of reserves

##### **Infrastructure, property, plant and equipment revaluation reserve**

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

##### **Fair value through other comprehensive income reserve (FVOCI)**

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

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

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

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

– AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.

– AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

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

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

##### **Classification of financial assets**

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

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

##### **Measurement of equity instruments**

All equity instruments of the Council are measured at fair value under AASB 9 whereas there was a cost exception under AASB 139 that allowed certain unlisted investments to be carried at amortised cost in the absence of a reliable measurement of fair value. Any difference in the previous carrying amount and the fair value is recognised in the opening retained earnings (or other component of equity, as appropriate) at 1 July 2018.

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments, classified as fair value through other comprehensive income, are taken to the relevant reserve.

##### **Impairment of financial assets**

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost. This has resulted in the earlier recognition of credit loss (bad debt provisions).

#### **Transition adjustments**

There were no impacts to the reserves and retained earnings on adoption of AASB 9 at 1 July 2018.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 15. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

\$ '000		Available for sale invest- ment revaluation reserve	FVOCI reserve	Retained earnings	Non- controlling interests	Total	
\$ '000		Classific- ation under AASB 139	Classific- ation under AASB 9	Carrying amount under AASB 139	Reclassi- fication	Remeasu- rements	Carrying amount under AASB 9

The table below illustrates the classification and measurement of financial assets and liabilities under AASB 9 and AASB 139 at 1 July 2018.

\$ '000		Classific- ation under AASB 139	Classific- ation under AASB 9	Carrying amount under AASB 139	Reclassi- fication	Remeasu- rements	Carrying amount under AASB 9
<b>Financial assets</b>							
	Held to maturity	Amortised cost		224,209	-	-	224,209
<b>Total financial assets under AASB 9 at 1 July 2018</b>				224,209	-	-	224,209

#### Notes to the table above

##### Reclassification from 'held to maturity' to 'amortised cost'

Investment that would previously have been classified as 'held to maturity' are now classified at 'amortised cost'. Council intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of these assets.

### (c) Changes in accounting estimates

#### Nature and effect of changes in accounting estimates on current year

During the 2018/2019 financial year, Council re-established its accounting position relating to the estimation of the provision for remediation. A comprehensive re-estimation of costs subsequently occurred for dormant quarries and legacy landfill sites. A change to the estimated remediation costs for these sites has resulted in an increase in the provision of \$28,837k and a corresponding reduction in retained earnings. Refer to Note 14.

#### Nature and effect of changes in accounting estimates on future years

A change to the estimated remediation costs for dormant quarry and legacy landfill sites in the 2018/2019 financial year will result in an increased amount for the amortisation of discounts and premiums which will be expensed as borrowing costs in future years.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 16. Statement of cash flows - additional information

	Notes	2019 \$ '000	2018 \$ '000
<b>(a) Reconciliation of cash assets</b>			
Total cash and cash equivalent assets	6(a)	21,035	36,389
<b>Balance as per the Statement of Cash Flows</b>		<b>21,035</b>	<b>36,389</b>
<b>(b) Reconciliation of net operating result to cash provided from operating activities</b>			
<b>Net operating result from Income Statement</b>		24,964	75,065
<b>Adjust for non-cash items:</b>			
Depreciation and amortisation		58,639	54,425
Net losses/(gains) on disposal of assets		8,632	3,074
Non-cash capital grants and contributions and dedications		(15,115)	(38,150)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		396	(506)
– Revaluation decrements / impairments of IPP&E direct to P&L		100	–
Unwinding of discount rates on reinstatement provisions		2,285	(376)
Share of net (profits)/losses of associates/joint ventures using the equity method		96	(587)
<b>+/- Movement in operating assets and liabilities and other cash items:</b>			
Decrease/(increase) in receivables		(2,123)	(908)
Increase/(decrease) in provision for impairment of receivables		1	(232)
Decrease/(increase) in inventories		(63)	(96)
Decrease/(increase) in other current assets		168	178
Increase/(decrease) in payables		7,274	(7,040)
Increase/(decrease) in accrued interest payable		84	(1)
Increase/(decrease) in provision for employee benefits		1,429	841
Increase/(decrease) in other provisions		(957)	1,489
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>		<b>85,810</b>	<b>87,176</b>
<b>(c) Non-cash investing and financing activities</b>			
Bushfire grants		281	521
Dedications		14,834	37,629
<b>Total non-cash investing and financing activities</b>		<b>15,115</b>	<b>38,150</b>



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 17. Interests in other entities

	Council's share of net income (\$'000)		Council's share of net assets (\$'000)	
	2019	2018	2019	2018
	\$ '000	\$ '000	\$ '000	\$ '000
<b>Interests in joint arrangements</b>				
Strategic Services Australia Limited	(96)	587	975	1,071
<b>Total</b>	<b>(96)</b>	<b>587</b>	<b>975</b>	<b>1,071</b>

### Joint arrangements

#### Strategic Services Australia Limited (Hunter Councils)

Council has an interest in Strategic Services Australia Limited, along with other Member Councils of Hunter Councils. The activities of this organisation are not controlled by any one Council.

Strategic Services Australia Limited has been established to improve the quality and efficiency of local government service throughout the Hunter Region. One such service is the establishment and provision of a Record Repository Centre for the use of the Member Councils and to outsource this service to other organisations.

This Organisation was established in January 2003 as Hunter Councils Limited after receiving Minister's consent, pursuant to Section 358(1) (a) of the Local Government Act 1993.

Strategic Services Australia Limited has the same year end date as Council.

#### Aggregate information for joint ventures that are not individually material

The Group has interests in a number of joint ventures none of which is considered individually material. The table below summarises, in aggregate, the financial information of individually immaterial joint ventures.

#### Council's share

	Percentage Owned (%)	Type of joint arrangement
Strategic Services Australia Limited	19.592	Joint Venture

#### Summarised financial information for individually immaterial joint ventures

	2019 \$ '000	2018 \$ '000
<b>Strategic Services Australia Limited</b>		
Carrying Amount of Investment in joint ventures that are not individually material	976	1,071
<b>Council's Share of those joint ventures:</b>		
Profit/(loss) from continuing operations	(96)	587
Post-tax profit profit/(loss) from discontinued operations	–	–
Other comprehensive income	–	–
<b>Total comprehensive income – individually immaterial joint ventures</b>	<b>(96)</b>	<b>587</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 17. Interests in other entities (continued)

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#### Unrecognised share of losses

The unrecognised share of losses of joint ventures due to the Council's interest, reduce to zero under the equity methods are \$0 for the reporting period and \$0 on a cumulative basis.

#### Risk associated with the interests in joint ventures

Each of the partners in Strategic Services Australia Limited are jointly and severally liable for the debts of the organisation.

There are no significant restrictions on the ability of joint ventures to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the Council.

Commitments relating to joint ventures held	–	–
Contingent liabilities incurred jointly with other investments over joint ventures held	–	–

#### Accounting policy for joint arrangements

##### Joint Arrangements

AASB 11 Joint Arrangements defines a joint arrangement as an arrangement of which two or more parties have joint control and classifies these arrangements as either joint ventures or joint operations.

##### Joint ventures

Joint ventures are those joint arrangements, which provide Council with rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method in accordance with AASB 128 Associates and Joint Ventures. Under this method, the investment is initially recognised as 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 the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

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

Adjustments are made to the joint ventures accounting policies where they are different from those of Council for the purpose of the consolidated financial statements.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 18. Commitments

	2019	2018
	\$ '000	\$ '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

Infrastructure	5,749	11,823
Sporting and recreational facilities	4,562	1,988
Acquisition – plant	2,337	2,505
Buildings	1,745	944
Community facilities	408	1,838
Information technology	191	140
Land Acquisition	85	–
<b>Total commitments</b>	<b>15,077</b>	<b>19,238</b>

##### Details of capital commitments

- Infrastructure commitments include the Awaba Waste Management Facility.
- Sporting and Recreational Facilities commitments include improvements at swimming pools and sporting ovals and new recreational facilities including the upgrade of Toronto Indoor Swim Centre and upgrade of the Playground and Neighbourhood Centre at Bernie Goodwin Reserve.
- Acquisition - Plant commitments include trucks, mowers, trailers and light commercial vehicles under the plant replacement program.
- Buildings commitments include works and improvements in Council buildings including the redevelopment of the Art Gallery.
- Community Facilities commitments include improvements at libraries, art gallery and neighbourhood centres as well as the construction of Windale Community Facility and Library.
- Information Technology commitments include work on Council's new systems.
- Land Acquisition include the purchase of 140 Minmi Road Cameron Park and 4 Bristol Close Mount Hutton.

#### (b) Operating lease commitments (non-cancellable)

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

Within the next year	772	956
Later than one year and not later than 5 years	713	1,355
Later than five years	12	–
<b>Total non-cancellable operating lease commitments</b>	<b>1,497</b>	<b>2,311</b>

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

- Office equipment including desktop computers and multi-function copying devices (\$965k): 3 to 5 year lease terms with extensions of leases available on an individual item basis.
- Property lease - Library (\$217k): 8 year lease term with an option for a further 3 x 5 years.
- Property lease - Sporting oval (\$26k): 10 year lease term with an option for a further 4 x 10 years.
- Property lease - Community Facility (\$42k): 5 year lease term with an option for a further 4 x 5 years.
- Property lease - Holiday Park (\$132k): 25 year lease term.
- Property lease- Office Space (\$65k): 2 year lease term.
- Property lease - Community Facility (\$49K): 7 year period with option for a further 10 years.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 19. Contingencies and other assets/liabilities not recognised

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The following assets and liabilities do not qualify for recognition in the Statement of Financial Position but knowledge of those items is considered relevant to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

#### **LIABILITIES NOT RECOGNISED**

LMCC is involved in Supreme Court proceedings in relation to damage to private properties allegedly associated with a product used previously for road construction. The outcome of those proceedings as ordered by the Court will determine any potential liability

##### **(i) 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. Sufficient information is not available to account for the Scheme as a defined benefit plan in accordance with AASB 119 because the assets to the Scheme are pooled together for all councils.

The amount of employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$2,133,742. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA, on 31 December 2018 relating to the period ending 30 June 2018.

The Scheme had previously advised member councils that, as result of the global financial crisis, it has a significant deficiency of assets over liabilities resulting in additional annual contributions. The requirement for additional contributions (currently \$40M per annum) is assessed annually by the Actuary and is designed to not only restore the Funds to a satisfactory financial position but to allow the Trustee, on behalf of the employers, to commence de-risking the asset allocation and consequently reduce the market exposure risk to growth assets.

To enable this de-risking of the asset allocation to commence, additional contributions are estimated to remain in place until 30 June 2021. It is estimated that there are \$2,416,400 additional contributions remaining. The Trustee will be reviewing the financial position of the fund on an annual basis. Council’s expected contribution to the plan for the next annual reporting period is \$2,239,689.

The share of the deficit that is broadly attributable to Council is estimated to be in the order of 3.02% as at 30 June 2019. However, the Trustee determined in March 2019 that going forward should the funding on both Vested Benefit and Accrued Benefit funding levels exceed 100% the Fund will look to suspend the request for past service contributions.

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.

#### **ASSETS NOT RECOGNISED**

LMCC was the Applicant in two Land and Environment Court proceedings where Judgments were handed down by the Court, included a costs order against the Respondent in favour of LMCC.

Costs assessment processes to determine the value of LMCC’s costs entitlements have progressed, but were not resolved reporting date of 30 June 2019.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 20. 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. The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

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

Financial risk management is carried out by the Finance & Administration Department under policies approved by Council.

The fair value of cash and cash equivalents, receivables, investments and financial liabilities approximates the carrying amount.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The Finance & Administration Department 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 (NSW)* and Ministerial Investment Order 625. The policy is regularly reviewed by Council and a monthly investment report is provided to Council setting out the make-up and performance of the portfolio as required by local government regulations.

The risks associated with investments held are:

- Price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or factors affecting similar instruments traded in a market.
- Interest rate risk - the risk that movements in interest rates could affect returns.
- Credit risk - the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to Council.

Council manages these risks by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees. Council also seeks advice from its independent advisors before placing any cash and investments.

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

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

	Increase of values/rates	
	Profit \$ '000	Equity \$ '000
<b>2019</b>		
Possible impact of a 1% movement in price of investments <sup>1</sup>	–	–
Possible impact of a 1% movement in interest rates <sup>2</sup>	2,452	2,452
<b>2018</b>		
Possible impact of a 1% movement in price of investments <sup>1</sup>	–	–
Possible impact of a 1% movement in interest rates <sup>2</sup>	2,143	2,143

(1) All Council's investments are held to maturity and as such any movement in price of investments will have no impact on equity and the income statement.

(2) Sensitivity percentages based on management's expectation of future possible market movements. Interest rate movements are calculated on cash, cash equivalents and financial assets.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 20. Financial risk management (continued)

#### (b) Credit risk

Council's major receivables comprise, rates, annual charges and user charges and fees. Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

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

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

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

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

#### Credit risk profile

##### Receivables – rates and annual charges

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

	Not yet overdue \$ '000	< 1 year overdue \$ '000	1 - 2 years overdue \$ '000	2 - 5 years overdue \$ '000	> 5 years overdue \$ '000	Total \$ '000
<b>2019</b>						
Gross carrying amount	–	4,620	613	601	318	6,152
<b>2018</b>						
Gross carrying amount	–	4,202	593	619	379	5,793

##### Receivables - non-rates and annual charges

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

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

	Not yet overdue \$ '000	0 - 30 days overdue \$ '000	31 - 60 days overdue \$ '000	61 - 90 days overdue \$ '000	> 91 days overdue \$ '000	Total \$ '000
<b>2019</b>						
Gross carrying amount	8,085	520	906	192	1,826	11,529
<b>ECL provision</b>	–	–	–	–	–	–
<b>2018</b>						
Gross carrying amount	7,844	580	754	267	343	9,788
<b>ECL provision</b>	–	–	–	–	–	–

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 20. Financial risk management (continued)

#### (c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

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

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

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

	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
<b>2019</b>							
Trade/other payables	0.00%	–	18,821	1,354	–	20,175	18,822
Loans and advances	4.81%	–	7,815	31,020	163,684	202,519	126,922
<b>Total financial liabilities</b>		<b>–</b>	<b>26,636</b>	<b>32,374</b>	<b>163,684</b>	<b>222,694</b>	<b>145,744</b>
<b>2018</b>							
Trade/other payables	0.00%	–	10,391	1,019	–	11,410	11,409
Loans and advances	6.00%	–	7,787	30,983	100,076	138,846	82,130
<b>Total financial liabilities</b>		<b>–</b>	<b>18,178</b>	<b>32,002</b>	<b>100,076</b>	<b>150,256</b>	<b>93,539</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 21. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 25/06/2018 and is unaudited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
<b>REVENUES</b>				
<b>Operating grants and contributions</b>	<b>27,580</b>	<b>31,761</b>	<b>4,181</b>	<b>15% F</b>
Operating grants and contributions exceeded original budget by \$4,181 (15.16%). This was mainly due to additional funds received in the year for projects such as George Booth Drive (\$1m), Hazard Reduction (\$730k), illegal dumping (\$500k) and various other environmental assessments and rehabilitation initiatives. In addition, there was a \$579k increase in the Child Care subsidy compared to the original budget.				
<b>EXPENSES</b>				
<b>Materials and contracts</b>	<b>38,866</b>	<b>59,654</b>	<b>(20,788)</b>	<b>(53)% U</b>
Materials and contracts exceeded original budget by \$20.8m (53.4%). This was mainly due to an increase in recycling contractor fees in response to the China National Sword Policy (\$3.7m), reclassification of internal burdening and corresponding recovery budgets to employee costss (\$3.0m), Lighting the Way project reclassified from capital to operating (\$800k), carried forward projects from the previous financial year (\$3.1m) and increased operational activity.				
<b>Other expenses</b>	<b>29,803</b>	<b>23,660</b>	<b>6,143</b>	<b>21% F</b>
Other expenses were lower than original budget by \$6.1m (21%). This was mainly due to lower than budgeted EPA levies (\$3.9m), street lighting and telephone charges (\$711k) and insurance premiums (\$643k).				
<b>Net losses from disposal of assets</b>	–	<b>8,632</b>	<b>(8,632)</b>	∞ <b>U</b>
No budget was allowed for this item as it could not be reliably estimated.				
<b>Fair value decrement on investment property</b>	–	<b>396</b>	<b>(396)</b>	∞ <b>U</b>
No budget was allowed for this item as it could not be reliably estimated.				
<b>Revaluation decrement / impairment of IPP&amp;E</b>	–	<b>100</b>	<b>(100)</b>	∞ <b>U</b>
No budget was allowed for this item as it could not be reliably estimated.				



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement

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

- Infrastructure, property, plant and equipment
- Investment property

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Council therefore measures non-current assets classified as held for sale at fair value on a nonrecurring basis where their carrying amount exceeds their fair value.

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

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

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

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

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

2019	Notes	Fair value measurement hierarchy			Total
		Date of latest valuation	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
<b>Recurring fair value measurements</b>					
<b>Investment property</b>					
	11				
Commercial land, office and retail		30/06/19	–	40,882	40,882
<b>Total investment property</b>			<b>–</b>	<b>40,882</b>	<b>40,882</b>
<b>Infrastructure, property, plant and equipment</b>					
	10				
Plant and equipment		31/03/18	–	31,557	31,557
Office equipment		31/03/18	–	858	858
Furniture and fittings		31/03/18	–	1,723	1,723
Operational land		31/03/18	169,351	–	169,351
Community land		30/06/16	–	177,013	177,013
Land under roads (post 01/07/08)		31/03/19	–	18,645	18,645
Non-depreciable land improvements		30/06/16	–	10,006	10,006
Depreciable land improvements		30/06/16	–	71,941	71,941
Buildings		31/03/18	–	199,402	199,402
Other structures		30/06/16	–	22,973	22,973
Roads		30/06/15	–	709,694	709,694
Bridges		30/06/15	–	45,989	45,989
Footpaths		30/06/15	–	53,734	53,734
Other road assets		30/06/15	–	377,817	377,817
Bulk earthworks (non-depreciable)		30/06/15	–	213,494	213,494
Stormwater drainage		30/06/15	–	319,808	319,808
Swimming pools		30/06/16	–	7,013	7,013
Other open space/recreational assets		30/06/16	–	29,381	29,381
Other infrastructure		30/06/16	–	16,104	16,104
Library books		30/06/16	–	1,421	1,421
Remediation asset		30/06/18	–	13,697	13,697
Artworks		30/06/16	–	2,225	2,225
<b>Total infrastructure, property, plant and equipment</b>			<b>169,351</b>	<b>2,324,495</b>	<b>2,493,846</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

2018	Notes	Date of latest valuation	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
<b>Recurring fair value measurements</b>					
<b>Investment property</b>					
	11				
Commercial land, office and retail			–	41,215	41,215
<b>Total investment property</b>			<b>–</b>	<b>41,215</b>	<b>41,215</b>
<b>Infrastructure, property, plant and equipment</b>					
	10				
Plant and equipment			–	31,505	31,505
Office equipment			–	1,335	1,335
Furniture and fittings			–	2,149	2,149
Operational land			167,880	–	167,880
Community land			–	174,303	174,303
Land under roads (post 01/07/08)			–	16,712	16,712
Non-depreciable land improvements			–	8,969	8,969
Depreciable land improvements			–	70,315	70,315
Buildings			–	192,982	192,982
Other structures			–	21,919	21,919
Roads			–	705,866	705,866
Bridges			–	46,629	46,629
Footpaths			–	51,857	51,857
Other road assets			–	381,346	381,346
Bulk earthworks (non-depreciable)			–	212,594	212,594
Stormwater drainage			–	313,691	313,691
Swimming pools			–	7,364	7,364
Other open space/recreational assets			–	23,688	23,688
Other infrastructure			–	13,344	13,344
Library books			–	1,446	1,446
Remediation asset			–	14,749	14,749
Artworks			–	2,167	2,167
<b>Total infrastructure, property, plant and equipment</b>			<b>167,880</b>	<b>2,294,930</b>	<b>2,462,810</b>

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

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

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

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

##### Investment property

Council obtains valuations of its investment properties on an annual basis. Council's valuer who is a member of the Australian Property Institute determines the valuations.

The best evidence of fair value is the current price in an active market for similar properties in the same location and condition and subject to similar occupancy terms. Adjustments are then made having regard to the property's inherent and external characteristics based on the available market evidence.

For properties deriving income, the key valuation technique is the capitalisation approach, for which the key unobservable input is the capitalisation rate, which is based on investment yields drawn on comparable properties.

Should it be deemed that the investment property value is largely made up of land components, valuations are drawn by direct comparison with comparable properties and / or the summation approach, the key unobservable input for which is the price per square metre.

There have been no changes in the valuation technique during the reporting period.

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

Plant & equipment, office equipment and furniture and fittings are valued at historical cost but 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, trailers, gardening equipment
Office Equipment	Audio visual equipment, televisions, cameras
Furniture and fittings	Chairs, desks, shelving units

The key unobservable inputs to the valuation are the useful life, pattern of consumption, asset condition and residual value.

There have been no changes in the valuation technique during the reporting period.

##### Operational Land

This asset class comprises all of Council's land classified as Operational under the Local Government Act 1993 (NSW). Council operational land is valued using market valuations. The last valuation was undertaken as at 30 June 2018.

Valuations are based off market value of recent sales of land parcels with similar zoning in adjacent areas. They were obtained from a combination of an external valuation as well as in-house qualified experts. Sale prices of comparable land parcels with similar locations and zonings were adjusted for key attributes such as size and configuration.

There have been no changes in the valuation technique during the reporting period.

##### Community Land

Council's community land (including owned by the Council, the Crown and various other Government Agencies that is managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access, such as dedication under s7.11 of the Environment Planning and Assessment Act 1979 (amended).

Valuations of all Council's Community Land and Council controlled Crown land were based on the land values provided by the Valuer-General. As these rates are not considered to be observable market evidence they have been classified as Level 3. In line with data issued by the Crown, a small amount of Crown land parcels in this asset class were revalued at 30 June 2018 to reflect current Valuer-General valuations.

There have been no changes in the valuation technique during the reporting period.

##### Land under roads (post 01/07/2008)

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council recognised this asset for the first time in financial year 2008/09 in accordance with AASB 1051 Land Under Roads.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

---

Values were determined using Valuer-General valuations of adjacent land and applying discount factors. This asset class is classified as Level 3 as significant inputs used in this methodology are unobservable.

Land under roads was previously valued using the adjacent site method, however applying discounting factors allows to reflect the restrictions placed on land under roads and therefore is considered to be a more accurate approach.

#### **Land improvements - Depreciable and non-depreciable**

The land improvements asset class consists of car-park upgrades, irrigation, landscaping and paving of public areas.

Land improvements were valued in-house by Council's Asset Management staff on a unit rate basis. Input 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.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Buildings**

This asset class comprises of Specialised and Non Specialised buildings including Community Halls, Administration buildings, Caravan Parks and Residential premises

In determining the current cost of the specialised asset, reference is made to the cost of replacing the assets based in industry unit rates. This approach estimates the replacement cost by breaking the building down into significant components with different useful life and taking into account a range of factors such as the remaining useful life of the asset, condition, pattern of consumption and residual value.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Footpaths**

This asset class comprises of sealed or non-sealed footpaths and cycle ways.

Footpath assets were valued in-house using the cost approach by experienced 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 and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Bridges**

This asset class comprises of Council's bridges.

The assets were valued in-house using the cost approach by experienced 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 and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Roads**

This asset class comprises of road asset such as pavement, asphalt, kerb & gutter, street furniture, traffic facilities and retaining walls.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

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

The 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 have been no changes in the valuation technique during the reporting period.

#### **Bulk earthworks (non-depreciable)**

This asset class was valued in-house using the cost approach by experienced 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 and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Stormwater drainage**

This asset class comprises of pits, pipes, stormwater quality improvement devices and headwalls.

Stormwater drainage assets were valued in-house using the cost approach by experienced 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 and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Swimming pools**

This asset class comprises of Council's swimming pools, including caravan park pools.

Swimming pool assets were valued in-house using the cost approach by experienced 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 and applying a unit rate. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The 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 have been no changes in the valuation technique during the reporting period.

#### **Other open space/recreational assets**

This asset class comprises of Council's various outdoor playing fields, sporting facilities, playgrounds and picnic ground facilities.

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. Input estimates such as the replacement costs (based on unit rates), pattern of consumption, asset condition and useful life requiring significant professional judgement impacted on the final determination of the value.

The 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 have been no changes in the valuation technique during the reporting period.

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

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#### **Other infrastructure**

The other infrastructure asset class consists of jetties, retaining walls, boat ramps and seawalls.

Other infrastructure assets were valued in-house using the cost approach by experienced 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 and applying a unit rate. Inputs such as estimates of pattern of consumption, residual value, asset condition and useful life required extensive professional judgement and impacted significantly on the final determination of fair value.

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

There have been no changes in the valuation technique during the reporting period.

#### **Library books**

This asset class comprises of assets such as library books, CD's, DVD's, publications etc. 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.

There have been no changes to the valuation process during the reporting period.

#### **Remediation asset**

This asset class includes the landfill cells at Council's Waste Management site which is recognised and valued at cost. It is recognised that there will be significant costs associated with the closure and post closure management of the landfill site.

Council assumes that the carrying amount reflects the fair value of the assets due to the nature of the item. Significant unobservable inputs considered in the valuation of these assets are useful life and pattern of consumption and therefore categorised at Level 3.

There have been no changes in the valuation technique during the reporting period.

#### **Artworks**

Assets within this class are collections of the Art Gallery. Market value is used to determine the fair value of the Art Gallery collection, and is valued on a 5-year cycle.

The asset class is categorised as Level 3 as gross replacement cost, pattern of consumption and estimated remaining useful life require significant professional judgement and are therefore unobservable.

There have been no changes in the valuation technique during the reporting period.

#### **Non-current assets classified as 'held for sale'**

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

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

Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from the other assets in the Statement of Financial Position. The asset class is categorised as Level 2 as some of the inputs used in the valuation require professional judgement, which are unobservable, combined with observable inputs such as market valuations

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Fair Value Measurement (continued)

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

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

	IPPE \$ '000	Investment property \$ '000	Total \$ '000
<b>2018</b>			
<b>Opening balance</b>	2,223,829	40,412	2,264,241
Purchases (GBV)	122,797	297	123,094
Disposals (WDV)	(6,328)	–	(6,328)
Depreciation and impairment	(53,602)	–	(53,602)
Recognised in other comprehensive income - Revaluation surplus	7,550	–	7,550
Other movements	686	–	686
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	–	506	506
<b>Closing balance</b>	<b>2,294,932</b>	<b>41,215</b>	<b>2,336,147</b>
<b>2019</b>			
<b>Opening balance</b>	2,294,932	41,215	2,336,147
Purchases (GBV)	94,641	107	94,748
Disposals (WDV)	(8,969)	–	(8,969)
Depreciation and impairment	(57,501)	–	(57,501)
Recognised in other comprehensive income - Revaluation surplus	913	–	913
Other movements	(1,561)	(44)	(1,605)
Recognised in profit or loss - Unrealised - refer Notes 3 and 4	–	(396)	(396)
<b>Closing balance</b>	<b>2,322,455</b>	<b>40,882</b>	<b>2,363,337</b>

b. Information relating to the transfers into and out of the level 3 fair valuation hierarchy (as disclosed in the table above) includes:

There were no transfers between the levels of the fair value hierarchy during the reporting period.

c. 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.

	Fair value (30/06/19) \$ '000	Valuation technique/s	Unobservable inputs
<b>Investment properties</b>			
Commercial land, office and retail	40,882	<b>Market value</b>	<b>Investment yields</b> Improved rate per square metre Site rate per square metre
<b>IPPE</b>			
Plant and equipment	31,557	<b>Historical cost</b>	<b>Pattern of consumption</b> Asset condition Remaining useful life Residual value
Office equipment	857	<b>Historical cost</b>	<b>Pattern of consumption</b> Asset condition Remaining useful life Residual value

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

	Fair value (30/06/19) \$ '000	Valuation technique/s	Unobservable inputs
Furniture and fittings	1,723	Historical cost	Pattern of consumption Asset condition Remaining useful life Residual value
Community land	177,013	Valuer-General valuations	Market value
Land under roads (post 01/07/08)	18,645	Discounted Valuer-General valuations	Market value, discount rate
Non-depreciable land improvements	10,006	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Depreciable land improvements	71,941	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Buildings	199,402	Industry cost indexes	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other structures	22,973	Industry cost indexes	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Roads	709,694	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Bridges	45,989	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Footpaths	53,734	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Other road assets	377,817	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Bulk earthworks (nondepreciable)	213,494	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost
Stormwater drainage	319,808	Unit rates	Pattern of consumption Asset condition Remaining useful life Residual value Gross replacement cost



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 22. Fair Value Measurement (continued)

	Fair value (30/06/19) \$ '000	Valuation technique/s	Unobservable inputs
Swimming pools	7,013	<b>Unit rates</b>	<b>Pattern of consumption</b> <b>Asset condition</b> <b>Remaining useful life</b> <b>Residual value</b> <b>Gross replacement cost</b>
Other open space/recreational assets	29,381	<b>Unit rates</b>	<b>Pattern of consumption</b> <b>Asset condition</b> <b>Remaining useful life</b> <b>Residual value</b> <b>Gross replacement cost</b>
Other infrastructure	16,104	<b>Unit rates</b>	<b>Pattern of consumption</b> <b>Asset condition</b> <b>Remaining useful life</b> <b>Residual value</b> <b>Gross replacement cost</b>
Library books	1,421	<b>Cost approach</b>	<b>Pattern of consumption</b> <b>Asset condition</b> <b>Remaining useful life</b> <b>Residual value</b> <b>Gross replacement cost</b>
Remediation asset	13,697	<b>Cost approach</b>	<b>Discount rate</b> <b>Remaining useful life</b>
Artworks	2,225	<b>Market value</b>	<b>Pattern of consumption</b> <b>Asset condition</b> <b>Remaining useful life</b> <b>Residual value</b> <b>Gross replacement cost</b>

#### (4) Highest and best use

Certain investment properties are not being used for highest and best use, which for most is redevelopment, and may contain structures which are leased until redevelopment proposal commences.

All other assets valued at fair value in this note are being used for their highest and best use.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 23. Related Party Transactions

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#### (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:

	2019 \$ '000	2018 \$ '000
<b>Compensation:</b>		
Short-term benefits	2,275	2,258
Post-employment benefits	166	128
Termination benefits	–	182
<b>Total</b>	<b>2,441</b>	<b>2,568</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 KMP using Council services (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

There were no other material transactions between KMP and their related parties and Council during the financial year.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 23. Related Party Transactions (continued)

#### (b) Other related party transactions

	Value of transactions during year \$ '000	Outstanding balance (incl. loans and commitments) \$ '000	Terms and conditions	Provisions for impairment of receivables outstanding \$ '000	The expense recognised during the period relating to bad or doubtful debts due from related parties \$ '000
<b>2019</b>					
Payments for recycling bin services	7,373	581	Standard procurement terms and conditions	–	–
Payments for annual subscriptions	70	–	Payments shared between the parties in the Joint Venture	–	–
Payments for legal services	59	–	Provided under the Joint Venture arrangement	–	–
Payments for record management services	–	–	Provided under the Joint Venture arrangement	–	–
Payments of grant funding	919	–	Grants provided as part of funding agreement	–	–
<b>2018</b>					
Payments for recycling bin services	4,398	357	Standard procurement terms and conditions	–	–
Payments for annual subscriptions	58	–	Payments shared between the parties in the Joint Venture	–	–
Payments for legal services	129	–	Provided under the Joint Venture arrangement	–	–
Payments for record management services	14	–	Provided under the Joint Venture arrangement	–	–
Payments of grant funding	1,300	–	Grants provided as part of funding agreement	–	–

(1) Relates to Hunter Resource Recovery which has not been consolidated in Council's financial statements due to amounts being immaterial to Council operations.

(2) Relates to Dantia Prosperity in Abundance which has not been consolidated in Council's financial statements due to amounts being immaterial to Council operations.

## Lake Macquarie City Council

### Notes to the Financial Statements

for the year ended 30 June 2019

#### Note 24. Events occurring after the reporting date

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On the 20th August 2019 one of Council's investment properties, Awaba House Cafe, located at First Street Booragul, was severely damaged by fire. Council is insured for the building and for loss of rental income but the extent of the damage and the financial implications of the event are still being investigated.

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 25. 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 30/6/2018			as at 30/6/2019				
	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
Drainage	1,642	–	–	40	–	–	1,682	–
Traffic facilities	11,480	1,100	–	313	–	–	12,893	–
Parking	4,988	–	–	96	–	–	5,084	–
Open space	61,204	9,085	9	1,535	(4,685)	–	67,139	–
Community facilities	17,752	1,876	–	451	(497)	–	19,582	–
Other	113	396	–	3	(396)	–	116	–
<b>S7.11 contributions – under a plan</b>	<b>97,179</b>	<b>12,457</b>	<b>9</b>	<b>2,438</b>	<b>(5,578)</b>	<b>–</b>	<b>106,496</b>	<b>–</b>
<b>Total S7.11 and S7.12 revenue under plans</b>	<b>97,179</b>	<b>12,457</b>	<b>9</b>	<b>2,438</b>	<b>(5,578)</b>	<b>–</b>	<b>106,496</b>	<b>–</b>
S7.11 not under plans	2,065	28	–	44	184	(271)	2,050	–
S7.4 planning agreements	1,956	623	–	61	(25)	271	2,886	–
Council borrowing	(41,715)	2,216	–	–	–	–	(39,499)	–
<b>Total contributions</b>	<b>59,485</b>	<b>15,324</b>	<b>9</b>	<b>2,543</b>	<b>(5,419)</b>	<b>–</b>	<b>71,933</b>	<b>–</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 25. Statement of developer contributions (continued)

	as at 30/6/2018						as at 30/6/2019	
	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					
<b>S7.11 Contributions – under a plan</b>								
<b>CONTRIBUTION PLAN NO. 1 CITY WIDE PLAN &gt; 25/6/93</b>								
Drainage	360	–	–	–	–	–	360	–
Open space	487	–	–	–	–	(487)	–	–
Community facilities	315	–	–	–	–	(315)	–	–
<b>Total</b>	<b>1,162</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(802)</b>	<b>360</b>	<b>–</b>
<b>CONTRIBUTION PLAN CITY WIDE PLAN 2004</b>								
Drainage	701	–	–	26	–	–	727	–
Open space	13,349	–	–	348	–	(13,697)	–	–
Community facilities	2,527	–	–	72	–	(2,599)	–	–
<b>Total</b>	<b>16,577</b>	<b>–</b>	<b>–</b>	<b>446</b>	<b>–</b>	<b>(16,296)</b>	<b>727</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 2 NORTHLAKES URBAN RELEASE AREA</b>								
Drainage	579	–	–	14	–	–	593	–
Traffic facilities	5,228	554	–	133	–	–	5,915	–
Open space	792	799	–	14	(1,233)	–	372	–
Community facilities	1,742	327	–	45	(63)	–	2,051	–
Other	112	23	–	3	(23)	–	115	–
<b>Total</b>	<b>8,453</b>	<b>1,703</b>	<b>–</b>	<b>209</b>	<b>(1,319)</b>	<b>–</b>	<b>9,046</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 3 GARDEN SUBURBS</b>								
Drainage	2	–	–	–	–	–	2	–
<b>Total</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>–</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 25. Statement of developer contributions (continued)

	as at 30/6/2018						as at 30/6/2019	
	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					
<b>CONTRIBUTION PLAN NO. 4 COMMERCIAL AREAS CARPARKING</b>								
Traffic facilities	3	–	–	4	–	–	7	–
Parking	205	–	–	1	–	–	206	–
<b>Total</b>	<b>208</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>–</b>	<b>–</b>	<b>213</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 5 NORTH WALLARAH PENINSULAR</b>								
Traffic facilities	273	24	–	7	–	–	304	–
Open space	1,934	187	–	49	–	–	2,170	–
Community facilities	4	78	–	1	–	–	83	–
Other	–	6	–	–	(6)	–	–	–
<b>Total</b>	<b>2,211</b>	<b>295</b>	<b>–</b>	<b>57</b>	<b>(6)</b>	<b>–</b>	<b>2,557</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 6 HILLSBOROUGH ROAD</b>								
Traffic facilities	23	–	–	1	–	–	24	–
<b>Total</b>	<b>23</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>24</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 7 MORISSET CONTRIBUTIONS CATCHMENT</b>								
Traffic facilities	2,960	36	–	81	–	–	3,077	–
Parking	441	–	–	2	–	–	443	–
Open space	13,661	1,260	–	343	(226)	–	15,038	–
Community facilities	3,447	319	–	87	(4)	–	3,849	–
Other	1	45	–	–	(45)	–	1	–
<b>Total</b>	<b>20,510</b>	<b>1,660</b>	<b>–</b>	<b>513</b>	<b>(275)</b>	<b>–</b>	<b>22,408</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 8 GLENDALE CATCHMENT</b>								
Traffic facilities	1,144	201	–	39	–	–	1,384	–
Parking	895	–	–	13	–	–	908	–
Open space	14,406	2,172	–	341	(2,776)	–	14,143	–
Community facilities	5,354	525	–	133	(256)	–	5,756	–
Other	–	101	–	–	(101)	–	–	–
<b>Total</b>	<b>21,799</b>	<b>2,999</b>	<b>–</b>	<b>526</b>	<b>(3,133)</b>	<b>–</b>	<b>22,191</b>	<b>–</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 25. Statement of developer contributions (continued)

	as at 30/6/2018			as at 30/6/2019				
	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					
<b>CONTRIBUTION PLAN NO. 9 CHARLESTOWN CATCHMENT</b>								
Traffic facilities	1,801	277	–	47	–	–	2,125	–
Parking	3,447	–	–	80	–	–	3,527	–
Open space	7,688	2,468	–	207	(708)	–	9,655	–
Community facilities	3,210	480	–	84	(164)	–	3,610	–
Other	–	133	–	–	(133)	–	–	–
<b>Total</b>	<b>16,146</b>	<b>3,358</b>	<b>–</b>	<b>418</b>	<b>(1,005)</b>	<b>–</b>	<b>18,917</b>	<b>–</b>
<b>CONTRIBUTION PLAN NO. 10 TORONTO CATCHMENT</b>								
Traffic facilities	48	7	–	1	–	–	56	–
Open space	8,887	1,939	9	223	132	–	11,181	–
Community facilities	1,153	56	–	28	(10)	–	1,227	–
Other	–	50	–	–	(50)	–	–	–
<b>Total</b>	<b>10,088</b>	<b>2,052</b>	<b>9</b>	<b>252</b>	<b>72</b>	<b>–</b>	<b>12,464</b>	<b>–</b>
<b>CONTRIBUTIONS PLAN NO. 11 BELMONT CATCHMENT</b>								
Traffic facilities	–	1	–	–	–	–	1	–
Open space	–	260	–	10	126	14,184	14,580	–
Community facilities	–	91	–	1	–	2,914	3,006	–
Other	–	38	–	–	(38)	–	–	–
<b>Total</b>	<b>–</b>	<b>390</b>	<b>–</b>	<b>11</b>	<b>88</b>	<b>17,098</b>	<b>17,587</b>	<b>–</b>



# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 25. Statement of developer contributions (continued)

	as at 30/6/2018			as at 30/6/2019				
	Opening Balance \$ '000	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 – not under a plan

##### S7.11 CONTRIBUTIONS – NOT UNDER A PLAN

Drainage	162	–	–	4	–	–	166	–
Roads	1,371	26	–	27	–	(269)	1,155	–
Parking	516	–	–	13	–	–	529	–
Open space	9	–	–	–	–	–	9	–
Community facilities	5	–	–	–	–	–	5	–
Other	2	2	–	–	184	(2)	186	–
<b>Total</b>	<b>2,065</b>	<b>28</b>	<b>–</b>	<b>44</b>	<b>184</b>	<b>(271)</b>	<b>2,050</b>	<b>–</b>

#### S7.4 planning agreements

##### S7.4 planning agreements

Roads	150	244	–	10	–	271	675	–
Parking	613	–	–	15	–	–	628	–
Open space	646	213	–	23	–	–	882	–
Community facilities	536	141	–	13	–	–	690	–
Other	11	25	–	–	(25)	–	11	–
<b>Total</b>	<b>1,956</b>	<b>623</b>	<b>–</b>	<b>61</b>	<b>(25)</b>	<b>271</b>	<b>2,886</b>	<b>–</b>

# Lake Macquarie City Council

## Notes to the Financial Statements

for the year ended 30 June 2019

### Note 26(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
<b>1. Operating performance ratio</b>					
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	<b>(642)</b>				
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	<b>240,928</b>	<b>(0.27)%</b>	5.56%	8.98%	<b>&gt;0.00%</b>
<b>2. Own source operating revenue ratio</b>					
Total continuing operating revenue excluding all grants and contributions <sup>1,3</sup>	<b>209,167</b>				
Total continuing operating revenue <sup>1</sup>	<b>275,758</b>	<b>75.85%</b>	68.32%	65.64%	<b>&gt;60.00%</b>
<b>3. Unrestricted current ratio</b>					
Current assets less all external restrictions	<b>148,382</b>				
Current liabilities less specific purpose liabilities	<b>30,281</b>	<b>4.90x</b>	2.75x	2.90x	<b>&gt;1.50x</b>
<b>4. Debt service cover ratio</b>					
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	<b>65,323</b>				
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<b>10,033</b>	<b>6.51x</b>	8.52x	9.88x	<b>&gt;2.00x</b>
<b>5. Rates, annual charges, interest and extra charges outstanding percentage</b>					
Rates, annual and extra charges outstanding	<b>6,502</b>				
Rates, annual and extra charges collectible	<b>175,653</b>	<b>3.70%</b>	4.09%	3.68%	<b>&lt;10.00%</b>
<b>6. Cash expense cover ratio</b>					
Current year's cash and cash equivalents plus all term deposits	<b>130,535</b>				
Monthly payments from cash flow of operating and financing activities	<b>15,925</b>	<b>8.20 mths</b>	8.74 mths	10.92 mths	<b>&gt;3.00 mths</b>

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

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

(3) 2018 indicator has been corrected and restated to exclude operating grants from the numerator of the calculation



## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### Lake Macquarie City Council

To the Councillors of the Lake Macquarie City Council

### Opinion

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

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been presented, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

### Basis for Opinion

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

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

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

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

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

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

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

### **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

### **The Councillors' Responsibilities for the Financial Statements**

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

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

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

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

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

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 21 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

31 October 2019  
SYDNEY



Cr Kay Fraser  
Mayor  
Lake Macquarie City Council  
PO Box 1906  
HUNTER REGIONAL MAIL CENTRE NSW 2310

Contact: Furqan Yousuf  
Phone no: 02 9275 7470  
Our ref: D1923133/1751

31 October 2019

Dear Cr Fraser

**Report on the Conduct of the Audit  
for the year ended 30 June 2019  
Lake Macquarie City Council**

I have audited the general purpose financial statements (GPFS) of the Lake Macquarie City Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

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

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

## INCOME STATEMENT

### Operating result

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	169.2	162.1	4.4
Grants and contributions revenue	66.6	93.5	28.8
Operating result for the year	25.0	75.1	66.8
Net operating result before capital grants and contributions	(9.9)	10.9	190.8

The Council’s operating result for the year was a surplus of \$25.0 million, which was \$50.1 million lower than the 2017–18 operating result. The reduced operating result was mainly due to a reduction in the revenue from dedicated assets and increase in expenses as outlined below. The Council budgeted for an operating surplus of \$41.1 million.

The Council’s net operating result before capital grants and contributions was a deficit of \$9.9 million, which was \$20.8 million lower than the 2017–18 net operating result. Movement in net operating result before capital grants and contributions was mainly attributable to the increase in expenses for the year, comprising of:

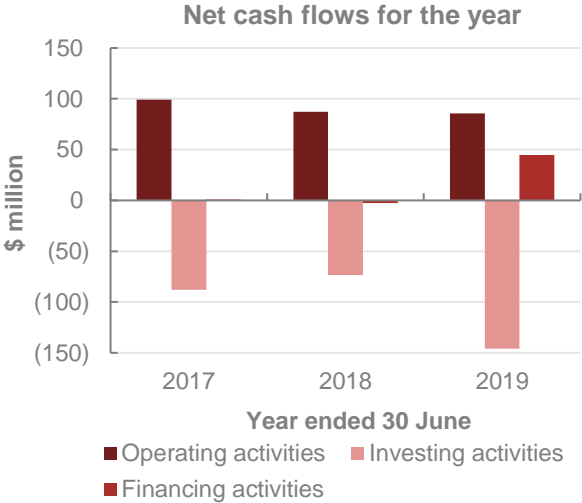
- an increase of \$16.0 million in materials and contract expense due to additional contract work undertaken by the Council
- an increase of \$5.6 million net loss from disposal of assets relating to disposal of roads and buildings prior to the end of their useful lives
- an increase of \$2.4 million in payroll award costs and termination payments.

Rates and annual charges revenue increased by \$7.1 million (4.4 per cent) in 2018–19. The movement is mainly attributable to the Council’s approved special rate variation of 4.75 per cent.

Grants and contributions revenue decreased by \$26.9 million (28.8 per cent) to \$66.6 million in 2018–19 mainly due to due to a reduction in the amount recognised for assets dedicated in lieu of cash contributions by \$29.4 million.

## STATEMENT OF CASH FLOWS

- The Council’s cash and cash equivalents was \$21.0 million (\$36.4 million for the year ended 30 June 2018). There was a net reduction in cash and cash equivalents of \$15.4 million at 30 June 2019.
- Net cash inflows from the operating activities decreased by \$1.4 million mainly due to a reduction in cash contributions received during the year.
- Net cash outflows from the investing activities increased by \$72.4 million mainly due to purchase of investment securities.
- Net cash inflows from financing activities increased by \$47.4 million due to increase in proceeds from borrowings.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	114.3	98.6	<ul style="list-style-type: none"> <li>Externally restricted cash and investments are restricted in their use by externally imposed requirements. Council's externally restricted cash and investments have increased by \$15.7 million primarily due to an increase in available cash balance relating to the developer contributions.</li> </ul>
Internal restrictions	124.0	115.7	
Unrestricted	6.9	--	
<b>Cash and investments</b>	<b>245.2</b>	<b>214.3</b>	<ul style="list-style-type: none"> <li>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 \$8.3 million is mainly due to an increase in reserves for asset replacement by \$8.5 million.</li> <li>The Council has build-up an unrestricted cash balance of \$6.9 million at 30 June 2019, which is available to provide liquidity for day-to-day operations of the Council.</li> </ul>

### Debt

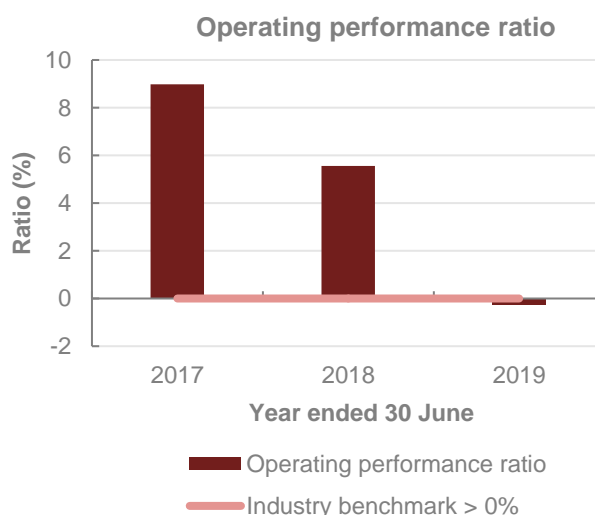
The Council has \$126.9 million of borrowings as at 30 June 2019 (2018: \$82.1 million).

The Council has an accumulated drawdown facility limit of \$700,000 as at 30 June 2019 (2018: \$700,000) which remained unutilised at the year-end.

## PERFORMANCE

### Operating performance ratio

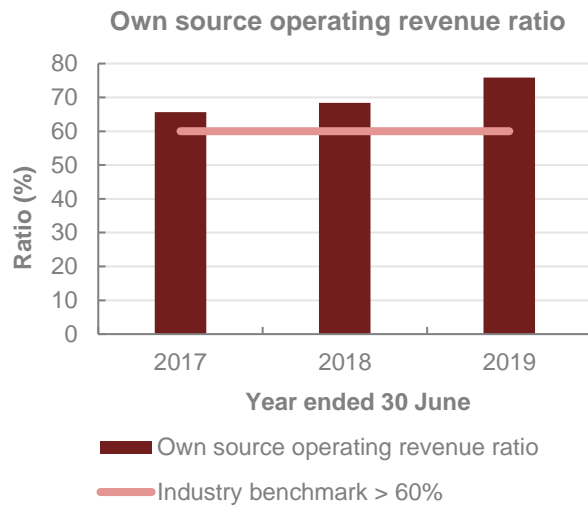
- The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.
- The Council's operating performance ratio of negative 0.27 per cent is below the industry benchmark of zero per cent.
- The operating performance ratio has decreased from prior year mainly due to increase in Council's operating expenses.





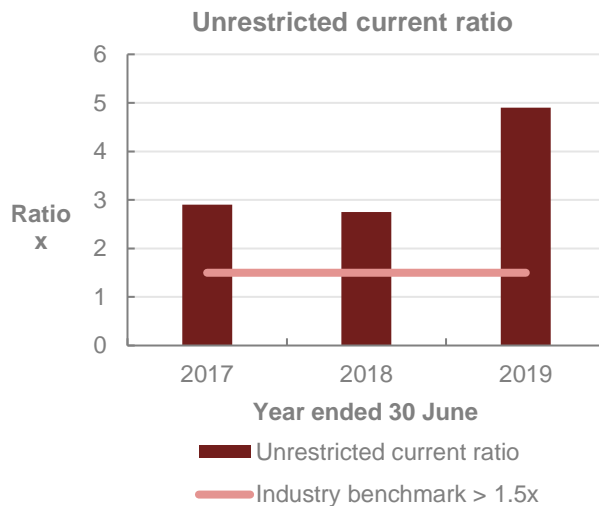
## Own source operating revenue ratio

- 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 the former OLG is greater than 60 per cent.
- The Council's own source operating revenue ratio of 75.6 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 increased from prior year mainly due to a reduction in grant revenue generated from dedicated assets.



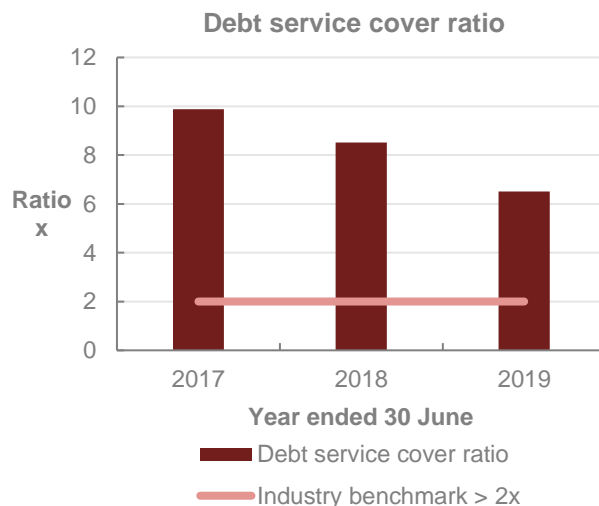
## Unrestricted current ratio

- 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 the former OLG is greater than 1.5 times.
- The Council's liquidity ratio of 4.9 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 and when they fall due.
- The Council's unrestricted current ratio has increased from prior year mainly due to an increase in cash and investments.



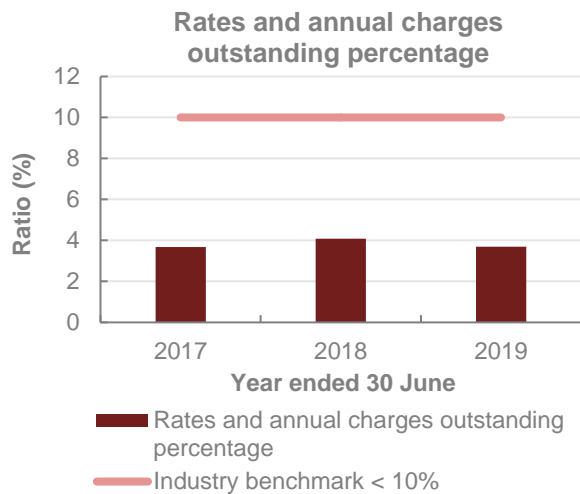
## Debt service cover ratio

- The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.
- The Council's debt service cover ratio of 6.5 times is above the industry benchmark of greater than 2 times.
- The Council's debt service cover ratio has decreased from prior year mainly due to increased borrowing cost and reduced net operating result in 2018–19.



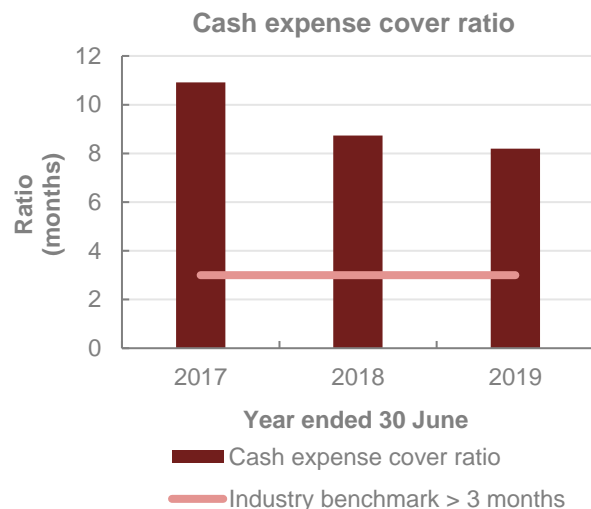
## Rates and annual charges outstanding percentage

- 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 the former OLG is less than 5 per cent for metro councils.
- The Council's rates and annual charges outstanding percentage of 3.7 per cent is within the benchmark of less than 10 per cent for regional councils.
- The Council's rates and annual charges outstanding percentage remained consistent over the past three years. 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.



## 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 the former OLG is greater than three months.
- The Council's cash expense cover ratio was 8.2 months, which is above the industry benchmark of greater than 3 months. This indicates that the Council had the capacity to cover 8.2 months of operating cash expenditure without additional cash inflows at 30 June 2019.
- The cash expense cover ratio decreased compared with prior year due to increased cash outflows for materials and contract expenditure in 2018–19.



## Infrastructure, property, plant and equipment renewals

The Council has renewed \$37.0 million of assets in 2018–19 financial year, compared to \$44.2 million of assets in the prior year. The decrease is mainly due to significant capital projects recorded as work in progress and not capitalised as asset renewals in 2018–19.

## OTHER MATTERS

### New accounting standards implemented

Application period	Overview
<b>AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'</b>	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"><li>• a simplified model for classifying and measuring financial assets</li><li>• a new method for calculating impairment</li><li>• a new type of hedge accounting that more closely aligns with risk management.</li></ul> <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 15.</p>

### Legislative compliance

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

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

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.



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

cc: Ms Morven Cameron, General Manager  
Ms Dianne Allen, Chair of the Audit and Risk Committee  
Mr Jim Betts, Secretary of the Department of Planning, Industry and Environment

# Lake Macquarie City Council

## SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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# Lake Macquarie City Council

## Special Purpose Financial Statements

for the year ended 30 June 2019

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# Lake Macquarie City Council

## Special Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

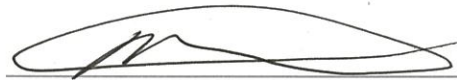
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

Signed in accordance with a resolution of Council made on 28 October 2019.



Cr Kay Fraser  
Mayor  
28 October 2019



Cr Nick Jones  
Deputy Mayor  
28 October 2019



Morven Cameron  
Chief Executive Officer  
28 October 2019



Dwight Graham  
Responsible Accounting Officer  
28 October 2019

# Lake Macquarie City Council

## Income Statement – CiviLake

for the year ended 30 June 2019

	2019 Category 1 \$ '000	2018 Category 1 \$ '000
<b>Income from continuing operations</b>		
User charges and fees	4,112	5,831
<b>Total income from continuing operations</b>	<b>4,112</b>	<b>5,831</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	759	914
Materials and contracts	2,688	3,632
Other expenses	37	210
<b>Total expenses from continuing operations</b>	<b>3,484</b>	<b>4,756</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>628</b>	<b>1,075</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>628</b>	<b>1,075</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>628</b>	<b>1,075</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(173)	(322)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>455</b>	<b>753</b>
<b>Plus accumulated surplus</b>	<b>19,727</b>	<b>18,614</b>
<b>Plus adjustments for amounts unpaid:</b>		
Corporate taxation equivalent	173	322
Dividend Paid	–	38
<b>Closing accumulated surplus</b>	<b>20,355</b>	<b>19,727</b>

# Lake Macquarie City Council

## Income Statement – Property Management

for the year ended 30 June 2019

	2019 Category 1 \$ '000	2018 Category 1 \$ '000
<b>Income from continuing operations</b>		
User charges and fees	10,428	10,077
Interest	626	521
Profit from the sale of assets	–	755
Other income	1,723	2,057
<b>Total income from continuing operations</b>	<b>12,777</b>	<b>13,410</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	2,017	1,876
Materials and contracts	3,792	4,320
Depreciation, amortisation and impairment	1,518	1,115
Loss on sale of assets	913	–
Calculated taxation equivalents	546	676
Other expenses	3,282	2,160
<b>Total expenses from continuing operations</b>	<b>12,068</b>	<b>10,147</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>709</b>	<b>3,263</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>709</b>	<b>3,263</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>709</b>	<b>3,263</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(195)	(979)
less dividend payment 5%	–	(114)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>514</b>	<b>2,170</b>
<b>Plus accumulated surplus</b>	<b>122,631</b>	<b>118,692</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	546	676
– Corporate taxation equivalent	195	979
– Dividend Paid	–	114
<b>Closing accumulated surplus</b>	<b>123,886</b>	<b>122,631</b>
<b>Return on capital %</b>	<b>1.2%</b>	<b>3.0%</b>
<b>Subsidy from Council</b>	<b>79</b>	<b>–</b>



# Lake Macquarie City Council

## Income Statement – Non-domestic waste

for the year ended 30 June 2019

	2019 Category 1 \$ '000	2018 Category 1 \$ '000
<b>Income from continuing operations</b>		
Rates and annual charges	2,141	2,017
User charges and fees	4,222	4,746
<b>Total income from continuing operations</b>	<b>6,363</b>	<b>6,763</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	1,449	1,388
Borrowing costs	77	78
Materials and contracts	1,592	1,380
Depreciation and impairment	82	59
Loss on sale of assets	13	–
Calculated taxation equivalents	28	18
Other expenses	2,165	2,990
<b>Total expenses from continuing operations</b>	<b>5,406</b>	<b>5,913</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>957</b>	<b>850</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>957</b>	<b>850</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>957</b>	<b>850</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(263)	(234)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>694</b>	<b>616</b>
<b>Plus accumulated surplus</b>	16,289	15,391
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	28	18
– Corporate taxation equivalent	263	234
– Dividend Paid	–	30
<b>Closing accumulated surplus</b>	<b>17,274</b>	<b>16,289</b>
<b>Return on capital %</b>	<b>22.2%</b>	<b>28.9%</b>

# Lake Macquarie City Council

## Income Statement – Printing

for the year ended 30 June 2019

	2019 Category 2 \$ '000	2018 Category 2 \$ '000
<b>Income from continuing operations</b>		
User charges and fees	1,088	1,070
<b>Total income from continuing operations</b>	<u>1,088</u>	<u>1,070</u>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	538	491
Materials and contracts	439	467
Depreciation and impairment	12	12
Other expenses	15	7
<b>Total expenses from continuing operations</b>	<u>1,004</u>	<u>977</u>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	84	93
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<u>84</u>	<u>93</u>
<b>Surplus (deficit) from all operations before tax</b>	<u>84</u>	<u>93</u>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(23)	(26)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<u>61</u>	<u>67</u>
<b>Plus accumulated surplus</b>	1,373	1,276
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	23	26
– Dividend Paid	–	4
<b>Closing accumulated surplus</b>	<u>1,457</u>	<u>1,373</u>
<b>Return on capital %</b>	763.6%	387.5%

## Lake Macquarie City Council

### Income Statement – Strategic Services Australia Ltd (Lake Macquarie Share)

for the year ended 30 June 2019

	2019 Category 2 \$ '000	2018 Category 2 \$ '000
<b>Income from continuing operations</b>		
User charges and fees	925	976
Grants and contributions provided for non-capital purposes	156	230
Profit from the sale of assets	–	213
Other income	28	41
<b>Total income from continuing operations</b>	<b>1,109</b>	<b>1,460</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	705	764
Borrowing costs	1	25
Materials and contracts	235	292
Depreciation and impairment	22	35
Other expenses	242	242
<b>Total expenses from continuing operations</b>	<b>1,205</b>	<b>1,358</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(96)</b>	<b>102</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>(96)</b>	<b>102</b>
Surplus (deficit) from discontinued operations	–	485
<b>Surplus (deficit) from all operations before tax</b>	<b>(96)</b>	<b>587</b>
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(28)
<b>SURPLUS (DEFICIT) AFTER TAX</b>	<b>(96)</b>	<b>559</b>
<b>Plus accumulated surplus</b>	<b>788</b>	<b>201</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Corporate taxation equivalent	–	28
<b>Closing accumulated surplus</b>	<b>692</b>	<b>788</b>
<b>Return on capital %</b>	<b>(150.8)%</b>	<b>136.6%</b>
<b>Subsidy from Council</b>	<b>96</b>	<b>–</b>

# Lake Macquarie City Council

## Statement of Financial Position – CivilLake

as at 30 June 2019

	2019 Category 1 \$ '000	2018 Category 1 \$ '000
<b>ASSETS</b>		
<b>Current assets</b>		
Investments	21,322	20,392
Receivables	1,642	2,323
<b>Total current assets</b>	<u>22,964</u>	<u>22,715</u>
<b>TOTAL ASSETS</b>	<u>22,964</u>	<u>22,715</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	184	436
Provisions	2,415	2,523
<b>Total current liabilities</b>	<u>2,599</u>	<u>2,959</u>
<b>Non-current liabilities</b>		
Provisions	10	30
<b>Total non-current liabilities</b>	<u>10</u>	<u>30</u>
<b>TOTAL LIABILITIES</b>	<u>2,609</u>	<u>2,989</u>
<b>NET ASSETS</b>	<u>20,355</u>	<u>19,726</u>
<b>EQUITY</b>		
Accumulated surplus	20,355	19,726
<b>TOTAL EQUITY</b>	<u>20,355</u>	<u>19,726</u>

# Lake Macquarie City Council

## Statement of Financial Position – Property Management

as at 30 June 2019

	2019 Category 1 \$ '000	2018 Category 1 \$ '000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	7	47
Investments	42,471	33,910
Receivables	288	73
Inventories	1,171	1,091
Non-current assets classified as held for sale	–	7,085
<b>Total current assets</b>	<b>43,937</b>	<b>42,206</b>
<b>Non-current assets</b>		
Inventories	3,275	2,637
Infrastructure, property, plant and equipment	59,699	61,162
Investment property	40,775	41,170
<b>Total non-current assets</b>	<b>103,749</b>	<b>104,969</b>
<b>TOTAL ASSETS</b>	<b>147,686</b>	<b>147,175</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	83	76
Provisions	728	1,025
<b>Total current liabilities</b>	<b>811</b>	<b>1,101</b>
<b>Non-current liabilities</b>		
Provisions	9	51
<b>Total non-current liabilities</b>	<b>9</b>	<b>51</b>
<b>TOTAL LIABILITIES</b>	<b>820</b>	<b>1,152</b>
<b>NET ASSETS</b>	<b>146,866</b>	<b>146,023</b>
<b>EQUITY</b>		
Accumulated surplus	123,886	122,632
Revaluation reserves	22,980	23,391
<b>TOTAL EQUITY</b>	<b>146,866</b>	<b>146,023</b>

# Lake Macquarie City Council

## Statement of Financial Position – Non-domestic waste

as at 30 June 2019

	2019 Category 1 \$ '000	2018 Category 1 \$ '000
<b>ASSETS</b>		
<b>Current assets</b>		
Investments	13,938	14,654
Receivables	49	82
<b>Total current assets</b>	<b>13,987</b>	<b>14,736</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	4,664	3,206
<b>Total non-current assets</b>	<b>4,664</b>	<b>3,206</b>
<b>TOTAL ASSETS</b>	<b>18,651</b>	<b>17,942</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	302	798
Provisions	966	746
<b>Total current liabilities</b>	<b>1,268</b>	<b>1,544</b>
<b>Non-current liabilities</b>		
Provisions	5	1
<b>Total non-current liabilities</b>	<b>5</b>	<b>1</b>
<b>TOTAL LIABILITIES</b>	<b>1,273</b>	<b>1,545</b>
<b>NET ASSETS</b>	<b>17,378</b>	<b>16,397</b>
<b>EQUITY</b>		
Accumulated surplus	17,274	16,293
Revaluation reserves	104	104
<b>TOTAL EQUITY</b>	<b>17,378</b>	<b>16,397</b>

# Lake Macquarie City Council

## Statement of Financial Position – Printing

as at 30 June 2019

	2019 Category 2 \$ '000	2018 Category 2 \$ '000
<b>ASSETS</b>		
<b>Current assets</b>		
Investments	1,780	1,681
Receivables	31	32
<b>Total current assets</b>	<u>1,811</u>	<u>1,713</u>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	11	24
<b>Total non-current assets</b>	<u>11</u>	<u>24</u>
<b>TOTAL ASSETS</b>	<u>1,822</u>	<u>1,737</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	3	3
Provisions	362	360
<b>Total current liabilities</b>	<u>365</u>	<u>363</u>
<b>TOTAL LIABILITIES</b>	<u>365</u>	<u>363</u>
<b>NET ASSETS</b>	<u>1,457</u>	<u>1,374</u>
<b>EQUITY</b>		
Accumulated surplus	1,457	1,374
<b>TOTAL EQUITY</b>	<u>1,457</u>	<u>1,374</u>

## Lake Macquarie City Council

### Statement of Financial Position – Strategic Services Australia Ltd (Lake Macquarie Share)

as at 30 June 2019

	2019 Category 2 \$ '000	2018 Category 2 \$ '000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,041	989
Receivables	133	330
Other	182	10
<b>Total current assets</b>	<b>1,356</b>	<b>1,329</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	63	93
<b>Total non-current assets</b>	<b>63</b>	<b>93</b>
<b>TOTAL ASSETS</b>	<b>1,419</b>	<b>1,422</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	156	134
Provisions	118	121
Other current liabilities	165	88
<b>Total current liabilities</b>	<b>439</b>	<b>343</b>
<b>Non-current liabilities</b>		
Provisions	4	8
<b>Total non-current liabilities</b>	<b>4</b>	<b>8</b>
<b>TOTAL LIABILITIES</b>	<b>443</b>	<b>351</b>
<b>NET ASSETS</b>	<b>976</b>	<b>1,071</b>
<b>EQUITY</b>		
Accumulated surplus	976	1,071
<b>TOTAL EQUITY</b>	<b>976</b>	<b>1,071</b>



# Lake Macquarie City Council

## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

### Note 1. Significant Accounting Policies

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

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

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

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

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

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

#### National Competition Policy

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

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

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

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

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

#### Declared business activities

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

##### Category 1

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

##### CiviLake Management Group

Responsible for the management of all Council's non contestable maintenance, construction works and survey works including RMS works. CiviLake also manages Council's quarry operations which is managed on a cost basis plus an overhead charge.

Responsible for the tendering for external works for profit. The management unit hires where available all resources including labour, plant, equipment and human resources from the parent entity.

Council's expected return on capital is not applicable to this business unit. This is due to CiviLake hiring Council's equipment as opposed to purchasing new capital.

ABC costs are charged to the management group.

# Lake Macquarie City Council

## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

### Note 1. Significant Accounting Policies (continued)

#### Property Management

Responsible for the management of all Council's strategic investment properties, holiday parks, land development and land acquisitions and sales. The capital employed by Property Management during the year was \$61,479k. Council's expected return on strategic investment holdings is currently 6%–8%.

#### Non-Domestic Waste

Responsible for the collection and disposal of waste other than domestic waste within the city. The capital employed by Non-Domestic Waste during the year was \$4,664k. Council's expected return on capital was 2.6% in accordance with the 10-year Commonwealth Government Bond rate.

#### Category 2

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

#### Printing

Responsible for all internal printing work as well as external printing on a competitive basis. The capital employed by Printing during the year was \$11k. Council's expected return on capital was 2.6% in accordance with the 10-year Commonwealth Government Bond rate.

#### Strategic Services Australia Ltd

Strategic Services Australia Limited (SSA Ltd) (formerly Hunter Councils) is a jointly controlled entity of Council along with other regional councils. The purpose of SSA Ltd is to improve the quality and efficiency of local government service throughout the Hunter region. Council makes contributions to the operations of the entity and shares in the operations and equity of the organisation. Council's expected return is 0%.

#### Monetary amounts

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

#### (i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations (Special Purpose Financial Statements) 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 the SPFS.

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 Tax Rate	27.5%
Land Tax	Value \$nil to \$692,000 = Nil Value \$692,000 to \$4,231,000 = 1.6% of excess + \$100 Value > \$4,231,000 = 2% + \$56,624
Payroll Tax	5.45% with a \$850,000 threshold for the year 01/07/18 to 30/06/19
Other Taxes or Charges	Direct Costs Apply

#### Income tax

An income tax equivalent has been applied on the profits of the business. Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested. Accordingly, the return on capital invested is set at a pre-tax level (gain/ (loss) from ordinary activities before capital amounts) as would be applied by a private sector competitor – that is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income Tax is only applied where a positive gain/ (loss) from ordinary activities before capital amounts has been achieved. Since the taxation equivalent is notional, that is, it is payable to the "Council" as the owner of business operations, it represents an internal payment and has no effect on the operations of the Council.

# Lake Macquarie City Council

## Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

### Note 1. Significant Accounting Policies (continued)

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Accordingly, there is no need for disclosure of internal charges in the SPFS. The rate applied of 27.5% is the equivalent company tax rate prevalent as at reporting date. No adjustments have been made for variations which have occurred during the year.

#### Local government rates and charges

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

#### Loan and debt guarantee fees

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

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

#### (ii) Subsidies

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

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

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

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

#### (iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

**Operating result before capital income + interest expense**

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

#### (iv) Dividends

Council is not required to pay dividends to either itself as owner of a range of businesses or to any external entities. Consequently, any form of dividend payment is purely notional and has been set at 5%. Dividend payments to Council are also restricted to those activities which do not levy special rates or charges (water, sewer, domestic waste management). Council operates Domestic Waste Management (DWM) as a restricted activity. The *Local Government Act 1993 (NSW)* requires that all operating surpluses or deficits of these funds are credited/debited to the equity of those funds



**INDEPENDENT AUDITOR'S REPORT**  
**Report on the special purpose financial statements**  
**Lake Macquarie City Council**

To the Councillors of the Lake Macquarie City Council

### **Opinion**

I have audited the accompanying special purpose financial statements (the financial statements) of Lake Macquarie City Council's (the Council) declared business activities, which comprise the Income Statement of the declared business activities for the year ended 30 June 2019, the Statement of Financial Position of the declared business activities as at 30 June 2019, Note 1 Significant accounting policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- CiviLake
- Property Management
- Non-domestic Waste
- Printing
- Strategic Services Australia Ltd (Lake Macquarie Share).

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code).

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

### **Basis for Opinion**

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

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

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

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

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

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

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

### **Emphasis of Matter - Basis of Accounting**

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

### **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

### **The Councillors' Responsibilities for the Financial Statements**

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

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

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

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

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

My opinion does not provide assurance:

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



Furqan Yousuf

Delegate of the Auditor-General for New South Wales

31 October 2019  
SYDNEY

# Lake Macquarie City Council

SPECIAL SCHEDULES  
for the year ended 30 June 2019

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# Lake Macquarie City Council

## Special Schedules

for the year ended 30 June 2019

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#### Special Schedules

Permissible income for general rates

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Report on Infrastructure Assets - Values

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# Lake Macquarie City Council

## Permissible income for general rates

		Calculation 2019/20 \$ '000	Calculation 2018/19 \$ '000
<b>Notional general income calculation <sup>1</sup></b>			
Last year notional general income yield	a	134,128	126,398
Plus or minus adjustments <sup>2</sup>	b	944	1,595
<b>Notional general income</b>	<b>c = a + b</b>	<b>135,072</b>	<b>127,993</b>
<b>Permissible income calculation</b>			
Special variation percentage <sup>3</sup>	d	0.00%	4.75%
Or rate peg percentage	e	2.70%	0.00%
Plus special variation amount	h = d x (c + g)	–	6,080
Or plus rate peg amount	i = e x (c + g)	3,647	–
<b>Sub-total</b>	<b>k = (c + g + h + i + j)</b>	<b>138,719</b>	<b>134,073</b>
Plus (or minus) last year's carry forward total	l	2	3
Less valuation objections claimed in the previous year	m	(54)	–
<b>Sub-total</b>	<b>n = (l + m)</b>	<b>(52)</b>	<b>3</b>
<b>Total permissible income</b>	<b>o = k + n</b>	<b>138,667</b>	<b>134,076</b>
Less notional general income yield	p	138,672	134,128
<b>Catch-up or (excess) result</b>	<b>q = o – p</b>	<b>(5)</b>	<b>(52)</b>
Plus income lost due to valuation objections claimed <sup>4</sup>	r	6	54
Less unused catch-up <sup>5</sup>	s	(2)	–
<b>Carry forward to next year <sup>6</sup></b>	<b>t = q + r + s</b>	<b>(1)</b>	<b>2</b>

### 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 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 Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.

# Lake Macquarie City Council

## Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance <sup>a</sup>	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
<b>Buildings</b>	Buildings	–	6,484	13,822	10,712	198,195	295,350	29.0%	53.0%	18.0%	0.0%	0.0%
	Buildings – non-specialised	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Buildings – specialised	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	–	–	–	–	1,207	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>–</b>	<b>6,484</b>	<b>13,822</b>	<b>10,712</b>	<b>199,402</b>	<b>295,350</b>	<b>29.0%</b>	<b>53.0%</b>	<b>18.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Other structures</b>	Other structures	378	1,055	2,144	322	22,973	45,814	18.0%	65.0%	14.0%	3.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>378</b>	<b>1,055</b>	<b>2,144</b>	<b>322</b>	<b>22,973</b>	<b>45,814</b>	<b>18.0%</b>	<b>65.0%</b>	<b>14.0%</b>	<b>3.0%</b>	<b>0.0%</b>
<b>Roads</b>	Sealed roads	44,649	30,885	7,110	7,612	707,115	1,093,388	1.0%	33.0%	55.0%	9.0%	2.0%
	Unsealed roads	–	–	1,025	945	2,577	5,994	0.0%	0.0%	28.0%	62.0%	10.0%
	Bridges	–	1,007	510	240	45,989	68,938	16.0%	72.0%	11.0%	1.0%	0.0%
	Footpaths	–	885	567	655	53,734	76,602	19.0%	66.0%	13.0%	1.0%	1.0%
	Other road assets (including bulk earthworks)	1,987	3,207	6,076	5,179	591,311	821,075	10.0%	50.0%	39.0%	1.0%	0.0%
	Bulk earthworks	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>46,636</b>	<b>35,984</b>	<b>15,288</b>	<b>14,631</b>	<b>1,400,726</b>	<b>2,065,997</b>	<b>5.7%</b>	<b>42.2%</b>	<b>45.5%</b>	<b>5.4%</b>	<b>1.2%</b>
<b>Stormwater drainage</b>	Stormwater drainage	–	676	3,741	4,394	319,807	505,474	81.0%	15.0%	3.0%	1.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	<b>Sub-total</b>	<b>–</b>	<b>676</b>	<b>3,741</b>	<b>4,394</b>	<b>319,807</b>	<b>505,474</b>	<b>81.0%</b>	<b>15.0%</b>	<b>3.0%</b>	<b>1.0%</b>	<b>0.0%</b>
<b>Open space / recreational assets</b>	Swimming pools	548	500	1,509	814	7,083	10,050	46.0%	50.0%	4.0%	0.0%	0.0%
	Other	–	–	–	–	–	–	0.0%	0.0%	0.0%	0.0%	0.0%
	Other open space / recreational assets	–	1,055	7,625	10,158	29,311	50,797	45.0%	32.0%	19.0%	3.0%	1.0%
	<b>Sub-total</b>	<b>548</b>	<b>1,555</b>	<b>9,134</b>	<b>10,972</b>	<b>36,394</b>	<b>60,847</b>	<b>45.2%</b>	<b>35.0%</b>	<b>16.5%</b>	<b>2.5%</b>	<b>0.8%</b>
<b>Other infrastructure assets</b>	Other	904	1,999	222	312	16,104	29,958	28.0%	40.0%	27.0%	4.0%	1.0%
	<b>Sub-total</b>	<b>904</b>	<b>1,999</b>	<b>222</b>	<b>312</b>	<b>16,104</b>	<b>29,958</b>	<b>28.0%</b>	<b>40.0%</b>	<b>27.0%</b>	<b>4.0%</b>	<b>1.0%</b>
<b>TOTAL - ALL ASSETS</b>		<b>48,466</b>	<b>47,753</b>	<b>44,351</b>	<b>41,343</b>	<b>1,995,406</b>	<b>3,003,440</b>	<b>21.9%</b>	<b>38.9%</b>	<b>34.4%</b>	<b>4.0%</b>	<b>0.8%</b>

continued on next page ...

## Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

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

### Infrastructure asset condition assessment 'key'

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

# Lake Macquarie City Council

## Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018	2017	Benchmark
<b>Infrastructure asset performance indicators (consolidated) *</b>					
<b>Buildings and infrastructure renewals ratio <sup>1</sup></b>					
Asset renewals <sup>2</sup>	<u>37,008</u>	<b>78.92%</b>	100.39%	–	<b>&gt;=100.00%</b>
Depreciation, amortisation and impairment	<u>46,894</u>				
<b>Infrastructure backlog ratio <sup>1</sup></b>					
Estimated cost to bring assets to a satisfactory standard	<u>48,466</u>	<b>2.43%</b>	2.52%	–	<b>&lt;2.00%</b>
Net carrying amount of infrastructure assets	<u>1,995,406</u>				
<b>Asset maintenance ratio</b>					
Actual asset maintenance	<u>41,343</u>	<b>93.22%</b>	92.71%	–	<b>&gt;100.00%</b>
Required asset maintenance	<u>44,351</u>				
<b>Cost to bring assets to agreed service level</b>					
Estimated cost to bring assets to an agreed service level set by Council	<u>47,753</u>	<b>1.59%</b>	1.71%	–	
Gross replacement cost	<u>3,003,440</u>				

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

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.



## INDEPENDENT AUDITOR'S REPORT

### Special Schedule - Permissible income for general rates

#### Lake Macquarie City Council

To the Councillors of Lake Macquarie City Council

### Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Lake Macquarie City Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

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

### Basis for Opinion

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

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

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

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

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

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

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

### Emphasis of Matter - Basis of Accounting

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

## **Other Information**

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and Special Schedule 'Report on infrastructure assets as at 30 June 2019'.

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

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

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

I have nothing to report in this regard.

## **The Councillors' Responsibilities for the Schedule**

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

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

## **Auditor's Responsibilities for the Audit of the Schedule**

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'Furqan Yousuf', with a stylized flourish at the end.

Furqan Yousuf

Delegate of the Auditor-General for New South Wales

31 October 2019  
SYDNEY

**For more information**

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